

Rating: Buy
S&P 500: 1271

Marathon Oil Corporation

Raise Net Present Value to \$98 a Share

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	8,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	11
<i>Price (US\$/sh)</i>	90.54	<i>Natural Gas and Oil Production/Ebitda (%)</i>	62
<i>Pricing Date</i>	8/1/06	<i>Adjusted Reserves/Production NTM</i>	8.6
<i>Shares (mm)</i>	367	<i>EV/Ebitda</i>	4.8
<i>Market Capitalization (US\$mm)</i>	33,200	<i>PV/Ebitda</i>	5.1
<i>Debt (US\$mm)</i>	6,500	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$mm)</i>	39,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	39.90
<i>Present Value (PV) (US\$mm)</i>	42,500	<i>Present Value Proven Reserves(US\$/boe)</i>	20.20
<i>Net Present Value (US\$/share)</i>	98	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.37
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	11.53
<i>McDep Ratio - EV/PV</i>	0.94	<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.

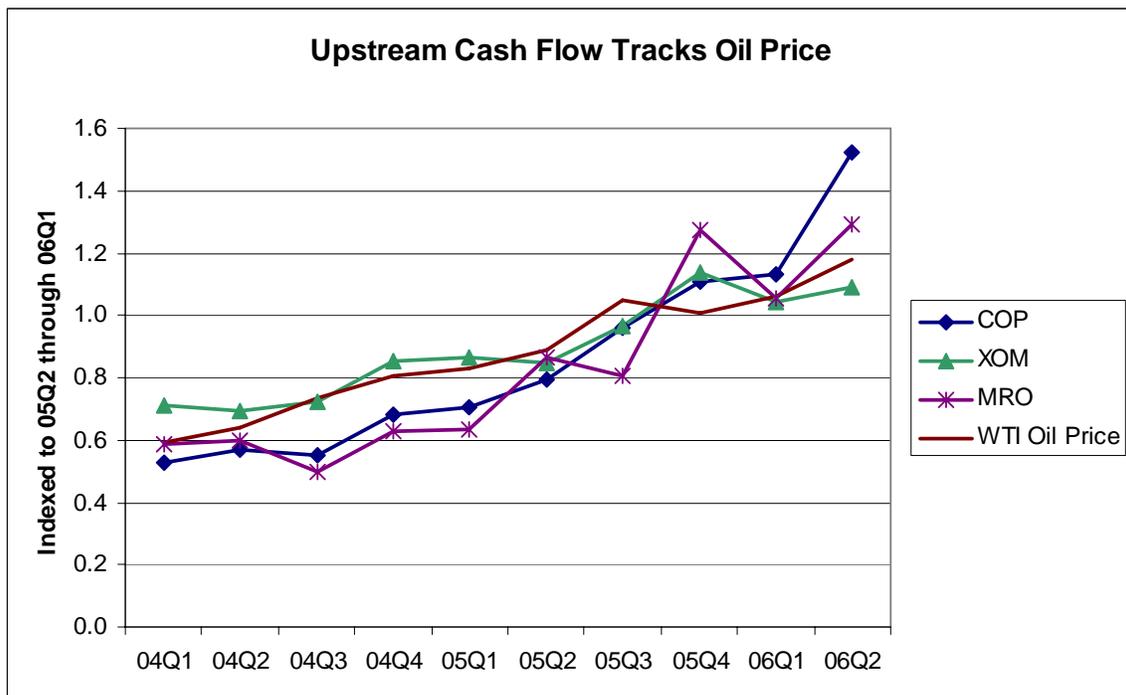
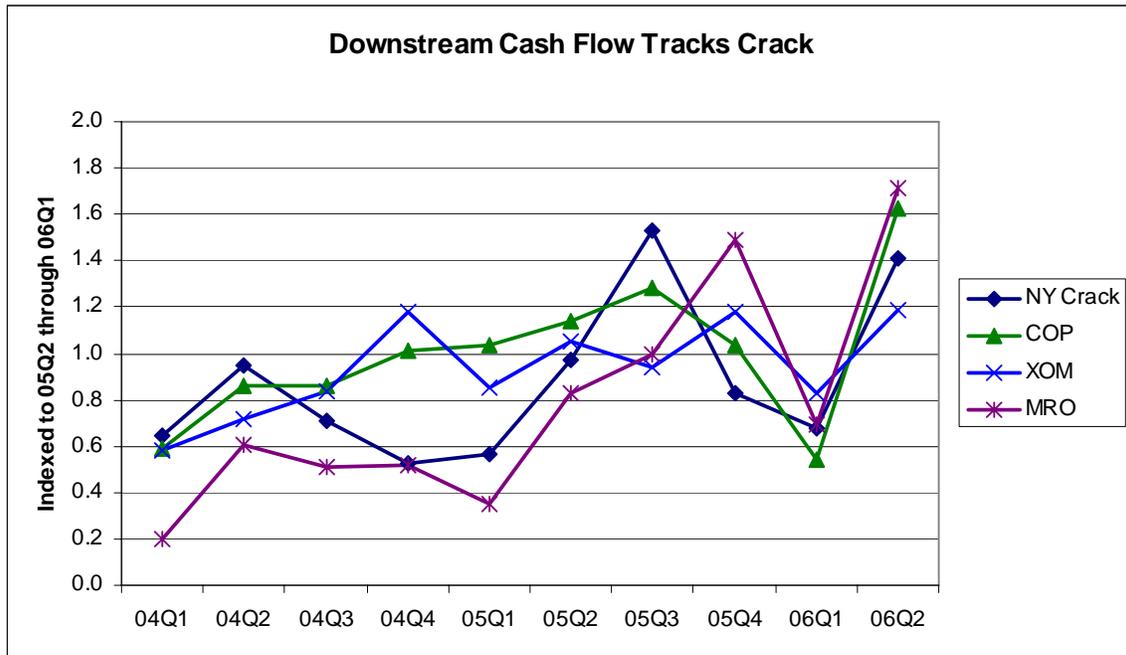
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

On especially favorable upstream and downstream results for buy-recommended **Marathon Oil (MRO)** we raise our estimate of net present value, the third time this year, to \$98 a share. A top supplier of gasoline in the U.S. Midwest, Marathon scored its sharpest gains in the downstream business in the second quarter reported on August 1 (see chart). We raise our present value of the downstream to \$18 billion, nicely validating the acquisition of the minority interest a year ago. We raised upstream oil value on June 6 when we raised our long-term oil price expectation to \$60 a barrel from \$50. We raise our estimate of upstream value further on latest profits on Libyan production now accruing to Marathon's account after reentry into that country last year. Because Marathon's cash flow can be more volatile than for larger peers we hold NPV below a correlation of present value with adjusted reserve life and next twelve months cash flow. Meanwhile a strong stock price strengthens management's hand in negotiating a possible joint venture with a Canadian oil sands producer.

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Marathon Oil Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next Twelve Months</i>
	<i>6/30/05</i>	<i>2005</i>	<i>3/31/06</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>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	579	578	561	523	510	500	523	500	505
Overseas (or Int'l)	313	354	435	277	280	400	348	435	348
Total	892	932	996	800	790	900	871	935	853
Oil (mbd)	219	191	211	258	215	210	223	210	211
Total gas & oil (bcf)	201	758	204	214	191	199	807	198	774
Total gas & oil (mbd)	368	346	377	391	347	360	369	366	353
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.76	8.65	8.97	6.81	7.44	9.79	8.25	11.62	9.40
U.S. (or North America)	5.76	6.42	6.66	5.35	5.84	7.69	6.38	9.13	7.37
Overseas (or Int'l)	3.22	4.28	6.16	5.19	5.19	5.92	5.70	6.16	5.70
Total	4.87	5.61	6.44	5.29	5.61	6.90	6.11	7.75	6.69
Oil (\$/bbl)									
WTI Cushing	53.05	56.31	63.33	70.47	74.40	76.40	71.15	77.82	76.74
Worldwide	43.87	45.32	50.16	63.95	67.52	69.33	62.88	70.62	69.62
Total gas & oil (\$/mcf)	6.32	6.68	7.52	8.83	9.11	9.62	8.76	10.06	9.63
NY Harbor 3-2-1 (\$/bbl)	10.59	10.63	7.40	15.39	16.07	10.91	12.44	11.71	13.99
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	303	1,354	336	255	274	354	1,219	411	1,358
Overseas (or Int'l)	92	554	241	131	134	218	724	241	724
Total	395	1,908	577	385	408	572	1,942	652	2,081
Oil	874	3,156	953	1,501	1,336	1,339	5,129	1,335	5,369
Other	14,832	58,609	15,108	16,403	16,403	16,403	64,317	16,403	65,613
Total	16,101	63,673	16,638	18,290	18,147	18,314	71,389	18,390	73,063
Expense (\$mm)									
Fixed	99	365	117	147	147	147	557	147	587
Variable	297	1,095	352	440	368	452	1,612	490	1,711
Other	14,132	55,504	14,520	14,948	15,603	15,603	60,674	15,603	62,413
Ebitda (\$mm)									
Exploration and Production	874	3,604	1,061	1,300	1,229	1,313	4,903	1,350	5,153
Other	700	3,104	588	1,455	800	800	3,643	800	3,200
Total Ebitda	1,574	6,708	1,649	2,756	2,029	2,113	8,546	2,150	8,353
Exploration	37	222	71	66	100	100	337	100	400
Deprec., Deplet., & Amort.	339	1,358	415	369	369	369	1,522	369	1,476
Other non cash	-	-	-	-	-	-	-	-	-
Ebit	1,198	5,128	1,163	2,321	1,560	1,644	6,687	1,681	6,477
Interest	35	145	24	(9)	(9)	(9)	(3)	(9)	(36)
Ebt	1,163	4,983	1,139	2,330	1,569	1,653	6,690	1,690	6,513
Income Tax	407	1,744	399	815	549	578	2,341	592	2,279
Net Income (\$mm)									
Exploration and Production	776	2,988	477	659					
Other	519	2,735	327	934					
Unallocated	(539)	(2,484)	(64)	(79)					
Total	756	3,239	740	1,514	1,020	1,074	4,348	1,099	4,233
Shares (millions)	350	362	368	364	367	367	366	367	367
Per share (\$)	2.16	8.95	2.01	4.16	2.78	2.93	11.87	2.99	11.53
Ebitda Margin (E&P)	69%	71%	69%	69%	70%	69%	69%	68%	69%
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	940	5.8	4.9	4,600	11%
Rest of World Natural Gas	500	13.0	7.2	3,600	8%
Oil	3,710	8.5	4.4	16,300	38%
Downstream	3,200		5.6	18,000	42%
	8,350	8.6	5.1	42,500	100%
Debt					6,500
Net Present Value (\$mm)					36,000
Shares					367
Net Present Value - Standard Estimate (US\$/sh)					98
Net Present Value - Approximation by Correlation (US\$/sh)					112

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