

Marathon Oil Corporation
Continue Strong Buy on Value

Symbol	Price	Shares	Market Cap (\$mm)	Net		McDep Ratio	EV/	EV/	P/E	Div'd NTM (%)	PV/ Ebitda NTM
	(\$/sh)			Present Value (\$/sh)	Debt/ Present Value		Sales NTM	Ebitda NTM			
MRO	27.80	310	8,610	42.00	0.35	0.78	0.5	5.5	11	3.3	7.0

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

EV = Enterprise Value = Market Cap and Debt: \$mm 15,600

Ebitda = Earnings before interest, tax, depreciation and amortization: \$mm 2,860

NTM = Next Twelve Months Ended March 31, 2003; P/E = Stock Price to Earnings

PV = Present Value of energy businesses: \$mm 20,000

Present Value of Equity: \$mm 13,000

Summary and Recommendation

We continue our recommendation of Strong Buy for the common stock of Marathon Oil Corporation initiated a year ago, as the stock remains attractive on the McDep Ratio. During the past year Marathon stock's performance has been neutral along with the market and it has lagged slightly the median of energy stocks in our coverage a year ago. That met half of our expectation that a low McDep Ratio stock would not go down much. The other half of our expectation that the stock would outperform on the upside still lies ahead of us. In fact Marathon has been free of a major impediment to such appreciation, its former relationship with a steel company, only since the beginning of 2002. Meanwhile the momentum is favorable on each of the three commodity price indicators that affect the company's business – natural gas price, crude oil price and refining margin. The fact that those businesses generate a large amount of cash flow relative to the valuation of the company is likely to gain more attention from investors. The resignation/non-resignation of Venezuelan President Chavez may have contributed to particularly attractive pricing of Marathon stock.

Three Businesses Generate Three Billion Cash Annually

Noting that Marathon generated \$3.8 billion in cash (Ebitda) in 2001, we project that the company can generate about \$2.9 billion in the next twelve months ended March 31, 2003 (see table on last page). The number can change continuously as we link it to futures prices. The cash price bottomed in the fourth quarter last year and futures prices

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Stock Idea

April 15, 2002

for the next twelve months are approaching the average cash price for 2001. That observation holds for both Natural Gas delivered to Henry Hub, Louisiana, and for West Texas Intermediate Oil delivered to Cushing, Oklahoma. The same pattern applies to the 3-2-1 crack spread, or refinery margin in New York Harbor. Yet Marathon markets mainly in the Midwest where the Chicago crack spread was higher in 2001 and did not bottom until the first quarter of 2002. We project future refining/marketing profits in line with the New York price, though Chicago could be higher again.

Of course we only know what futures prices are now and we do not know how they will change tomorrow let alone what cash prices will actually be over the next twelve months. Nor do the next twelve months represent all the future cash flow that Marathon will generate. Yet the period provides a reasonable basis for relative valuation.

Reserve Life Enhanced with Latest Acquisitions

After cash flow, the main factor influencing value is reserve life. The longer the reserve life, the higher the multiple of cash flow one would normally be willing to pay to own the reserves. Marathon's reported reserves imply a relatively short life index. Counting undeveloped reserves at half the value per barrel of developed reserves we calculate the ratio of year-end 2001 reserves to next twelve months production at little more than 6 years (see table). The ratio moves to about 7 years after taking account of the acquisition that closed just after year-end. That compares to about 10-11 years for the Mega Cap Energy Companies. Thus Marathon's multiple of enterprise value to cash flow should be lower than for the Mega Caps, but not as low as only 5.5 times as we see it.

Kurt H. Wulff, CFA

Natural Gas and Oil Reserves

	<i>Natural Gas</i>	<i>Oil</i>	<i>Total</i>	
	<i>(bcf)</i>	<i>(mmb)</i>	<i>(bcf)</i>	<i>(mmb)</i>
<i>Reserves (bcf or mmb)</i>				
Proven (P)	2,858	570	6,278	1,046
Proven Developed (PD)	2,121	515	5,211	869
Proven Undeveloped (PUD)	737	55	1,067	178
<i>Production</i>				
Next Twelve Months	489	73	929	155
<i>Reserve Life Index (years)</i>				
R/P P	5.8	7.8	6.8	6.8
R/P PD	4.3	7.0	5.6	5.6
R/P PUD	1.5	0.7	1.1	1.1
R/P PD+.5PUD	5.1	7.4	6.2	6.2

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Marathon Oil Corporation Next Twelve Months Operations

	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>12/31/01</i>	<i>2001</i>	<i>3/31/02</i>	<i>6/30/02</i>	<i>9/30/02</i>	<i>12/31/02</i>	<i>2002E</i>	<i>3/31/03</i>	<i>Twelve</i>
									<i>Months</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	857	793	857	857	857	857	857	857	857
Overseas (or Int'l)	483	480	483	483	483	483	483	483	483
Total	1,340	1,273	1,340	1,340	1,340	1,340	1,340	1,340	1,340
Oil (mbd)	201	209	201	201	201	201	201	201	201
Total gas & oil (bcf)	234	922	229	232	234	234	929	229	929
Total gas & oil (mbd)	424	421	424	424	424	424	424	424	424
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	2.41	3.96	2.53	3.18	3.20	3.46	3.09	3.66	3.37
U.S. (or North America)	2.08	3.46	2.18	2.75	2.77	2.98	2.67	3.16	2.91
Overseas (or Int'l)	2.67	2.97	2.83	3.30	3.24	3.15	3.13	3.06	3.19
Total	2.29	3.27	2.42	2.94	2.94	3.04	2.84	3.12	3.01
Oil (\$/bbl)									
WTI Cushing	20.40	25.95	21.60	25.20	24.74	24.04	23.90	23.38	24.34
Worldwide	15.27	21.15	16.16	18.85	18.51	17.99	17.89	17.49	18.21
Total gas & oil (\$/mcf)	2.41	35.89	2.55	3.04	3.01	3.02	30.71	3.02	31.28
NY Harbor 3-2-1 (\$/bbl)	3.17	6.23	3.63	6.06	5.51	4.30	4.88	4.60	5.12
Chicago 3-2-1 (\$/bbl)	4.51	8.07	3.70						
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	164	1,002	169	214	218	235	836	243	911
Overseas (or Int'l)	119	520	123	145	144	140	551	133	562
Total	283	1,522	291	359	362	375	1,387	376	1,472
Oil	282	1,612	292	345	342	333	1,312	316	1,336
Other	6,281	29,959	5,198	6,915	6,322	7,401	25,836	5,626	26,264
Total	6,846	33,093	5,782	7,619	7,026	8,109	28,536	6,318	29,072
Expense (\$mm)									
Fixed	105	469	105	105	105	105	422	105	422
Variable	105	469	109	131	131	132	504	129	524
Other	6,045	28,326	5,005	6,591	6,027	7,218	24,841	5,429	25,266
Ebitda (\$mm)									
Exploration and Production	354	2,197	369	467	467	470	1,774	458	1,862
Other	236	1,633	194	324	294	184	995	196	998
Total Ebitda	590	3,830	563	791	762	654	2,769	655	2,860
Exploration	75	144	50	50	50	50	200	50	200
Deprec., Deplet., & Amort.	324	1,235	324	324	324	324	1,296	324	1,296
Ebit	191	2,451	189	417	388	280	1,273	281	1,364
Interest	39	187	39	39	39	39	156	39	156
Ebt	152	2,264	150	378	349	241	1,117	242	1,208
Income Tax	53	794	53	132	122	84	391	85	423
Net Income (\$mm)									
Exploration and Production	117	1,435	198	448	429	348	1,422	339	1,564
Other	189	1,248	104	310	270	136	820	145	862
Unallocated	(207)	(1,213)	(204)	(512)	(473)	(327)	(1,516)	(328)	(1,640)
Total	99	1,470	98	245	227	157	726	157	786
Shares (millions)	310	309	310	310	310	310	310	310	310
Per share (\$)	0.32	4.75	0.31	0.79	0.73	0.51	2.34	0.51	2.54

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