

Rating: Buy
S&P 500: 1370
Intraday

Marathon Oil Corporation

Raise Net Present Value to \$110 a Share

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	7,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	85.71	<i>Natural Gas and Oil Production/Ebitda (%)</i>	50
<i>Pricing Date</i>	11/1/06	<i>Adjusted Reserves/Production NTM</i>	8.6
<i>Shares (mm)</i>	359	<i>EV/Ebitda</i>	4.8
<i>Market Capitalization (US\$mm)</i>	30,800	<i>PV/Ebitda</i>	6.0
<i>Debt (US\$mm)</i>	5,600	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$mm)</i>	36,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	30.10
<i>Present Value (PV) (US\$mm)</i>	45,100	<i>Present Value Proven Reserves(US\$/boe)</i>	18.00
<i>Net Present Value (US\$/share)</i>	110	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.00
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.22
<i>McDep Ratio - EV/PV</i>	0.81	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.5	<i>Indicated Annual Dividend (US\$/sh)</i>	1.32

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.

Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

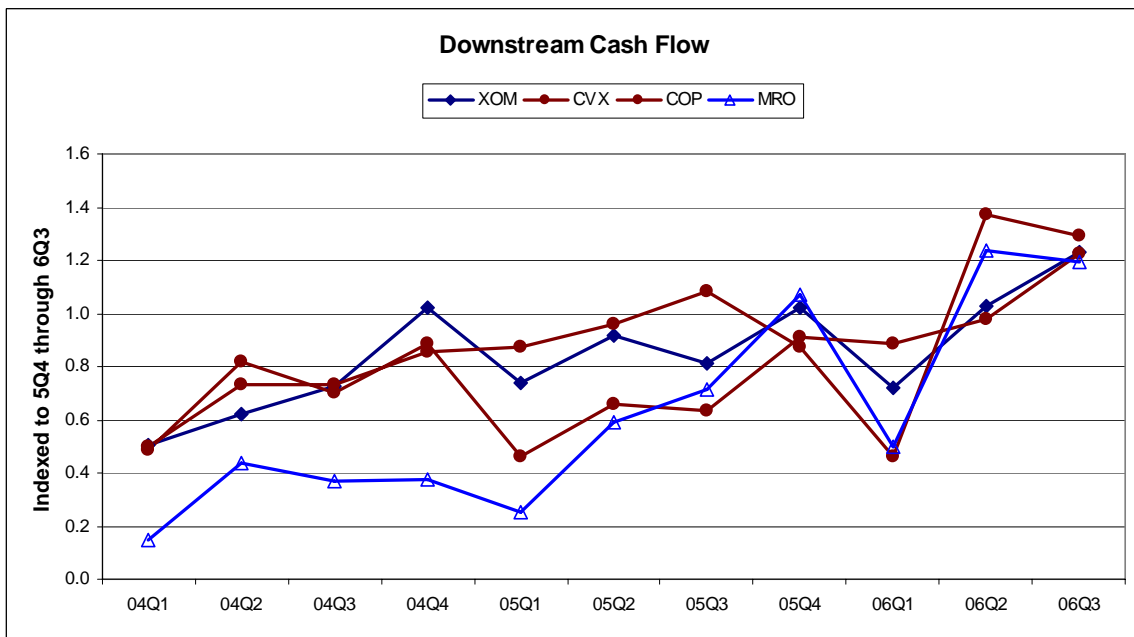
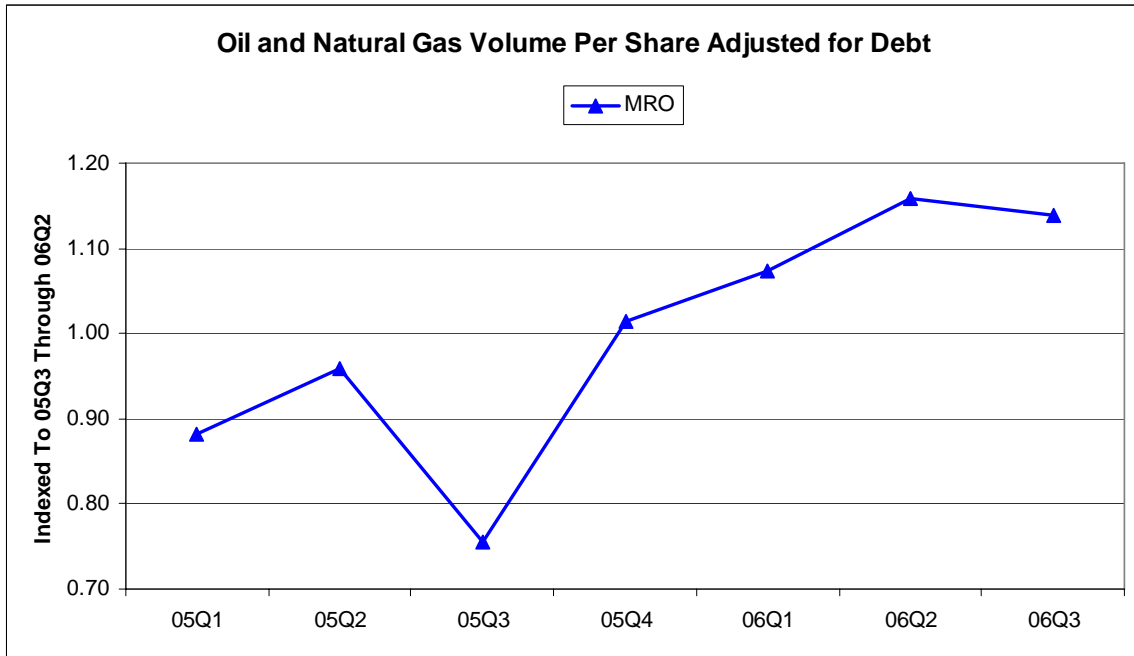
For historical research on Marathon since 2001 see <http://www.mcdep.com/3mro.htm>

Summary and Recommendation

Buy-recommended **Marathon Oil (MRO)** at a McDep Ratio of 0.81 offers unlevered appreciation potential of 24% to a McDep Ratio of 1.00 where stock price would equal estimated net present value (NPV). Raising NPV to \$110 a share from \$98, we take note of surprisingly good performance even after allowing for temporarily high Libyan oil volume and the interaction of inventories and financial derivatives in recent downstream results. Third quarter operations, reported on October 31, demonstrate growth in oil and gas production volume per share adjusted for debt (see chart). Most concentrated on refining/marketing, MRO has outpaced peers in cash flow growth downstream (see chart). Ironically, low downstream results prior to the buyout of partner Ashland in mid 2005 have become high downstream results prior to a potential deal with a Canadian heavy oil producer. Correlating the rate of production relative to reserves with present value as a multiple of cash flow keeps our estimate for MRO within a reasonable range of that for some thirty natural gas and oil producers (see table on page 4). Above the 200-day average price signifying positive momentum, MRO stock has a half weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

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Marathon Oil Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/05</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>9/30/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	562	523	522	550	539	550	523	522	536
Overseas (or Int'l)	245	277	197	380	322	435	277	197	322
Total	807	800	719	930	861	985	800	719	858
Oil (mbd)	157	258	242	200	228	200	200	200	200
Total gas & oil (bcf)	161	214	200	196	813	197	182	177	751
Total gas & oil (mbd)	292	391	362	355	371	364	333	320	343
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.56	6.81	6.58	6.39	7.19	8.46	7.77	7.96	7.64
U.S. (or North America)	6.56	5.35	5.62	5.45	5.78	7.22	6.63	6.79	6.52
Overseas (or Int'l)	3.12	5.19	4.10	5.92	5.56	6.16	5.19	4.10	5.56
Total	5.52	5.29	5.20	5.64	5.70	6.75	6.13	6.05	6.16
Oil (\$/bbl)									
WTI Cushing	62.52	70.47	70.42	59.22	65.86	63.02	65.19	66.49	63.48
Worldwide	50.11	63.95	62.96	52.95	58.10	56.34	58.28	59.45	56.75
Total gas & oil (\$/mcf)	7.04	8.83	8.74	7.44	8.14	8.20	8.28	8.46	8.08
NY Harbor 3-2-1 (\$/bbl)	16.70	15.39	11.67	7.18	10.41	7.69	11.58	11.88	9.58
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	339	255	270	276	1,137	358	316	326	1,275
Overseas (or Int'l)	70	131	74	207	653	241	131	74	653
Total	410	385	344	483	1,790	599	447	400	1,928
Oil	724	1,501	1,402	974	4,830	1,014	1,061	1,094	4,143
Other	16,115	16,403	14,888	14,888	61,287	14,888	14,888	14,888	59,552
Total	17,248	18,290	16,634	16,345	67,907	16,501	16,395	16,382	65,624
Expense									
Fixed	81	146	168	168	599	168	168	168	673
Variable	243	437	504	360	1,653	438	385	379	1,561
Other	15,272	14,943	13,479	13,879	56,821	14,418	13,720	13,760	55,777
Ebitda (\$mm)									
Exploration and Production	809	1,305	1,073	929	4,368	1,007	954	948	3,838
Other	843	1,460	1,409	1,009	4,467	470	1,168	1,128	3,775
Total Ebitda	1,652	2,765	2,483	1,938	8,835	1,477	2,122	2,075	7,613
Exploration	64	66	97	150	384	100	100	100	450
Deprec., Deplet., & Amort.	331	369	361	361	1,506	361	361	361	1,444
Other non cash			(350)		(350)				-
Ebit	1,257	2,330	2,375	1,427	7,295	1,016	1,661	1,614	5,719
Interest	32			-	24	-	-	-	-
Ebt	1,225	2,330	2,375	1,427	7,271	1,016	1,661	1,614	5,719
Income Tax	429	815	831	499	2,545	356	581	565	2,002
Net Income (\$mm)									
Exploration and Production	627	659	572						
Other	814	934	1,024						
Unallocated	(645)	(79)	(52)						
Total	796	1,514	1,544	928	4,726	661	1,080	1,049	3,717
Shares (millions)									
Per share (\$)	369	364	359	359	362	359	359	359	359
Ebitda Margin (E&P)	2.16	4.16	4.30	2.58	13.05	1.84	3.01	2.92	10.35
Ebitda Margin (E&P)	71%	69%	61%	64%	66%	62%	63%	63%	63%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Marathon Oil Corporation
Functional Cash Flow and Present Value

	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	810	5.5	5.7	4,600	10%
Rest of World Natural Gas	410	14.1	8.8	3,600	8%
Oil	2,620	8.4	6.8	17,900	40%
Downstream	3,780		5.0	19,000	42%
	7,620	8.6	5.9	45,100	100%
Debt					5,600
Net Present Value (\$mm)					39,500
Shares					359
Net Present Value - Standard Estimate (US\$/sh)					110
Net Present Value - Approximation by Correlation (US\$/sh)					117

Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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