

ASHLAND INC.  
Form DEF 14A  
November 30, 2006

**SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a)**

**OF THE SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO.     )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only  
(as Permitted by Rule 14a-6(E)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

**ASHLAND INC.**

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(Name of Registrant as Specified in Its Charter)

**N/A**

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies: N/A

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(2) Aggregate number of securities to which transaction applies: N/A

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): N/A

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(4) Proposed maximum aggregate value of transaction: N/A

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(5) Total fee paid: N/A

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.. Fee paid previously with preliminary materials.

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(1) Amount Previously Paid: N/A

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(2) Form, Schedule or Registration Statement No.: N/A

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(3) Filing Party: N/A

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(4) Date Filed: N/A

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Notes:

**James J. O Brien**

Ashland Inc.

Chairman and

50 E. RiverCenter Blvd., P.O. Box 391

Chief Executive Officer

Covington, KY 41012-0391

November 30, 2006

Dear Ashland Inc. Shareholder:

On behalf of your Board of Directors and management, I am pleased to invite you to attend the 2007 Annual Meeting of Shareholders of Ashland Inc. The meeting will be held on Thursday, January 25, 2007, at 10:30 a.m. (EST), at the Metropolitan Club, 50 E. RiverCenter Boulevard, Covington, Kentucky.

The attached Notice of Annual Meeting and Proxy Statement describe the business to be conducted at the meeting, including the election of five directors, the ratification of our independent auditors and, if presented, a shareholder proposal to initiate the appropriate process to implement majority voting for election of directors.

Whether or not you plan to attend the meeting, we encourage you to vote promptly, following the instructions on your Proxy Card.

We appreciate your continued confidence in Ashland, and we look forward to seeing you at the meeting.

Sincerely,

/s/ James J. O Brien

James J. O Brien

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**Ashland Inc.**

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

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**To be held January 25, 2007**

*To our Shareholders:*

Ashland Inc. will hold its Annual Meeting of Shareholders on Thursday, January 25, 2007, at 10:30 a.m. (EST) at the Metropolitan Club, 50 E. RiverCenter Boulevard, Covington, Kentucky. Ashland's shareholders will act on the following matters at the Annual Meeting or any adjournment of that meeting:

- (1) To elect four directors to Class III: Ernest H. Drew, Mannie L. Jackson, Theodore M. Solso, and Michael J. Ward; and one director to Class II: John F. Turner;
- (2) To ratify the appointment of Ernst & Young LLP as independent auditors for fiscal 2007;
- (3) If presented, to consider a shareholder proposal to initiate the appropriate process to implement majority voting for election of directors; and
- (4) To consider any other business properly brought before the Annual Meeting.

Only shareholders of record at the close of business on November 20, 2006, are entitled to vote at the Annual Meeting or any adjournment of that meeting. If you are a participant in Ashland's Employee Savings Plan (the "Employee Savings Plan") or Leveraged Employee Stock Ownership Plan (the "LESOP"), your vote will constitute voting instructions to the Trustee of the respective plan concerning shares held in your account.

In order that your Ashland Common Stock may be represented at the Annual Meeting, please vote in person, by telephone, over the Internet or by mailing your proxy card. Our proxy tabulator, National City Bank or its agent, must receive all voting instructions to the Trustee of the Employee Savings Plan and the LESOP, whether given by telephone, over the Internet or by mail, before midnight (EST) on Monday, January 22, 2007.

By Order of the Board of Directors,

LINDA L. FOSS

*Assistant General Counsel*

*and Corporate Secretary*

Covington, Kentucky

November 30, 2006

**Ashland Inc.**

**PROXY STATEMENT**

**for**

**ANNUAL MEETING OF SHAREHOLDERS**

**QUESTIONS AND ANSWERS ABOUT THE MEETING**

**Q: What am I voting on?**

- A:** (1) Election of four directors to Class III (Ernest H. Drew, Mannie L. Jackson, Theodore M. Solso, and Michael J. Ward); and one director to Class II (John F. Turner);
- (2) Ratification of Ernst & Young LLP ( E&Y ) as Ashland s independent auditors for fiscal 2007; and
- (3) If presented, a shareholder proposal to initiate the appropriate process to implement majority voting for election of directors.

**Q: Who is entitled to vote at the Annual Meeting?**

- A:** Shareholders at the close of business on November 20, 2006 (the Record Date ), are entitled to vote at the Annual Meeting. As of the Record Date, there were 63,487,200 shares of Ashland Common Stock outstanding. Each share of Ashland Common Stock is entitled to one vote.

**Q: Who can attend the Annual Meeting?**

- A:** All Ashland shareholders on the Record Date are invited to attend the Annual Meeting, although seating is limited. If your shares are held in the name of a nominee (e.g., through a bank or broker), you will need to bring a proxy or letter from that nominee that confirms you are the beneficial owner of those shares.

**Q: When will the proxy statement and proxy card be mailed to Ashland shareholders?**

- A:** The proxy statement and proxy card will be mailed to Ashland shareholders on or about December 12, 2006.

**Q: How do I vote?**

- A:** If your shares are registered in the name of a nominee, follow the instructions provided by your nominee to vote your shares. If your shares are registered in your name:  
*You may vote in person at the Annual Meeting.*

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*You may vote by telephone.* You may vote by telephone regardless of whether you receive your Annual Meeting materials through the mail or over the Internet. Simply follow the instructions on your proxy card or electronic access notification. If you vote by telephone, you should not vote over the Internet or mail in your proxy card.

*You may vote over the Internet.* You may vote over the Internet regardless of whether you receive your Annual Meeting materials through the mail or over the Internet. Simply follow the instructions on your proxy card or electronic access notification. If you vote over the Internet, you should not vote by telephone or mail in your proxy card.

*You may vote by mail.* If you received a proxy card through the mail, simply complete and sign your proxy card and mail it in the enclosed prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct.

If no voting specification is made on your signed and returned proxy card, James J. O'Brien or Linda L. Foss, as proxies named on the proxy card, will vote FOR the election of the five director nominees, FOR the ratification of E&Y and AGAINST the shareholder proposal to initiate the appropriate process to implement majority voting for election of directors, if presented. If you vote by mail, you should not vote by telephone or over the Internet.

**Q: Can I change my vote once I vote by mail, by telephone or over the Internet?**

**A:** Yes. You have the right to change or revoke your proxy (1) at any time before the Annual Meeting by (a) notifying Ashland's Corporate Secretary in writing, (b) returning a later-dated proxy card, or (c) entering a later-dated telephone or Internet vote; or (2) voting in person at the Annual Meeting. However, any changes or revocations of voting instructions to the Trustee of the Leveraged Employee Stock Ownership Plan (the LESOP) and Ashland's Employee Savings Plan (the Employee Savings Plan) must be received by our proxy tabulator, National City Bank or its agent, before midnight (EST) on Monday, January 22, 2007.

**Q: Who counts the vote?**

**A:** Representatives of National City Bank or its agent will tabulate the votes and will act as the inspector of election.

**Q: Is my vote confidential?**

**A:** Yes. Your vote is confidential.

**Q: What shares are included in the proxy card?**

**A:** Your proxy card represents all shares of Ashland Common Stock that are registered in your name and any shares you hold in Ashland's Open Enrollment Dividend Reinvestment and Stock Purchase Plan (the DRP), the LESOP or the Employee Savings Plan. If your shares are held through a nominee, you will receive either a voting instruction form or a proxy card from the nominee to vote your shares.

**Q: How do I vote my shares in the DRP?**

**A:** Shares of Ashland Common Stock credited to your account in the DRP will be voted by National City Bank, the plan administrator, in accordance with your voting instructions.

**Q: How will the Trustee of the Employee Savings Plan and the LESOP vote?**

**A:** Each participant in the Employee Savings Plan or the LESOP will instruct the Trustee how to vote the shares of Ashland Common Stock credited to the participant's account in each plan. This instruction also applies to a proportionate number of those shares of Ashland Common Stock allocated to participants' accounts but for which voting instructions are not timely received by the Trustee. These shares are referred to as Non-Directed shares. Each participant who gives the Trustee such an instruction acts as a named fiduciary for the plans under the Employee Retirement Income Security Act of 1974, as amended (ERISA).



**Q: Can a plan participant vote the Non-Directed shares differently from shares credited to his or her account?**

**A:** Yes. Any participant in the Employee Savings Plan or the LESOP who wishes to vote the Non-Directed shares differently from the shares credited to his or her account or who wishes not to vote the Non-Directed

shares at all may do so by requesting a separate voting instruction card from National City Bank, Corporate Trust Administration, Dept. 3116, 629 Euclid Avenue, Suite 635, Cleveland, Ohio 44114-3484.

**Q: What constitutes a quorum?**

**A:** As of the Record Date, 63,487,200 shares of Ashland Common Stock were outstanding. A majority of the outstanding shares present in person or by proxy is required to constitute a quorum to transact business at the Annual Meeting. If you vote in person, by telephone, over the Internet or by returning a properly executed proxy card, you will be considered a part of that quorum. Abstentions and broker non-votes (i.e., when a broker does not have authority to vote on a specific issue) will be treated as present for the purpose of determining a quorum but as unvoted shares for the purpose of determining the approval of any matter submitted to the shareholders for a vote. Abstentions and broker non-votes will have no effect on the election of directors or matters decided by a plurality vote.

**Q: What vote is required for passage of each of the proposals up for consideration at the Annual Meeting?**

- A:**
- (1) *Election of directors* Under Ashland's By-laws, the five nominees receiving the greatest number of votes will be elected directors at the Annual Meeting.
  - (2) *Ratification of auditors* Submission of the appointment of E&Y to Ashland's shareholders is not required. However, the appointment will be deemed ratified if votes cast in its favor exceed votes cast against it.
  - (3) *Shareholder proposal to initiate the appropriate process to implement majority voting for election of directors* The shareholder proposal will be approved if the votes cast in its favor exceed votes cast against it.

**Q: Where can I find the voting results of the meeting?**

**A:** We intend to announce preliminary voting results at the meeting. We will publish the final results in a press release or in our Quarterly Report on Form 10-Q for the first quarter of fiscal 2007. You can obtain a copy of the Form 10-Q by logging on to our website at <http://www.ashland.com>, by calling the Securities and Exchange Commission (the SEC) at 1-800-SEC-0330 for the location of the nearest public reference room, or through the EDGAR system at <http://www.sec.gov>.

**Q: May I receive future shareholder communications over the Internet?**

**A:** Yes. You may consent to access future shareholder communications (e.g., annual reports, proxy statements, and interim communications) from us or on our behalf over the Internet instead of receiving those documents in the mail. Providing such communications over the Internet will reduce our printing and postage costs and the number of paper documents you would otherwise receive. If you give your consent, in the future, when, and if, material is available over the Internet, you will receive notification that will contain the Internet location of the material. There is no cost to you for this service other than charges you may incur from your Internet, telephone and/or cable provider. Once you give your consent, it will remain in effect until you inform us otherwise. To give your consent, if your shares are registered in your name, follow the prompts when you vote by telephone or over the Internet or check the appropriate box located at the bottom of the proxy card when you vote by mail. If your shares are registered in the name of a nominee, follow the directions provided by such nominee if this option is available. Paper copies of shareholder communications may be requested by contacting National City Bank at 1-800-622-6757.

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**ITEMS TO BE VOTED ON BY SHAREHOLDERS**

**ELECTION OF DIRECTORS**

**Item 1**

**Board of Directors**

The Board of Directors is currently made up of eleven directors, divided into three classes. The four individuals nominated for election as Class III directors at the 2007 Annual Meeting are Ernest H. Drew, Mannie L. Jackson, Theodore M. Solso, and Michael J. Ward. The nominees to Class III will be elected to serve a three-year term until the 2010 Annual Meeting. John F. Turner, elected to the Board in November 2006, is a Class II director. Although not required by Kentucky law, Mr. Turner has agreed to stand for election by shareholders at the 2007 Annual Meeting to serve as a Class II director for the remaining two-year term ending at the 2009 Annual Meeting. The Governance and Nominating Committee ( G&N Committee ) has confirmed that all five nominees will be available to serve as directors upon election and recommends that shareholders vote for them at the Annual Meeting. Ashland's Board has adopted a policy requiring directors to resign at the Annual Meeting following their 70<sup>th</sup> birthday. In compliance with that policy, Dr. Drew will retire from the Board at the 2008 Annual Meeting, after serving one year of his three-year term. The Board has also adopted a policy providing for a 15-year term limit for directors, subject to certain limited exceptions. Pursuant to that policy, Mr. Jackson plans to retire from the Board at the 2009 Annual Meeting, after serving two years of his three-year term. Patrick F. Noonan, a Class II director, will retire as planned at the 2007 Annual Meeting.

At its meeting on October 9, 2006, the Board of Directors approved a new Corporate Governance policy which requires a director nominee to tender his or her resignation to the Chairman of the Board if he or she receives a greater number of votes WITHHELD than FOR in an uncontested election. Such resignation must be tendered within 10 days after the certification of the shareholder vote and will be considered by the entire Board within 90 days following the date of the election. In considering whether to accept or reject the tendered resignation, the Board will consider the stated reasons for withheld votes, the length of service and qualifications of the nominee, the nominee's contribution to Ashland and any other factors deemed relevant by the Board. The nominee in question will be excluded from participating in the Board's deliberations. Ashland will publicly disclose the Board's decision in a filing with the SEC made promptly after the decision. Ashland's Corporate Governance Guidelines are published on Ashland's website (<http://www.ashland.com>).

Shareholders may vote for no more than five directors at the Annual Meeting. Pursuant to Ashland's By-laws, the five nominees receiving the greatest number of votes will be elected. If no voting specification is made on a properly returned or voted proxy card, James J. O'Brien and Linda L. Foss (proxies named on the proxy card) will vote FOR the five nominees named in this proxy statement. If any of the nominees should be unable or unwilling to stand for election at the time of the Annual Meeting, the proxies may vote for a replacement nominee recommended by the Board of Directors, or the Board may reduce the number of directors to be elected at the Annual Meeting. At this time, the Board knows of no reason why any of the nominees may not be able to serve as a director if elected.

**The Board of Directors recommends a vote FOR Ernest H. Drew, Mannie L. Jackson, Theodore M. Solso, and Michael J. Ward for election as Class III directors and FOR John F. Turner for election as a Class II director at the 2007 Annual Meeting.**

A description of each of Ashland's directors, and a description of the committees of the Board of Directors, can be found on pages 5 through 11 of this Proxy Statement. For a report on the Ashland Common Stock ownership of Ashland's directors and certain officers, see the Stock Ownership chart on page 18 of this Proxy Statement.

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**Nominees for Election at the 2007 Annual Meeting**

**Class III Directors**

(Term expiring in 2010)

**Ernest H. Drew**

*Director since 1998*

Dr. Drew, 69, served as Chief Executive Officer of the Industries and Technology Group of Westinghouse Electric Corporation until retiring in 1998. Prior to this position, he was a member of the Board of Management (Vorstand) of Hoechst AG from 1995 to June 1997. He was President and Chief Executive Officer of Hoechst Celanese Corporation from 1988 to 1994. He held various management positions at Celanese Corporation from 1966 to 1987. Dr. Drew holds a Bachelor of Science degree in chemistry from the University of Georgia and a PhD in organic chemistry from the University of Illinois. Dr. Drew is also a Director of Public Service Enterprise Group Inc., Thomas and Betts Corporation and UQM Technologies Inc. He has been a member of all of the committees of these corporations. He is also a Director of Direct Relief International, a non-profit corporation. Dr. Drew is Chairman of Ashland's Environmental, Health & Safety Committee and is a member of the Audit and Governance and Nominating Committees.

**Mannie L. Jackson**

*Director since 1994*

Mr. Jackson, 67, is Chairman of the Board and Chief Executive Officer of the Harlem Globetrotters International, Inc. Prior to the Harlem Globetrotters, he was a Senior Vice President of Honeywell Inc. Mr. Jackson holds a Bachelor of Science and Education degree from the University of Illinois. Mr. Jackson has also served as a Director of Reebok International, Stanley Works, Jostens and True North. He is currently a Director and Vice Chairman of the Basketball Hall of Fame. He is a founding member and former president of The Executive Leadership Council, providing African-American executives with a network and leadership forum to promote excellence in business, economic and public policies. Mr. Jackson is Chairman of Ashland's Governance & Nominating Committee and is a member of the Personnel & Compensation Committee.

**Theodore M. Solso**

*Director since 1999*

Mr. Solso, 59, is Chairman of the Board and Chief Executive Officer of Cummins Inc. Prior to this position he held several executive positions with Cummins, including President and Chief Operating Officer. Mr. Solso holds a Bachelor of Arts degree in psychology from DePauw University and a Masters in Business Administration from the Harvard Business School. He is also a Director of Irwin Financial Corporation and Ball Corporation, serves as a Director of the Cummins Foundation and the Indiana Economic Development Corp. and serves as a Trustee of DePauw University. Mr. Solso is Chairman of Ashland's Personnel & Compensation Committee and is a member of the Governance & Nominating Committee.

**Michael J. Ward**

*Director since 2001*

Mr. Ward, 56, is Chairman of the Board and Chief Executive Officer of CSX Corporation. Prior to this position, he was President of CSX Transportation (CSXT), the corporation's rail unit. Mr. Ward holds a Bachelor's degree from the University of Maryland and a Masters in Business Administration from the Harvard Business School. In 2005, Mr. Ward served as Chairman of the Association of American Railroads' Board of Directors. He is also a Director of Center for Energy and Economic Development, City Year, and Take Stock in Children. His other business affiliations include The Florida Council of 100, The Business Roundtable, and The Kentucky Coal Council. Mr. Ward is Chairman of Ashland's Finance Committee and is a member of the Audit and Personnel & Compensation Committees.

**Class II Director**

(Term expiring in 2009)

**John F. Turner**

*Director since 2006*

Mr. Turner, 64, served as Assistant Secretary of State for the U.S. Department of State's Bureau of Oceans and International and Scientific Affairs in Washington, D.C., from November 2002 until July 2005. Prior to serving at the Department of State, he was President and Chief Executive Officer of The Conservation Fund, a non-profit organization dedicated to conserving America's natural and historic heritage. Between 1989 and 1993, Mr. Turner was Director of the U.S. Fish and Wildlife Service. Mr. Turner also served in the Wyoming state legislature for 19 years and is a past president of the Wyoming State Senate. Mr. Turner holds a Bachelor of Arts degree in Biology from the University of Notre Dame and a Master of Science degree in wildlife ecology from the University of Michigan. Mr. Turner is also a Director of Peabody Energy Company where he serves on the Nominating and Corporate Governance Committee and International Paper Company where he chairs the Governance and Public Policy and Environment Committees. He is also a managing partner in The Triangle X Ranch in Wyoming. Mr. Turner is a member of Ashland's Environmental, Health & Safety and Finance Committees.

**Continuing Directors Not Up for Election at the 2007 Annual Meeting**

**Class I Directors**

(Term expiring in 2008)

**Bernadine P. Healy, M.D.**

*Director since 1998*

Dr. Healy, 62, is a columnist and health editor for U.S. News and World Report. Prior to this position, she served as President and Chief Executive Officer of the American Red Cross, and Dean, College of Medicine and Public Health, and Professor of Medicine, The Ohio State University. Dr. Healy holds a Bachelor of Arts degree from Vassar College and a Doctor of Medicine from Harvard University. Dr. Healy is also a Director of National City Corporation, where she serves on the Compensation & Organization and Nominating & Board of Directors Governance Committees, The Progressive Corporation, where she serves on the Audit Committee and Invacare, Inc. where she serves on the Compensation Committee. She is also a Trustee of Battelle Memorial Institute where she serves on the Human Resources & Compensation Committee. Dr. Healy is a member of Ashland's Audit, Environmental, Health & Safety and Governance & Nominating Committees.

**Kathleen Ligocki**

*Director since 2004*

Ms. Ligocki, 50, is President and Chief Executive Officer of Tower Automotive, Inc. and has served in such capacities since August 2003. Tower Automotive filed to reorganize under Chapter 11 of the U.S. Bankruptcy Code in February 2005, and is in the process of restructuring its North American operations. Prior to joining Tower Automotive, Ms. Ligocki worked at the Ford Motor Company, United Technologies and General Motors Corporation. Ms. Ligocki holds a Bachelor of Arts in liberal studies from Indiana University, a Masters in Business Administration from The Wharton School at the University of Pennsylvania and an honorary doctorate of Humane Letters from Indiana University. She serves on a variety of non-profit and academic boards focused on women, families and life-long education. She also serves on the boards of Kettering University and the National Defense University in Washington, D.C. Ms. Ligocki is a member of Ashland's Environmental, Health & Safety, Finance and Personnel & Compensation Committees.

**James J. O'Brien**

*Director since 2002*

Mr. O'Brien, 52, is Ashland's Chairman of the Board and Chief Executive Officer. Prior to being named to this position, Mr. O'Brien was President and Chief Operating Officer of Ashland and Senior Vice President and Group Operating Officer of Ashland. He also served as the President of Valvoline from 1995 to 2001. Mr. O'Brien holds a Bachelor's degree in accounting and finance and a Masters in Business Administration from Ohio State University. Mr. O'Brien is a Director of Humana Inc., where he serves on the Investment, Organization & Compensation and Science & Technology Committees. He serves as a member of the Dean's Advisory Council for the Fisher Graduate College of Business at Ohio State University. A past volunteer big brother with Big Brothers/Big Sisters of the Bluegrass, Mr. O'Brien also serves on the organization's national board of directors. He is a member of the American Chemistry Council and Chairman of the Board of Trustees for Midway College in Kentucky.

**Continuing Directors Not Up for Election at the 2007 Annual Meeting**

**Class II Directors**

(Term expiring in 2009)

**Roger W. Hale**

*Director since 2001*

Mr. Hale, 63, served as Chairman of the Board and Chief Executive Officer of LG&E Energy Corporation, a diversified energy services company headquartered in Louisville, Kentucky, from August 1990 until retiring in April 2001. Prior to joining LG&E Energy, he was Executive Vice President of BellSouth Corporation, a communications services company in Atlanta, Georgia. From 1966 to 1986, Mr. Hale held several executive positions with AT&T Co., a communications services company, including Vice President, Southern Region from 1983 to 1986. Mr. Hale holds a Bachelor of Arts degree from the University of Maryland and a Master of Science in Management from the Massachusetts Institute of Technology, Sloan School of Management. Mr. Hale is also a Director of H&R Block, Inc., where he served as the Presiding Director of the Board of Directors from September 2004 through September 2006, and currently serves as a member of the Compensation and Governance and Nominating Committees. He also serves as a Director of Hospira, Inc. Mr. Hale is Chairman of Ashland's Audit Committee and is a member of the Environmental, Health & Safety Committee.

**George A. Schaefer, Jr.**

*Director since 2003*

Mr. Schaefer, 61, is Chairman and Chief Executive Officer of Fifth Third Bancorp headquartered in Cincinnati, Ohio. Prior to this position, he held several executive positions with Fifth Third, including President and Chief Operating Officer. Mr. Schaefer holds a Bachelor of Science degree from the U.S. Military Academy at West Point and a Masters in Business Administration from Xavier University. He is also a Director of Wellpoint, a member of the Board of Trustees of the University of Cincinnati Foundation, a member of the Board of Trustees of the Health Alliance of Cincinnati, and a member of The Greater Cincinnati Airport Board of Trustees. Mr. Schaefer is a member of Ashland's Audit, Finance and Governance & Nominating Committees.

**COMMITTEES OF THE BOARD OF DIRECTORS**

The Board of Directors has five committees: Audit Committee; Environmental, Health and Safety Committee; Finance Committee; Governance and Nominating Committee; and Personnel and Compensation Committee. All Committees are composed entirely of independent directors. During fiscal 2006, seven meetings of the Board were held. Each current director attended at least 76.1% of the total meetings of the Board and the Committees on which he or she served. Overall attendance at Board and Committee meetings was 91.5%. The following table describes the members of each of the Committees, its primary responsibilities and the number of meetings held during fiscal 2006.

<b>Meetings and Current Members</b>	<b>Summary Responsibilities</b>
<p><b>AUDIT COMMITTEE</b></p> <p>Meetings in fiscal 2006: 6</p> <p>The Committee also met four times to discuss and review Ashland's earnings and to approve Ashland's earnings press releases.</p> <p><i>Members:</i></p> <p>Roger W. Hale (Chairman)</p> <p>Ernest H. Drew</p> <p>Bernadine P. Healy</p> <p>George A. Schaefer, Jr.</p> <p>Michael J. Ward</p>	<p>Oversees Ashland's financial reporting process</p> <p>Oversees the implementation and maintenance of effective systems of internal accounting and financial controls (including internal control over financial reporting)</p> <p>Oversees performance of Ashland's internal audit function and independent auditors</p> <p>Selects independent auditors based on qualification and independence and approves audit fees and services performed by independent auditors</p> <p>Reviews Ashland's legal and regulatory compliance programs</p> <p>Provides direct and open avenue of communication between Ashland's internal auditors, its independent auditors, its general counsel and the Board of Directors</p>
<p><b>ENVIRONMENTAL, HEALTH AND SAFETY COMMITTEE</b></p> <p>Meetings in fiscal 2006: 2</p> <p><i>Members:</i></p> <p>Ernest H. Drew (Chairman)</p> <p>Roger W. Hale</p> <p>Bernadine P. Healy</p>	<p>Oversees Ashland's environmental, health and safety compliance practices</p> <p>Reviews Ashland's environmental, health and safety policies, programs and practices</p> <p>Reviews environmental, health and safety regulatory trends</p> <p>Oversees selection of Ashland's environmental, health and safety compliance advisors</p>



Kathleen Ligocki

Patrick F. Noonan\*

John F. Turner\*\*

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\* Mr. Noonan will retire from Ashland's Board on January 25, 2007

\*\* Mr. Turner was elected to Ashland's Board on November 16, 2006

**Meetings and Current Members**  
**FINANCE COMMITTEE**

Meetings in fiscal 2006: 2

*Members:*

Michael J. Ward (Chairman)

Kathleen Ligocki

Patrick F. Noonan\*

George A. Schaefer, Jr.

John F. Turner\*\*

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\* Mr. Noonan will retire from Ashland's Board on January 25, 2007

\*\* Mr. Turner was elected to Ashland's Board on November 16, 2006

**GOVERNANCE AND NOMINATING COMMITTEE**

Meetings in fiscal 2006: 6

*Members:*

Mannie L. Jackson (Chairman)

Ernest H. Drew

Bernadine P. Healy

George A. Schaefer, Jr.

Theodore M. Solso

**Summary Responsibilities**

Reviews Ashland's current and contemplated funding requirements

Oversees significant financial issues such as capital structure, dividend action, offerings of debt or equity securities and major borrowings

Reviews post audits of major investments

Oversees funding and investment policy related to employee benefit plans

Monitors and reviews Ashland's use of derivatives

Recommends nominees for the Board of Directors and its Committees

Reviews suggested potential candidates for the Board

Recommends desirable size and composition of the Board and its Committees

Recommends to the Board programs and procedures relating to director compensation, evaluation, retention and resignation

Reviews corporate governance guidelines, corporate charters and proposed amendments to the articles and by-laws of Ashland

Assists the Board in ensuring the Board's independence as it exercises its corporate governance and oversight roles

Oversees the evaluation of the Board

Reviews the process for succession planning for the executive management of Ashland

Reviews and makes recommendations to address shareholder proposals

**Meetings and Current Members**  
**PERSONNEL AND COMPENSATION COMMITTEE**

Meetings in fiscal 2006: 6

*Members:*

Theodore M. Solso (Chairman)

Mannie L. Jackson

Kathleen Ligoeki

Patrick F. Noonan\*

Michael J. Ward

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\* Mr. Noonan will retire from Ashland's Board on January 25, 2007

**Summary Responsibilities**

Approves compensation and sets performance criteria for compensation programs with respect to Ashland's Chief Executive Officer

Reviews and approves compensation and sets performance criteria for compensation programs for all key senior executives and elected officers

Oversees the execution of senior management succession plans

Approves any employment agreements, consulting arrangements, severance or retirement arrangements, change-in-control agreements, and/or any other special or supplemental benefits covering any current or former executive officer

Oversees the design and administration of Ashland's compensation, benefit and retirement plans

Oversees preparation of Committee's report on executive compensation

**COMPENSATION OF DIRECTORS**

**Annual Retainer and Meeting Fees**

During fiscal 2006, non-employee directors received an annual retainer of \$65,000. If the non-employee director has not met the minimum stock ownership guidelines, the Board of Directors has recommended that the annual retainer be either (i) paid in Ashland Common Stock, or (ii) deferred into stock units (share equivalents) in the hypothetical Ashland Common Stock Fund in Ashland's deferred compensation plans for non-employee directors (the Directors' Deferral Plan).

In addition to the annual retainer, non-employee directors received \$1,500 for each Board of Directors and Committee meeting attended. The Lead Independent Director received three \$5,000 quarterly installments of a \$20,000 annual fee approved by the G&N Committee in January 2006. The Committee Chairs also received a \$5,000 annual fee. Members of the Audit Committee, including the Chairman, also received a \$1,500 fee for attendance at each quarterly Audit Committee financial review with Ashland's management. All such fees may be paid in cash, shares of Ashland Common Stock or deferred into any investment alternative available under the Directors' Deferral Plan.

The payout of the deferred annual retainer and meeting fees occurs upon termination of service by a director. However, upon a change in control of Ashland (as defined in the Directors' Deferral Plan), amounts in the directors' deferral accounts would be automatically distributed to the director in cash.

In addition to the annual retainer and meeting fees, a non-employee director may receive compensation at the rate of \$1,500 per day for services on special assignments as directed by the Chairman of the Board of Directors. This special assignment compensation cannot be deferred. Directors who are employees of Ashland are not additionally compensated for service on the Board or its Committees.

Ashland's non-employee director compensation program was revised in November 2006. Effective January 26, 2007, the revised program provides that non-employee directors will receive (a) an annual retainer of \$90,000; (b) an additional annual retainer of \$20,000 for the Lead Independent Director; (c) an additional annual retainer of \$15,000 for the Chair of the Audit Committee and \$7,500 for Audit Committee members; and (d) an additional annual retainer of \$7,500 for other Committee Chairs. All other Board and Committee fees will be eliminated.

### **Restricted Shares and Stock Options**

Pursuant to Ashland's incentive plans, upon election to the Board of Directors, a new director receives 1,000 restricted shares of Ashland Common Stock. The restricted shares may not be sold, assigned, transferred or otherwise encumbered until the earliest to occur of: (i) retirement from the Board of Directors; (ii) death or disability of the director; (iii) a 50% change in the beneficial ownership of Ashland; or (iv) voluntary early retirement to enter governmental service. The Governance and Nominating Committee ( G&N Committee ) has discretion to limit a director's forfeiture of these shares if he or she leaves the Board of Directors for reasons other than those listed above.

On January 26, 2006, the Board of Directors approved a grant of 2,500 non-qualified Ashland stock options to each non-employee director. The grant price was \$65.48 per share which was the fair market value of Ashland Common Stock on the grant date. The options vested on July 26, 2006, and may not be repriced if the stock price declines below the option price. The options were adjusted to account for the special dividend of \$10.20 per share payable on October 25, 2006 (the Special Dividend ).

Pursuant to the revised non-employee director compensation program effective January 26, 2007, each director will receive an annual award of deferred restricted stock units with a grant date value of \$100,000. The restricted stock units will vest one year after date of grant and will be payable in stock or cash, at the director's election upon termination of service. Dividends on restricted stock units will be reinvested in additional restricted stock units. Under the revised director compensation program, annual stock option grants will no longer be made to non-employee directors.

The Board of Directors considers Ashland Common Stock ownership by directors and members of management to be of utmost importance. The Board believes that such ownership enhances the commitment of the directors and members of management to Ashland's future and further aligns management's interests with those of Ashland's shareholders. The Board has established minimum stock ownership guidelines for non-employee directors and certain employees which require non-employee directors to own Ashland Common Stock having a value of at least five times their annual retainer. Each newly elected non-employee director has five years from the year elected to reach this ownership level. All of Ashland's current non-employee directors, other than Ms. Ligocki, elected to the Board in 2004 and Mr. Turner, elected to the Board in November 2006, have attained the minimum stock ownership levels established by the Board. In addition, any director who acquires Ashland shares via option exercise for options granted after February 2005 must retain 50% of the net shares acquired for at least 12 months or such earlier time as the individual ceases to be a director of Ashland. For further information regarding stock ownership guidelines as they pertain to Ashland's executive officers, see the discussion under Stock Ownership Philosophy in the Personnel and Compensation Committee Report on Executive Compensation on pages 24-25 of this Proxy Statement.

### **Estate Enhancement Program**

In 1999, the Board of Directors adopted an Estate Enhancement Program (the Program ) for the benefit of Ashland's non-employee directors and executive officers. Pursuant to the Program, a participant could elect to enter into a split-dollar life insurance arrangement with Ashland in exchange for existing deferred compensation and/or future compensation, with Ashland paying the premiums in an amount no greater than the participant's foregone compensation. Upon the death of the participant, or the last to die in the case of a joint policy, Ashland will receive the greater of the policy's cash surrender value or the cumulative premiums paid under the

policy and the participant's beneficiary will receive any excess of the policy's death benefit over the amount received by Ashland. Mr. O'Brien is the only director who participates in the Program. In January 2005, the Board prospectively terminated the Program.

### **Other Compensation**

In January 1997 the Board of Directors prospectively terminated the Directors' Charitable Awards Program. Non-employee directors, who were directors at the time the program was terminated, remain eligible for the Charitable Awards Program. Of the current directors, only Messrs. Jackson and Noonan are eligible to participate in the program. Under the program, \$1,000,000 is donated upon a director's death to one or more educational organizations recommended by that director.

## **CORPORATE GOVERNANCE**

### **Governance Principles**

Ashland is committed to adhering to sound corporate governance practices. The information described below is published on Ashland's website (<http://www.ashland.com>). These documents are also available in print to any shareholder who requests them. Among the corporate governance practices followed by Ashland are the following:

Ashland has adopted Corporate Governance Guidelines. These guidelines provide the framework for the Board of Directors' governance of Ashland and include a general description of the Board's purpose, director qualification standards, retirement and resignation policies (which include a majority voting policy) and other responsibilities. The Corporate Governance Guidelines require that two-thirds of Ashland's directors be independent, as defined by Ashland's Director Independence Standards (the Standards), which are attached hereto as Appendix A.

Ashland also requires compliance with its code of business conduct entitled Business Responsibilities of an Ashland Employee, which applies to all of Ashland's directors and employees, including the principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. Ashland intends to post any amendments or waivers of the code (to the extent applicable to Ashland's directors and executive officers) on Ashland's website or in a current report on Form 8-K.

Each of Ashland's Board Committees have adopted charters defining their respective purposes and responsibilities.

Only independent directors, as defined in the Standards, may serve on the Audit, G&N, and Personnel and Compensation (the P&C Committee) Committees of the Board.

Ashland has designated a Lead Independent Director to coordinate the activities of the independent directors. The Lead Independent Director must be an independent director and is appointed by the Board. In addition to the duties of all Board members, the Lead Independent Director advises the Chairman of the Board. The Lead Independent Director also coordinates with the Chairman of the Board to determine the appropriate schedule of meetings; places any item he or she determines is appropriate on the Board's agenda; directs that specific materials be included in Board mailings and works with the G&N Committee to assess the quality, quantity and timeliness of the flow of information from management to the Board; directs the retention of consultants and advisors to report directly to the Board; coordinates with the G&N Committee to oversee compliance with Ashland's Corporate Governance Guidelines and to recommend appropriate revisions thereto; and develops the agenda for and coordinates executive sessions of the Board's independent directors and acts as principal liaison with the independent directors and the Chairman of the Board and Chief Executive Officer on sensitive matters. The non-management directors of the Board have designated Mr. Solso to serve in this capacity.

through Ashland's 2008 Annual Meeting. Shareholders and others interested in communicating directly with the Lead Independent Director or with the non-management directors as a group may do so by writing to the Lead Independent Director, Ashland Inc., 50 E. RiverCenter Boulevard, P.O. Box 391, Covington, Kentucky 41012-0391.

The Board, and each Committee of the Board, has the authority to engage independent consultants and advisors.

#### **Independence of Directors**

The Board of Directors has adopted the Standards to assist in its determination of director independence. To qualify as independent under these Standards, the Board must affirmatively determine that a director has no material relationship with Ashland, other than as a director.

Pursuant to the Standards, the Board of Directors undertook a review of director independence in November 2006. During this review, the Board considered relationships and transactions between each director, any member of his or her immediate family, and his or her affiliates, and Ashland and its subsidiaries and affiliates. As provided for in the Standards, the purpose of the review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent.

As a result of the review, the Board of Directors affirmatively determined that Messrs. Drew, Hale, Jackson, Noonan, Schaefer, Solso, Turner and Ward and Mmes. Healy and Ligocki are each independent of Ashland and its affiliates. Mr. O'Brien, Ashland's Chief Executive Officer, is the only director determined not to be independent of Ashland.

#### **Certain Relationships and Transactions**

In the normal course of business, Ashland had transactions with other corporations where certain directors are executive officers. None of the transactions were material in amount as to Ashland and none were reportable under applicable SEC rules. Ashland's Board of Directors has concluded that the relationships between Ashland and the director-affiliated entities are immaterial pursuant to the Standards.

Mannie L. Jackson, a director of Ashland, is Chairman of the Board and Chief Executive Officer of the Harlem Globetrotters International, Inc. (the Harlem Globetrotters). During fiscal 2006, Ashland paid the Harlem Globetrotters approximately \$31,000 for certain promotional tie-ins.

George A. Schaefer, Jr., a director of Ashland, is Chairman and Chief Executive Officer of Fifth Third Bancorp (Fifth Third). During fiscal 2006, Ashland paid Fifth Third approximately \$161,000 for routine banking services. Additionally, Ashland has standard revolving credit agreements with Fifth Third. There are no outstanding balances for funds borrowed under these agreements.

Theodore M. Solso, a director of Ashland, is Chairman of the Board and Chief Executive Officer of Cummins Inc. (Cummins). During fiscal 2006, Ashland paid certain royalty and other payments to Cummins and its consolidated subsidiaries totaling approximately \$431,000, and Cummins paid Ashland approximately \$3.5 million for goods and services. Ashland's payments to Cummins principally reflect a royalty on sales of Valvoline's Premium Blue E Engine Oil co-branded products. The monies paid to Ashland by Cummins were primarily paid for the initial fill of the engines with oil and lubricants, as well as for lubricants supplied to Cummins and its distributors. Additionally, Valvoline and Cummins are partners in joint ventures in India, China and the United Kingdom. The joint ventures market lubricants for servicing heavy duty engines and equipment.

Michael J. Ward, a director of Ashland, is Chairman of the Board and Chief Executive Officer of CSX Corporation (CSX). In fiscal 2006, Ashland paid CSX and its subsidiaries approximately \$13.6 million for transportation services, and CSX paid Ashland approximately \$114,000 for certain products and/or services.

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**Personnel and Compensation Committee Interlocks and Insider Participation**

The members of the P&C Committee for fiscal 2006 were Theodore M. Solso (Chairman), Mannie L. Jackson, Kathleen Ligocki, Patrick F. Noonan and Michael J. Ward. There were no impermissible interlocks or inside directors on the P&C Committee.

**Shareholder Communications with Directors**

The Board of Directors has established a process by which shareholders may communicate with the Board. Shareholders interested in communicating with the Board, or with a specific member or Committee of the Board, may do so by writing to the Lead Independent Director in care of the General Counsel of Ashland, 50 E. RiverCenter Boulevard, P.O. Box 391, Covington, Kentucky 41012-0391. Communications directed to the Lead Independent Director will be reviewed by the General Counsel and distributed to the Lead Independent Director as well as to other individual directors, as appropriate, depending on the subject matter and facts and circumstances outlined in the correspondence. Communications that are not related to the duties and responsibilities of the Board, or are otherwise inappropriate, will not be forwarded to the Lead Independent Director, although all communications directed to the Board will be available to any director upon request.

**Attendance at Annual Meeting**

Ashland has a policy and practice of having all directors attend the Annual Meeting. At the Annual Meeting held on January 26, 2006, each of Ashland's then current directors were present.

**Shareholder Recommendations for Directors**

The G&N Committee considers director candidates recommended by other directors, employees and shareholders, and is authorized, at its discretion, to engage a professional search firm to identify and suggest director candidates. Written suggestions for director candidates should be sent via registered, certified, or express mail to the Corporate Secretary of Ashland at 50 E. RiverCenter Boulevard, P.O. Box 391, Covington, Kentucky 41012-0391. Such suggestions must be received no later than September 1, 2007, to be considered by the G&N Committee for inclusion as a director nominee for the 2008 Annual Meeting. Suggestions for director candidates should include all information required by Ashland's By-laws, and any other relevant information, as to the proposed candidate. The G&N Committee selects each director nominee based on the nominee's skills, achievements and experience. The G&N Committee will review all director candidates in accordance with its charter and Ashland's Corporate Governance Guidelines, and it will identify qualified individuals consistent with criteria approved by the Board of Directors. The G&N Committee shall select individuals as director nominees who exhibit the highest personal and professional integrity, who have demonstrated exceptional ability and judgment and who shall be most effective in serving the interests of Ashland's shareholders. Additionally, the G&N Committee shall seek director candidates who exhibit the following personal and professional qualifications: (1) significant experience in either the chemical, or certain construction, industrial or consumer markets; (2) product or process innovation experience; (3) international business expertise; (4) diverse experience in policy-making in business, government, education and/or technology, or in areas that are relevant to Ashland's global business and strategy; (5) possess an inquisitive and objective nature, practical wisdom and mature judgment; and (6) the ability to work with Ashland's existing directors and management. Individuals recommended by shareholders in accordance with these procedures will be evaluated by the G&N Committee in the same manner as individuals who are recommended through other means.

In fiscal 2005, Ashland settled a shareholder derivative lawsuit brought in 2002. In settling the action, Ashland agreed, among other things, to solicit from its major shareholders director candidates and to nominate a qualified candidate for election to the Board of Directors. A number of Ashland's major shareholders have provided names of potential director candidates. Ashland's G&N Committee has assessed the qualifications of those individuals and has contacted candidates to determine their interest in joining Ashland's Board. To date, no candidate has been able to serve on Ashland's Board.



**Shareholder Nominations of Directors**

In order for a shareholder to nominate a director at an Annual Meeting who is not otherwise nominated by the G&N Committee, Ashland's By-laws require that a shareholder provide written notice of intent to nominate a director not later than 90 days prior to the Annual Meeting (if the Annual Meeting is held on the last Thursday in January). For an Annual Meeting held earlier than the last Thursday in January, notice must be given within 10 days of the first public disclosure of the date of the Annual Meeting. Public disclosure may include a public filing with the SEC.

The notice must contain the following information:

The name and address of the shareholder who intends to make the nomination and the name and address of the person(s) to be nominated;

A representation that the shareholder is a shareholder of record of Ashland Common Stock entitled to vote at such meeting and that the shareholder intends to appear in person or by proxy to make the nomination(s) specified in the notice;

A description of all arrangements or understandings between the shareholder and each nominee and any other person(s) pursuant to which the nomination(s) are to be made by the shareholder. The other person(s) must be named in the notice;

Information about each nominee that would be required in a proxy statement, according to the rules of the SEC, had the nominee been proposed by the Board of Directors;

The consent of each nominee to serve as a director if so elected; and

A representation as to whether or not the shareholder will solicit proxies in support of his or her nominee(s). The chairman of any meeting of shareholders to elect directors and the Board of Directors may refuse to acknowledge any nomination that is not made in compliance with the procedure described above or if the shareholder fails to comply with the representations set forth in the notice.

**ASHLAND COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The following table sets forth information with respect to each person known to Ashland to beneficially own more than 5% of the outstanding shares of Ashland Common Stock as of September 30, 2006.