

MARATHON OIL CORP
Form 10-K
February 25, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2015
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 (I.R.S. Employer Identification No.)
organization)
5555 San Felipe Street, Houston, TX 77056-2723
(Address of principal executive offices)
(713) 629-6600
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:
Title of each class Name of each exchange on which registered
Common Stock, par value \$1.00 New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes R No £

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No R

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 and (2) has been subject to such filing requirements for the past 90 days. Yes R 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 R No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer R Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

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

The aggregate market value of Common Stock held by non-affiliates as of June 30, 2015: \$17,916 million. This amount is based on the closing price of the registrant's Common Stock on the New York Stock Exchange on that date. Shares of Common Stock held by executive officers and directors of the registrant are not included in the computation. The registrant, solely for the purpose of this required presentation, has deemed its directors and executive officers to be affiliates.

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There were 676,886,641 shares of Marathon Oil Corporation Common Stock outstanding as of February 15, 2016.

Documents Incorporated By Reference:

Portions of the registrant's proxy statement relating to its 2016 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, are incorporated by reference to the extent set forth in Part III, Items 10-14 of this report.

MARATHON OIL CORPORATION

Unless the context otherwise indicates, references to "Marathon Oil," "we," "our" or "us" in this Annual Report on Form 10-K 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).

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Definitions

Throughout this report, the following company or industry specific terms and abbreviations are used.

AMPCO – Atlantic Methanol Production Company LLC, a company located in Equatorial Guinea in which we own a 45% equity interest.

AOSP – Athabasca Oil Sands Project, an oil sands mining, transportation and upgrading joint venture located in Alberta, Canada, in which we hold a 20% non-operated working interest.

bbl – One stock tank barrel, which is 42 United States gallons liquid volume.

bcf – Billion cubic feet.

boe – Barrels of oil equivalent.

btu – British thermal unit, an energy equivalence measure.

Capital Program – Includes capital expenditures, cash investments in equity method investees and other investments, exploration costs that are expensed as incurred rather than capitalized, such as geological and geophysical costs and certain staff costs, and other miscellaneous investment expenditures.

DD&A – Depreciation, depletion and amortization.

Development well – A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

Downstream business – The refining, marketing and transportation ("RM&T") operations, spun-off on June 30, 2011 and treated as discontinued operations.

Dry well – A well found to be incapable of producing either oil or natural gas in sufficient quantities to justify completion.

E.G. – Equatorial Guinea.

EGHoldings – Equatorial Guinea LNG Holdings Limited, a liquefied natural gas production company located in E.G. in which we own a 60% equity interest.

EIA – United States Energy Information Agency.

EPA – United States Environmental Protection Agency.

Exploratory well – A well drilled to find oil or natural gas in an unproved area or find a new reservoir in a field previously found to be productive in another reservoir.

FASB – Financial Accounting Standards Board.

FPSO - Floating production, storage and offloading vessel.

Henry Hub price - a natural gas benchmark price quoted at settlement date average.

IRS – United States Internal Revenue Service.

LNG – Liquefied natural gas.

LPG – Liquefied petroleum gas.

Liquid hydrocarbons or liquids – Collectively, crude oil, synthetic crude oil, condensate and natural gas liquids.

LLS – Louisiana Light Sweet crude oil, an oil index benchmark price as per Bloomberg Finance LLP: LLS St. James.

Marathon Oil – Marathon Oil Corporation and its consolidated subsidiaries: the company as it exists following the June 30, 2011 spin-off of the downstream business.

mbbl – Thousand barrels per day.

mboed – Thousand barrels of oil equivalent per day.

mcf – Thousand cubic feet.

mmbbl – Million barrels.

mmboe – Million barrels of oil equivalent.

mmbtu – Million British thermal units.

mmcf/d – Million cubic feet per day.

mmta – Million metric tonnes per annum.

MPC - Marathon Petroleum Corporation – The separate independent company which now owns and operates the downstream business.

mtd – Thousand metric tonnes per day.

Net acres or Net wells – The sum of the fractional working interests owned by us in gross acres or gross wells.

NGL or NGLs – Natural gas liquid or natural gas liquids, which are naturally occurring substances found in natural gas, including ethane, butane, isobutane, propane and natural gasoline, that can be collectively removed from produced natural gas, separated into these substances and sold.

NYMEX - New York Mercantile Exchange.

OECD – Organization for Economic Cooperation and Development.

OPEC – Organization of Petroleum Exporting Countries.

Operational availability – A term used to measure the ability of an asset to produce to its maximum capacity over a specified period of time, after consideration of internal losses.

Productive well – A well that is not a dry well. Productive wells include producing wells and wells that are mechanically capable of production.

Proved developed reserves – Proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or for which the cost of the required equipment is relatively minor compared to the cost of a new well and through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Proved reserves – Proved crude oil and condensate, NGLs, natural gas and synthetic crude oil reserves are those quantities of crude oil and condensate, NGLs, natural gas and synthetic crude oil, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations-prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

Proved undeveloped reserves – Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion or through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well. Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

PSC – Production sharing contract.

Quest CCS – Quest Carbon Capture and Storage project at the AOSP in Alberta, Canada.

Reserve replacement ratio – A ratio which measures the amount of proved reserves added to our reserve base during the year relative to the amount of liquid hydrocarbons and natural gas produced.

Royalty interest – An interest in an oil or natural gas property entitling the owner to a share of oil or natural gas production free of costs of production.

SAGE – United Kingdom Scottish Area Gas Evacuation system composed of a pipeline and processing terminal.

SAR or SARs – Stock appreciation right or stock appreciation rights.

SCOOP – South Central Oklahoma Oil Province.

SEC – United States Securities and Exchange Commission.

Seismic – An exploration method of sending energy waves or sound waves into the earth and recording the wave reflections to indicate the type, size, shape and depth of subsurface rock formation (3-D seismic provides three-dimensional pictures and 4-D factors in changes that occurred over time).

STACK – Sooner Trend, Anadarko (basin), Canadian (and) Kingfisher (counties).

TD - Total depth or the bottom of a drilled hole.

Total proved reserves – The summation of proved developed reserves and proved undeveloped reserves.

U.K. – United Kingdom.

U.S. – United States of America.

U.S. GAAP – Accounting principles generally accepted in the U.S.

WCS – Western Canadian Select, an oil index benchmark price with monthly pricing based upon average WTI adjusted for differentials unique to western Canada.

Working interest – The interest in a mineral property which gives the owner that share of production from the property. A working interest owner bears that share of the costs of exploration, development and production in return for a share of production. Working interests are sometimes burdened by overriding royalty interest or other interests.

WTI – West Texas Intermediate crude oil, an oil index benchmark price as quoted by NYMEX.

Disclosures Regarding Forward-Looking Statements

This Annual Report on Form 10-K 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: our operational, financial and growth strategies, including drilling plans and projects, planned wells, rig count, inventory, seismic, exploration plans, maintenance activities, drilling and completion improvements, workforce reductions and expected savings, cost reductions, non-core asset sales, and financial flexibility; our ability to successfully effect those strategies and the expected timing and results thereof; our 2016 Capital Program and the planned allocation thereof; planned capital expenditures and the impact thereof; expectations regarding future economic and market conditions and their effects on us; our ability and strategies to manage through the lower commodity price cycle; our financial and operational outlook, and ability to fulfill that outlook; our financial position, balance sheet, liquidity and capital resources, and the benefits thereof; resource and asset potential; reserve estimates; growth expectations; and future production and sales expectations, and the drivers thereof. In addition, many forward-looking statements may be identified by the use of forward-looking terminology such as “anticipates,” “believes,” “estimates,” “expects,” “targets,” “plans,” “projects,” “could,” “may,” “should,” “would” or similar words indicating that future events are uncertain. While we believe that our assumptions concerning future events are reasonable, we can give no assurance that these expectations will prove to be correct. A number of factors could cause results to differ materially from those indicated by such forward-looking statements including, but not limited to:

- conditions in the oil and gas industry, including pricing and supply/demand levels for crude oil and condensate, NGLs, natural gas and synthetic crude oil;
- changes in expected reserve or production levels;
- changes in political or economic conditions in key operating markets, including international markets;
- capital available for exploration and development;
- well production timing;
- availability of drilling rigs, materials and labor;
- difficulty in obtaining necessary approvals and permits;
- non-performance by third parties of their contractual obligations;
- unforeseen hazards such as weather conditions, acts of war or terrorist acts and the governmental or military response thereto;
- cyber-attacks;
- changes in safety, health, environmental and other regulations;
- other geological, operating and economic considerations; and

other factors discussed in Item 1. Business, Item 1A. Risk Factors, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Item 7A. Quantitative and Qualitative Disclosures About Market Risk, and elsewhere in this report.

All forward-looking statements included in this report are based on information available to us on the date of this report. Except as required by law, we assume no duty to revise or update any forward-looking statements whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this report.

PART I

Item 1. Business

General

Marathon Oil Corporation is an independent global exploration and production company based in Houston, Texas, with operations in North America, Europe and Africa. Our corporate headquarters are located at 5555 San Felipe Street, Houston, Texas 77056-2723 and our telephone number is (713) 629-6600. Each of our three reportable operating segments is organized based upon both geographic location and the nature of the products and services it offers.

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

• International 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 – 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.

We were incorporated in 2001. On June 30, 2011, we completed the spin-off of our downstream business, creating two independent energy companies: Marathon Oil and MPC.

Strategy and Results Summary

Marathon Oil's strategy is to safely and sustainably deliver value by investing in low cost, liquids-rich projects with a focus on risk-adjusted rates of return. We are focused in the high quality core of three premier unconventional resource plays in the U.S.: the Eagle Ford, Bakken and Oklahoma Resource Basins. Our strategy for our operated conventional producing assets in E.G., the U.K. and the U.S. is to maximize value and cash flow to provide flexibility to invest in the shorter cycle opportunities in the U.S. resource plays. Our conventional exploration program is currently limited to existing commitments in the Gulf of Mexico and Gabon. Our strategy is guided by the following seven strategic imperatives ("SI"):

1. Living Our Values
2. Investing in Our People
3. Continuous Improvement in Operational and Capital Efficiency
4. Driving Profitable and Sustainable Growth
5. Rigorous Portfolio Management
6. Quality and Material Resource Capture
7. Delivering Long-Term Shareholder Value

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. The low pricing environment has presented several challenges for us and our industry. We responded to the lower commodity prices in a number of ways:

• Reduced our 2015 Capital Program by approximately 50% from the prior year, down to \$3 billion

• Established our 2016 Capital Program at \$1.4 billion

• Exercised cost discipline, significantly reducing drilling and completion, production and general and administrative costs

• Drove sustainable operational efficiency gains in the U.S. unconventional resource plays

• Scaled back our conventional exploration program to focus on our U.S. unconventional resources plays

• Increased our target for non-core asset sales, now \$750 million to \$1 billion, up from our previous goal of \$500 million

• Closed over \$300 million of non-core asset sales (excluding closing adjustments)

• Protected our liquidity and capital structure:

• Issued \$2 billion aggregate principal amount of unsecured senior notes (\$1 billion of which was used to repay the 0.90% senior notes that matured in November 2015)

• Increased the capacity of the revolving credit facility from \$2.5 billion to \$3.0 billion while also extending the maturity date an additional year to May 2020

Decreased our quarterly dividend from \$0.21 to \$0.05 per share, saving approximately \$425 million of cash on an annualized basis

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In 2015, we continued to focus on the U.S. unconventional resource plays. We progressed co-development in the Eagle Ford, further delineated Austin Chalk in the Eagle Ford along with SCOOP/STACK in the Oklahoma Resource Basins and improved overall competitiveness in the Bakken with cost reductions and enhanced completions. Our U.S. operations added 73 mmboe proved reserves in 2015, excluding acquisitions, dispositions and production, amounting to an increase of 107% over the prior year's ending balance.

Net sales volumes from continuing operations increased by 6% to 438 mboed in 2015 from 415 mboed in 2014.

Volumes from our three U.S. resource plays totaled 218 mboed, an increase of 20% from 181 mboed in 2014. For the total company, we ended 2015 with proved reserves of approximately 2,163 mmboe as compared to 2,198 mmboe at the end of 2014.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Outlook, for a more detailed discussion of our operating results, cash flows and outlook, including the 2016 Capital Program.

The map below shows the locations of our worldwide operations.

Segment and Geographic Information

For operating segment and geographic financial information, see Item 8. Financial Statements and Supplementary Data – Note 7 to the consolidated financial statements.

In the following discussion regarding our North America E&P, International E&P and Oil Sands Mining segments, references to net wells, acres, sales or investment indicate our ownership interest or share, as the context requires.

North America E&P Segment

We are engaged in oil and gas exploration, development and/or production activities in the U.S. and Canada. Our primary focus in the North America E&P segment is concentrated within our unconventional resource plays. The following tables provide additional detail regarding net sales volumes, sales mix and operated drilling activity:

	2015	Increase (Decrease)	2014	Increase (Decrease)	2013
Net Sales Volumes					
Equivalent Barrels (mboed)					