

# FOURTH QUARTER 2016

*Financial and Operational Review*

February 15, 2017



# Forward-Looking Statements and Other Matters

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This presentation (and oral statements made regarding the subjects of this presentation) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These are statements, other than statements of historical fact, that give current expectations or forecasts of future events, including, without limitation: the Company's future performance, business strategy, reserve estimates, asset quality, production guidance, drilling plans, 2017 capital plans, cost and expense estimates, asset sales, future financial position, and other plans and objectives for future operations. Words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "guidance," "intend," "may," "plan," "project," "seek," "should," "target," "will," "would," or similar words may be used to identify forward-looking statements; however, the absence of these words does not mean that the statements are not forward-looking.

While the Company believes its assumptions concerning future events are reasonable, a number of factors could cause results to differ materially from those projected, including, without limitation: conditions in the oil and gas industry, including supply/demand levels and the resulting impact on price; changes in expected reserve or production levels; changes in political or economic conditions in the jurisdictions in which the Company operates, including changes in foreign currency exchange rates, interest rates, inflation rates, and global and domestic market conditions; capital available for exploration and development; risks related to our hedging activities; well production timing; drilling and operating risks; availability of drilling rigs, materials and labor; difficulty in obtaining necessary approvals and permits; non-performance by third parties of contractual obligations; unforeseen hazards such as weather conditions; acts of war or terrorism, and the governmental or military response thereto; cyber-attacks; changes in safety, health, environmental, tax and other regulations; other geological, operating and economic considerations; and the risk factors, forward-looking statements and challenges and uncertainties described in the Company's 2015 Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other public filings and press releases, available at [www.MarathonOil.com](http://www.MarathonOil.com). Except as required by law, the Company undertakes no obligation to revise or update any forward-looking statements as a result of new information, future events or otherwise.

Reconciliations of the differences between non-GAAP financial measures used in this presentation and their most directly comparable GAAP financial measures are available at [www.MarathonOil.com](http://www.MarathonOil.com) in the 4Q 2016 Investor Packet.

# 2016 Highlights

Within cash flows inclusive of non-core asset sales, acquisition and dividend

	2016 Guidance	2016 Actuals	
Full-Year Capital Program <sup>1</sup>	\$1.3B	\$1.1B	✓
E&P Production (MBOED) <sup>2</sup>	335 - 345	342	✓
North America E&P Production expense	\$6.00 - \$7.00	\$5.96	✓
International E&P Production expense <sup>2</sup>	\$4.50 - \$5.50	\$4.41	✓
Non-core Asset Sales <sup>3</sup>	\$0.75 - \$1.0B	\$1.3B	✓

- Exceeded midpoint of E&P production guidance with lower capital spend
- Decreased total Company G&A expenses by **18%** year over year
- Completed Oklahoma STACK acquisition
- Reserve replacement of **112%** at **~\$13** per BOE F&D costs (excluding dispositions)
- Year-end liquidity of **\$5.8B**, including \$2.5B in cash

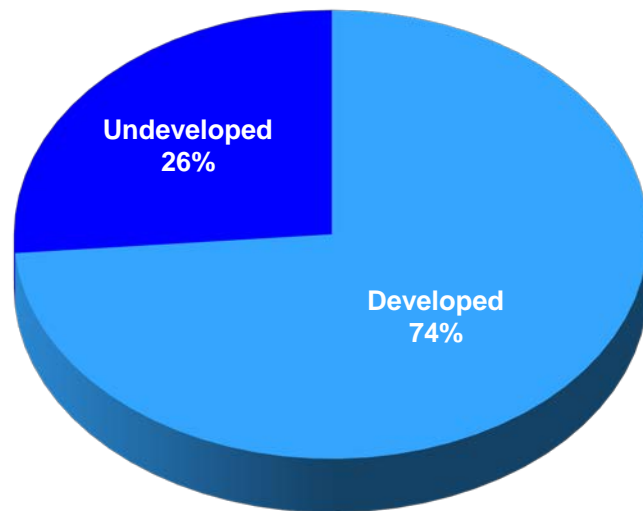
<sup>1</sup>Does not include acquisition costs of \$902MM, net of cash <sup>2</sup>Excluding Libya <sup>3</sup>Excludes closing adjustments

# 112% Reserve Replacement, Excluding Dispositions

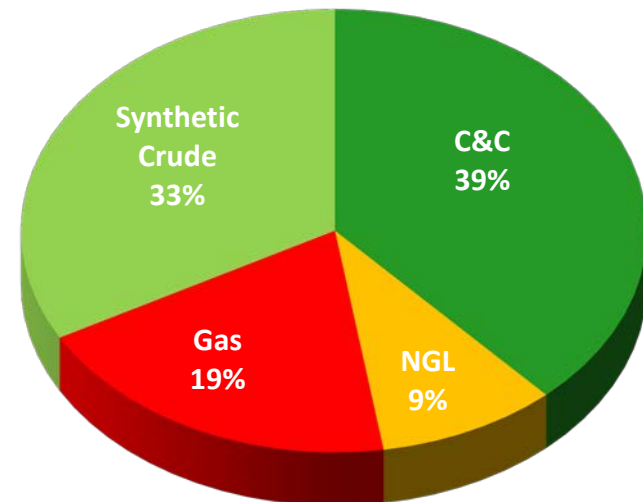
Estimated net proved reserves 2.1 BBOE

	Reserve Replacement Ratio	F&D Costs per BOE
Excluding dispositions	112%	\$13.12
Excluding acquisitions, dispositions & revisions	214%	\$3.56

## 74% Proved Developed YE 2016

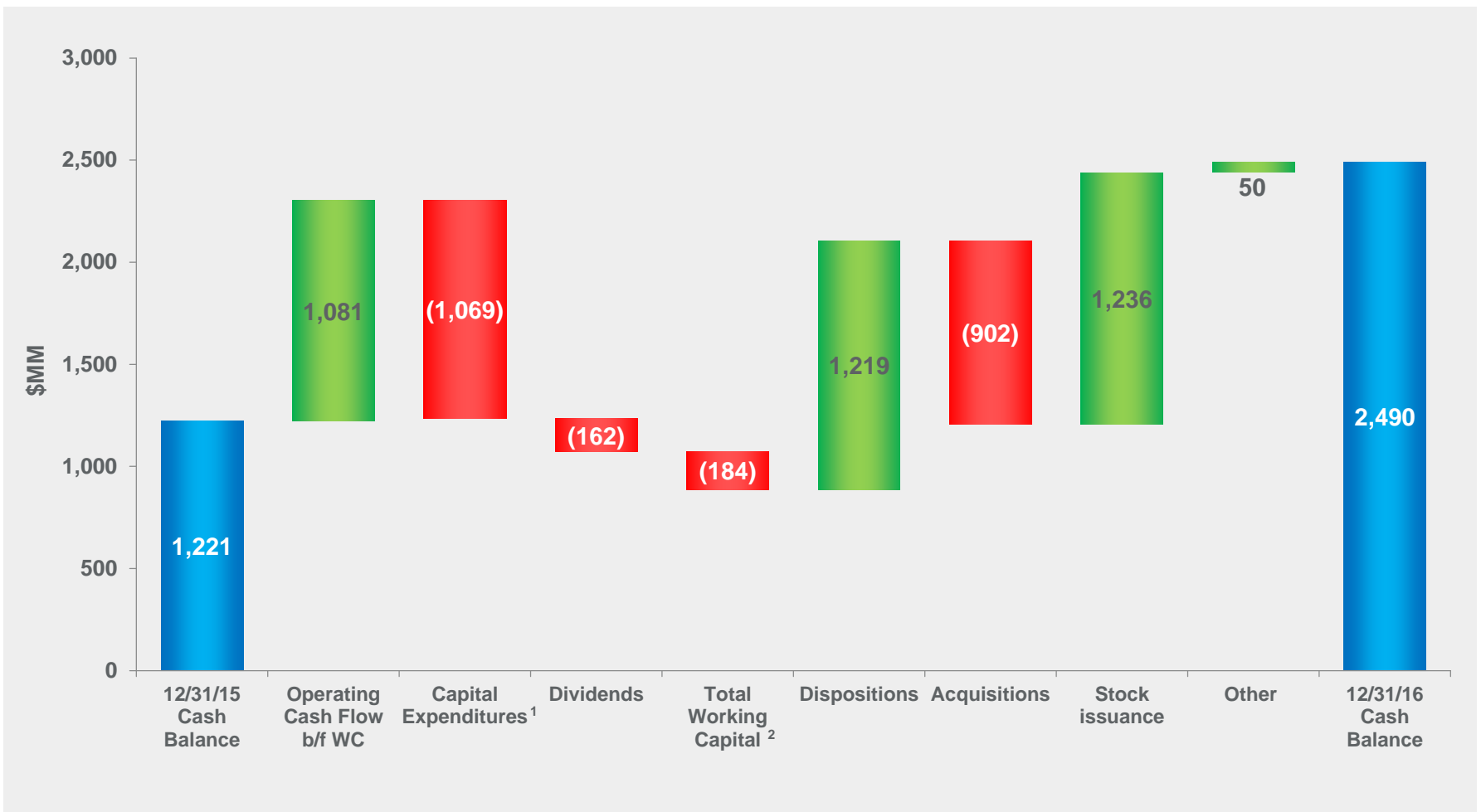


## 81% Liquids YE 2016



# Total Company Cash Flow for FY16

*Balanced operating cash flow with capex*



<sup>1</sup>Including accruals

<sup>2</sup>Total working capital includes \$(8)MM and \$(176)MM of working capital changes associated with operating activities and investing activities, respectively

See the 4Q 2016 Investor Packet at [www.Marathonoil.com](http://www.Marathonoil.com) for non-GAAP reconciliations

# Fourth Quarter Highlights

*Cash flow positive with resource play ramp-up in preparation for 2017*

## Operations

E&P production (excl. Libya)  
avg. 341,000 net BOED

Oklahoma Resource Basins  
production up >60% from year  
ago quarter

N.A. E&P production costs  
down >30% from year ago  
quarter

## Activity

Increased resource play rig  
count from 8 to 12

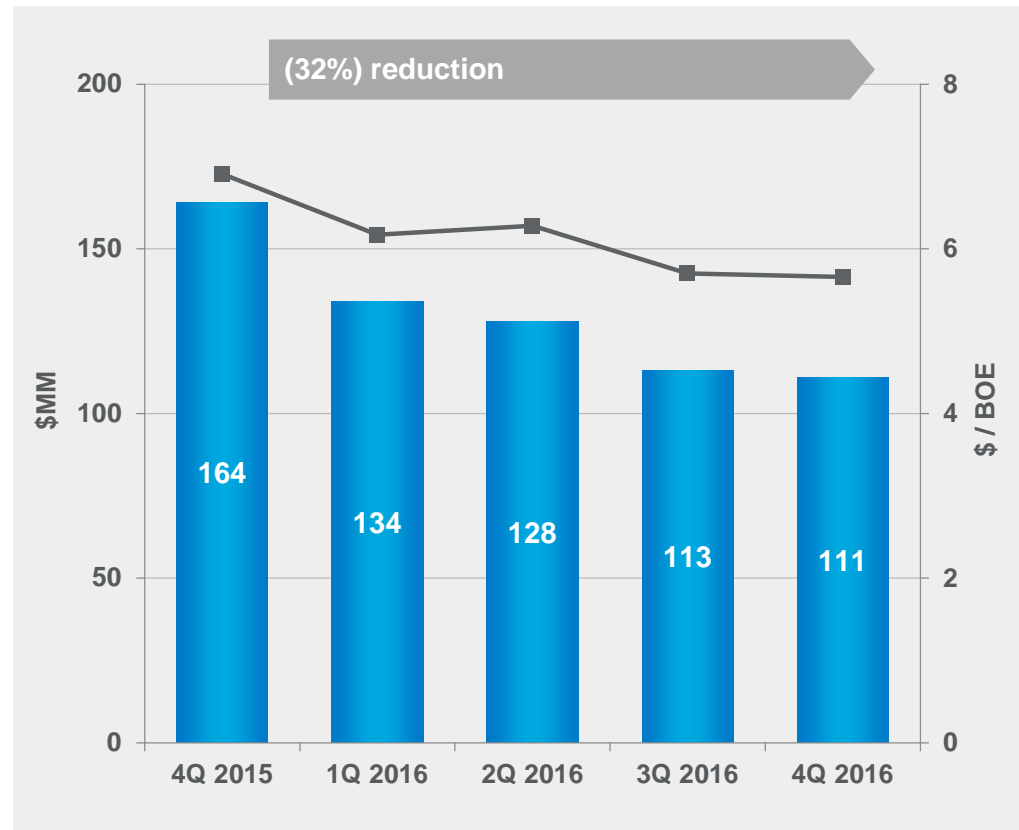
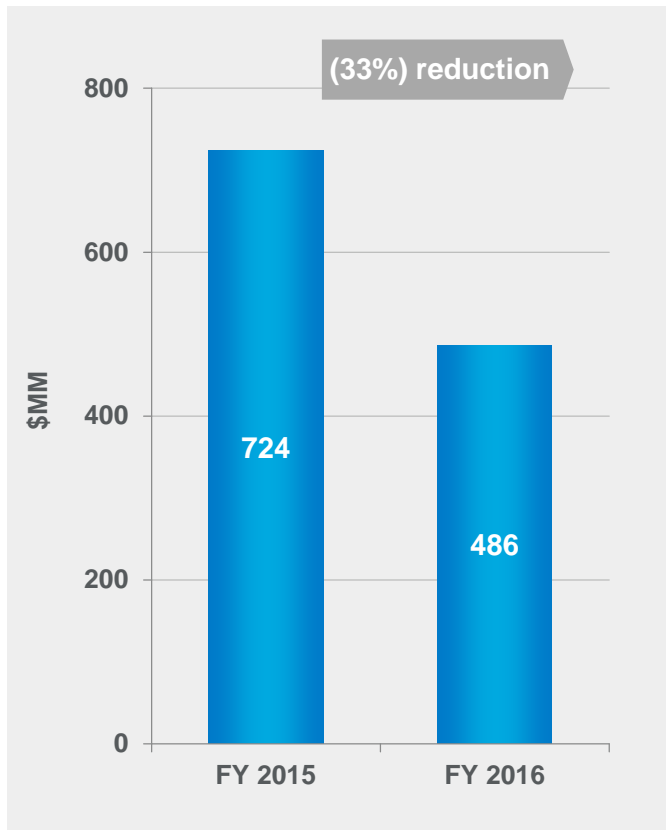
TD'd 1<sup>st</sup> Co-op STACK  
Meramec spacing pilot

Record low well costs in  
Eagle Ford despite  
increased completion  
intensity

# Continued Cost Reductions in N.A. E&P

*Absolute and unit production expenses decrease*

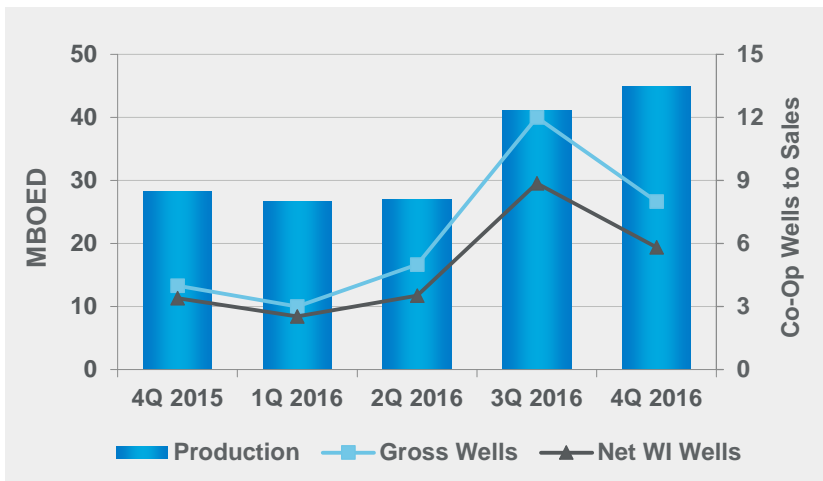
## N.A. E&P Production Expenses



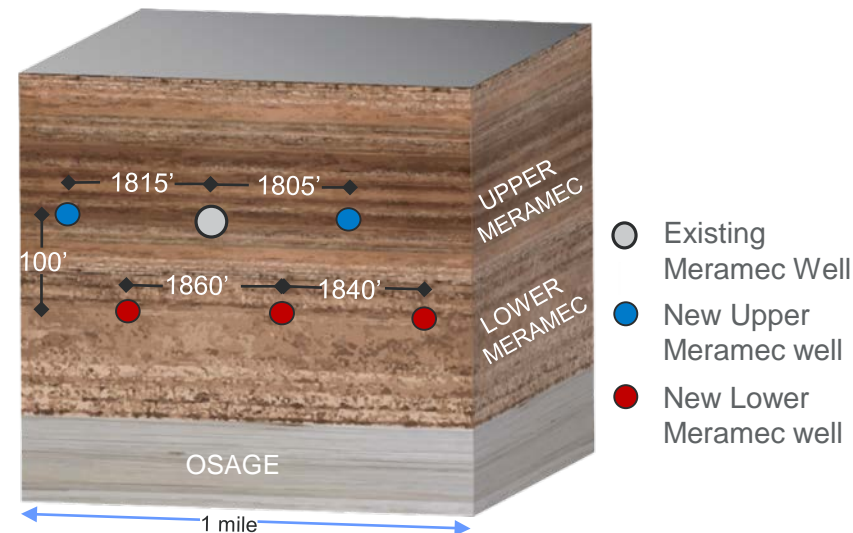
# Oklahoma Focused on Delineation and Leasehold

*Progressing strategic objectives through ramp in activity*

## Production Volumes and Wells to Sales



## Yost Infill Pilot Cross Section



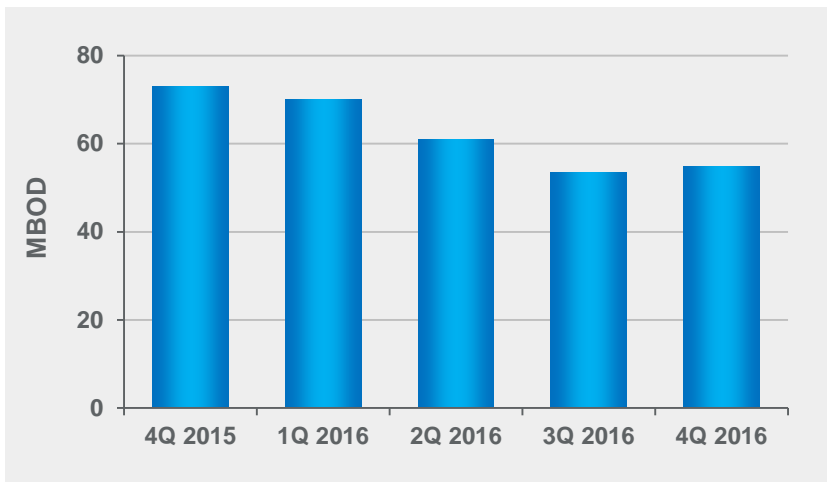
- Production averaged **45** net MBOED; **up 10%** from 3Q 2016
- **8** gross operated wells to sales
  - **1,160 BOED** (78% oil) IP30 from North Canadian Co. Schroeder SL well
  - 4Q program heavily weighted towards delineation
- Yost Co-op Meramec infill pilot **to sales in 1Q**
  - 6-well infill in Kingfisher County; Upper and Lower Meramec at 106 acre spacing
- Increasing activity to **7 rigs** in 1Q
  - **~15** gross operated STACK wells to sales
  - Continuing focus on downspacing and delineation



# Record Low Eagle Ford Well Costs

*Maintaining 6 rig activity level in 2017*

## Oil Production Volumes

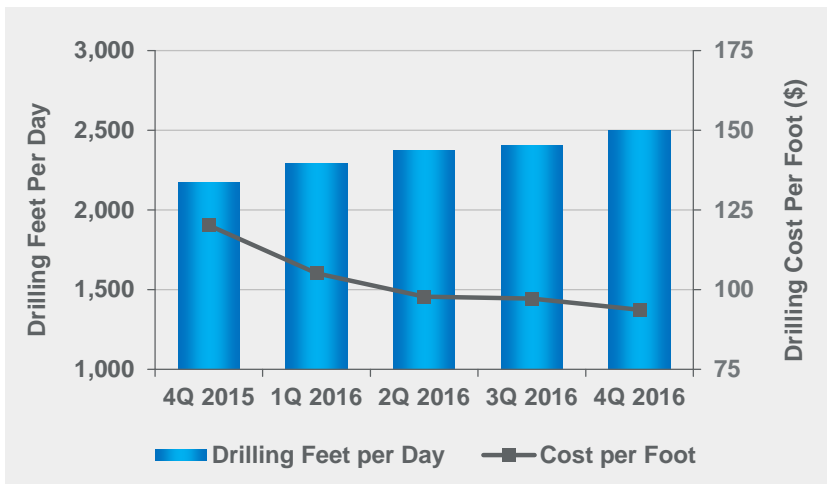


- Production averaged **94** net MBOED; down **~3%** from 3Q 2016
  - Oil production **up 2%** sequentially
- **52** gross operated wells to sales (33 net working interest wells)
- **\$3.9MM** completed well costs; down **~20%** from year-ago quarter

- Record drilling efficiency averaging 2,500 ft per day in 4Q
- **>70%** increased proppant loading per lateral ft from year-ago quarter

- Expect **40 - 45** gross operated wells to sales in 1Q

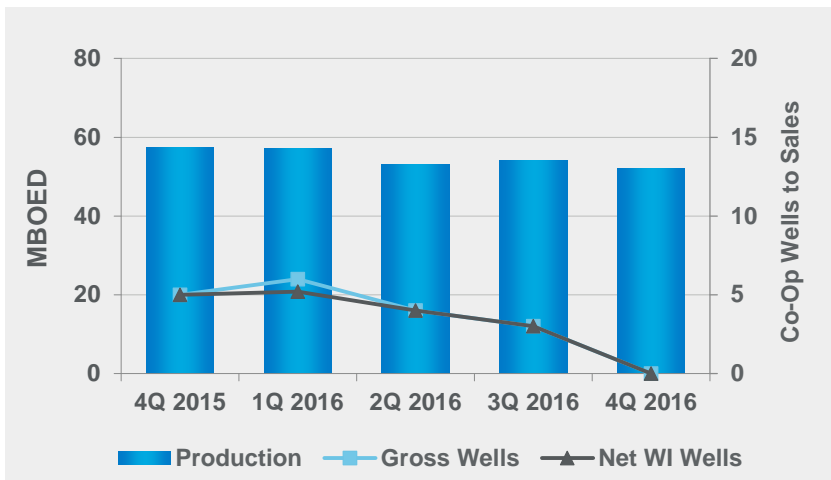
## Drilling Performance



# Bakken Base Production Resilient

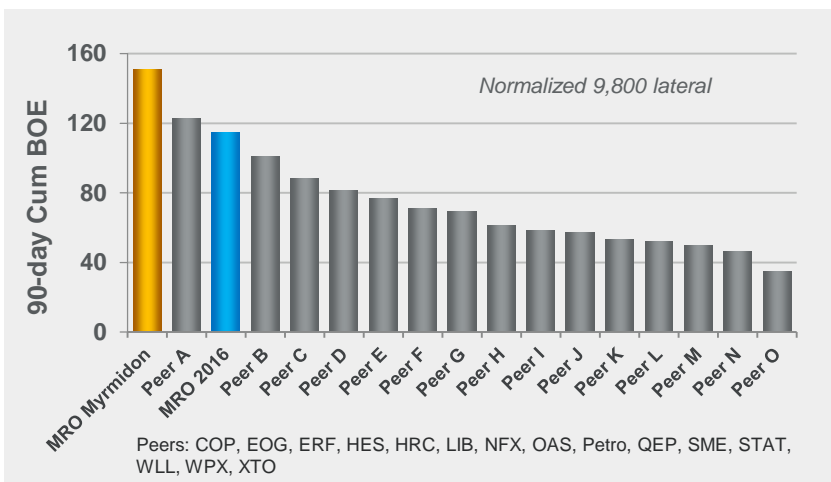
Preparing for increased activity in 2017

## Production Volumes and Wells to Sales



- Production averaged **52** net MBOED with no new wells to sales; down **4%** from 3Q 2016
- Delivering basin-leading 90-day production from recent Myrmidon wells
- Significant improvements in well economics driving increased 2017 activity

## 2016 Bakken Peer Well Performance

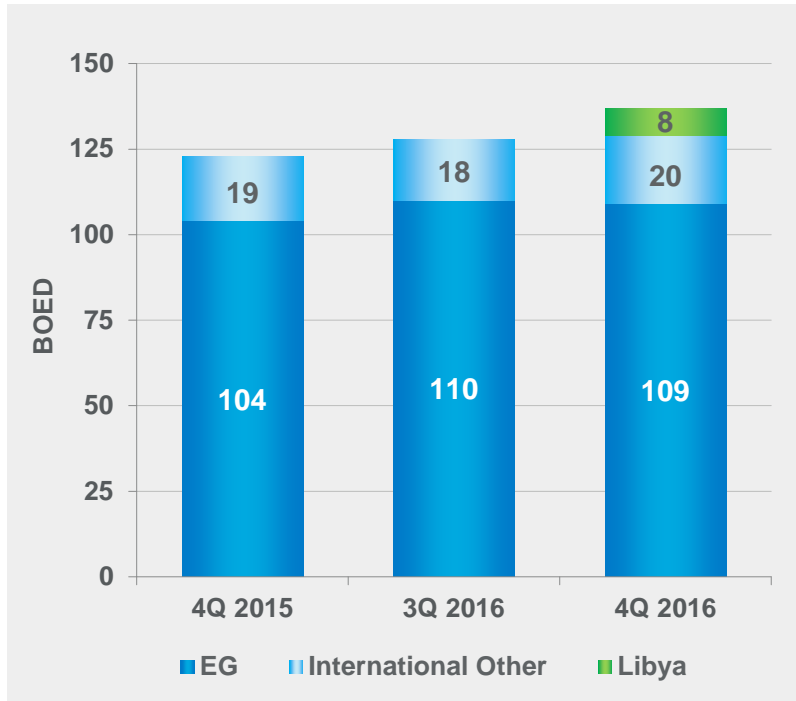


- Production expense per boe reduction of **~25%** year over year
- Mobilized **4 rigs** to Myrmidon since Dec to support development program
- Expect **4** gross operated wells to sales in 1Q

# International E&P Highlights

*EG delivering substantial free cash flow*

## Intl E&P Production Volumes



- International E&P production **up** from 3Q 2016
- **>\$100MM of EBITDA** from Equatorial Guinea equity share of onshore plants in 4Q
- Unit production costs (excl. Libya) **down 17%** from prior year and below guidance
- Libya
  - Gross production resumed in 4Q at reduced rates
  - Production averaged **8** net MBOED with two liftings

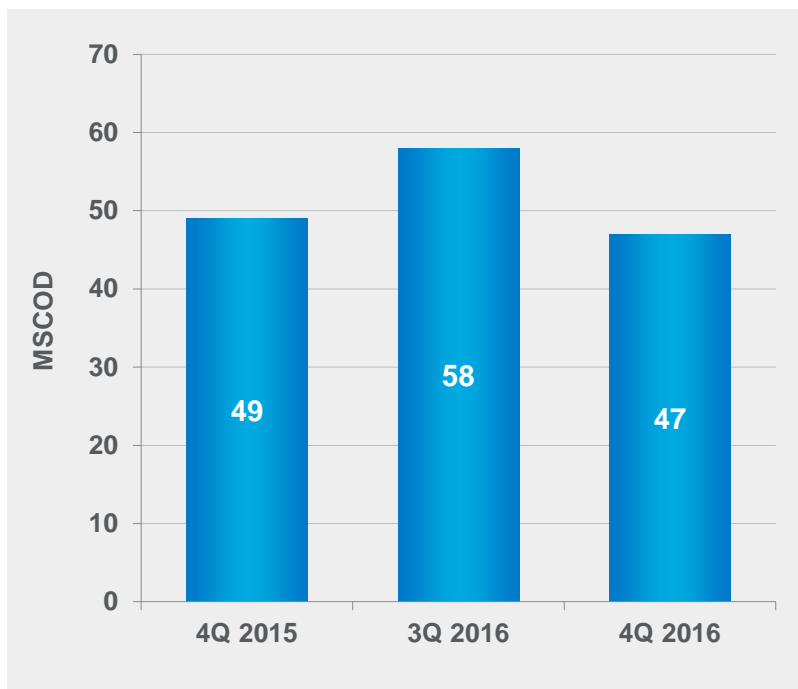
EG Equity EBITDA	4Q 2015	3Q 2016	4Q 2016
	\$78MM	\$94MM	\$101MM

Equity EBITDA includes pro rata share of LNG, Methanol and LPG onshore plants in Equatorial Guinea  
See the 4Q 2016 Investor Packet at [www.Marathonoil.com](http://www.Marathonoil.com) for non-GAAP reconciliations

# OSM Overview

4Q production lower due to planned maintenance

## OSM Synthetic Crude Oil Production Volumes



- Production averaged **47** net MSCOD; down from 3Q 2016
  - Planned pit-stop during the quarter
- 2016 unit OPEX of \$27.89/bbl, **>20%** reduction from prior year
  - 4Q OPEX >5% below year-ago quarter
- Strong JV alignment on base business optimization and cash generation

Synthetic Crude Oil Avg Realizations (\$/BBL)	\$34.65	\$39.59	\$43.35
OPEX per synthetic barrel (\$/BBL)	\$28.25	\$20.69	\$26.52

OPEX per synthetic barrel is before royalties

# 2016 Key Takeaways

## Full-Year E&P Production



**342 MBOED**

exceeds midpoint of guidance

## Oklahoma Resource Basins Production



**↑ 40% increase**  
over prior year

## Completed Alba B3 Compression Project



Extending plateau  
production and field life

## Full-Year CAPEX of \$1.1B



**\$200MM**

from revised guidance

## Ongoing Portfolio Management



**\$1.3B**

non-core asset sales

## Balance Sheet Strength



**\$2.5B YE cash;**  
**\$5.8B total liquidity**

**↓ 33%**

N.A. E&P FY production costs  
from prior year

**↓ 15%**

Intl. E&P FY production costs  
from prior year

**112%**

Reserve replacement, excluding  
dispositions

**~\$13/BOE**

F&D costs



# APPENDIX

# Volumes, Exploration Expenses & Effective Tax Rate

2016 (excluding Libya)

	1Q	2Q	3Q	4Q	Year
<b>North America E&amp;P Net Sales Volumes:</b>					
- Liquid Hydrocarbons (MBD)	186	173	164	160	171
- Natural Gas (MMCFD)	315	310	315	315	314
- North America E&P Total (MBOED)	239	224	216	212	223
<b>International E&amp;P Net Sales Volumes:</b>					
- Liquid Hydrocarbons (MBD)	32	44	44	54	43
- Natural Gas (MMCFD)	382	457	489	482	453
- International E&P Total (MBOED)	96	120	126	135	119
<b>E&amp;P Segments Combined Sales Volumes:</b>					
- Total Net Sales (MBOED)	335	344	342	347	342
- Total Available for Sale (MBOED)	339	344	344	341	342
<b>Oil Sands Mining Net Sales Volumes (MBD)*</b>					
- Synthetic Crude Oil Production (MBD)**	49	40	58	47	48
<b>Total Company Available for Sale (MBOED)</b>	<b>388</b>	<b>384</b>	<b>402</b>	<b>388</b>	<b>390</b>
<b>Equity Method Investment Net Sales Volumes:</b>					
- LNG (metric tonnes/day)	4,322	5,797	6,620	6,619	5,946
- Methanol (metric tonnes/day)	1,280	1,303	1,529	1,316	1,358
- Condensate and LPG (BOED)	10,208	11,306	16,766	15,381	13,430
<b>Exploration Expenses (Pre-tax)***:</b>					
- North America E&P (\$ millions)	18	37	35	37	127
- International E&P (\$ millions)	6	4	10	(3)	17
<b>Consolidated Effective Tax Rate (excl. Libya)****</b>	<b>39%</b>	<b>26%</b>	<b>30%</b>	<b>49%</b>	<b>35%</b>

\*Includes blendstocks

\*\*Upgraded bitumen excluding blendstocks

15 \*\*\*Excludes N.A. E&P impairments of \$179MM in 2Q and \$38MM in 3Q reported as special items and OSM \$7MM exploration expense in 2Q

\*\*\*\*Excludes recorded non-cash valuation allowance on our deferred tax assets of \$1,346MM in 4Q



# 2017 Estimates

## Volumes

	Available for Sale 1QE	Available for Sale Year Estimate
<b>North America E&amp;P Total (MBOED)</b>	195 – 205	
- Liquid Hydrocarbons (MBD)	148 – 156	
- Natural Gas (MMCFD)	281 – 295	
<b>International E&amp;P Total (MBOED)*</b>	120 – 125	
- Liquid Hydrocarbons (MBD)*	44 – 46	
- Natural Gas (MMCFD)*	456 – 475	
<b>Total both E&amp;P Segments (MBOED)*</b>	315 – 330	335 – 355
<b>Synthetic Crude Oil Production (MBD) (excludes royalty)**</b>	45 – 50	40 – 50
<b>Equity Method Investment LNG (metric tonnes/day)</b>	6,100 – 6,500	6,200 – 6,600

\* Excluding Libya

\*\*Upgraded bitumen excluding blendstocks



# 2017 Estimates

## Exploration expenses & annual production operating costs per BOE

	1QE	Year Estimate
<b>Exploration Expenses (Pre-tax):</b>		
North America E&P (\$ millions)	25 – 35	
International E&P (\$ millions)	2 – 4	
<b>North America E&amp;P Cost Data</b>		
Production Operating		\$5.00 – 6.00
DD&A		\$21.75 – 24.25
Other*		\$5.00 – 5.50
<b>International E&amp;P Cost Data**</b>		
Production Operating		\$4.50 – 5.50
DD&A		\$6.50 – 8.00
Other*		\$1.75 – 2.25
<b>Effective Tax Rates by Jurisdiction:</b>		
U.S. and Corporate Tax Rate		0%
Equatorial Guinea Tax Rate		25%
United Kingdom Tax Rate		40%
Canada Tax Rate		27%

\* Other includes shipping and handling, general and administrative, and other operating expenses

\*\* Excludes Libya

# 112% Reserve Replacement in 2016

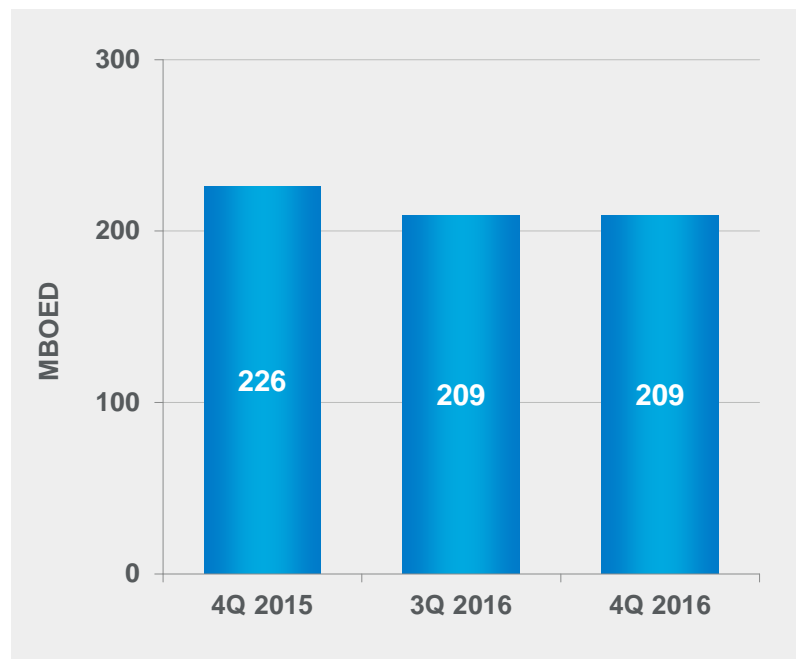
*Estimated net proved reserves 2.1 BBOE*

	North America E&P	International E&P	OSM	TOTAL	F&D Costs
Category	(MMBOE)	(MMBOE)	SCO (MMBBL)	(MMBOE)	(\$/BOE)
As of Dec 31, 2015	944	521	698	2,163	
Additions	307	1	-	308	
Revisions	(171)	(22)	12	(181)	
Acquisitions	34	-	-	34	
Dispositions	(84)	-	-	(84)	
Production	(82)	(44)	(18)	(144)	
As of Dec 31, 2016	948	456	692	2,096	
Reserve Replacement Ratio (excluding dispositions)				112%	\$13.12
Organic Reserve Replacement Ratio (excluding acquisitions, dispositions & revisions)				214%	\$3.56

# E&P Production Performance

Combined 4Q volumes up sequentially

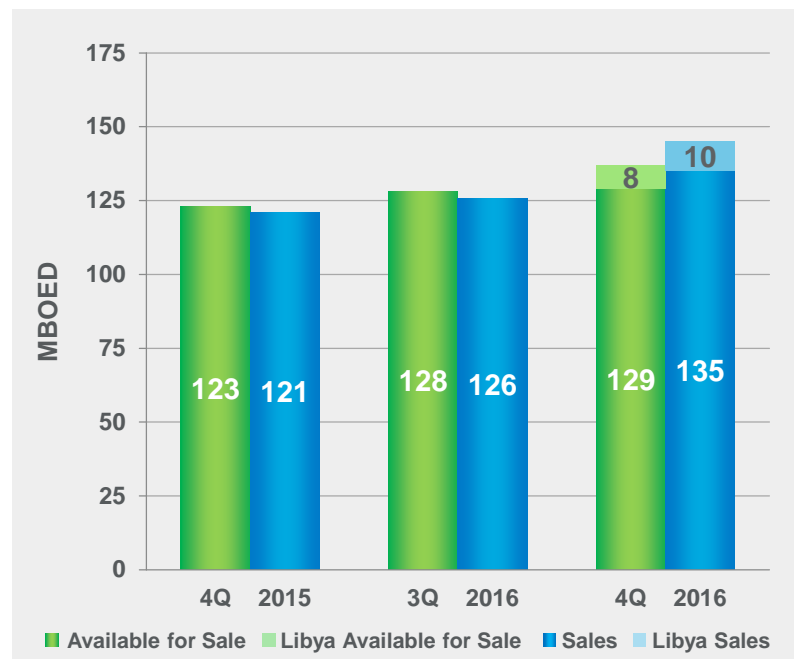
## N.A. E&P Divestiture-Adj. Sales Volumes



Adjusted for divestitures of 32 MBOED in 4Q15, 7 MBOED in 3Q16 and 3 MBOED in 4Q16

Avg C&C Realizations (\$/BBL)	Excluding Derivatives		
	\$37.71	\$41.35	\$45.89
Avg C&C Realizations (\$/BBL)	Including Derivatives		
	\$40.74	\$42.90	\$46.21

## Intl E&P Production & Sales Volumes



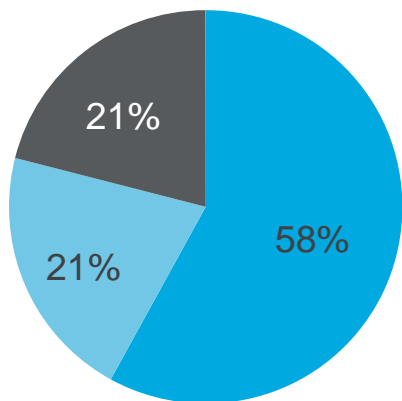
Cumulative underlift of (2,286) MBOE in Libya, (230) MBOE in UK, (15) MBOE in EG, and (2) MBOE in Kurdistan.

Avg C&C Realizations (\$/BBL)	\$38.43	\$41.45	\$46.14
Equity Earnings	\$47MM	\$59MM	\$65MM
Equity EBITDA	\$78MM	\$94MM	\$101MM

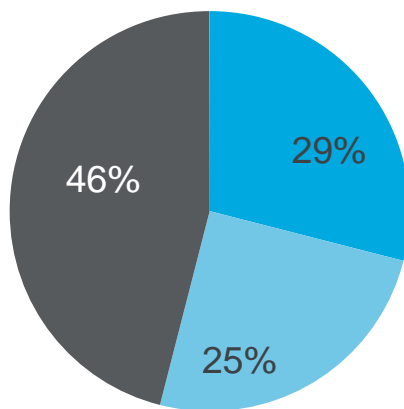
# 2016 4Q Production Mix

*Increased oil mix in Oklahoma Resource Basins*

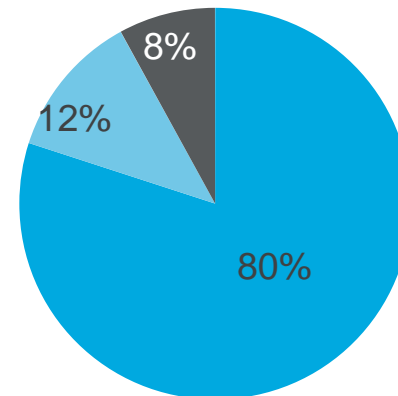
Eagle Ford



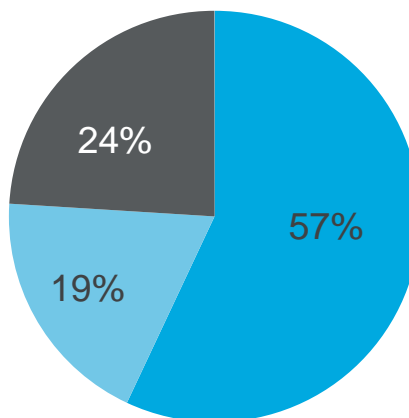
Oklahoma Resource Basins



Bakken



Total U.S. Resource Plays



■ Crude Oil/Condensate ■ NGLs ■ Natural Gas

# North America E&P Crude Oil Derivatives

As of December 31, 2016

Crude Oil (Benchmark to WTI) <sup>(a)</sup>				
	1Q 2017	2Q 2017	3Q 2017	4Q 2017
<b>Three-Way Collars<sup>(b)</sup></b>				
Volume (Bbls/day)	50,000	50,000	30,000	30,000
Price per Bbl:				
Ceiling	\$58.42	\$58.42	\$59.60	\$59.60
Floor	\$50.30	\$50.30	\$54.00	\$54.00
Sold put	\$43.50	\$43.50	\$47.00	\$47.00
<b>Sold call options<sup>(c)</sup></b>				
Volume (Bbls/day)	35,000	35,000	35,000	35,000
Price per Bbl	\$61.91	\$61.91	\$61.91	\$61.91

<sup>(a)</sup> Subsequent to 12/31/2016, we entered into 10,000 Bbls/day of fixed-price swaps with a weighted average price of \$54.00 indexed to WTI for February - March of 2017

<sup>(b)</sup> Subsequent to 12/31/2016, we entered into 20,000 Bbls/day of three-way collars for July - December of 2017 with a ceiling price of \$61.52, a floor price of \$56.00, and a sold put price of \$49.00.

<sup>(c)</sup> Call Options settle monthly.

# North America E&P Natural Gas Derivatives

As of December 31, 2016

<i>Natural Gas (Benchmark to HH)</i>					
	1Q 2017	2Q 2017	3Q 2017	4Q 2017	2018
<b>Three-Way Collars<sup>(a)</sup></b>					
Volume (MMBtu/day)	60,000	90,000	90,000	90,000	20,000
Price per MMBtu:					
Ceiling	\$3.46	\$3.54	\$3.54	\$3.61	\$3.56
Floor	\$2.84	\$3.01	\$3.01	\$3.04	\$3.00
Sold put	\$2.35	\$2.48	\$2.48	\$2.52	\$2.50
<b>Swaps</b>					
Volume (MMBtu/day)	20,000	20,000	20,000	20,000	-
Price per MMBtu	\$2.93	\$2.93	\$2.93	\$2.93	-

<sup>(a)</sup> Subsequent to 12/31/2016, we entered into three-way collars of 30,000 MMBtus/day for April - September of 2017 with a ceiling price of \$3.70, a floor price of \$3.35, and a sold put price of \$2.75; 30,000 MMBtus/day for October - December of 2017 with a ceiling price of \$4.00, a floor price of \$3.45, and a sold put price of \$2.85; and 70,000 MMBtus/day for January - December of 2018 with a ceiling price of \$3.62, a floor price of \$3.00, and a sold put price of \$2.50.

# Capital, Investment & Exploration

2016 budget reconciliation \$MM

	2016 Original Budget	2016 Actual
Capital expenditures	1,401	1,069
M&S Inventory	0	(72)
Investments in equity method investees & others	0	0
Exploration costs other than well costs	31	103
Prior period non-cash accrual adjustments	0	41
<b>Capital, Investment &amp; Exploration Budget</b>	<b>1,432</b>	<b>1,141*</b>

\* Does not include acquisition costs of \$902MM, net of cash