

Rating: Hold
S&P 500: 1529
Intraday

Marathon Oil Corporation Oil Sands Deal Closed

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	9,900
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	8
<i>Price (US\$/sh)</i>	59.77	<i>Natural Gas and Oil Production/Ebitda (%)</i>	56
<i>Pricing Date</i>	11/1/07	<i>Adjusted Reserves/Production NTM</i>	9.1
<i>Shares (mm)</i>	719	<i>EV/Ebitda</i>	5.5
<i>Market Capitalization (US\$mm)</i>	43,000	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$mm)</i>	11,000	<i>Undeveloped Reserves (%)</i>	27
<i>Enterprise Value (EV) (US\$mm)</i>	54,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	39.60
<i>Present Value (PV) (US\$mm)</i>	55,600	<i>Present Value Proven Reserves(US\$/boe)</i>	21.20
<i>Net Present Value (US\$/share)</i>	62	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.53
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.50
<i>McDep Ratio - EV/PV</i>	0.97	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.96

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\$66 a barrel and natural gas, \$11 a million btu.
For historical research on Marathon since 2001 see <http://www.mcdep.com/3mro.htm>

Summary and Recommendation

Trading under estimated net present value (NPV) of \$62 a share, the stock of Hold-rated **Marathon Oil (MRO)** has further appreciation potential with oil price. Third quarter results reported today traced a high cash flow (Ebitda) margin on oil and gas production and a dip in downstream refining/marketing following a particularly strong previous quarter (see table Next Twelve Months Operating and Financial Estimates). NPV remains amply supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table Functional Cash Flow and Present Value). In a stroke of unfortunate timing, the Alberta government announced a tax increase just as Marathon was closing its \$7 billion acquisition of Western Oil Sands. Yet the deal was initially priced at a time of lower oil price and the recent trend in price already implies the higher taxes will be passed on to consumers. A renewed rise in oil price may take six-year futures to another double as was the case from the end of 2004 to mid 2006, subject to short declines from time to time (see chart Six-Year Commodity Price Meter). We keep Marathon stock as a potential restoration to buy should there be an unforeseen period of stock price weakness.

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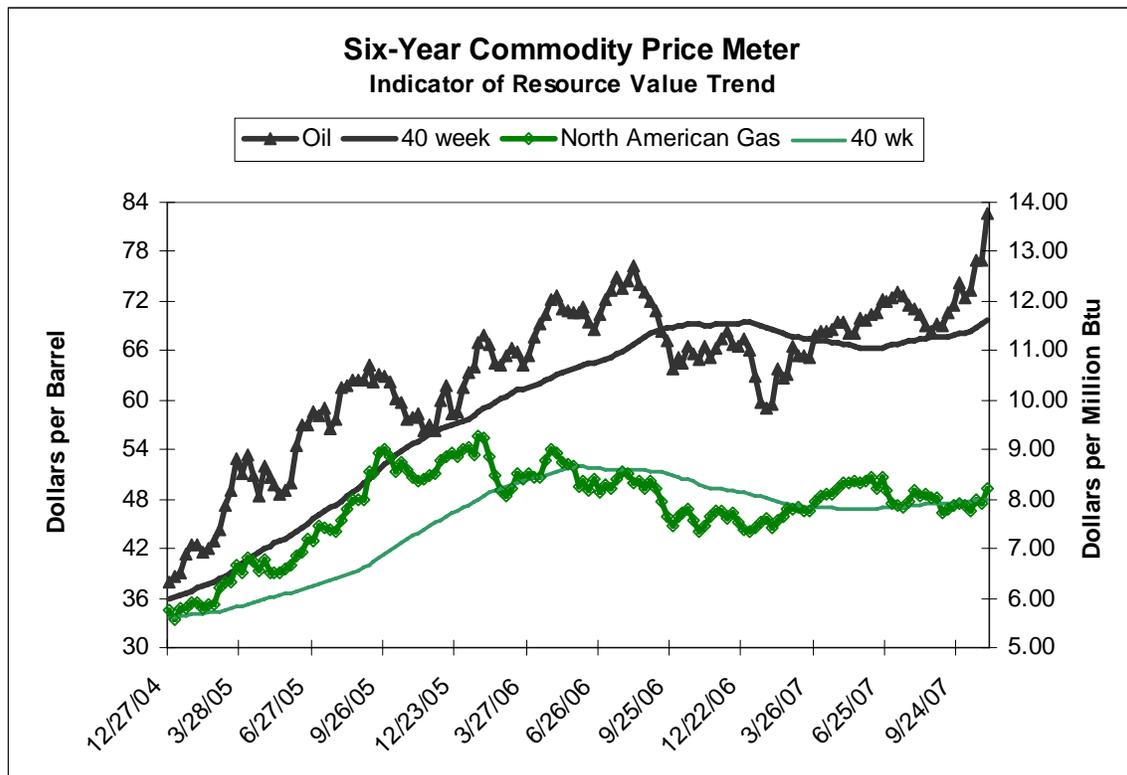
Marathon Oil Corporation
Next Twelve Months Operating and Financial Estimates

	<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>9/30/06</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>9/30/08</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	522	460	464	464	475	464	464	464	465
Overseas (or Int'l)	197	374	567	567	462	567	374	374	472
Total	719	834	1,031	1,031	937	1,031	838	838	937
Oil (mbd)	242	199	199	220	204	230	230	230	227
Total gas & oil (bcf)	200	185	205	216	789	219	202	204	842
Total gas & oil (mbd))	362	338	371	392	360	402	370	370	384
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.58	7.56	6.16	7.46	7.00	8.26	7.90	8.11	7.93
U.S. (or North America)	5.62	6.16	5.14	6.23	5.86	6.89	6.60	6.77	6.62
Overseas (or Int'l)	4.10	2.27	2.38	2.38	2.81	4.91	2.27	2.38	3.12
Total	5.20	4.42	3.62	4.11	4.36	5.80	4.67	4.81	4.86
Oil (\$/bbl)									
WTI Cushing	70.42	64.91	75.48	91.02	72.37	91.70	89.32	87.41	89.86
Worldwide	62.96	59.11	68.21	82.26	65.71	82.87	80.72	78.99	81.19
Total gas & oil (\$/mcf)	8.74	7.62	7.78	9.50	8.09	10.39	10.13	10.01	10.01
NY Harbor 3-2-1 (\$/bbl)	11.67	24.96	12.64	7.35	14.16	9.14	14.06	13.09	10.91
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	270	258	219	266	1,015	291	279	289	1,125
Overseas (or Int'l)	74	77	124	124	474	253	77	82	537
Total	344	335	344	390	1,490	544	356	371	1,661
Oil	1,402	1,070	1,249	1,665	4,894	1,734	1,689	1,671	6,760
Other	14,888	15,481	15,362	15,362	57,875	15,362	15,362	15,362	61,447
Total	16,634	16,887	16,954	17,417	64,260	17,641	17,407	17,404	69,868
Expense		13,994	14,897	15,151	55,502	15,498	14,178	15,165	59,991
Ebitda (\$mm)									
Exploration and Production	1,073	1,013	1,165	1,356	4,439	1,504	1,350	1,348	5,558
Other	1,409	1,879	891	909	4,319	639	1,879	891	4,319
Total Ebitda	2,483	2,893	2,057	2,266	8,758	2,143	3,229	2,239	9,877
Exploration	97	115	88	88	352	88	90	90	356
Deprec., Deplet., & Amort.	361	396	409	476	1,674	483	444	449	1,851
Other non cash	(350)								
Ebit	2,375	2,382	1,560	1,702	6,732	1,572	2,695	1,701	7,670
Interest				120	120	120	120	120	480
Ebt	2,375	2,382	1,560	1,582	6,612	1,452	2,575	1,581	7,190
Income Tax	831	834	546	554	2,314	508	901	553	2,516
Net Income (\$mm)									
Exploration and Production	572	400	479						
Other	1,024	1,258	534						
Unallocated	(52)	(110)	1						
Total	1,544	1,548	1,014	1,028	4,298	944	1,674	1,027	4,673
Shares (millions)	718	688	685	719	695	719	719	719	719
Per share (\$)	2.15	2.25	1.48	1.43	6.18	1.31	2.33	1.43	6.50
Ebitda Margin (E&P)	61%	72%	73%	66%	70%	66%	66%	66%	66%
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>Ebitda</u>	<u>R/P</u>	<u>Ebitda</u>	<u>Value</u>	
North American Natural Gas	740	5.7	5.4	4,000	7%
Rest of World Natural Gas	350	9.7	5.7	2,000	4%
Oil	4,460	10.1	6.4	28,600	51%
Downstream	4,320		4.9	21,000	38%
	9,870	9.1	5.6	55,600	100%
Debt					11,000
Net Present Value (\$mm)					44,600
Shares					719
Net Present Value - Standard Estimate (US\$/sh)					62
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					66



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