ASHLAND INC
Form 10-Q
August 12, 2004

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

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). [X]

At July 31, 2004, there were 71,066,675 shares of Registrant's Common Stock outstanding. One Right to purchase one-thousandth of a share of Series A Participating Cumulative Preferred Stock accompanies each outstanding share of Registrant's Common Stock.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

(In millions except per share data)	Three mont June 2004	
REVENUES		
Sales and operating revenues	$ 2,192	$
Equity income	221	
Other income	12	
	2,425	
COSTS AND EXPENSES		
Cost of sales and operating expenses	1,756	
Selling, general and administrative expenses	330	
Depreciation, depletion and amortization	47	
	2,133	
OPERATING INCOME	292	
Net interest and other financial costs	(29)	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	263	
Income taxes	(96)	
INCOME FROM CONTINUING OPERATIONS	167	
Results from discontinued operations (net of income taxes) - Note B	(6)	
NET INCOME (LOSS)	$ 161	$
BASIC EARNINGS (LOSS) PER SHARE - Note A		
Income from continuing operations	$ 2.38	$
Results from discontinued operations	(.09)	
Net income (loss)	$ 2.29	$
DILUTED EARNINGS (LOSS) PER SHARE - Note A		

Income from continuing operations	$ 2.35	$
Results from discontinued operations	(.09)	
Net income (loss)	$ 2.26	$
DIVIDENDS PAID PER COMMON SHARE	$ .275	$

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)	June 30 2004
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 183
Accounts receivable	1,256
Allowance for doubtful accounts	(39)
Inventories - Note A	510
Deferred income taxes	115
Assets of discontinued operations held for sale	-
Other current assets	204
	2,229
INVESTMENTS AND OTHER ASSETS	
Investment in Marathon Ashland Petroleum LLC (MAP)	2,568
Goodwill	513
Asbestos insurance receivable (noncurrent portion)	400
Other noncurrent assets	393
	3,874
PROPERTY, PLANT AND EQUIPMENT	
Cost	2,955
Accumulated depreciation, depletion and amortization	(1,791)
	1,164
	$ 7,267
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Debt due within one year	$ 204
Trade and other payables	1,384
Liabilities of discontinued operations held for sale	-

Income taxes	15
	1,603
NONCURRENT LIABILITIES	
Long-term debt (less current portion)	1,338
Employee benefit obligations	394
Deferred income taxes	313
Reserves of captive insurance companies	196
Asbestos litigation reserve (noncurrent portion)	565
Other long-term liabilities and deferred credits	358
Commitments and contingencies - Notes D and F	
	3,164
COMMON STOCKHOLDERS' EQUITY	2,500
	$ 7,267

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

(In millions)	Common stock	Paid-in capital	Retained earnings
BALANCE AT OCTOBER 1, 2002	$ 68	$ 338	$ 1,961
Total comprehensive income (1)			(61)
Cash dividends			(56)
Issued 64,370 common shares under stock incentive and other plans		8	
BALANCE AT JUNE 30, 2003	$ 68	$ 346	$ 1,844
BALANCE AT OCTOBER 1, 2003	$ 68	$ 350	$ 1,961
Total comprehensive income (1)			179
Cash dividends			(57)
Issued 2,698,722 common shares under stock incentive and other plans	3	100	
BALANCE AT JUNE 30, 2004	$ 71	$ 450	$ 2,083

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

(In millions)	Three months ended June 30 2004	2003
Net income (loss)	$ 161	$ 70
Minimum pension liability adjustment	-	-
Related tax expense	-	-
Unrealized translation adjustments	(12)	32
Related tax benefits	-	-
Total comprehensive income	$ 149	$ 102

At June 30, 2004, the accumulated other comprehensive loss of $104 million (after tax) was comprised of net unrealized translation gains of $12 million and a minimum pension liability of $116 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
Proceeds from sale of operations
Other - net

CASH PROVIDED (USED) BY CONTINUING OPERATIONS
Cash provided (used) by discontinued operations

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD

CASH AND CASH EQUIVALENTS - END OF PERIOD

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

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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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. All adjustments (consisting of normal recurring accruals) considered necessary by management for a fair presentation have been included, although such statements are subject to any year-end audit adjustments which may be necessary. These financial statements should be read in conjunction with Ashland's Annual Report on Form 10-K for the fiscal year ended September 30, 2003 (as amended to include the audited financial statements of Marathon Ashland Petroleum LLC for the year ended December 31, 2003). Results of operations for the periods ended June 30, 2004, are not necessarily indicative of results to be expected for Ashland's fiscal year ending September 30, 2004.

INVENTORIES

(In millions)	June 30 2004	Septemb 20

Chemicals and plastics	$ 390	$ 3
Construction materials	76	
Petroleum products	73	
Other products	50	
Supplies	6	
Excess of replacement costs over LIFO carrying values	(85)	(
	$ 510	$ 4

EARNINGS PER SHARE

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

	Three months ended June 30	
(In millions except per share data)	2004	2003
NUMERATOR		
Numerator for basic and diluted EPS - Income from continuing operations	$ 167	$ 71
DENOMINATOR		
Denominator for basic EPS - Weighted average common shares outstanding	70	68
Common shares issuable upon exercise of stock options	1	1
Denominator for diluted EPS - Adjusted weighted average shares and assumed conversions	71	69
EARNINGS PER SHARE FROM CONTINUING OPERATIONS		
Basic	$ 2.38	$ 1.04
Diluted	$ 2.35	$ 1.03

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, 2002, Ashland increased its reserve for asbestos claims by $390 million to cover litigation defense and claim settlement costs expected to be paid through December 2012. Because insurance provides reimbursements for most of these costs and coverage-in-place agreements exist with the insurance companies that provide substantially all of the coverage being accessed, the increase in the asbestos reserve was offset in part by probable insurance recoveries valued at $235 million. The resulting $155 million pretax charge to income, net of deferred income tax benefits of $60 million, was reflected as an after-tax loss from discontinued operations of $95 million in the Statement of Consolidated Income for the three months ended December 31, 2002. Additional reserves have been provided since then to reflect updates in the estimate of potential payments for litigation defense and claim settlement costs during the next ten years. See Note F for further discussion of Ashland's asbestos-related litigation.

On August 29, 2003, Ashland sold the net assets of its Electronic Chemicals business and certain related subsidiaries in a transaction valued at approximately $300 million before tax. Electronic Chemicals was a part of Ashland Specialty Chemical, providing ultra pure chemicals and other products and services to the worldwide semiconductor industry, with revenues of $215 million in 2003, $217 million in 2002 and $212 million in 2001. The sale reflects Ashland's strategy to optimize its business mix and focus greater attention on the remaining chemical and transportation construction operations where it can achieve strategic advantage. Ashland's after-tax proceeds were used primarily to reduce debt. All assets and liabilities of Electronic Chemicals are classified as current in the June 30, 2003 balance sheet. Assets of $198 million were composed of current assets of $52 million, investments and other assets of $26 million, and property, plant and equipment of $120 million. Liabilities of $28 million were composed of current liabilities of $15 million and noncurrent liabilities of $13 million.

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

	Three months ended June 30	
(In millions)	2004	2003
PRETAX INCOME (LOSS) FROM DISCONTINUED OPERATIONS		
Reserves for asbestos-related litigation	$ (7)	$ (8)
Electronic Chemicals		
Results of operations	-	5
Loss on disposal	(2)	-
INCOME TAXES		
Reserves for asbestos-related litigation	3	3
Electronic Chemicals		
Results of operations	-	(1)
Loss on disposal	-	-
RESULTS FROM DISCONTINUED OPERATIONS (NET OF INCOME TAXES)	$ (6)	$ (1)

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

NOTE C - UNCONSOLIDATED AFFILIATES

Under Rule 3-09 of Regulation S-X, Ashland filed audited financial statements for Marathon Ashland Petroleum LLC (MAP) for the year ended December 31, 2003, on a Form 10-K/A on March 19, 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.

	Three months ended June 30		
(In millions)	2004	2003	
Sales and operating revenues	$ 11,155	$ 8,005	$
Income from operations	585	281	
Net income	583	276	
Ashland's equity income	216	101	

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 public debt holders and receipt of a favorable private letter ruling from the Internal Revenue Service with respect to the tax treatment. While there is meaningful risk that the transaction will not receive the favorable ruling from the IRS, in which case the transaction would not close, Ashland believes it is more likely than not that this transaction will receive a favorable ruling. If the conditions are met, the transaction is expected to close by the end of the 2004 calendar year.

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 cancelled those leases at June 30, 2004, its maximum obligations under the residual value guarantees would have amounted to $102 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 June 30, 2004, Ashland's contingent liability under this guarantee amounted to $83 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

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 (the Act)." 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 new Medicare drug benefit. The Staff Position is effective July 1, 2004. 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.

Presently, Ashland anticipates contributing $128 million to its pension plans during fiscal 2004. As of June 30, 2004, $89 million of contributions have been made.

The following tables detail the components of pension and other postretirement benefit costs.

	Pension benefits	
(In millions)	2004	2003

THREE MONTHS ENDED JUNE 30			
Service cost	$ 12	$ 13	$
Interest cost	19	19	
Expected return on plan assets	(18)	(15)	
Other amortization and deferral	9	9	
	$ 22	$ 26	$
NINE MONTHS ENDED JUNE 30			
Service cost	$ 35	$ 33	$
Interest cost	53	50	
Expected return on plan assets	(48)	(39)	
Other amortization and deferral	24	23	
	$ 64	$ 67	$

NOTE F - 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.

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

NOTE F - LITIGATION, CLAIMS AND CONTINGENCIES (continued)

	Nine months ended June 30		Years ended S
(In thousands)	2004	2003	2003

Open claims - beginning of period	198	160	160	
New claims filed	24	58	66	
Claims settled	(6)	(5)	(7)	
Claims dismissed	(17)	(17)	(21)	
Open claims - end of period	199	196	198	

Since October 1, 2000, Riley has been dismissed as a defendant in 72% of the resolved claims. For the nine months ended June 30, 2004, amounts spent on litigation defense and claim settlements amounted to $1,736 per claim resolved, compared to $1,593 for the nine months ended June 30, 2003, and annual costs of $1,610 in 2003, $723 in 2002 and $4,445 in 2001. A progression of activity in the asbestos reserve is presented in the following table.

	Nine months ended June 30		Years ended	
(In millions)	2004	2003	2003	
Asbestos reserve - beginning of period	$ 610	$ 202	$ 202	$
Expense incurred	44	419	453	
Amounts paid	(39)	(36)	(45)	
Asbestos reserve - end of period	$ 615	$ 585	$ 610	$

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), nationally recognized experts in that field. 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 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 Ashland's estimate of potential payments during the next ten years. In addition, at least annually, more formal estimates are developed with the assistance of HR&A. Ashland's reserve for asbestos claims on an undiscounted basis amounted to $615 million at June 30, 2004, compared to $585 million at June 30, 2003.

NOTE F - LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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, and even though it is reasonably possible that additional costs might be incurred, they are not reasonably estimable at this time. 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 are generally 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 probable insurance recoveries. Such recoveries are based on assumptions and estimates surrounding the available insurance coverage; one assumption of which 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.

At June 30, 2004, Ashland's receivable for recoveries of litigation defense and claim settlement costs from its insurers amounted to $430 million, of which $39 million relates to costs previously paid. Receivables from insurance companies amounted to $423 million at June 30, 2003. About 35% of the estimated receivables from insurance companies at June 30, 2004, are expected to be due from Equitas and other London companies. Of the remainder, over 90% is expected to come from companies or groups that are rated A or higher by A. M. Best.

NOTE F - LITIGATION, CLAIMS AND CONTINGENCIES (CONTINUED)

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 June 30, 2004, such locations included 95 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 $169 million at June 30, 2004, and $167 million at June 30, 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.

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

	Three mont June
(In millions)	2004
REVENUES	
Sales and operating revenues	
APAC	$ 698
Ashland Distribution	838
Ashland Specialty Chemical	354
Valvoline	330
Intersegment sales	
Ashland Distribution	(5)
Ashland Specialty Chemical	(23)
Valvoline	-
	2,192
Equity income	
APAC	3
Ashland Specialty Chemical	2
Valvoline	-

Refining and Marketing	216
	221
Other income	
APAC	9
Ashland Distribution	1
Ashland Specialty Chemical	3
Valvoline	2
Refining and Marketing	(2)
Corporate	(1)
	12
	$ 2,425
OPERATING INCOME	
APAC	$ 43
Ashland Distribution	23
Ashland Specialty Chemical	22
Valvoline	30
Refining and Marketing (1)	205
Corporate	(31)
	$ 292

(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

	Three mont June
	2004
OPERATING INFORMATION	
APAC	
Construction backlog at June 30 (millions) (1)	
Net construction job revenues (millions) (2)	$ 409
Hot-mix asphalt production (million tons)	9.9
Aggregate production (million tons)	8.1
Ready-mix concrete production (million cubic yards)	0.4
Ashland Distribution (3)	
Sales per shipping day (millions)	$ 13.3
Gross profit as a percent of sales	14.4%

Ashland Specialty Chemical (3)	
Sales per shipping day (millions)	$ 5.6
Gross profit as a percent of sales	30.7%
Valvoline	
Lubricant sales (million gallons)	50.0
Premium lubricants (percent of U.S. branded volumes)	22.0%
Refining and Marketing (4)	
Refinery runs (thousand barrels per day)	
Crude oil refined	1,013
Other charge and blend stocks	142
Refined product yields (thousand barrels per day)	
Gasoline	623
Distillates	323
Asphalt	85
Other	138
Total	1,169
Refined product sales (thousand barrels per day) (5)	1,440
Refining and wholesale marketing margin (per barrel) (6)	$ 5.27
Speedway SuperAmerica (SSA)	
Retail outlets at June 30	
Gasoline and distillate sales (million gallons)	802
Gross margin - gasoline and distillates (per gallon)	$ .1192
Merchandise sales (millions) (7)	$ 600
Merchandise margin (as a percent of sales)	23.4%

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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, and depreciation and amortization relative to manufacturing assets.

(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.

(7) 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 the nine months ended June 30, 2003.

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

CURRENT QUARTER - Ashland reported net income of $161 million for the quarter ended June 30, 2004, compared to $70 million for the quarter ended June 30, 2003. Ashland reported income from continuing operations of $167 million for the quarter ended June 30, 2004, compared to $71 million for the quarter ended June 30, 2003. 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, accounted for the difference in net income and income from continuing operations.

Consistent growth in sales and operating revenues, an improved cost structure and a healthier economy contributed to a 97% improvement in operating income for the Chemical Sector (which includes Ashland Distribution, Ashland Specialty Chemical and Valvoline). Ashland Distribution achieved an all-time record for quarterly operating income, reflecting a 14% increase in sales and operating revenues. Operating income from Ashland Specialty Chemical improved on the strength of a 15% increase in sales and operating revenues. Valvoline recorded a 25% increase in operating income as its premium product strategy contributed to a 7% increase in sales and operating revenues. In the Transportation Construction Sector, Ashland Paving And Construction, Inc. (APAC) continued its profit recovery, recording operating income of $43 million for the June 2004 quarter, compared to $17 million for the June 2003 quarter. Strong demand, favorable refining margins and improved throughput resulted in $205 million in operating income from Refining and Marketing, compared to $100 million for the June 2003 quarter.

YEAR-TO-DATE - Ashland reported net income of $179 million for the nine months ended June 30, 2004, compared to a net loss of $61 million for the nine months ended June 30, 2003. Ashland reported income from continuing operations of $195 million for the nine months ended June 30, 2004, compared to income of $33 million for the nine months ended June 30, 2003. 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, accounted for the difference in net income and income from continuing operations.

Chemical Sector operating income totaled $194 million for the first nine months of fiscal 2004, compared to $104 million for the 2003 period. Ashland Distribution, Ashland Specialty Chemical and Valvoline all showed significant improvement, reflecting a combined 11% increase in sales and operating revenues and an improved cost structure. In the Transportation Construction Sector, APAC recorded operating income of $41 million for the 2004 period, compared to a loss of $39 million in the 2003 period, reflecting closer-to-normal weather and a reduced cost structure. Higher refining margins and improved throughput led to an increase in Refining and Marketing operating income from $145 million for the 2003 period to $232 million for the 2004 period. An analysis of operating income by industry segment follows.

APAC

CURRENT QUARTER - APAC reported operating income of $43 million for the June 2004 quarter, compared to $17 million for the June 2003 quarter. During the quarter, APAC sold a significant portion of its ready-mix operations, realizing proceeds net of selling expenses of $38 million and a pre-tax gain of $9 million. Though sales and operating revenues were only up 2%, overall margin was up, reflecting reduced costs across the business and increased profits from the sale of hot-mix asphalt and aggregates. Costs associated

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APAC (CONTINUED)

with Project PASS, APAC's process redesign initiative, were $2 million in the June 2004 quarter, compared to $6 million in the June 2003 quarter, as that project is now essentially complete.

YEAR-TO-DATE - APAC reported operating income of $41 million for the nine months ended June 30, 2004, compared to an operating loss of $39 million for the nine months ended June 30, 2003. The improvement reflects more normal weather conditions, a reduced cost structure and a $9 million gain on the sale of a significant portion of APAC's ready-mix operations in the June 2004 quarter. Net construction job revenues (total construction job revenues less subcontract costs) increased 9% from the prior year period, while production of hot-mix asphalt increased 8% and aggregate production increased 7%. Costs associated with Project PASS were $10 million in the 2004 period, compared to $15 million in the 2003 period. At June 30, 2004, APAC's construction backlog, which consists of work awarded and funded but not yet performed, was $1.87 billion, a record for the June quarter and up slightly over the same period in 2003.

ASHLAND DISTRIBUTION

CURRENT QUARTER - Ashland Distribution reported operating income of $23 million, an all-time record for quarterly operating income, compared to $11 million for the June 2003 quarter. Sales and operating revenues increased 14%, reflecting a 10% growth in sales volumes due to a healthier economy and strong customer satisfaction. Ashland Distribution has continued to build on its leadership positions in logistics and operational excellence. These factors, coupled with the division's low-cost operational model, have contributed to its dramatic recovery. The gross profit percentage declined to 14.4%, compared to 15.1% in the June 2003 quarter, due to lower margins in chemicals and environmental services. Selling, general and administrative (SG&A) expenses were down $7 million compared to the prior year period, reflecting the benefits of the Top-Quartile Cost Structure (TQCS) initiative.

YEAR-TO-DATE - Ashland Distribution reported record operating income of $56 million for the nine months ended June 30, 2004, compared to $27 million for the nine months ended June 30, 2003. The improvement reflects the same factors described in the current quarter comparison. Sales and operating revenues were up 11%, including 6% from volume increases. The gross profit percentage declined from 15.3% to 14.6%, due to lower margins in chemicals and environmental services. SG&A expenses declined $20 million. Income from litigation settlements and asset sales amounted to $4 million in the 2004 period compared to $7 million in the 2003 period.

ASHLAND SPECIALTY CHEMICAL

CURRENT QUARTER - Ashland Specialty Chemical reported operating income of $22 million for the June 2004 quarter, compared to $3 million for the June 2003 quarter, which included an impairment charge of $10 million for a mothballed maleic anhydride production facility in Neville Island, Pa. Growth initiatives combined with a lower cost structure led to improved results despite continued higher raw material costs. Results from the thermoset resins businesses (Casting Solutions, Composite Polymers and Specialty Polymers & Adhesives) improved 48%, as sales and operating revenues were up 18%, reflecting a 15% increase in sales volumes. Results from the water technologies businesses (Drew Industrial and Drew Marine) improved 57%, reflecting a 6% increase in sales and operating revenues.

YEAR-TO-DATE - Operating income for Ashland Specialty Chemical was $63 million for the nine months ended June 30, 2004, compared to $21 million for the nine months ended June 30, 2003. Results from the thermoset resins businesses increased 60%, while the water technologies businesses increased 34%. The improvement reflects the same factors described in the current quarter comparison.

VALVOLINE

CURRENT QUARTER - Valvoline reported operating income of $30 million for the June 2004 quarter, a 25% improvement over the $24 million reported for the June 2003 quarter. Valvoline's core lubricant business improved on the strength of a 7% increase in branded lubricant sales volumes, aided by a 19% increase in premium lubricant sales volumes. Valvoline's international operations posted a record June quarter mostly due to a 9% increase in lubricant sales volumes and stronger foreign currencies. Valvoline Instant Oil Change (VIOC) earnings were lower as a result of a decline in the number of oil changes, the impact of which was partially offset by a 3% improvement in the average ticket price.

YEAR-TO-DATE - Valvoline reported record operating income of $75 million for the nine months ended June 30, 2004, a 34% improvement over the $56 million reported for the same period in 2003. Valvoline's core lubricant business improved, reflecting a 14% increase in sales volumes for premium lubricant products. VIOC reported record earnings due in part to a 3% increase in non-oil change revenues, and a 3% increase in premium oil changes, contributing to a 7% increase in the average ticket price. In addition, Valvoline's international operations posted record results mostly due to a 3% increase in lubricant sales volumes and stronger foreign currencies.

REFINING AND MARKETING

CURRENT QUARTER - Operating income from Refining and Marketing, which consists primarily of equity income from Ashland's 38% ownership interest in MAP, amounted to $205 million for the quarter ended June 30, 2004, compared to $100 million for the June 2003 quarter. MAP achieved the second-highest level of quarterly operating income in the joint venture's history. High demand in the spring driving season, strong refining margins, and record throughput at MAP's refineries contributed to a $129 million increase in equity income from MAP's refining and wholesale marketing operations. MAP's refining and wholesale marketing margin averaged $5.27 per barrel for the June 2004 quarter, compared to $2.94 per barrel in the June 2003 quarter. Crude oil throughput during the June 2004 quarter averaged a record 1.013 million barrels per day, up 7% over the June 2003 quarter. Equity income from MAP's retail operations (Speedway SuperAmerica (SSA) and a 50% interest in the Pilot Travel Centers joint venture) decreased $11 million, reflecting an $8 million gain on the sale of 190 SSA stores in May 2003 and decreased product sales volumes as a result of the sale. Ashland's administrative and other costs related to Refining and Marketing increased by $10 million, reflecting mark-to-market losses of $2 million on margin hedges in the June 2004 quarter versus gains of $4 million in the June 2003 quarter, and transaction costs of $5 million associated with the proposed transfer of Ashland's 38% interest in MAP to Marathon Oil Corporation (Marathon).

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 VIOC centers. On June 21, 2004, Ashland filed a preliminary proxy statement with the Securities and Exchange Commission related to the transaction. The transaction is subject to several previously disclosed conditions, including approval by Ashland's shareholders, consent from public debt holders and receipt of a favorable private letter ruling from the Internal Revenue Service with respect to the tax treatment. While there is meaningful risk that the transaction will not receive the favorable ruling from the IRS, in which case the transaction would not close, Ashland believes it is more likely than not that this transaction will receive a favorable ruling. If the conditions are met, the transaction is expected to close by the end of the 2004 calendar year.

REFINING AND MARKETING (CONTINUED)

YEAR-TO-DATE - Operating income from Refining and Marketing amounted to

$232 million for the nine months ended June 30, 2004, compared to $145 million for the 2003 period. Equity income from MAP's refining and wholesale marketing operations increased $113 million, reflecting a 66 cents per barrel increase in MAP's refining and wholesale marketing margin and increased throughput, due to the same factors described in the current quarter comparison. Equity income from MAP's retail operations declined $9 million due to the same factors described in the current quarter comparison. Ashland's administrative and other costs increased $17 million, reflecting mark-to-market losses of $7 million on margin hedges in the 2004 period versus gains of $4 million in the 2003 period, and transaction costs of $8 million associated with the proposed transfer of Ashland's 38% interest in MAP.

CORPORATE

Corporate expenses amounted to $31 million in the quarter ended June 30, 2004, compared to $17 million in the June 2003 quarter, reflecting increased incentive compensation costs. Corporate expenses amounted to $73 million for the nine months ended June 30, 2004, compared to $63 million for the 2003 period. The increase reflects higher incentive and deferred compensation costs in the 2004 period, partially offset by an $8 million charge in the December 2002 quarter for severance and other transition costs related to Ashland's program to reduce general and administrative costs.

NET INTEREST AND OTHER FINANCIAL COSTS

Net interest and other financial costs declined to $29 million in the June 2004 quarter, compared to $31 million in the June 2003 quarter. For the nine months ended June 30, 2004, net interest and other financial costs amounted to $88 million, compared to $97 million for the 2003 period. The declines reflect a reduction in the average level of debt outstanding.

DISCONTINUED OPERATIONS

As described in Notes B and F to the Condensed Consolidated Financial Statements, Ashland's results from discontinued operations include 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. Such amounts are summarized in the following table.

	Three months ended June 30	
(In millions)	2004	2003
PRETAX INCOME (LOSS) FROM DISCONTINUED OPERATIONS		
Reserves for asbestos-related litigation	$ (7)	$ (8)
Electronic Chemicals		
Results of operations	-	5
Loss on disposal	(2)	-
INCOME TAXES		
Reserves for asbestos-related litigation	3	3
Electronic Chemicals		
Results of operations	-	(1)
Loss on disposal	-	-

RESULTS FROM DISCONTINUED OPERATIONS (NET OF INCOME TAXES)	$ (6)	$ (1)

FINANCIAL POSITION

LIQUIDITY

Cash flows from operations, a major source of Ashland's liquidity, amounted to $77 million for the nine months ended June 30, 2004, compared to $111 million for the nine months ended June 30, 2003. Cash distributions from MAP amounted to $146 million in the 2004 period compared to $108 million in the 2003 period. This increase was more than offset by a $59 million increase in pension contributions and a $45 million increase in federal tax payments. Other operating cash flows from Ashland's wholly owned businesses increased $32 million. Ashland's capital requirements for net property additions and dividends exceeded cash flows from operations by $83 million for the nine months ended June 30, 2004. Cash flows from operations for the nine months ended June 30, 2004 have been supplemented by proceeds of $86 million from the issuance of common stock resulting from stock option exercises and proceeds of $48 million from the sale of certain APAC operations. Ashland anticipates meeting its remaining 2004 capital requirements for property additions and dividends from internally generated funds. Under the terms of the proposed transaction with Marathon, MAP will not make quarterly cash distributions to Ashland and Marathon until the closing of the transaction. The final amount received by Ashland from the transaction would be increased by an amount equal to 38% of the cash accumulated from operations during the period prior to closing.

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 August 2003, S&P revised its outlook on Ashland to negative from stable, and lowered Ashland's commercial paper rating to A-3 from A-2. In March 2004, Moody's took a similar action after the announcement of the proposed MAP transaction with Marathon and lowered Ashland's commercial paper rating to P-3 from P-2. These actions materially restrict, and could at times eliminate, the availability of the commercial paper market to Ashland. Ashland has two revolving credit agreements providing for up to $350 million in borrowings. Although Ashland borrowed $175 million under these agreements to repay commercial paper shortly after the S&P downgrade, the revolving credit agreements were not used during the nine months ended June 30, 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 and certain lease payments, and had $8 million outstanding under this facility at June 30, 2004. While the revolving credit agreements contain covenants limiting new borrowings based on Ashland's stockholders' equity, these agreements would have permitted an additional $2.1 billion of borrowings at June 30, 2004. Additional permissible borrowings are increased (decreased) by 150% of any increase (decrease) in stockholders' equity.

At June 30, 2004, working capital (excluding debt due within one year) amounted to $830 million, compared to $703 million at September 30, 2003, and $872 million at June 30, 2003. The amount at June 30, 2003 included net assets of $170 million of the discontinued Electronic Chemical operations. Ashland's working capital is affected by its use of the LIFO method of inventory valuation. The LIFO method valued inventories below their replacement costs by $85 million at June 30, 2004, compared to $78 million at September 30, 2003, and $74 million at June 30, 2003. Liquid assets (cash, cash equivalents and accounts receivable) amounted to 87% of current liabilities at June 30, 2004, compared to 92% at September 30, 2003, and 73% at June 30, 2003. The improvements since last June reflect a combination of an increase of $104 million in cash equivalents and a reduction of $245 million in short-term debt that resulted principally from the sale of the Electronic Chemicals business.

CAPITAL RESOURCES

For the nine months ended June 30, 2004, property additions amounted to $121 million, compared to $84 million for the 2003 period. The increase reflects a $33 million buyout of an operating lease for a portion of the buildings on Ashland's Dublin, Ohio campus.

Ashland's debt level amounted to $1.5 billion at June 30, 2004, $1.6 billion at September 30, 2003, and $1.9 billion at June 30, 2003. Debt as a percent of capital employed amounted to 38.1% at June 30, 2004, compared to 41.7% at September 30, 2003, and 46.5% at June 30, 2003. At June 30, 2004, Ashland's debt included $37 million of floating-rate obligations, and the interest rates on an additional $183 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 $186 million of third-party debt underlying those transactions. As a result, Ashland was exposed to fluctuations in short-term interest rates on $406 million of debt obligations at June 30, 2004.

ASBESTOS-RELATED LITIGATION AND ENVIRONMENTAL REMEDIATION

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

Statements.

FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis (MD&A) contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, with respect to various information in the Results of Operations, Financial Position, and Asbestos-Related Litigation and Environmental Remediation sections of this MD&A. 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 described 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 of failing to receive a favorable ruling from the Internal Revenue Service; the possibility that Ashland fails to obtain the approval of its shareholders; the possibility that the transaction may not close or that Ashland may be required to modify some aspect of the transaction to obtain regulatory approvals. 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, as amended, for the fiscal year ended September 30, 2003. 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 June 30, 2004 is generally consistent with the types and amounts of market risk exposures presented in Ashland's Annual Report on Form 10-K, as amended, for the fiscal year ended September 30, 2003.

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. As of June 30, 2004, approximately 370,000 asbestos-related claims have been filed against Riley and/or Ashland. Of this number, approximately 171,000 claims have been disposed of by settlement or dismissal. The total number of claims pending as of June 30, 2004 is approximately 199,000, compared to 196,000 as of June 30, 2003.

The majority of these claims 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 varies as a result of jurisdictional requirements and practices, though the overwhelming 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 the jurisdiction in which the complaint was filed. This variability, coupled with the actual experience of resolving claims over an extended period, demonstrates that damages requested in any particular lawsuit or complaint bears 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 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 F to the Condensed Consolidated Financial Statements in this quarterly report on Form 10-Q.

U.S. DEPARTMENT OF JUSTICE ANTITRUST DIVISION INVESTIGATIONS - (1) In April 2003, APAC-Missouri, Inc., an indirect wholly-owned subsidiary of Ashland, received a subpoena from the U.S. Department of Justice, Antitrust Division ("USDOJ") in a federal grand jury investigation involving Missouri Department of Transportation road building projects. On August 11, 2004, APAC-Missouri, Inc. and one current APAC-Missouri, Inc. employee were each indicted on a single charge alleging a violation of U.S. federal antitrust laws in connection with a single project bid by the Central Division of APAC-Missouri, Inc. in 2000 with revenues less than $8 million.

APAC-Missouri, Inc. will vigorously defend the action.

(2) 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. 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 June 30, 2004, Ashland had been named a PRP at 95 waste treatment or disposal sites. These sites are currently subject to ongoing investigation and remedial activities, overseen by the United States Environmental Protection Agency ("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 F to the 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 Environmental Crimes Section of 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 federal 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").

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. If, however, it is determined by the court that Ashland willfully violated any term or condition of the plea agreement during the deferral period, the United States may re-initiate prosecution of the deferred count of the indictment, using an admission made by Ashland for purposes of the plea agreement that Ashland knowingly operated the St. Paul Park refinery in violation of certain Subpart QQQ standards.

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 and, although Ashland disputes this assertion, Ashland and the USEPA have agreed to resolve the dispute. Ashland has agreed to payment of a $650,000 penalty, pending agreement on settlement terms and conditions. Ashland is continuing to work with the USEPA to define Ashland's continuing obligations under the Consent Order. No formal penalty proceeding has been initiated.

(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 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

10.1 Amended and Restated Ashland Inc. Incentive Plan.

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.

(B) REPORTS ON FORM 8-K

During the quarter ended June 30, 2004, and between such date and the filing of this quarterly report on Form 10-Q, Ashland furnished the following reports on Form 8-K:

(1) A report on Form 8-K dated April 7, 2004 containing a Regulation FD disclosure.

(2) A report on Form 8-K dated April 15, 2004 announcing that Lamar M. Chambers has been elected Vice President and Controller of Ashland, effective May 1, 2004.

(3) A report on Form 8-K dated April 26, 2004 containing a Regulation FD disclosure.

(4) A report on Form 8-K dated April 26, 2004 reporting Ashland's second quarter fiscal 2004 results.

(5) A report on Form 8-K dated May 28, 2004 containing a Regulation FD disclosure.

(6) A report on Form 8-K dated June 18, 2004 announcing that APAC-Missouri, an indirect, wholly owned subsidiary of Ashland, received a subpoena from the U.S. Department of Justice, Antitrust Division in Missouri, in a road-building grand jury investigation.

(7) A report on Form 8-K dated June 28, 2004 containing a Regulation FD disclosure.

(8) A report on Form 8-K dated July 14, 2004 announcing that Kathleen A. Ligocki had been elected to Ashland's Board of Directors.

(9) A report on Form 8-K dated July 26, 2004 containing a Regulation FD disclosure.

(10) A report on Form 8-K dated July 26, 2004 reporting Ashland's third quarter fiscal 2004 results.

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: August 12, 2004

/s/ J. Marvin Quin

J. Marvin Quin
Senior Vice President and Chief
Financial Officer (on behalf of the
Registrant as principal financial
officer)

EXHIBIT INDEX

Exhibit No.	Description
10.1	Amended and Restated Ashland Inc. Incentive Plan.
12	Computation of Ratio of Earnings to Fixed Charges.
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31.2	Certificate of J. Marvin Quin, Chief Financial Officer of Ashland, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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.