ASHLAND INC
Form 10-Q
February 08, 2005

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 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

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

At December 31, 2004, there were 72,084,548 shares of Registrant's Common Stock outstanding. One Right to purchase one-thousandth of a share of Series A Participating Cumulative Preferred Stock accompanies each

outstanding share of Registrant's Common Stock.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

(In millions except per share data)

REVENUES
Sales and operating revenues
Equity income
Other income

COSTS AND EXPENSES
Cost of sales and operating expenses
Selling, general and administrative expenses

OPERATING INCOME
Net interest and other financial costs

INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES
Income taxes

INCOME FROM CONTINUING OPERATIONS
Results from discontinued operations (net of income taxes) - Note B

NET INCOME

BASIC EARNINGS PER SHARE - NOTE A
Income from continuing operations
Results from discontinued operations

Net income

DILUTED EARNINGS PER SHARE - NOTE A		
Income from continuing operations		
Results from discontinued operations		
Net income		
DIVIDENDS PAID PER COMMON SHARE		

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)	December 31 2004	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 146	$
Accounts receivable	1,252	
Allowance for doubtful accounts	(40)	
Inventories - Note A	538	
Deferred income taxes	95	
Other current assets	106	
	2,097	
INVESTMENTS AND OTHER ASSETS		
Investment in Marathon Ashland Petroleum LLC (MAP)	2,856	
Goodwill	567	
Asbestos insurance receivable (noncurrent portion)	396	
Other noncurrent assets	370	
	4,189	
PROPERTY, PLANT AND EQUIPMENT		
Cost	3,166	
Accumulated depreciation, depletion and amortization	(1,889)	
	1,277	
	$ 7,563	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		

Debt due within one year	$ 575	$
Trade and other payables	1,197	
Income taxes	69	
	1,841	
NONCURRENT LIABILITIES		
Long-term debt (less current portion)	1,087	
Employee benefit obligations	438	
Deferred income taxes	248	
Reserves of captive insurance companies	177	
Asbestos litigation reserve (noncurrent portion)	553	
Other long-term liabilities and deferred credits	375	
Commitments and contingencies - Notes D and G		
	2,878	
COMMON STOCKHOLDERS' EQUITY	2,844	
	$ 7,563	$

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

(In millions)	Common stock	Paid-in capital	Retained earnings
BALANCE AT OCTOBER 1, 2003	$ 68	$ 350	$ 1,961
Total comprehensive income (1)			34
Cash dividends			(19)
Issued 643,390 common shares under stock incentive and other plans	1	19	
BALANCE AT DECEMBER 31, 2003	$ 69	$ 369	$ 1,976
BALANCE AT OCTOBER 1, 2004	$ 72	$ 478	$ 2,262
Total comprehensive income (1)			94
Cash dividends			(20)
Issued 505,385 common shares under stock incentive and other plans		25	
BALANCE AT DECEMBER 31, 2004	$ 72	$ 503	$ 2,336

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

(In millions)	
Net income	
Unrealized translation adjustments	
Related tax benefits	
Net unrealized gains on cash flow hedges	
Total comprehensive income	

At December 31, 2004, the accumulated other comprehensive loss of $67 million (after tax) was comprised of net unrealized translation gains of $60 million, a minimum pension liability of $129 million and net unrealized gains on cash flow hedges of $2 million.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions)	
CASH FLOWS FROM OPERATIONS	
Income from continuing operations	
Expense (income) not affecting cash	
Depreciation, depletion and amortization	
Deferred income taxes	
Equity income from affiliates	
Distributions from equity affiliates	
Other items	
Change in operating assets and liabilities (1)	
CASH FLOWS FROM FINANCING	
Proceeds from issuance of common stock	
Repayment of long-term debt	

Increase in short-term debt	
Dividends paid	
CASH FLOWS FROM INVESTMENT	
Additions to property, plant and equipment	
Purchase of operations - net of cash acquired	
Other - net	
CASH USED BY CONTINUING OPERATIONS	
Cash used by discontinued operations	
DECREASE IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	
CASH AND CASH EQUIVALENTS - END OF PERIOD	

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

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

INTERIM FINANCIAL REPORTING

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations. Although such statements are subject to any year-end audit adjustments which may be necessary, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with Ashland's Annual Report on Form 10-K for the fiscal year ended September 30, 2004. Results of operations for the period ended December 31, 2004, are not necessarily indicative of results to be expected for the year ending September 30, 2005.

INVENTORIES

(In millions)	December 31 2004	S
Chemicals and plastics	$ 449	$
Construction materials	69	
Petroleum products	69	
Other products	53	
Supplies	6	
Excess of replacement costs over LIFO carrying values	(108)	
	$ 538	$

EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (EPS) from continuing operations.

(In millions except per share data)		
NUMERATOR		
Numerator for basic and diluted EPS - Income from continuing operations		
DENOMINATOR		
Denominator for basic EPS - Weighted average common shares outstanding		
Common shares issuable upon exercise of stock options		
Denominator for diluted EPS - Adjusted weighted average shares and assumed conversions		
EARNINGS PER SHARE FROM CONTINUING OPERATIONS		
Basic		
Diluted		

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

NOTE B - DISCONTINUED OPERATIONS

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, a former subsidiary. During the quarter ended December 31, 2003, Ashland recorded a charge of $15 million to increase its reserve for asbestos claims, the effect of which was partially offset by an $8 million credit to increase its asbestos insurance receivable. The resulting $7 million pretax charge to income, net of deferred income tax benefits of $2 million, was reflected as an after-tax loss from discontinued operations of $5 million in the Statement of Consolidated Income for the three months ended December 31, 2003. No adjustments were recorded to the asbestos reserve or insurance receivable in the quarter ended December 31, 2004. See Note G for further discussion of Ashland's asbestos-related litigation.

Components of amounts reflected in the income statements related to discontinued operations are presented in the following table.

(In millions)

PRETAX LOSS FROM DISCONTINUED OPERATIONS
Reserves for asbestos-related litigation
INCOME TAXES
Reserves for asbestos-related litigation

RESULTS FROM DISCONTINUED OPERATIONS (NET OF INCOME TAXES)

NOTE C - UNCONSOLIDATED AFFILIATES

Separate financial statements for MAP required by Rule 3-09 of Regulation S-X will be filed as an amendment to Ashland's Annual Report on Form 10-K within 90 days after the end of MAP's fiscal year, which ended December 31, 2004. Unaudited income statement information for MAP is shown below.

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

(In millions)

Sales and operating revenues	$
Income from operations	
Net income	
Ashland's equity income	

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

NOTE C - UNCONSOLIDATED AFFILIATES (CONTINUED)

On March 19, 2004, Ashland announced the signing of an agreement under which it would transfer its 38% interest in Marathon Ashland Petroleum LLC ("MAP") and two wholly-owned businesses to Marathon Oil Corporation ("Marathon") in a transaction structured to be generally tax free and valued at approximately $3 billion. The two businesses are Ashland's maleic anhydride business and 61 Valvoline Instant Oil Change 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.

On December 20, 2004 and January 25, 2005, Ashland provided updates on the status of the proposed transaction. The updates included information about the status of the requested tax rulings. Ashland and Marathon have continued their discussions with the IRS and are discussing with the IRS modifications of the proposed transaction that would allow a tax efficient transfer of Ashland's interest in MAP to Marathon. These modifications would require Ashland and Marathon to negotiate amendments to the Master Agreement executed by Ashland and Marathon on March 18, 2004. There can be no assurance that an agreement on a modified transaction will be reached. If an agreement is reached on a modified transaction, it is likely that the transaction would close in the second calendar quarter of 2005.

NOTE D - LEASES AND OTHER COMMITMENTS

LEASES

Under various operating leases, Ashland has made guarantees with respect to the residual value of the underlying property. If Ashland had canceled those leases at December 31, 2004, its maximum obligations under the residual value guarantees would have amounted to $94 million. Ashland does not expect to incur any significant charge to earnings under these guarantees, $24 million

of which relates to real estate. These lease agreements are with unrelated third party lessors and Ashland has no additional contractual or other commitments to any party to the leases.

OTHER COMMITMENTS

Ashland has guaranteed 38% of MAP's payments for certain crude oil purchases, up to a maximum guarantee of $95 million. At December 31, 2004, Ashland's contingent liability under this guarantee amounted to $76 million. Although Ashland has not made and does not expect to make any payments under this guarantee, it has recorded the fair value of the guarantee obligation, which is not significant.

NOTE E - EMPLOYEE BENEFIT PLANS

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. Among other things, the Act will expand Medicare to include an outpatient prescription drug benefit beginning in 2006, as well as provide a subsidy for sponsors of retiree health care plans that provide a benefit that is at least actuarially equivalent to the Medicare Act benefits. In May 2004, the Financial Accounting Standards Board issued Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." Regulations implementing major provisions of the Act, including the determination of actuarial equivalency, were issued in January 2005. Ashland is currently evaluating the impact of the Act on its postretirement benefit plans and has not determined the effect of the Act on its financial statements.

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

NOTE E - EMPLOYEE BENEFIT PLANS (continued)

Presently, Ashland anticipates contributing $86 million to its U.S. pension plans and $8 million to its non-U.S. pension plans during fiscal 2005. As of December 31, 2004, contributions of $5 million have been made to the U.S. plans and $1 million to the non-U.S. plans.

The following table details the components of pension and other postretirement benefit costs.

Pension benefits

(In millions)	2004	2003	
THREE MONTHS ENDED DECEMBER 31			
Service cost	$ 13	$ 13	$
Interest cost	20	18	
Expected return on plan assets	(19)	(16)	
Amortization of prior service credit	-	-	
Amortization of net actuarial loss	8	7	
	$ 22	$ 22	$

NOTE F - ACQUISITIONS

During the three months ended December 31, 2004, Ashland Specialty Chemical acquired Dow Chemical's DERAKANE(R) epoxy vinyl ester resins business for approximately $90 million. With this acquisition, Ashland Specialty Chemical's composite polymers business continues to build its innovative line of resin chemistries for composite manufacturing. The purchase included all technology and intellectual property assets associated with the DERAKANE resin business. No physical assets were transferred to Ashland. Also during the quarter, APAC acquired two asphalt plants. Following is a progression of goodwill by segment for the three months ended December 31, 2004.

(In millions)	APAC	Ashland Specialty Chemical	Va
BALANCE AT OCTOBER 1, 2004	$ 411	$ 96	$
Goodwill acquired	-	50	
Currency translation adjustments	-	4	
BALANCE AT DECEMBER 31, 2004	$ 411	$ 150	$

NOTE G - LITIGATION, CLAIMS AND CONTINGENCIES

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.

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

NOTE G - LITIGATION, CLAIMS AND CONTINGENCIES (continued)

A summary of asbestos claims activity follows. Because claims are frequently filed and settled in large groups, the amount and timing of settlements and number of open claims can fluctuate significantly from period to period.

	Three months ended December 31		Years ended S	
(In thousands)	2004	2003	2004	
Open claims - beginning of period	196	198	198	
New claims filed	3	7	29	
Claims settled	(3)	(2)	(7)	
Claims dismissed	(6)	(5)	(24)	
Open claims - end of period	190	198	196	

Since October 1, 2001, Riley has been dismissed as a defendant in 73% of the resolved claims. Amounts spent on litigation defense and claim settlements averaged $1,723 per claim resolved in the three months ended December 31, 2004, compared to $1,746 in the three months ended December 31, 2003, and annual averages of $1,655 in 2004, $1,610 in 2003 and $723 in 2002. A progression of activity in the asbestos reserve is presented in the following table.

	Three months ended December 31		Years ended	
(In millions)	2004	2003	2004	
Asbestos reserve - beginning of period	$ 618	$ 610	$ 610	$
Expense incurred	-	15	59	
Amounts paid	(15)	(13)	(51)	
Asbestos reserve - end of period	$ 603	$ 612	$ 618	$

During the December 2002 quarter, Ashland increased its reserve for asbestos claims by $390 million to cover the litigation defense and claim settlement costs for probable and reasonably estimable future payments related to existing open claims, as well as an estimate of those that may be filed in the future. Prior to December 31, 2002, the asbestos reserve was based on the estimated costs that would be incurred to settle existing open claims. A range of estimates of future asbestos claims and related costs using various assumptions was developed with the assistance of Hamilton, Rabinovitz & Alschuler, Inc. (HR&A). The methodology used by HR&A to project future asbestos costs was based largely on Ashland's recent experience, including claim-filing and settlement rates, disease mix, open claims, and litigation defense and claim settlement costs. Ashland's claim experience was compared to the results of previously conducted epidemiological studies estimating the number of people likely to develop asbestos-related diseases. Those studies were undertaken in connection with national analyses of the population expected to have been exposed to asbestos. Using that information, HR&A estimated a range of the number of future claims that may be filed, as well as the related costs that may be incurred in resolving those claims.

From the range of estimates, Ashland recorded the amount it believed to be the best estimate, which represented the expected payments for litigation defense and claim settlement costs during the next ten years. Subsequent updates to this estimate have been made, with the assistance of HR&A, based on a combination of a number of factors including the actual volume of new claims, recent settlement costs, changes in the mix of alleged disease, enacted legislative changes and other developments impacting

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

NOTE G - LITIGATION, CLAIMS AND CONTINGENCIES (continued)

Ashland's estimate of future payments. Ashland's reserve for asbestos claims on an undiscounted basis amounted to $603 million at December 31, 2004, compared to $618 million at September 30, 2004 and $612 million at December 31, 2003.

Projecting future asbestos costs is subject to numerous variables that are extremely difficult to predict. In addition to the significant uncertainties surrounding the number of claims that might be received, other variables include the type and severity of the disease alleged by each claimant, the long latency period associated with asbestos exposure, dismissal rates, costs of medical treatment, the impact of bankruptcies of other companies that are co-defendants in claims, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential changes in legislative or judicial standards. Furthermore, any predictions with respect to

these variables are subject to even greater uncertainty as the projection period lengthens. In light of these inherent uncertainties, Ashland believes its asbestos reserve represents the best estimate within a range of possible outcomes. As a part of the process to develop Ashland's estimates of future asbestos costs, a range of long-term cost models is developed that assumes a run-out of claims through 2055. These models are based on national studies that predict the number of people likely to develop asbestos-related diseases and are heavily influenced by assumptions regarding long-term inflation rates for indemnity payments and legal defense costs, as well as other variables mentioned previously. The total future litigation defense and claim settlement costs on an undiscounted basis has been estimated within a reasonably possible range of $400 million to $2.0 billion, depending on the number of years those costs extend and other combinations of assumptions selected. Ashland's reserve represents between 10 and 29 years of future costs, depending on the model selected. If actual experience is worse than projected relative to the number of claims filed, the severity of alleged disease associated with those claims or costs incurred to resolve those claims, Ashland may need to increase further the estimates of the costs associated with asbestos claims and these increases could potentially be material over time.

Ashland has insurance coverage for most of the litigation defense and claim settlement costs incurred in connection with its asbestos claims, and coverage-in-place agreements exist with the insurance companies that provide substantially all of the coverage currently being accessed. As a result, increases in the asbestos reserve have been largely offset by probable insurance recoveries. The amounts not recoverable generally are due from insurers that are insolvent, rather than as a result of uninsured claims or the exhaustion of Ashland's insurance coverage.

Ashland retained the services of Tillinghast-Towers Perrin to assist management in the estimation of reasonably possible insurance recoveries associated with Ashland's estimate of its asbestos liabilities. Such recoveries are based on management's assumptions and estimates surrounding the available or applicable insurance coverage. One such assumption is that all solvent insurance carriers remain solvent. Although coverage limits are resolved in the coverage-in-place agreement with Equitas Limited (Equitas) and other London companies, which collectively provide a significant portion of Ashland's insurance coverage for asbestos claims, there is a disagreement with these companies over the timing of recoveries. The resolution of this disagreement could have a material effect on the value of insurance recoveries from those companies. In estimating the value of future recoveries, Ashland has used the least favorable interpretation of this agreement under which the ultimate recoveries are extended for many years, resulting in a significant discount being applied to value those recoveries. Ashland will continue to apply this methodology until such time as the disagreement is resolved. On July 21, 2004, Ashland filed a demand for arbitration to resolve the dispute concerning the interpretation of this agreement.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE G - LITIGATION, CLAIMS AND CONTINGENCIES (continued)

At December 31, 2004, Ashland's receivable for recoveries of litigation defense and claim settlement costs from its insurers amounted to $432 million, of which $66 million relates to costs previously paid. Receivables from insurance companies amounted to $435 million at September 30, 2004 and $433 million at December 31, 2003. About 35% of the estimated receivables from insurance companies at December 31, 2004, are expected to be due from Equitas and other London companies. Of the remainder, approximately 90% is expected to come from companies or groups that are rated A or higher by A. M. Best.

ENVIRONMENTAL PROCEEDINGS

Ashland is subject to various federal, state and local environmental laws and regulations that require environmental assessment or remediation efforts (collectively environmental remediation) at multiple locations. At December 31, 2004, such locations included 90 waste treatment or disposal sites where Ashland has been identified as a potentially responsible party under Superfund or similar state laws, approximately 130 current and former operating facilities (including certain operating facilities conveyed to MAP) and about 1,220 service station properties. Ashland's reserves for environmental remediation amounted to $155 million at December 31, 2004, compared to $152 million at September 30, 2004 and $173 million at December 31, 2003. Such amounts reflect Ashland's estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are reasonably estimable, without regard to any third-party recoveries. Engineering studies, probability techniques, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in determining the estimated reserves for environmental remediation.

Environmental remediation reserves are subject to numerous inherent uncertainties that affect Ashland's ability to estimate its share of the costs. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology, and the number and financial strength of other potentially responsible parties at multiparty sites. Ashland regularly adjusts its reserves as environmental remediation continues. Environmental remediation expense amounted to $7 million for the three months ended December 31, 2004, compared to $4 million for the three months ended December 31, 2003, and annual expense of $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.

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.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
INFORMATION BY INDUSTRY SEGMENT

(In millions)	Three mo Dece 2004
REVENUES	
Sales and operating revenues	
APAC	$ 611
Ashland Distribution	895
Ashland Specialty Chemical	400
Valvoline	309
Intersegment sales	
Ashland Distribution	(6)
Ashland Specialty Chemical	(32)
	2,177
Equity income	
APAC	2
Ashland Specialty Chemical	2
Refining and Marketing	142
	146
Other income	
APAC	1
Ashland Distribution	2
Ashland Specialty Chemical	9
Valvoline	2
Refining and Marketing	2
Corporate	1
	17

	$ 2,340
OPERATING INCOME	
APAC	$ 7
Ashland Distribution	24
Ashland Specialty Chemical	22
Valvoline	18
Refining and Marketing (1)	136
Corporate	(27)
	$ 180

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

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
INFORMATION BY INDUSTRY SEGMENT

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OPERATING INFORMATION	
APAC	
Construction backlog at December 31 (millions) (1)	$
Net construction job revenues (millions) (2)	$
Hot-mix asphalt production (million tons)	
Aggregate production (million tons)	
Ashland Distribution (3)	
Sales per shipping day (millions)	$
Gross profit as a percent of sales	
Ashland Specialty Chemical (3)	
Sales per shipping day (millions)	$
Gross profit as a percent of sales	
Valvoline	
Lubricant sales (million gallons)	
Premium lubricants (percent of U.S. branded volumes)	
Refining and Marketing (4)	
Refinery runs (thousand barrels per day)	
Crude oil refined	
Other charge and blend stocks	
Refined product yields (thousand barrels per day)	
Gasoline	
Distillates	
Asphalt	

Other	
Total	
Refined product sales (thousand barrels per day) (5)	
Refining and wholesale marketing margin (per barrel) (6)	$
Speedway SuperAmerica (SSA)	
Retail outlets at December 31	
Gasoline and distillate sales (million gallons)	
Gross margin - gasoline and distillates (per gallon)	$
Merchandise sales (millions)	$
Merchandise margin (as a percent of sales)	

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(1) Includes APAC's proportionate share of the backlog of unconsolidated joint ventures.
(2) Total construction job revenues, less subcontract costs.
(3) Sales are defined as sales and operating revenues. Gross profit is defined as sales and operating revenues, less cost of sales and operating expenses.
(4) Amounts represent 100% of MAP's operations, in which Ashland owns a 38% interest.
(5) Total average daily volume of all refined product sales to MAP's wholesale, branded and retail (SSA) customers.
(6) Sales revenue less cost of refinery inputs, purchased products and manufacturing expenses, including depreciation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

RESULTS OF OPERATIONS

Ashland reported net income of $94 million for the quarter ended December 31, 2004, compared to $34 million for the quarter ended December 31, 2003. Ashland's income from continuing operations amounted to $94 million for the quarter ended December 31, 2004, compared to $39 million for the quarter ended December 31, 2003. Results from discontinued operations, consisting of charges for asbestos liabilities, accounted for the difference in net income and income from continuing operations for the 2003 period.

Ashland's record income from continuing operations in the December 2004 quarter resulted primarily from the dramatic improvement from refining and marketing. Results from Ashland's wholly-owned divisions were mixed. Operating income from the Chemical Sector, which consists of the Ashland Distribution, Ashland Specialty Chemical, and Valvoline divisions, improved 14% compared to the December 2003 quarter. However, operating income from the Transportation Construction Sector, which consists of Ashland Paving And Construction, Inc. (commercially known as APAC), declined 77% reflecting adverse weather conditions, which reduced

working days, slowed production and increased costs. An analysis of operating income by industry segment follows.

APAC

APAC reported operating income of $7 million for the December 2004 quarter, compared to $30 million for the December 2003 quarter. APAC struggled with a persistent mix of wet and cold conditions that started early in the quarter with Hurricane Jeanne. These conditions adversely affected construction activity and increased operating costs throughout the quarter. Net construction job revenues (total construction job revenues, less subcontract costs) decreased 6% from the prior year period. Production of hot-mix asphalt decreased 7%, while liquid asphalt costs increased 9%. Higher equipment and plant fuel costs contributed $4 million to the decline in operating income. Equity income from APAC's joint venture project at Atlanta's Hartsfield Airport declined $3 million as that project nears completion. On the positive side, aggregate production, which is less affected by weather, increased 15%, due in part to the opening of a new quarry in Naples, Florida. Construction backlog, or jobs awarded but not yet completed, was $1.73 billion at December 31, 2004, up 4% from a year ago. Included in the increase is an $80 million project in Miami recently awarded to the Major Projects Group.

ASHLAND DISTRIBUTION

Ashland Distribution achieved all-time record operating income of $24 million, up 85% over the $13 million reported for the quarter a year ago. Sales volumes increased 5%, reflecting the division's continued focus on consistent improvement in customer service and on-time, accurate and complete product delivery. Gross profit as a percent of sales remained constant at 9.6%, reflecting Ashland Distribution's success in implementing price increases, enabling the division to keep pace with higher raw material costs.

ASHLAND SPECIALTY CHEMICAL

Ashland Specialty Chemical reported operating income of $22 million for the December 2004 quarter, compared to $23 million for the December 2003 quarter. The December 2004 quarter included approximately $4 million in net, non-recurring gains principally related to the termination of a product supply contract. Although sales and operating revenues were up 24%, reflecting in part an 8% increase in

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ASHLAND SPECIALTY CHEMICAL (CONTINUED)

sales volumes for the thermoset resins businesses, gross profit as

a percent of sales declined from 29.8% to 24.2%. Tightness in certain petrochemical markets caused raw material costs to escalate at a faster pace than could be recovered through increased selling prices.

VALVOLINE

Operating income from the Valvoline division was $18 million in the December 2004 quarter, compared to $20 million in the December 2003 quarter. While profits were down 10%, this was Valvoline's second-best December quarter. Lubricant sales volumes were down 6% due in part from shifts in the timing of promotional programs. Results from Valvoline Instant Oil Change declined as the impact of reduced car counts was only partially offset by increased ticket prices. International results improved primarily due to higher lubricant sales volumes from operations in Australia and Asia.

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 $136 million for the quarter ended December 31, 2004, compared to $26 million for the December 2003 quarter. Equity income from MAP's refining and wholesale marketing operations increased $102 million, reflecting strong refining margins and falling crude oil prices during the December 2004 quarter. In addition, MAP was able to run more sour crudes during the period, taking advantage of substantial discounts on these feedstocks. MAP's refining and wholesale marketing margin increased $2.32 per barrel and crude oil throughput increased 8% compared to the prior year quarter. Equity income from MAP's retail operations (Speedway SuperAmerica and a 50% interest in the Pilot Travel Centers joint venture) increased $11 million, due to the net effects of higher product and merchandise margins for SSA, higher product volumes and margins and higher merchandise volumes for PTC, partially offset by lower product volumes for SSA reflecting fewer stores. During the December 2004 quarter, MAP recognized a $15 million expense related to estimated future obligations to make certain insurance premium payments related to past loss experience, reducing Ashland's equity income by approximately $6 million.

On March 19, 2004, Ashland announced the signing of an agreement under which it would transfer its 38% interest in Marathon Ashland Petroleum LLC ("MAP") and two wholly-owned businesses to Marathon Oil Corporation ("Marathon") in a transaction structured to be generally tax free and valued at approximately $3 billion. The two businesses are Ashland's maleic anhydride business and 61 Valvoline Instant Oil Change 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.

On December 20, 2004 and January 25, 2005, Ashland provided updates on the status of the proposed transaction. The updates included information about the status of the requested tax rulings. Ashland and Marathon have continued their discussions with the IRS and are discussing with the IRS modifications of the proposed transaction that would allow a tax efficient transfer of

Ashland's interest in MAP to Marathon. These modifications would require Ashland and Marathon to negotiate amendments to the Master Agreement executed by Ashland and Marathon on March 18, 2004. There can be no assurance that an agreement on a modified transaction will be reached. If an agreement is reached on a modified transaction, it is likely that the transaction would close in the second calendar quarter of 2005.

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

CORPORATE

Corporate expenses amounted to $27 million in the quarter ended December 31, 2004, compared to $20 million in the December 2003 quarter. The increase reflects a $7 million charge in the December 2004 quarter for estimated future obligations to make certain insurance premium payments related to past loss experience.

NET INTEREST AND OTHER FINANCIAL COSTS

Net interest and other financial costs amounted to $31 million in the December 2004 quarter, compared to $30 million in the December 2003 quarter. The increase reflects a $2 million loss in the December 2004 quarter on the early retirement of a capitalized lease obligation, partially offset by reduced interest expense reflecting the replacement of maturing long-term debt with lower-rate, short-term borrowings.

DISCONTINUED OPERATIONS

As described in Notes B and G to the Condensed Consolidated Financial Statements, Ashland's results from discontinued operations include charges associated with estimated future asbestos liabilities less probable insurance recoveries. Such amounts are summarized below.

(In millions)

PRETAX LOSS FROM DISCONTINUED OPERATIONS
Reserves for asbestos-related litigation
INCOME TAXES
Reserves for asbestos-related litigation

RESULTS FROM DISCONTINUED OPERATIONS (NET OF INCOME TAXES)

FINANCIAL POSITION

LIQUIDITY

Cash flows from operations, a major source of Ashland's liquidity, amounted to a deficit of $54 million for the three months ended December 31, 2004, compared to positive cash flows of $68 million for the three months ended December 31, 2003. Ashland received no cash distributions from MAP in the 2004 period, compared to distributions of $146 million in the 2003 period. Pursuant to the terms of the agreement entered into between Ashland and Marathon, MAP has not made its regular, quarterly cash distributions to Ashland since December 31, 2003. The final amount received by Ashland from the proposed transaction would be increased by an amount equal to 38% of the cash accumulated from operations during the period prior to closing. Ashland's share of excess cash at December 31, 2004, was $591 million. If the proposed transaction is terminated, MAP's cash distributions to Ashland and Marathon would resume.

Ashland's financial position has enabled it to obtain capital for its financing needs and to maintain investment grade ratings on its senior debt of Baa2 from Moody's and BBB from Standard & Poor's (S&P). In December 2004, S&P raised Ashland's commercial paper rating to A-2 from A-3, increasing the availability of the commercial paper market to Ashland. Moody's continues to rate Ashland's commercial paper at P-3. Ashland has two revolving credit agreements providing for up to $350 million in borrowings.

LIQUIDITY (CONTINUED)

These revolving credit agreements were not used during the quarter ended December 31, 2004. In the June 2004 quarter, Ashland executed an additional $200 million revolving credit agreement which expires March 31, 2005. Ashland has utilized this facility to fund currently maturing long-term debt, the early retirement of a capital lease, and certain other lease payments, and had $146 million outstanding under this facility at December 31, 2004. While the revolving credit agreements contain covenants limiting new borrowings based on Ashland's stockholders' equity, these agreements would have permitted an additional $2.5 billion of borrowings at December 31, 2004. Additional permissible borrowings are increased (decreased) by 150% of any increase (decrease) in

stockholders' equity.

At December 31, 2004, working capital (excluding debt due within one year) amounted to $831 million, compared to $926 million at September 30, 2004, and $763 million at December 31, 2003. Ashland's working capital is affected by its use of the LIFO method of inventory valuation. That method valued inventories below their replacement costs by $108 million at December 31, 2004, compared to $95 million at September 30, 2004, and $78 million at December 31, 2003. Liquid assets (cash, cash equivalents and accounts receivable) amounted to 74% of current liabilities at December 31, 2004, compared to 84% at September 30, 2004, and 94% at December 31, 2003.

CAPITAL RESOURCES

For the three months ended December 31, 2004, property additions amounted to $55 million, compared to $53 million for the same period last year. Ashland anticipates meeting its remaining 2005 capital requirements for property additions and dividends from internally generated funds.

Ashland's debt level amounted to $1.66 billion at December 31, 2004, compared to $1.55 billion at September 30, 2004, and $1.57 billion at December 31, 2003. Debt as a percent of capital employed amounted to 36.9% at December 31, 2004, compared to 36.4% at September 30, 2004, and 40.4% at December 31, 2003. At December 31, 2004, Ashland's debt included $280 million of floating-rate obligations, including $251 million of short-term debt and $29 million of long-term debt, and the interest rates on an additional $158 million of fixed-rate, medium-term notes were effectively converted to floating rates through interest rate swap agreements. In addition, Ashland's costs under its sale of receivables program and various operating leases are based on the floating-rate interest costs on $237 million of third-party debt underlying those transactions. As a result, Ashland was exposed to short-term interest rate fluctuations on $675 million of debt obligations at December 31, 2004.

ASBESTOS-RELATED LITIGATION AND ENVIRONMENTAL REMEDIATION

For a discussion of Ashland's asbestos-related litigation and environmental remediation matters, see Note G to the Condensed Consolidated Financial Statements.

FORWARD LOOKING STATEMENTS

Management's Discussion and Analysis contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include those that refer to Ashland's operating performance, earnings and expectations about the MAP transaction. Although Ashland believes its expectations are based on reasonable assumptions, it cannot assure the expectations reflected herein will be achieved. These forward-looking statements are based upon internal forecasts and analyses of current and future market conditions and trends, management

plans and strategies, weather, operating efficiencies and economic conditions, such as prices, supply and demand, cost of raw materials, and legal proceedings and claims (including environmental and asbestos matters) and are subject to a number of risks, uncertainties, and assumptions that could cause actual results to differ materially from those we describe in the forward-looking statements. The risks, uncertainties, and assumptions include the possibility that Ashland will be unable to fully realize the benefits anticipated from the MAP transaction; the possibility the transaction may not close including as a result of failure to receive a favorable ruling from the Internal Revenue Service or failure of Ashland to obtain the approval of its shareholders; the possibility that Ashland may be required to modify some aspect of the transaction to obtain regulatory approvals; and other risks that are described from time to time in the Securities and Exchange Commission (SEC) reports of Ashland. Other factors and risks affecting Ashland are contained in Risks and Uncertainties in Note A to the Consolidated Financial Statements in Ashland's annual report on Form 10-K for the fiscal year ended September 30, 2004. Ashland undertakes no obligation to subsequently update or revise these forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Ashland's market risk exposure at December 31, 2004 is generally consistent with the types and amounts of market risk exposures presented in Ashland's Annual Report on Form 10-K for the fiscal year ended September 30, 2004.

ITEM 4. CONTROLS AND PROCEDURES

(a) As of the end of the period covered by this quarterly report, 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 period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, Ashland's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. 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 5% of the 49,500 active lawsuits pending as of December 31, 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 2% 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 Note G of "Notes to Condensed Consolidated Financial Statements" in this quarterly report on Form 10-Q.

U.S. Department of Justice ("USDOJ") Antitrust Division Investigation - In November 2003, Ashland received a subpoena from the USDOJ relating to a foundry resins grand jury investigation. Ashland has provided 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 "potentially

responsible party" ("PRP"). As of December 31, 2004, Ashland had been named a PRP at 90 waste treatment or disposal sites. These sites are currently subject to ongoing investigation and remedial activities, overseen by the United States Environmental Protection Agency (the "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 G of "Notes to Condensed Consolidated Financial Statements" in this quarterly report on Form 10-Q.

(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 Clean Air Act ("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 have been completed and documentation submitted for relevant agency approval.

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 Resource Conservation and Recovery Act 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 January 27, 2005, Ashland reached a settlement with the plaintiff, Central Laborers' Pension Fund, in the shareholder derivative lawsuit brought in August 2002 against certain former and current directors and officers of Ashland. The Kenton County Circuit Court in Kentucky approved the settlement on February 2, 2005.

In settling the action, Ashland has agreed to make certain modifications to its corporate governance policies and procedures, including heightening the standard for determining director independence and requiring that two-thirds of Ashland's Board of Directors (the "Board") be comprised of only independent directors. Further, Ashland has agreed to solicit from its major shareholders director candidates and to nominate a qualified candidate for election to the Board.

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

(a) Ashland's Annual Meeting of Shareholders was held on January 27, 2005 at the Metropolitan Club, 50 E. RiverCenter Boulevard, Covington, Kentucky at 10:30 a.m.

(b) Ashland's shareholders at said meeting elected three directors (Bernadine P. Healy, Kathleen Ligocki and James J. O'Brien) to serve a three-year term.

	Votes	
	Affirmative	Withheld
Bernadine P. Healy	61,392,760	1,555,683
Kathleen Ligocki	61,894,215	1,054,228
James J. O'Brien	58,850,547	4,097,896

Directors who continued in office: Roger W. Hale, Patrick F. Noonan, George A. Schaefer, Jr., Ernest H. Drew, Mannie L. Jackson, Theodore M. Solso, and Michael J. Ward.

(c) Ashland's shareholders at said meeting ratified the appointment of Ernst & Young LLP as independent auditors for fiscal year 2005 by a vote of 61,347,939 affirmative, to 999,111 negative and 601,193 abstention votes.

ITEM 5. OTHER INFORMATION

(a) Status of MAP Transaction - 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 billion. The two businesses are Ashland's maleic anhydride business and 61 Valvoline Instant Oil Change 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.

On December 20, 2004 and January 25, 2005, Ashland provided updates on the status of the proposed transaction. The updates included information about the status of the requested tax rulings. Ashland and Marathon have continued their discussions with the IRS and are discussing with the IRS modifications of the proposed transaction that would allow a tax efficient transfer of Ashland's interest in MAP to Marathon. These modifications would require Ashland and Marathon to negotiate amendments to the Master Agreement executed by Ashland and Marathon on March 18, 2004. There can be no assurance that an agreement on a modified transaction will be reached. If an agreement is reached on a modified transaction, it is likely that the transaction would close in the second calendar quarter of 2005.

(b) Changes to Procedures by Which Security Holders May Recommend Nominees to the Board of Directors - On February 2, 2005, the Kenton County Circuit Court in Kentucky approved the settlement reached by Ashland and the Central Laborers' Pension Fund of a shareholder derivative lawsuit brought in August 2002. The settlement provides, in relevant part, that shareholders owning 1% or more of Ashland's common stock will be canvassed to solicit qualified Board candidates who meet certain personal and professional qualifications. The Governance and Nominating Committee of Ashland's Board will consider such candidates and work with the full Board to appoint one director candidate to the Board.

ITEM 6. EXHIBITS

(a) Exhibits

10.1 Ashland Inc. Nonqualified Excess Benefit Pension Plan - 2003 Restatement, as amended.

10.2 Eleventh Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Employees, as amended.

10.3 Ashland Inc. Deferred Compensation Plan, as amended.

10.4 Ashland Inc. Deferred Compensation Plan for Employees (2005).

10.5 Ashland Inc. Deferred Compensation Plan for Non-Employee Directors, as amended.

10.6 Ashland Inc. Deferred Compensation Plan for Non-Employee Directors (2005).

12 Computation of Ratio of Earnings to Fixed Charges.

31.1 Certificate of James J. O'Brien, Chief Executive Officer of Ashland pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

31.2 Certificate of J. Marvin Quin, Chief Financial Officer of Ashland pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, U.S.C. Section 1350.

32 Certificate 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.

SIGNATURE

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

Ashland Inc.

(Registrant)

Date: February 8, 2005

/s/ J. Marvin Quin

J. Marvin Quin
Senior Vice President and Chief Financial Officer (on behalf of the Registrant and

as principal financial officer)

EXHIBIT INDEX

Exhibit No.	Description
10.1	Ashland Inc. Nonqualified Excess Benefit Pension Plan - 2003 Restatement, as amended.
10.2	Eleventh Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Employees, as amended.
10.3	Ashland Inc. Deferred Compensation Plan, as amended.
10.4	Ashland Inc. Deferred Compensation Plan for Employees (2005).
10.5	Ashland Inc. Deferred Compensation Plan for Non-Employee Directors, as amended.
10.6	Ashland Inc. Deferred Compensation Plan for Non-Employee Directors (2005).
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32	Certificate 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, U.S.C. Section 1350.