

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 March 31, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-2918

ASHLAND OIL, INC.
(Exact name of registrant as specified in its charter)

Kentucky (State or other jurisdiction of incorporation or organization)	61-0122250 (I.R.S. Employer Identification No.)
1000 Ashland Drive, Russell, Kentucky (Address of principal executive offices)	41169 (Zip Code)
P. O. Box 391, Ashland, Kentucky (Mailing Address)	41114 (Zip Code)

Registrant's telephone number, including area code (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 No

At April 30, 1994, there were 60,622,599 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.

PART I - FINANCIAL INFORMATION

ASHLAND OIL, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

(In thousands except per share data)	Three months ended March 31		Six months ended March 31	
	1994	1993	1994	1993
REVENUES				
Sales and operating revenues (including excise taxes)	\$ 2,206,642	\$ 2,385,614	\$ 4,778,218	\$ 4,940,470
Other	16,590	28,114	23,025	45,204
	2,223,232	2,413,728	4,801,243	4,985,674
COSTS AND EXPENSES				
Cost of sales and operating expenses	1,609,654	1,872,295	3,523,916	3,904,749
Excise taxes on products and merchandise	199,120	157,269	404,950	319,955
Selling, general and administrative expenses	251,793	259,493	498,362	489,039
Depreciation, depletion and amortization	71,507	73,216	143,926	147,430
General corporate expenses	23,229	21,083	42,061	36,953
	2,155,303	2,383,356	4,613,215	4,898,126
OPERATING INCOME	67,929	30,372	188,028	87,548
OTHER INCOME (EXPENSE)				
Interest income	454	391	909	695
Interest expense	(28,950)	(32,183)	(58,266)	(64,136)
Equity income (loss)	3,936	3,805	(2,443)	12,546
INCOME BEFORE INCOME TAXES	43,369	2,385	128,228	36,653
Income taxes	10,450	1,550	36,930	11,070
NET INCOME	\$ 32,919	\$ 835	\$ 91,298	\$ 25,583

	=====	=====	=====	=====				
EARNINGS PER SHARE - Note E								
Primary	\$.47	\$.01	\$	1.36	\$.43
Assuming full dilution	\$.46	\$.01	\$	1.30	\$.42

DIVIDENDS PAID PER COMMON SHARE	\$.25	\$.25	\$.50	\$.50
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SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

 ASHLAND OIL, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)	March 31 1994	September 30 1993	March 31 1993

ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 64,981	\$ 40,984	\$ 62,955
Accounts receivable	1,096,515	1,198,643	1,045,452
Allowance for doubtful accounts	(21,422)	(20,318)	(17,365)
Construction completed and in progress	22,262	50,972	8,624
Inventories - Note B	594,257	552,406	619,129
Deferred income taxes	63,460	78,243	92,796
Other current assets	90,794	72,071	121,925
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	1,910,847	1,973,001	1,933,516
INVESTMENTS AND OTHER ASSETS			
Investments in and advances to unconsolidated affiliates	268,801	279,978	277,697
Investments of captive insurance companies	190,494	184,689	195,968
Cost in excess of net assets of companies acquired	55,396	64,650	66,890
Other noncurrent assets	291,768	279,634	273,697
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	806,459	808,951	814,252
PROPERTY, PLANT AND EQUIPMENT			
Cost	5,763,707	5,704,852	5,604,691
Accumulated depreciation, depletion and amortization	(2,985,863)	(2,934,987)	(2,857,390)
	-----	-----	-----
	2,777,844	2,769,865	2,747,301
	-----	-----	-----
	\$5,495,150	\$ 5,551,817	\$ 5,495,069
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Debt due within one year	\$ 71,089	\$ 158,862	\$ 208,825
Trade and other payables	1,367,277	1,418,491	1,533,006
Income taxes	23,079	41,560	41,043
	-----	-----	-----
	1,461,445	1,618,913	1,782,874
NONCURRENT LIABILITIES			
Long-term debt (less current portion)	1,377,433	1,399,458	1,559,349
Accrued pension and other postretirement benefits	508,495	510,662	513,052
Reserves of captive insurance companies	191,611	173,039	186,373
Deferred income taxes	34,035	43,857	49,913
Other long-term liabilities and deferred credits	393,769	351,094	323,814
Commitments and contingencies - Note C			
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	2,505,343	2,478,110	2,632,501
STOCKHOLDERS' EQUITY			
Convertible preferred stock	293,179	293,179	-
Common stockholders' equity	1,235,183	1,161,615	1,079,694
	-----	-----	-----
	1,528,362	1,454,794	1,079,694
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	\$5,495,150	\$ 5,551,817	\$ 5,495,069
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SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

(In thousands)	Common stock	Paid-in capital	Retained earnings	Deferred translation adjustments and other	Loan to leveraged employee stock ownership plan (LESOP)	Prepaid contribution to LESOP	Total
BALANCE AT OCTOBER 1, 1992	\$ 59,948	\$ 146,418	\$ 930,990	\$ 6,586	\$ (34,519)	\$ (23,386)	\$ 1,086,037
Net income			25,583				25,583
Dividends on common stock			(29,422)			(556)	(29,978)
Issued common stock under stock incentive plans	12	138					150
Allocation of LESOP shares to participants						9,073	9,073
Other changes				(11,612)	441	(11,171)	
BALANCE AT MARCH 31, 1993	\$ 59,960	\$ 146,556	\$ 927,151	\$ (5,026)	\$ (34,078)	\$ (14,869)	\$ 1,079,694
BALANCE AT OCTOBER 1, 1993	\$ 60,022	\$ 142,481	\$1,008,264	\$ (9,801)	\$ (33,457)	\$ (5,894)	\$ 1,161,615
Net income			91,298				91,298
Dividends on common stock			(29,851)			(281)	(30,132)
Dividends on preferred stock			(9,375)				(9,375)
Issued common stock under stock incentive plans	585	15,725					16,310
Allocation of LESOP shares to participants						6,175	6,175
Other changes		(156)		(1,141)	589		(708)
BALANCE AT MARCH 31, 1994	\$ 60,607	\$ 158,050	\$1,060,336	\$ (10,942)	\$ (32,868)	\$ -	\$ 1,235,183

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

 ASHLAND OIL, INC. AND SUBSIDIARIES
 STATEMENTS OF CONSOLIDATED CASH FLOWS

(In thousands)	Six months ended March 31	
	1994	1993

CASH FLOWS FROM OPERATIONS		
Net income	\$ 91,298	\$ 25,583
Expense (income) not affecting cash		
Depreciation, depletion and amortization	149,957	153,057
Deferred income taxes	9,780	9,800
Undistributed earnings of unconsolidated affiliates	5,193	(4,080)
Gain on sale of operations - net of current income taxes	(355)	(9,635)
Other noncash items	29,080	587
Change in operating assets and liabilities	14,172	(5,391)
	-----	-----
	299,125	169,921
CASH FLOWS FROM FINANCING		
Proceeds from issuance of long-term debt	-	273,000
Proceeds from issuance of capital stock	16,310	150
Repayment of long-term debt	(34,628)	(135,283)
Decrease in short-term debt	(76,500)	(120,491)
Dividends paid	(39,507)	(29,978)
	-----	-----
	(134,325)	(12,602)
CASH FLOWS FROM INVESTMENT		
Additions to property, plant and equipment	(152,987)	(203,573)
Purchase of operations - net of cash acquired	(42,895)	(1,470)
Proceeds from sale of operations	53,937	63,045
Disposals of property, plant and equipment	6,612	19,845
Investment purchases	(135,814)	(220,614)
Investment sales and maturities	130,344	195,119
	-----	-----
	(140,803)	(147,648)

INCREASE IN CASH AND CASH EQUIVALENTS	23,997	9,671
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	40,984	53,284
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CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 64,981	\$ 62,955
	=====	=====

[FN] Includes amounts charged to general corporate expenses.
 Excludes changes resulting from operations acquired or sold.
 Represents primarily investment transactions of captive insurance companies.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

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, 1993, as amended by Form 10-K/A, Amendment No. 1 filed December 2, 1993 (hereinafter referred to as "Form 10-K"). Results of operations for the periods ended March 31, 1994, are not necessarily indicative of results to be expected for the year ending September 30, 1994.

NOTE B - INVENTORIES

(In thousands)	March 31 1994	September 30 1993	March 31 1993
Crude oil	\$ 243,959	\$ 273,189	\$ 344,827
Petroleum products	274,936	257,726	300,439
Chemicals and other products	349,602	336,494	343,231
Materials and supplies	43,118	44,570	45,274
Excess of replacement costs over LIFO carrying values	(317,358)	(359,573)	(414,642)
	\$ 594,257	\$ 552,406	\$ 619,129

NOTE C - LITIGATION, CLAIMS AND CONTINGENCIES

Federal, state and local statutes and regulations relating to the protection of the environment and the health and safety of employees and other individuals have a significant impact on the conduct of Ashland's businesses. For information regarding environmental and health and safety 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 remediation efforts. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts, varying costs of alternate cleanup methods, changes in environmental remediation requirements, the potential effect of technological improvements, the number and financial strength of other potentially responsible parties at multi-party sites, and the identification of new environmental sites. As a result, charges to income for environmental liabilities could have a material adverse effect on results of operations in a particular quarter or fiscal year as assessments and remediation efforts proceed or as new claims arise. However, such charges are not expected to have a material adverse effect on Ashland's consolidated financial position.

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

Ashland has indemnified the purchaser of an engineering company sold in 1990 against losses related to certain custom boilers built by the company and other matters. Ashland is continuing its efforts to resolve remaining issues related to this indemnity. Future charges could be incurred under this indemnity, but any amounts are uncertain at this time.

In addition, Ashland and its subsidiaries are parties to numerous claims and lawsuits (some of which are for substantial amounts) with respect to product liability and commercial and other matters. While these claims and actions are being contested, the outcome of individual matters is not predictable with assurance. Although any actual liability is not determinable as of March 31, 1994, Ashland believes that any liability resulting from these matters involving Ashland and its subsidiaries, 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.

NOTE D - ACQUISITIONS AND DIVESTITURES

During the six months ended March 31, 1994, Ashland acquired an asphalt terminal in Lexington, Kentucky, Valvoline distributorships in six European countries, three specialty chemicals businesses and a North Carolina paving company. These acquisitions were accounted for as purchases and did not have a significant impact on Ashland's consolidated financial statements.

Also during the period, Ashland completed the sale of its Illinois Basin crude oil gathering and trucking operations and most of APAC's Arizona operations. Proceeds from the sale of these operations totaled \$53,937,000 and resulted in no significant gain or loss.

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

NOTE E - COMPUTATION OF EARNINGS PER SHARE

(In thousands except per share data)	Three months ended March 31		Six months ended March 31	
	1994	1993	1994	1993

PRIMARY EARNINGS PER SHARE				
Income available to common shares				
Net income	\$ 32,919	\$ 835	\$ 91,298	\$ 25,583
Ashland Coal, Inc. (ACI) equity income (net of income taxes)	-	(1,560)	-	(6,414)
Ashland's share of ACI primary earnings per share (net of income taxes)	-	1,537	-	5,946
Dividends on convertible preferred stock	(4,687)	-	(9,375)	-
	-----	-----	-----	-----
	\$ 28,232	\$ 812	\$ 81,923	\$ 25,115
	=====	=====	=====	=====
Average common shares and equivalents outstanding				
Average common shares outstanding	60,361	59,959	60,222	59,955
Common shares issuable upon exercise of stock options	872	126	662	126
Share adjustment for prepaid contribution to LESOP	(560)	(1,109)	(561)	(1,110)
	-----	-----	-----	-----
	60,673	58,976	60,323	58,971
	=====	=====	=====	=====
Earnings per share	\$.47	\$.01	\$ 1.36	\$.43
	=====	=====	=====	=====

 EARNINGS PER SHARE ASSUMING

FULL DILUTION				
Income available to common shares				
Net income	\$ 32,919	\$ 835	\$ 91,298	\$ 25,583
ACI equity income (net of income taxes)	-	(1,560)	-	(6,414)
Ashland's share of ACI earnings per share assuming full dilution (net of income taxes)	-	1,473	-	5,563
Interest on convertible debentures (net of income taxes)	-	-	2,930	-
Dividends on convertible preferred stock	(4,687)	-	-	-
	-----	-----	-----	-----
	\$ 28,232	\$ 748	\$ 94,228	\$ 24,732
	=====	=====	=====	=====
Average common shares and equivalents outstanding				
Average common shares outstanding	60,361	59,959	60,222	59,955
Common shares issuable upon Exercise of stock options	946	157	925	140
Conversion of debentures	-	-	2,772	-
Conversion of preferred stock	-	-	9,276	-
Share adjustment for prepaid contribution to LESOP	(560)	(1,109)	(561)	(1,110)
	-----	-----	-----	-----
	60,747	59,007	72,634	58,985
	=====	=====	=====	=====
Earnings per share	\$.46	\$.01	\$ 1.30	\$.42
	=====	=====	=====	=====

ASHLAND OIL, INC. AND SUBSIDIARIES
INFORMATION BY INDUSTRY SEGMENT

(Dollars in thousands except as noted)	Three months ended March 31		Six months ended March 31	
	1994	1993	1994	1993
SALES AND OPERATING REVENUES				
Petroleum	\$ 970,407	\$ 1,124,643	\$ 2,136,227	\$ 2,342,931
SuperAmerica	380,860	429,350	804,677	911,719
Valvoline	213,174	239,283	484,986	444,759
Chemical	683,337	640,290	1,326,489	1,257,546
Construction	176,402	169,817	492,454	444,502
Exploration	47,648	60,180	99,227	136,674
Intersegment sales	(265,186)	(277,949)	(565,842)	(597,661)
	<u>\$ 2,206,642</u>	<u>\$ 2,385,614</u>	<u>\$ 4,778,218</u>	<u>\$ 4,940,470</u>
OPERATING INCOME				
Petroleum	\$ 30,145	\$ (6,103)	\$ 74,827	\$ (13,956)
SuperAmerica	9,627	12,664	31,002	30,687
Valvoline	11,746	12,818	26,486	26,037
Total Refining and Marketing Group	51,518	19,379	132,315	42,768
Chemical	26,051	29,487	54,351	47,998
Construction	3,150	-	23,066	10,508
Exploration	10,439	2,589	20,357	23,227
General corporate expenses	(23,229)	(21,083)	(42,061)	(36,953)
	<u>\$ 67,929</u>	<u>\$ 30,372</u>	<u>\$ 188,028</u>	<u>\$ 87,548</u>
EQUITY INCOME (LOSS)				
Arch Mineral Corporation	\$ 3,670	\$ (439)	\$ (3,722)	\$ 1,461
Ashland Coal, Inc.	(1,208)	1,691	(1,915)	6,949
Other	1,474	2,553	3,194	4,136
	<u>\$ 3,936</u>	<u>\$ 3,805</u>	<u>\$ (2,443)</u>	<u>\$ 12,546</u>
OPERATING INFORMATION				
Petroleum				
Product sales (barrels per day)	304,724	336,115	341,277	336,435
Refining inputs (barrels per day)	296,070	338,679	328,109	332,544
Value of products manufactured per barrel	\$ 20.02	\$ 22.35	\$ 20.45	\$ 23.07
Input cost per barrel	14.44	19.45	15.19	19.92
Refining margin per barrel	\$ 5.58	\$ 2.90	\$ 5.26	\$ 3.15
SuperAmerica				
Product sales (barrels per day)	65,992	72,855	68,955	76,082
Merchandise sales	\$ 117,489	\$ 132,676	\$ 240,933	\$ 276,672
Valvoline product sales (barrels per day)	16,541	15,312	16,527	15,052
Construction backlog				
At end of period	\$ 508,417	\$ 564,669	\$ 508,417	\$ 564,669
Increase during period	\$ 61,074	\$ 43,873	\$ 13,450	\$ 65,091
Exploration				
Net daily production				
Natural gas (thousands of cubic feet)	96,532	101,396	98,406	100,343
Nigerian crude oil (barrels)	19,168	21,611	19,321	22,554
Sales price				
Natural gas (per thousand cubic feet)	\$ 2.49	\$ 2.28	\$ 2.53	\$ 2.67
Nigerian crude oil (per barrel)	\$ 13.55	\$ 17.82	\$ 14.36	\$ 18.40
Arch Mineral Corporation				
Tons sold (thousands)	5,655	4,921	9,485	10,382
Sales price per ton	\$ 27.31	\$ 26.03	\$ 26.01	\$ 25.76
Ashland Coal, Inc.				
Tons sold (thousands)	4,464	4,534	7,894	9,890
Sales price per ton	\$ 29.77	\$ 29.52	\$ 30.69	\$ 29.66

Includes intersegment sales.

Includes crude oil and other purchased feedstocks.

Amounts have been restated to exclude APAC's Arizona operations which were sold in February 1994.

Amounts are reported on a 100% basis for these affiliated companies accounted for on the equity method.

RESULTS OF OPERATIONS

Current Quarter - Ashland recorded its best second quarter since 1986 with net income of \$33 million for the three months ended March 31, 1994, compared to net income of \$1 million for the same period last year. Operating income for the current quarter totaled \$68 million, compared to \$30 million for last year's second quarter. The increase in earnings was due primarily to Ashland Petroleum's improved results. Each of the non-refining businesses also had strong performances, and overall results from coal operations were profitable following the December conclusion of the mine workers' strike.

Year-to-Date - Net income for the six months ended March 31, 1994, amounted to \$91 million, compared to net income of \$26 million for the six months ended March 31, 1993. The improvement reflected substantially higher earnings from Ashland Petroleum. Operating results from SuperAmerica, Valvoline, Chemical, and Construction were also above that of a year ago, while Exploration showed a decline. In addition, Ashland's coal investments reported equity losses compared to income last year.

PETROLEUM

Current Quarter - Operating income for Ashland Petroleum totaled \$30 million for the quarter ended March 31, 1994, compared to a loss of \$6 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) from \$2.90 per barrel in 1993 to \$5.58 per barrel in 1994. Margins were strong throughout the quarter as crude oil costs remained low and product prices strengthened from the levels experienced late in the December 1993 quarter. This improvement was limited by lower-than-normal product volumes due to a scheduled maintenance turnaround at the Catlettsburg, Kentucky refinery during the latter part of the quarter. The quarter ended March 31, 1993, included a gain of \$15 million on the sale of TPT, an inland waterways barge operation.

Year-to-Date - For the six months ended March 31, 1994, Ashland Petroleum recorded an operating profit of \$75 million compared to an operating loss of \$14 million for the same period last year, which included the \$15 million gain noted above. An increase in the refining margin to \$5.26 per barrel this year, compared to \$3.15 per barrel last year, accounted for the majority of the improvement in earnings. Ashland Petroleum continues to make progress toward its long-term goal of improving profits and reducing costs by \$1 per barrel of daily refining capacity by the end of fiscal 1994. Since the end of the quarter ended March 31, 1994, refining margins have contracted; however, U. S. petroleum product inventories are generally low which should ultimately be favorable for margins.

SUPERAMERICA

Current Quarter - Operating income for the second quarter of fiscal 1994 totaled \$10 million, compared to \$13 million for the second quarter of fiscal 1993. The decline in earnings reflected lower sales volumes for both gasoline and merchandise, due to the sale of 80 stores in non-strategic areas last year. From continuing operations, SuperAmerica experienced strong margins and volumes for both gasoline and merchandise, although retail gasoline margins declined somewhat from the December 1993 quarter.

Year-to-Date - For the six months ended March 31, 1994, SuperAmerica's operating income of \$31 million remains slightly ahead of 1993's record pace. Increases in gasoline and merchandise margins more than offset a decline in sales volumes due to fewer stores. The division expects to add 25 stores this year in markets directly supplied by Ashland Petroleum and 12 stores were completed in the first six months. At March 31, 1994, 594 stores were operating, compared to 641 stores at March 31, 1993.

VALVOLINE

Current Quarter - For the three months ended March 31, 1994, operating income for Valvoline totaled \$12 million, compared to \$13 million for the same period last year. Higher revenues from branded motor oil and Valvoline Instant Oil Change (VIOC) were more than offset by lower earnings from automotive chemical sales. Increased branded motor oil revenues were the result of higher motor oil sales volumes and favorable customer response to value-added promotions and Valvoline's new Durablend semi-synthetic motor oil. Improved VIOC sales reflected increases in the number of company owned stores, average ticket prices and average car counts. However, earnings from automotive chemicals were adversely affected by lower margins. In early March, Valvoline completed the acquisition of distributorships in six European countries.

Year-to-Date - For the six months ended March 31, 1994, Valvoline set a new first half earnings record with operating income of \$26 million, slightly above the earnings reported last year. Higher revenues from branded motor oil and VIOC were partially offset by lower earnings from automotive chemical

sales. The fluctuations in these operations were a result of the same factors described in the quarter comparison.

CHEMICAL

Current Quarter - For the second quarter of fiscal 1994, Ashland Chemical's operating income totaled \$26 million, compared to last year's record March quarter of \$29 million. Reduced petrochemical production, due primarily to the turnaround at Catlettsburg, and higher environmental remediation expenses were major contributors to the decline. Despite record sales, operating income for the distribution group was down, reflecting higher operating expenses. The specialty chemicals group reported its highest second quarter operating income in its history as a growing economy stimulated demand.

Year-to-Date - For the six months ended March 31, 1994, operating income totaled \$54 million, compared to \$48 million for the same period last year. Income from the distribution group and the specialty chemicals group increased this year reflecting improved sales volumes. However, these increases were partially offset by higher environmental remediation expenses and lower Petrochemical results.

CONSTRUCTION

Current Quarter - For the second quarter of fiscal 1994, Construction operations reported operating income of \$3 million, compared to break-even results for the same period last year. During the quarter, the sale of most of APAC's Arizona operations to Kiewit Construction Group, Inc. was completed, resulting in a gain that exceeded unusually low winter costs, which are normally deferred and amortized over the last six months of the year. The decline in winter costs reflected better margins, more favorable operating conditions, and a better quality backlog.

Year-to-Date - For the six months ended March 31, operating income totaled \$23 million this year, compared to \$11 million last year. The increase in income is a result of the same factors described in the quarter comparison. Backlog at March 31, 1994, of \$508 million was down from the \$565 million at March 31, 1993, which has been adjusted to exclude the Arizona operations. With no deferred winter costs to amortize over the rest of the year, Construction's outlook is very positive.

EXPLORATION

Current Quarter - Operating income for the three months ended March 31, 1994, totaled \$10 million, compared to income of \$3 million for the same period last year. Earnings from domestic operations were \$2 million higher as increased natural gas prices and a decline in exploration costs were only partially offset by a reduction in natural gas volumes produced. Income from foreign operations increased this quarter despite the ongoing decline in Nigerian crude oil production. Improved results from crude oil trading activities and the fact that last year's operating income included higher expenses associated with seismic acquisition activity on two offshore blocks in Nigeria were responsible for the increased earnings. Ashland has reached an agreement to assign to TOTAL, the French multinational integrated oil and gas company, a 50 percent interest in a production sharing contract signed in 1992 between Ashland and the Nigerian National Petroleum Corporation for these two offshore blocks. The interpretation of new seismic data is near completion and the first exploration well is scheduled to commence later this month.

Year-to-Date - Operating income for the six months ended March 31, 1994, totaled \$20 million, compared to \$23 million for the same period last year. Domestic operating income decreased \$10 million, due principally to a \$4 million reduction in natural gas revenues reflecting lower prices as well as a \$1 million decline in crude oil revenues due to the weakness in world crude oil prices. Prior year results also included the favorable impact of a contract settlement. Foreign operating income increased \$7 million primarily for the same reasons noted in the quarter comparison.

GENERAL CORPORATE EXPENSES

For the second quarter of this year, general corporate expenses totaled \$23 million compared to \$21 million last year. Reflected in this year's results were increases in expenses for key employee incentive compensation plans and general environmental and litigation reserves, partially offset by a gain resulting from the repayment of certain partially reserved notes from affiliated companies. These net expenses are partially responsible for the \$5 million increase in the year-to-date comparison. In addition, six-months results for the prior year included income from a receipt related to the previous sale of an engineering company concerning an earnout arrangement and other matters, partially offset by losses resulting from debt prepayments.

OTHER INCOME (EXPENSE)

Interest expense for the quarter and year-to-date periods ended March 31, 1994, declined when compared to the same periods for the prior year, reflecting a decline in total debt outstanding. During fiscal 1993, funds provided from long-term borrowings and the issuance of convertible preferred stock were used to retire long-term debt, based on scheduled maturities or

opportunities for lower interest rates.

Equity income from Arch Mineral increased \$4 million for the quarter but decreased \$5 million for the six months ended March 31, 1994. The increase in earnings for the quarter was attributed to excellent performances at several of the Apogee mines, reflecting higher sales volumes and lower unit operating costs. In addition, the prior year's second quarter results included payments to the Bituminous Coal Operators Association under a mutual assistance pact, while the current quarter included income as a result of a change in vacation policy for salaried employees. Earnings for the year-to-date period declined, reflecting the negative impact of the United Mine Worker's of America (UMWA) strike on this year's first quarter profits.

Ashland recorded an equity loss from Ashland Coal of \$1 million for the current quarter and an equity loss of \$2 million for the six months ended March 31, 1994. This compares to last year's second quarter equity income of \$2 million and \$7 million for the year-to-date. Unfavorable mining costs in the current quarter reflected severe winter weather, unexpected adverse geological conditions at one mine and the operational aftereffects of the UMWA strike. A damage recovery related to a 1992 silo collapse at Mingo Logan's preparation plant partially offset the effects of the higher costs in the quarter. In addition to these items, the year-to-date results for the current fiscal year were negatively impacted by the effect of the UMWA strike on the first quarter's profits.

FINANCIAL POSITION

LIQUIDITY

Ashland's financial position has enabled it to continue investment grade ratings on its indebtedness and obtain capital for its financing needs. Ashland's senior debt ratings are Baa1 from Moody's and BBB from Standard & Poor's. Ashland has revolving credit agreements providing for up to \$350 million in borrowings, none of which were in use at March 31, 1994. At that date under a shelf registration with the Securities and Exchange Commission, Ashland could issue an additional \$302 million in medium-term notes as future opportunities or needs arise. Ashland also has access to commercial paper markets and various uncommitted lines of credit, none of which were in use at March 31, 1994. Certain debt agreements contain covenants restricting the amount by which Ashland can increase its indebtedness. Under these covenants, Ashland's indebtedness could have been increased by an additional \$720 million at March 31, 1994.

Cash and cash equivalents at March 31, 1994, were \$65 million, compared to \$41 million at September 30, 1993. Cash flows from operations, a major source of Ashland's liquidity, amounted to \$299 million for the six months ended March 31, 1994, compared to \$170 million for the six months ended March 31, 1993. This increase was attributed primarily to higher earnings this year.

Working capital at March 31, 1994, was \$449 million, compared to \$354 million at September 30, 1993. Liquid assets (cash, cash equivalents and accounts receivable) as a percent of current liabilities amounted to 78% at March 31, 1994, compared to 75% at September 30, 1993. Ashland's working capital is significantly affected by its use of the LIFO method of inventory valuation, which valued such inventories at \$317 million below their replacement costs at March 31, 1994.

CAPITAL RESOURCES

For the six months ended March 31, 1994, property additions amounted to \$153 million, compared to \$204 million for the same period last year, reflecting the expected reduction of Ashland Petroleum's capital expenditures in fiscal 1994 as a result of the completion of various refinery units in 1993. Property additions (including exploration costs and geophysical expenses) and cash dividends for the remainder of 1994 are estimated at \$249 million and \$39 million, respectively. Ashland anticipates meeting its remaining 1994 capital requirements for property additions and dividends primarily from internally generated funds. However, external financing may be necessary to provide funds for the remaining contractual maturities of \$52 million for long-term debt, for acquisitions or for common stock purchases.

During the quarter, the sale of APAC's Arizona operations to Kiewit Construction Group, Inc. was finalized, substantially completing the company's previously announced asset divestiture program. Proceeds from the divestiture were combined with internally generated funds and used to reduce debt, fund capital requirements for property additions and pay dividends.

At March 31, 1994, up to 3.5 million additional shares of common stock can be purchased from time to time in open market transactions under Ashland's repurchase program. The number of shares ultimately purchased and the prices Ashland will pay for its stock are subject to periodic review by management. No shares have been purchased under this program since 1991.

Ashland's capitalization at March 31, 1994, consists of debt due within one year (2%), long-term debt (46%), deferred income taxes (1%), convertible preferred stock (10%), and common stockholders' equity (41%). Reflecting an improvement in the balance sheet, total debt as a percent of total capitalization dropped to 48%, compared to 61% a year ago. At March 31, 1994, long-term debt included \$86 million of floating-rate debt, and the interest rates on an additional \$430 million of fixed-rate debt were converted to

floating rates through interest rate swaps. As a result, interest costs will fluctuate with short-term interest rates in 1994 on 36% of Ashland's long-term debt.

ENVIRONMENTAL MATTERS

Federal, state and local statutes and regulations relating to the protection of the environment and the health and safety of employees and other individuals have resulted in higher operating costs and capital investments by the industries in which Ashland operates. Because of the continuing trend toward greater environmental awareness and increasingly stringent environmental regulations, Ashland believes that expenditures for compliance with environmental, health and safety regulations will continue to have a significant impact on the conduct of its businesses. Although it cannot predict accurately how these developments will affect future operations and earnings, Ashland does not believe its costs will vary significantly from those of its competitors in the petroleum and chemical industries. For information regarding environmental and health and safety 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 remediation efforts. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts, varying costs of alternate cleanup methods, changes in environmental remediation requirements, the potential effect of technological improvements, the number and financial strength of other potentially responsible parties at multi-party sites, and the identification of new environmental 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 claims arise. 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

Item 1. LEGAL PROCEEDINGS

Environmental Proceedings -- (1) As of March 31, 1994, Ashland was subject to 69 notices received from the United States Environmental Protection Agency ("USEPA") identifying Ashland as a "potentially responsible party" ("PRP") under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") and the Superfund Amendment and Reauthorization Act ("SARA") 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 CERCLA and SARA 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 each of the 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. 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) On March 26, 1993, Ashland received a Notice of Violation and Opportunity to Show Cause ("Show Cause Notice") from the USEPA. The Show Cause Notice alleges violations of Section 304 of the Emergency Planning and Community Right-to-Know Act of 1986 ("EPCRA") in that while Ashland notified the Kentucky Division for Air Quality, it allegedly, on various occasions, failed to notify certain other appropriate agencies about releases of a regulated substance in amounts greater than the reportable quantity from its Catlettsburg refinery. Ashland anticipates signing a settlement with the USEPA pursuant to which Ashland will implement various supplemental environmental projects at the Catlettsburg refinery, fund various internal projects of state and local emergency organizations and pay a civil penalty of \$312,000.

(3) On March 7, 1994, Ashland Chemical Company received a notice of violation from the Georgia Environmental Protection Division ("EPD") seeking a penalty of \$130,000 for alleged violations of the Georgia hazardous waste regulations at the company's chemical distribution facility in Doraville, Georgia. The alleged violations include: failure to properly store and label up to seven drums of used absorbent; improper maintenance of the groundwater monitoring wells at the facility; and certain recordkeeping violations. Ashland Chemical has corrected the alleged violations and has reached a settlement with the EPD to pay the sum of \$110,000.

El Paso Dispute -- On March 11, 1993, a complaint was filed by El Paso Refinery, L.P., against Scurlock Permian Corporation ("SPC"), a wholly owned subsidiary of Ashland, in the District Court of El Paso County, Texas. El Paso Refinery, L.P., is currently in Chapter 7 bankruptcy. Plaintiff alleges that SPC wrongfully breached certain duties under a contract to supply crude oil. Plaintiff further alleges violations of Texas usury law, common law fraud and duress and seeks substantial damages. In an apparent companion case filed the same day by individual plaintiffs (two officers of El Paso Refining, Inc., the general partner of El Paso Refinery, L.P.), damages are sought against SPC and others based upon the execution by plaintiffs of promissory notes in connection with the financing of the refinery. Ashland and SPC believe these complaints to be without merit and intend to defend them vigorously. SPC is a creditor in the El Paso bankruptcy proceeding and had filed a proof of claim for approximately \$39,000,000 against the bankrupt estate. As of April 18, 1994, SPC had received approximately \$16,900,000 from the liquidation of collateral. Ashland believes its current reserves are adequate to cover any shortfall that could be sustained in the bankruptcy proceeding.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

None

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 Oil, Inc.

(Registrant)

Date May 9, 1994

Kenneth L. Aulen

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

Date May 9, 1994

Thomas L. Feazell

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

