

Rating: Buy
 S&P 500: 1235

Marathon Oil Corporation

Raise Net Present Value to \$65 a Share

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	6,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	16
<i>Price (US\$/sh)</i>	59.67	<i>Natural Gas and Oil Production/Ebitda (%)</i>	60
<i>Pricing Date</i>	8/1/05	<i>Adjusted Reserves/Production NTM</i>	7.1
<i>Shares (mm)</i>	367	<i>EV/Ebitda</i>	4.8
<i>Market Capitalization (US\$m)</i>	21,900	<i>PV/Ebitda</i>	5.1
<i>Debt (US\$m)</i>	9,000	<i>Undeveloped Reserves (%)</i>	38
<i>Enterprise Value (EV) (US\$m)</i>	30,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.50
<i>Present Value (PV) (US\$m)</i>	32,900	<i>Present Value Proven Reserves(US\$/boe)</i>	17.30
<i>Net Present Value (US\$/share)</i>	65	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.88
<i>Debt/Present Value</i>	0.27	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.37
<i>McDep Ratio - EV/PV</i>	0.94	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	1.9	<i>Indicated Annual Dividend (US\$/sh)</i>	1.12

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

We raise our estimated net present value of buy-recommended **Marathon Oil Corporation (MRO)** to \$65 a share from \$45 on the basis of an expected long-term real price for oil of \$50 a barrel up from \$40 for Light Sweet Crude. We also raise our long-term real price for natural gas to \$10 a million BTU, up from \$8 for the Henry Hub location. Our long-term real price expectation for the 3-2-1 refining crack (margin) in New York Harbor is now \$10 a barrel up from \$8. The stock has 9% appreciation to net present value. Risk is moderate with globally diversified, integrated operations and moderate debt.

Kurt H. Wulff, CFA

Marathon Oil Corporation

Functional Cash Flow and Present Value

	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	990	5.7	4.6	4,600	14%
Rest of World Natural Gas	290	11.3	8.6	2,500	8%
Oil	2,550	6.5	4.2	10,800	33%
Downstream	2,560	5.9	5.9	15,000	46%
	6,390	7.1	5.1	32,900	100%
Debt				9,000	
Net Present Value (\$mm)				23,900	
Shares				367	
Net Present Value (\$/sh)				65	

Please see disclosures on the final page.

Marathon Oil Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>6/30/06</i>
Volume										
Natural Gas (mmcf)										
U.S. (or North America)	585	633	570	579	567	556	568	556	580	565
Overseas (or Int'l)	411	369	455	313	318	432	379	432	300	370
Total	996	1,002	1,025	892	886	988	947	988	880	935
Oil (mbd)	173	173	163	219	200	200	196	200	200	200
Total gas & oil (bcf)	187	746	180	201	192	201	774	197	189	779
Total gas & oil (mbd)	339	340	334	368	348	365	353	365	347	356
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	7.60	8.69	7.33	9.44	8.04	8.44
U.S. (or North America)	5.09	4.89	4.95	5.76	6.47	7.41	6.15	8.04	6.85	7.18
Overseas (or Int'l)	3.79	3.33	4.17	3.22	3.22	3.22	3.50	3.22	3.22	3.22
Total	4.55	4.31	4.60	4.87	5.31	5.58	5.09	5.94	5.62	5.61
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	53.05	60.62	63.32	56.66	64.52	63.88	63.09
Worldwide	34.80	32.24	38.82	43.87	50.13	52.36	46.63	53.35	52.83	52.16
Total gas & oil (\$/mcf)	5.19	4.85	5.52	6.32	7.06	7.30	6.57	7.56	7.46	7.34
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	10.59	12.11	7.97	9.21	8.32	11.22	9.91
Revenue (\$mm)										
Natural Gas										
U.S. (or North America)	274	1,129	254	303	338	379	1,274	403	362	1,481
Overseas (or Int'l)	143	449	171	92	94	128	485	125	88	435
Total	417	1,578	425	395	432	507	1,759	528	450	1,916
Oil	554	2,041	570	874	922	963	3,330	960	961	3,808
Other	13,335	46,289	12,016	14,832	14,832	14,832	56,510	14,832	14,832	59,326
Total	14,306	49,907	13,010	16,101	16,186	16,302	61,599	16,320	16,243	65,050
Expense (\$mm)										
Fixed	171	649	90	108	108	108	412	108	108	430
Variable	171	649	269	323	344	374	1,310	378	359	1,455
Other	12,895	44,727	11,716	14,132	14,031	14,305	54,183	14,306	14,123	56,764
Ebitda (\$mm)										
Exploration and Production	630	2,320	636	839	903	989	3,366	1,002	945	3,838
Other	440	1,561	300	700	800	527	2,327	526	709	2,562
Total Ebitda	1,070	3,881	936	1,539	1,703	1,516	5,694	1,528	1,653	6,400
Exploration	94	189	34	37	37	37	145	37	60	171
Deprec., Deplet., & Amort.	308	1,217	323	339	340	340	1,342	340	320	1,340
Other non cash		200					-			-
Ebit	668	2,275	579	1,163	1,326	1,139	4,207	1,151	1,273	4,889
Interest	32	161	32	-	40	40	112	40	40	160
Ebt	636	2,114	547	1,163	1,286	1,099	4,095	1,111	1,233	4,729
Income Tax	223	740	191	407	450	384	1,433	389	432	1,655
Net Income (\$mm)										
Exploration and Production	443	1,508	555	776						
Other	265	947	217	519						
Unallocated	(295)	(1,081)	(416)	(539)						
Total	413	1,374	356	756	836	714	2,662	722	802	3,074
Shares (millions)	347	339	349	350	367	367	360	367	367	367
Per share (\$)	1.19	4.05	1.02	2.16	2.28	1.95	7.40	1.97	2.18	8.37
Ebitda Margin (E&P)	65%	64%	64%	66%	67%	67%	66%	67%	67%	67%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>		<i>Price</i>		<i>Market</i>	<i>Net</i>		
	<i>Rating</i>		<i>(\$/sh)</i>	<i>Shares</i>	<i>Cap</i>	<i>Present</i>	<i>Debt/</i>	<i>McDep</i>
			<i>1-Aug</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>Value</i>	<i>Present</i>	<i>Ratio</i>
			<i>2005</i>			<i>(\$/sh)</i>	<i>Value</i>	
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	88.61	123	10,910	20.00	0.76	1.83
Imperial Oil Limited (30%)	IMO	B	86.93	104	9,000	84.00	0.09	1.03
Marathon Oil Corporation	MRO	B	59.67	367	21,900	65.00	0.27	0.94
Petro-Canada	PCZ	B	73.30	263	19,280	84.00	0.18	0.90
PetroChina Company Ltd (10%)	PTR	B	92.67	176	16,290	120.00	0.04	0.78
Suncor Energy	SU	B	50.43	461	23,250	68.00	0.10	0.77
Norsk Hydro ASA	NHY	B	95.98	251	24,090	130.00	0.12	0.77
ConocoPhillips	COP	B	63.00	1,419	89,400	100.00	0.15	0.69
Lukoil Oil Company	LUKOY	B	41.75	830	35,000	65.00	0.02	0.65
			<i>Total or Median</i>		<i>249,000</i>		<i>0.12</i>	<i>0.78</i>

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