ASHLAND INC
Form 10-K
December 14, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)
|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2004

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to ___________

Commission file number 1-2918

ASHLAND INC.
(a Kentucky corporation)
I.R.S. No. 61-0122250

50 E. RiverCenter Boulevard
P.O. Box 391
Covington, Kentucky 41012-0391
Telephone Number (859) 815-3333

Securities Registered Pursuant to Section 12(b):

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

Securities Registered Pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes |X| No |_|

At March 31, 2004, based on the New York Stock Exchange closing price, the aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $3,249,782,427. In determining this amount, the Registrant has assumed that its directors and executive officers are affiliates. Such assumption shall not be deemed conclusive for any other purpose.

At November 30, 2004, there were 71,941,455 shares of Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's definitive Proxy Statement for its January 27, 2005 Annual Meeting of Shareholders are incorporated by reference into Part III.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

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

Ashland's businesses are grouped into five industry segments: APAC, Ashland Distribution, Ashland Specialty Chemical, Valvoline and Refining and Marketing. Financial information about these segments for the three fiscal years ended September 30, 2004, is set forth on pages F-26 and F-27 of this annual report on Form 10-K.

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

Ashland Distribution distributes chemicals, plastics and resins in North America and plastics in Europe. Ashland Distribution also provides environmental services.

Ashland Specialty Chemical is focused on two primary businesses: thermoset resins and water technologies. It is a, worldwide supplier of specialty chemicals serving industries including building and construction; commercial and institutional water treatment; graphic arts and printing; industrial water treatment; marine; metal casting; packaging and converting; pulp and paper; recreational marine; and transportation.

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

Marathon Ashland Petroleum LLC ("MAP"), a joint venture with Marathon Oil Company ("Marathon"), operates seven refineries with a total crude oil refining capacity of 948,000 barrels per day. Refined products are distributed through a network of independent and company-owned outlets in the Midwest, the upper Great Plains and the southeastern United States. Marathon holds a 62% interest in MAP, and Ashland holds a 38% interest in MAP. Ashland accounts for its investment in MAP using the equity method.

At September 30, 2004, Ashland and its consolidated subsidiaries had approximately 21,200 employees (excluding contract employees).

Available Information. Ashland's Internet address is www.ashland.com. There, Ashland makes available, free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as well as any beneficial ownership reports of officers and directors filed electronically on Forms 3, 4 and 5. All such reports will be available as soon as reasonably practicable after Ashland electronically files such material with, or furnishes such material to, the Securities and Exchange Commission ("SEC"). Ashland also makes available, free of charge on its website, its Corporate Governance Guidelines; Board Committee Charters; Director Independence Standards; and Code of Business Conduct for directors, officers and employees. These documents are also available in print to any shareholder who requests it. Information contained on Ashland's website is not part of this annual report on Form 10-K and is not incorporated by reference in this document.

Ashland has designated a Presiding Director of the Board of Directors, whose primary responsibility is to preside over regular executive sessions of the Board in which management directors and other members of management do not participate. The Presiding Director is an independent director appointed by the Board. The non-management directors of the Board have designated Mr. Solso to serve in this capacity through Ashland's 2006 Annual Meeting. Shareholders and others interested in communicating directly with the Board, the Presiding Director, with a specific member of the Board or a Committee of the Board, or with the non-management directors as a group may do so by writing to the Presiding Director, Ashland Inc., 50 E. RiverCenter Boulevard, P.O. Box 391, Covington, Kentucky 41012-0391, Attn: Secretary. Communications directed to the Presiding Director will be reviewed by the Secretary and distributed to the Presiding Director as well as to other individual directors, as appropriate, depending on the subject matter and facts and circumstances outlined in such correspondence.

Communications that are not related to the duties and responsibilities of the Board, or are otherwise inappropriate, will not be forwarded to the Presiding Director, although all communications directed to the Board will be available to any director upon request.

CORPORATE DEVELOPMENTS

On March 19, 2004, Ashland announced the signing of an agreement under which it would transfer its 38% interest in MAP and two wholly-owned businesses to Marathon in a transaction structured to be generally tax free and valued at approximately $3.0 billion. The two other businesses are Ashland's maleic anhydride business and 61 Valvoline Instant Oil Change ("VIOC") centers. The transaction is subject to several previously disclosed conditions, including approval by Ashland's shareholders, consent from Ashland's public debt holders and receipt of a favorable private letter ruling from the Internal Revenue Service ("IRS") with respect to the tax treatment of the transaction. Ashland has filed registration statements and proxy materials with the SEC and is responding to comments. In addition, Ashland submitted a request to the IRS for a private letter ruling on the tax-free status of the proposed transaction. Ashland continues to discuss the complex tax issues related to this transaction with the IRS. Ashland has not resolved all issues with the IRS and is exploring alternatives for the resolution of these issues. At this time, Ashland cannot predict whether the requested rulings will be received. If the requested rulings are not received, the transaction would have to be modified or terminated. In any event, Ashland does not believe that a transaction will close earlier than March 2005.

APAC

The Ashland Paving And Construction, Inc. group of companies ("APAC") is one of the nation's largest transportation construction contractors and is a major supplier of construction materials. APAC performs construction work, such as paving, repairing and resurfacing highways, streets, airports, residential and commercial developments, sidewalks and driveways, and grading and base work. In addition, it performs a number of construction services such as excavation and related activities in the construction of bridges and structures, drainage facilities and underground utilities. APAC conducts its business through 24 market-focused business units and a Major Projects Group operating in 14 southern and mid-continent states. These business units provide construction services and materials throughout the regions in which they operate. The market-focused business units and Major Projects Group are supported by management and administrative staff in Atlanta, Georgia.

To deliver its services and products, APAC utilizes extensive aggregate-producing properties and construction equipment. It currently has 93 aggregate production facilities, including 36 permanent operating quarry locations; 31 ready-mix concrete plants; 226 hot-mix asphalt plants; and a fleet of over 13,000 mobile equipment units, including heavy construction equipment and transportation-related equipment. In certain market areas, APAC is vertically integrated with asphalt, aggregate and ready-mix operations, all complementing each other.

Raw materials and aggregate generally consists of sand, gravel, granite, limestone and sandstone. About 29% of the aggregate produced by APAC is used in APAC's own contract construction work and the production of various processed construction materials. The remainder is sold to third parties. APAC also purchases substantial quantities of raw aggregate from other producers whose proximity to the job site renders it economically attractive. Most other materials, such as liquid asphalt, Portland cement and reinforcing steel, are purchased from third parties.

Approximately 78% of APAC's sales and operating revenues are construction revenues, with the remaining 22% coming from sales of construction materials. Approximately 82% of APAC's construction revenues are derived directly from highway and other public sector sources, with the remaining 18% coming from industrial and commercial customers and private developers.

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

Total backlog at September 30, 2004, was $1,746 million (including APAC's $19 million proportionate share of work related to an unconsolidated equity joint venture), compared to $1,745 million at September 30, 2003. APAC includes a construction project in its backlog when a contract is awarded or a firm letter of commitment is obtained and funding is in place. The backlog at September 30, 2004, is considered firm, and a major portion is expected to be completed during fiscal 2005.

OTHER MATTERS

For information on APAC and federal, state and local statutes and regulations governing releases into, or protection of, the environment, see "Item 3. Legal Proceedings - Environmental Proceedings" in this annual report on Form 10-K.

ASHLAND DISTRIBUTION

Ashland Distribution distributes chemicals, plastics and resins in North America and plastics in Europe. Suppliers include many of the world's leading chemical manufacturers. Ashland Distribution specializes in providing mixed truckloads and less-than-truckload quantities to customers in a wide range of industries. Deliveries are facilitated through a network of owned or leased facilities including 126 locations in North America. Distribution of thermoplastic resins in Europe is conducted in 13 countries primarily through 17 third-party warehouses and one owned warehouse. Ashland Distribution operates in the following major market segments:

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

Plastics - Ashland Distribution offers a broad range of thermoplastic resins and specialties to processors in the United States, Canada, Mexico and Puerto Rico as well as some export operations. Processors include injection molders, extruders, blow molders and rotational molders. Ashland Distribution also provides plastic material transfer and packaging services and less-than-truckload quantities of packaged thermoplastics. Additionally, Ashland Distribution markets a broad range of thermoplastics to processors in Europe via distribution centers located in Belgium, Denmark, England, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Spain and Sweden.

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

Environmental Services - Working in cooperation with chemical waste service companies, Ashland Distribution provides customers with collection, disposal and recycling of hazardous and non-hazardous waste streams. Services are offered through a North American network of more than 30 distribution centers, including 10 storage facilities that have been fully permitted by the United States Environmental Protection Agency ("USEPA").

On August 31, 2004, Ashland Distribution entered into an agreement to sell its ingestibles line of business - which includes food and beverage additives and pharmaceutical actives and excipients. Ashland expects the transaction to be completed by January 31, 2005.

ASHLAND SPECIALTY CHEMICAL

Ashland Specialty Chemical is focused on two primary businesses: thermoset resins and water technologies. It is a worldwide supplier of specialty chemicals serving industries including building and construction; commercial and institutional water treatment; graphic arts and printing; industrial water treatment; marine; metal casting; packaging and converting; power generation; pulp and paper; recreational marine and transportation. Ashland Specialty Chemical owns and operates 38 manufacturing facilities and participates in 12 manufacturing joint ventures in 19 countries.

THERMOSET RESINS

Composite Polymers - This business group manufactures and sells a broad range of corrosion-resistant, fire-retardant, general-purpose and high-performance marine grades of unsaturated polyester and vinyl ester resins and gel coats for the reinforced plastics industry. Key markets include the transportation, construction and marine industries. This business group has manufacturing plants in Jacksonville and Fort Smith, Arkansas; Los Angeles, California; Bartow, Florida; Pittsburgh and Philadelphia, Pennsylvania; Johnson Creek, Wisconsin; Kelowna, British Columbia, Canada; Kunshan, China; Porvoo and Lahti, Finland; Sauveterre, France; Miszewo, Poland;

Benicarlo, Spain; and, through separate joint ventures has manufacturing plants in Sao Paolo, Brazil, and Jeddah, Saudi Arabia. This business group also manufactures products through an Ashland Specialty Chemical facility located in Mississauga, Ontario, Canada. Composite Polymers also manufactures maleic anhydride in Neal, West Virginia, and markets maleic anhydride in North America. For information on the transfer of the maleic business as part of the proposed transfer of Ashland's 38% interest in MAP to Marathon, see "Item 1. Business - Corporate Developments" in this annual report on Form 10-K. In November 2004 this business group signed an agreement to purchase the DERAKANE(TM) epoxy vinyl ester resins business (which includes the DERAKANE MOMENTUM(TM) product line) from The Dow

Chemical Company in a cash transaction valued at approximately $92 million. The closing of the transaction, which is anticipated to take place in late calendar 2004 or early 2005, is conditional upon a number of standard closing conditions, including several regulatory reviews.

Casting Solutions - This business group manufactures and sells metal casting chemicals worldwide, including sand-binding resin systems, refractory coatings, release agents, engineered sand additives and riser sleeves. This group also provides casting process modeling, core making process modeling and rapid prototyping services. This business group serves the global metal casting industry from nine owned and operated manufacturing sites, which include factories located in Campinas, Brazil; Mississauga, Ontario, Canada; Changzhou, China; Milan, Italy; Alava, Cantabria, Spain; Kidderminster, England and Cleveland East and Cleveland West, Ohio. Casting Solutions also has eight joint venture manufacturing facilities located in Vienna, Austria; Pons and Le Goulet, France; Bendorf and Wuelfrath, Germany; Ulsan, South Korea; Alvsjo, Sweden and St. Gallen, Switzerland.

Specialty Polymers and Adhesives - This business group manufactures and sells adhesive solutions to the building and construction, transportation, and packaging and converting markets. Key technologies and markets include: emulsion polymer isocyanate adhesives for structural wood bonding; elastomeric polymer adhesives and butyl rubber roofing tapes for commercial roofing applications; polyurethane and epoxy structural adhesives for bonding fiberglass reinforced plastics, composites, thermoplastics and metals in automotive, recreational, and industrial applications; specialty phenolic resins for paper impregnation and friction material bonding; induction bonding systems for thermoplastic materials; acrylic polymers for pressure-sensitive adhesives; urethane adhesives for flexible packaging applications; and hot melt adhesives for various packaging applications. It has manufacturing plants in Calumet City, Illinois; Norwood and Totowa, New Jersey; Ashland and Columbus, Ohio; White City, Oregon; and Kidderminster, England.

WATER TECHNOLOGIES

Drew Industrial - This business group supplies specialized chemicals and consulting services for treatment of boiler water, cooling water, steam, fuel and waste streams. It also supplies process chemicals and technical services to the pulp and paper and mining industries and additives to manufacturers of latex and paint. It conducts operations throughout North America, Europe and the Far East and has manufacturing plants in Kearny, New Jersey; Houston, Texas; Ajax, Ontario, Canada; Viiala, Finland; Somercotes, England; Chester Hill, Australia; and Singapore; and, through separate joint ventures, has production facilities in Seoul, South Korea and Navi Mumbai, India.

Drew Marine - This business group supplies technical products and services for the global marine industry. Products and services worldwide include a comprehensive line of marine chemicals and water treatment testing, sealing products, welding and refrigeration products, and firefighting, safety and rescue products for the world's merchant marine fleet.

OTHER MATTERS

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

VALVOLINE

Valvoline is a marketer of premium-branded automotive and commercial lubricants, automotive chemicals, automotive appearance products and automotive services, with sales in more than 100 countries. The Valvoline(R) trademark was federally registered in 1873 and is the oldest trademark for lubricating oil in the United States.

4

Valvoline markets the following key brands of products and services to the private passenger car and light truck and commercial markets: Valvoline(R) lubricants, synthetic SynPower(R) automotive chemicals; Eagle One(R) automotive appearance products; Zerex(R) antifreeze; Pyroil(R) automotive chemicals; MaxLife(R) automotive products for vehicles with 75,000 miles or more; Premium Blue(R) commercial lubricants and Valvoline Instant Oil Change(R) automotive services.

In North America, Valvoline is comprised of the following three core businesses:

Do It Yourself ("DIY") - The DIY business group sells Valvoline products to consumers who perform their own auto maintenance through retail auto parts stores, mass merchandisers, and warehouse distributors and their affiliated jobber stores such as NAPA and Carquest.

Do It For Me ("DIFM") - The DIFM business unit sells Valvoline products to installers (such as car dealers and quick lubes) through a network of independent distributors and five company-owned and operated "direct market" operations. This business also includes a chain of quick lubes branded "Valvoline Express Care(R)," which consists of 348 independently owned and operated stores. The DIFM business group also has a strategic alliance with Cummins Engine Company, Inc. ("Cummins") to distribute heavy duty lubricants to the commercial market.

Valvoline Instant Oil Change(R) - 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 DIFM segment of the passenger car and light truck motor oil market. As of September 30, 2004, 360 company-owned and 397 franchised service centers were operating in 39 states. (For information on the inclusion of 61 VIOC centers as part of the proposed transfer of Ashland's 38% interest in MAP to Marathon, see "Item 1. Business - Corporate Developments" in this annual report on Form 10-K.) VIOC has continued its customer service innovation through its upgraded and enhanced preventive maintenance tracking system for consumers and fleet operators. This computer-based system maintains service records on all customer vehicles and contains a database on all car models, which allows service technicians to make service recommendations based on vehicle owner's manual recommendations.

Outside North America, Valvoline is comprised of one core business group:

Valvoline International - Valvoline International markets Valvoline- and Eagle One- branded products through wholly-owned affiliates, joint ventures, licenses, and independent distributors in more than 100 countries. The profitability of the business is dispersed geographically, with more than half of the profit coming from mature markets in Europe and

Australia. There are smaller, rapidly growing businesses in the emerging markets of China, India and Mexico, including joint ventures with Cummins in India and China. These businesses market lubricants for consumer vehicles and heavy duty engines and equipment and are served by toll manufacturers and company-owned plants in the United States, Australia, and the Netherlands.

OTHER MATTERS

For information on Valvoline and federal, state and local statutes and regulations governing releases into, or protection of, the environment, see "Item 3. Legal Proceedings - Environmental Proceedings" in this annual report on Form 10-K.

REFINING AND MARKETING

Refining and Marketing operations are conducted by MAP and its subsidiaries, including its wholly-owned subsidiaries, Speedway SuperAmerica LLC and Marathon Ashland Pipe Line LLC. MAP also participates in the travel center business through its joint venture with Pilot Corporation ("Pilot"). Marathon holds a 62% interest in MAP, and Ashland holds a 38% interest in MAP. For information on the proposed transfer of Ashland's 38% interest in MAP to Marathon, see "Item 1. Business - Corporate Developments" in this annual report on Form 10-K.

Refining - MAP owns and operates seven refineries with an aggregate refining capacity of 948,000 barrels of crude oil per calendar day (1 barrel = 42 United States gallons). The table below sets forth the location and daily crude oil throughput capacity (measured in barrels) of each of MAP's refineries as of September 30, 2004:

Garyville, Louisiana	245,000
Catlettsburg, Kentucky	222,000
Robinson, Illinois	192,000
Detroit, Michigan	74,000
Canton, Ohio	73,000
Texas City, Texas	72,000
St. Paul Park, Minnesota	70,000
Total	948,000

MAP's refineries include crude oil atmospheric and vacuum distillation, fluid catalytic cracking, catalytic reforming, desulfurization and sulfur recovery units. The refineries have the capability to process a wide variety of crude oils and to produce typical refinery products, including reformulated gasoline ("RFG"). Approximately 60% of MAP's crude oil throughputs are sour crudes. In addition to typical refinery products, the Catlettsburg refinery, an ISO-9000 certified facility, manufactures base lube oil stocks and a wide range of petrochemicals. For the twelve months ended September 30, 2004, 58% of MAP's base lube oil production was purchased by Valvoline, and 39% of MAP's petrochemical production (excluding propylene) was purchased by Ashland Distribution.

The table below sets forth MAP's refinery total input and refinery production by product group for the three years ended September 30, 2004. Refinery total inputs include crude oil and other feedstocks.

	Years Ended September 30		
(in thousands of barrels per day)	2004	2003	2002
Refinery Input	1,086.6	1,033.1	1,080.9
Refined Product Yields			
Gasoline	599.5	553.9	594.0
Distillates	291.5	278.4	292.9
Propane	21.3	20.7	21.7
Feedstocks & Special Products	90.3	87.6	83.5
Heavy Fuel Oils	23.2	23.1	21.3
Asphalt	73.8	70.5	73.3
Total	1,099.6	1,034.2	1,086.7

Planned maintenance activities requiring temporary shutdown of certain refinery operating units are periodically performed at each refinery.

At its Catlettsburg, Kentucky, refinery, MAP has completed an approximately $440 million multi-year integrated investment program to upgrade product yield realizations and reduce fixed and variable manufacturing expenses. This program involved the expansion, conversion and retirement of certain refinery processing units which, in addition to improving profitability, reduced the refinery's total gasoline pool sulfur below 30 parts per million, thereby eliminating the need for additional low sulfur gasoline compliance investments at the refinery based on current regulations.

In the December 2003 quarter, MAP commenced approximately $300 million in new capital projects for its Detroit, Michigan, refinery, with completion scheduled for the December 2005 quarter. One of the projects, a $110 million expansion project, is expected to raise crude throughput at the refinery by 35% to 100,000 barrels per day. Other projects are expected to enable the refinery to produce new clean fuels and further control regulated air emissions. MAP is obtaining financing from Marathon to fund these capital projects.

Marketing - MAP's principal marketing areas for gasoline and distillates include the Midwest, the upper Great Plains and the southeastern United States. Gasoline and distillates are sold in 21 states. Gasoline is sold at wholesale primarily to independent marketers, jobbers and chain retailers who resell these products through several thousand retail outlets. MAP also supplies approximately 3,970 jobber-dealer, open-dealer and lessee-dealer locations using the Marathon(R) and Ashland(R) brand names.

Gasoline, distillates and aviation products are also sold to utilities, railroads, river towing companies, commercial fleet operators, airlines and governmental agencies. About one-half of MAP's propane is sold into the home heating markets and the balance is purchased by industrial consumers. Propylene and petrochemicals are marketed to customers in the chemical industry. Base lube oils, slack wax and extract are sold throughout the United States. Pitch is also sold domestically, but approximately 16% of pitch products are exported into growing markets in Canada, Mexico, India, and South America.

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

Retail sales of gasoline and diesel fuel are made through MAP's wholly-owned subsidiary, Speedway SuperAmerica LLC ("SSA"). As of September 30, 2004, SSA had 1,685 retail outlets in nine states in the Midwest that sell petroleum products and convenience store merchandise primarily under the brand names Speedway(R) and SuperAmerica(R). The retail locations sell a variety of food, merchandise, cigarettes, candy and beverages. Several locations also have on-premises brand-name restaurants.

During the twelve months ended September 30, 2004, 64% of SSA's revenues (excluding excise taxes) were derived from the sale of gasoline and diesel fuel, and the remainder were derived from the sale of merchandise.

Pilot Travel Centers LLC ("PTC") is the largest operator of travel centers in the United States with approximately 250 locations in 35 states. The travel centers offer diesel fuel, gasoline and a variety of other services associated with such locations, including on-premises brand-name restaurants. Pilot and MAP each own a 50% interest in PTC.

MAP's retail marketing strategy is focused on SSA's Midwest operations, additional growth in the Marathon(R) brand and continued growth for PTC.

The table below shows the volume of MAP's consolidated refined product sales for the three years ended September 30, 2004.

	Years Ended September 30		
(in thousands of barrels per day)	2004	2003	2002
Refined Product Sales			
Gasoline	801.9	772.4	774.3
Distillates	369.1	360.6	345.7
Propane	21.9	20.3	22.7
Feedstocks & Special Products	89.5	94.9	80.3
Heavy Fuel Oils	25.3	23.2	22.0
Asphalt	77.0	73.2	76.2
Total	1,384.7	1,344.6	1,321.2
Matching Buy/Sell Volumes included in above	68.4	68.3	69.3

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

Supply and Transportation - The crude oil processed in MAP's refineries is obtained from negotiated contract and spot purchases or exchanges. For the year ended September 30, 2004, MAP's negotiated contract and spot purchases for refinery input of crude oil produced in the United States averaged 424,500 barrels per day, including an average of 22,300 net barrels per day acquired from Marathon. For the year ended September 30, 2004, MAP's foreign crude oil requirements were met largely through purchases from various foreign national oil companies, producing companies and traders. Purchases of foreign crude oil represented 54% of MAP's crude oil requirements for the year ended September 30, 2004.

MAP's ownership or interest in domestic pipeline systems in its refining and marketing areas is significant. MAP owns, leases or has an ownership interest in 6,711 miles of pipelines in 13 states. This network transports crude oil and refined products to and from terminals, refineries and other pipelines and includes 2,861 miles of crude oil trunk lines and 3,850 miles of refined product lines.

MAP has a 46.7% ownership interest in LOOP LLC ("LOOP"), which is the owner and operator of the only U.S. deepwater port facility capable of receiving crude oil from very large crude carriers. Ashland has retained a 4% ownership interest in LOOP. MAP also owns a 49.9% ownership interest in LOCAP LLC ("LOCAP"), which is the owner and operator of a crude oil pipeline connecting LOOP to the Capline system. Ashland has retained an 8.62% ownership interest in LOCAP. For information on the transfer of Ashland's interests in LOOP and LOCAP as part of the proposed transfer of Ashland's 38% interest in MAP to Marathon, see "Item 1. Business - Corporate Developments" in this annual report on Form 10-K. In addition, MAP has a 37.2% ownership interest in the Capline system. These port and pipeline systems provide MAP with access to common carrier transportation from the Louisiana Gulf Coast to Patoka, Illinois. At Patoka, the Capline system connects with other common carrier pipelines owned by MAP that provide transportation to MAP's refineries in Illinois, Kentucky, Michigan, Minnesota and Ohio.

Ohio River Pipe Line LLC, a subsidiary of MAP, has completed construction of a pipeline from Kenova, West Virginia, to Columbus, Ohio. The pipeline is an interstate common carrier pipeline. The pipeline is known as Cardinal Products Pipeline. The pipeline, which has a capacity of up to 80,000 barrels per day, is expected to provide a stable, cost effective supply of gasoline, diesel and jet fuel to the central Ohio market.

MAP has a 50% ownership in Centennial Pipeline LLC ("Centennial"). Centennial, a 797-mile refined products pipeline, is designed to transport approximately 210,000 barrels per day of refined petroleum products from the Gulf Coast to the Midwest.

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

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

In addition, MAP owns and operates 84 terminal facilities from which it sells a wide range of petroleum products. These facilities are supplied by a combination of barges, pipeline, truck and/or rail.

OTHER MATTERS

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

In connection with the formation of MAP, Ashland and Marathon entered into a Put/Call, Registration Rights and Standstill Agreement (the "Put/Call Agreement"). The Put/Call Agreement provides that at any time after December 31, 2004, Ashland will have the right to sell Marathon all of Ashland's ownership interest in MAP, for an amount in cash and/or Marathon debt or equity securities equal to the product of 85% (90% if equity securities are used) of the fair market value of MAP at that time, multiplied by Ashland's percentage interest in MAP. Payment could be made at closing, or, at Marathon's option, in three equal annual installments, the first of which would be payable at closing. At any time after December 31, 2004, Marathon will have the right to purchase Ashland's ownership interest in MAP, for an amount in cash equal to the product of 115% of the fair market value in MAP at that time, multiplied by Ashland's percentage interest in MAP. The agreement entered into in connection with the proposed transfer of Ashland's 38% interest in MAP to Marathon provides that Ashland may not exercise its put right and Marathon may not exercise its call right under the Put/Call Agreement unless the agreement is terminated in accordance with its terms. For additional information on the proposed transfer of Ashland's 38% interest in MAP to Marathon, see "Item 1. Business - Corporate Developments" in this annual report on Form 10-K.

MISCELLANEOUS

ENVIRONMENTAL MATTERS

Ashland has implemented a companywide environmental policy overseen by the Environmental, Health and Safety Committee of Ashland's Board of Directors. Ashland's Environmental, Health and Safety ("EH&S")

8

department has the responsibility to ensure that Ashland's operating groups maintain environmental compliance in accordance with applicable laws and regulations. This responsibility is carried out via training; widespread communication of EH&S policies, information and regulatory updates; formulation of relevant policies, procedures and work practices; design and implementation of EH&S management systems; internal auditing by an independent auditing group within the EH&S department; monitoring of legislative and regulatory developments that may affect Ashland's operations; assistance to the operating divisions in identifying compliance issues and opportunities for voluntary actions that go beyond compliance; and incident response planning and implementation.

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

At September 30, 2004, Ashland's reserves for environmental remediation amounted to $152 million, reflecting Ashland's estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are reasonably estimable, without regard to any third-party recoveries. Engineering studies, probability techniques, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in determining the estimated reserves for environmental remediation. Environmental remediation reserves are subject to numerous inherent uncertainties that affect Ashland's ability to estimate its share of the costs. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology, and the number and financial strength of other potentially responsible parties at multiparty sites. Ashland regularly adjusts its reserves as environmental remediation continues. Environmental remediation expense amounted to $2 million in 2004, $22 million in 2003 and $30 million in 2002. No individual remediation location is material to Ashland as its largest reserve for any site is less than 10% of the remediation reserve. As a result, Ashland's exposure to adverse developments with respect to any individual site is not expected to be material, and these sites are in various stages of ongoing remediation. Although environmental remediation could have a material effect on results of operations if a series of adverse developments occurs in a particular quarter or fiscal year, Ashland believes that the chance of such developments occurring in the same quarter or fiscal year is remote.

In connection with the formation of MAP, Marathon and Ashland each retained responsibility for certain environmental costs arising out of their respective prior ownership and operation of the facilities transferred to MAP. In certain situations, various threshold provisions apply, eliminating or reducing the financial responsibility of the contributing party until certain levels of expenditure have been reached. In other situations, sunset provisions gradually diminish the level of financial responsibility of the contributing party over time.

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

In July 1997, the USEPA promulgated revisions to the National Ambient Air Quality Standards ("NAAQS") for ground level ozone and particulate matter that could have a significant effect on certain of Ashland's chemical manufacturing and distribution businesses, and on MAP. The USEPA has begun to implement the new ozone and particulate matters standards, which could result in areas of the country, where Ashland and MAP conduct operations, being designated as not in compliance with the NAAQS. Until these revisions have been more fully implemented, it is not currently possible to estimate any potential financial impact that the revised standards may have on Ashland's or MAP's operations.

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

Solid Waste - Ashland's businesses are subject to the Resource Conservation and Recovery Act ("RCRA"), which establishes standards for the management of solid and hazardous wastes. While many facilities are subject to the RCRA rules governing generators of hazardous waste, certain facilities also have hazardous waste storage permits. Ashland has implemented systems to oversee compliance with the RCRA regulations and, where applicable, permit conditions. In addition to regulating current waste disposal practices, RCRA also addresses the environmental effects of certain past waste disposal operations, the recycling of wastes and the storage of regulated substances in underground tanks.

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

RESEARCH

Ashland conducts a program of research and development to invent and improve products and processes and to improve environmental controls for its existing facilities. It maintains research facilities in Dublin, Ohio; Lexington, Kentucky; Boonton, New Jersey; and Atlanta, Georgia. Research and development costs are expensed as they are incurred and totaled $43 million in fiscal 2004 ($36 million in 2003 and $34 million in 2002).

COMPETITION

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

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

Each of Ashland Distribution's lines of business (chemicals, plastics, ingredients, composites, and environmental services), competes with national, regional and local companies throughout North America. The plastics distribution business also competes in Europe. Competition within each line of business is based primarily on price and reliability of supply.

Ashland Specialty Chemical's businesses compete globally in selected niche markets, largely on the basis of technology and service. The number of competitors in the specialty chemical business varies from product to product, and it is not practical to identify such competitors because of the broad range of products and markets served by those products. However, many of Ashland Specialty Chemical's businesses hold proprietary technology, and Ashland believes it has a leading or strong market position in most of its specialty chemical products.

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

MAP competes with a large number of companies to acquire crude oil for refinery processing and in the distribution and marketing of a full array of petroleum products. MAP believes it ranks among the top ten U.S. petroleum companies on the basis of crude oil refining capacity as of September 30, 2004. MAP competes in four

distinct markets for the sale of refined products - wholesale, spot, branded and retail distribution. MAP believes it competes with approximately 40 companies in the wholesale distribution of petroleum products to private brand marketers and large commercial and industrial consumers; approximately 80 companies in the sale of petroleum products in the spot market; approximately 10 refiner/marketers in the supply of branded petroleum products to dealers and jobbers; and approximately 600 petroleum product retailers in the retail sale of petroleum products. MAP also competes in the convenience store industry through SSA's retail outlets and in the travel center industry through its ownership in PTC. The retail outlets offer consumers gasoline, diesel fuel (at selected locations) and a variety of food, merchandise, cigarettes, candy and beverages.

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K 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. Words such as "anticipates," "believes," "estimates," "expects," "is likely," "predicts," and variations of such words and similar expressions are intended to identify such forward-looking statements. Although Ashland believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such statements will be achieved. Important factors that could cause actual results to differ materially from those contained in such statements are discussed under "Risks and Uncertainties" in Note A of "Notes to Consolidated Financial Statements" in this annual report on Form 10-K. For a discussion of other factors and risks affecting Ashland's revenues and operations see "Item 1. Business - Miscellaneous - Marketing Conditions" below.

MARKETING CONDITIONS

Domestic and international political, legislative, regulatory and legal changes may adversely affect Ashland's results of operations. Political actions may include changes in the policies of the Organization of Petroleum Exporting Countries or other developments involving or affecting oil-producing countries, including terrorist activities, military conflict, embargoes, internal instability or actions or reactions of the U.S. government in anticipation of, or in response to, such actions. Profitability of MAP depends largely on the margin between the cost of crude oil and other feedstocks refined and the selling prices of refined products. MAP is a purchaser of crude oil in order to satisfy its refinery throughput requirements. As a result, MAP's overall profitability could be adversely affected by increases in crude oil and other feedstock prices that are not recovered in the market place through higher prices. Reference should be made to the Refining and Marketing section of the Management's Discussion and Analysis section in this annual report on Form 10-K for a discussion of the impact of crude oil costs on MAP's operating performance. While Ashland maintains reserves for anticipated liabilities and carries various levels of insurance, Ashland could be affected by civil, criminal, regulatory or administrative proceedings and claims relating to asbestos, environmental remediation and other matters. Additional information concerning Ashland's asbestos-related litigation and environmental remediation may be found in Note M of "Notes to Consolidated Financial Statements" in this annual report on Form 10-K.

Ashland's operations are subject to various U.S. and foreign laws and regulations relating to environmental protection and worker health and safety. These laws and regulations regulate discharge of pollutants into the air and water, the management and disposal of hazardous substances, and the cleanup of contaminated properties. The costs of complying with these laws and regulations can be substantial and may increase as applicable requirements become more stringent and new rules are implemented. If violation of these laws and regulations occur, Ashland may be forced to pay substantial fines, to complete additional costly projects, or to modify or curtail its operations to limit contaminant emissions.

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

In addition, changes in climate and weather can significantly affect the performance of several of Ashland's operations. Extreme variations from normal climatic conditions could have a significant effect on the operating results of APAC's construction operations. In particular, unfavorable weather conditions will delay the completion

of construction projects and may require the use of additional resources. Additionally, most of the refined products sold by MAP and Valvoline are seasonal in nature, and thus demand for those products may decline due to significant changes in prevailing climate and weather conditions such as floods, frozen rivers or hurricanes. Adverse weather conditions that impair driving conditions, such as winter storms, can also result in reduced retail sales of gasoline.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

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

The majority of lawsuits filed involve multiple plaintiffs and multiple defendants, with the number of defendants in many cases exceeding 100. The monetary damages sought in the asbestos-related complaints that have been filed in state or federal courts vary as a result of jurisdictional requirements and practices, though the vast majority of these complaints either do not specify monetary damages sought or merely recite that the monetary damages sought meet or exceed the required jurisdictional minimum in which the complaint was filed. Plaintiffs have asserted specific dollar claims for damages in approximately 6% of the 50,500 active lawsuits pending as of September 30, 2004. In these active lawsuits, less than 0.2% of the active lawsuits involve claims between $0 and $100,000; approximately 1.6% of the active lawsuits involve claims between $100,000 and $1 million; less than 1% of the active lawsuits involve claims between $1 million and $5 million; less than 0.2% of the active lawsuits involve claims between $5 million and $10 million; approximately 3% of the active lawsuits involve claims between $10 million and $15 million; and less than 0.02% of the active lawsuits involve claims between $15 million and $100 million. The variability of requested damages, coupled with the actual experience of resolving claims over an extended period, demonstrates that damages requested in any particular lawsuit or complaint bear little or no relevance to the merits or disposition value of a particular case. Rather, the amount potentially recoverable by a specific plaintiff or group of plaintiffs is determined by other factors such as product identification or lack thereof, the type and severity of the disease alleged, the number and culpability of other defendants, the impact of bankruptcies of other companies that are co-defendants in claims, specific defenses available to certain defendants, other potential causative factors and the specific jurisdiction in which the claim is made.

For additional information regarding liabilities arising from asbestos-related litigation, see "Management's Discussion and Analysis - Application of Critical Accounting Policies - Asbestos-related litigation" and Note M of "Notes to Consolidated Financial Statements" in this annual report on Form 10-K.

U.S. Department of Justice Antitrust Division Investigation - In November 2003, Ashland received a subpoena from the USDOJ relating to a foundry resins grand jury investigation. Ashland is providing responsive records to the subpoena. As is frequently the case when such investigations are in progress, a number of civil actions have since been filed in multiple jurisdictions, most of which are seeking class action status for classes of customers of foundry resins. These cases have been consolidated for pretrial purposes in the United States District Court, Southern District of Ohio. Ashland will vigorously defend the actions.

Environmental Proceedings - (1) Under the federal Comprehensive Environmental Response Compensation and Liability Act (as amended) and similar state laws, Ashland may be subject to joint and several liability for clean-up costs in connection with alleged releases of hazardous substances at sites where it has been identified as a

12

"potentially responsible party" ("PRP"). As of September 30, 2004, Ashland had been named a PRP at 93 waste treatment or disposal sites. These sites are currently subject to ongoing investigation and remedial activities, overseen by USEPA or a state agency, in which Ashland is typically participating as a member of a PRP group. Generally, the type of relief sought includes remediation of contaminated soil and/or groundwater, reimbursement for past costs of site clean-up and administrative oversight, and/or long-term monitoring of environmental conditions at the sites. The ultimate costs are not predictable with assurance. For additional information regarding environmental matters and reserves, see Note M of "Notes to Consolidated Financial Statements" in this annual report on Form

10-K.

(2) On May 13, 2002, Ashland entered into a plea agreement with the U.S. Attorney's Office for the District of Minnesota and the U.S. Department of Justice regarding a May 16, 1997, sewer fire at the St. Paul Park, Minnesota refinery, which is now owned by MAP. As part of the plea agreement, Ashland entered guilty pleas to two misdemeanors, paid a $3.5 million fine related to violations of the CAA, paid $3.55 million as restitution to the employees injured in the fire, and paid $200,000 as restitution to the responding rescue units. Ashland also agreed to complete certain upgrades to the St. Paul Park refinery's process sewers, junction boxes and drains to meet standards established by Subpart QQQ of the New Source Performance Standards of the CAA (the "Refinery Upgrades"). The Refinery Upgrades are expected to be completed on or before the end of calendar 2004.

In addition, as part of the plea agreement, Ashland entered into a deferred prosecution agreement, wherein prosecution of a separate count of the indictment charging Ashland with violating Subpart QQQ was deferred for four years. The deferred prosecution agreement provides that if Ashland satisfies the terms and conditions of the plea agreement and completes the Refinery Upgrades, the deferred prosecution agreement will terminate and the United States will dismiss that count with prejudice. Ashland believes that it has satisfied these terms and conditions and has filed a motion with the court requesting that the deferred count be dismissed.

As part of its sentence, Ashland was placed on probation for five years. The primary condition of probation is an obligation not to commit future federal, state, or local crimes. If Ashland were to commit such a crime, it would be subject not only to prosecution for that new violation, but the government could also seek to revoke Ashland's probation. The probation office has retained an independent environmental consultant to review and monitor Ashland's compliance with applicable environmental requirements and the terms and conditions of probation. The court also included other customary terms and restrictions of probation in its probation order.

(3) Pursuant to a 1988 RCRA Administrative Consent Order ("Consent Order"), Ashland is remediating soil and groundwater at a former chemical distribution facility site in Lansing, Michigan. The USEPA has asserted that Ashland has not complied with certain provisions of the Consent Order relating to interim remedial measures at the site. Although Ashland disputed this assertion, Ashland and the USEPA agreed to resolve the dispute prior to USEPA's filing of a formal enforcement action. Ashland has paid a $650,000 penalty, and has signed a Consent Agreement and Final Order ("CAFO") that reflects an agreement between the parties as to what will constitute future compliance with the disputed provisions of the original Consent Order. Ashland is continuing to work with the USEPA to design and implement a final remedy at the site. Once the final remedy is implemented, the CAFO will expire.

(4) In 1990, contamination of groundwater at Ashland's former Canton, Ohio, refinery (now owned and operated by MAP) was first identified and reported to Ohio's Environmental Protection Agency ("OEPA"). Since that time, Ashland has voluntarily conducted investigation and remediation activities and regularly communicated with OEPA regarding this matter. Ashland and the state of Ohio have exchanged Consent Order drafts and have met to negotiate the terms of such an order. The state filed a complaint in February 2004, but simultaneously expressed an interest in continuing Consent Order settlement discussions. Following the filing of the complaint, Ashland, OEPA and Ohio's Office of the Attorney General have continued to work to finalize a Consent Order. The state has advised that

it will assess a penalty as part of the overall settlement and has made an initial request for $650,000.

Shareholder Derivative Litigation - On August 16, 2002, Central Laborers' Pension Fund, derivatively as a shareholder of Ashland, instituted an action in the Circuit Court of Kentucky in Kenton County against Ashland's then-serving Board of Directors. On motion of Ashland and the other defendants, the case was removed to the United States District Court, Eastern District of Kentucky, Covington Division. The case has been remanded to the state court. Ashland has filed a Motion to Dismiss the Complaint. The action is purportedly filed on behalf of Ashland and asserts the following causes of action against the Directors: breach of fiduciary duty, abuse of control, gross mismanagement, and waste of corporate assets. The suit also names Paul W. Chellgren, the then-serving Chief Executive Officer and Chairman of the Board, and James R. Boyd, former Senior Vice President and Group

Operating Officer, as individual defendants, and it seeks to recover an unstated sum from them individually alleging unjust enrichment from various transactions completed during their tenure with Ashland. The suit further seeks an unspecified sum from Mr. Chellgren individually based upon alleged usurpation of corporate opportunities. The suit also names J. Marvin Quin, Ashland's Chief Financial Officer, as well as three former employees of Ashland's wholly-owned subsidiary, APAC, as individual defendants and alleges that they participated in the preparation and filing of false financial statements during fiscal years 1999 - 2001. The suit further names Ernst & Young LLP ("E&Y"), as a defendant, alleging professional accounting malpractice and negligence in the conduct of its audit of Ashland's 1999 and 2000 financial statements, respectively, as well as alleging that E&Y aided and abetted the individual defendants in their alleged breach of duties. The complaint seeks to recover, jointly and severally, from defendants an unstated sum of compensatory and punitive damages. The complaint seeks equitable and/or injunctive relief to avoid continuing harm from alleged ongoing illegal acts, and seeks a disgorgement of defendants' alleged insider-trading gains, in addition to the reasonable cost and expenses incurred in bringing the complaint, including attorneys' and experts' fees.

Other Legal Proceedings - In addition to the matters described above, there are various claims, lawsuits and administrative proceedings pending or threatened against Ashland and its current and former subsidiaries. Such actions are with respect to commercial matters, product liability, toxic tort liability, and other environmental matters, which seek remedies or damages, some of which are for substantial amounts. While these actions are being contested, their outcome is not predictable.

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, 2004.

ITEM X. EXECUTIVE OFFICERS OF ASHLAND

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

JAMES J. O'BRIEN (age 50) is Chairman of the Board, Chief Executive Officer and Director of Ashland, and has served in such capacities since 2002. During the past five years, he has also served as President, Chief Operating Officer, Senior Vice President and Group Operating Officer of Ashland, and as President of Valvoline.

GARY A. CAPPELINE (age 55) is Senior Vice President of Ashland and President and Chief Operating Officer, Chemical Sector, and has served in such capacities since 2003. During the past five years, he has also served as Group Operating Officer of Ashland and President of Ashland Specialty Chemical, as a chemical industry partner at Bear Stearns Merchant Bank, as President of AlliedSignal Specialty Chemicals and as Group Vice President, Pigments and Additives of Engelhard Corp.

DAVID J. D'ANTONI (age 59) was Senior Vice President of Ashland, and served in such capacity since 1988. During the past five years, he has also served as Group Operating Officer of Ashland, and President of Ashland Paving And Construction, Inc. Mr. D'Antoni retired from Ashland on September 30, 2004.

DAVID L. HAUSRATH (age 52) is Senior Vice President, General Counsel and Secretary of Ashland and has served in such capacities since 2004, 1999 and 2004, respectively. During the past five years, he has also served as Vice President of Ashland.

GARRY M. HIGDEM (age 51) is Senior Vice President of Ashland; President and Chief Operating Officer, Transportation Construction Sector; and President, Ashland Paving And Construction, Inc., and has served in such capacities since 2004. During the past five years, he has also served as Vice President for Granite Construction Incorporated, Heavy Construction Division.

J. MARVIN QUIN (age 57) is Senior Vice President and Chief Financial Officer of Ashland and has served in such capacities since 1992.

LAMAR M. CHAMBERS (age 49) is Vice President and Controller of Ashland and has served in such capacities since 2004. During the past five years, he has also served as Regional Vice President and Senior Vice President, Finance & Administration of Ashland Paving And Construction, Inc., and Auditor of Ashland.

SUSAN B. ESLER (age 43) is Vice President Human Resources of Ashland and has served in such capacity since 2004. During the past five years, she has also served as Vice President Human Resources Programs & Services, Director of Corporate Human Resources and Manager of Executive Compensation of Ashland.

SAMUEL J. MITCHELL (age 43) is Vice President of Ashland and President of Valvoline and has served in such capacities since 2002. During the past five years, he has also served as Vice President - Retail Business, Vice President of Marketing and Director of Marketing -Valvoline.

FRANK L. WATERS (age 43) is Vice President of Ashland and President of Ashland Distribution and has served in such capacities since 2002. During the past five years, he has also served as Vice President of Ashland Plastics - Europe.

Each executive officer is elected by the Board of Directors of Ashland to a term of one year, or until a successor is duly elected, at the annual meeting of the Board of Directors, except in those instances where the officer is elected other than at an annual meeting of the Board of Directors, in which case his or her 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 EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

There is hereby incorporated by reference the information appearing in Note P of "Notes to Consolidated Financial Statements" in this annual report on Form 10-K.

At September 30, 2004, there were approximately 15,900 holders of record of Ashland's Common Stock. Ashland Common Stock is listed on the New York and Chicago stock exchanges (ticker symbol ASH) and has trading privileges on the Boston, Cincinnati, Pacific and Philadelphia stock exchanges.

ITEM 6. SELECTED FINANCIAL DATA

See Five-Year Selected Financial Information on page F-28.

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

See Management's Discussion and Analysis of Financial Condition and Results of Operations on pages M-1 through M-13.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Quantitative and Qualitative Disclosures about Market Risk on page M-13.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and financial schedule of Ashland presented in this annual report on Form 10-K are listed in the index on page F-1.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) As of September 30, 2004, Ashland, under the supervision and with the participation of its management, including Ashland's Chief Executive Officer and its Chief Financial Officer, evaluated the effectiveness of Ashland's disclosure controls and procedures pursuant to Rule 13a-15(b) and 15d-15(b) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective.

(b) There were no significant changes in Ashland's internal control over financial reporting, or in other factors, that occurred during the fiscal quarter ended September 30, 2004, that have materially affected, or are reasonably likely to materially affect, Ashland's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

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" and the information regarding Section 16 beneficial ownership reporting compliance in Ashland's definitive Proxy Statement for its January 27, 2005, Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after September 30, 2004, ("Proxy Statement"). See also the list of Ashland's executive officers and related information under "Executive Officers of Ashland" in Part 1 - Item X in this annual report on Form 10-K.

There is hereby incorporated by reference the information to appear under the caption "Audit Committee Report" regarding Ashland's audit committee financial experts, as defined under Item 401 of Regulation S-K of the Securities Exchange Act of 1934, as amended, in Ashland's Proxy Statement.

There is hereby incorporated by reference the information to appear under the caption "Corporpate Governance - Shareholder Nominations of Directors" in Ashland's Proxy Statement.

Ashland has adopted a Code of Business Conduct (the "Code"). The Code applies to Ashland's directors, all employees of Ashland and its subsidiary companies, including the principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions ("Key Personnel"). The Code is posted on Ashland's website. Ashland will satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, any provision of the Code with respect to its Key Personnel or directors by disclosing the nature of such amendment or waiver on its website or in a current report on Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

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

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

There is hereby incorporated by reference the information to appear under the captions "Ashland Common Stock Ownership of Directors and Certain Officers of Ashland" and "Ashland Common Stock Ownership of Certain Beneficial Owners" in Ashland's Proxy Statement.

The following table summarizes the equity compensation plans under which Ashland Common Stock may be issued as of September 30, 2004. Except as disclosed in the narrative to the table, all plans were approved by shareholders of Ashland.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	re f equ (ref
	(a)	(b)	
Equity compensation plans approved by security holders..............	4,925,043	40.73	
Equity compensation plans not approved by security holders (1)...........................	240,160	32.94	
Total.................	5,165,203	40.37	

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

(2) Includes 458,746 shares available for issuance under the Deferred Compensation Plan for Employees, and 365,527 shares available for issuance under the Deferred Compensation Plan for Non-Employee Directors.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

There is hereby incorporated by reference the information with respect to principal accountant fees and services to appear under the captions "Ratification of Auditors" and "Audit Committee Report" in Ashland's Proxy Statement.

Ashland has been made aware that, in connection with certain income tax compliance services, affiliates of E&Y held employment tax related funds of a de minimis amount and made payment of such funds to the applicable tax authority in respect of expatriot and foreign employees of subsidiaries of Ashland in Taiwan and China. These actions by affiliates of E&Y have been discontinued. Custody of the assets of an audit client is not permitted under the auditor independence rules in Regulation S-X of the SEC. The Audit Committee and E&Y have considered the impact that the holding and paying of these funds may have had on E&Y's independence with respect to Ashland and have concluded that there has been no impairment of E&Y's independence. In making this determination, the Audit Committee considered the de minimis amount of funds involved, the ministerial nature of the actions, and that the subsidiaries involved were immaterial to the consolidated financial statements of Ashland.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(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 in this annual report on Form 10-K are listed in the index on page F-1.

17

(3) Exhibits

2.1* - Master Agreement dated as of March 18, 2004, among Ashland Inc., ATB Holdings Inc., EXM LLC, New EXM Inc., Marathon Oil Corporation, Marathon Oil Company, Marathon Domestic LLC and Marathon Ashland Petroleum LLC (filed as Exhibit 2.1 to Ashland's Form 8-K/A dated March 18, 2004, and filed November 5, 2004, and incorporated herein by reference).

2.2* - Tax Matters Agreement dated March 18, 2004, among Ashland Inc., ATB Holdings Inc., EXM LLC, New EXM Inc., Marathon Oil Corporation, Marathon Oil Company, Marathon Domestic LLC and Marathon Ashland Petroleum LLC (filed as Exhibit 2.2 to Ashland's Form 8-K/A dated March 18, 2004, and filed November 5, 2004, and incorporated herein by reference).

2.3* - Assignment and Assumption Agreement (VIOC Centers) dated as of March 18, 2004, between Ashland Inc. and ATB Holdings Inc. (filed as Exhibit 2.3 to Ashland's Form 8-K/A dated March 18, 2004, and filed November 5, 2004, and incorporated herein by reference).

2.4* - Assignment and Assumption Agreement (Maleic Business) dated as of March 18, 2004, between Ashland

Inc. and ATB Holdings Inc. (filed as Exhibit 2.4 to Ashland's Form 8-K/A dated March 18, 2004, and filed November 5, 2004, and incorporated herein by reference).

2.5* - Amendment No. 2 dated as of March 18, 2004, to the Amended and Restated Limited Liability Company Agreement dated as of December 31, 1998, of Marathon Ashland Petroleum LLC, by and between Ashland Inc. and Marathon Oil Company (filed as Exhibit 2.5 to Ashland's Form 8-K/A dated March 18, 2004, and filed November 5, 2004, and incorporated herein by reference).

3.1 - Third Restated Articles of Incorporation of Ashland (filed as Exhibit 3(i) to Ashland's Form 10-Q for the quarter ended June 30, 2002, and incorporated herein by reference).

3.2 - By-laws of Ashland, effective as of November 15, 2002 (filed as Exhibit 3.2 to Ashland's annual report on Form 10-K for the fiscal year ended September 30, 2002, 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 4.2 to Ashland's annual report on Form 10-K for the fiscal year ended September 30, 2001, and incorporated herein by reference).

4.3 - Indenture, dated as of September 7, 2001, between Ashland and U.S. Bank National Association, as Trustee (filed as Exhibit 4.3 to Ashland's annual report on Form 10-K for the fiscal year ended September 30, 2001, and incorporated herein by reference).

4.4 - Rights Agreement, dated as of May 16, 1996, between Ashland Inc. and the Rights Agent, together with Form of Right Certificate (filed as Exhibit 4.4 to Ashland's annual report on Form 10-K for the fiscal year ended September 30, 2001, and incorporated herein by reference).

4.5 - Amendment No. 1 dated as of March 18, 2004, to Rights Agreement dated as of May 16, 1996, between Ashland Inc. and Rights Agent (filed as Exhibit 4 to Ashland's Form 10-Q for the quarter ended March 31, 2004, and incorporated herein by reference).

The following Exhibits 10.1 through 10.16 are compensatory plans or arrangements or management contracts required to be filed as exhibits pursuant to Item 601(b)(10)(ii)(A) of Regulation S-K.

10.1 - Amended Stock Incentive Plan for Key Employees of Ashland Inc. and its Subsidiaries (filed as Exhibit 10.1 to Ashland's annual report on Form 10-K for the fiscal year ended September 30, 1999, and incorporated herein by reference).

10.2	-	Ashland Inc. Deferred Compensation Plan for Non-Employee Directors (filed as Exhibit 10.2 to Ashland's Form 10-Q for the quarter ended June 30, 2003, and incorporated herein by reference).
10.3	-	Ashland Inc. Deferred Compensation Plan (filed as Exhibit 10.1 to Ashland's Form 10-Q for the quarter ended June 30, 2003, and incorporated herein by reference).
10.4	-	Eleventh Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Employees (filed as Exhibit 10.3 to Ashland's Form 10-Q for the quarter ended June 30, 2003, and incorporated herein by reference).
10.5	-	Ashland Inc. Salary Continuation Plan (filed as Exhibit 10.5 to Ashland's annual report on Form 10-K for the fiscal year ended September 30, 2002, and incorporated herein by reference).
10.6	-	Form of Ashland Inc. Executive Employment Contract between Ashland Inc. and certain executives of Ashland (filed as Exhibit 10.6 to Ashland's annual report on Form 10-K for the fiscal year ended September 30, 2002, and incorporated herein by reference).
10.7	-	Form of employment agreement between Ashland Inc. and an executive officer.
10.8	-	Form of Indemnification Agreement between Ashland Inc. and members of its Board of Directors (filed as Exhibit 10.7 to Ashland's annual report on Form 10-K for the fiscal year ended September 30, 2003, and incorporated herein by reference).
10.9	-	Ashland Inc. Nonqualified Excess Benefit Pension Plan (filed as Exhibit 10.4 to Ashland's Form 10-Q for the quarter ended June 30, 2003, and incorporated herein by reference).
10.10	-	Ashland Inc. Directors' Charitable Award Program (filed as Exhibit 10.11 to Ashland's annual report on Form 10-K for the fiscal year ended September 30, 2002, and incorporated herein by reference).
10.11	-	Ashland Inc. 1993 Stock Incentive Plan (filed as Exhibit 10.11 to Ashland's annual report on Form 10-K for the fiscal year ended September 30, 2000, and incorporated herein by reference).
10.12	-	Ashland Inc. 1997 Stock Incentive Plan (filed as Exhibit 10.14 to Ashland's annual report on Form 10-K for the fiscal year ended September 30, 2002, and incorporated herein by reference).
10.13	-	Amended and Restated Ashland Inc. Incentive Plan (filed as Exhibit 10.1 to Ashland's Form 10-Q for the quarter ended June 30, 2004, and incorporated herein by reference).
10.14	-	Form of Notice granting Stock Appreciation Rights Awards.
10.15	-	Form of Notice granting Restricted Stock Awards.
10.16	-	Form of Notice granting Nonqualified Stock Option Awards.
10.17	-	Amended and Restated Limited Liability Company Agreement dated as of December 31, 1998, of Marathon Ashland Petroleum LLC by and between Ashland Inc. and Marathon Oil Company.
10.18**	-	Amendment No. 1 dated as March 17, 2004, to the Amended and Restated Limited Liability Company Agreement dated as of December 31, 1998, of Marathon Ashland Petroleum LLC (filed as Exhibit 10.2 to Ashland's Form 10-Q for the quarter ended March 31, 2004, and incorporated herein by reference).

10.19	-	Put/Call Registration Rights and Standstill Agreement, dated as of January 1, 1998, including Amendment No. 1 thereto, dated as of December 31, 1998, among Marathon Oil Company, USX Corporation, Ashland Inc. and Marathon Ashland Petroleum LLC.
10.20	-	Amendment No. 2 dated as of March 17, 2004, to the Put/Call Registration Rights and Standstill Agreement dated as of January 1, 1998, among Marathon Oil Company, USX Corporation, Ashland Inc. and Marathon Ashland Petroleum LLC (filed as Exhibit 10.1 to Ashland's Form 10-Q for the quarter ended March 31, 2004, and incorporated herein by reference).

19

10.21	-	Three-Year, $250 Million Revolving Credit Agreement dated as of April 2, 2004
10.22	-	364-Day, $100 Million Revolving Credit Agreement dated as of April 2, 2004
11	-	Computation of Earnings Per Share (appearing on page F-9 of this annual report on Form 10-K).
12	-	Computation of Ratio of Earnings to Fixed Charges.
21	-	List of Subsidiaries.
23.1	-	Consent of Independent Registered Public Accounting Firm.
24	-	Power of Attorney, including resolutions of the Board of Directors.
31.1	-	Certification of James J. O'Brien, Chief Executive Officer of Ashland, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	-	Certification of J. Marvin Quin, Chief Financial Officer of Ashland, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	-	Certification of James J. O'Brien, Chief Executive Officer of Ashland, and J. Marvin Quin, Chief Financial Officer of Ashland, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	-	Consent of Tillinghast-Towers Perrin.
99.2	-	Consent of Hamilton, Rabinovitz & Alschuler, Inc.

*Ashland agrees to supplement this filing and furnish a copy of any omitted schedule to the United States Securities and Exchange Commission upon request.

**Portions of this document have received confidential treatment.

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

20

SIGNATURES

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

ASHLAND INC.
(Registrant)
By:

/s/ J. Marvin Quin

J. Marvin Quin
Senior Vice President and Chief Financial Officer

Date: December 14, 2004

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 14, 2004.

Signatures	Capacity
/S/ JAMES J. O'BRIEN JAMES J. O'BRIEN	Chairman of the Board, Chief Executive Officer and Director
/S/ J. MARVIN QUIN J. MARVIN QUIN	Senior Vice President and Chief Financial Officer
/S/ LAMAR M. CHAMBERS LAMAR M. CHAMBERS	Vice President, Controller and Principal Accounting Officer
* ERNEST H. DREW	Director
* ROGER W. HALE	Director
* BERNADINE P. HEALY	Director
* ERNEST H. DREW	Director
* MANNIE L. JACKSON	Director
* KATHLEEN LIGOCKI	Director
* PATRICK F. NOONAN	Director
*	Director

JANE C. PFEIFFER

*	Director
WILLIAM L. ROUSE, JR.	
*	Director
GEORGE A. SCHAEFER, JR.	
*	Director
THEODORE M. SOLSO	
*	Director
MICHAEL J. WARD	

*By: /s/ David L. Hausrath
David L. Hausrath
Attorney-in-Fact
Date: December 14, 2004

21

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

The following table shows revenues, operating income and operating information by industry segment for each of the last three years ended September 30.

(In millions)	2004	
SALES AND OPERATING REVENUES		
APAC	$ 2,525	$
Ashland Distribution	3,199	
Ashland Specialty Chemical	1,386	
Valvoline	1,297	
Intersegment sales	(106)	
	$ 8,301	$
OPERATING INCOME		
APAC	$ 111	$
Ashland Distribution	78	
Ashland Specialty Chemical	87	
Valvoline	105	
Refining and Marketing (1)	383	
Corporate	(102)	
	$ 662	$
OPERATING INFORMATION		

APAC		
Construction backlog at September 30 (millions) (2)	$ 1,746	$
Net construction job revenues (millions) (3)	$ 1,433	$
Hot-mix asphalt production (million tons)	33.4	
Aggregate production (million tons)	29.6	
Ready-mix concrete production (million cubic yards)	1.7	
Ashland Distribution (4)		
Sales per shipping day (millions)	$ 12.6	$
Gross profit as a percent of sales	9.6%	
Ashland Specialty Chemical (4)		
Sales per shipping day (millions)	$ 5.4	$
Gross profit as a percent of sales	27.9%	
Valvoline		
Lubricant sales (million gallons)	191.6	
Premium lubricants (percent of U.S. branded volumes)	21.5%	
Refining and Marketing (5)		
Refinery runs (thousand barrels per day)		
Crude oil refined	920	
Other charge and blend stocks	167	
Refined product yields (thousand barrels per day)		
Gasoline	600	
Distillates	291	
Asphalt	74	
Other	135	
Total	1,100	
Refined product sales (thousand barrels per day) (6)	1,385	
Refining and wholesale marketing margin (per barrel) (7)	$ 3.11	$
Speedway SuperAmerica (SSA)		
Retail outlets at September 30	1,685	
Gasoline and distillate sales (million gallons)	3,165	
Gross margin - gasoline and distillates (per gallon)	$ .1167	$
Merchandise sales (millions) (8)	$ 2,301	$
Merchandise margin (as a percent of sales)	24.4%	

(1) Includes Ashland's equity income from Marathon Ashland Petroleum LLC (MAP), amortization related to Ashland's excess investment in MAP, and other activities associated with refining and marketing.
(2) Includes APAC's proportionate share of the backlog of unconsolidated joint ventures.
(3) Total construction job revenues, less subcontract costs.
(4) Sales are defined as sales and operating revenues. Gross profit is defined as sales and operating revenues, less cost of sales and operating expenses.
(5) Amounts represent 100% of MAP's operations, in which Ashland owns a 38% interest.
(6) Total average daily volume of all refined product sales to MAP's wholesale, branded and retail (SSA) customers.
(7) Sales revenue less cost of refinery inputs, purchased products and manufacturing expenses, including depreciation.
(8) Effective January 1, 2003, SSA adopted EITF 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," which requires rebates from vendors to be recorded as reductions to cost of sales. Rebates from vendors recorded in SSA merchandise sales for periods prior to January 1, 2003 have not been restated and included $46 million in 2003 and $170 million in 2002.

RESULTS OF OPERATIONS

Ashland's net income amounted to $378 million in 2004, $75 million in 2003 and $117 million in 2002. Income from continuing operations (which excludes discontinued operations and the cumulative effect of accounting changes) amounted to $398 million in 2004, $94 million in 2003 and $115 million in 2002. Ashland's results from discontinued operations, consisting of charges associated with estimated future asbestos liabilities less probable insurance recoveries, as well as net income from the discontinued operations of its Electronic Chemicals business, along with the cumulative effect of accounting changes adopted in 2002 and 2003, accounted for the difference in net income and income from continuing operations.

Chemical Sector (consisting of Ashland Distribution, Ashland Specialty Chemical and Valvoline) operating income totaled $270 million in 2004, compared to $150 million in 2003 and $148 million in 2002. Ashland Distribution, Ashland Specialty Chemical and Valvoline all showed significant improvement in 2004, reflecting a combined 12% increase in sales and operating revenues and an improved cost structure. In the Transportation Construction Sector, Ashland Paving And Construction (APAC) recorded operating income of $111 million in 2004, compared to a loss of $42 million in 2003 and income of $122 million in 2002. APAC's improvement in 2004 reflected a reduced cost structure and more normal weather for the overall year. Refining and Marketing operating income was $383 million in 2004, compared to $263 million in 2003 and $143 million in 2002, reflecting higher refining margins year-over-year and increased refinery throughput in 2004 compared with 2003. An analysis of operating income by industry segment follows.

APAC

Operating income from APAC totaled $111 million in 2004, compared with an operating loss of $42 million in 2003. Higher margins on construction work, driven primarily by reduced operating costs, was the primary contributor to the earnings improvement. Income also increased from the sale of hot-mix asphalt and aggregates, reflecting improved pricing and margins as well as slightly higher sales volumes in both areas. Operating efficiency increased as a result of broad-based business improvement programs implemented over the last three years, and somewhat better weather conditions for 2004 overall, compared with the record levels of rainfall experienced in 2003. APAC reversed into income $5 million of a job loss reserve established in 2003 related to a large highway construction project in Virginia. Also contributing to 2004 earnings, APAC sold a significant portion of its ready-mix concrete operations in the June quarter, realizing proceeds net of selling expenses of $38 million and a pretax gain of $9 million. Costs related to Project PASS, APAC's process redesign initiative completed during 2004, amounted to $10 million in 2004, compared with $20 million in 2003. As of September 30, 2004, APAC's construction backlog, which consists of contracts awarded and funded but not yet performed, was $1.75 billion, essentially even with the year-end record set in 2003.

During 2003, APAC reported an operating loss of $42 million, compared to income of $122 million in 2002. In many of the states in which APAC operates, rainfall during 2003 was among the highest levels on record in the past 109 years as measured by the National Climatic Data Center. In addition to hampering the overall level of construction activity, the weather conditions resulted in significant levels of rework and created significant inefficiencies in completing the construction work that APAC performed. Earnings from construction jobs were down significantly, reflecting an 11% decrease in net construction job revenues (total construction job revenues less subcontract costs) and a related increase in overhead costs not allocated to individual jobs. As a result of weather-related cost increases and construction delays, APAC established reserves for job losses on several projects, including $14 million related to a large highway construction project in Virginia. Margins of the asphalt plants were also down due to an 11% decrease in production and significantly higher costs for liquid asphalt and fuel. In addition, APAC recognized an impairment charge of $9 million associated with non-strategic businesses identified for sale. Costs associated with Project PASS, APAC's process redesign initiative, amounted to $20 million in 2003, compared to $17 million in 2002.

ASHLAND DISTRIBUTION

Ashland Distribution generated record operating income of $78 million in 2004, compared with $32 million in 2003. Sales increased 14% compared with 2003, due to a 7% increase in unit volumes and a 7% increase in selling prices. Gross profit as a percent of sales declined slightly, from 9.9% to 9.6%, attributable primarily to lower margins within the chemicals product category. Selling, general and administrative expenses were reduced 10%, reflecting cost-cutting and efficiency improvements achieved through Ashland's Top-Quartile Cost Structure (TQCS) program that began in 2003. Income in 2004 increased from all regions, both domestically and in Europe.

Operating income from Ashland Distribution amounted to $32 million in 2003, compared to $1 million in 2002. Overall sales were up 11% (of which 5% came from higher volumes), despite a continuing sluggish industrial production environment. Reported results for 2003 included $6 million of gains from property sales and litigation settlements, as well as a charge of $5 million for staff reductions under the TQCS program. Results of Ashland Distribution for 2002 included income of $7 million from the settlement of the sorbate antitrust litigation.

ASHLAND SPECIALTY CHEMICAL

Operating income from Ashland Specialty Chemical increased to $87 million in 2004, compared to $31 million in 2003. Sales from the thermoset resins businesses (Casting Solutions, Composite Polymers and Specialty Polymers & Adhesives) increased 17%, reflecting an 11% increase in unit sales volumes and a 6% increase in selling prices. The increase in sales was partially offset by a decline in gross profit percentage due to the inability to fully recover persistently rising raw materials costs. The water technologies businesses (Drew Industrial and Drew Marine) achieved higher income as a result of a 7% increase in revenues. Ashland Specialty Chemical's selling, general and administrative expenses were reduced in 2004, reflecting cost reductions achieved through Ashland's TQCS program. Adding to income in 2004, a parcel of land and fixed assets in Plaquemine, Louisiana were sold for net proceeds of $9 million, resulting in a pretax gain of $6 million. Results for 2003 included an impairment charge of $10 million for a maleic anhydride production facility, as well as a charge of $5 million for staff reductions under the TQCS program.

Ashland Specialty Chemical's operating income amounted to $31 million in 2003, compared to $70 million in 2002. Although overall sales were up 7%, the individual businesses reported mixed results. Earnings from most of the thermoset resins businesses were down, reflecting raw material cost increases that were not completely recovered in the marketplace. Results from Castings Solutions and Drew Industrial were up, reflecting sales increases of 11% and 8%, combined with more stable margins. In spite of higher sales, operating income from Drew Marine was down largely due to the effects of the weakening U.S. dollar on margins. Sales of Drew Marine are principally denominated in U.S. dollars, while most of its costs are denominated in foreign currencies. In addition, the earnings of Ashland Specialty Chemical for 2003 included an impairment charge of $10 million for a maleic anhydride production facility, as well as a charge of $5 million for staff reductions under the TQCS program.

VALVOLINE

Valvoline generated record operating income of $105 million in 2004, compared with $87 million in 2003. Lubricant sales volumes decreased 1% from 2003, but unit sales of higher-margin premium lubricants (MaxLife, Durablend and SynPower) increased 15%. Valvoline Instant Oil Change (VIOC) reported its third year of record earnings due in part to a 3% increase in non-oil change revenues and a 2% increase in premium oil changes, contributing to a 6% increase in the average sale per customer visit. Valvoline's international operations posted record operating income, mostly due to a 6% increase in lubricant sales volumes and strengthening foreign currencies. At September 30, 2004, VIOC operated 360 company-owned service centers, compared to 357 centers in 2003 and 363 centers in 2002. The VIOC franchising program continues to expand, with 397 centers open at September 30, 2004, compared to 372 centers in 2003 and 335 centers in 2002. VIOC's future growth will continue to focus principally on expanding the number of franchised rather than company-owned centers.

Operating income from Valvoline amounted to $87 million in 2003, compared to $77 million in 2002. Branded lubricant volume was up slightly, but the mix improved considerably with higher margin premium lubricants accounting for 18.5% of the total in 2003, compared to 16.1% in 2002. Significant improvements were also achieved from international operations, VIOC and automotive system fluids. Valvoline International had better volumes and margins in Europe and Australia, and their improved operating results were further enhanced by strengthening foreign currency translation rates. VIOC's increased earnings reflected a growing number of oil changes using premium lubricants and increased revenues from transmission, cooling, fuel and air quality system services. Valvoline also sold its remaining inventory of R-12 refrigerant at a small profit.

REFINING AND MARKETING

Operating income from Refining and Marketing, which consists primarily of equity income from Ashland's 38% ownership interest in MAP, amounted to $383 million in 2004, compared to $263 million in 2003. In 2004, MAP achieved its second highest level of earnings for the twelve months ended September. Equity income from MAP's refining and marketing operations increased $127 million, reflecting an increase of 52 cents per barrel in its refining and wholesale marketing margin. MAP's refineries processed approximately 1.1 million barrels per day of crude oil and other feedstocks during 2004, an increase of 5% from 2003. Equity income from MAP's retail operations

M-3

(Speedway SuperAmerica and a 50% interest in the Pilot Travel Centers joint venture) declined $6 million due to an $8 million gain on the sale of Speedway SuperAmerica's southern stores in 2003.

On March 19, 2004, Ashland announced the signing of an agreement under which it would transfer its 38% interest in MAP and two wholly-owned businesses to Marathon in a transaction structured to be generally tax free and valued at approximately $3.0 billion (the "MAP Transaction"). The two other businesses are Ashland's maleic anhydride business and 61 VIOC centers. The transaction is subject to several previously disclosed conditions, including approval by Ashland's shareholders, consent from Ashland's public debt holders and receipt of a favorable private letter ruling from the Internal Revenue Service (IRS) with respect to the tax treatment. Ashland has filed registration statements and proxy materials with the Securities and Exchange Commission (SEC) and is responding to comments. In addition, Ashland submitted a request to the IRS for a private letter ruling on the tax-free status of the proposed transaction. Ashland continues to discuss the complex tax issues related to this transaction with the IRS. Ashland has not resolved all issues with the IRS and is exploring alterna