

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1996

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 July 31, 1996, there were 64,413,082 shares of
Registrant's Common Stock outstanding. One Right to purchase
one-thousandth of a share of Series A Participating
Cumulative Preferred Stock accompanies each outstanding share
of Registrant's Common Stock.

PART I - FINANCIAL INFORMATION

ASHLAND INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

	Three months ended June 30		Nine months ended June 30	
(In millions except per share data)	1996	1995	1996	1995

REVENUES

Sales and operating revenues (including excise taxes)	\$ 3,481	\$ 3,256	\$ 9,631	\$ 8,915
Other	13	14	133 (1)	51
	-----	-----	-----	-----
	3,494	3,270	9,764	8,966
COSTS AND EXPENSES				
Cost of sales and operating expenses	2,664	2,481	7,410	6,813
Excise taxes on products and merchandise	246	258	734	739
Selling, general and administrative expenses	311	301	897	853
Depreciation, depletion and amortization	97	99	292	290
General corporate expenses	28	22	75	67
	-----	-----	-----	-----
	3,346	3,161	9,408	8,762
	-----	-----	-----	-----
OPERATING INCOME	148	109	356	204
OTHER INCOME (EXPENSE)				
Interest expense (net of interest income)	(42)	(47)	(128)	(125)
Equity income	5	2	16	11
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	111	64	244	90
Income taxes	(30)	(11)	(72)	(18)
Minority interest in earnings of subsidiaries	(1)	(5)	(7)	(18)
	-----	-----	-----	-----
NET INCOME	80	48	165 (1)	54
Dividends on convertible preferred stock	(5)	(5)	(14)	(14)
	-----	-----	-----	-----
INCOME AVAILABLE TO COMMON SHARES	\$ 75	\$ 43	\$ 151	\$ 40
	=====	=====	=====	=====
EARNINGS PER SHARE - Note F				
Primary	\$ 1.16	\$.69	\$ 2.34 (1)	\$.65
Assuming full dilution	\$ 1.06	\$.66	\$ 2.23	\$.65
DIVIDENDS PAID PER COMMON SHARE	\$.275	\$.275	\$.825	\$.825

(1) 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.

ASHLAND INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)	June 30 1996	September 30 1995	June 30 1995
ASSETS			

CURRENT ASSETS			
Cash and cash equivalents	\$ 71	\$ 52	\$ 38
Accounts receivable	1,705	1,600	1,577
Allowance for doubtful accounts	(27)	(25)	(24)
Construction completed and in progress	54	42	48
Inventories - Note B	804	726	826
Deferred income taxes	100	90	80
Other current assets	116	90	146
	-----	-----	-----
	2,823	2,575	2,691
INVESTMENTS AND OTHER ASSETS			
Investments in and advances to unconsolidated affiliates	155	145	154
Investments of captive insurance companies	194	192	200
Cost in excess of net assets of companies acquired	123	107	106
Other noncurrent assets	362	403	432
	-----	-----	-----
	834	847	892
PROPERTY, PLANT AND EQUIPMENT			
Cost	7,268	7,078	7,142
Accumulated depreciation, depletion and amortization	(3,678)	(3,508)	(3,517)
	-----	-----	-----
	3,590	3,570	3,625
	-----	-----	-----
	\$ 7,247	\$ 6,992	\$ 7,208
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			

CURRENT LIABILITIES			
Debt due within one year	\$ 404	\$ 272	\$ 420
Trade and other payables	1,859	1,778	1,716
Income taxes	31	44	33
	-----	-----	-----
	2,294	2,094	2,169
NONCURRENT LIABILITIES			
Long-term debt (less current portion)	1,752	1,828	1,806
Employee benefit obligations	614	613	597

Reserves of captive insurance companies	181	169	187
Deferred income taxes	49	49	137
Other long-term liabilities and deferred credits	400	405	438
Commitments and contingencies - Note C			
	-----	-----	-----
	2,996	3,064	3,165
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	175	179	177
STOCKHOLDERS' EQUITY			
Convertible preferred stock	293	293	293
Common stockholders' equity	1,489	1,362	1,404
	-----	-----	-----
	1,782	1,655	1,697
	-----	-----	-----
	\$ 7,247	\$ 6,992	\$ 7,208
	=====	=====	=====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

(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			54			54
Dividends						
Preferred stock			(14)			(14)
Common stock			(50)			(50)
Issued common stock under						
Acquisition of operations						
of other companies	1	39				40
Share offering program	1	34				35
Stock incentive plans		6				6
LESOP loan repayments				16		16
Other changes					15	15
	-----	-----	-----	-----	-----	-----
BALANCE AT JUNE 30, 1995	\$ 63	\$ 238	\$ 1,116	\$ (17)	\$ 4	\$ 1,404
	=====	=====	=====	=====	=====	=====
BALANCE AT OCTOBER 1, 1995	\$ 64	\$ 256	\$ 1,063	\$ (11)	\$ (10)	\$ 1,362
Net income			165			165
Dividends						
Preferred stock			(14)			(14)
Common stock			(53)			(53)
Issued common stock under						
Stock incentive plans	1	18				19
Employee savings plan		3				3
LESOP loan repayments				11		11
Other changes					(4)	(4)
	-----	-----	-----	-----	-----	-----
BALANCE AT JUNE 30, 1996	\$ 65	\$ 277	\$ 1,161	\$ -	\$ (14)	\$ 1,489
	=====	=====	=====	=====	=====	=====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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ASHLAND INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions)	Nine months ended June 30	
	1996	1995
CASH FLOWS FROM OPERATIONS		
Net income	\$ 165	\$ 54
Expense (income) not affecting cash		
Depreciation, depletion and amortization (1)	301	299
Deferred income taxes	(8)	27
Other noncash items	24	21
Change in operating assets and liabilities (2)	(140)	(196)

	-----	-----
	342	205
CASH FLOWS FROM FINANCING		
Proceeds from issuance of long-term debt	11	304
Proceeds from issuance of capital stock	16	38 (3)
Loan repayment from leveraged employee stock ownership plan	11	16
Repayment of long-term debt	(97)	(20)
Increase in short-term debt	138	150
Dividends paid	(70)	(68)
	-----	-----
	9	420
CASH FLOWS FROM INVESTMENT		
Additions to property, plant and equipment	(296)	(297)
Purchase of operations - net of cash acquired	(47)	(307) (3)
Proceeds from sale of operations	1	5
Investment purchases (4)	(403)	(381)
Investment sales and maturities (4)	421	362
Other-net	(8)	(9)
	-----	-----
	(332)	(627)
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19	(2)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	52	40
	-----	-----
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 71	\$ 38
	=====	=====

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- (1) Includes amounts charged to general corporate expenses.
(2) Excludes changes resulting from operations acquired or sold.
(3) Excludes \$41 million of common stock issued in acquisitions.
(4) Represents primarily investment transactions of captive insurance companies.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND 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, 1995. Results of operations for the periods ended June 30, 1996, are not necessarily indicative of results to be expected for the year ending September 30, 1996.

NOTE B - INVENTORIES

(In millions)	June 30 1996	September 30 1995	June 30 1995
Crude oil	\$ 339	\$ 285	\$ 323
Petroleum products	345	284	354
Chemicals and other products	526	491	516
Materials and supplies	65	66	67
Excess of replacement costs over LIFO carrying values	(471)	(400)	(434)
	-----	-----	-----
	\$ 804	\$ 726	\$ 826
	=====	=====	=====

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 -

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. In addition, various costs of remediation efforts related to underground storage tanks are eligible for reimbursement from state administered funds.

In addition to environmental matters, 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. 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.

ASHLAND INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE D - ACQUISITIONS

During the nine months ended June 30, 1996, Ashland acquired various chemical distribution and specialty chemical businesses, a road paving business, a construction materials 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.

NOTE E - EMPLOYEE BENEFIT PLANS

As of March 31, 1996, all shares held by the leveraged employee stock ownership plan (LESOP) had been allocated to employees' accounts and the LESOP loan had been fully repaid. For LESOP participants, Ashland has increased its contributions to the Employee Savings Plan from 20% to 70% of employee contributions up to 6% of their qualified earnings. The increased company contributions will be in the form of Ashland Common Stock. Ashland's costs under this new program are estimated to be comparable to its costs under the LESOP.

NOTE F - COMPUTATION OF EARNINGS PER SHARE

Three months ended Nine months ended
June 30 June 30

(In millions except per share data)	1996	1995	1996	1995

PRIMARY EARNINGS PER SHARE				
Income available to common shares				
Net income	\$ 80	\$ 48	\$ 165	\$ 54
Dividends on convertible preferred stock	(5)	(5)	(14)	(14)
	-----	-----	-----	-----
	\$ 75	\$ 43	\$ 151	\$ 40
	=====	=====	=====	=====
Average common shares and equivalents outstanding				
Average common shares outstanding	64	63	64	62
Common shares issuable upon exercise of stock options	1	-	1	-
	-----	-----	-----	-----
	65	63	65	62
	=====	=====	=====	=====
Earnings per share	\$ 1.16	\$.69	\$ 2.34	\$.65
	=====	=====	=====	=====

EARNINGS PER SHARE				
ASSUMING FULL DILUTION				
Income available to common shares				
Net income	\$ 80	\$ 48	\$ 165	\$ 54
Dividends on convertible preferred stock	-	-	-	(14)
Interest on convertible debentures (net of income taxes)	1	1	4	-
	-----	-----	-----	-----
	\$ 81	\$ 49	\$ 169	\$ 40
	=====	=====	=====	=====
Average common shares and equivalents outstanding				
Average common shares outstanding	64	63	64	62
Common shares issuable upon				
Exercise of stock options	1	1	1	-
Conversion of debentures	3	2	2	-
Conversion of preferred stock	9	9	9	-
	-----	-----	-----	-----
	77	75	76	62
	=====	=====	=====	=====
Earnings per share	\$ 1.06	\$.66	\$ 2.23	\$.65
	=====	=====	=====	=====

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ASHLAND INC. AND SUBSIDIARIES
INFORMATION BY INDUSTRY SEGMENT

	Three months ended		Nine months ended	
	June 30		June 30	
	1996	1995	1996	1995

(Dollars in millions except as noted)				

SALES AND OPERATING REVENUES				
Petroleum	\$ 1,485	\$ 1,376	\$ 4,092	\$ 3,726
SuperAmerica	511	468	1,412	1,314
Valvoline	350	307	890	813
Chemical	958	929	2,752	2,635
APAC	356	313	866	764
Coal	137	148	440	456
Exploration	52	57	174	150
Intersegment sales	(368)	(342)	(995)	(943)
	-----	-----	-----	-----
	\$ 3,481	\$ 3,256	\$ 9,631	\$ 8,915
	=====	=====	=====	=====
OPERATING INCOME				
Petroleum	\$ 45	\$ 46	\$ 47	\$ (2)
SuperAmerica	8	9	25	33
Valvoline	37	2	57	13
	-----	-----	-----	-----
Total Refining and Marketing Group	90	57	129	44
Chemical	47	30	127	130
APAC	29	26	53	47
Coal	8	18	30	51
Exploration	2	-	92	(1)
General corporate expenses	(28)	(22)	(75)	(67)
	-----	-----	-----	-----
	\$ 148	\$ 109	\$ 356	\$ 204
	=====	=====	=====	=====
EQUITY INCOME				
Arch Mineral Corporation	\$ 3	\$ (1)	\$ 8	\$ 3
Other	2	3	8	8
	-----	-----	-----	-----
	\$ 5	\$ 2	\$ 16	\$ 11
	=====	=====	=====	=====
OPERATING INFORMATION				
Petroleum				
Product sales (thousand barrels per day) (1)	390.2	392.6	381.0	365.9
Refining inputs (thousand barrels per day) (2)	376.0	366.9	365.7	342.2
Value of products manufactured per barrel	\$ 26.54	\$ 24.57	\$ 24.06	\$ 22.44
Input cost per barrel	21.74	19.26	19.86	18.46
	-----	-----	-----	-----
Refining margin per barrel	\$ 4.80	\$ 5.31	\$ 4.20	\$ 3.98
SuperAmerica				
Product sales (thousand barrels per day)	74.8	71.6	73.7	70.7
Merchandise sales	\$ 152	\$ 142	\$ 425	\$ 398
Valvoline lubricant sales (thousand barrels per day) (1)	19.9	20.5	19.3	18.6
APAC construction backlog				
At end of period	\$ 663	\$ 626	\$ 663	\$ 626
Increase (decrease) during period	\$ (1)	\$ 27	\$ (9)	\$ 72

Ashland Coal, Inc. (3)					
Tons sold (millions)	5.3	5.5	16.6	16.4	
Sales price per ton	\$ 25.78	\$ 26.99	\$ 26.59	\$ 27.75	
Arch Mineral Corporation (3)					
Tons sold (millions)	7.3	6.5	21.5	20.6	
Sales price per ton	\$ 25.31	\$ 25.73	\$ 25.36	\$ 26.36	
Exploration					
Net daily production					
Natural gas (million cubic feet) (1)	107.2	113.4	110.6	101.5	
Nigerian crude oil (thousand barrels)	17.2	18.5	17.6	18.1	
Sales price					
Natural gas (per thousand cubic feet)	\$ 2.19	\$ 1.99	\$ 2.42	\$ 1.93	
Nigerian crude oil (per barrel)	\$ 19.21	\$ 17.61	\$ 17.82	\$ 16.48	

(1) Includes intersegment sales.

(2) Includes crude oil and other purchased feedstocks.

(3) Ashland's ownership interest is 56% in Ashland Coal and 50% in Arch Mineral.

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ASHLAND INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including information concerning the availability of Valvoline's R-12 inventories for 1997, the prospects of APAC's construction operations for this fiscal year, Ashland Coal's prospective earnings for the remainder of 1996 and the first quarter of fiscal 1997, and the impact of various environmental proceedings and investigations. Although Ashland believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such statements will be achieved. Important factors which could cause actual results to differ materially from those contained in such statements are discussed below.

Ashland's operations are affected by domestic and international political, legislative, regulatory and legal actions. Such actions may include changes in the policies of the Organization of Petroleum Exporting Countries ("OPEC") or other developments involving or affecting oil-producing countries, including military conflict, embargoes, internal instability or actions or reactions of the government of the United States in anticipation of or in response to such actions.

Domestic and international economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, as well as changes in the availability and market prices of crude oil, natural gas and petroleum products, can also have a significant effect on Ashland's operations. While Ashland maintains reserves for anticipated liabilities and carries various levels of insurance, Ashland could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings relating to environmental or other matters. In addition, climate and weather can significantly affect Ashland in several of its operations such as its construction, natural gas, heating oil and coal businesses. Other factors and risks affecting Ashland's revenues and operations are contained in Ashland's Form 10-K for the fiscal year ended September 30, 1995, which is on file with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

CURRENT QUARTER - Ashland recorded net income of \$80 million for the three months ended June 30, 1996, compared to \$48 million for the same period last year. Operating income for the quarter just ended totaled \$148 million, compared to \$109 million for last year's June quarter. The increase in operating income resulted primarily from record quarterly earnings from Valvoline and APAC, combined with a record third quarter from Ashland Chemical. An increase in equity income from Arch Mineral and a decrease in interest expense also contributed to the improvement. These positive comparisons were partially offset by lower earnings from Ashland Coal and an increase in general corporate expenses.

YEAR-TO-DATE - Net income for the nine months ended June 30, 1996, amounted to \$165 million, compared to \$54 million for the nine months ended June 30, 1995. Results for the current year 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 \$63 million, reflecting substantial improvements in operating income from Ashland Petroleum, Valvoline and Ashland Exploration. APAC and Arch Mineral also reported higher earnings this year. On the negative side, operating income for SuperAmerica, Ashland Chemical and Ashland Coal declined from last year, while general corporate expenses and interest costs rose.

PETROLEUM

CURRENT QUARTER - Operating income for Ashland Petroleum totaled \$45 million for the quarter ended June 30, 1996, compared to \$46 million for the same period last year. A decrease in the refining margin (the difference between the value of products manufactured and input cost) was largely offset by higher crude oil inputs and a decrease in refining expenses. The refining margin averaged \$4.80 a barrel for the third quarter of fiscal 1996, compared to \$5.31 a barrel in the June 1995 quarter.

ASHLAND INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS

PETROLEUM (CONTINUED)

Margins were very strong in May, but the uncertainty in crude oil markets over the timing of Iraq's re-entry into the market contributed to a decline in margins in June. Ashland Petroleum is making good progress in reducing refining expenses, which decreased by 30 cents a barrel compared to a year ago.

The Ashland(R) brand jobber/distributor network has experienced rapid growth this year. At June 30, 27 jobbers had committed 503 locations in Kentucky, West Virginia and Ohio to the Ashland(R) brand, compared to four jobbers and 114 committed locations last year.

YEAR-TO-DATE - For the nine months ended June 30, 1996, Ashland Petroleum recorded operating income of \$47 million, compared to an operating loss of \$2 million for the same period last year. The improvement in earnings was attributed, in part, to an increase in the refining margin of 22 cents a barrel, despite substantially higher crude oil costs. In addition, throughput volumes were up 7% for the year-to-date period with most of the increase attributable to record throughputs in this year's first quarter, combined with reduced throughputs in the first quarter of last year when the Canton, Ohio refinery had a general maintenance turnaround. Refining expenses declined 19 cents a barrel, compared to the first nine months of last year, due to the increased throughput and ongoing efforts to cut costs and improve efficiency.

SUPERAMERICA

CURRENT QUARTER - Operating income for the third quarter of fiscal 1996 totaled \$8 million, compared to \$9 million for the third quarter of fiscal 1995. Lower retail gasoline margins and rising operating costs more than offset the growth in gasoline and merchandise sales volumes. Gasoline margins were down almost a cent a gallon, as increased wholesale costs were not fully recovered at the retail level. The higher operating costs and

increased sales volumes largely reflect the increase in the number of units in operation.

YEAR-TO-DATE - For the nine months ended June 30, 1996, SuperAmerica's operating income of \$25 million declined \$8 million from the same period last year. The decrease in earnings reflected the same factors described in the quarter comparison. During the first nine months of this fiscal year, SuperAmerica opened 31 new and rebuilt retail outlets. Of these, 18 were new SuperAmerica stores and 8 were new Rich Oil outlets. At June 30, 1996, 627 SuperAmerica and 103 Rich Oil units were in operation, compared with 600 and 93 at June 30, 1995.

VALVOLINE

CURRENT QUARTER - For the three months ended June 30, 1996, Valvoline reported record quarterly operating income of \$37 million, compared to \$2 million for the same period last year. The increase in earnings reflected improved results from nearly all of Valvoline's business units, including a significant short-term earnings boost from the sale of R-12, an automotive refrigerant. R-12 prices escalated rapidly during the current quarter, due to developing shortages within the market. The U.S. Environmental Protection Agency banned the production but not the sale of R-12 at the end of 1995 due to its ozone-depleting characteristics. Valvoline believes it has sufficient inventories of R-12 to supply customers through 1997. During the quarter just ended, First Recovery, Valvoline's used motor oil collection business, reported record quarterly earnings on the strength of higher revenues and improved operating efficiencies. Valvoline Instant Oil Change (VIOC) also reported its best quarter ever, in part reflecting higher average car counts and ticket prices this year. At June 30, 1996, 370 VIOC company operated quick lube outlets were in operation, compared to 361 last year.

YEAR-TO-DATE - For the nine months ended June 30, 1996, Valvoline reported operating income of \$57 million, compared to \$13 million for the same period last year. The increase in earnings reflected the same factors described in the quarterly comparison.

ASHLAND INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS

CHEMICAL

CURRENT QUARTER - Ashland Chemical reported record third quarter operating income of \$47 million for the three months ended June 30, 1996, compared to \$30 million for the same period last year. Income from the specialty chemical businesses more than doubled, led by substantially higher earnings from composite polymers and a strong performance from the electronic chemicals business. Results from the distribution businesses were also up 22% from last year's third quarter, reflecting improvements in almost every division. Partially offsetting these positive comparisons, petrochemical profits declined, primarily due to adverse competitive conditions in the hydrocarbon solvents and methanol markets.

YEAR-TO-DATE - For the nine months ended June 30, 1996, operating income totaled \$127 million, compared to \$130 million for the same period last year. Earnings from petrochemical's methanol business were down substantially, reflecting the exceptionally strong methanol market in 1995. Earnings were also down from the other petrochemical product lines, due mainly to higher feedstock costs this year. These negative comparisons were partially offset by a 58% improvement in operating income from specialty chemicals, led by strong earnings from the composite polymers and electronic chemicals businesses. Last year's acquisition of certain parts of

Aristech Chemical Corporation and other previous acquisitions were key factors in growing profits from specialty chemicals.

During the current year, Ashland Chemical acquired the shares of Sociedad Italo Espanola de Resinas, S.A. (SIER, S.A.), a Spanish unsaturated polyester resins manufacturer. One of five acquisitions completed during this year, SIER provides Ashland Chemical's Composite Polymers Division with its first manufacturing facility in Europe and is part of an ongoing strategy to expand internationally.

APAC

CURRENT QUARTER - For the three months ended June 30, 1996, APAC's construction operations reported record quarterly operating income of \$29 million, compared to \$26 million for the same period last year. APAC's results benefited from improved production and sales in all areas, including asphalt, aggregate and ready-mix concrete.

YEAR-TO-DATE - For the nine months ended June 30, operating income totaled \$53 million this year, compared to \$47 million last year. The increase in earnings reflected record operating income in the June quarter and strong revenues in the December quarter. Backlog at June 30, 1996, was \$663 million, compared to \$626 million last year. With a healthy backlog and continued emphasis on cost control, APAC is poised for an outstanding year.

COAL

CURRENT QUARTER - Ashland Coal's operating income totaled \$8 million for the quarter ended June 30, 1996, compared to \$18 million for the same quarter last year. Results for the current quarter reflected the continuing substantial adverse effects of the expiration of attractively priced contracts with Cincinnati Gas & Electric Company (CG&E) at the end of 1995. Sales volumes were also down in the current quarter, due to the significant decrease in production from the Hobet 07 operations, resulting from the cessation of dragline operations at that complex. In addition, cost per ton of coal sold rose slightly from the relatively lower costs achieved in last year's third quarter, reflecting increased contract mining costs at the Mingo Logan complex, a three-day cessation of operations at all three union mining complexes during a "memorial period" declared by the United Mine Workers of America, increased use of higher-cost purchased coal resulting from production shortfalls at the West Virginia CSX operations, and adverse localized mining conditions at one of the Kentucky mines.

YEAR-TO-DATE - For the nine months ended June 30, 1996, operating income amounted to \$30 million, compared to \$51 million for the same period last year. The decrease in earnings reflected the same factors described in the quarterly comparison, along with charges of \$4 million related to Ashland Coal's restructuring of its corporate and subsidiary support functions. Ashland Coal has announced that it expects results for the September quarter, which are heavily affected by miners' vacations, to be very weak. However, results for the December quarter are expected to be very strong, primarily as a

COAL (CONTINUED)

consequence of two major equipment moves scheduled for completion

later in calendar 1996. Once completed, these relocations are anticipated to lower mining costs, raise production and increase revenues for Ashland Coal. Anticipated December quarter results will be reduced if there is a delay in receiving a pending surface mining permit at the Hobet 21 mine.

EXPLORATION

CURRENT QUARTER - Exploration's operating income for the third quarter of fiscal 1996 totaled \$2 million, compared to essentially break-even results last year. Domestic operating income increased \$3 million with a 10% increase in the average natural gas price and lower dry hole costs being the largest components in the improvement. Earnings from foreign operations were down, reflecting reduced profitability from existing production in Nigeria and increased expenses associated with the ongoing exploration activity in that country.

As previously announced, the second well on the Okwori prospect offshore Nigeria encountered 297 feet of oil in a number of reservoirs. A third well, Okwori No. 3 South, has been drilled to a total depth of 11,810 feet. Ashland's preliminary evaluation indicates 378 feet of net oil pay in several zones. Casing has been set and evaluation is ongoing.

YEAR-TO-DATE - For the first nine months of fiscal 1996, Exploration recorded operating income of \$92 million, compared to a loss of \$1 million for the same period last year. Results for the current year include 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 9% increase in natural gas production and a 49 cent increase in the average price per thousand cubic feet of natural gas 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. Earnings from foreign operations increased \$3 million as last year's results included dry hole costs from the drilling of an exploratory well offshore Nigeria.

GENERAL CORPORATE EXPENSES

General corporate expenses were up \$6 million for the quarter and \$8 million for the nine months ended June 30, 1996, compared to last year's corresponding periods. Reflected in both the quarter and year-to-date comparisons were increased costs for incentive compensation and investment returns on deferred compensation account balances.

OTHER INCOME (EXPENSE)

For the three months ended June 30, 1996, interest expense totaled \$42 million, compared to \$47 million for June 1995 quarter. For the year-to-date period, interest expense totaled \$128 million, compared to \$125 million last year. These fluctuations reflected the changes in the average outstanding debt levels during these periods.

Equity income from Arch Mineral increased \$4 million for the quarter and \$5 million for the nine months ended June 30, 1996. The improvement in earnings for the quarter was due primarily to increased production and coal sales, resulting in part from the rescheduling of a two-week vacation shut-down for some Arch Mineral locations to July 1996. The effect of this vacation shut-down was included in June's results last year. Earnings for the year-to-date period reflected favorable mining conditions at the Arch of Kentucky and Arch of West Virginia operations, combined with reduced SG&A and interest costs. These positive comparisons were partially offset by a decline in profits at the Arch of Illinois and Lone Mountain operations due to lower margins and yields, respectively.

ASHLAND INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 and Ashland Coal have revolving credit agreements providing for borrowings of up to \$320 million and \$500 million, respectively, none of which were in use at June 30, 1996. 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 \$343 million outstanding at June 30, 1996.

Cash and cash equivalents at June 30, 1996, were \$71 million, compared to \$52 million at September 30, 1995. Cash flows from operations, a major source of Ashland's liquidity, amounted to \$342 million for the nine months ended June 30, 1996, compared to \$205 million for the nine months ended June 30, 1995. This increase was attributed primarily to an increased level of earnings and the proceeds Ashland received from the bankruptcy settlement previously discussed.

Working capital at June 30, 1996, was \$529 million, compared to \$481 million at September 30, 1995, and \$522 million at June 30, 1995. Liquid assets (cash, cash equivalents and accounts receivable) amounted to 76% of current liabilities at June 30, 1996, and 78% at 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 \$471 million below their replacement costs at June 30, 1996.

CAPITAL RESOURCES

For the nine months ended June 30, 1996, property additions amounted to \$296 million, compared to \$297 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 \$197 million and \$24 million, respectively. Ashland anticipates meeting its remaining 1996 capital requirements for property additions and dividends from internally generated funds. External financing may be necessary to provide funds for acquisitions.

Ashland's capital employed at June 30, 1996, consisted of debt (52%), deferred income taxes (1%), minority interest (4%), convertible preferred stock (7%), and common stockholders' equity (36%). Debt as a percent of capital employed was 52% at June 30, 1996, compared to 53% at September 30, 1995. At June 30, 1996, long-term debt included \$38 million of floating-rate debt, and the interest rates on an additional \$522 million of fixed-rate debt had been converted to floating rates through interest rate swap agreements. As a result, future interest costs will fluctuate based on short-term interest rates for the remainder of 1996 on \$560 million of Ashland's consolidated long-term debt, as well as any short-term notes and commercial paper.

At June 30, 1996, Ashland could issue up to an additional \$49 million in common stock under a shelf registration. During the nine months ended June 30, 1996, no shares were issued under this registration.

ENVIRONMENTAL MATTERS

Federal, state and local statutes 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

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ASHLAND INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS

ENVIRONMENTAL MATTERS (continued)

effect on the conduct of its businesses. Although it cannot predict accurately 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 on certain specific environmental proceedings and investigations, see the "Legal Proceedings" section of this Form 10-Q. 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.

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PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ENVIRONMENTAL PROCEEDINGS - (1) As of June 30, 1996, Ashland was subject to 76 notices received from the USEPA and similar state agencies identifying Ashland as a "potentially responsible party" ("PRP") under Superfund or similar state laws 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 or a state agency in accordance with procedures established under regulations, in which Ashland may be participating as a member of various PRP groups. Generally, the type of relief sought includes remediation of contaminated soil and/or groundwater, reimbursement for the costs of site cleanup or oversight expended, and/or long-term monitoring of environmental conditions at the sites. 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) On or about April 21, 1995, Ashland received an Administrative Complaint and a Notice of Proposed Assessment of Administrative Civil Penalty from the United States Environmental Protection Agency ("USEPA") Region IV. The Complaint, which sought an administrative penalty of \$162,500, alleged 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. On July 2, 1996, the USEPA filed a motion to dismiss this Complaint with permission to refile at a later date in order to conduct a further investigation into this matter as well as Ashland's compliance with certain benzene and volatile organic compound regulations applicable to the wastewater system. The USEPA's motion was granted on August 2, 1996.

(3) On March 19, 1996, after consultation with the USEPA, the Kentucky Division for Air Quality issued a finding that Ashland had not demonstrated compliance with certain air regulations regarding volatile organic compounds at its Catlettsburg, Kentucky refinery, and referred the matter to USEPA - Region IV for formal enforcement action. Ashland filed a petition requesting a hearing before a Kentucky administrative hearing officer on the merits of the matter which has now been scheduled for October. Separately, the USEPA recently issued a Notice of Violation to Ashland regarding this matter.

ITEM 2. CHANGES IN SECURITIES

As reported in Ashland's Form 8-K filed on May 16, 1996, Ashland's shareholder rights plan adopted in 1986 expired upon the close of business on May 15, 1996 and was replaced by a new rights plan effective May 16, 1996. A description of the new rights plan and the nonvoting Preferred Stock Purchase Rights granted thereunder is contained in the Form 8-K.

(a) Exhibits

27 Financial Data Schedule

(b) Reports on Form 8-K

As described above, a report on Form 8-K was filed by Ashland on May 16, 1996 to disclose that on May 16, 1996, the Board of Directors of Ashland Inc. approved a shareholder rights plan to take effect at the close of business on May 16, 1996, which replaced Ashland's rights plan which expired at the close of business on May 15, 1996.

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 August 13, 1996

/s/ Kenneth L. Aulen

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

Date August 13, 1996

/s/ Thomas L. Feazell

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

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION
EXTRACTED FROM ASHLAND INC.'S 3RD QUARTER 10-Q AND IS
QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH 10-Q.

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