

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1995

Commission file number 1-2918

ASHLAND INC.  
(a Kentucky corporation)

I.R.S. No. 61-0122250  
1000 Ashland Drive  
Russell, Kentucky 41169

Telephone Number: (606) 329-3333

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

At January 31, 1996, there were 63,808,373 shares of Registrant's Common Stock outstanding. One-half of one Right to purchase one-tenth of a share of Cumulative Preferred Stock, Series of 1987 accompanies each outstanding share of Registrant's Common Stock.

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PART I - FINANCIAL INFORMATION

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ASHLAND INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED INCOME

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(In millions except per share data)	Three months ended December 31	
	1995	1994(1)
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REVENUES		
Sales and operating revenues (including excise taxes)	\$ 3,079	\$ 2,924
Other	94(2)	15
	-----	-----
	3,173	2,939
COSTS AND EXPENSES		
Cost of sales and operating expenses	2,350	2,213
Excise taxes on products and merchandise	238	244
Selling, general and administrative expenses	289	272
Depreciation, depletion and amortization	98	94
General corporate expenses	23	25
	-----	-----
	2,998	2,848
	-----	-----
OPERATING INCOME	175	91
OTHER INCOME (EXPENSE)		

Interest expense (net of interest income)	(43)	(38)
Equity income	4	6
	-----	-----
INCOME BEFORE INCOME TAXES	136	59
Income taxes	(44)	(16)
Minority interest in earnings of subsidiaries	(5)	(8)
	-----	-----
NET INCOME	87 (2)	35
Dividends on convertible preferred stock	(5)	(5)
	-----	-----
INCOME AVAILABLE TO COMMON SHARES	\$ 82	\$ 30
	=====	=====
EARNINGS PER SHARE - Note E		
Primary	\$ 1.29 (2)	\$ .50
Assuming full dilution	\$ 1.16	\$ .50
DIVIDENDS PAID PER COMMON SHARE	\$ .275	\$ .275

- (1) Amounts have been restated to reflect the consolidation of Ashland Coal, Inc. (see Note D).
- (2) Includes a gain of \$73 million (\$48 million or 74 cents a share after income taxes) resulting from the settlement of Ashland Exploration's claims in the bankruptcy reorganization of Columbia Gas Transmission and Columbia Gas Systems.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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ASHLAND INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
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(In millions)	December 31 1995	September 30 1995	December 31 1994 (1)
ASSETS			
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CURRENT ASSETS			
Cash and cash equivalents	\$ 62	\$ 52	\$ 57
Accounts receivable	1,591	1,600	1,430
Allowance for doubtful accounts	(25)	(25)	(21)
Construction completed and in progress	26	42	31
Inventories - Note B	791	726	729
Deferred income taxes	89	90	67
Other current assets	105	90	92
	-----	-----	-----
	2,639	2,575	2,385
INVESTMENTS AND OTHER ASSETS			
Investments in and advances to unconsolidated affiliates	147	145	154
Investments of captive insurance companies	200	192	182
Cost in excess of net assets of companies acquired	106	107	81
Other noncurrent assets	392	403	409
	-----	-----	-----
	845	847	826
PROPERTY, PLANT AND EQUIPMENT			
Cost	7,125	7,078	6,809
Accumulated depreciation, depletion and amortization	(3,574)	(3,508)	(3,374)
	-----	-----	-----
	3,551	3,570	3,435
	-----	-----	-----
	\$ 7,035	\$ 6,992	\$ 6,646
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
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CURRENT LIABILITIES			
Debt due within one year	\$ 279	\$ 272	\$ 267
Trade and other payables	1,741	1,778	1,579
Income taxes	75	44	45
	-----	-----	-----
	2,095	2,094	1,891
NONCURRENT LIABILITIES			
Long-term debt (less current portion)	1,781	1,828	1,614
Employee benefit obligations	622	613	599
Reserves of captive insurance companies	177	169	179
Deferred income taxes	41	49	66
Other long-term liabilities and deferred credits	413	405	452
Commitments and contingencies - Note C			
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	3,034	3,064	2,910
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES			
	178	179	226
STOCKHOLDERS' EQUITY			
Convertible preferred stock	293	293	293
Common stockholders' equity	1,435	1,362	1,326
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	1,728	1,655	1,619
	-----	-----	-----

\$ 7,035	\$ 6,992	\$ 6,646
=====	=====	=====

(1) Amounts have been restated to reflect the consolidation of Ashland Coal, Inc. (see Note D).

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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ASHLAND INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY  
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(In millions)	Common stock	Paid-in capital	Retained earnings	Loan to leveraged employee stock ownership plan (LESOP)	Other	Total
BALANCE AT OCTOBER 1, 1994	\$ 61	\$ 159	\$ 1,126	\$ (33)	\$ (11)	\$ 1,302
Net income			35			35
Dividends						
Preferred stock			(5)			(5)
Common stock			(16)			(16)
Issued common stock under stock incentive plans		3				3
LESOP loan repayment				8		8
Other changes					(1)	(1)
BALANCE AT DECEMBER 31, 1994	\$ 61	\$ 162	\$ 1,140	\$ (25)	\$ (12)	\$ 1,326
	=====	=====	=====	=====	=====	=====
BALANCE AT OCTOBER 1, 1995	\$ 64	\$ 256	\$ 1,063	\$ (11)	\$ (10)	\$ 1,362
Net income			87			87
Dividends						
Preferred stock			(5)			(5)
Common stock			(17)			(17)
Issued common stock under stock incentive plans		2				2
LESOP loan repayment				3		3
Other changes					3	3
BALANCE AT DECEMBER 31, 1995	\$ 64	\$ 258	\$ 1,128	\$ (8)	\$ (7)	\$ 1,435
	=====	=====	=====	=====	=====	=====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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ASHLAND INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED CASH FLOWS  
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(In millions)	Three months ended December 31	
	1995	1994 (1)
CASH FLOWS FROM OPERATIONS		
Net income	\$ 87	\$ 35
Expense (income) not affecting cash		
Depreciation, depletion and amortization (2)	101	97
Deferred income taxes	(9)	10
Other noncash items	10	-
Change in operating assets and liabilities (3)	(27)	(38)
	162	104
CASH FLOWS FROM FINANCING		
Proceeds from issuance of long-term debt	1	63
Proceeds from issuance of capital stock	1	1
Loan repayment from leveraged employee stock ownership plan	3	8
Repayment of long-term debt	(16)	(11)
Increase (decrease) in short-term debt	(25)	41
Dividends paid	(23)	(23)
	(59)	79
CASH FLOWS FROM INVESTMENT		
Additions to property, plant and equipment	(74)	(117)
Purchase of operations - net of cash acquired	(17)	(54)
Proceeds from sale of operations	1	2
Investment purchases (4)	(117)	(63)
Investment sales and maturities (4)	114	63
Other-net	-	3
	(93)	(166)
INCREASE IN CASH AND CASH EQUIVALENTS	10	17
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	52	40
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 62	\$ 57
	=====	=====

(1) Amounts have been restated to reflect the consolidation of Ashland Coal, Inc. (see Note D).

(2) Includes amounts charged to general corporate expenses.

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

(4) Represents primarily investment transactions of captive insurance companies.

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 ASHLAND INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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## NOTE A - GENERAL

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations, but are subject to any year-end audit adjustments which may be necessary. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with Ashland's Annual Report on Form 10-K for the fiscal year ended September 30, 1995. Results of operations for the period ended December 31, 1995, are not necessarily indicative of results to be expected for the year ending September 30, 1996.

## NOTE B - INVENTORIES

(In millions)	December 31 1995	September 30 1995	December 31 1994
Crude oil	\$ 318	\$ 285	\$ 254
Petroleum products	331	284	300
Chemicals and other products	505	491	490
Materials and supplies	69	66	62
Excess of replacement costs over LIFO carrying values	(432)	(400)	(377)
	<u>\$ 791</u>	<u>\$ 726</u>	<u>\$ 729</u>

## NOTE C - LITIGATION, CLAIMS AND CONTINGENCIES

Federal, state and local statutes and regulations relating to the protection of the environment have a significant impact on the conduct of Ashland's businesses. For information regarding environmental expenditures and reserves, see the "Miscellaneous - Governmental Regulation and Action - Environmental Protection" section of Ashland's Form 10-K.

Environmental reserves are subject to considerable uncertainties which affect Ashland's ability to estimate its share of the ultimate costs of required remediation efforts. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology, and the number and financial strength of other potentially responsible parties at multiparty sites. As a result, charges to income for environmental liabilities could have a material effect on results of operations in a particular quarter or fiscal year as assessments and remediation efforts proceed or as new remediation sites are identified. However, such charges are not expected to have a material adverse effect on Ashland's consolidated financial position.

Ashland has numerous insurance policies that provide coverage at various levels for environmental costs. Ashland is currently involved in negotiations concerning the amount of insurance coverage for environmental costs under some of these policies. In addition, various costs of remediation efforts related to underground storage tanks are eligible for reimbursement from state administered funds. Probable recoveries related to certain costs incurred or expected to be incurred in future years are included in other noncurrent assets.

In addition, Ashland and its subsidiaries are parties to numerous claims and lawsuits (some of which are for substantial amounts). While these actions are being contested, the outcome of individual

matters is not predictable with assurance. Although any actual liability is not determinable as of December 31, 1995, Ashland believes that any liability resulting from these matters, after taking into consideration Ashland's insurance coverages and amounts already provided for, should not have a material adverse effect on Ashland's consolidated financial position.

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 ASHLAND INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE D - ACQUISITIONS

During the three months ended December 31, 1995, Ashland acquired a chemical distribution business and certain oil and gas producing properties. These acquisitions were accounted for as purchases and did not have a significant effect on Ashland's consolidated financial statements.

In February 1995, Ashland purchased from Saarbergwerke AG all of Ashland Coal's Class B Preferred Stock for \$110 million, representing about 15 percent of Ashland Coal's voting stock. The purchase increased Ashland's ownership of Ashland Coal from 39 percent to 54 percent. As a result of this transaction, Ashland Coal was consolidated into Ashland's financial statements retroactive to October 1, 1994. Ashland's investment in Ashland Coal previously had been accounted for on the equity method. Amounts for the quarter ended December 31, 1994, have been restated accordingly.

NOTE E - COMPUTATION OF EARNINGS PER SHARE

(In millions except per share data)	Three months ended December 31	
	1995	1994
-----		
PRIMARY EARNINGS PER SHARE		
Income available to common shares		
Net income	\$ 87	\$ 35
Dividends on convertible preferred stock	(5)	(5)
	-----	-----
	\$ 82	\$ 30
	=====	=====
Average common shares and equivalents outstanding	64	61
	-----	-----
Earnings per share	\$ 1.29	\$ .50
	=====	=====
-----		
EARNINGS PER SHARE		
ASSUMING FULL DILUTION		
Income available to common shares		
Net income	\$ 87	\$ 35
Dividends on convertible preferred stock	-	(5)
Interest on convertible debentures (net of income taxes)	1	-
	-----	-----
	\$ 88	\$ 30
	=====	=====
Average common shares and equivalents outstanding		
Average common shares outstanding	64	61
Common shares issuable upon		
Conversion of debentures	3	-
Conversion of preferred stock	9	-
	-----	-----
	76	61
	=====	=====
Earnings per share	\$ 1.16	\$ .50
	=====	=====

(Dollars in millions except as noted)	1995	1994
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SALES AND OPERATING REVENUES		
Petroleum	\$ 1,232	\$ 1,229
SuperAmerica	456	442
Valvoline	275	268
Chemical	886	818
APAC	329	274
Coal	164	156
Exploration	56	48
Intersegment sales	(319)	(311)
	-----	-----
	\$ 3,079	\$ 2,924
	=====	=====
OPERATING INCOME		
Petroleum	\$ 18	\$ 2
SuperAmerica	11	18
Valvoline	12	9
	-----	-----
Total Refining and Marketing Group	41	29
Chemical	38	47
APAC	23	20
Coal	17	20
Exploration	79	-
General corporate expenses	(23)	(25)
	-----	-----
	\$ 175	\$ 91
	=====	=====
EQUITY INCOME		
Arch Mineral Corporation	\$ 2	\$ 3
Other	2	3
	-----	-----
	\$ 4	\$ 6
	=====	=====
OPERATING INFORMATION		
Petroleum		
Product sales (thousand barrels per day) (1)	387.0	360.0
Refining inputs (thousand barrels per day) (2)	378.2	321.9
Value of products manufactured per barrel	\$ 22.05	\$ 21.45
Input cost per barrel	18.00	17.55
	-----	-----
Refining margin per barrel	\$ 4.05	\$ 3.90
SuperAmerica		
Product sales (thousand barrels per day)	75.3	72.5
Merchandise sales	\$ 139	\$ 132
Valvoline lubricant sales (thousand barrels per day) (1)	20.1	17.6
APAC construction backlog		
At end of period	\$ 616	\$ 523
Decrease during period	\$ (56)	\$ (31)
Ashland Coal, Inc. (3)		
Tons sold (millions)	6.0	5.5
Sales price per ton	\$ 27.32	\$ 28.46
Arch Mineral Corporation (3)		
Tons sold (millions)	6.9	7.4
Sales price per ton	\$ 25.85	\$ 26.84
Exploration		
Net daily production		
Natural gas (million cubic feet) (1)	111.0	88.9
Nigerian crude oil (thousand barrels)	18.2	19.4
Sales price		
Natural gas (per thousand cubic feet)	\$ 2.18	\$ 1.86
Nigerian crude oil (per barrel)	\$ 16.21	\$ 15.85

(1) Includes intersegment sales.

(2) Includes crude oil and other purchased feedstocks.

(3) Ashland's ownership interest is 55% in Ashland Coal and 50% in Arch Mineral.

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

## RESULTS OF OPERATIONS

Ashland recorded net income of \$87 million for the first quarter of fiscal 1996, compared to \$35 million for the first quarter of fiscal 1995. Operating income for the current quarter totaled \$175 million, compared to \$91 million for last year's December quarter. Results for the quarter just ended included operating income of \$73 million (\$48 million after income taxes) from the settlement of Ashland Exploration's claims in the bankruptcy reorganization of Columbia Gas Transmission and Columbia Gas Systems. Excluding this unusual item, net income increased 13%, reflecting mixed operating results. In addition to improved earnings from Ashland Exploration, Valvoline and APAC, Ashland Petroleum reported a substantial increase in operating income this quarter. These positive comparisons were partially offset by reduced earnings from Ashland Chemical, SuperAmerica and Ashland Coal, as well as higher interest costs.

## PETROLEUM

Operating income for Ashland Petroleum totaled \$18 million for the quarter ended December 31, 1995, compared to \$2 million for the

same period last year. The improvement in earnings reflected an increase in the refining margin (the difference between the value of products manufactured and input cost), higher production and sales volumes, and a decrease in per barrel refining expenses. The refining margin averaged \$4.05 a barrel for the first quarter of fiscal 1996, up from last year's first quarter average of \$3.90 a barrel, despite an increase of 45 cents a barrel in crude oil and other input costs. Monthly throughput records were set at each of the three refineries, while total throughput averaged 378,200 barrels a day. This represents a 17% improvement compared to the December 1994 quarter, reflecting a general maintenance turnaround at the Canton, Ohio refinery last year, as well as increased refining capacity resulting from prior investments and other efficiency measures. Refining expenses declined 34 cents a barrel when compared to the same quarter last year, due to the increase in throughputs and Ashland Petroleum's ongoing efforts to cut costs and improve efficiency.

Current conditions in the refining industry are favorable as gasoline demand remains strong and inventories of gasoline and distillate are low. Consequently, Ashland Petroleum should benefit in fiscal 1996 from these favorable industry conditions and its improved competitive position.

#### SUPERAMERICA

SuperAmerica reported operating income of \$11 million for the quarter ended December 31, 1995, compared to \$18 million for the same period last year. The decrease in earnings reflected a decline in gasoline margins, combined with higher labor and training costs associated with new store openings and a tight labor market. These unfavorable comparisons were partially offset by higher gasoline and merchandise volumes, resulting from the increase in the number of stores in operation this year. In addition, merchandise margins were up slightly in the current quarter. At December 31, 1995, 616 SuperAmerica stores were in operation, compared to 602 stores at December 31, 1994. During the current quarter, 9 new SuperAmerica stores were opened. Also, 4 Rich outlets were opened in the quarter, bringing the total stores in operation to 99 at December 31, 1995.

#### VALVOLINE

For the three months ended December 31, 1995, Valvoline's operating income totaled \$12 million, compared to last year's first quarter earnings of \$9 million. Valvoline's emphasis on new marketing initiatives and cost-control efforts have aided its recovery from problems experienced during the last half of fiscal 1995. The increase in earnings from last year's first quarter included improved results from most of Valvoline's product lines. An increase in operating income from the lubricant business resulted from higher sales volumes and margins, while improved results from First Recovery, Valvoline's used motor oil collection business, reflected a strengthened market for used oils. Also, Valvoline Instant Oil Change reported record earnings, reflecting higher average car counts and ticket prices, combined with an increase in the number of company-operated quick-lube outlets from 356 at December 31, 1994, to 368 at December 31, 1995.

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ASHLAND INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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#### CHEMICAL

Ashland Chemical's operating income for the first quarter of fiscal 1996 was \$38 million, representing the second best December quarter in its history. However, these results were down from last year's record first quarter earnings of \$47 million, due primarily to the exceptionally strong methanol market last year. Partially offsetting such decline, the distribution and specialty chemical

groups reported record first quarter earnings. Volumes were up in all of the distribution businesses, while the composite polymers business, a division of the specialty chemicals group, benefited from improved margins due to raw material price reductions.

#### APAC

APAC's construction operations also reported its second best December quarter, with earnings of \$23 million for the three months ended December 31, 1995. When compared to last year's first quarter earnings of \$20 million, operating income improved 14%, as record revenues were generated in the current quarter by capitalizing on a strong year-end backlog. Backlog at December 31, 1995, totaled \$616 million, compared to \$523 million at December 31, 1994. With a strong first quarter and an 18% increase in backlog at December 31, the construction operations are well positioned for the spring construction season.

#### COAL

Ashland Coal reported operating income of \$17 million for the quarter ended December 31, 1995, compared to \$20 million for the same period last year. Record coal sales volumes and a decline in the average cost of coal sold in the current quarter substantially offset the effect of the decrease in the average selling price from the December 1994 quarter. Ashland Coal's average selling price declined from the 1994 level due to the expiration of a sales contract at the end of 1994 and other contract changes, and because of weakness in the markets for coal during 1995. The average selling price is expected to decline again in 1996 due to the expiration of several high-priced, high-volume sales contracts at the end of calendar 1995 and price reopeners under other contracts. Ashland Coal expects its results for calendar 1996 to be materially adversely affected by these factors. Ashland Coal also expects cost reduction initiatives now underway to partially offset the impact of these developments in 1996 and to have even greater positive effects in calendar 1997.

#### EXPLORATION

For the first quarter of fiscal 1996, Ashland Exploration reported income of \$79 million, compared to near break-even results for the same period last year. As noted earlier, results for the current quarter included operating income of \$73 million from the settlement of Ashland Exploration's claims in the bankruptcy reorganization of Columbia Gas Transmission and Columbia Gas Systems. A 25% increase in natural gas production and a 32 cent increase in the average price per thousand cubic feet also contributed to the improvement in operating income. Natural gas production averaged 111 million cubic feet a day, reflecting in part last year's acquisitions of additional producing properties in Appalachia.

#### OTHER INCOME (EXPENSE)

Interest expense for the quarter ended December 31, 1995, increased \$5 million when compared to the same period last year, reflecting higher average outstanding balances for long-term debt.

Ashland recorded equity income of \$2 million from Arch Mineral for the current quarter, compared to \$3 million for the three months ended December 31, 1994. Although down from last year's quarter, results from Arch Mineral returned to profitability after consecutive quarters of equity losses in the second half of fiscal 1995. Cost reductions and last year's restructuring of operations contributed to the improvement. The decrease in earnings from last year's quarter was due primarily to lower production and sales volumes. Weak spot markets for the Wyoming and Illinois operations and higher overburden ratios at Arch of West Virginia contributed to the reduction in earnings.



## FINANCIAL POSITION

### LIQUIDITY

Ashland's financial position has enabled it to obtain capital for its financing needs and maintain investment grade ratings on its senior debt of Baal from Moody's and BBB from Standard & Poor's. Ashland has revolving credit agreements providing for up to \$370 million in borrowings, none of which were in use at December 31, 1995. In addition, Ashland Coal has revolving credit agreements providing for up to \$500 million in borrowings, of which \$30 million was in use at December 31, 1995. At that date, Ashland could issue an additional \$154 million in medium-term notes under a shelf registration should future opportunities or needs arise. Ashland and Ashland Coal also have access to various uncommitted lines of credit and commercial paper markets, and had short-term notes and commercial paper of \$146 million outstanding at December 31, 1995. While certain debt agreements contain covenants restricting the amount by which Ashland can increase its indebtedness, such indebtedness could have been increased by up to \$1.22 billion at December 31, 1995.

Cash and cash equivalents at December 31, 1995, were \$62 million, compared to \$52 million at September 30, 1995. Cash flows from operations, a major source of Ashland's liquidity, amounted to \$162 million for the three months ended December 31, 1995, compared to \$104 million for the three months ended December 31, 1994. This increase resulted from the proceeds Ashland received from the bankruptcy settlement previously discussed.

Working capital at December 31, 1995, was \$544 million, compared to \$481 million at September 30, 1995, and \$494 at December 31, 1994. Liquid assets (cash, cash equivalents and accounts receivable) amounted to 78% of current liabilities at December 31, 1995, and September 30, 1995. Ashland's working capital is significantly affected by its use of the LIFO method of inventory valuation, which valued such inventories at \$432 million below their replacement costs at December 31, 1995.

### CAPITAL RESOURCES

For the three months ended December 31, 1995, property additions amounted to \$74 million, compared to \$117 million for the same period last year. Property additions (including exploration costs and geophysical expenses) and cash dividends for the remainder of fiscal 1996 are estimated at \$474 million and \$71 million, respectively. Ashland anticipates meeting its remaining 1996 capital requirements for property additions and dividends from internally generated funds. However, external financing may be necessary to provide funds for the remaining contractual maturities of \$56 million for long-term debt or for acquisitions.

Ashland's capital employed at December 31, 1995, consisted of debt (51%), deferred income taxes (1%), minority interest (5%), convertible preferred stock (7%), and common stockholders' equity (36%). Debt as a percent of capital employed was 51% at December 31, 1995, compared to 53% at September 30, 1995. At December 31, 1995, long-term debt included \$64 million of floating-rate debt, and the interest rates on an additional \$465 million of fixed-rate debt were converted to floating rates through interest rate swap agreements. As a result, future interest costs will fluctuate based on short-term interest rates in 1996 on \$529 million of Ashland's consolidated long-term debt, as well as on any short-term notes and commercial paper.

At December 31, 1995, Ashland could issue up to an additional \$49 million in common stock under a shelf registration. During the quarter ended December 31, 1995, no shares were issued under this registration.

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## ENVIRONMENTAL MATTERS

Federal, state and local laws and regulations relating to the protection of the environment have resulted in higher operating costs and capital investments by the industries in which Ashland operates. Because of the continuing trends toward greater environmental awareness and increasing regulations, Ashland believes that expenditures for environmental compliance will continue to have a significant effect on the conduct of its businesses. Although it cannot accurately predict how these developments will affect future operations and earnings, Ashland believes the nature and significance of its costs will be comparable to those of its competitors in the petroleum, chemical and extractive industries. For information regarding environmental expenditures and reserves, see the "Miscellaneous - Governmental Regulation and Action - Environmental Protection" section of Ashland's Form 10-K.

Environmental reserves are subject to considerable uncertainties which affect Ashland's ability to estimate its share of the ultimate costs of required remediation efforts. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology, and the number and financial strength of other potentially responsible parties at multiparty sites. As a result, charges to income for environmental liabilities could have a material effect on results of operations in a particular quarter or fiscal year as assessments and remediation efforts proceed or as new remediation sites are identified. However, such charges are not expected to have a material adverse effect on Ashland's consolidated financial position, cash flow or liquidity.

## PART II - OTHER INFORMATION

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### ITEM 1. LEGAL PROCEEDINGS

Environmental Proceedings - (1) As of September 30, 1995, Ashland was subject to 84 notices received from the USEPA identifying Ashland as a "potentially responsible party" ("PRP") under Superfund for potential joint and several liability for cleanup costs in connection with alleged releases of hazardous substances from various waste treatment or disposal sites. These sites are currently subject to ongoing investigation and remedial activities, overseen by the USEPA in accordance with procedures established under Superfund regulations, in which Ashland may be participating as a member of various PRP groups. Generally, the type of relief sought by the USEPA includes remediation of contaminated soil and/or groundwater, reimbursement for the costs of site cleanup or oversight expended by the USEPA, and/or long-term monitoring of environmental conditions at the sites. Ashland also receives notices from state environmental agencies pursuant to similar state legislation. Ashland carefully monitors the investigatory and remedial activity at many of these sites. Based on its experience with site remediation, its familiarity with current environmental laws and regulations, its analysis of the specific hazardous substances at issue, the existence of other financially viable PRPs and its current estimates of investigatory, clean-up and monitoring costs at each site, Ashland believes that its liability at these sites, either individually or in the aggregate, after taking into account established reserves, will not have a material adverse effect on Ashland's consolidated financial position, cash flow or liquidity but could have a material adverse effect on results of operations in a particular quarter or fiscal year. Estimated costs for these matters are recognized in accordance with generally accepted accounting principles governing probability and the ability to reasonably estimate future costs.

(2) In connection with a demand for penalties, Ashland has received a draft Stipulation Agreement from the Minnesota Pollution Control Agency relating to various alleged environmental regulatory violations regarding hazardous

waste and water quality and spill matters at Ashland's St. Paul Park refinery. Ashland is having discussions with the Minnesota Pollution Control Agency toward finalization of the Stipulation Agreement.

(3) On or about April 21, 1995, Ashland received an Administrative Complaint and a Notice of Proposed Assessment of Administrative Civil Penalty from the USEPA - Region IV. The Complaint alleges that Ashland missed its April 1, 1994 interim construction deadline and maintained insufficient records regarding construction of a wastewater system at its Catlettsburg, Kentucky refinery. The USEPA is seeking an administrative civil penalty of \$162,500 for these alleged violations. Ashland filed an Answer and has requested an administrative hearing on the merits of the complaint.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) Ashland's Annual Meeting of Shareholders was held on January 25, 1996, at the Ashland Petroleum Executive Office Building, Ashland Drive, Russell, Kentucky at 10:30 a.m.

(b) Ashland's shareholders at said meeting elected 5 directors:

	Votes	
	Affirmative	Withheld
James E. Bolger	53,236,637	2,888,208
Frank C. Carlucci	53,136,345	2,926,745
James B. Farley	53,247,272	2,882,021
James R. Rinehart	53,245,144	2,867,508
W. L. Rouse, Jr.	53,229,847	2,876,348

Directors who continued in office: Jack S. Blanton, Samuel C. Butler, Paul W. Chellgren, Edmund B. Fitzgerald, Ralph E. Gomory, Mannie L. Jackson, John R. Hall, Patrick F. Noonan, Jane C. Pfeiffer, Michael D. Rose and Dr. Robert B. Stobaugh. James W. Vandever, a director of Ashland since 1964, retired at the Annual Meeting.

(c) Ashland's shareholders at said meeting ratified the appointment of Ernst & Young LLP as independent auditors for fiscal year 1996 by a vote of 55,214,043 affirmative to 673,689 negative and 219,485 abstention votes.

(d) The results of voting on a shareholder proposal for the Board of Directors to take steps necessary to require that at future elections of directors all directors be elected annually were 28,037,900 negative to 23,573,386 affirmative and 906,247 abstention and 3,589,683 broker non-votes.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27 Financial Data Schedule

(b) Reports on Form 8-K

A report on Form 8-K was filed on January 25, 1996 to announce that John R. Hall, Ashland's chairman and chief executive officer will retire as chief executive officer October 1, 1996 and retire as chairman of the board in January 1997 and that Paul W. Chellgren, Ashland's President and Chief Operating Officer, will succeed Mr. Hall in both capacities.

#### SIGNATURES

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

Ashland Inc.

-----  
(Registrant)

Date February 14, 1996

/s/ Kenneth L. Aulen  
-----  
Kenneth L. Aulen  
Administrative Vice President and  
Controller  
(Chief Accounting Officer)

Date February 14, 1996

/s/ Thomas L. Feazell  
-----  
Thomas L. Feazell  
Senior Vice President,  
General Counsel and Secretary

<ARTICLE> 5

<LEGEND> THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM  
ASHLAND INC.'S 1ST QUARTER 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO  
SUCH 10-Q.

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