UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended JUNE 30, 1998

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 1-8590

MURPHY OIL CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 71-0361522 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 200 PEACH STREET P. O. BOX 7000, EL DORADO, ARKANSAS | 71731-7000 |
| (Address of principal executive offices) | (Zip Code) |

(870) 862-6411
(Registrant's telephone number, including area code)

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.

[X] Yes    No

Number of shares of Common Stock, $1.00 par value, outstanding at June 30, 1998 was 44,961,027.

PART I - FINANCIAL INFORMATION

Murphy Oil Corporation and Consolidated Subsidiaries
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars)

| | (unaudited) June 30, 1998 | December 31, 1997 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 22,636 | 24,288 |
| Accounts receivable, less allowance for doubtful accounts of $12,063 in 1998 and $13,530 in 1997 | 248,082 | 272,447 |
| Inventories | | |
| Crude oil and blend stocks | 60,282 | 55,075 |
| Finished products | 42,458 | 64,394 |
| Materials and supplies | 36,899 | 38,947 |
| Prepaid expenses | 44,698 | 47,323 |
| Deferred income taxes | 13,365 | 15,278 |

| | | |
|---|---|---|
| Total current assets | 468,420 | 517,752 |
| Property, plant and equipment, at cost less accumulated depreciation, depletion and amortization of $2,830,739 in 1998 and $2,762,805 in 1997 | 1,704,003 | 1,655,838 |
| Deferred charges and other assets | 62,799 | 64,729 |
| Total assets | $2,235,222 | 2,238,319 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities | | |
| Current maturities of long-term obligations | $ 7,703 | 6,227 |
| Notes payable | - | 2,175 |
| Accounts payable and accrued liabilities | 369,153 | 435,390 |
| Income taxes | 23,582 | 25,627 |
| Total current liabilities | 400,438 | 469,419 |
| Notes payable and capitalized lease obligations | 92,886 | 28,367 |
| Nonrecourse debt of a subsidiary | 175,449 | 177,486 |
| Deferred income taxes | 143,024 | 136,390 |
| Reserve for dismantlement costs | 153,796 | 153,021 |
| Reserve for major repairs | 39,507 | 43,038 |
| Deferred credits and other liabilities | 151,454 | 151,247 |
| Stockholders' equity | | |
| Capital stock | | |
| Cumulative Preferred Stock, par $100, authorized 400,000 shares, none issued | - | - |
| Common Stock, par $1.00, authorized 80,000,000 shares, issued 48,775,314 shares | 48,775 | 48,775 |
| Capital in excess of par value | 511,417 | 509,615 |
| Retained earnings | 628,804 | 622,532 |
| Accumulated other comprehensive income - foreign currency translation | (7,058) | 891 |
| Unamortized restricted stock awards | (3,570) | (944) |
| Treasury stock, 3,814,287 shares of Common Stock in 1998, 3,883,883 shares in 1997, at cost | (99,700) | (101,518) |
| Total stockholders' equity | 1,078,668 | 1,079,351 |
| Total liabilities and stockholders' equity | $2,235,222 | 2,238,319 |

See Notes to Consolidated Financial Statements, page 4.

The Exhibit Index is on page 13.

Murphy Oil Corporation and Consolidated Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Thousands of dollars, except per share amounts)

| | Three Months Ended June 30, 1998 | Three Months Ended June 30, 1997 | Six Months Ended June 30, 1998 | Six Months Ended June 30, 1997 |
|---|---|---|---|---|
| REVENUES | | | | |
| Sales | $ 424,571 | 494,118 | 843,391 | 987,607 |
| Other operating revenues | 22,998 | 12,255 | 43,714 | 25,938 |
| Interest, income from equity companies and other nonoperating revenues | 1,076 | 1,351 | 2,191 | 2,495 |
| Total revenues | 448,645 | 507,724 | 889,296 | 1,016,040 |
| COSTS AND EXPENSES | | | | |
| Crude oil, products and related operating expenses | 323,975 | 376,197 | 653,396 | 739,467 |
| Exploration expenses, including undeveloped lease amortization | 21,906 | 23,224 | 39,960 | 51,774 |
| Selling and general expenses | 16,876 | 14,726 | 33,644 | 29,031 |
| Depreciation, depletion and amortization | 47,571 | 50,783 | 97,843 | 99,508 |
| Interest expense | 4,094 | 3,030 | 7,970 | 5,944 |
| Interest capitalized | (2,636) | (3,003) | (5,186) | (5,899) |
| Total costs and expenses | 411,786 | 464,957 | 827,627 | 919,825 |
| Income before income taxes | 36,859 | 42,767 | 61,669 | 96,215 |
| Federal and state income taxes | 12,680 | 10,369 | 20,413 | 21,340 |
| Foreign income taxes | 1,980 | 4,842 | 3,516 | 16,703 |
| NET INCOME | $ 22,199 | 27,556 | 37,740 | 58,172 |
| Net income per Common share - basic | $ .49 | .62 | .84 | 1.30 |
| Net income per Common share - diluted | $ .49 | .61 | .84 | 1.29 |
| Cash dividends per Common share | $ .35 | .325 | .70 | .65 |
| Average Common shares outstanding - basic | 44,959,704 | 44,876,554 | 44,948,944 | 44,875,096 |
| Average Common shares outstanding - diluted | 45,034,378 | 44,932,670 | 45,024,016 | 44,935,663 |

Murphy Oil Corporation and Consolidated Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Thousands of dollars)

| | Three Months Ended June 30, 1998 | Three Months Ended June 30, 1997 | Six Months Ended June 30, 1998 | Six Months Ended June 30, 1997 |
|---|---|---|---|---|
| Net income | $ 22,199 | 27,556 | 37,740 | 58,172 |
| Other comprehensive income - net gain (loss) from foreign currency translation | (14,328) | 4,973 | (7,949) | (7,894) |
| COMPREHENSIVE INCOME | $ 7,871 | 32,529 | 29,791 | 50,278 |

| | | | | |
|---|---|---|---|---|
| | ====== | ====== | ====== | ====== |

See Notes to Consolidated Financial Statements, page 4.

Murphy Oil Corporation and Consolidated Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Thousands of dollars)

| | Six Months Ended June 30, 1998 | 1997 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | $ 37,740 | 58,172 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation, depletion and amortization | 97,843 | 99,508 |
| Provisions for major repairs | 11,347 | 11,303 |
| Expenditures for major repairs and dismantlement costs | (17,210) | (10,977) |
| Exploratory expenditures charged against income | 34,554 | 46,626 |
| Amortization of undeveloped leases | 5,406 | 5,148 |
| Deferred and noncurrent income taxes | 11,526 | 11,574 |
| Pretax gains from disposition of assets | (708) | (3,225) |
| Other - net | 6,026 | 2,690 |
| | 186,524 | 220,819 |
| Net increase in operating working capital other than cash and cash equivalents | (20,602) | (67,905) |
| Other adjustments related to operating activities | (4,366) | (9,192) |
| Net cash provided by operating activities | 161,556 | 143,722 |
| **INVESTING ACTIVITIES** | | |
| Capital expenditures requiring cash | (197,088) | (228,807) |
| Proceeds from sale of property, plant and equipment | 3,584 | 5,553 |
| Other investing activities - net | (62) | 191 |
| Net cash required by investing activities | (193,566) | (223,063) |
| **FINANCING ACTIVITIES** | | |
| Increase in notes payable and capitalized lease obligations | 62,344 | 28,360 |
| Increase (decrease) in nonrecourse debt of a subsidiary | (561) | 1,390 |
| Cash dividends paid | (31,468) | (29,159) |
| Sale of treasury shares under employee stock purchase plan | 346 | - |
| Net cash provided by financing activities | 30,661 | 591 |
| Effect of exchange rate changes on cash and cash equivalents | (303) | (1,720) |
| Net decrease in cash and cash equivalents | (1,652) | (80,470) |
| Cash and cash equivalents at January 1 | 24,288 | 109,707 |
| Cash and cash equivalents at June 30 | $ 22,636 | 29,237 |
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES** | | |
| Cash income taxes paid, net of refunds | $ 23,559 | 37,639 |
| Interest paid, net of amounts capitalized | 2,999 | (1,621) |

See Notes to Consolidated Financial Statements, page 4.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These notes are an integral part of the financial statements of Murphy Oil Corporation and Consolidated Subsidiaries (Murphy/the Company) on pages 1 through 3 of this report on Form 10-Q.

NOTE A - INTERIM FINANCIAL STATEMENTS

The consolidated financial statements of the Company presented herein have not been audited by independent auditors, except for the Consolidated Balance Sheet at December 31, 1997. In the opinion of Murphy's management, the unaudited financial statements presented herein include all adjustments (consisting only of normal, recurring accruals) necessary to present fairly the Company's financial position at June 30, 1998, and the results of operations and cash flows for the three-month and six-month periods ended June 30, 1998 and 1997, in conformity with generally accepted accounting principles.

Financial statements and notes to consolidated financial statements included in this report on Form 10-Q should be read in conjunction with the Company's 1997 Annual Report on Form 10-K, as certain notes and other pertinent information have been abbreviated or omitted in this report. Financial results for the six months ended June 30, 1998 are not necessarily indicative of future results.

NOTE B - ENVIRONMENTAL CONTINGENCIES

The Company's worldwide operations are subject to numerous laws and regulations intended to protect the environment and/or impose remedial obligations. In addition, the Company is involved in personal injury and property damage claims, allegedly caused by exposure to or by the release or disposal of materials manufactured or used in the Company's operations. The Company operates or has previously operated certain sites or facilities, including refineries, oil and gas fields, service stations, and terminals, for which known or potential obligations for environmental remediation exist.

Under the Company's accounting policies, a liability for environmental obligations is recorded when an obligation is probable and the cost can be reasonably estimated. If there is a range of reasonably estimated costs, the most likely amount will be recorded, or if no amount is most likely, the minimum of the range is used. Recorded liabilities are reviewed quarterly and adjusted as needed. Actual cash expenditures often occur one or more years after recognition of a liability.

The Company's reserve for remedial obligations, which is included in "Deferred Credits and Other Liabilities" in the Consolidated Balance Sheets, contains certain amounts that are based on anticipated regulatory approval for proposed remediation of former refinery waste sites. If regulatory authorities require more costly alternatives than the proposed processes, future expenditures could exceed the amount reserved by up to an estimated $3 million.

The Company has received notices from the U.S. Environmental Protection Agency (EPA) that it is currently considered a Potentially Responsible Party (PRP) at two Superfund sites and has also been assigned responsibility by defendants at another Superfund site. The potential total cost to all parties to perform necessary remedial work at these sites may be substantial. Based on currently available information, the Company has reason to believe that it is a "de minimus" party as to ultimate responsibility at the three sites. The Company does not expect that its related remedial costs will be material to its financial condition or its results of operations, and it has not provided any reserve for remediation costs on Superfund sites. Additional information may become known in the future that would alter this assessment, including any requirement to bear a pro rata share of costs attributable to nonparticipating PRPs or indications of additional responsibility by the Company.

Although the Company is not aware of any environmental matters that might have a material effect on its financial condition, there is the possibility that expenditures could be required at currently unidentified sites, and new or revised regulatory requirements could necessitate additional expenditures at known sites. Such expenditures could materially affect the results of operations in a future period.

Certain liabilities for environmentally related obligations and prior environmental expenditures are expected to be recovered by the Company from other sources, primarily environmental funds maintained by the various states. Since no assurance can be given that recoveries from other sources will occur, the Company has not recognized a benefit for these potential recoveries at June 30, 1998.

## NOTE C - OTHER CONTINGENCIES

The Company's operations and earnings have been and may be affected by various other forms of governmental action both in the U.S. and throughout the world. Examples of such governmental action include, but are by no means limited to: tax increases and retroactive tax claims; restrictions on production; import and export controls; price controls; currency controls; allocation of supplies of crude oil and petroleum products and other goods; expropriation of property; restrictions and preferences affecting issuance of oil and gas or mineral leases; promotion of safety; governmental support for other forms of energy; and laws and regulations affecting the Company's relationships with employees, suppliers, customers, stockholders and others. Because governmental actions are often motivated by political considerations, may be taken without full consideration of their consequences, and may be taken in response to actions of other governments, it is not practical to attempt to predict the likelihood of such actions, the form the actions may take or the effect such actions may have on the Company.

In the normal course of its business activities, the Company is required under certain contracts with various governmental authorities and others to provide letters of credit that may be drawn upon if the Company fails to perform under those contracts. At June 30, 1998, the Company had contingent liabilities of $12 million on outstanding letters of credit and $13 million under certain financial guarantees.

## NOTE D - DERIVATIVE INSTRUMENTS

Derivative instruments are used by the Company on a limited basis to manage well-defined risks related to interest rates, foreign currency exchange rates and commodity prices. The use of derivative instruments is closely monitored by the Company's senior management, and all such transactions are designed to address risk-management objectives. The Company does not hold any derivatives for trading purposes, and it does not use derivatives with leveraged features. Derivative instruments are traded either with creditworthy major financial institutions or over national exchanges. Instruments that reduce the exposure of assets, liabilities or anticipated transactions to price, currency or interest rate risks are accounted for as hedges. Gains and losses on derivatives that cease to qualify as hedges are recognized in income or expense.

At June 30, 1998 and 1997, Murphy had interest rate swap agreements with notional amounts totaling $100 million and $70 million, respectively; these serve to convert an equal amount of variable rate long-term debt to fixed rates. The swaps outstanding at June 30, 1998 will mature in 2002 and 2004 and have a weighted-average fixed interest rate of 6.46 percent. Using the accrual/settlement method of accounting, the net amount to be received or paid on a quarterly basis under the swap agreements is accrued as part of "Interest Expense" in the Consolidated Statement of Income. Although the Company has not terminated an interest rate swap prior to maturity, if it did, any cash paid or received as settlement would be deferred and recognized as an adjustment to "Interest Expense" over the shorter of the remaining life of the debt or the remaining contractual life of the swap.

At June 30, 1998, the Company had a forward foreign currency exchange contract that serves to fix the U.S. dollar cost for Canadian dollar nonrecourse debt associated with the Company's investment in the Syncrude project. When the currency exchange contract matures in December 1998, Murphy will pay US $28.5 million to acquire the Canadian dollars needed to meet the payment of Cdn $38 million. The Company records the unrealized difference between the contract exchange rate and the actual period-ending exchange rate in the Consolidated Balance Sheet as an adjustment to "Nonrecourse Debt of a Subsidiary" with the offset to "Accumulated Other Comprehensive Income." When the contract is settled, any adjustment to the difference previously recorded will be included in the same accounts.

The Company previously used crude oil swap agreements to reduce a portion of the financial exposure of its U.S. refineries to crude oil price movements. Unrealized gains or losses on such swap contracts were generally deferred and recognized in connection with the associated crude oil purchase. If conditions indicated that the market price of finished products would not allow for recovery of the costs of the finished products, including any unrealized loss on the crude oil swap, a liability was provided for the nonrecoverable portion of the unrealized swap loss. The final swap matured in the third quarter of 1997. The Company recorded pretax operating results associated with crude oil swaps in "Crude Oil, Products and Related Operating Expenses" in the Consolidated Statement of Income. An after-tax gain of $4.1 million in the six months ended June 30, 1997 was due to crude oil swaps.

## NOTE E - NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information," in June 1997. This statement will alter the Company's disclosures about its operating segments beginning with the results for the year ending December 31, 1998 and for each period thereafter, with restated comparative disclosures for earlier periods. This statement does not amend any existing accounting procedures, but it requires disclosures about an enterprise's components for which separate financial information is available and regularly used by the chief operating decision maker in allocating resources and assessing performance. Although the Company has not fully determined the effects that the new statement will have on its disclosures in future consolidated financial statements, it expects to provide certain additional segment information for revenues, expenses and assets on a geographical basis.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This statement standardizes the disclosure requirements for pensions and other postretirement benefits and requires additional information on changes in the benefit obligations and fair value of plan assets. SFAS No. 132 does not change the measurement or recognition rules related to these benefit plans. To comply with this statement, Murphy will change the benefit plan disclosures in its consolidated financial statements for the year ending December 31, 1998.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement established accounting and reporting standards for derivative instruments and hedging activities. Effective January 1, 2000, it will require Murphy to recognize all derivatives as either assets or liabilities and to measure those instruments at fair value in its Consolidated Balance Sheet. A derivative meeting certain conditions may be designated as a hedge of a specific exposure; accounting for changes in a derivative's fair value will depend on the intended use of the derivative and the resulting designation. Any transition adjustments resulting from adopting this statement will be reported in net income or other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle. As described in Note D, the Company makes limited use of derivative instruments to hedge specific market risks. The Company has not yet determined the effects that SFAS No. 133 will have on its future consolidated financial statements or the amount of the cumulative adjustment that will be made upon adopting this new standard.

During 1997, the Securities and Exchange Commission amended Regulation S-K to require expanded disclosures concerning a broad range of market-sensitive instruments, including debt and equity securities and derivative instruments, beginning with the Company's 1998 Annual Report. Specifically, the new rules will require the Company to make disclosure outside of the consolidated financial statements of both quantitative and qualitative information concerning the market risks posed by risk-sensitive instruments. The Company has not determined which of several acceptable methods it will use to present the required quantitative and qualitative disclosures.

The American Institute of Certified Public Accountants' Accounting Standards Executive Committee issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," in early 1998. This statement requires that start-up and organization costs be expensed as incurred and is effective January 1, 1999. Upon adoption, all start-up costs carried as assets must be written off to net income as a cumulative adjustment. The Company believes that the amount of the cumulative adjustment required upon adoption of the statement will not be material to its financial position or its results of operations.

## NOTE F - YEAR 2000 ISSUES

The Company has assessed its electronic operating systems to identify those that are not Year 2000 compliant, is developing plans to correct noncompliant systems, and has started correcting certain systems. Although the Company cannot predict with any degree of certainty the total amount that will be spent to address this issue, the assessment indicates that up to $5 million of expense could be incurred through 1999 to modify systems to be Year 2000 compliant. The Company is also in the process of communicating with significant vendors and business partners to determine its risks relative to these third parties' systems on which the Company relies. Although the Company expects to have all of its major systems compliant by year-end 1999, there can be no assurance that the Company will not be adversely affected if internal or third-party operating systems encounter Year 2000 problems.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)

NOTE G - BUSINESS SEGMENTS (UNAUDITED)

| | Three Months Ended June 30, 1998 | | Three Months Ended June 30, 1997 | |
|---|---|---|---|---|
| (Millions of dollars) | Revenues | Income | Revenues | Income |
| Exploration and production* | | | | |
| United States | $ 51.1 | 7.9 | 62.3 | 8.8 |
| Canada | 31.8 | (.2) | 34.0 | 1.9 |
| United Kingdom | 20.3 | (1.8) | 26.2 | 2.2 |
| Ecuador | 4.7 | 1.2 | 7.8 | 2.7 |
| Other international | .4 | (6.3) | .8 | (4.2) |
| | 108.3 | .8 | 131.1 | 11.4 |
| Refining, marketing and transportation | | | | |
| United States | 278.3 | 15.2 | 328.5 | 13.0 |
| United Kingdom | 67.8 | 4.1 | 61.9 | 1.7 |
| Canada | 5.5 | 1.0 | 5.8 | 1.3 |
| | 351.6 | 20.3 | 396.2 | 16.0 |
| | 459.9 | 21.1 | 527.3 | 27.4 |
| Intersegment transfers elimination | (17.8) | - | (21.0) | - |
| | 442.1 | 21.1 | 506.3 | 27.4 |
| Corporate | 1.1 | (3.1) | 1.4 | .2 |
| Revenues/income before special items | 443.2 | 18.0 | 507.7 | 27.6 |
| Modification of U.K. natural gas sales contract | 4.0 | 2.8 | - | - |
| Net recovery pertaining to 1996 modifications of foreign crude oil contracts | 1.4 | 1.4 | - | - |
| Total revenues/net income | $ 448.6 | 22.2 | 507.7 | 27.6 |

| | Six Months Ended June 30, 1998 | | Six Months Ended June 30, 1997 | |
|---|---|---|---|---|
| (Millions of dollars) | Revenues | Income | Revenues | Income |
| Exploration and production* | | | | |
| United States | $ 103.3 | 14.9 | 130.6 | 20.9 |
| Canada | 63.0 | .3 | 78.5 | 9.1 |
| United Kingdom | 42.2 | (1.2) | 60.2 | 8.3 |
| Ecuador | 10.4 | 2.6 | 16.8 | 5.3 |
| Other international | 1.2 | (9.8) | 1.1 | (7.2) |
| | 220.1 | 6.8 | 287.2 | 36.4 |
| Refining, marketing and transportation | | | | |
| United States | 546.9 | 21.2 | 646.8 | 18.7 |
| United Kingdom | 141.9 | 8.6 | 119.1 | 2.1 |
| Canada | 12.5 | 2.9 | 12.5 | 3.0 |
| | 701.3 | 32.7 | 778.4 | 23.8 |
| | 921.4 | 39.5 | 1,065.6 | 60.2 |
| Intersegment transfers elimination | (39.7) | - | (52.1) | - |
| | 881.7 | 39.5 | 1,013.5 | 60.2 |
| Corporate | 2.2 | (6.0) | 2.5 | (2.0) |
| Revenues/income before special items | 883.9 | 33.5 | 1,016.0 | 58.2 |
| Modification of U.K. natural gas sales contract | 4.0 | 2.8 | - | - |
| Net recovery pertaining to 1996 modifications of foreign crude oil contracts | 1.4 | 1.4 | - | - |
| Total revenues/net income | $ 889.3 | 37.7 | 1,016.0 | 58.2 |

==============================================================================

*Additional details are presented in the tables on page 11.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO THREE MONTHS ENDED JUNE 30, 1997

Net income in the second quarter of 1998 totaled $22.2 million, $.49 a diluted share, compared to $27.6 million, $.61 a diluted share, in the second quarter a year ago. The current quarter included earnings from special items of $4.2 million, $.09 a diluted share. The special items in the 1998 quarter consisted of a $2.8 million benefit from modification of a natural gas sales contract in the U.K. and a $1.4 million benefit from partial recovery of a 1996 loss resulting from modification to a crude oil production contract in Ecuador. Cash flow from operating activities, excluding changes in noncash working capital items, totaled $99.1 million in the second quarter of 1998 compared to $107.3 million a year ago.

Murphy's worldwide downstream operations earned $20.3 million, up 27 percent from the $16 million earned a year ago, with refining operations in the U.S. and the U.K. particularly benefiting from lower crude costs. Exploration and production operations, reflecting a decline in average worldwide crude oil prices of nearly $5.00 a barrel, earned $.8 million in the current quarter compared to $11.4 million in the second quarter of 1997.

Exploration and production operations in the U.S. earned $7.9 million compared to $8.8 million in the second quarter of 1997. Operations in Canada lost $.2 million compared to earning $1.9 million a year ago, and U.K. operations reported a loss of $1.8 million in the current quarter compared to earnings of $2.2 million. Operations in Ecuador earned $1.2 million in the second quarter of 1998 compared to $2.7 million a year ago. Other international operations reported a loss of $6.3 million compared to a $4.2 million loss a year earlier. The Company's crude oil and condensate sales prices averaged $12.66 a barrel in the U.S. and $13.03 in the U.K., decreases of 32 percent and 29 percent, respectively. In Canada, sales prices averaged $12.00 a barrel for light oil, down 29 percent; $5.78 for heavy oil, down 44 percent; and $14.01 for synthetic oil, down 27 percent. The average sales price for production from the Hibernia field, offshore Canada, which came on stream in the fourth quarter of 1997, was $11.63 a barrel. In Ecuador, sales prices averaged $7.38 a barrel, down 36 percent. Total crude oil and gas liquids production averaged 54,476 barrels a day compared to 54,271 in the second quarter of 1997. An increase of 49 percent in synthetic oil production in Canada was offset by declines of 33 percent in U.S. production and 17 percent in Canadian heavy oil production, with the latter due to a selective shut-in of wells in response to the drop in heavy oil prices. In other areas, oil production at Hibernia averaged 2,318 barrels a day, production of Canadian light oil increased one percent, oil production in the U.K. was down two percent and oil production in Ecuador was essentially unchanged. Murphy's average natural gas sales price in the U.S. was $2.28 a thousand cubic feet (MCF) in the current quarter compared to $2.08 a year ago. The average natural gas sales price in Canada increased from $1.12 an MCF to $1.31. Sales prices averaged $2.69 an MCF in the U.K. compared to $2.50 a year ago. Total natural gas sales averaged 230 million cubic feet a day in the current quarter compared to 275 million a year ago. Sales of natural gas in the U.S. averaged 175 million cubic feet a day, down from 221 million in the second quarter of 1997. Natural gas sales in Canada increased seven percent, while U.K. sales were down 10 percent. Exploration expenses totaled $21.9 million compared to $23.2 million in 1997. The tables on page 11 provide additional details of the results of exploration and production operations for the second quarter of each year.

Refining, marketing and transportation operations in the U.S. earned $15.2 million compared to $13 million a year ago. Operations in the U.K. earned $4.1 million compared to $1.7 million in the second quarter of 1997. Earnings from purchasing, transporting and reselling crude oil in Canada were $1 million in the current quarter compared to $1.3 million in the second quarter of 1997. Refinery crude runs worldwide were 164,339 barrels a day compared to 162,727 in the second quarter of 1997. Worldwide refined product sales were 201,142 barrels a day, up from 179,181 a year ago.

Corporate functions, which include interest income and expense and corporate overhead not allocated to operating functions, reflected a loss of $3.1 million in the current quarter compared to earnings of $.2 million in the second quarter of 1997.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTD.)

RESULTS OF OPERATIONS (CONTD.)

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO SIX MONTHS ENDED JUNE 30, 1997

For the first six months of 1998, net income totaled $37.7 million, $.84 a diluted share, compared to $58.2 million, $1.29 a diluted share, a year ago. The current six-month period included total benefits of $4.2 million, $.09 a diluted share, from the previously mentioned special items. There were no special items during the six-month period of 1997.

Year-to-date earnings of the Company's worldwide downstream operations increased 37 percent, primarily because refining operations in the U.S. and the U.K. benefited from lower crude oil costs. This improvement was more than offset by a $29.6 million decrease in earnings from exploration and production operations for the first six months of 1998 as compared to the same period last year. The decrease in earnings from exploration and production was mainly caused by a decline of nearly $6.00 a barrel in average worldwide crude oil prices, lower natural gas sales prices, and lower U.S. natural gas sales volumes, partially offset by the effects of lower exploration expenses.

Earnings from exploration and production operations for the six months ended June 30, 1998 were $6.8 million, down from $36.4 million in 1997, as all producing areas were affected by the lower crude oil prices. Operations in the U.S. earned $14.9 million for the first half of 1998 compared to $20.9 million in the prior period, and Canadian operations earned $.3 million compared to $9.1 million in 1997. Decreases from the prior year also occurred in the U.K., which had a loss of $1.2 million compared to earnings of $8.3 million, and in Ecuador, which had earnings of $2.6 million compared to $5.3 million. Other international operations recorded losses of $9.8 million in the first six months of 1998 and $7.2 million in the 1997 period. The Company's crude oil and condensate sales prices averaged $13.65 a barrel in the U.S., down 32 percent, and $13.51 in the U.K., down 30 percent. In Canada, sales prices averaged $12.63 a barrel for light oil, down 32 percent from last year; $5.41 for heavy oil, down 54 percent; and $14.56 for synthetic oil, down 30 percent. The average crude oil sales price for production from the Hibernia field, which came on stream in the fourth quarter of 1997, was $12.33 a barrel, while the average sales price in Ecuador was $7.70 a barrel, down 39 percent. Crude oil and gas liquids production for the first half of 1998 averaged 54,269 barrels a day compared to 54,672 during the same period of 1997. Oil production at Hibernia averaged 2,399 barrels a day, and production of Canadian synthetic oil increased 24 percent to 10,259. Canadian heavy oil production was down nine percent to 9,555 barrels a day due to a selective shut-in of wells in response to the drop in heavy oil prices. In other areas, crude oil and gas liquids production averaged 8,267 barrels a day in the U.S, down 27 percent; 3,879 for Canadian light oil, down four percent; 12,400 in the U.K., down six percent; and 7,510 in Ecuador, essentially unchanged. Natural gas sales prices for the first six months of 1998 averaged $2.30 an MCF in the U.S., down four percent; $1.21 in Canada, down 17 percent; and $2.34 in the U.K., down 14 percent. Total natural gas sales averaged 240 million cubic feet a day in 1998 compared to 260 million in 1997. Sales of natural gas in the U.S. averaged 182 million cubic feet a day, down nine percent. In other areas, average natural gas sales volumes increased six percent in Canada and were down 27 percent in the U.K., where production from the Amethyst field was shut in during the early part of the year to repair pipeline damages. Exploration expenses totaled $40 million for the six months ended June 30, 1998 compared to $51.8 million a year ago. Exploration expenses were down in the U.S. and Canada, but were up in the U.K. and other international areas. The tables on page 11 provide additional details of the results of exploration and production operations for the first half of each year.

Refining, marketing and transportation operations in the U.S. benefited from slightly higher margins and earned $21.2 million in the first six months of 1998 compared to $18.7 million for the same period last year, which included after-tax benefits of $4.1 million related to crude oil swap agreements. Operations in the U.K. earned $8.6 million in the first half of 1998 compared to $2.1 million in the prior year. Earnings from purchasing, transporting and reselling crude oil in Canada were $2.9 million in the current year compared to $3 million a year ago. Refinery crude runs worldwide were 165,678 barrels a day compared to 157,199 a year ago. Petroleum product sales were 198,806 barrels a day, up from 169,478 in 1997.

Financial results from corporate functions reflected a loss of $6 million in the first half of 1998 compared to a loss of $2 million a year ago.

## FINANCIAL CONDITION

Net cash provided by operating activities was $161.6 million for the first six months of 1998 compared to $143.7 million for the same period in 1997. Changes in operating working capital other than cash and cash equivalents required cash of $20.6 million in the first six months of 1998 and $67.9 million in the 1997 period. Cash provided by operating activities was reduced by expenditures for refinery turnarounds and abandonment of oil and gas properties totaling $17.2 million in the current year and $11 million in 1997. Predominant uses of cash in both years were for capital expenditures (which, including amounts expensed, are summarized in the following table) and payment of dividends.

| Capital Expenditures | Six Months Ended June 30, | |
|---|---|---|
| (Millions of dollars) | 1998 | 1997 |
| Exploration and production. . . . . . . . . . . | $174.9 | 213.9 |
| Refining, marketing and transportation. . . . | 21.1 | 14.4 |
| Corporate . . . . . . . . . . . . . . . . . . . . . | 1.1 | .5 |
| | $197.1 | 228.8 |

Working capital at June 30, 1998 was $68 million, up $19.6 million from December 31, 1997. This level of working capital does not fully reflect the Company's liquidity position, because the lower historical costs assigned to inventories under LIFO accounting were $52.7 million below current costs at June 30, 1998.

At June 30, 1998, long-term nonrecourse debt of a subsidiary was $175.4 million, down slightly from December 31, 1997 due to changes in foreign currency exchange rates. Notes payable and capitalized lease obligations of $92.9 million were up $64.5 million due to additional borrowings for certain oil and gas development projects. A summary of capital employed at June 30, 1998 and December 31, 1997 follows.

| Capital Employed | June 30, 1998 | | December 31, 1997 | |
|---|---|---|---|---|
| (Millions of dollars) | Amount | % | Amount | % |
| Notes payable and capitalized lease obligations. . . . . . . . . . . . | $ 92.9 | 7 | 28.4 | 2 |
| Nonrecourse debt of a subsidiary. . | 175.4 | 13 | 177.5 | 14 |
| Stockholders' equity . . . . . . . . | 1,078.7 | 80 | 1,079.4 | 84 |
| | $1,347.0 | 100 | 1,285.3 | 100 |

OIL AND GAS OPERATING RESULTS* (UNAUDITED)

| (Millions of dollars) | United States | Canada | United Kingdom | Ecuador | Other | Synthetic Oil - Canada | Total |
|---|---|---|---|---|---|---|---|
| **THREE MONTHS ENDED JUNE 30, 1998** | | | | | | | |
| Oil and gas sales and operating revenues | $ 51.1 | 16.7 | 20.3 | 4.7 | .4 | 15.1 | 108.3 |
| Production costs | 9.8 | 8.1 | 7.7 | 1.7 | - | 9.8 | 37.1 |
| Depreciation, depletion and amortization | 17.1 | 7.7 | 9.0 | 2.5 | - | 1.7 | 38.0 |
| Exploration expenses | | | | | | | |
| Dry hole costs | 5.6 | 2.2 | - | - | 5.6 | - | 13.4 |
| Geological and geophysical costs | .2 | .9 | 2.3 | - | .7 | - | 4.1 |
| Other costs | .6 | .1 | .6 | - | .4 | - | 1.7 |
| | 6.4 | 3.2 | 2.9 | - | 6.7 | - | 19.2 |
| Undeveloped lease amortization | 1.6 | 1.1 | - | - | - | - | 2.7 |
| Total exploration expenses | 8.0 | 4.3 | 2.9 | - | 6.7 | - | 21.9 |
| Selling and general expenses | 4.0 | 1.5 | .9 | .1 | .4 | - | 6.9 |
| Income tax provisions (benefits) | 4.3 | (2.4) | 1.6 | (.8) | (.4) | 1.3 | 3.6 |
| Results of operations (excluding corporate overhead and interest) | $ 7.9 | (2.5) | (1.8) | 1.2 | (6.3) | 2.3 | .8 |
| **THREE MONTHS ENDED JUNE 30, 1997** | | | | | | | |
| Oil and gas sales and operating revenues | $ 62.3 | 20.2 | 26.2 | 7.8 | .8 | 13.8 | 131.1 |
| Production costs | 11.4 | 9.6 | 9.4 | 2.1 | - | 8.3 | 40.8 |
| Depreciation, depletion and amortization | 20.2 | 7.2 | 10.4 | 2.7 | - | 1.4 | 41.9 |
| Exploration expenses | | | | | | | |
| Dry hole costs | 8.8 | .3 | .6 | - | 2.5 | - | 12.2 |
| Geological and geophysical costs | 2.9 | 2.5 | .1 | - | .9 | - | 6.4 |
| Other costs | .6 | .1 | .5 | - | .9 | - | 2.1 |
| | 12.3 | 2.9 | 1.2 | - | 4.3 | - | 20.7 |
| Undeveloped lease amortization | 1.6 | .9 | - | - | - | - | 2.5 |
| Total exploration expenses | 13.9 | 3.8 | 1.2 | - | 4.3 | - | 23.2 |
| Selling and general expenses | 3.5 | 1.3 | .3 | .1 | .5 | - | 5.7 |
| Income tax provisions (benefits) | 4.5 | (.9) | 2.7 | .2 | .2 | 1.4 | 8.1 |
| Results of operations (excluding corporate overhead and interest) | $ 8.8 | (.8) | 2.2 | 2.7 | (4.2) | 2.7 | 11.4 |
| **SIX MONTHS ENDED JUNE 30, 1998** | | | | | | | |
| Oil and gas sales and operating revenues | $ 103.3 | 35.5 | 42.2 | 10.4 | 1.2 | 27.5 | 220.1 |
| Production costs | 19.7 | 17.7 | 15.6 | 3.5 | - | 16.9 | 73.4 |
| Depreciation, depletion and amortization | 35.4 | 16.4 | 18.9 | 5.0 | - | 3.2 | 78.9 |
| Exploration expenses | | | | | | | |
| Dry hole costs | 11.0 | 3.2 | - | - | 8.3 | - | 22.5 |
| Geological and geophysical costs | 2.3 | 2.9 | 2.6 | - | 1.0 | - | 8.8 |
| Other costs | .9 | .3 | 1.0 | - | 1.1 | - | 3.3 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 14.2 | 6.4 | 3.6 | - | 10.4 | - | 34.6 |
| Undeveloped lease amortization | 3.2 | 2.2 | - | - | - | - | 5.4 |
| Total exploration expenses | 17.4 | 8.6 | 3.6 | - | 10.4 | - | 40.0 |
| Selling and general expenses | 8.1 | 3.2 | 1.7 | .1 | .8 | - | 13.9 |
| Income tax provisions (benefits) | 7.8 | (5.7) | 3.6 | (.8) | (.2) | 2.4 | 7.1 |
| Results of operations (excluding corporate overhead and interest) | $ 14.9 | (4.7) | (1.2) | 2.6 | (9.8) | 5.0 | 6.8 |
| SIX MONTHS ENDED JUNE 30, 1997 | | | | | | | |
| Oil and gas sales and operating revenues | $ 130.6 | 47.7 | 60.2 | 16.8 | 1.1 | 30.8 | 287.2 |
| Production costs | 21.7 | 18.2 | 18.1 | 5.6 | - | 18.1 | 81.7 |
| Depreciation, depletion and amortization | 37.2 | 14.5 | 21.6 | 5.4 | - | 3.0 | 81.7 |
| Exploration expenses | | | | | | | |
| Dry hole costs | 23.6 | 2.5 | .6 | - | 2.5 | - | 29.2 |
| Geological and geophysical costs | 5.5 | 4.6 | .2 | - | 2.8 | - | 13.1 |
| Other costs | 1.1 | .3 | 1.1 | - | 1.9 | - | 4.4 |
| | 30.2 | 7.4 | 1.9 | - | 7.2 | - | 46.7 |
| Undeveloped lease amortization | 3.4 | 1.7 | - | - | - | - | 5.1 |
| Total exploration expenses | 33.6 | 9.1 | 1.9 | - | 7.2 | - | 51.8 |
| Selling and general expenses | 6.6 | 2.6 | 1.1 | .2 | .9 | - | 11.4 |
| Income tax provisions | 10.6 | .3 | 9.2 | .3 | .2 | 3.6 | 24.2 |
| Results of operations (excluding corporate overhead and interest) | $ 20.9 | 3.0 | 8.3 | 5.3 | (7.2) | 6.1 | 36.4 |

*Excludes special items.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are engaged in a number of legal proceedings, all of which the Company considers routine and incidental to its business and none of which is material as defined by the rules and regulations of the U.S. Securities and Exchange Commission.

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

At the annual meeting of security holders on May 13, 1998, the directors proposed by management were elected with a tabulation of votes to the nearest share as shown below.

| | For | Withheld |
|---|---|---|
| B. R. R. Butler | 37,718,797 | 619,915 |
| George S. Dembroski | 37,709,613 | 629,099 |
| Claiborne P. Deming | 37,696,151 | 642,561 |
| H. Rodes Hart | 37,710,529 | 628,183 |
| Vester T. Hughes Jr. | 37,717,205 | 621,507 |
| C. H. Murphy Jr. | 37,228,188 | 1,110,524 |
| Michael W. Murphy | 37,235,998 | 1,102,714 |
| R. Madison Murphy | 37,695,796 | 642,916 |
| William C. Nolan Jr. | 37,695,033 | 643,679 |
| Caroline G. Theus | 37,695,600 | 643,112 |
| Lorne C. Webster | 37,709,364 | 629,348 |

In addition, the earlier appointment of KPMG Peat Marwick LLP by the Board of Directors as independent auditors for 1998 was ratified with 38,292,323 shares voted in favor, 11,972 shares voted in opposition, and 34,417 shares not voted.

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

(a) The Exhibit Index on page 13 of this Form 10-Q report lists the exhibits that are hereby filed or incorporated by reference.

(b) No reports on Form 8-K have been filed for the quarter covered by this report.

### 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.

MURPHY OIL CORPORATION
(Registrant)

By /s/ Ronald W. Herman
--------------------------------
Ronald W. Herman, Controller
(Chief Accounting Officer and Duly Authorized Officer)

August 3, 1998
(Date)

EXHIBIT INDEX

| Exhibit No. | | Page Number or Incorporation by Reference to |
|---|---|---|
| 3.1 | Certificate of Incorporation of Murphy Oil Corporation as of September 25, 1986 | Exhibit 3.1, Page Ex. 3.1-1, of Murphy's Annual Report on Form 10-K for the year ended December 31, 1996 |
| 3.2 | Bylaws of Murphy Oil Corporation at January 24, 1996 | Exhibit 3.2, Page Ex. 3.2-1, of Murphy's Annual Report on Form 10-K for the year ended December 31, 1997 |
| 4 | Instruments Defining the Rights of Security Holders. Murphy is party to several long-term debt instruments in addition to the one in Exhibit 4.1, none of which authorizes securities exceeding 10 percent of the total consolidated assets of Murphy and its subsidiaries. Pursuant to Regulation S-K, item 601(b), paragraph 4(iii)(A), Murphy agrees to furnish a copy of each such instrument to the Securities and Exchange Commission upon request. | |
| 4.1 | Credit Agreement among Murphy Oil Corporation and certain subsidiaries and the Chase Manhattan Bank et al as of November 13, 1997 | Exhibit 4.1, Page Ex. 4.1-0, of Murphy's Annual Report on Form 10-K for the year ended December 31, 1997 |
| 4.2 | Rights Agreement dated as of December 6, 1989 between Murphy Oil Corporation and Harris Trust Company of New York, as Rights Agent | Exhibit 4.1, Page Ex. 4.1-0, of Murphy's Annual Report on Form 10-K for the year ended December 31, 1994 |
| 4.3 | Amendment No. 1 dated as of April 6, 1998 to Rights Agreement dated as of December 6, 1989 between Murphy Oil Corporation and Harris Trust Company of New York, as Rights Agent | Exhibit 3 of Murphy's Form 8-A/A, Amendment No. 1, filed April 14, 1998 under the Securities Exchange Act of 1934 |
| 10.1 | 1987 Management Incentive Plan as amended February 7, 1990 retroactive to February 3, 1988 | Exhibit 10.2, Page Ex. 10.2-0, of Murphy's Annual Report on Form 10-K for the year ended December 31, 1994 |
| 10.2 | 1992 Stock Incentive Plan as amended May 14, 1997 | Exhibit 10.2, Page Ex. 10.2-1, of Murphy's Report on Form 10-Q for the quarterly period ended June 30, 1997 |
| 10.3 | Employee Stock Purchase Plan | Exhibit 99.01 of Murphy's Form S-8 Registration Statement filed May 19, 1997 under the Securities Act of 1933 |
| 27 | Financial Data Schedule for the six months ended June 30, 1998 | Only in electronic filing |

Exhibits other than those listed above have been omitted since they are either not required or not applicable.

5

THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY UNAUDITED FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AT JUNE 30, 1998, AND THE CONSOLIDATED STATEMENT OF INCOME FOR THE SIX MONTHS THEN ENDED OF MURPHY OIL CORPORATION AND CONSOLIDATED SUBSIDIARIES AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS
DEC-31-1998
JUN-30-1998
22,636
0
260,145
12,063
139,639
468,420
4,534,742
2,830,739
2,235,222
400,438
268,335
0
0
48,775
1,029,893
2,235,222
843,391
889,296
751,239
751,239
39,960
0
2,784
61,669
23,929
37,740
0
0
0
37,740
.84
.84