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ASHLAND INC
Form 10-K/A
March 20, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

Commission file number 1-2918

ASHLAND INC.
(a Kentucky corporation)

I.R.S. No. 61-0122250

50 E. RiverCenter Boulevard

P.O. Box 391

Covington, Kentucky 41012-0391

Telephone Number: (859) 815-3333

Securities Registered Pursuant to Section 12(b):

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(g): NONE

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

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

At October 31, 2002, based on the New York Stock Exchange closing price, the aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$1,780,870,376. In determining this amount, the Registrant has assumed that its directors and executive

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officers are affiliates. Such assumption shall not be deemed conclusive for any other purpose.

At October 31, 2002, there were 68,242,197 shares of Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Annual Report to Shareholders for the fiscal year ended September 30, 2002 are incorporated by reference into Parts I, II and IV.

Portions of Registrant's definitive Proxy Statement for its January 30, 2003 Annual Meeting of Shareholders are incorporated by reference into Part III.

EXPLANATORY NOTE

This amendment to the Annual Report on Form 10-K/A for the fiscal year ended September 30, 2002 of Ashland Inc. ("Ashland") is being filed to include the audited financial statements of Marathon Ashland Petroleum LLC ("MAP") for the fiscal year ended December 31, 2002 as required by Rule 3-09 of Regulation S-X. Ashland has a 38% equity interest in MAP. In accordance with Rule 12b-15 under the Securities and Exchange Act of 1934, as amended, the text of the amended item is set forth in its entirety in the pages attached hereto.

A consent of PricewaterhouseCoopers LLP, independent accountants for MAP, is being filed as an exhibit hereto.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) DOCUMENTS FILED AS PART OF THIS REPORT

(1) and (2) Financial Statements and Financial Schedule

The consolidated financial statements and financial schedule of Ashland presented or incorporated by reference in this report are listed in the index on page 20.

Audited financial statements of Marathon Ashland Petroleum LLC. Financial statement schedules are omitted because they are not applicable as the required information is contained in the applicable financial statements or notes thereto.

(3) Exhibits

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

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- 3.2 By-laws of Ashland, effective as of November 15, 2002.
- 4.1 Ashland agrees to provide the SEC, upon request, copies of instruments defining the rights of holders of long-term debt of Ashland and all of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed with the SEC.
- 4.2 Indenture, dated as of August 15, 1989, as amended and restated as of August 15, 1990, between Ashland and Citibank, N.A., as Trustee (filed as Exhibit 4.2 to Ashland's Form 10-K for the fiscal year ended September 30, 2001 and incorporated herein by reference).
- 4.3 Indenture, dated as of September 7, 2001, between Ashland and U.S. Bank National Association, as Trustee (filed as Exhibit 4.3 to Ashland's Form 10-K for the fiscal year ended September 30, 2001 and incorporated herein by reference).
- 4.4 Rights Agreement, dated as of May 16, 1996, between Ashland Inc. and the Rights Agent, together with Form of Right Certificate (filed as Exhibit 4.4 to Ashland's Form 10-K for the fiscal year ended September 30, 2001 and incorporated herein by reference).

The following Exhibits 10.1 through 10.15 are compensatory plans or arrangements or management contracts required to be filed as exhibits pursuant to Item 601(b)(10)(ii)(A) of Regulation S-K.

- 10.1 Amended Stock Incentive Plan for Key Employees of Ashland Inc. and its Subsidiaries (filed as Exhibit 10.1 to Ashland's Form 10-K for the fiscal year ended September 30, 1999 and incorporated herein by reference).
- 10.2 Ashland Inc. Deferred Compensation Plan for Non-Employee Directors.
- 10.3 Ashland Inc. Deferred Compensation Plan.
- 10.4 Tenth Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Employees, as amended.
- 10.5 Ashland Inc. Salary Continuation Plan.
- 10.6 Form of Ashland Inc. Executive Employment Contract between Ashland Inc. and certain executives of Ashland.
- 10.7 Form of Separation Agreement and General Release between Ashland Inc. and Paul W. Chellgren, former Chief Executive Officer of Ashland.
- 10.8 Form of Indemnification Agreement between Ashland Inc. and each member of its Board of Directors (filed as Exhibit 10.8 to Ashland's Form 10-K for the fiscal year ended September 30, 2001 and incorporated herein by reference).
- 10.9 Ashland Inc. Nonqualified Excess Benefit Pension Plan.
- 10.10 Ashland Inc. Long-Term Incentive Plan (filed as Exhibit 10.9 to Ashland's Form 10-K for the fiscal year ended September 30, 2000 and incorporated herein by reference).
- 10.11 Ashland Inc. Directors' Charitable Award Program.

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- 10.12 Ashland Inc. 1993 Stock Incentive Plan (filed as Exhibit 10.11 to Ashland's Form 10-K for the fiscal year ended September 30, 2000 and incorporated herein by reference).
- 10.13 Ashland Inc. 1995 Performance Unit Plan (filed as Exhibit 10.12 to Ashland's Form 10-K for the fiscal year ended September 30, 2000 and incorporated herein by reference).
- 10.14 Ashland Inc. 1997 Stock Incentive Plan.
- 10.15 Amended and Restated Ashland Inc. Incentive Plan.
- 10.16 Amended and Restated Limited Liability Company Agreement of Marathon Ashland Petroleum LLC dated as of December 31, 1998 (filed as Exhibit 10.17 to Ashland's Form 10-K for the fiscal year ended September 30, 1999 and incorporated herein by reference).
- 10.17 Put/Call, Registration Rights and Standstill Agreement as amended to December 31, 1998 among Marathon Oil Company, USX Corporation, Ashland Inc. and Marathon Ashland Petroleum (filed as Exhibit 10.18 to Ashland's Form 10-K for the fiscal year ended September 30, 1999 and incorporated herein by reference).
- 11 Computation of Earnings Per Share (appearing on page 48 of Ashland's Annual Report to Shareholders, incorporated by reference herein, for the fiscal year ended September 30, 2002).
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 13 Portions of Ashland's Annual Report to Shareholders, incorporated by reference herein, for the fiscal year ended September 30, 2002.
- 21 List of subsidiaries.
- 23.1 Consent of independent auditors.
- 23.2* Consent of PricewaterhouseCoopers LLP.
- 24 Power of Attorney, including resolutions of the Board of Directors.
- 99.1* Certificate of Chief Executive Officer of Ashland pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- 99.2* Certificate of Chief Financial Officer of Ashland pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

*Filed herewith

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

(b) REPORTS ON FORM 8-K

A report on Form 8-K was filed August 2, 2002, to report that Paul W. Chellgren, Chairman and Chief Executive Officer of Ashland, announced his

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plans to retire effective November 15, 2002.

A report on Form 8-K was filed on August 7, 2002 to report that Ashland had submitted to the SEC the Statements under Oath of the Principal Executive Officer and the Principal Financial Officer pursuant to the SEC's June 27, 2002 Order requiring the filing of such statements.

A report on Form 8-K was filed on August 13, 2002 to report that James J. O'Brien had been named President and Chief Operating Officer and was elected to Ashland's Board of Directors. O'Brien would become Chairman of the Board and Chief Executive Officer of Ashland effective November 15, 2002 when Paul W. Chellgren, the then current Chairman and Chief Executive Officer retired.

A report on Form 8-K was filed on September 19, 2002 to report that James J. O'Brien would become Chief Executive Officer of Ashland effective October 1, 2002 and Chairman of the Board effective November 15, 2002.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

ASHLAND INC.
(Registrant)
By:

/s/ J. Marvin Quin

J. Marvin Quin
Senior Vice President and Chief
Financial Officer

Date: March 20, 2003

CERTIFICATION

Statement Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer Regarding Facts and Circumstances Relating to Exchange Act Filings.

I, James J. O'Brien, Chief Executive Officer of Ashland Inc., certify that:

1. I have reviewed this annual report on Form 10-K/A of Ashland Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results

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of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 20, 2003

/s/ James J. O'Brien

Chief Executive Officer

CERTIFICATION

Statement Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer Regarding Facts and Circumstances Relating to Exchange Act Filings.

I, J. Marvin Quin, Chief Financial Officer of Ashland Inc., certify that:

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1. I have reviewed this annual report on Form 10-K/A of Ashland Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 20, 2003

/s/ J. Marvin Quin

Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Description
23.2	Consent of PricewaterhouseCoopers LLP.
99.1	Certificate of Chief Executive Officer of Ashland pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
99.2	Certificate of Chief Financial Officer of Ashland pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

MARATHON ASHLAND PETROLEUM LLC AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

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PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
1201 Louisiana, Suite 2900
Houston, TX 77002-5678

REPORT OF INDEPENDENT ACCOUNTANTS

February 18, 2003

To the Board of Managers of
Marathon Ashland Petroleum LLC:

In our opinion, the accompanying consolidated financial statements appearing on pages 2 through 20 present fairly, in all material respects, the financial position of Marathon Ashland Petroleum LLC and its subsidiaries (MAP) at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of MAP's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note C to the financial statements, MAP changed its method

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of accounting for derivatives in 2001.

/s/ PricewaterhouseCoopers LLP

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CONSOLIDATED STATEMENT OF INCOME (Dollars in Millions)

MARATHON ASHLAND PETROLEUM LLC AND SUBSIDIARIES

	Year End	
	2002	
REVENUES AND OTHER INCOME:		
Sales and other operating revenues (including consumer excise taxes)	\$ 25,389	\$
Sales to related parties - Note D	1,010	
Income from equity method investments	48	
Net gains on disposal of assets	40	
Other income	26	
Total revenues and other income	26,513	
COSTS AND EXPENSES:		
Cost of revenues (excludes items shown below)	20,008	
Purchases from related parties - Note D	882	
Consumer excise taxes	4,250	
Depreciation and amortization	365	
Selling, general and administrative expenses	489	
Other taxes	138	
Inventory market valuation charges (credits) - Note H	(77)	
Total costs and expenses	26,055	
INCOME FROM OPERATIONS:	458	
Net interest and other financial income (costs) - Note E	(5)	
INCOME BEFORE INCOME TAXES:	453	
Provision for income taxes - Note G	3	
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE:	450	
Cumulative effect of change in derivatives accounting - Note C	--	
NET INCOME	\$ 450	\$

=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS.

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CONSOLIDATED BALANCE SHEET (Dollars in Millions)

MARATHON ASHLAND PETROLEUM LLC AND SUBSIDIARIES

ASSETS:

Current assets:

Cash and cash equivalents
Receivables, less allowance for doubtful accounts of \$5
and \$3
Related party receivables - Note D
Inventories - Note H
Other current assets

Total current assets

Investments and long-term receivables - Note I
Property, plant and equipment - net - Note J
Goodwill
Intangibles
Other noncurrent assets

Total assets

LIABILITIES:

Current liabilities:

Accounts payable
Accounts payable to related parties - Note D
Payroll and benefits payable
Accrued taxes
Long-term debt due within one year

Total current liabilities

Long-term debt - Note L
Deferred income taxes - Note G
Employee benefits obligations - Note F
Deferred credits and other liabilities

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Total liabilities	
MEMBERS' CAPITAL (details on page 5)	
Members' contributed capital	
Retained earnings	
Accumulated other comprehensive loss	
Total members' capital	
Total liabilities and members' capital	\$

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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CONSOLIDATED STATEMENT OF CASH FLOWS (Dollars in Millions)

MARATHON ASHLAND PETROLEUM LLC AND SUBSIDIARIES

	Year End	
	2002	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
OPERATING ACTIVITIES:		
Net income	\$ 450	\$
Adjustments to reconcile to net cash provided from operating activities:		
Depreciation and amortization	365	
Inventory market valuation charges (credits)	(77)	
Pensions and other postretirement benefits	69	
Cumulative effect of change in accounting principle	--	
Deferred income taxes	1	
Net gains on disposal of assets	(40)	
Equity income from investees	(48)	
Distributions from investees	39	
Changes in:		
Current receivables	(105)	
Inventories	(45)	
Accounts payable and other current liabilities	434	
Receivables from/payables to related parties	39	
All other - net	2	

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Net cash provided from operating activities	1,084	
INVESTING ACTIVITIES:		
Capital expenditures	(611)	
Disposal of assets	89	
Loan transactions - principal loaned	(14)	
- principal collected	14	
Restricted cash - deposits	(79)	
- withdrawals	48	
Investments - contributions	(100)	
- loans and advances	--	
- returns and repayments	--	
Net cash used in investing activities	(653)	
FINANCING ACTIVITIES:		
Revolving credit facilities - borrowings - Note D	701	
- repayments - Note D	(701)	
Debt repayments	--	
Member distributions	(437)	
Net cash used in financing activities	(437)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6)	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	33	
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 27	\$

See Note M for supplemental cash flow information.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF MEMBERS' CAPITAL (Dollars in Millions)

MARATHON ASHLAND PETROLEUM LLC AND SUBSIDIARIES

Members' Capital			
Year Ended			
December 31			
2002	2001	2000	2002

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MEMBERS' CONTRIBUTED CAPITAL:

Balance at beginning of year	\$ 4,259	\$ 4,244	\$ 4,218	
Member contributions	26	15	26	
	-----	-----	-----	
Balance at end of year	4,285	4,259	4,244	
	-----	-----	-----	

RETAINED EARNINGS:

Balance at beginning of year	912	601	395	
Net income	450	1,836	1,310	\$ 450
Distributions to members	(420)	(1,525)	(1,104)	
	-----	-----	-----	
Balance at end of year	942	912	601	
	-----	-----	-----	

ACCUMULATED OTHER COMPREHENSIVE

LOSS:

Minimum pension liability adjustments:

Balance at beginning of year	(5)	(4)	--	
Changes during the year	(33)	(1)	(4)	(33)
	-----	-----	-----	
Balance at end of year	(38)	(5)	(4)	
	-----	-----	-----	

Deferred gains (losses) on derivative instruments:

Balance at beginning of year	--	--	--	
Cumulative effect adjustment	--	6	--	--
Reclassification of the cumulative effect adjustment into income	--	(6)	--	--
Changes in fair value	(3)	--	--	(3)
	-----	-----	-----	-----
Balance at end of year	(3)	--	--	
	-----	-----	-----	

TOTAL	(41)	(5)	(4)	\$ 414
	-----	-----	-----	=====

TOTAL MEMBERS' CAPITAL	\$ 5,186	\$ 5,166	\$ 4,841	
	=====	=====	=====	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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MARATHON ASHLAND PETROLEUM LLC AND SUBSIDIARIES

NOTE A - BUSINESS DESCRIPTION AND BASIS OF PRESENTATION

On December 12, 1997, Marathon Oil Company (Marathon), a wholly owned subsidiary of Marathon Oil Corporation (MOC), formerly USX Corporation, entered into an Asset Transfer and Contribution Agreement with Ashland Inc. (Ashland) providing for the formation of Marathon Ashland Petroleum LLC (MAP). Effective January 1, 1998, Marathon contributed substantially all of its refining, marketing and transportation (RM&T) operations to MAP. Also, on January 1, 1998, Marathon acquired certain RM&T net assets from Ashland in exchange for a 38 percent interest in MAP. The purchase price was determined to be \$1.9 billion, based upon an external valuation. The acquisition of Ashland's net assets was accounted for under the purchase method of accounting.

In connection with the formation of MAP, Marathon and Ashland entered into a Limited Liability Company Agreement (LLC Agreement) dated January 1, 1998. The LLC Agreement provides for an initial term expiring on December 31, 2022 (25 years from its formation). The term will automatically be extended for ten-year periods, unless a termination notice is given by either party.

Also in connection with the formation of MAP, the parties entered into a Put/Call, Registration Rights and Standstill Agreement (the Put/Call Agreement). The Put/Call Agreement provides that at any time after December 31, 2004, Ashland will have the right to sell to Marathon all of Ashland's ownership interest in MAP, for an amount in cash and/or Marathon or MOC debt or equity securities equal to the product of 85 percent (90 percent if equity securities are used) of the fair market value of MAP at that time, multiplied by Ashland's percentage interest in MAP. Payment could be made at closing, or at Marathon's option, in three equal annual installments, the first of which would be payable at closing. At any time after December 31, 2004, Marathon will have the right to purchase all of Ashland's ownership interests in MAP, for an amount in cash equal to the product of 115 percent of the fair market value of MAP at that time, multiplied by Ashland's percentage interest in MAP.

MAP is engaged in petroleum supply, refining, marketing & transportation operations and includes Speedway SuperAmerica LLC (SSA), a wholly owned subsidiary, which operates retail outlets for petroleum products and merchandise. In addition, MAP, through its wholly owned subsidiary, Marathon Ashland Pipe Line LLC, is actively engaged in the pipeline transportation of crude oil and petroleum products.

In 2002, 2001 and 2000, MAP recorded capital contributions from Marathon of \$3 million, \$2 million and \$2 million, respectively, and from Ashland of \$20 million, \$10 million and \$24 million, respectively, for environmental improvements. The LLC Agreement stipulates that ownership interest in MAP will not be adjusted as a result of such contributions. In 2002 and 2001, MAP recorded capital contributions of \$3 million and \$1 million, respectively, from Marathon, and in 2001, \$2 million from Ashland related to stock-based compensation expense which is allocated 100 percent to Marathon and Ashland, respectively.

NOTE B - SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

PRINCIPLES APPLIED IN CONSOLIDATION - The consolidated financial statements include the accounts of MAP and the majority-owned subsidiaries which it

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controls. Investments in undivided interest pipelines are consolidated on a pro rata basis. Investments in entities over which MAP has significant influence are accounted for using the equity method of accounting and are carried at MAP's share of net assets plus advances. Differences in the basis of the investment and the separate net asset value of the investee, if any, are amortized into income in accordance with the underlying remaining useful life of the associated assets. Investments in companies whose stocks have no readily determinable fair value are carried at cost.

Income from equity method investments represents MAP's proportionate share of income from equity method investments. Other income includes dividend income from other investments. Dividend income is recognized when dividend payments are received.

USE OF ESTIMATES - The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the year. Items subject to such estimates and assumptions include the carrying value of property, plant and equipment, goodwill, intangibles and equity method investments; valuation allowances for receivables and inventories; environmental remediation liabilities; liabilities for potential tax deficiencies and potential litigation claims and settlements; and assets and obligations related to employee benefits. Actual results could differ from the estimates and assumptions used.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE B - SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - CONTINUED

REVENUE RECOGNITION - Revenues are recognized generally when products are shipped or services are provided to customers and the sales price is fixed or determinable and collectibility is reasonably assured. Costs associated with revenues are recorded in cost of revenues.

Rebates from vendors are recognized as revenues when the initiating transaction occurs. Incentives that are derived from contractual provisions are accrued based on past experience and recognized within cost of revenues.

Matching buy/sell transactions settled in cash are recorded in both revenues and cost of revenues as separate sales and purchase transactions. During the years ended December 31, 2002, 2001 and 2000, matching buy/sell transactions were \$4,335 million, \$3,817 million and \$3,882 million, respectively.

CASH AND CASH EQUIVALENTS - Cash and cash equivalents include cash on hand and on deposit and investments with related parties in highly liquid debt instruments with maturities of three months or less. See Note D for information regarding investments with related parties.

INVENTORIES - Inventories are carried at lower of cost or market. Cost of inventories is determined primarily under the last-in, first-out (LIFO) method.

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The inventory market valuation reserve reflects the extent that the recorded LIFO cost basis of crude oil and refined products inventories exceeds net realizable value. The reserve is decreased to reflect increases in market prices and inventory turnover and increased to reflect decreases in market prices. Changes in the inventory market valuation reserve result in noncash charges or credits to costs and expenses.

DERIVATIVE INSTRUMENTS - MAP uses commodity-based derivative instruments to manage its exposure to commodity price risk. Management has authorized the use of futures, forwards, swaps and combinations of options related to the purchase or sale of crude oil, refined products and natural gas. Changes in the fair value of all derivatives are recognized immediately in income, within revenues or cost of revenues, unless the derivative qualifies as a hedge of future cash flows or certain foreign currency exposures. During 2002 and 2001, MAP did not elect to designate any derivatives as qualifying for hedge accounting treatment.

PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment are depreciated principally by the straight-line method over their estimated useful lives, which range from 3 to 42 years.

When property, plant and equipment depreciated on an individual basis are sold or otherwise disposed of, any gains or losses are reflected in income. Gains on disposal of property, plant and equipment are recognized when earned, which is generally at the time of closing. Included in net gains on disposal of assets are gains on the sale of SSA stores of \$37 million, \$23 million and \$25 million for 2002, 2001 and 2000, respectively. If a loss on disposal is expected, such losses are recognized when the assets are reclassified as held for sale. Proceeds from disposal of property, plant and equipment depreciated on a group basis are credited to accumulated depreciation and amortization with no immediate effect on income.

MAJOR MAINTENANCE ACTIVITIES - MAP incurs planned major maintenance costs primarily for refinery turnarounds. These types of costs include contractor repair services, materials and supplies, equipment rentals and company labor costs. Such costs are expensed in the same annual period as incurred; however, estimated annual turnaround costs are recognized in income throughout the year on a pro rata basis.

ENVIRONMENTAL LIABILITIES - Environmental expenditures are capitalized if the costs mitigate or prevent future contamination or if the costs improve existing assets' environmental safety or efficiency. MAP provides for remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs can be reasonably estimated. The timing of remediation accruals coincides with completion of a feasibility study or the commitment to a formal plan of action. Remediation liabilities are accrued based on estimates of known environmental exposure and are discounted when the estimated amounts are reasonably fixed and determinable. At December 31, 2002 and 2001, the portion of the environmental liability that was discounted was not material. If recoveries of remediation costs from third parties are probable, a receivable is recorded.

PENSIONS AND OTHER POSTRETIREMENT BENEFITS - MAP has a noncontributory defined benefit pension plan with two benefit payment formulas and several related excess benefit plans covering substantially all employees. Benefits under its final pay formula are based primarily upon age, years of service and the highest consecutive three years' earnings during the last ten years before

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE B - SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - CONTINUED

retirement. Benefits under its pension equity formula are based primarily upon age, years of service and the final three years of earnings at retirement. MAP also participates in a multiemployer plan that provides coverage for less than 5 percent of its employees, covering both pension and health care benefits.

MAP also has a retiree health plan covering most employees upon their retirement. Health benefits are provided through comprehensive hospital, surgical and major medical benefit provisions or through health maintenance organizations, subject to various cost sharing features. In addition, life insurance benefits are provided to certain nonunion and union represented employees primarily based on annual base salary at retirement. Retiree health and life insurance benefits (other benefits) have not been prefunded.

STOCK-BASED COMPENSATION - MAP applies the principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," to the stock-based compensation granted to MAP employees by Marathon, and MAP applies the principles of Statement of Financial Accounting Standards No. 123, "Accounting For Stock-Based Compensation," as interpreted by Emerging Issues Task Force Issue 96-18, "Accounting for Equity Instruments That Are Issued To Other Than Employees For Acquiring, Or In Conjunction With Selling, Goods Or Services," to the stock-based compensation granted to MAP employees by Ashland. The amounts of stock-based compensation recorded in selling, general and administrative expenses were \$3 million in 2002 and 2001. Marathon will adopt the Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," effective January 1, 2003; and the impact on MAP is expected to be immaterial.

INSURANCE - MAP is insured for catastrophic casualty and certain property and business interruption exposures, as well as those risks required to be insured by law or contract. Costs resulting from noninsured losses are charged against income upon occurrence.

INCOME TAXES - MAP is a limited liability company, and therefore, except for several small subsidiary corporations, is not subject to U.S. federal income taxes. Accordingly, the taxable income or loss resulting from operations of MAP is ultimately included in the U.S. federal income tax returns of MOC and Ashland. MAP is, however, subject to income taxes in certain state, local and foreign jurisdictions.

CONCENTRATION OF CREDIT RISK - MAP is exposed to credit risk in the event of nonpayment by counterparties, a significant portion of which are concentrated in energy related industries. The creditworthiness of customers and other counterparties is subject to continuing review, including the use of master netting agreements, where appropriate. No single customer accounts for more than 5 percent of annual gross revenues.

RECLASSIFICATIONS - Certain reclassifications of prior years' data have been made to conform to 2002 classifications.

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NOTE C - NEW ACCOUNTING STANDARDS

ADOPTED IN THE REPORTING PERIODS - Effective January 1, 2001, MAP adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended by SFAS Nos. 137 and 138. This statement requires recognition of all derivatives as either assets or liabilities at fair value. The transition adjustment related to adopting SFAS No. 133 on January 1, 2001, was recognized as a cumulative effect of change in accounting principle. The unfavorable cumulative effect on net income was \$20 million. The favorable cumulative effect included within Other Comprehensive Income (OCI) was \$6 million. A portion of the cumulative effect adjustment relating to the adoption of SFAS No. 133 was recognized in OCI which relates only to deferred gains or losses for hedge transactions as of December 31, 2000. A reconciliation of the changes in OCI relating to derivative instruments is included in the Statement of Members' Capital.

Effective January 1, 2002, MAP adopted the following Statements of Financial Accounting Standards:

- o No. 141, "Business Combinations" (SFAS No. 141),
- o No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), and
- o No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" (SFAS No. 144)

SFAS No. 141 requires that all business combinations initiated after June 30, 2001, be accounted for under the purchase method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE C - NEW ACCOUNTING STANDARDS - CONTINUED

SFAS No. 142 addresses the accounting for goodwill and other intangible assets after an acquisition. Effective January 1, 2002, MAP ceased amortization of existing goodwill, which results in a favorable impact on annual income of approximately \$2 million. MAP has completed the required transitional impairment test for existing goodwill as of the date of adoption. No impairment of goodwill was indicated.

SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and provides additional implementation guidance for assets to be held and used and assets to be disposed of other than by sale. For long-lived assets to be disposed of by sale, SFAS No. 144 broadens the definition of those disposals that should be reported separately as discontinued operations. The adoption of SFAS No. 144 had no initial effect on MAP's financial statements.

In late 2002 and early 2003, the FASB issued the following:

- o Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS No. 148),

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- o FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), and
- o FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46).

Each of these pronouncements required the immediate adoption of certain disclosure requirements, which have been reflected in these financial statements. The accounting requirements of these pronouncements will be adopted in future periods.

TO BE ADOPTED IN FUTURE PERIODS - In 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). This statement requires the fair value of an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated asset retirement costs is capitalized as part of the carrying amount of the long-lived asset.

While certain assets such as refineries, crude oil and product pipelines and marketing assets have retirement obligations covered by SFAS No. 143, those obligations are not expected to be recognized, since the fair value cannot be estimated due to the uncertainty of the settlement date of the obligation.

Effective January 1, 2003, MAP will adopt SFAS No. 143, as required. The cumulative effect on net income of adopting SFAS No. 143 is expected to be an unfavorable pretax effect of approximately \$2 million. At the time of adoption, total liabilities will increase approximately \$2 million. The amounts recognized upon adoption are based upon estimates and assumptions, including future retirement costs, future inflation rates, and the credit-adjusted risk-free interest rate. The impact on income in the near term is not expected to be material.

Effective for any guarantees issued or modified January 1, 2003 or after, FIN 45 requires the fair value measurement and recognition of a liability for the issuance of certain guarantees. Enhanced disclosure requirements will continue to apply to both new and existing guarantees subject to FIN 45. For details relating to financial guarantees, see Note Q.

FIN 46 identifies certain off-balance sheet arrangements that meet the definition of a variable interest entity (VIE). The primary beneficiary of a VIE is the party that is exposed to the majority of the risks and/or returns of the VIE. In future accounting periods, the primary beneficiary will be required to consolidate the VIE. In addition, more extensive disclosure requirements apply to the primary beneficiary, as well as other significant investors. MAP does not participate in any arrangements that are subject to the consolidation and disclosure requirements of FIN 46.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE D - RELATED PARTY TRANSACTIONS

Related parties include:

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- o Ashland and its affiliates.
- o MOC and its affiliates.
- o Equity method investees.

Management believes that transactions with related parties were conducted under terms comparable to those with unrelated parties.

Revenues from related parties were:

	Year -----
	2002 -----
Ashland and its affiliates	\$ 218
MOC and its affiliates	147
Equity investee:	
Pilot Travel Centers LLC (PTC)	645
Total	\$ 1,010 =====

Related party sales to Ashland and its affiliates and PTC consist primarily of refined petroleum products. Related party sales to MOC and its affiliates consist primarily of liquid hydrocarbons.

Purchases from related parties were:

	Year -----
	2002 -----
Ashland and its affiliates	\$ 33
MOC and its affiliates	782
Equity investees:	
PTC	15
Other	52
Total	\$ 882 =====

Related party purchases from Ashland and its affiliates consist primarily of refined petroleum products and the net amount of administrative services provided between the companies. Related party purchases from MOC and its affiliates consist primarily of crude oil, natural gas and refinery feedstocks and the net amount of administrative services provided between the companies. Related party purchases from PTC consist primarily of refined petroleum products and the purchases from other equity investees consist primarily of crude oil and refined product transportation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE D - RELATED PARTY TRANSACTIONS - CONTINUED

Receivables from related parties were:

Ashland and its affiliates
MOC and its affiliates
Equity investees:
 PTC
 Other

Total

Payables to related parties were:

Ashland and its affiliates
MOC and its affiliates
Equity investees

Total

As of December 31, 2002 and 2001, accounts payable to Ashland included a member distribution payable of less than \$1 million and \$17 million, respectively.

In connection with the formation of MAP, certain Marathon debt was assigned to MAP. Marathon agreed to reimburse MAP for this debt and related interest expense. During 2000, Marathon reimbursed MAP \$6 million for debt repayments. During 2002 and 2001, there were no debt repayment reimbursements from Marathon.

A revolving credit agreement was entered into as of January 1, 1998, among Ashland and Marathon (collectively the Lenders) and MAP. This agreement provides that the Lenders may loan to MAP up to \$500 million at defined short-term market rates. At December 31, 2002 and 2001, there were no borrowings against this facility. During 2002 and 2001, MAP borrowed and repaid \$701 million and \$294 million, respectively, under this revolving credit facility. The weighted average borrowings outstanding under this revolving credit facility during the years 2002 and 2001 were \$5 million and \$3 million, respectively. During the years ended December 31, 2002 and

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2001, interest paid to Marathon on these borrowings was less than \$1 million. Interest paid to Marathon for borrowings under this agreement was \$1 million for 2000. Interest paid to Ashland for borrowings under this agreement was less than \$1 million for 2002, 2001 and 2000. MAP is investigating alternatives for the replacement of this facility upon its expiration on March 15, 2003.

On November 16, 1998, MAP entered into agreements with MOC and Ashland, which allow MAP to invest its surplus cash balances on a daily basis at competitive interest rates with MOC and Ashland in proportion up to their ownership interests in MAP. These agreements, as previously extended, expired on March 15, 2002 and have been subsequently amended and extended with an expiration date of March 15, 2003. At December 31, 2002 and 2001, there was no cash invested under these agreements. During the years ended December 31, 2002, 2001 and 2000, interest income earned from these investments was less than \$1 million, \$2 million and \$6 million, respectively, from Ashland and \$2 million, \$1 million and \$7 million, respectively, from MOC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE E - OTHER ITEMS

	Ye

	2002

NET INTEREST AND OTHER FINANCING INCOME (COSTS):	
INTEREST AND OTHER FINANCIAL INCOME:	
Interest income - third parties	\$ 3
Interest income - related parties	2
Total	----- 5
INTEREST AND OTHER FINANCING COSTS:	
Interest incurred	2
Other	8
Total	----- 10
NET INTEREST AND OTHER FINANCING INCOME (COSTS)	\$ (5) =====

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE F - PENSIONS AND OTHER POSTRETIREMENT BENEFITS

	Pension Benefits	
	2002	2001
	-----	-----
CHANGE IN BENEFIT OBLIGATIONS:		
Benefit obligations at January 1	\$ 727	\$ 568
Service cost	49	40
Interest cost	47	42
Actuarial losses	49	130
Settlements, curtailments and termination benefits	--	(6)
Benefits paid	(41)	(47)
	-----	-----
Benefit obligations at December 31	\$ 831	\$ 727
	=====	=====
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at January 1	\$ 440	\$ 502
Actual return on plan assets	(43)	(17)
Benefits paid from plan assets	(41)	(45)
	-----	-----
Fair value of plan assets at December 31	\$ 356	\$ 440
	=====	=====
FUNDED STATUS OF PLANS AT DECEMBER 31	\$ (475) (a)	\$ (287) (a)
Unrecognized net gain from transition	(5)	(7)
Unrecognized prior service costs (credits)	22	24
Unrecognized actuarial losses	323	187
	-----	-----
Accrued benefit cost	\$ (135)	\$ (83)
	=====	=====
AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION:		
Accrued benefit liability	\$ (197)	\$ (88)
Intangible asset	24	--
Accumulated other comprehensive loss	38	5
	-----	-----
Accrued benefit cost	\$ (135)	\$ (83)
	=====	=====

(a) Following is information on plans that have accumulated benefit obligations in excess of plan assets:

	2002	2001
	-----	-----
Aggregate accumulated benefit obligations	\$ (553)	\$ (9)
Aggregate projected benefit obligations	(831)	(26)
Aggregate plan assets	356	--

Pension Benefits

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	(Millions)		
	2002	2001	2000
	-----	-----	-----
COMPONENTS OF NET PERIODIC BENEFIT COST:			
Service cost	\$ 49	\$ 40	\$ 36
Interest cost	47	42	38
Expected return on plan assets	(46)	(50)	(51)
Amortization - net transition gain	(2)	(2)	(2)
- prior service costs (credits)	2	2	2
- actuarial (gains) losses	3	1	(4)
Multiemployer and other plans	1	2	1
Settlement and termination (gain) loss	--	3	3
	-----	-----	-----
Net periodic benefit cost	\$ 54	\$ 38	\$ 23
	=====	=====	=====

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE F - PENSIONS AND OTHER POSTRETIREMENT BENEFITS - CONTINUED

WEIGHTED AVERAGE ACTUARIAL ASSUMPTIONS AT DECEMBER 31:	PENSION BENEFITS	
	2002	2001
	-----	-----
Discount rate	6.5%	7.0%
Expected annual return on plan assets	9.0%	9.5%
Increase in compensation rate	4.5%	5.0%

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. The rate was assumed to decrease gradually to 5 percent for 2012 and remain at that level thereafter.

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage Point Increase

Effect on total of service and interest cost components	\$ 5
Effect on postretirement benefit obligation	51

MAP is required to fund a cash contribution of approximately \$35 million to its pension plan in the third quarter 2003.

MAP also contributes to several defined contribution plans for salaried

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employees. Contributions to these plans, which for the most part are based on a percentage of the employees' salaries, totaled \$26 million, \$25 million and \$21 million in 2002, 2001 and 2000, respectively.

NOTE G - INCOME TAXES

The taxable income or loss resulting from operations of MAP, except for several small subsidiary corporations, is ultimately included in the federal income tax returns of MOC and Ashland. MAP is, however, subject to taxation in certain state, local and foreign jurisdictions.

Provisions for income taxes:

	Year Ended December 31					
	2002			(Millions) 2001		
	Current	Deferred	Total	Current	Deferred	Total
Federal	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
State and local	1	1	2	8	--	8
Foreign	1	--	1	1	--	1
	-----	-----	-----	-----	-----	-----
Total	\$ 2	\$ 1	\$ 3	\$ 9	\$ --	\$ 9
	=====	=====	=====	=====	=====	=====

Deferred tax liabilities at December 31, 2002 and 2001 of \$5 million and \$4 million, respectively, principally arise from differences between the book and tax basis of inventories and property, plant and equipment. Pretax income in 2002 included \$2 million attributable to foreign sources. Pretax income in 2001 and 2000 attributable to foreign sources was not material.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE H - INVENTORIES

Inventories consist of the following:

Liquid hydrocarbons
 Refined products and merchandise
 Supplies and sundry items

Total (at cost)
 Less inventory market valuation reserve

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Net inventory carrying value

The LIFO method accounted for 95 percent and 94 percent of total inventory at December 31, 2002 and 2001, respectively. Current acquisition costs were estimated to exceed the above inventory values at December 31, 2002, by approximately \$594 million. Cost of revenues was reduced and income from operations was increased by less than \$1 million in 2002 and \$17 million in 2001 as a result of liquidations of LIFO inventories.

NOTE I - INVESTMENTS AND LONG-TERM RECEIVABLES

Equity method investments
Receivables due after one year
Deposits of restricted cash

Total

Summarized financial information of investees accounted for by the equity method of accounting follows:

	Ye ----- 2002 -----
Income data - year:	
Revenues and other income	\$ 4,174
Operating income	153
Net income	98

Balance sheet data - December 31:

Current assets
Noncurrent assets
Current liabilities
Noncurrent liabilities

MAP's carrying value of its equity method investments is \$113 million lower than the underlying net assets of investees. This basis difference is being amortized into income over the lives of the underlying net assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE I - INVESTMENTS AND LONG-TERM RECEIVABLES - CONTINUED

Dividends and partnership distributions received from equity investees were \$39 million, \$31 million and \$25 million in 2002, 2001 and 2000, respectively.

Principal unconsolidated equity investees of MAP at December 31, 2002, are as follows:

Company -----	Ownership -----	Activity -----
Pilot Travel Centers LLC	50.0%	Travel centers
Minnesota Pipe Line Company	33.3%	Crude oil pipeline
LOOP LLC	46.7%	Offshore oil port
Southcap Pipe Line Company	21.6%	Crude oil pipeline
LOCAP LLC	49.9%	Crude oil pipeline
Centennial Pipeline LLC	33.3%	Refined products

Pilot Travel Centers LLC (PTC), a MAP joint venture with Pilot Corporation (Pilot), began operations on September 1, 2001. PTC is the largest operator of travel centers in the United States with about 225 locations in 34 states. The travel centers offer diesel fuel, gasoline and a variety of other services, including on-premises brand name restaurants. PTC provides MAP with the opportunity to participate in the travel center business on a nationwide basis. Pilot and MAP each own a 50 percent interest in PTC. PTC is accounted for under the equity method of accounting.

In March 2000, MAP, Panhandle Eastern Pipe Line Company, a subsidiary of CMS Energy Corporation, and TE Products Pipeline Company, Limited Partnership, formed a limited liability company with equal one-third ownership called Centennial Pipeline LLC (Centennial) to develop an interstate refined petroleum products pipeline extending from the U.S. Gulf of Mexico to the Midwest. Centennial began deliveries of refined products in April 2002. Centennial is accounted for under the equity method of accounting. See Note R.

NOTE J - PROPERTY, PLANT AND EQUIPMENT

Refining
Marketing
Transportation
Other

Total

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Less accumulated depreciation and amortization

Net

Property, plant and equipment at December 31, 2002 and 2001, includes gross assets acquired under capital leases of \$8 million and \$8 million, respectively, with related amounts in accumulated depreciation and amortization of \$1 million and \$1 million, respectively.

NOTE K - SHORT-TERM DEBT

MAP has a \$350 million short-term revolving credit facility that terminates in July 2003. Interest is based on defined short-term market rates. During the term of the agreement, MAP is required to pay a variable facility fee on total commitments, which at December 31, 2002 was 0.125 percent. There were no borrowings against this facility at December 31, 2002. This facility also provides for the issuance of letters of credit in aggregate amounts not to exceed \$75 million. A letter of credit of \$40 million was outstanding at December 31, 2002, which reduced the available credit to \$310 million. In the event that MAP defaults (as defined in the agreement) on indebtedness in excess of \$100 million, Marathon has guaranteed the payment of outstanding obligations. MAP is investigating alternatives for the replacement of this facility upon its expiration. Additionally, MAP has a \$500 million revolving credit agreement with Ashland and Marathon, as discussed in Note D. At December 31, 2002, there were no borrowings against this facility.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE L - LONG-TERM DEBT

Capital lease obligations
5% Promissory Note due 2009

Total (a)
Amounts due within one year

Long-term debt due after one year

(a) Required payments of long-term debt for the years 2004, 2005, 2006 and 2007 are \$1 million, \$1 million, \$1 million and \$1 million, respectively.

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NOTE M - SUPPLEMENTAL CASH FLOW INFORMATION

	2002

CASH PROVIDED FROM OPERATING ACTIVITIES INCLUDES:	
Interest and other financial costs paid	\$ (1)
Income taxes paid	(7)
NON-CASH INVESTING AND FINANCING ACTIVITIES:	
Notes received in asset disposal transactions	5
Net assets contributed to joint ventures	--
Member capital contributions	26

NOTE N - LEASES

Future minimum commitments for capital and operating leases having remaining noncancelable lease terms in excess of one year are as follows:

	Capital Leases	Operating Leases
	-----	-----
	(Millions)	
2003	\$ 1	\$ 65
2004	1	55
2005	1	29
2006	1	23
2007	1	7
Later years	3	37
Sublease rentals	--	(1)
	-----	-----
Total minimum lease payments	8	\$ 215
		=====
Less imputed interest costs	(2)	

Present value of net minimum lease payments included in long-term debt	\$ 6	

		=====

Operating lease rental expense:

	2002

Minimum rental	\$ 97
Contingent rental	13
Sublease rentals	(2)

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Net rental expense

\$ 108
=====

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE N - LEASES - CONTINUED

MAP leases a wide variety of facilities and equipment under operating leases, including land and building space, office equipment, production facilities and transportation equipment. Most long-term leases include renewal options and, in certain leases, purchase options.

NOTE O - DERIVATIVE INSTRUMENTS

The following table sets forth quantitative information by category of derivative instrument at December 31, 2002 and 2001. These amounts are reflected on a gross basis. The amounts exclude the variable margin deposit balances held in various brokerage accounts. MAP did not have any foreign currency contracts in place at December 31, 2002 or 2001.

	Year Ended D	
	----- (Millio	
	2002	
	Assets (a)	(Liabilities) (a)
	-----	-----
NON-HEDGE DESIGNATION:		
Exchange-traded commodity futures	\$ 9	\$ (46)
Exchange-traded commodity options	9	(11)
OTC commodity swaps	3	(5)
OTC commodity options	1	--
NONTRADITIONAL INSTRUMENTS (b)	53	(39)

(a) The fair value and carrying value of derivative instruments are the same. The fair value amounts for OTC positions are based on various indices or dealer quotes. The fair values of exchange-traded positions are based on market price changes for each commodity. MAP's consolidated balance sheet is reflected on a net asset/(liability) basis, as permitted by the master netting agreements, by brokerage firm.

(b) Nontraditional derivative instruments are created due to netting of physical receipts and delivery volumes with the same counterparty.

MAP recorded a net derivative loss of \$124 million in 2002, with a derivative loss of \$76 million recorded in cost of revenues and a

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derivative loss of \$48 million recorded in revenue. In 2001, MAP recorded a net derivative gain of \$209 million, with a derivative gain of \$226 million recorded in cost of revenues and a derivative loss of \$17 million recorded in revenues. In 2000, MAP recorded a derivative loss of \$205 million, with \$111 million recorded in cost of revenues and \$94 million recorded in revenues.

NOTE P - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of most financial instruments are based on historical costs. The carrying values of cash and cash equivalents, receivables, payables, long-term receivables and long-term debt approximate their fair value.

MAP's unrecognized financial instruments consist of financial guarantees and commitments to extend credit. For details relating to financial guarantees, see Note Q.

NOTE Q - CONTINGENCIES AND COMMITMENTS

MAP is the subject of, or party to, a number of pending or threatened legal actions, contingencies and commitments involving a variety of matters, including laws and regulations relating to the environment. Certain of these matters are discussed below. The ultimate resolution of these contingencies could, individually or in the aggregate, be material to the MAP financial statements. However, management believes that MAP will remain a viable and competitive enterprise even though it is possible that these contingencies could be resolved unfavorably.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE Q - CONTINGENCIES AND COMMITMENTS - CONTINUED

ENVIRONMENTAL MATTERS - MAP is subject to federal, state, local and foreign laws and regulations relating to the environment. These laws generally provide for control of pollutants released into the environment and require responsible parties to undertake remediation of hazardous waste disposal sites. Penalties may be imposed for noncompliance. Marathon and Ashland have retained the liabilities, subject to certain thresholds, for costs associated with remediating properties conveyed to MAP for conditions existing prior to January 1, 1998. The costs associated with these thresholds are not expected to be material to the MAP financial statements. At December 31, 2002 and 2001, MAP's accrued liabilities for remediation totaled \$14 million and \$13 million, respectively. It is not presently possible to estimate the ultimate amount of all remediation costs that might be incurred or the penalties that may be imposed. Receivables for recoverable costs from certain states, under programs to assist companies in clean up efforts related to underground storage tanks at retail marketing outlets, were \$9 million and \$7 million at December 31, 2002 and 2001, respectively.

MAP has made substantial capital expenditures to bring existing facilities into compliance with various laws relating to the environment. In 2002,

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2001 and 2000, such capital expenditures for environmental controls totaled \$119 million, \$79 million and \$47 million, respectively. MAP anticipates making additional such expenditures in the future; however, the exact amounts and timing of such expenditures are uncertain because of the continuing evolution of specific regulatory requirements.

On May 11, 2001, MAP entered into a consent decree with the U.S. Environmental Protection Agency which commits it to complete certain agreed upon environmental projects over an eight-year period primarily aimed at reducing air emissions at its seven refineries. The court approved this consent decree on August 28, 2001. The total one-time expenditures for these environmental projects is approximately \$360 million over the eight year period, with about \$230 million remaining over the next six years. In addition, MAP has nearly completed certain agreed upon supplemental environmental projects as part of this settlement of an enforcement action for alleged Clean Air Act violations, at a cost of \$9 million. MAP believes that this settlement will provide MAP with increased permitting and operating flexibility while achieving significant emission reductions.

GUARANTEES - MAP has issued the following guarantees:

	Term
Indebtness of equity investees:	
LOCAP commercial paper (a)	Perpetual-Loan Balance Varies
LOOP Series 1986 Notes (a)	2006
LOOP Series E Notes (a)	2003-2010
LOOP Series 1991A Notes (a)	2008
LOOP Series 1991B Notes (a)	2003-2008
LOOP Series 1992A Notes (a)	2008
LOOP Series 1992B Notes (a)	2003-2004
LOOP Series 1997 Notes (a)	2017
LOOP revolving credit agreement (a)	Perpetual-Loan Balance Varies
Centennial Pipeline Notes (b)	2008-2024
Centennial Pipeline revolving credit agreement (b)	2004-Loan Balance Varies
Southcap Pipe Line revolving credit agreement (a)	Perpetual-Loan Balance Varies
Other:	
Centennial Pipeline catastrophic event (c)	Indefinite
Mobile transportation equipment leases (d)	2003-2008
PTC workers' compensation (e)	Indefinite

Total maximum potential undiscounted payments

- (a) MAP holds interests in several pipelines and a storage facility that have secured various project financings with throughput and deficiency (T&D) agreements. A T&D agreement creates a potential obligation to advance funds to the pipeline or storage facility in the event of a cash shortfall. When these rights are assigned to a lender to secure financing, the T&D is considered to be an indirect guarantee of indebtedness. Under the agreements, MAP is required to advance funds if the investees are unable to service debt. Any such advances are considered prepayments of future transportation charges.

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- (b) MAP holds an interest in Centennial and has guaranteed the repayment of the outstanding balance under the Master Shelf Agreement and Revolver. The guarantee arose in order to obtain adequate financing. Prior to expiration of the guarantee, MAP could be relinquished from responsibility under the guarantee should Centennial meet certain financial tests.
- (c) The agreement between Centennial and its members requires that each member contribute cash in the event of third-party liability arising from a catastrophic event. Each member is to contribute cash in proportion to its ownership interest, up to a maximum amount of \$33 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE Q - CONTINGENCIES AND COMMITMENTS - CONTINUED

- (d) MAP has entered into various operating leases of trucks and trailers to be used primarily for the transporting of refined products. These leases contain terminal rental adjustment clauses which provide that MAP will indemnify the lessor to the extent that the proceeds from the sale of the asset at the end of the lease falls short of the specified maximum percent of original value.
- (e) MAP has guarantees to the states of Tennessee and Kentucky which allow for PTC to operate as a self-insurer under the provisions of the applicable workers' compensation laws. These guarantees arose during the formation of PTC and guarantee the payment by PTC of valid claims for compensation made under the workers' compensation laws. Due to the remote and contingent nature of these guarantees, the maximum potential undiscounted payments are not determinable.

COMMITMENTS - At December 31, 2002 and 2001, MAP's contract commitments for capital expenditures for property, plant and equipment totaled \$86 and \$87 million, respectively.

In May 2001, MAP entered into a Transportation Agreement with Centennial in which MAP guarantees to ship certain volumes on the Centennial system or make deficiency payments for any volume shortfall. Any deficiency payment made by MAP will be treated as a prepayment of future transportation charges.

PUT/CALL AGREEMENT - As part of the formation of PTC, MAP and Pilot entered into a Put/Call and Registration Rights Agreement (Agreement). The Agreement provides that any time after September 1, 2008, Pilot can sell its interest in PTC to MAP for an amount of cash and/or MOC, MAP or Ashland equity securities equal to the product of 90 percent (95 percent if paid in securities) of the fair market value of PTC at the time multiplied by Pilot's percentage interest in PTC. At any time after September 1, 2011, under certain conditions MAP will have the right to purchase Pilot's interest in PTC for an amount of cash and/or MOC, MAP or Ashland equity securities equal to the product of 105 percent (110 percent if paid in securities) of the fair market value of PTC at the time multiplied by Pilot's percentage interest in PTC.

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NOTE R - SUBSEQUENT EVENTS

On February 7, 2003, MAP, through SSA, announced the signing of a definitive agreement to sell all 193 of its convenience stores located in Florida, South Carolina, North Carolina and Georgia for \$140 million plus store inventory. The transaction is anticipated to close in the second quarter of 2003, subject to any necessary regulatory approvals and customary closing conditions.

On February 10, 2003, MAP increased its ownership in Centennial from 33.3 percent to 50 percent. MAP paid \$20 million for the increased ownership interest. As of February 10, 2003, Centennial is owned 50 percent each by MAP and TE Products Pipeline Company, Limited Partnership.

In February 2003, MAP's 50 percent owned PTC purchased 60 retail travel centers including fuel inventory, merchandise and supplies. The 60 locations are in 15 states, primarily in the Midwest, Southeast and the Southwest regions of the country.