MARATHON OIL CORP
Form 10-K
February 29, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2007

Commission file number 1-5153

Marathon Oil Corporation

(Exact name of registrant as specified in its charter)

Delaware	**25-0996816**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

5555 San Felipe Road, Houston, TX 77056-2723

(Address of principal executive offices)

Tel. No. (713) 629-6600

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1.00	New York Stock Exchange and Chicago Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of Common Stock held by non-affiliates as of June 30, 2007: $40.740 billion. This amount is based on the closing price of the registrant s Common Stock on the New York Stock Exchange on that date. Shares of Common Stock held by executive officers and directors of the registrant are not included in the computation. However, the registrant has made no determination that such individuals are affiliates within the meaning of Rule 405 of the Securities Act of 1933.

There were 708,970,468 shares of Marathon Oil Corporation Common Stock outstanding as of January 31, 2008.

Documents Incorporated By Reference:

Portions of the registrant s proxy statement relating to its 2008 annual meeting of stockholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, are incorporated by reference to the extent set forth in Part III, Items 10-14 of this report.

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MARATHON OIL CORPORATION

Unless the context otherwise indicates, references to Marathon, we, our, or us in this Annual Report on Form 10-K are references to Marathon Oil Corporation, including its wholly-owned and majority-owned subsidiaries, and its ownership interests in equity method investees (corporate entities, partnerships, limited liability companies and other ventures over which Marathon exerts significant influence by virtue of its ownership interest).

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Disclosures Regarding Forward-Looking Statements

This Annual Report on Form 10-K, particularly Item 1. Business, Item 1A. Risk Factors, Item 3. Legal Proceedings, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Quantitative and Qualitative Disclosures about Market Risk, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements typically contain words such as anticipate, believe, estimate, expect, forecast, plan, predict t project, could, may, should, would or similar words, indicating that future outcomes are uncertain. In accordance with safe harbor provisi the Private Securities Litigation Reform Act of 1995, these statements are accompanied by cautionary language identifying important factors, though not necessarily all such factors, that could cause future outcomes to differ materially from those set forth in the forward-looking statements.

Forward-looking statements in this Report may include, but are not limited to, levels of revenues, gross margins, income from operations, net income or earnings per share; levels of capital, exploration, environmental or maintenance expenditures; the success or timing of completion of ongoing or anticipated capital, exploration or maintenance projects; volumes of production, sales, throughput or shipments of liquid hydrocarbons, natural gas, bitumen and refined products; levels of worldwide prices of liquid hydrocarbons, natural gas and refined products; levels of reserves of liquid hydrocarbons, natural gas and bitumen; the acquisition or divestiture of assets; the effect of restructuring or reorganization of business components; the potential effect of judicial proceedings on our business and financial condition; levels of common share repurchases; and the anticipated effects of actions of third parties such as competitors, or federal, foreign, state or local regulatory authorities.

PART I

Item 1. Business

General

Marathon Oil Corporation was originally organized in 2001 as USX HoldCo, Inc., a wholly-owned subsidiary of the former USX Corporation. As a result of a reorganization completed in July 2001, USX HoldCo, Inc. (1) became the parent entity of the consolidated enterprise (the former USX Corporation was merged into a subsidiary of USX HoldCo, Inc.) and (2) changed its name to USX Corporation. In connection with the transaction described in the next paragraph (the Separation), USX Corporation changed its name to Marathon Oil Corporation.

Before December 31, 2001, Marathon had two outstanding classes of common stock: USX-Marathon Group common stock, which was intended to reflect the performance of our energy business, and USX-U.S. Steel Group common stock (Steel Stock), which was intended to reflect the performance of our steel business. On December 31, 2001, we disposed of our steel business through a tax-free distribution of the common stock of our wholly-owned subsidiary United States Steel Corporation (United States Steel) to holders of Steel Stock in exchange for all outstanding shares of Steel Stock on a one-for-one basis.

In connection with the Separation, our certificate of incorporation was amended on December 31, 2001 and Marathon has had only one class of common stock authorized since that date.

On June 30, 2005, we acquired the 38 percent ownership interest in Marathon Ashland Petroleum LLC (MAP) previously held by Ashland Inc. (Ashland). In addition, we acquired a portion of Ashland s Valvoline Instant Oil Change business, its maleic anhydride business, its interest in LOOP LLC which owns and operates the only U.S. deepwater oil port, and its interest in LOCAP LLC which owns a crude oil pipeline. As a result of the transactions, MAP is wholly owned by Marathon and its name was changed to Marathon Petroleum Company LLC (MPC) effective September 1, 2005.

Acquisition of Western Oil Sands Inc.

On October 18, 2007, we completed the acquisition of all the outstanding shares of Western Oil Sands Inc. (Western) for cash and securities of $5.833 billion. Western s debt was $1.063 billion at closing. Western s primary asset was a 20 percent outside-operated interest in the Athabasca Oil Sands Project (AOSP), an oil sands mining joint venture located in the province of Alberta, Canada. The acquisition was accounted for under the

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purchase method of accounting and, as such, our results of operations include Western s results from October 18, 2007. Western s oil sands mining and bitumen upgrading operations are reported as a separate Oil Sands Mining segment, while its ownership interests in leases where in-situ recovery techniques are expected to be utilized are included in the Exploration and Production segment.

Segment and Geographic Information

Our operations consist of four operating segments: 1) Exploration and Production (E&P) explores for, produces and markets liquid hydrocarbons and natural gas on a worldwide basis; 2) Oil Sands Mining (OSM) mines, extracts and transports bitumen from oil sands deposits in Alberta, Canada, and upgrades the bitumen to produce and market synthetic crude oil and by-products; 3) Refining, Marketing and Transportation (RM&T) refines, markets and transports crude oil and petroleum products, primarily in the Midwest, upper Great Plains, Gulf Coast and southeastern regions of the United States; and 4) Integrated Gas (IG) markets and transports products manufactured from natural gas, such as liquefied natural gas (LNG) and methanol, on a worldwide basis, and is developing other projects to link stranded natural gas resources with key demand areas. For operating segment and geographic financial information, see Note 9 to the consolidated financial statements.

Exploration and Production

In the discussion that follows regarding our exploration and production operations, references to net wells, sales or investment indicate our ownership interest or share, as the context requires.

We conduct exploration, development and production activities in 11 countries. Principal exploration activities are in the United States, Angola, Norway and Indonesia. Principal development and production activities are in the United States, the United Kingdom, Norway, Ireland, Equatorial Guinea and Libya.

Our 2007 worldwide net liquid hydrocarbon sales averaged 197 thousand barrels per day (mbpd). Our 2007 worldwide net natural gas sales, including natural gas acquired for injection and subsequent resale, averaged 925 million cubic feet per day (mmcfd). In total, our 2007 worldwide net sales averaged 351 thousand barrels of oil equivalent per day (mboepd). (For purposes of determining barrels of oil equivalent (boe), natural gas volumes are converted to approximate liquid hydrocarbon barrels by dividing the natural gas volumes expressed in thousands of cubic feet (mcf) by six. The liquid hydrocarbon volume is added to the barrel equivalent of natural gas volume to obtain boe.) In 2008, our worldwide net liquid hydrocarbon and natural gas sales are expected to average 380 to 420 mboepd, excluding future acquisitions and dispositions.

The above projections of 2008 worldwide net liquid hydrocarbon and natural gas sales are forward-looking statements. Some factors that could potentially affect levels of sales include pricing, supply and demand for petroleum products, the amount of capital available for exploration and development, regulatory constraints, timing of commencing production from new wells, drilling rig availability, inability to obtain or delay in obtaining necessary government and third-party approvals and permits, unforeseen hazards such as weather conditions, acts of war or terrorist acts and the governmental or military response, and other geological, operating and economic considerations. These factors (among others) could cause actual results to differ materially from those set forth in the forward-looking statements.

Exploration

In the United States during 2007, we drilled 59 gross (39 net) exploratory wells of which 47 gross (29 net) wells encountered commercial quantities of hydrocarbons. Of these 47 wells, none were temporarily suspended or in the process of being completed at year end. Internationally, we drilled 25 gross (6 net) exploratory wells of which 16 gross (4 net) wells encountered commercial quantities of hydrocarbons. Of these 16 wells, 10 gross (3 net) wells were temporarily suspended or were in the process of being completed at December 31, 2007.

United States The Gulf of Mexico continues to be a core area for us. At the end of 2007, we had interests in 71 blocks in the Gulf of Mexico, including 64 in the deepwater area. In October 2007, we were the high bidder on 27 blocks offered in the federal Outer Continental Shelf Lease Sale No. 205 conducted by the U.S. Minerals Management Service (MMS) and were awarded these leases in early 2008. Representing a total net investment of $222 million for us, 13 blocks were bid 100 percent by us, and the remaining 14 blocks were bid in conjunction with partners. Our plans call for initial drilling on some of these leases in 2009 or 2010. The contract for the rig has an initial term of two years with an option to extend for an additional two years.

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In 2007, we drilled the Droshky (previously named Troika Deep) deepwater discovery well. This well and two appraisal sidetrack wells are located on Green Canyon Block 244 in the Gulf of Mexico and we are in the process of drilling additional appraisal wells. We have secured an additional year of drilling rig capacity in 2009 for development drilling in anticipation of a 2008 project sanction. The timing of initial production from the Droshky discovery will be dependent upon delivery of key equipment and regulatory approvals, but could be as early as 2010. We hold a 100 percent working interest in the Drohsky discovery.

In late 2007, drilling of an appraisal well began on the Stones prospect (Walker Ridge Block 508) after a 2005 discovery. We hold a 30 percent outside-operated interest in the Stones prospect.

In 2001, a successful discovery well was drilled on the Ozona prospect (Garden Banks Block 515) in the Gulf of Mexico and, in 2002, two sidetrack wells were drilled. We are continuing to evaluate options to develop the Ozona prospect. Commercial terms have been secured for the tie-back and processing of Ozona production and we have been actively searching for a rig to drill the development well. We hold a 68 percent operated interest in the Ozona prospect.

Angola   Offshore Angola, we hold a 10 percent outside-operated interest in Block 31 and a 30 percent outside-operated interest in Block 32. Through February 2008, 27 discoveries on these blocks have been announced, including eight in 2007 and one in early 2008. These discoveries represent four potential development hubs. Four discoveries and one successful appraisal well form a planned development area in the northeastern portion of Block 31. Nine other discoveries on Block 31 comprise potential development areas in the southeast and middle portions of the block. Seven of the Block 32 discoveries form our first potential development in the eastern area of that block.

Norway   We hold interests in over 800,000 gross acres offshore Norway and plan to continue our exploration effort there. We hold a 28 percent outside-operated interest in the Gudrun field, located 120 miles off the coast of Norway, where we are focused on subsurface evaluation and assessing development concepts after a successful appraisal well in 2006. First production from Gudrun is expected in 2012. In 2007, we also continued to advance exploration opportunities in the Alvheim area, the first of which is expected to be drilled in 2009.

Indonesia   We are the operator and hold a 70 percent interest in the Pasangkayu Block offshore Indonesia. The 1.2 million acre block is located mostly in deep water, predominantly offshore of the island of Sulawesi in the Makassar Strait, directly east of the Kutei Basin production region. The production sharing contract with the Indonesian government was signed in 2006 and we will begin collecting geophysical data in the first quarter of 2008. We expect to begin exploratory drilling in 2009.

In addition, we were awarded two study agreements and farmed into additional study agreements in Indonesia in 2007 which could lead to the acquisition of new leaseholds at a future lease sale.

Equatorial Guinea   During 2004, we announced the Deep Luba and Gardenia discoveries on the Alba Block, in which we hold a 63 percent operated interest, and the Corona well on Block D, where we are the operator with a 90 percent interest. These wells are part of our long-term LNG strategy. We expect these discoveries to be developed when the natural gas supply from the nearby Alba Field starts to decline or additional LNG markets are entered that require increased natural gas supply.

Libya   We hold a 16 percent outside-operated interest in the Waha concessions, which encompass almost 13 million acres located in the Sirte Basin. Our exploration program in 2007 included the drilling of eight wells, six of which were successful. Most of these discoveries extended previously defined hydrocarbon accumulations.

Canada   We hold interests in both operated and outside-operated exploration-stage in-situ oil sand leases as a result of the acquisition of Western in 2007.

United Kingdom   During 2007, we acquired a 45 percent outside-operated interest in three exploratory onshore coal bed methane licenses in the United Kingdom, representing 128,000 gross acres. Three exploration wells have been drilled on two of the licenses and additional delineation and production testing is planned during 2008. We also plan to participate in the U.K. Onshore Licensing Round during 2008 to secure additional acreage.

In the U.K. portion of the North Sea, Marathon participated in a discovery in Block 204/23 adjacent to the Foinaven field. This Foinaven Southwest discovery encountered hydrocarbons and will be considered for a potential tieback to the nearby infrastructure.

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Ukraine In 2007, we signed a cooperation agreement with a Ukrainian partner to carry out a study in the Dneiper-Donets Basin in north central Ukraine. The joint study will be conducted over three years on an area of joint interest covering 10,000 square miles and could lead to the joint exploration for hydrocarbons.

Production (including development activities)

United States Our U.S. operations accounted for 32 percent of our 2007 worldwide net liquid hydrocarbon sales volumes and 52 percent of our worldwide net natural gas sales volumes.

During 2007, our net sales in the Gulf of Mexico averaged 25 mbpd of liquid hydrocarbons, representing 39 percent of our total U.S. net liquid hydrocarbon sales, and 28 mmcfd of natural gas, representing 6 percent of our total U.S. net natural gas sales. Net liquid hydrocarbon and natural gas sales in the Gulf of Mexico decreased from the prior year, mainly due to normal production rate declines. At year-end 2007, we held interests in seven producing fields and eight platforms in the Gulf of Mexico, of which we operate four platforms.

The majority of our sales volumes in the Gulf of Mexico come from the Petronius development in Viosca Knoll Blocks 786 and 830. We own a 50 percent outside-operated working interest in these blocks. The Petronius platform provides processing and transportation services to adjacent third-party fields. For example, Petronius processes the production from our Perseus field which commenced production in April 2005 and is located five miles from the platform.

We hold a 30 percent outside-operated working interest in the Neptune deepwater development on Atwater Valley Blocks 573, 574, 575, 617 and 618 in the Gulf of Mexico, 120 miles off the coast of Louisiana. The development plan for Neptune was sanctioned in 2005 and includes seven subsea wells tied back to a stand-alone mini-tension leg platform. Construction of the platform and facility continued through 2007 with first production expected at the end of the first quarter of 2008.

We believe that we are one of the largest natural gas producers in the Cook Inlet and adjacent Kenai Peninsula of Alaska. In 2007, our net natural gas sales from Alaska averaged 142 mmcfd, representing 30 percent of our total U.S. net natural gas sales volumes. Our natural gas sales from Alaska are seasonal in nature, trending down during the second and third quarters of each year and increasing during the fourth and first quarters. To manage supplies to meet contractual demand we produce and store natural gas in a partially depleted reservoir in the Kenai natural gas field.

Net liquid hydrocarbon and natural gas sales from our Wyoming fields averaged 20 mbpd and 114 mmcfd in 2007. Our Wyoming net natural gas sales decreased from the prior year primarily as a result of natural field declines, partially offset by new wells in the Wamsutter and Powder River Basin areas. Development of the Powder River Basin continued in 2007 with 170 operated wells drilled, which was up from the 119 wells drilled in 2006. Additional development of our southwest Wyoming interests continued in 2007 where we participated in the drilling of 30 wells.

We also have domestic natural gas operations in Oklahoma, east Texas and north Louisiana, with combined net sales of 148 mmcfd in 2007, and liquid hydrocarbon operations in the Permian Basin of southeast New Mexico and west Texas, with net sales of 12 mbpd in 2007.

We hold 320,000 acres in the Williston Basin (the Bakken shale formation) following the acquisition of an additional 70,000 acres in late 2007. The majority of the acreage is located in North Dakota with the remainder in eastern Montana. This represents a substantial position in the Bakken shale with approximately 350 locations to be drilled over the next four to five years. We currently have six operated drilling rigs running in our Bakken shale program and ended 2007 with a net production rate of 2,600 barrels of oil equivalent per day.

We hold a natural gas leasehold in the Piceance Basin of Colorado, located in Garfield County in the Greater Grand Valley field complex. The acreage is located near adjacent production. Our plans include drilling approximately 700 wells in the next ten years. Drilling and production commenced in late 2007.

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United Kingdom Our largest asset in the U.K. sector of the North Sea is the Brae area complex where we are the operator and have a 42 percent working interest in the South, Central, North and West Brae fields and a 38 percent working interest in the East Brae field. The Brae A platform and facilities host the underlying South Brae field and the adjacent Central and West Brae fields. The North Brae field, which is produced via the Brae B platform, and the East Brae field, which is produced via the East Brae platform, are natural gas condensate fields. Our share of liquid hydrocarbon sales from the Brae area averaged 14 mbpd in 2007. Our share of Brae natural gas sales averaged 139 mmcfd, or 31 percent of our international natural gas sales volumes, in 2007 and decreased from the prior year as a result of natural field declines in the North and East Brae natural gas condensate fields.

The strategic location of the Brae platforms along with pipeline and onshore infrastructure has generated third-party processing and transportation business since 1986. Currently, the operators of 28 third-party fields have contracted to use the Brae system. In addition to generating processing and pipeline tariff revenue, this third-party business also has a favorable impact on Brae area operations by optimizing infrastructure usage and extending the economic life of the complex.

The Brae group owns a 50 percent interest in the outside-operated Scottish Area Gas Evacuation (SAGE) system. The SAGE pipeline transports natural gas from the Brae area and the third-party Beryl area and has a total wet natural gas capacity of 1.1 billion cubic feet (bcf) per day. The SAGE terminal at St. Fergus in northeast Scotland processes natural gas from the SAGE pipeline and almost 1 bcf per day of third-party natural gas from the Britannia, Atlantic and Cromarty fields.

In the U.K. Atlantic Margin, we own an approximate 30 percent working interest in the outside-operated Foinaven area complex, consisting of a 28 percent working interest in the main Foinaven field, 47 percent working interest in East Foinaven and 20 percent working interest in the T35 and T25 fields. Our share of sales from the Foinaven fields averaged 17 mbpd of liquid hydrocarbons and 9 mmcfd of natural gas in 2007.

Norway Norway is a strategic and growing core area, which complements our long-standing operations in the U.K. sector of the North Sea discussed above. We were approved for our first operatorship on the Norwegian continental shelf in 2002, where today we operate eight licenses.

We are the operator of the Alvheim complex located on the Norwegian Continental Shelf. This development is comprised of the Kameleon and Kneler discoveries, in which we have a 65 percent working interest, and the Boa discovery, in which we have a 58 percent working interest. The complex consists of a floating production, storage and offloading vessel (FPSO) with subsea infrastructure. Produced oil will be transported by shuttle tanker and produced natural gas will be transported to the SAGE system using a new 14-inch, 24-mile cross border pipeline. The multipurpose shuttle tanker that has been modified to serve as the FPSO sailed from the shipyard in mid-February 2008 to undergo testing, after which it will proceed offshore for connection to the subsea infrastructure. The Alvheim development will initially include ten producing wells and two water disposal wells in the drilling program, which will continue through the fourth quarter of 2008. The nearby Vilje discovery, in which we own a 47 percent outside-operated working interest, will also be produced through the Alvheim FPSO. The two Vilje development wells were drilled and completed in 2007. First production from the Alvheim/Vilje development is expected at the end of the first quarter of 2008, weather permitting.

In early 2007, the Norwegian government approved a plan for development and operation to develop the Volund field as a subsea tie-back to the Alvheim FPSO. The Volund development will consist of one production well and one water disposal well, both of which will be drilled in the first half of 2009 with an additional two wells to be drilled in the latter part of 2009. The produced oil will be exported via the shuttle tankers discussed above, and the associated natural gas will be exported via the Alvheim-to-SAGE pipeline. The Volund development, in which we own a 65 percent working interest and serve as operator, is expected to begin production in 2009.

During 2007, net liquid hydrocarbon and natural gas sales in Norway from the Heimdal, Vale and Skirne fields averaged 2 mbpd and 29 mmcfd. We own a 24 percent outside-operated working interest in the Heimdal field, a 47 percent outside-operated working interest in the Vale field and a 20 percent outside-operated working interest in the Skirne field.

Ireland We own a 100 percent working interest in the Kinsale Head, Ballycotton and Southwest Kinsale natural gas fields and an 87 percent operated working interest in the Seven Heads natural gas field in the Celtic Sea offshore Ireland. Net natural gas sales in Ireland were 39 mmcfd in 2007. In June 2006, we were awarded the first commercial natural gas storage license in Ireland, which allows us to provide full third-party storage services from the Southwest Kinsale field. The unit has a total working volume of 7 bcf per annum. Both indigenous

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Kinsale natural gas and natural gas imported from a transmission system are injected and withdrawn from the facility under contractual arrangements that expire in April 2009. Additionally, natural gas produced from our other fields or purchased from other parties can be stored at Southwest Kinsale for future sale to customers.

We own a 19 percent working interest in the outside-operated Corrib natural gas development project, located 40 miles off Ireland s northwest coast, where six of the seven wells necessary to develop the field have been drilled. Two wells have been completed, and three additional wells are planned to be completed in 2008. The main 20-inch offshore pipeline installation is also planned for 2008. Terminal construction is underway. The operator expects first production from the field in the fourth quarter of 2009.

Equatorial Guinea We own a 63 percent operated working interest in the Alba field offshore Equatorial Guinea and a 52 percent interest in an onshore liquefied petroleum gas (LPG) processing plant held through an equity method investee. During 2007, net liquid hydrocarbon sales averaged 45 mbpd, or 34 percent of our international liquid hydrocarbon sales volumes, and net natural gas sales averaged 228 mmcfd, or 51 percent of our international natural gas sales volumes. Net liquid hydrocarbon sales volumes in 2007 included 33 mbpd of condensate and 12 mbpd of LPG.

As part of our Integrated Gas segment, we own 45 percent of Atlantic Methanol Production Company LLC (AMPCO) and 60 percent of Equatorial Guinea LNG Holdings Limited (EGHoldings). AMPCO operates a methanol plant and EGHoldings operates an LNG production facility, both located on Bioko Island. Alba field dry natural gas, which remains after the condensate and LPG are removed, is supplied to both of these facilities. During 2007, a gross 130 mmcfd of dry natural gas was supplied to the methanol plant and a gross 268 mmcfd of dry gas was supplied to the LNG production facility. Any remaining dry gas is returned offshore and reinjected into the Alba reservoir for later production.

Libya Net liquid hydrocarbon sales in Libya averaged 45 mbpd in 2007 compared to 54 mbpd in 2006, of which a total of 8 mbpd were owed to our account upon the resumption of our operations in Libya. The 2007 net liquid hydrocarbon sales in Libya represented 34 percent of our international liquid hydrocarbon sales volumes. Net natural gas sales in Libya averaged 4 mmcfd in 2007.

Gabon We are the operator of the Tchatamba South, Tchatamba West and Tchatamba Marin fields offshore Gabon with a 56 percent working interest. Net sales in Gabon averaged 10 mbpd of liquid hydrocarbons in 2007. Production from these three fields is processed on a single offshore facility at Tchatamba Marin, with the processed oil being transported through an offshore and onshore pipeline to an outside-operated storage facility.

Other Matters

We hold an interest in an exploration and production license in Sudan. We suspended all operations in Sudan in 1985 due to civil unrest. We have had no employees in the country and have derived no economic benefit from those interests since that time. The U.S. government imposed sanctions against Sudan in 1997 and we have not made any payments related to Sudan since then. We have abided and will continue to abide by all U.S. sanctions related to Sudan. We have reached an agreement to transfer our interest in this license to the operator. Governmental approval of this transfer is expected in the first quarter of 2008.

We discovered the Ash Shaer and Cherrife natural gas fields in Syria in the 1980s. We have recognized no revenues in any period from activities in Syria and we impaired our entire investment in Syria in 1998. In 2006, the Syrian government approved the assignment of 90 percent of our interest in the Ash Shaer and Cherrife natural gas fields to a non-U.S. company. We closed the transaction on November 1, 2006, and received cash proceeds of $46 million. The remaining 10 percent interest was assigned to the same company on December 21, 2007, for $5 million.

The above discussion of the E&P segment includes forward-looking statements with respect to anticipated future exploratory and development drilling, the possibility of developing the Gudrun field offshore Norway, Blocks 31 and 32 offshore Angola, the Foinaven Southwest discovery in the U.K. portion of the North Sea and the Equatorial Guinea discoveries, the possibility of obtaining access to new leaseholds in Indonesia and additional coal bed methane licenses in the United Kingdom, joint exploration for hydrocarbons in the Ukraine and the timing of production from the Droshky discovery, the Gudrun discovery, the Neptune development, the Alvheim/Vilje development, the Volund field and the Corrib project. Some factors which could potentially affect these forward-looking statements include pricing, supply and demand for petroleum products, the amount of capital available for exploration and development, regulatory constraints, drilling rig availability, unforeseen hazards

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such as weather conditions, acts of war or terrorist acts and the governmental or military response, and other geological, operating and economic considerations. Except for the Neptune, Alvheim/Vilje and Volund developments, the foregoing forward-looking statements may be further affected by the inability to obtain or delay in obtaining necessary government and third-party approvals and permits. The possible developments on the Gudrun field, Blocks 31 and 32 offshore Angola, the Foinaven Southwest discovery and the Equatorial Guinea discoveries could further be affected by presently known data concerning size and character of reservoirs, economic recoverability, future drilling success and production experience. Factors that could affect joint exploration for hydrocarbons in the Ukraine include results of technical studies and continued favorable investment climate. The above discussion of the E&P segment also includes forward-looking statements with respect to our intention to exit a license in Sudan which could be potentially impacted by a delay in receiving governmental approval. The foregoing factors (among others) could cause actual results to differ materially from those set forth in the forward-looking statements.

Reserves

At December 31, 2007, our net proved liquid hydrocarbon and natural gas reserves totaled 1.225 billion boe, of which 42 percent were located in Organization for Economic Cooperation and Development (OECD) countries. The following table sets forth estimated quantities of net proved liquid hydrocarbon and natural gas reserves at the end of each of the last three years.

Estimated Quantities of Net Proved Liquid Hydrocarbon and Natural Gas Reserves at December 31

	Developed			**Developed and Undeveloped**		
	2007	2006	2005	**2007**	2006	2005
Liquid Hydrocarbons *(Millions of barrels)*						
United States	**135**	150	165	**166**	172	189
Europe	**32**	35	39	**115**	108	98
Africa	**304**	381	368	**369**	397	373
Worldwide Continuing Operations	**471**	566	572	**650**	677	660
Discontinued Operations[(a)]			31			44
WORLDWIDE	**471**	566	603	**650**	677	704
Developed reserves as a percent of total net proved reserves	**72%**	84%	86%			
Natural Gas *(Billions of cubic feet)*						
United States	**761**	857	943	**1,007**	1,069	1,209
Europe	**173**	238	326	**382**	444	486
Africa	**1,515**	648	638	**2,061**	1,997	1,852
WORLDWIDE	**2,449**	1,743	1,907	**3,450**	3,510	3,547
Developed reserves as a percent of total net proved reserves	**71%**	50%	54%			
Total BOE *(Millions of barrels)*						
United States	**262**	293	322	**334**	350	390
Europe	**61**	75	93	**179**	182	179
Africa	**556**	489	475	**712**	730	682
Worldwide Continuing Operations	**879**	857	890	**1,225**	1,262	1,251
Discontinued Operations[(a)]			31			44
WORLDWIDE	**879**	857	921	**1,225**	1,262	1,295
Developed reserves as a percent of total net proved reserves	**72%**	68%	71%			

[a] Represents Marathon s Russian oil exploration and production businesses that were sold in June 2006.

Proved developed liquid hydrocarbon and natural gas reserves represented 72 percent of total proved reserves as of December 31, 2007, as compared to 68 percent as of December 31, 2006. Of the 346 million boe of proved undeveloped reserves at year-end 2007, 58 percent of the volume is associated with projects that have been included in proved reserves for more than three years while 17 percent of the proved undeveloped reserves were added during 2007.

During 2007, we added a total of 88 million boe of net proved liquid hydrocarbon and natural reserves, principally in Libya, Norway and the Piceance Basin of Colorado. We disposed of 0.2 million boe, while producing

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125 million boe. Of the total net proved reserve additions, 38 million boe were proved developed and 50 million boe were proved undeveloped reserves. During 2007, we transferred 109 million boe from proved undeveloped to proved developed reserves. Costs incurred for the periods ended December 31, 2007, 2006 and 2005 relating to the development of proved undeveloped liquid hydrocarbon and natural gas reserves, were $1.250 billion, $1.010 billion and $955 million. As of December 31, 2007, estimated future development costs relating to the development of proved undeveloped liquid hydrocarbon and natural gas reserves for the years 2008 through 2010 are projected to be $859 million, $376 million and $293 million.

The above estimated quantities of net proved liquid hydrocarbon and natural gas reserves and estimated future development costs relating to the development of proved undeveloped liquid hydrocarbon and natural gas reserves are forward-looking statements and are based on a number of assumptions, including (among others) commodity prices, presently known physical data concerning size and character of the reservoirs, economic recoverability, technology developments, future drilling success, industry economic conditions, levels of cash flow from operations, production experience and other operating considerations. To the extent these assumptions prove inaccurate, actual recoveries and development costs could be different than current estimates.

For a discussion of the proved liquid hydrocarbon and natural gas reserve estimation process, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Estimated Net Recoverable Reserve Quantities Proved Liquid Hydrocarbon and Natural Gas Reserves, and for additional details of the estimated quantities of proved reserves at the end of each of the last three years, see Financial Statements and Supplementary Data Supplementary Information on Oil and Gas Producing Activities Estimated Quantities of Proved Oil and Natural Gas Reserves. We filed reports with the U.S. Department of Energy (DOE) for 2006 disclosing our total year-end estimated liquid hydrocarbon and natural gas reserves. The year-end estimates reported to the DOE are the same estimates reported in the Supplementary Information on Oil and Gas Producing Activities.

Delivery Commitments

We sell liquid hydrocarbons and natural gas under a variety of contractual arrangements, some of which specify the delivery of a fixed and determinable quantity. Worldwide, we are contractually committed to deliver 180 bcf of natural gas in the future. These contracts have various expiration dates through the year 2018. Our proved reserves in Alaska, the United Kingdom and other locations, are sufficient to fulfill these delivery commitments.

Net Liquid Hydrocarbon and Natural Gas Sales

The following tables set forth the daily average net sales volumes of liquid hydrocarbons and natural gas for each of the last three years.

Net Liquid Hydrocarbon Sales[a]			
(Thousands of barrels per day)	**2007**	2006	2005
United States[b]	**64**	76	76
Europe[c]	**33**	35	36
Africa[c]	**100**	112	52
Worldwide Continuing Operations	**197**	223	164
Discontinued Operations[d]		12	27
WORLDWIDE	**197**	235	191

Net Natural Gas Sales[e]			
(Millions of cubic feet per day)	**2007**	2006	2005
United States[b]	**477**	532	578
Europe[f]	**169**	197	224
Africa	**232**	72	92
WORLDWIDE	**878**	801	894

(a) Includes crude oil, condensate and natural gas liquids.
(b) Represents net sales from leasehold ownership, after royalties and interests of others.
(c) Represents equity tanker liftings and direct deliveries of liquid hydrocarbons. The amounts correspond with the basis for fiscal settlements with governments. Crude oil purchases, if any, from host governments are excluded.
(d) Represents Marathon s Russian oil exploration and production businesses that were sold in June 2006.
(e) Represents net sales after royalties, except for Ireland where amounts are before royalties.
(f) Excludes volumes acquired from third parties for injection and subsequent resale of 47 mmcfd, 46 mmcfd and 38 mmcfd in 2007, 2006 and 2005.

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Productive and Drilling Wells

The following table sets forth productive wells and service wells as of December 31, 2007, 2006 and 2005, and drilling wells as of December 31, 2007.

Gross and Net Wells	Productive Wells[a] Oil		Productive Wells[a] Natural Gas		Service Wells[b]		Drilling Wells[c]	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
2007								
United States	**5,864**	**2,111**	**5,184**	**3,734**	**2,737**	**700**	**37**	**11**
Europe	**54**	**20**	**76**	**41**	**29**	**11**	**5**	**3**
Africa	**964**	**161**	**13**	**9**	**99**	**18**	**6**	**1**
WORLDWIDE	**6,882**	**2,292**	**5,273**	**3,784**	**2,865**	**729**	**48**	**15**
2006								
United States	5,661	2,068	5,554	4,063	2,729	834		
Europe	51	19	75	41	31	12		
Africa	925	155	13	9	100	19		
WORLDWIDE	6,637	2,242	5,642	4,113	2,860	865		
2005								
United States	5,724	2,029	5,254	3,696	2,723	827		
Europe	51	19	68	37	29	10		
Africa	926	155	13	8	97	18		
Other International	156	156			50	50		
WORLDWIDE	6,857	2,359	5,335	3,741	2,899	905		

[a] Includes active wells and wells temporarily shut-in. Of the gross productive wells, wells with multiple completions operated by Marathon totaled 303, 294 and 278 as of December 31, 2007, 2006 and 2005. Information on wells with multiple completions operated by others is unavailable to us.

[b] Consists of injection, water supply and disposal wells.

[c] Consists of exploratory and development wells.

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Drilling Activity

The following table sets forth, by geographic area, the number of net productive and dry development and exploratory wells completed in each of the last three years.

Net Productive and Dry Wells Completed[a]				
		2007	2006	2005
United States				
Development[b]	Oil	**9**	32	46
	Natural Gas	**172**	186	288
	Dry		5	4
	Total	**181**	223	338
Exploratory	Oil	**9**	3	2
	Natural Gas	**13**	8	17
	Dry	**12**	3	2
	Total	**34**	14	21
	Total United States	**215**	237	359
International				
Development[b]	Oil	**7**	51	68
	Natural Gas		1	2
	Dry			1
	Total	**7**	52	71
Exploratory	Oil	**3**	19	2
	Natural Gas	**1**		
	Dry	**2**	6	4
	Total	**6**	25	6
	Total International	**13**	77	77
	WORLDWIDE	**228**	314	436

(a) Includes the number of wells completed during the applicable year regardless of the year in which drilling was initiated. Excludes any wells where drilling operations were continuing or were temporarily suspended as of the end of the applicable year. A dry well is a well found to be incapable of producing hydrocarbons in sufficient quantities to justify completion. A productive well is an exploratory or development well that is not a dry well.

(b) Indicates wells drilled in the proved area of an oil or natural gas reservoir.

Acreage

The following table sets forth, by geographic area, the developed and undeveloped exploration and production acreage that we held as of December 31, 2007.

Gross and Net Acreage

	Developed	Undeveloped	Developed and Undeveloped

(Thousands of acres)	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
United States	1,107	837	2,055	1,450	3,162	2,287
Europe	424	349	1,251	515	1,675	864
Africa	12,977	2,150	2,843	691	15,820	2,841
Other International			1,722	994	1,722	994
WORLDWIDE	14,508	3,336	7,871	3,650	22,379	6,986

Oil Sands Mining

Through our acquisition of Western, we hold a 20 percent outside-operated interest in the AOSP, an oil sands mining joint venture located in Alberta, Canada. The joint venture produces bitumen from certain oil sands deposits in the Athabasca region and upgrades the bitumen to synthetic crude oil. The AOSP s initial asset is the mining and extraction operations of the Muskeg River mine located 45 miles north of Fort McMurray, Alberta,

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which began bitumen production in 2003, together with upgrading infrastructure located northeast of Edmonton, Alberta. The underlying developed leases are held for the duration of the project, with royalties paid to the province. As of December 31, 2007, we have rights to participate in developed and undeveloped leases totaling 46,000 net acres. We are entitled to participate in future expansion opportunities on other nearby oil sands leases owned by the operator and, prior to December 6, 2009, on any new lands acquired by either of the other AOSP owners within a defined area of mutual interest.

Current AOSP operations use established processes to mine oil sands deposits from an open-pit mine, extract the bitumen and upgrade it into high-quality, synthetic crude oils. Bitumen production from the mine is taken by pipeline to the Scotford upgrader, which uses hydro-conversion technology to upgrade the bitumen into two streams of synthetic crude oil (Premium Albian Synthetic and Albian Heavy Synthetic) and vacuum gas oil. The vacuum gas oil is sold to the operator under a long-term contract for use in its refinery adjacent to the upgrading facility. When the AOSP is operating at its current capacity, our net bitumen production is 30 mbpd, but operations were curtailed at the Scotford upgrader subsequent to the Western acquisition date due to a mid-November fire. Maintenance work originally scheduled for the first quarter of 2008 was performed in conjunction with the necessary repairs. The Scotford upgrader returned to operation in late December. Net bitumen production averaged 4 mbpd for 2007, based on total volumes from the October 18, 2007 acquisition date over total days in the year. Bitumen production averaged 19 mbpd for the post-acquisition period.

As of December 31, 2007, our net proved bitumen reserves were estimated to be 421 million barrels. Proved reserves can be added as expansions are permitted, funding is approved and certain stipulations of the joint venture agreement are satisfied.

In 2006, the first fully-integrated expansion of the existing AOSP facilities was approved. The Phase 1 expansion includes construction of mining and extraction facilities at the Jackpine mine, expansion of treatment facilities at the existing Muskeg River mine and expansion of the Scotford upgrader, along with construction of common infrastructure sized to support future mining expansions. The AOSP Phase 1 expansion is under construction and we anticipate that it will be complete in late 2010. Work is underway to determine the feasibility of additional AOSP expansion projects including pursuing regulatory approvals.

The above estimated quantity of net proved bitumen reserves is a forward-looking statement and is based on a number of assumptions, including (among others) commodity prices, volumes in-place, presently known physical data, recoverability of bitumen, industry economic conditions, levels of cash flow from operations, and other operating considerations. To the extent these assumptions prove inaccurate, actual recoveries could be different than current estimates. For a discussion of the proved bitumen reserves estimation process, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Estimated Net Recoverable Reserve Quantities Proved Bitumen Reserves. Operations at the AOSP are outside the scope of Statement of Financial Accounting Standards (SFAS) No. 25, Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies (an Amendment of FASB Statement No. 19), SFAS No. 69, Disclosures about Oil and Gas Producing Activities (an Amendment of FASB Statements 19, 25, 33 and 39), and Securities and Exchange Commission (SEC) Rule 4-10 of Regulation S-X; therefore, bitumen production and reserves are not included in our Supplementary Information on Oil and Gas Producing Activities.

The above discussion of the Oil Sands Mining segment includes forward-looking statements concerning the anticipated completion of the AOSP expansion project. Factors which could affect the project include transportation logistics, availability of material and labor, unforeseen hazards such as weather conditions, delays in obtaining or conditions imposed by necessary government and third-party approvals and other risks associated with construction projects.

Refining, Marketing and Transportation

Refining

We own and operate seven refineries with an aggregate refining capacity of 1.016 million barrels per day (mmbpd) of crude oil. During 2007, our refineries processed 1.010 mmbpd of crude oil and 214 mbpd of other charge and blend stocks. The table below sets forth the location and daily throughput capacity of each of our refineries as of December 31, 2007. These capacity amounts increased from 974 mbpd in 2006 due to overall efficiency gains in the operation of the refining units, reflecting the cumulative effect of regular maintenance, capital improvements and other process optimization efforts.

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Crude Oil Refining Capacity

(Thousands of barrels per day)	
Garyville, Louisiana	256
Catlettsburg, Kentucky	226
Robinson, Illinois	204
Detroit, Michigan	102
Canton, Ohio	78
Texas City, Texas	76
St. Paul Park, Minnesota	74
TOTAL	1,016

Our refineries include crude oil atmospheric and vacuum distillation, fluid catalytic cracking, catalytic reforming, desulfurization and sulfur recovery units. The refineries can process a wide variety of crude oils and produce typical refinery products, including reformulated and low-sulfur gasolines and ultra-low sulfur diesel fuel. We also produce asphalt cements, polymerized asphalt, asphalt emulsions and industrial asphalts. We manufacture petroleum pitch, primarily used in the graphite electrode, clay target and refractory industries. Additionally, we manufacture aromatics, aliphatic hydrocarbons, cumene, base lube oil, polymer grade propylene, maleic anhydride and slack wax.

Our refineries are integrated via pipelines, terminals and barges to maximize operating efficiency. The transportation links that connect our refineries allow the movement of intermediate products to optimize operations and the production of higher margin products. For example, naphtha may be moved from Texas City to Robinson where excess reforming capacity is available. Also, by shipping intermediate products between facilities during partial refinery shutdowns, we are able to utilize processing capacity that is not directly affected by the shutdown work.

Planned maintenance activities requiring temporary shutdown of certain refinery operating units, or turnarounds, are periodically performed at each refinery. We completed fluid catalytic cracking unit turnarounds at our Catlettsburg, Robinson and St. Paul Park refineries in 2007.

The following table sets forth our refinery production by product group for each of the last three years.

Refined Product Yields

(Thousands of barrels per day)	**2007**	2006	2005
Gasoline	**646**	661	644
Distillates	**349**	323	318
Propane	**23**	23	21
Feedstocks and Special Products	**108**	107	96
Heavy Fuel Oil	**27**	26	28
Asphalt	**86**	89	85
TOTAL	1,239	1,229	1,192

In 2006, we approved an expansion of our Garyville, Louisiana refinery by 180 mbpd to 436 mbpd, at a projected cost of $3.2 billion (excluding capitalized interest). Construction commenced in early 2007 and continues on schedule with additional project construction phases commencing in early 2008. We expect to complete the expansion in late 2009. In 2007, we approved a heavy oil upgrading and expansion project at our Detroit, Michigan refinery, at a projected cost of $1.9 billion (excluding capitalized interest). This project will enable the refinery to process additional heavy, sour crude oils, including Canadian bitumen blends, and will increase its crude oil refining capacity by about 15 percent. Construction is expected to begin in the first half of 2008, subject to obtaining necessary environmental permits, and is expected to be completed in late 2010. When completed, these two expansion projects will increase our current total crude oil refining capacity by 19 percent.

Marketing

We are a supplier of gasoline and distillates to resellers and consumers within our market area in the Midwest, upper Great Plains, Gulf Coast and southeastern regions of the United States. In 2007, our refined products sales volumes totaled 21.6 billion gallons, or 1.410 mmbpd. The average sales price of our refined

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products in aggregate was $86.53 per barrel for 2007. The following table sets forth our refined products sales by product group and our average sales price for each of the last three years.

Refined Product Sales

(Thousands of barrels per day)	**2007**	2006	2005
Gasoline	**791**	804	836
Distillates	**377**	375	385
Propane	**23**	23	22
Feedstocks and Special Products	**103**	106	96
Heavy Fuel Oil	**29**	26	29
Asphalt	**87**	91	87
TOTAL [(a)]	**1,410**	1,425	1,455
Average sales price (Dollars per barrel)	**$86.53**	$77.76	$66.42

(a) Includes matching buy/sell volumes of 24 mbpd and 77 mbpd in 2006 and 2005. On April 1, 2006, we changed our accounting for matching buy/sell arrangements as a result of a new accounting standard. This change resulted in lower refined products sales volumes for 2007 and the remainder of 2006 than would have been reported under our previous accounting practices. See Note 2 to the consolidated financial statements.

The wholesale distribution of petroleum products to private brand marketers and to large commercial and industrial consumers and sales in the spot market accounted for 69 percent of our refined products sales volumes in 2007. We sold 49 percent of our gasoline volumes and 89 percent of our distillates volumes on a wholesale or spot market basis. Half of our propane is sold into the home heating market, with the balance being purchased by industrial consumers. Propylene, cumene, aromatics, aliphatics and sulfur are domestically marketed to customers in the chemical industry. Base lube oils, maleic anhydride, slack wax, extract and pitch are sold throughout the United States and Canada, with pitch products also being exported worldwide. We market asphalt through owned and leased terminals throughout the Midwest, upper Great Plains, Gulf Coast and southeastern regions of the United States. Our customer base includes approximately 750 asphalt-paving contractors, government entities (states, counties, cities and townships) and asphalt roofing shingle manufacturers.

We have blended ethanol with gasoline for over 15 years and increased our blending program in 2007, in part due to renewable fuel mandates. We blended 41 mbpd of ethanol into gasoline in 2007 and 35 mbpd in both 2006 and 2005. The future expansion or contraction of our ethanol blending program will be driven by the economics of the ethanol supply and changes in government regulations. We sell reformulated gasoline in parts of our marketing territory, primarily Chicago, Illinois; Louisville, Kentucky; northern Kentucky; Milwaukee, Wisconsin and Hartford, Illinois, and we sell low-vapor-pressure gasoline in nine states. We also sell biodiesel in Minnesota, Illinois and Kentucky.

As of December 31, 2007, we supplied petroleum products to about 4,400 Marathon branded-retail outlets located primarily in Ohio, Michigan, Indiana, Kentucky and Illinois. Branded retail outlets are also located in Georgia, Florida, Minnesota, Wisconsin, North Carolina, Tennessee, West Virginia, Virginia, South Carolina, Alabama, Pennsylvania, and Texas. Sales to Marathon-brand jobbers and dealers accounted for 16 percent of our refined product sales volumes in 2007.

Speedway SuperAmerica LLC (SSA), our wholly-owned subsidiary, sells gasoline and diesel fuel primarily through retail outlets that we operate. Sales of refined products through these SSA retail outlets accounted for 15 percent of our refined products sales volumes in 2007. As of December 31, 2007, SSA had 1,636 retail outlets in nine states that sold petroleum products and convenience store merchandise and services, primarily under the brand names Speedway and SuperAmerica. SSA s revenues from the sale of non-petroleum merchandise totaled $2.796 billion in 2007, compared with $2.706 billion in 2006. Profit levels from the sale of such merchandise and services tend to be less volatile than profit levels from the retail sale of gasoline and diesel fuel. SSA also operates 59 Valvoline Instant Oil Change retail outlets located in Michigan and northwest Ohio.

Pilot Travel Centers LLC (PTC), our joint venture with Pilot Corporation (Pilot), is the largest operator of travel centers in the United States with 286 locations in 37 states and Canada at December 31, 2007. The travel centers offer diesel fuel, gasoline and a variety of other services, including on-premises brand-name restaurants at many locations. Pilot and Marathon each own a 50 percent interest in PTC.

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Our retail marketing strategy is focused on SSA s Midwest operations, additional growth of the Marathon brand and continued growth for PTC.

Supply and Transportation

We obtain most of the crude oil we refine from negotiated contracts and purchases or exchanges on the spot market. In 2007, U.S.-sourced crude oil averaged 527 mbpd, or 52 percent, of the crude oil processed at our refineries, including a net 15 mbpd from our production operations included in the E&P segment. Canada was the source for 14 percent, or 138 mbpd, of crude oil processed in 2007. Other foreign sources supplied 34 percent, or 345 mbpd, of the crude oil processed by our refineries, including 180 mbpd from the Middle East. This crude oil was acquired from various foreign national oil companies, producing companies and trading companies. The following table provides information on the sources of crude oil for each of the last three years.

Sources of Crude Oil Refined

(Thousands of barrels per day)	**2007**	2006	2005
United States	**527**	470	447
Canada	**138**	130	111
Middle East and Africa	**253**	266	301
Other International	**92**	114	114
TOTAL	**1,010**	980	973
Average cost of crude oil throughput *(Dollars per barrel)*	**$ 71.20**	$ 61.15	$ 51.85

We operate a system of pipelines, terminals and barges to provide crude oil to our refineries and refined products to our marketing areas. At December 31, 2007, we owned, leased, operated or held equity method investments in 68 miles of crude oil gathering lines, 3,717 miles of crude oil trunk lines and 3,860 miles of refined products trunk lines.

Excluding equity method investees, our owned or operated common carrier pipelines transported the volumes shown in the following table for each of the last three years.

Pipeline Barrels Handled

(Thousands of barrels per day)	**2007**	2006	2005
Crude oil gathering lines	**17**	17	18
Crude oil trunk lines	**1,500**	1,484	1,619
Refined products trunk lines	**1,175**	1,101	1,219
TOTAL	**2,692**	2,602	2,856

At December 31, 2007 we had interests in the following pipelines:

- 100 percent ownership of Ohio River Pipe Line LLC, which owns a refined products pipeline extending from Kenova, West Virginia to Columbus, Ohio, known as Cardinal Products Pipeline;

- 60 percent interest in Muskegon Pipeline LLC, which owns a refined products pipeline extending from Griffith, Indiana to North Muskegon, Michigan;

- 51 percent interest in LOOP LLC (LOOP), the owner and operator of the only U.S. deepwater oil port, located 18 miles off the coast of Louisiana, and a crude oil pipeline connecting the port facility to storage caverns and tanks at Clovelly, Louisiana;

59 percent interest in LOCAP LLC, which owns a crude oil pipeline connecting LOOP and the Capline system;

50 percent interest in Centennial Pipeline LLC, which owns a refined products system connecting Gulf Coast refineries with the Midwest market;

37 percent interest in the Capline system, a large-diameter crude oil pipeline extending from St. James, Louisiana to Patoka, Illinois;

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17 percent interest in Explorer Pipeline Company, a refined products pipeline system extending from the Gulf of Mexico to the Midwest;

17 percent interest in Minnesota Pipe Line Company, LLC, which owns a crude oil pipeline extending from Clearbrook, Minnesota to Cottage Grove, Minnesota, which is in the vicinity of our St. Paul Park, Minnesota refinery; and

6 percent interest in Wolverine Pipe Line Company, a refined products pipeline system extending from Chicago, Illinois to Toledo, Ohio.

Our 85 owned and operated light product and asphalt terminals are strategically located throughout the Midwest, upper Great Plains and southeastern United States. In October 2007, we executed an agreement to purchase four light product terminals in Ohio and an ownership interest in a refined product pipeline. This transaction is expected to close by the end of the second quarter of 2008, pending completion of various pre-closing activities, including obtaining necessary government approvals.

Our marine transportation operations include 15 towboats and 182 barges that transport refined products on the Ohio, Mississippi and Illinois rivers, their tributaries and the Intercoastal Waterway. We lease and own over 2,500 rail cars of various sizes and capacities for movement and storage of petroleum products and over 150 tractors and tank trailers.

Ethanol Production

In 2007, we acquired a 35 percent interest in an entity which owns and operates a 110-million-gallon-per-year ethanol facility in Clymers, Indiana, and continued construction of another 110-million-gallon-per-year ethanol facility in Greenville, Ohio. The Greenville plant, in which we own a 50 percent interest, began production in February 2008. Both of these facilities are managed by our partner, The Andersons, Inc. and will enable us to maintain the reliability of a portion of our future ethanol supplies.

The above discussion of the RM&T segment includes forward-looking statements concerning the expansion of the Garyville refinery and the Detroit refinery heavy oil upgrading and expansion project. Some factors that could affect those projects include transportation logistics, availability of materials and labor, unforeseen hazards such as weather conditions, delays in obtaining or conditions imposed by necessary government and third-party approvals and other risks customarily associated with construction projects. The above discussion also includes forward-looking statements concerning the purchase of four terminals and an interest in a pipeline which is subject to customary closing conditions and may be affected by the inability or delay in obtaining necessary regulatory approvals and other operating and economic considerations. These factors (among others) could cause actual results to differ materially from those set forth in the forward-looking statements.

Integrated Gas

Our integrated gas operations include natural gas liquefaction and regasification operations and methanol production operations. Also included in the financial results of the Integrated Gas segment are the costs associated with ongoing development of projects to link stranded natural gas resources with key demand areas.

LNG Operations

We hold a 60 percent interest in EGHoldings, which is accounted for under the equity method of accounting. In May 2007, EGHoldings completed construction of a 3.7 million metric tonnes per annum (mmtpa) LNG production facility on Bioko Island and delivered its first cargo of LNG. LNG from the production facility is sold under a 3.4 mmtpa, or 460 mmcfd, sales and purchase agreement with a 17-year term. The purchaser under the agreement takes delivery of the LNG on an FOB Bioko Island basis, with pricing linked principally to the Henry Hub index, regardless of destination. This production facility allows us to monetize our natural gas reserves from the Alba field, as natural gas for the facility is purchased from the Alba field participants under a long-term natural gas supply agreement. Sales of LNG from this production facility totaled 1,464,088 metric tonnes in 2007.

In 2007 we completed those portions of the front-end engineering and design (FEED) required to support the near-term efforts related to a potential second LNG production facility on Bioko Island, Equatorial Guinea. The scope of the FEED work for the potential 4.4 mmtpa LNG project included feed gas metering, liquefaction, refrigeration, ethylene storage, boil-off gas compression, product transfer to storage and LNG product metering. We expect to make progress towards an investment decision in 2008.

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We also own a 30 percent interest in a Kenai, Alaska, natural gas liquefaction plant, which is accounted for under the equity method of accounting, and have an undivided interest in a long-term lease for two 87,500 cubic meter tankers used to transport LNG to customers in Japan. Feedstock for the plant is supplied from a portion of our natural gas production in the Cook Inlet. From the first production in 1969, we have sold our share of the LNG plant s production under long-term contract with two of Japan s largest utility companies. This contract continues through March 2009, with 2007 LNG deliveries totaling 48 bcf. In January 2007, along with our partner, we filed a request with the DOE to extend the export license for this natural gas liquefaction plant through March 2011. This application has received favorable support from the State of Alaska but still requires final DOE approval.

In April 2004, we began delivering LNG cargoes at the Elba Island, Georgia LNG regasification terminal pursuant to an LNG sales and purchase agreement. Under the terms of the agreement, we have the right to deliver and sell up to 58 bcf of natural gas (as LNG) per year, through March 31, 2021, with a possible extension to November 30, 2023. In September 2004, we signed an agreement under which we will be supplied with 58 bcf of natural gas per year, as LNG, for a minimum period of five years. The agreement allows for delivery of LNG at the Elba Island LNG regasification terminal with pricing linked to the Henry Hub index. This supply agreement enables us to fully utilize our rights at Elba Island during the period of this agreement, while affording us the flexibility to commercialize other stranded natural gas resources beyond the term of this contract. The agreement commenced in 2005.

Methanol Operations

We own a 45 percent interest in AMPCO, which is accounted for under the equity method of accounting. AMPCO owns a methanol plant located in Malabo, Equatorial Guinea. Feedstock for the plant is supplied from our natural gas production from the Alba field. Sales of methanol from the plant totaled 1,060,653 metric tonnes in 2007. Production from the plant is used to supply customers in Europe and the United States.

Natural Gas Technology

We invest in natural gas technology research, including proprietary Gas-To-Fuels (GTF) technology which offers the ability to convert natural gas into premium fuels while bypassing conventional intermediate synthetic gasification technology. The base patent for this technology was awarded in 2007. We have designed and are constructing a 10-bpd demonstration facility for this technology, with initial startup scheduled for the second half of 2008. Expectations for the demonstration plant include the ability to demonstrate operations of the fully integrated process at a practical scale and to measure the conversion efficiencies of the total process, catalyst performance and materials durability. This critical performance data will support scale-up cost estimates for a commercial installation and provide the basis for continued technical developments in this area. In addition to GTF, we continue to evaluate the application of other natural gas technologies, including LNG technology enhancements, gas hydrates and gas-to-liquids (GTL) technology.

The above discussion of the Integrated Gas segment contains forward-looking statements with respect to the possible expansion of the LNG production facility and expectations for a GTF demonstration facility. Factors that could potentially affect the possible expansion of the LNG production facility include partner and government approvals, access to sufficient natural gas volumes through exploration or commercial negotiations with other resource owners and access to sufficient regasification capacity. Factors that could potentially affect the GTF demonstration facility include construction delays, start-up difficulties relating to scale-up in the process and unforeseen difficulties in our testing program related to moving from laboratory to practical scale. The foregoing factors (among others) could cause actual results to differ materially from those set forth in the forward-looking statements.

Competition and Market Conditions

Strong competition exists in all sectors of the oil and gas industry and, in particular, in the exploration for and development of new reserves. We compete with major integrated and independent oil and gas companies, as well as national oil companies, for the acquisition of oil and natural gas leases and other properties. We compete with these companies for the equipment and labor required to develop and operate those properties and in the marketing of oil and natural gas to end-users. Many of our competitors have financial and other resources greater than those available to us. Acquiring the more attractive exploration opportunities frequently requires competitive bids involving front-end bonus payments or commitments-to-work programs. We also compete in attracting and retaining personnel, including geologists, geophysicists and other specialists. Based on industry sources, we rank eighth among U.S.-based petroleum companies on the basis of 2006 worldwide liquid hydrocarbon and natural gas production.

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We also compete with other producers of synthetic and conventional crude oil for the sale of our synthetic crude oil to refineries in North America. There are several additional synthetic crude oil projects being contemplated by various competitors and, if undertaken and completed, these projects may result in a significant increase in the supply of synthetic crude oil to the market. In addition, not all refineries are able to process or refine synthetic crude oil. There can be no assurance that sufficient market demand will exist at all times to absorb our share of the synthetic crude oil production from the AOSP at economically viable prices.

We must also compete with a large number of other companies to acquire crude oil for refinery processing and in the distribution and marketing of a full array of petroleum products. We rank fifth among U.S. petroleum companies on the basis of U.S. crude oil refining capacity as of December 31, 2007. We compete in four distinct markets wholesale, spot, branded and retail distribution for the sale of refined products. We believe we compete with about 40 companies in the wholesale distribution of petroleum products to private brand marketers and large commercial and industrial consumers; about 75 companies in the sale of petroleum products in the spot market; ten refiner/marketers in the supply of branded petroleum products to dealers and jobbers; and approximately 275 petroleum product retailers in the retail sale of petroleum products. We compete in the convenience store industry through SSA s retail outlets. The retail outlets offer consumers gasoline, diesel fuel (at selected locations) and a broad mix of other merchandise and services. Some locations also have on-premises brand-name restaurants such as Subway . We also compete in the travel center industry through our 50 percent ownership in PTC.

Our operating results are affected by price changes in conventional and synthetic crude oil, natural gas and petroleum products, as well as changes in competitive conditions in the markets we serve. Generally, results from production and oil sands mining operations benefit from higher crude oil prices while the refining and wholesale marketing gross margin may be adversely affected by crude oil price increases. Price differentials between sweet and sour crude oil also affect operating results. Market conditions in the oil and gas industry are cyclical and subject to global economic and political events and new and changing governmental regulations.

The Separation

On December 31, 2001, pursuant to an Agreement and Plan of Reorganization dated as of July 31, 2001, Marathon completed the Separation, in which:

- its wholly-owned subsidiary United States Steel LLC converted into a Delaware corporation named United States Steel Corporation and became a separate, publicly traded company; and

- USX Corporation changed its name to Marathon Oil Corporation.

As a result of the Separation, Marathon and United States Steel are separate companies and neither has any ownership interest in the other.

In connection with the Separation and pursuant to the Plan of Reorganization, Marathon and United States Steel have entered into a series of agreements governing their relationship after the Separation and providing for the allocation of tax and certain other liabilities and obligations arising from periods before the Separation. The following is a description of the material terms of two of those agreements.

Financial Matters Agreement

Under the financial matters agreement, United States Steel has assumed and agreed to discharge all of our principal repayment, interest payment and other obligations under the following, including any amounts due on any default or acceleration of any of those obligations, other than any default caused by us:

- obligations under industrial revenue bonds related to environmental projects for current and former U.S. Steel Group facilities, with maturities ranging from 2009 through 2033;

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