

## **FOURTH QUARTER & FULL YEAR 2016 EARNINGS REVIEW REMARKS**

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[Zach Dailey]

Welcome to Marathon Oil Corporation's fourth quarter and full-year 2016 earnings review. The synchronized slides that accompany this review can be found on our website, at [MarathonOil.com](http://MarathonOil.com). Additionally, we'll conduct a live question and answer webcast on Thursday, February 16, at 9 am Central Time.

Slide 2 contains a discussion of forward-looking statements and other information included in this presentation. Our review will contain forward-looking statements subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Please read our disclosures in our SEC filings for additional discussion of these items.

Reconciliations of the non-GAAP financial measures we discuss can be found in the quarterly information package on our website.

Participating on this webcast are Lee Tillman, President and CEO and Mitch Little, Executive Vice President, Operations. With that, I'll turn the presentation over to Lee who will begin on slide 3.

[Lee Tillman]

Thanks Zach. I'd also like to extend my welcome to those listening.

2016 was a year about delivering on our commitments—and delivering on these commitments despite an extremely volatile commodity price environment that saw oil trade below \$30 a barrel. We set a

clear over-arching goal for 2016—to live within our means by balancing capex and the dividend with operating cash flow and proceeds from our non-core asset program. Not only did we achieve this outcome but we did so inclusive of our material acquisition in the STACK play of Oklahoma. Our success was predicated on capital discipline, portfolio management, operational execution and a relentless focus on our costs. Our original \$1.4 billion capital program was revised down to \$1.3 billion mid-year and we ultimately finished the year at \$1.1 billion while exceeding the midpoint of our production guidance. And within that reduced capital spend, we exited the year with 50 percent more active rigs in the US resource plays than the third quarter—a total of 12 rigs—gaining valuable operational momentum for 2017.

An intense focus on expense reductions was an essential component of living within our cash flows. Our North America E&P production expense averaged under \$6 per BOE for the year while International excluding Libya averaged about \$4.40, both below the low end of their respective guidance ranges. We continued our emphasis on G&A costs, reducing them by a further 18 percent from 2015 levels. And our reserve replacement ratio of 112 percent, excluding dispositions, was done at an F&D cost of about \$13 per BOE. It is important to note -- that competitive F&D cost fully reflects the acquisition cost of our STACK bolt-on.

We surpassed the top end of our non-core asset sale guidance range by \$300 million through a series of transactions, the largest of which was the divestiture of our Wyoming asset. In addition to the divestitures, we also added a meaningful 61,000 net acre position in the STACK last summer that further enhances our high quality inventory in our three U.S. resource plays. It simply checked all the boxes we look for in a resource capture opportunity: quality, scale, value and upside.

We executed on all of these fronts in 2016 while ending the year with \$2.5 billion in cash and \$5.8 billion of total liquidity, positioning the Company strongly for 2017 and beyond with a strong balance sheet and the financial flexibility to address near term debt maturities.

Slide 4 illustrates our reserve replacement ratio of 112 percent with F&D costs of about \$13 per BOE, excluding dispositions. To reiterate, this F&D cost reflects our STACK acquisition cost.

Our organic reserve replacement ratio was 214 percent at a drillbit F&D cost of just under \$4 per BOE.

2016 estimated net proved reserves are 2.1 billion barrels of oil equivalent, relatively flat with year-end 2015, and were 81 percent liquids and 74 percent proved, developed.

We added 342 million barrels of oil equivalent proved reserves in 2016 through additions and acquisitions. This was virtually all from North America E&P, and largely from oil and condensate.

Total company cash flow for 2016 can be seen on Slide 5. For the year, operating cash flow before changes in working capital was about \$1.1 billion, more than offsetting capital expenditures, including accruals. From a portfolio perspective, the net effect of our roughly \$1.2 billion of non-core asset sale proceeds after closing adjustments and \$900 million STACK acquisition was a positive \$317 million. We also took action to strengthen our balance sheet early last year with the \$1.2 billion equity offering.

This all contributed to a December 31 cash balance of approximately \$2.5 billion which, when combined with our undrawn revolving credit facility, resulted in total liquidity of \$5.8 billion.

I'll move to slide 6 and discuss a few highlights specific to the fourth quarter.

The fourth quarter can be characterized as one of preparation for a material step-up in activity as we accelerate value in 2017. E&P production was in-line with third quarter on a divestiture adjusted basis. We were cash flow positive and increased our resource play rig count by 50 percent in the fourth quarter, exiting the year running 12 rigs.

Operationally, Oklahoma production was up over 60 percent from the year-ago quarter. That team focused on our strategic objectives to prepare us for full field development in 2018 -- drilling our first operated infill spacing pilot in the STACK Meramec in addition to a heavy delineation and leasehold protection focus in the Meramec. Eagle Ford oil volumes rose from third quarter levels while achieving record low completed well costs despite increasing their completions intensity. Bakken base

production remained resilient with no new wells to sales, and with that team earning their way back into the capital allocation discussion, we added a rig into the basin at the end of the year.

On the financial side, North America E&P production costs were down over 30 percent from the year-ago quarter. Total Company operating cash flow before working capital was \$448 million in the fourth quarter, well above \$284 million of capital expenditures, including accruals.

With that brief summary, I'd like to hand it over to Mitch Little to review the Company's financial and operating performance.

[Mitch Little]

Thanks Lee. I'll begin on slide 7 with an overview of the significant cost reductions we've achieved in our North America E&P segment. On the left, you can see that we reduced absolute production expenses in 2016 by a third from the prior year, reflecting a lot of hard work from our field employees as well as savings sourced from ongoing internal efficiencies and commercial improvements. On the right, we break down the progression by quarter, and you can see both absolute and unit production expenses steadily decreasing, with 4Q16 costs also about 33 percent lower than the year ago quarter.

With that brief overview on the material progress we've made on the expense front, I'll move on to a review of our fourth quarter operational activity.

Beginning with the Oklahoma Resource Basins on slide 8 where fourth quarter production averaged 45,000 BOE per day, up ten percent from the prior quarter despite only bringing 8 wells to sales, down from 12 in Q3.

Fourth quarter completion activity was largely focused on STACK delineation and leasehold protection, while we finished drilling our first operated STACK Meramec infill pilot, the Yost. This is a 6-well infill in Kingfisher County – 5 new wells and one parent well – testing 106 acre spacing. It's illustrated in the cross section on the bottom left side of the page, and you can see that three of the

wells will be in the lower Meramec and three will be in the upper. We recently wrapped up completion activities on the pad, and they'll come to sales in the first quarter.

Today, we're running 6 rigs in Oklahoma. We'll increase that to 7 by the end of the first quarter and expect to bring 15 wells to sales, including the 5 Yost infill wells, as we continue our focus on downspacing and delineation in preparation for full field development in 2018. We'll continue to ramp activity throughout the year, and expect to exit 2017 with about 13 rigs in operation.

Moving to the Eagle Ford on slide 9, the fourth quarter was punctuated by our lowest average completed well costs, \$3.9 million, since we entered the basin 6 years ago.

We brought 52 wells to sales, with aggregate 30-day IPs in-line with our type curve. We employed our higher intensity completion design across the vast majority of the program, and our top 10 wells had 30-day IPs ranging from 1,400 to 2,100 BOE per day with a crude oil / condensate cut of about 60 percent. Fourth quarter Eagle Ford production averaged 94,000 BOE per day, down slightly from 3Q; while oil production increased 2 percent quarter-over-quarter.

The bottom left chart illustrates our record drilling performance where we averaged 2,500 drilling feet per day in the fourth quarter, while reducing our drilling costs per lateral foot. The record low average completed well costs in 4Q were achieved despite increasing proppant loading per lateral foot by more than 70 percent from the year-ago quarter.

In the first quarter, we expect to bring 40 to 45 wells to sales, and for the year, we'll maintain a relatively consistent 6-rig activity level.

On slide 10, the Bakken's fourth quarter was highlighted by production that averaged 52,000 BOE per day, down only 4 percent from the prior quarter despite no new wells to sales.

This resilient production is supported by some of the best wells in the basin. In the bottom left chart, we plot our 2016 well performance against peers on the basis of 90-day cumulative production,

normalized to a 9,800 foot lateral length. The wells from our two Myrmidon pads – one in West Myrmidon and one East Myrmidon – occupy the top position by a significant margin.

The enhanced performance translates to significant improvements in single well returns, which combined with lower production expense, and more constructive oil prices, has elevated the Bakken's competitiveness within our portfolio. In response, we will be materially increasing capital allocation to the Bakken in 2017. We've mobilized 4 rigs to the area since December to support the planned development program.

While we only expect 4 wells to sales in the first quarter, activity will ramp up significantly during the year, and we expect to average about 6 rigs during 2017

Moving to slide 11, I'll talk a bit about our international E&P highlights where production was up slightly from the third quarter, excluding Libya.

In EG, production was 109,000 BOE per day, with over \$100 million of EBITDA from our pro rata share of the onshore plants.

Unit production costs, excluding Libya, were down 17 percent from the prior year and below our guidance range.

We resumed liftings in the fourth quarter from Libya's Es Sider terminal, averaging 8,000 BOE per day. However, we continue to exclude Libya from guidance due to uncertainty associated with the political and operating situation there.

I'll wrap up with a brief overview of our Oil Sands Mining performance on slide 12.

The Oil Sands Mining Segment delivered another quarter of strong operational results. Production averaged 47,000 barrels of synthetic crude oil per day net of royalty, down from the third quarter due to a planned pit stop.

Fourth quarter operating costs per synthetic barrel before royalty were about \$26.50, contributing to 2016 full year costs of roughly \$28, the lowest annual unit costs to date and more than 20 percent lower than the prior year. These savings were driven by the combination of higher mine reliability and utilization rates, and the concentrated focus on sustainable cost reductions.

With that, I'd like to turn it back to Lee for final comments.

[Lee Tillman]

Thanks Mitch.

2016 was a year of delivering on our commitments and none more important than living within our cash flows inclusive of our non-core asset sales. We not only achieved that objective but we did so inclusive of a high quality acquisition in the STACK play. There were plenty of highlights from 2016: lower capital spend while exceeding the midpoint of production guidance, a 40 percent increase in Oklahoma production, \$1.3 billion of non-core asset sales, a large bolt-on in the STACK, lower costs, and a significantly strengthened balance sheet. Our transformational journey as a resource play focused independent E&P continued and we made considerable progress simplifying and concentrating our portfolio to the higher return investment opportunities in the US resource plays.

All of this hard work has positioned us well for 2017 and beyond.

In a separate press release today, we announced our 2017 capital program of \$2.2 billion, with over 90 percent allocated to our high return U.S. resource plays and very competitive short and long-term growth rates. Our 2017 capital program marks a dramatic shift in our capital allocation which has squarely moved to where the best opportunities for oil growth in the world exist. For the near term, our 2017 plan pulls forward quarterly growth in the resource plays to the second quarter, and achieves exit to exit oil growth of 15 to 20 percent in the resource plays from 4Q16 to 4Q17. In the longer term, we're well positioned to deliver profitable and compelling oil and BOE growth rates while living within our cash flows at current strip pricing levels. We believe a business model built

around sustainable, profitable growth within cash flows will deliver excellent long-term results for our shareholders.

We'll host a live call tomorrow morning to provide more details around those plans.

That concludes our prepared remarks and we look forward to your questions during the live webcast tomorrow morning. Thank you.