

MARATHON OIL CORP
Form 10-Q
May 05, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2016

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 1-5153
Marathon Oil Corporation
(Exact name of registrant as specified in its charter)
Delaware 25-0996816
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
5555 San Felipe Street, Houston, TX 77056-2723
(Address of principal executive offices)

(713) 629-6600
(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. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

There were 847,648,273 shares of Marathon Oil Corporation common stock outstanding as of April 29, 2016.

MARATHON OIL CORPORATION

Unless the context otherwise indicates, references to “Marathon Oil,” “we,” “our,” or “us” in this Form 10-Q are references to Marathon Oil Corporation, including its wholly-owned and majority-owned subsidiaries, and its ownership interests in equity method investees (corporate entities, partnerships, limited liability companies and other ventures over which Marathon Oil exerts significant influence by virtue of its ownership interest).

For certain industry specific terms used in this Form 10-Q, please see "Definitions" in our 2015 Annual Report on Form 10-K.

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Part I - Financial Information

Item 1. Financial Statements

MARATHON OIL CORPORATION

Consolidated Statements of Income (Unaudited)

(In millions, except per share data)	Three Months Ended March 31,	
	2016	2015
Revenues and other income:		
Sales and other operating revenues, including related party	\$714	\$1,280
Marketing revenues	58	204
Income from equity method investments	14	36
Net gain (loss) on disposal of assets	(60)	1
Other income	4	11
Total revenues and other income	730	1,532
Costs and expenses:		
Production	328	444
Marketing, including purchases from related parties	58	205
Other operating	109	107
Exploration	24	90
Depreciation, depletion and amortization	609	821
Impairments	1	—
Taxes other than income	48	67
General and administrative	151	171
Total costs and expenses	1,328	1,905
Income (loss) from operations	(598)	(373)
Net interest and other	(85)	(47)
Income (loss) before income taxes	(683)	(420)
Provision (benefit) for income taxes	(276)	(144)
Net income (loss)	\$(407)	\$(276)
Net income (loss) per share:		
Basic	\$(0.56)	\$(0.41)
Diluted	\$(0.56)	\$(0.41)
Dividends per share	\$0.05	\$0.21
Weighted average common shares outstanding:		
Basic	730	675
Diluted	730	675

The accompanying notes are an integral part of these consolidated financial statements.

MARATHON OIL CORPORATION

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
(In millions)	2016	2015
Net income (loss)	\$(407)	\$(276)
Other comprehensive income (loss)		
Postretirement and postemployment plans		
Change in actuarial loss and other	(24)	76
Income tax provision (benefit)	9	(27)
Postretirement and postemployment plans, net of tax	(15)	49
Comprehensive income (loss)	\$(422)	\$(227)

The accompanying notes are an integral part of these consolidated financial statements.

MARATHON OIL CORPORATION
Consolidated Balance Sheets (Unaudited)

	March 31, 2016	December 31, 2015
(In millions, except per share data)		
Assets		
Current assets:		
Cash and cash equivalents	\$2,072	\$ 1,221
Receivables, less reserve of \$4 and \$4	779	912
Inventories	306	313
Other current assets	111	144
Total current assets	3,268	2,590
Equity method investments	959	1,003
Property, plant and equipment, less accumulated depreciation, depletion and amortization of \$22,763 and \$23,260	26,737	27,061
Goodwill	115	115
Other noncurrent assets	1,789	1,542
Total assets	\$32,868	\$ 32,311
Liabilities		
Current liabilities:		
Accounts payable	\$ 1,084	\$ 1,313
Payroll and benefits payable	79	133
Accrued taxes	151	132
Other current liabilities	211	150
Long-term debt due within one year	1	1
Total current liabilities	1,526	1,729
Long-term debt	7,280	7,276
Deferred tax liabilities	2,368	2,441
Defined benefit postretirement plan obligations	446	403
Asset retirement obligations	1,614	1,601
Deferred credits and other liabilities	283	308
Total liabilities	13,517	13,758
Commitments and contingencies		
Stockholders' Equity		
Preferred stock – no shares issued or outstanding (no par value, 26 million shares authorized)	—	—
Common stock:		
Issued – 937 million shares and 770 million shares (par value \$1 per share, 1.1 billion shares authorized)	937	770
Securities exchangeable into common stock – no shares issued or outstanding (no par value, 29 million shares authorized)	—	—
Held in treasury, at cost – 89 million and 93 million shares	(3,397)	(3,554)
Additional paid-in capital	7,428	6,498
Retained earnings	14,533	14,974
Accumulated other comprehensive loss	(150)	(135)
Total stockholders' equity	19,351	18,553
Total liabilities and stockholders' equity	\$32,868	\$ 32,311

The accompanying notes are an integral part of these consolidated financial statements.

MARATHON OIL CORPORATION
Consolidated Statements of Cash Flows (Unaudited)

(In millions)	Three Months Ended March 31,	
	2016	2015
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net income (loss)	\$(407)	\$(276)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income taxes	(320)	(179)
Depreciation, depletion and amortization	609	821
Impairments	1	—
Pension and other postretirement benefits, net	14	(7)
Exploratory dry well costs and unproved property impairments	11	67
Net (gain) loss on disposal of assets	60	(1)
Equity method investments, net	30	3
Changes in:		
Current receivables	133	388
Inventories	7	(22)
Current accounts payable and accrued liabilities	(121)	(469)
All other operating, net	57	(16)
Net cash provided by operating activities	74	309
Investing activities:		
Additions to property, plant and equipment	(454)	(1,452)
Disposal of assets	17	2
Investments - return of capital	14	10
All other investing, net	2	(2)
Net cash used in investing activities	(421)	(1,442)
Financing activities:		
Common stock issuance	1,232	—
Dividends paid	(34)	(142)
All other financing, net	—	4
Net cash provided by (used in) financing activities	1,198	(138)
Effect of exchange rate on cash and cash equivalents	—	(1)
Net increase (decrease) in cash and cash equivalents	851	(1,272)
Cash and cash equivalents at beginning of period	1,221	2,398
Cash and cash equivalents at end of period	\$2,072	\$1,126

The accompanying notes are an integral part of these consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

These consolidated financial statements are unaudited; however, in the opinion of management, these statements reflect all adjustments necessary for a fair statement of the results for the periods reported. All such adjustments are of a normal recurring nature unless disclosed otherwise. These consolidated financial statements, including notes, have been prepared in accordance with the applicable rules of the SEC and do not include all of the information and disclosures required by U.S. GAAP for complete financial statements.

These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2015 Annual Report on Form 10-K. The results of operations for the first quarter of 2016 are not necessarily indicative of the results to be expected for the full year.

2. Accounting Standards

Not Yet Adopted

In March 2016, the FASB issued a new accounting standards update that changes several aspects of accounting for share-based payment transactions, including a requirement to recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This standard is effective for us in the first quarter of 2017 and varying transition methods (modified retrospective, retrospective or prospective) should be applied to different provisions of the standard. Early adoption is permitted. We are evaluating the provisions of this accounting standards update and assessing the impact, if any, it may have on our consolidated results of operations, financial position or cash flows.

In February 2016, the FASB issued a new lease accounting standard, which requires lessees to recognize most leases, including operating leases, on the balance sheet as a right of use asset and lease liability. Short-term leases can continue being accounted for off balance sheet based on a policy election. This standard is effective for us in the first quarter of 2019 and should be applied using a modified retrospective approach at the beginning of the earliest period presented in the financial statements. Early adoption is permitted. We are evaluating the provisions of this accounting standards update and assessing the impact it may have on our consolidated results of operations, financial position or cash flows.

In January 2016, the FASB issued an accounting standards update that addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This standard is effective for us in the first quarter of 2018. Early adoption is allowed for certain provisions. We do not expect the adoption of this standard to have a significant impact on our consolidated results of operations, financial position or cash flows.

In July 2015, the FASB issued an update that requires an entity to measure inventory at the lower of cost and net realizable value. This excludes inventory measured using LIFO or the retail inventory method. This standard is effective for us in the first quarter of 2017 and will be applied prospectively. Early adoption is permitted. We do not expect the adoption of this standard to have a significant impact on our consolidated results of operations, financial position or cash flows.

In August 2014, the FASB issued an update that requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. This standard is effective for us for the annual period ending after December 15, 2016 and for annual periods and interim periods thereafter. Early adoption is permitted. We do not expect the adoption of this standard to have a significant impact on our consolidated results of operations, financial position or cash flows.

In May 2014, the FASB issued an update that supersedes the existing revenue recognition requirements. This standard includes a five-step revenue recognition model to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Among other things, the standard requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. This standard is effective for us in the first quarter of 2018 and should be applied retrospectively to each prior reporting

period presented or with the cumulative effect of initially applying the update recognized at the date of initial application. Early adoption is permitted. We are evaluating the provisions of this accounting standards update and assessing the impact, if any, it may have on our consolidated results of operations, financial position or cash flows.

Recently Adopted

In May 2015, the FASB issued an update that removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendment also

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Notes to Consolidated Financial Statements (Unaudited)

removes certain disclosure requirements regarding all investments that are eligible to be measured using the net asset value per share practical expedient and only requires certain disclosures on those investments for which an entity elects to use the net asset value per share expedient. This standard is effective for us in the first quarter of 2016 and was applied on a retrospective basis. This standard only modifies disclosure requirements; as such, there was no impact on our consolidated results of operations, financial position or cash flows.

In February 2015, the FASB issued an amendment to the guidance for determining whether an entity is a variable interest entity ("VIE"). The standard does not add or remove any of the five characteristics that determine whether an entity is a VIE. However, it does change the manner in which a reporting entity assesses one of the characteristics. In particular, when decision-making over the entity's most significant activities has been outsourced, the standard changes how a reporting entity assesses if the equity holders at risk lack decision making rights. This standard is effective for us in the first quarter of 2016. The adoption of this standard did not have a significant impact on our consolidated results of operations, financial position or cash flows.

3. Variable Interest Entity

The owners of the Athabasca Oil Sands Project, in which we hold a 20% undivided interest, contracted with a wholly owned subsidiary of a publicly traded Canadian limited partnership ("Corridor Pipeline") to provide materials transportation capabilities among the Muskeg River and Jackpine mines, the Scotford upgrader and markets in Edmonton, Alberta, Canada. Costs under this contract are accrued and recorded on a monthly basis, with current liabilities of \$2 million recorded at March 31, 2016 and December 31, 2015. This contract qualifies as a variable interest contractual arrangement, and the Corridor Pipeline qualifies as a VIE. We hold a variable interest but are not the primary beneficiary because our shipments are only 20% of the total; therefore, the Corridor Pipeline is not consolidated by us. Our maximum exposure to loss as a result of our involvement with this VIE is the amount we expect to pay over the contract term, which was \$472 million as of March 31, 2016. The liability on our books related to this contract at any given time will reflect amounts due for the immediately previous month's activity, which is substantially less than the maximum exposure over the contract term.

4. Income (Loss) per Common Share

Basic income (loss) per share is based on the weighted average number of common shares outstanding. Diluted income per share assumes exercise of stock options, provided the effect is not antidilutive. The per share calculations below exclude 13 million stock options for the first three months of 2016 and 2015 that were antidilutive.

	Three Months Ended March 31,	
(In millions, except per share data)	2016	2015
Net income (loss)	\$(407)	\$(276)
Weighted average common shares outstanding	730	675
Weighted average common shares, diluted	730	675
Net income (loss) per share:		
Basic	\$(0.56)	\$(0.41)
Diluted	\$(0.56)	\$(0.41)

5. Dispositions

North America E&P Segment

In April 2016, we entered into agreements to sell our Wyoming upstream and midstream assets for proceeds of \$870 million, before closing adjustments. The upstream properties are comprised mainly of waterflood developments in the Big Horn and Wind River basins. The midstream assets include the 570-mile Red Butte pipeline. We expect the transaction to close mid-year 2016.

In March and April 2016, we entered into separate agreements to sell our 10% working interest in the outside-operated Shenandoah discovery in the Gulf of Mexico, operated natural gas assets in the Piceance basin in Colorado, and certain undeveloped acreage in West Texas for a combined total of approximately \$80 million, before closing adjustments. The transactions are expected to close mid-year 2016.

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Notes to Consolidated Financial Statements (Unaudited)

6. Segment Information

We have three reportable operating segments. Each of these segments is organized and managed based upon both geographic location and the nature of the products and services it offers.

• **N.A. E&P** – explores for, produces and markets crude oil and condensate, NGLs and natural gas in North America;

• **Int'l E&P** – explores for, produces and markets crude oil and condensate, NGLs and natural gas outside of North America and produces and markets products manufactured from natural gas, such as LNG and methanol, in E.G.; and

• **Oil Sands Mining (“OSM”)** – mines, extracts and transports bitumen from oil sands deposits in Alberta, Canada, and upgrades the bitumen to produce and market synthetic crude oil and vacuum gas oil.

Information regarding assets by segment is not presented because it is not reviewed by the chief operating decision maker (“CODM”). Segment income represents income which excludes certain items not allocated to segments, net of income taxes, attributable to the operating segments. A portion of our corporate and operations support general and administrative costs are not allocated to the operating segments. These unallocated costs primarily consist of employment costs (including pension effects), professional services, facilities and other costs associated with corporate and operations support activities. Gains or losses on dispositions, certain impairments, change in tax expense associated with a tax rate change, unrealized gains or losses on commodity derivative instruments, or other items that affect comparability (as determined by the CODM) also are not allocated to operating segments.

(In millions)	Three Months Ended March 31, 2016				
	N.A. E&P	Int'l E&P	OSM	Not Allocated to Segments	Total
Sales and other operating revenues	\$493	\$96	\$148	\$ (23) ^(c)	\$714
Marketing revenues	31	15	12	—	58
Total revenues	524	111	160	(23)	772
Income from equity method investments	—	14	—	—	14
Net gain (loss) on disposal of assets and other income	1	6	—	(63) ^(d)	(56)
Less:					
Production expenses	134	53	141	—	328
Marketing costs	32	14	12	—	58
Exploration expenses	18	6	—	—	24
Depreciation, depletion and amortization	487	50	60	12	609
Impairments	1	—	—	—	1
Other expenses ^(a)	118	16	7	119	260 ^(e)
Taxes other than income	42	—	5	1	48
Net interest and other	—	—	—	85	85
Income tax benefit	(112)	(12)	(17)	(135)	(276)
Segment income (loss) / Net income (loss)	\$(195)	\$4	\$(48)	\$(168)	\$(407)
Capital expenditures ^(b)	\$315	\$32	\$9	\$3	\$359

(a) Includes other operating expenses and general and administrative expenses.

(b) Includes accruals.

(c) Unrealized loss on commodity derivative instruments.

(d) Related to the net loss on disposal of assets (see Note 5).

(e) Includes pension settlement loss of \$48 million and severance related expenses associated with workforce reductions of \$7 million (see Note 7).

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Notes to Consolidated Financial Statements (Unaudited)

(In millions)	Three Months Ended March 31, 2015					Total
	N.A. E&P	Int'l E&P	OSM	Not Allocated to Segments	(c)	
Sales and other operating revenues	\$850	\$182	\$225	\$ 23	(c)	\$1,280
Marketing revenues	178	26	—	—		204
Total revenues	1,028	208	225	23		1,484
Income from equity method investments	—	36	—	—		36
Net gain on disposal of assets and other income	—	10	1	1		12
Less:						
Production expenses	202	67	175	—		444
Marketing costs	180	25	—	—		205
Exploration expenses	35	55	—	—		90
Depreciation, depletion and amortization	683	64	62	12		821
Other expenses ^(a)	117	23	9	129	(d)	278
Taxes other than income	61	—	5	1		67
Net interest and other	—	—	—	47		47
Income tax benefit	(89)	(3)	(6)	(46)		(144)
Segment income (loss) / Net income (loss)	\$(161)	\$23	\$(19)	\$(119)		\$(276)
Capital expenditures ^(b)	\$933	\$146	\$21	\$ 2		\$1,102

(a) Includes other operating expenses and general and administrative expenses.

(b) Includes accruals.

(c) Unrealized gain on commodity derivative instruments.

(d) Includes \$43 million of severance related expenses associated with a workforce reduction and pension settlement loss of \$17 million (see Note 7).

7. Defined Benefit Postretirement Plans

The following summarizes the components of net periodic benefit cost:

(In millions)	Three Months Ended March 31,			
	Pension Benefits		Other Benefits	
	2016	2015	2016	2015
Service cost	\$6	\$12	\$1	\$1
Interest cost	11	14	3	3
Expected return on plan assets	(15)	(19)	—	—
Amortization:				
– prior service cost (credit)	(2)	1	(1)	(1)
– actuarial loss	3	7	—	—
Net settlement loss ^(a)	48	17	—	—
Net curtailment loss (gain) ^(b)	—	1	—	(6)
Net periodic benefit cost	\$51	\$33	\$3	\$(3)

(a) Settlements are recognized as they occur, once it is probable that lump sum payments from a plan for a given year will exceed the plan's total service and interest cost for that year.

(b) Related to workforce reductions, which reduced the future expected years of service for employees participating in the plans.

During the first three months of 2016, we recorded the effects of settlements of our U.S. pension plans. As required, we remeasured the plans' assets and liabilities as of the applicable balance sheet dates. The cumulative effects of these events are included in the remeasurement and reflected in both the pension liability and net periodic benefit cost.

During the first three months of 2016, we made contributions of \$14 million to our funded pension plans. We expect to make additional contributions up to an estimated \$48 million to our funded pension plans over the remainder of 2016. During the first three months of 2016, we made payments of \$19 million and \$5 million related to unfunded pension plans and other postretirement benefit plans, respectively.

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Notes to Consolidated Financial Statements (Unaudited)

8. Income Taxes

Effective Tax Rate

The effective income tax rate is influenced by a variety of factors including the geographic and functional sources of income and the relative magnitude of these sources of income. The difference between the total provision and the sum of the amounts allocated to segments is reported in the "Not Allocated to Segments" column of the tables in Note 6. Our effective income tax rates for the first three months of 2016 and 2015 were 40% and 34%. In Libya, uncertainty remains around the timing of future production and sales levels. Reliable estimates of 2016 and 2015 Libyan annual ordinary income from our operations could not be made and the range of possible scenarios in the worldwide annual effective tax rate calculation demonstrates significant variability. Thus, the tax benefit applicable to Libyan ordinary loss was recorded as a discrete item in the first three months of 2016 and 2015. For the first three months of 2016 and 2015, estimated annual effective tax rates were calculated excluding Libya and applied to consolidated ordinary income (loss). Excluding Libya, the effective tax rates, would be 39% and 31% for the first three months of 2016 and 2015. The change was driven by a shift in jurisdictional income.

Deferred Tax Assets

In connection with our assessment of the realizability of our deferred tax assets, we consider whether it is more likely than not that some portion or all of our deferred tax assets will not be realized. In the event it is more likely than not that some portion or all of our deferred taxes will not be realized, such assets are reduced by a valuation allowance. Future increases to our valuation allowance are possible if our estimates and assumptions (particularly as they relate to downward revisions of our long-term commodity price forecast) are revised such that they reduce estimates of future taxable income during the carryforward period.

9. Inventories

Liquid hydrocarbons, natural gas and bitumen are recorded at weighted average cost and carried at the lower of cost or market value. Supplies and other items consist principally of tubular goods and equipment which are valued at weighted average cost and reviewed periodically for obsolescence or impairment when market conditions indicate.

	March	December
	31,	31,
(In millions)	2016	2015
Liquid hydrocarbons, natural gas and bitumen	\$ 33	\$ 35
Supplies and other items	273	278
Inventories, at cost	\$ 306	\$ 313

10. Property, Plant and Equipment, net of Accumulated Depreciation, Depletion and Amortization

	March	December
	31,	31,
(In millions)	2016	2015
North America E&P	\$ 14,953	\$ 15,226
International E&P	2,521	2,533
Oil Sands Mining	9,148	9,197
Corporate	115	105
Net property, plant and equipment	\$ 26,737	\$ 27,061

Our Libya operations continue to be impacted by civil unrest. Operations were interrupted in mid-2013 as a result of the shutdown of the Es Sider crude oil terminal, and although temporarily re-opened during the second half of 2014, production remains shut-in. Considerable uncertainty remains around the timing of future production and sales levels. As of March 31, 2016, our net property, plant and equipment investment in Libya is \$776 million, and total proved reserves (unaudited) in Libya as of December 31, 2015 are 235 million barrels of oil equivalent ("mmbobe"). We and our partners in the Waha concessions continue to assess the situation and the condition of our assets in Libya. Our periodic assessment of the carrying value of our net property, plant and equipment in Libya specifically considers the

net investment in the assets, the duration of our concessions and the reserves anticipated to be recoverable in future periods. The undiscounted cash flows related to our Libya assets continue to exceed the carrying value of \$776 million by a material amount.

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Notes to Consolidated Financial Statements (Unaudited)

Exploratory well costs capitalized greater than one year after completion of drilling were \$120 million and \$85 million as of March 31, 2016 and December 31, 2015. The \$35 million increase primarily relates to the Alba Block Sub Area B offshore Equatorial Guinea where the Rodo well reached total depth in the first quarter of 2015. We have since completed a seismic feasibility study and continue to finalize next steps in the Alba Block Sub Area B exploration program.

11. Fair Value Measurements

Fair Values - Recurring

The following tables present assets and liabilities accounted for at fair value on a recurring basis as of March 31, 2016 and December 31, 2015 by fair value hierarchy level.

(In millions)	March 31, 2016			
	Level 1		Level 2	Total
	1	2	3	
Derivative instruments, assets				
Commodity ^(a)	\$—	\$ 51	\$ —	\$ 51
Interest rate	—	12	—	12
Derivative instruments, assets	\$—	\$ 63	\$ —	\$ 63
Derivative instruments, liabilities				
Commodity ^(a)	\$—	\$ 24	\$ —	\$ 24
Derivative instruments, liabilities	\$—	\$ 24	\$ —	\$ 24

^(a) Derivative instruments are recorded on a net basis in the company's balance sheet (see Note 12).

(In millions)	December 31, 2015			
	Level 1		Level 2	Total
	1	2	3	
Derivative instruments, assets				
Commodity ^(a)	\$—	\$ 51	\$ —	\$ 51
Interest rate	\$—	\$ 8	\$ —	\$ 8
Derivative instruments, assets	\$—	\$ 59	\$ —	\$ 59
Derivative instruments, liabilities				
Commodity ^(a)	\$—	\$ 1	\$ —	\$ 1
Derivative instruments, liabilities	\$—	\$ 1	\$ —	\$ 1

^(a) Derivative instruments are recorded on a net basis in the company's balance sheet (see Note 12).

Commodity derivatives include three-way collars, extendable three-way collars, call options, swaps and swaptions. These instruments are measured at fair value using either the Black-Scholes Model or the Black Model. Inputs to both models include prices, interest rates, and implied volatility. The inputs to these models are categorized as Level 2 because predominantly all assumptions and inputs are observable in active markets throughout the term of the instruments.

Interest rate swaps are measured at fair value with a market approach using actionable broker quotes, which are Level 2 inputs. See Note 12 for additional discussion of the types of derivative instruments we use.

Fair Values – Goodwill

Unlike long-lived assets, goodwill must be tested for impairment at least annually, or between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Goodwill is tested for impairment at the reporting unit level. We estimate the fair value of our International E&P reporting unit using a combination of market and income approaches. The market approach referenced observable inputs specific to us and our industry, such as the price of our common equity, our enterprise value, and valuation multiples of us and our peers for the investor analyst community. The income approach utilized discounted cash flows, which were based on forecasted assumptions. Key assumptions to the income approach include future liquid hydrocarbon and natural gas pricing, estimated quantities of liquid hydrocarbons and natural gas proved

and probable reserves, estimated timing of production, discount rates, future capital requirements and operating expenses and tax rates. The assumptions used in the income approach are consistent with those that management uses to make business decisions. These valuations methodologies represent Level 3 fair value measurements. A triggering event related to price declines in our common stock required us to reassess our goodwill

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for impairment as of March 31, 2016. Based on the results of this assessment, we concluded no impairment was required. While the fair value of our International E&P reporting unit exceeded book value, subsequent commodity price and/or common stock declines may cause us to reassess our goodwill for impairment, and could result in non-cash impairment charges in the future.

Fair Values – Financial Instruments

Our current assets and liabilities include financial instruments, the most significant of which are receivables, long-term debt and payables. We believe the carrying values of our receivables and payables approximate fair value. Our fair value assessment incorporates a variety of considerations, including (1) the short-term duration of the instruments, (2) our credit rating, and (3) our historical incurrence of and expected future insignificant bad debt expense, which includes an evaluation of counterparty credit risk.

The following table summarizes financial instruments, excluding receivables, payables and derivative financial instruments, and their reported fair value by individual balance sheet line item at March 31, 2016 and December 31, 2015.

(In millions)	March 31, 2016		December 31, 2015	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Financial assets				
Other noncurrent assets	\$ 115	\$ 120	\$ 104	\$ 118
Total financial assets	\$ 115	\$ 120	\$ 104	\$ 118
Financial liabilities				
Other current liabilities	\$ 34	\$ 33	\$ 34	\$ 33
Long-term debt, including current portion ^(a)	6,575	7,291	6,723	7,291
Deferred credits and other liabilities	104	105	97	95
Total financial liabilities	\$ 6,713	\$ 7,429	\$ 6,854	\$ 7,419

^(a) Excludes capital leases, debt issuance costs and interest rate swap adjustments.

Fair values of our financial assets included in other noncurrent assets, and of our financial liabilities included in other current liabilities and deferred credits and other liabilities, are measured using an income approach and most inputs are internally generated, which results in a Level 3 classification. Estimated future cash flows are discounted using a rate deemed appropriate to obtain the fair value.

Most of our long-term debt instruments are publicly-traded. A market approach, based upon quotes from major financial institutions, which are Level 2 inputs, is used to measure the fair value of such debt. The fair value of our debt that is not publicly-traded is measured using an income approach. The future debt service payments are discounted using the rate at which we currently expect to borrow. All inputs to this calculation are Level 3.

12. Derivatives

For further information regarding the fair value measurement of derivative instruments, see Note 11. All of our interest rate and commodity derivatives are subject to enforceable master netting arrangements or similar agreements under which we may report net amounts. The following tables present the gross fair values of derivative instruments and the reported net amounts where they appear on the consolidated balance sheets.

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Notes to Consolidated Financial Statements (Unaudited)

(In millions)	March 31, 2016			Balance Sheet Location
	Asset	Liability	Net Asset	
Fair Value Hedges				
Interest rate	\$12	\$ —	\$ 12	Other noncurrent assets
Total Designated Hedges	\$12	\$ —	\$ 12	

Not Designated as Hedges				
Commodity	\$51	\$ 7	\$ 44	Other current assets
Total Not Designated as Hedges	\$51	\$ 7	\$ 44	
Total	\$63	\$ 7	\$ 56	

(In millions)	March 31, 2016			Balance Sheet Location
	Asset	Liability	Net Liability	
Not Designated as Hedges				
Commodity	\$—	\$ 17	\$ 17	Deferred credits and other liabilities
Total Not Designated as Hedges	\$—	\$ 17	\$ 17	
Total	\$—	\$ 17	\$ 17	

(In millions)	December 31, 2015			Balance Sheet Location
	Asset	Liability	Net Asset	
Fair Value Hedges				
Interest rate	\$8	\$ —	\$ 8	Other noncurrent assets
Total Designated Hedges	\$8	\$ —	\$ 8	
Not Designated as Hedges				
Commodity	\$51	\$ 1	\$ 50	Other current assets
Total Not Designated as Hedges	\$51	\$ 1	\$ 50	
Total	\$59	\$ 1	\$ 58	

Derivatives Designated as Fair Value Hedges

The following table presents, by maturity date, information about our interest rate swap agreements, including the weighted average, London Interbank Offer Rate (“LIBOR”)-based, floating rate.

Maturity Dates	March 31, 2016		December 31, 2015	
	Aggregated Notional Amount, LIBOR-Based, (in millions)	Weighted Average, Floating Rate	Aggregated Notional Amount, LIBOR-Based, (in millions)	Weighted Average, Floating Rate
October 1, 2017	\$600	4.92 %	\$600	4.73 %
March 15, 2018	\$300	4.77 %	\$300	4.66 %

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The pretax effects of derivative instruments designated as hedges of fair value in our consolidated statements of income are summarized in the table below. There is no ineffectiveness related to fair value hedges.

(In millions)	Income Statement Location	Gain (Loss)	
		Three Months Ended March 31, 2016	2015
Derivative			
Interest rate	Net interest and other	\$4	\$5
Hedged Item			
Long-term debt	Net interest and other	\$(4)	\$(5)

Derivatives not Designated as Hedges

During 2015 and the first quarter of 2016, we entered into multiple crude oil and natural gas derivatives indexed to NYMEX WTI and Henry Hub related to a portion of our forecasted North America E&P sales through December 2017. These commodity derivatives consist of three-way collars, extendable three-way collars, call options, swaps, and swaptions. Three-way collars consist of a sold call (ceiling), a purchased put (floor) and a sold put. The ceiling price is the maximum we will receive for the contract volumes, the floor is the minimum price we will receive, unless the market price falls below the sold put strike price. In this case, we receive the NYMEX WTI/Henry Hub price plus the difference between the floor and the sold put price. These commodity derivatives were not designated as hedges. The following table sets forth outstanding derivative contracts as of March 31, 2016 and the weighted average prices for those contracts:

Crude Oil ^(a)

	2016			Year Ending December 31, 2017
	Second Quarter	Third Quarter	Fourth Quarter	
Three-Way Collars ^(b)				
Volume (Bbls/day)	39,000	37,000	37,000	—
Price per Bbl:				
Ceiling	\$55.47	\$54.52	\$54.52	—
Floor	\$51.56	\$50.83	\$50.83	—
Sold put	\$41.67	\$41.22	\$41.22	—
Options ^(c)				
Volume (Bbls/day)	10,000	10,000	10,000	25,000
Price per Bbl	\$72.39	\$72.39	\$72.39	\$60.67
Swaps				
Volume (Bbls/day)	25,000	—	—	—
Price per Bbl	\$39.25	—	—	—

^(a) Subsequent to March 31, 2016, we entered into 10,000 Bbls/day of two-way collars for July - December 2016 with a ceiling price of \$50.00 and a floor price of \$41.55. We also entered into 10,000 Bbls/day of 2016 three-way collars for May - December 2016 with a ceiling price of \$58.51, a floor price of \$48.00, and a sold put price of \$40.00, traded in conjunction with sold call options of 10,000 Bbls/day for 2017 at \$65.00.

^(b) A counterparty has the option, exercisable on June 30, 2016, to extend three-way collars for 2,000 Bbls/day through the remainder of 2016 at a ceiling of \$73.13, floor of \$65.00 and sold put of \$50.00.

^(c) Call options settle monthly.

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Notes to Consolidated Financial Statements (Unaudited)

Natural Gas ^(a)

	2016			Year Ending December 31,
	Second Quarter	Third Quarter	Fourth Quarter	2017
Three-Way Collars ^(b)				
Volume (MMBtu/day)	20,000	20,000	20,000	20,000
Price per MMBtu				
Ceiling	\$2.93	\$2.93	\$2.93	\$3.07
Floor	\$2.50	\$2.50	\$2.50	\$2.75
Sold put	\$2.00	\$2.00	\$2.00	\$2.25

^(a) Subsequent to March 31, 2016, we entered into 20,000 MMBtu/day of 2017 three-way collars with a ceiling price of \$3.50, a floor price of \$2.75, and a sold put price of \$2.25.

Counterparty has the option to execute fixed-price swaps (swaptions) at a weighted average price of \$2.93 per

^(b) MMBtu indexed to NYMEX Henry Hub, which is exercisable on December 22, 2016. If counterparty exercises, the term of the fixed-price swaps would be for the calendar year 2017 and, if all such options are exercised, 20,000 MMBtu per day.

The impact of these commodity derivative instruments appears in sales and other operating revenues in our consolidated statements of income and was a net loss of \$2 million and net gain of \$26 million in the first quarters of 2016 and 2015, respectively.

13. Incentive Based Compensation

Stock options, restricted stock awards and restricted stock units

The following table presents a summary of activity for the first three months of 2016:

	Stock Options		Restricted Stock Awards & Units	
	Number of Shares	Weighted Average Exercise Price	Awards	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2015	12,665,419	\$29.97	4,017,344	\$30.76
Granted	1,680,000 ^(a)	\$7.22	5,230,708	\$7.91
Options Exercised/Stock Vested	—	—	(44,096)	\$32.01
Canceled	(181,681)	\$29.69	(220,614)	\$30.00
Outstanding at March 31, 2016	14,163,738	\$27.27	8,983,342	\$17.47

^(a) The weighted average grant date fair value of stock option awards granted was \$1.97 per share.

Stock-based performance unit awards

During the first three months of 2016, we granted 1,205,517 stock-based performance units to certain officers. The grant date fair value per unit was \$3.72.

14. Debt

Revolving Credit Facility

As of March 31, 2016, we had no borrowings against our revolving credit facility (the "Credit Facility"), as described below.

In March 2016, we increased our \$3.0 billion unsecured Credit Facility by \$300 million to a total of \$3.3 billion. Fees on the unused commitment of each lender, as well as the borrowing options under the Credit Facility, remain unaffected by the increase.

The Credit Facility includes a covenant requiring that our ratio of total debt to total capitalization not exceed 65% as of the last day of each fiscal quarter. If an event of default occurs, the lenders holding more than half of the

commitments may terminate the commitments under the Credit Facility and require the immediate repayment of all outstanding borrowings and

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Notes to Consolidated Financial Statements (Unaudited)

the cash collateralization of all outstanding letters of credit under the Credit Facility. As of March 31, 2016, we were in compliance with this covenant with a debt-to-capitalization ratio of 27%.

15. Reclassifications Out of Accumulated Other Comprehensive Loss

The following table presents a summary of amounts reclassified from accumulated other comprehensive loss:

(In millions)	Three Months Ended March 31,		Income Statement Line
	2016	2015	
Postretirement and postemployment plans			
Amortization of actuarial loss	\$(3)	\$(7)	General and administrative
Net settlement loss	(48)	(17)	General and administrative
Net curtailment gain (loss)	—	5	General and administrative
	(51)	(19)	Income (loss) from operations
	19	7	Provision (benefit) for income taxes
Total reclassifications to expense	\$(32)	\$(12)	Net income (loss)

16. Stockholder's Equity

In March 2016, we issued 166,750,000 shares of our common stock, par value \$1 per share, at a price of \$7.65 per share, excluding underwriting discounts and commissions, for net proceeds of \$1,232 million. The proceeds will be used to strengthen our balance sheet and for general corporate purposes, including funding a portion of our Capital Program.

17. Supplemental Cash Flow Information

(In millions)	Three Months Ended March 31,	
	2016	2015
Net cash (used in) operating activities:		
Interest paid (net of amounts capitalized)	\$(87)	\$(55)
Income taxes paid to taxing authorities	(15)	(47)
Noncash investing activities:		
Asset retirement cost increase	\$2	\$21
Asset retirement obligations assumed by buyer	54	—

18. Commitments and Contingencies

We are a defendant in a number of legal and administrative proceedings arising in the ordinary course of business, including, but not limited to, royalty claims, contract claims, tax disputes and environmental claims. While the ultimate outcome and impact to us cannot be predicted with certainty, we believe the resolution of these proceedings will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

19. Subsequent Event

In September 2015, we announced our intention to scale back our conventional exploration program, with future exploration investment focused on fulfilling our existing commitments in the Gulf of Mexico and Gabon. In April 2016, we made the decision not to drill any of our remaining Gulf of Mexico undeveloped leases. As a result, we expect to record a non-cash impairment between \$140 million and \$150 million in the second quarter of 2016. We

retain our existing deepwater drilling rig commitment, in which we have approximately 200 days of contract term remaining.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

Outlook

Operations

Market Conditions

Results of Operations

Critical Accounting Estimates

Cash Flows and Liquidity

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the preceding consolidated financial statements and notes in Item 1.

Executive Overview

We are an independent global exploration and production company based in Houston, Texas with operations in North America, Europe and Africa and a focus on U.S. unconventional resource plays. Total proved reserves were 2.2 billion boe at December 31, 2015 and total assets were \$33 billion at March 31, 2016.

Our significant strategic actions and financial results include the following:

• Continued to strengthen the balance sheet

Raised net \$1.2 billion from equity offering in the first quarter of 2016

At the end of the first quarter of 2016, we had \$5.4 billion of liquidity, comprised of \$2.1 billion in cash and an undrawn \$3.3 billion revolving credit facility

Announced or closed \$1.3 billion of non-core asset sales since August 2015, surpassing our target of \$750 million to \$1 billion. The largest component of this total was the \$950 million non-core asset sales announced in April 2016 which consisted of:

Wyoming upstream and midstream assets of \$870 million, before closing adjustments

Shenandoah discovery in the Gulf of Mexico (10% outside operated working interest); Piceance operated natural gas assets in Colorado; certain undeveloped acreage in West Texas for a combined total of approximately \$80 million, before closing adjustments

Additions to property, plant and equipment, including accruals, of \$359 million for the first quarter of 2016, down 67% compared to the year-ago quarter, reflecting continued capital discipline

Executed additional commodity derivative instruments during the first quarter to reduce commodity price uncertainty for North America E&P crude oil and natural gas

Reduced production expenses per boe in the first quarter of 2016 compared to the same period last year

North America E&P - 22% reduction to \$6.17 per boe

Oil Sands Mining - 17% reduction to \$28.80 per boe

Cash-adjusted debt-to-capital ratio of 21% at March 31, 2016, as compared with 25% at December 31, 2015

• Financial results

Net loss per share of \$0.56 in the first quarter of 2016 as compared to net loss per share of \$0.41 in the same period last year

Outlook

Commodity prices are the most significant factor impacting our revenues, profitability, operating cash flows and the amount of capital available to reinvest into our business. We remain on track to achieve our objective of spending within our cash flows in 2016, inclusive of the non-core asset sales recently announced. We will continue to strengthen the balance sheet, evaluate our portfolio for strategic opportunities, adjust our Capital Program as necessary, and drive the fundamentals of expense management.

Exploration Update

In September 2015, we announced our intention to scale back our conventional exploration program, with future exploration investment focused on fulfilling our existing commitments in the Gulf of Mexico and Gabon. In April 2016, we made the decision not to drill any of our remaining Gulf of Mexico undeveloped leases. As a result, we expect to record a non-cash impairment between \$140 million and \$150 million in the second quarter of 2016. We retain our existing deepwater drilling rig commitment, in which we have approximately 200 days of contract term remaining. We are currently evaluating our options related to this commitment. We expect this rig to return to us late in the third quarter or early fourth quarter of 2016.

Operations

The following table presents a summary of our sales volumes for each of our segments. Refer to the Results of Operations for a price-volume analysis for each of the segments.

Net Sales Volumes	Three Months Ended March 31,		
	2016	2015	Increase (Decrease)
North America E&P (mboed)	239	283	(16)%
International E&P (mboed)	96	116	(17)%
Oil Sands Mining (mbbld) ^(a)	59	60	(2)%
Total (mboed)	394	459	(14)%

^(a) Includes blendstocks

North America E&P

Net sales volumes in the segment were lower in the first quarter of 2016 primarily as a result of decreased drilling and completion activity resulting in fewer wells brought to sales as well as 2015 dispositions of certain non-core assets (Gulf of Mexico and East Texas, North Louisiana and Wilburton, Oklahoma). The following tables provide details regarding net sales volumes, sales mix and operational drilling activity for our significant operations within this segment:

Net Sales Volumes	Three Months Ended March 31,		
	2016	2015	Increase (Decrease)
Equivalent Barrels (mboed)			
Eagle Ford	121	147	(18)%
Oklahoma Resource Basins	27	25	8%
Bakken	57	57	—
Other North America ^(a)	34	54	(37)%
Total North America E&P	239	283	(16)%

^(a) Includes Gulf of Mexico and other conventional onshore U.S. production, which was impacted by the sale of certain Gulf of Mexico assets in the fourth quarter of 2015.

Sales Mix - U.S. Resource Plays	Three Months Ended March 31, 2016		
	Crude oil and condensate	Natural gas liquids	Natural gas
Eagle Ford	58%	21%	21%
Oklahoma Resource Basins	19%	26%	55%
Bakken	82%	11%	7%