MARATHON OIL CORP
Form 10-K
February 29, 2012
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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, 2011

Commission file number 1-5153

Marathon Oil Corporation

(Exact name of registrant as specified in its charter)

Delaware	**25-0996816**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5555 San Felipe Street, Houston, TX 77056-2723

(Address of principal executive offices)

(713) 629-6600

(Registrant s telephone number, including area code)

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

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 whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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. þ

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, 2011: $22,773 million. 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. The registrant, solely for the purpose of this required presentation, has deemed its directors and executive officers to be affiliates.

There were 703,925,642 shares of Marathon Oil Corporation Common Stock outstanding as of January 31, 2012.

Documents Incorporated By Reference:

Portions of the registrant s proxy statement relating to its 2012 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 Oil, we, our, or us in this Annual Report on Form 10-K are references 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 Oil exerts significant influence by virtue of its ownership interest).

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DEFINITIONS

Throughout the following report, the following company or industry specific terms and abbreviations are used.

AMPCO Atlantic Methanol Production Company LLC, a company in which we own a 45 percent equity interest.

AOSP Athabasca Oil Sands Project, an oil sands mining, transportation and upgrading joint venture located in Alberta, Canada, in which we hold a 20 percent interest.

bbl One stock tank barrel, which is 42 U.S. gallons liquid volume.

bbld barrels per day.

bboe Billion barrels of oil equivalent. Natural gas is converted to a boe based on the energy equivalent, which on a dry gas basis is six mcf of gas per one barrel of oil equivalent.

bcf Billion cubic feet.

boe Barrels of oil equivalent.

boed Barrels of oil equivalent per day.

BOEMRE United States Bureau of Ocean Energy Management, Regulation and Enforcement.

btu British thermal unit, an energy equivalency measure.

DD&A Depreciation, depletion and amortization.

Developed acreage The number of acres which are allocated or assignable to producing wells or wells capable of production.

Development well A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

Downstream business The refining, marketing and transportation (RM&T) operations, spun-off June 30, 2011 and now treated as discontinued operations.

Dry well A well found to be incapable of producing either oil or natural gas in sufficient quantities to justify completion.

EG Equatorial Guinea.

EGHoldings Equatorial Guinea LNG Holdings Limited, an LNG production company located in Equatorial Guinea in which we own a 60 percent equity interest.

E&P Our Exploration and Production segment which explores for, produces and markets liquid hydrocarbons and natural gas on a worldwide basis.

EPA Environmental Protection Agency.

Exit rate The average daily rate of production from a well or group of wells in the last month of the period stated.

Exploratory well A well drilled to find oil or gas in an unproved area, find a new reservoir in a field previously found to be productive in another reservoir, or extend a known reservoir.

FASB Financial Accounting Standards Board.

Farmout An assignment of an interest in a drilling location and related acreage conditional upon the drilling of a well on that location.

FPSO Floating production, storage and offloading vessel.

IASB International Accounting Standards Board.

IFRS International Financial Reporting Standards.

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IG Our Integrated Gas segment which produces and markets products manufactured from natural gas, such as LNG and methanol, in EG.

IP Average daily rate of production from a well in the initial 30 days of its operation, which may not be indicative of the rate of future production.

IRS U.S. Internal Revenue Service.

KRG Kurdistan Regional Government.

LNG Liquefied natural gas.

LPG Liquefied petroleum gas.

Marathon The consolidated company prior to the June 30, 2011 spin-off of the downstream business.

Marathon Oil The Company as it exists following the June 30, 2011 spin-off of the downstream business.

Marathon Petroleum Corporation (MPC) The separate independent company which now owns and operates the downstream business.

mbbl Thousand barrels.

mbbld Thousand barrels per day.

mboe Thousand barrels of oil equivalent.

mboed Thousand barrels oil equivalent per day.

mcf Thousand cubic feet.

mmbbl Million barrels.

mmboe Million barrels of oil equivalent.

mmbtu Million British thermal units.

mmcfd Million cubic feet per day.

mmt Million metric tonnes.

mtd Thousand metric tonnes per day.

Net acres or Net wells The sum of the fractional working interests owned by us in gross acres or gross wells.

OPEC Organization of Petroleum Exporting Countries.

OSM Our Oil Sands Mining segment which mines, extracts and transports bitumen from oil sands deposits in Alberta, Canada, and upgrades the bitumen to produce and market synthetic crude oil and vacuum gas oil.

Productive well A well that is not a dry well. Productive wells include producing wells and wells that are mechanically capable of production.

Proved reserves Proved oil, natural gas and synthetic crude oil reserves are those quantities of oil, natural gas and synthetic crude oil, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible.

Proved developed reserves Proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well.

Proved undeveloped reserves Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

PSC Production sharing contract.

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Quest CCS Quest Carbon Capture and Storage project at the AOSP in Alberta, Canada.

Reserve replacement ratio A ratio which measures the amount of proved reserves added to our reserve base during the year relative to the amount of oil and gas produced.

Royalty interest An interest in an oil or natural gas property entitling the owner to a share of oil or natural gas production free of costs of production.

SAGE U.K. Scottish Area Gas Evacuation system composed of a pipeline and processing terminal.

SEC U.S. Securities and Exchange Commission.

Seismic An exploration method of sending energy waves or sound waves into the earth and recording the wave reflections to indicate the type, size, shape and depth of subsurface rock formation (3-D seismic provides three-dimensional pictures).

U.K. United Kingdom.

Undeveloped acreage Acreage on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil and natural gas regardless of whether such acreage contains proved reserves.

U.S. United States of America.

U.S. GAAP Accounting principles generally accepted in the U.S.

Working interest (WI) The interest in a mineral property which gives the owner that share of production from the property. A working interest owner bears that share of the costs of exploration, development and production in return for a share of production. Working interests are typically burdened by overriding royalty interest or other interests.

WTI West Texas Intermediate crude oil, an index price.

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, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These statements typically contain words such as anticipate, believe, estimate, expect, forec plan, predict, target, project, could, may, should, would or similar words, indicating that future outcomes are uncertain. In accorda harbor provisions of 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, 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 or sales of liquid hydrocarbons, natural gas, and synthetic crude oil; levels of worldwide prices of liquid hydrocarbons and natural gas; levels of liquid hydrocarbon, natural gas and synthetic crude oil reserves; 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 incorporated in 2001 and is an international energy company engaged in exploration and production, oil sands mining and integrated gas with operations in the United States, Angola, Canada, Equatorial Guinea, Indonesia, the Iraqi Kurdistan Region, Libya, Norway, Poland and the United Kingdom. We are based in Houston, Texas with our corporate headquarters at 5555 San Felipe Road, Houston, Texas 77056-2723 and a telephone number of (713) 629-6600.

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On June 30, 2011, the spin-off of Marathon s downstream business was completed, creating two independent energy companies: Marathon Oil and MPC. Marathon shareholders at the close of business on the record date of June 27, 2011 received one share of MPC common stock for every two shares of Marathon common stock held. Fractional shares of MPC common stock were not distributed and any fractional share of MPC common stock otherwise issuable to a Marathon shareholder was sold in the open market on such shareholder s behalf, and such shareholder received a cash payment with respect to that fractional share. A private letter ruling received in June 2011 from the IRS affirmed the tax-free nature of the spin-off. Activities related to the downstream business have been treated as discontinued operations in all periods presented in this Annual Report on Form 10-K, with additional information in Item 8. Financial Statements and Supplementary Data Note 3 to the consolidated financial statements.

Strategy and Results Summary

Assets within our three segments are at various stages in their lifecycle: base, growth or exploration. We have a stable group of base assets, which include our OSM and IG segments and E&P assets in Norway, Equatorial Guinea, Libya, the U.K. and the U.S. These assets generate much of the cash that will be available for investment in our growth assets and exploration projects. Growth assets are where we expect to make significant investment in order to realize oil and gas production and reserve increases. We are focused on U.S. liquid hydrocarbon growth by developing liquids-rich shale play positions, including most recently the establishment of a strong position in the core of the Eagle Ford shale play. In addition to the U.S. shale plays, growth assets include the development of Angola Block 31, our discoveries in the Iraqi Kurdistan Region, select Gulf of Mexico blocks and our Canadian in-situ assets. Our areas of exploration are Poland, the Iraqi Kurdistan Region, Norway and the Gulf of Mexico. We continually evaluate ways to optimize our portfolio through acquisitions and divestitures, with a previously stated goal of divesting between $1.5 and $3.0 billion of non-core assets between 2011 and 2013. Through January 2012, we closed such transaction having values of $640 million.

We ended 2011 with proved reserves of 1.8 bboe, an 10 percent increase over 2010. Average sales volumes were 219 mbbld of liquid hydrocarbon, 866 mmcfd of natural gas and 43 mbbld of synthetic crude oil, with 66 percent of our liquid hydrocarbon sales volumes from international operations, for which average realizations have exceeded WTI prices. We invested in the development of assets in all our segments, totaling $3.4 billion in capital expenditures related to continuing operations for the year, with $3 billion related to our E&P segment. We expect continued capital expenditures, primarily funded with cash flow from operations, in exploration and development activities in order to realize continued reserve and sales growth. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations-Outlook, for discussion of our $4.8 billion capital spending budget for 2012.

The above discussion of strategy and results includes forward-looking statements with respect to the goal of divesting between $1.5 and $3.0 billion of non-core assets between 2011 and 2013 and expected investment in exploration and development activities. Some factors that could potentially affect the divestiture of non-core assets and expected investment in exploration and development activities include changes in prices of and demand for liquid hydrocarbons and natural gas, actions of competitors, occurrence of acquisitions or dispositions of oil and natural gas properties, future financial condition and operating results, and economic, and/or regulatory factors affecting our businesses, the identification of buyers and the negotiation of acceptable prices and other terms, as well as other customary closing conditions. The foregoing factors (among others) could cause actual results to differ materially from those set forth in the forward-looking statements.

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The map below illustrates the locations of our worldwide operations.

Segment and Geographic Information

For operating segment and geographic financial information, see Item 8. Financial Statements and Supplementary Data Note 8 to the consolidated financial statements.

Exploration and Production Segment

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 are engaged in oil and gas exploration, development and/or production activities in the United States, Angola, Canada, Equatorial Guinea, Indonesia, the Iraqi Kurdistan Region, Libya, Norway, Poland, and the United Kingdom.

Liquids-Rich Shale Plays

Eagle Ford In the fourth quarter of 2011, we closed several acquisitions in the Eagle Ford shale play of south Texas for a total cash consideration of $4.5 billion. See Item 8. Financial Statements and Supplementary Data Note 5 to the consolidated financial statements for additional information about these acquisitions.

Upon finalization of the 2011 Eagle Ford acquisition transactions, we will have just over 300,000 net acres in the Eagle Ford shale with an average working interest of approximately 80 percent. As of December 31, 2011, we had 14 operated drilling rigs active in the play, with plans to increase to 18 drilling rigs and 4 dedicated hydraulic fracturing crews by the end of 2012. Our plans include drilling and completing 200 230 gross (160 185 net) operated wells in 2012.

Including the impact of our fourth quarter 2011 acquisitions, annual net sales for 2011 were 2 mboed, with a December exit rate of 13 mboed. Our production from the Eagle Ford shale is either sold at the lease or moved via truck or pipeline to markets. We own and operate the Sugarloaf gathering system, a 42-mile natural gas pipeline through the heart of our recently purchased acreage in Karnes, Atascosa, and Bee Counties of south Texas. Our future production estimates will require additional markets, transportation, storage and plant processing to be either contracted or constructed and a variety of negotiations are underway with a goal of continued access to adequate infrastructure and markets. Key considerations in this development will be the timing of contract availability and efforts to receive optimal price based upon delivery location.

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Bakken We hold just over 400,000 net acres in the Bakken shale oil play in the Williston Basin of North Dakota and eastern Montana with an average working interest in the acreage of approximately 80 percent. Throughout 2011, we continued selective acreage acquisitions and leasing, adding approximately 40,000 net acres which expanded to a new prospect area. In 2011 we drilled 61 gross (55 net) operated wells and completed 71 gross (63 net) operated wells. We also moved from 20-stage to 30-stage hydraulic fracturing, which increases both production rates and estimated ultimate recovery from the wells. At December 31, 2011, we had 7 operated drilling rigs and 2 dedicated hydraulic fracturing crews in our Bakken shale program, and expect to add one more rig in 2012 to accomplish plans to drill 69 gross (53 net) and complete 72 84 gross (53 61 net) operated wells in 2012.

Our net sales from the Bakken shale averaged 17 mboed in 2011, a 36 percent increase over 2010, and our production exit rate for 2011 was 24 mboed. We sell our Bakken production into local markets predominately via trucking. A variety of negotiations are underway to provide adequate infrastructure and markets for our future estimated production levels, including the potential export of volumes from the regional markets via pipeline or rail projects.

Anadarko Woodford In the Anadarko Woodford shale play in Oklahoma, we hold 160,000 net acres of which approximately 100,000 acres are held by production. In 2011, we executed an operated drilling program focused on the liquids-rich areas of the play, drilling 15 gross (11 net) exploration and 8 gross (6 net) development wells, of which 11 gross (9 net) wells were completed.

The Shi Randall well, in which we hold a 50 percent working interest, was completed in the third quarter of 2011. The Shi Randall had a gross IP of 455 bbld of liquid hydrocarbons and 6 mmcfd of natural gas, subject to pipeline constraints. It was one of the initial wells in the Knox area (southern Woodford) and is helping to prove up a prospective area where we have a strong acreage position.

The Anadarko Woodford shale averaged net sales of 2 mboed during 2011. In 2012, we plan to maintain our current level of 6 rigs and drill 35 40 gross (19 22 net) operated wells with more focus on development drilling. Outside-operated projects could add an additional 30 50 gross (6 10 net) wells. See below for additional discussion of our conventional, primarily natural gas production operations in Oklahoma.

DJ Basin In 2010, we began leasing in the Niobrara play in the DJ Basin of northern Colorado and southeast Wyoming and built an acreage position of approximately 180,000 acres. In April 2011, we farmed-out a 30 percent undivided working interest retaining 70 percent and operatorship. See Item 8. Financial Statements and Supplementary Data Note 6 to the consolidated financial statements for additional information regarding this transaction. As of December 31, 2011 we hold 151,000 net acres. In 2011, we drilled a total of 12 gross (7 net) operated wells, with four gross (two net) operated wells completed. We are currently operating 2 drilling rigs in the DJ Basin and expect to drill 25 35 gross (13 19 net) operated wells in 2012. Outside-operated projects could add an additional 25 35 gross (4 5 net) wells. We exited December with a net production rate of 86 boed. We have other natural gas assets in Colorado which are discussed below.

United States

Alaska We produce natural gas in the Cook Inlet and adjacent Kenai Peninsula of Alaska where we have operated and outside-operated interests in 10 fields covering 118,000 net acres. In 2011, we drilled 1 operated well in the Ninilchik field and participated in 1 non-operated horizontal well in the McArthur River field, both in the Cook Inlet. Plans for 2012 include continued investments in production optimization and operational reliability.

Net natural gas sales from Alaska averaged 94 mmcfd in 2011. Typically, 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.

Complementing our production operations in Alaska is our majority ownership in four operated natural gas pipelines totaling 140 miles. These are bidirectional systems providing transportation from multiple producers to numerous end users in and around the Cook Inlet.

Colorado We hold leases of 8,700 net acres with natural gas production in the Piceance Basin of Colorado, located in the Greater Grand Valley field complex, with net sales of 20 mmcfd in 2011. Currently the field has 77 gross/net wells producing.

Oklahoma We have long-established operated and non-operated conventional production operations in several Oklahoma fields from which 2011 sales averaged 2 mbbld of liquid hydrocarbons and 53 mmcfd of natural gas. In 2011 we participated in 7 gross (2 net), non-operated wells in the state. We also drilled 1 company operated well. Plans for 2012 include 11 gross (2 net) wells, targeting liquids.

Texas/North Louisiana/New Mexico In east Texas and north Louisiana, we hold 184,000 net acres. Approximately 20,000 of the acres are in the Haynesville and Bossier natural gas shale plays. Most of the acreage in these shale plays is held by production. We participated in 3 gross (1 net) non-operated wells in the area during 2011. Conventional production was primarily from the Mimms Creek, Pearwood and Oletha fields, in 2011. Net sales from east Texas and north Louisiana averaged 7 mboed.

We also participate in several outside-operated Permian Basin fields in west Texas and New Mexico. Net sales from this area were 7 mboed in 2011. Activity in 2012 will center around carbon dioxide flood programs in the Seminole and Vacuum fields.

Wyoming We hold 260,000 net acres in Wyoming and have almost 100 years of exploration and development in the state. We have ongoing enhanced oil recovery projects at the mature Bighorn Basin and Wind River Basin fields and initiated an additional enhanced recovery project at our 100 percent owned and operated Pitchfork field in 2011. We have conventional natural gas operations in the Greater Green River Basin and unconventional coal bed natural gas operations in the Powder River Basin. In 2011, we drilled 17 gross (17 net) operated development wells in Wyoming, which included five wellbore re-entries and plan 3 4 gross (3 4 net) operated wells in 2012. Our Wyoming sales averaged 17 mbbld of liquid hydrocarbons and 75 mmcfd of natural gas during 2011. In addition, we own and operate the 420-mile Red Butte Pipeline. This crude oil pipeline connects Silvertip Station on the Montana/Wyoming state line to Casper, Wyoming.

West Virginia/Pennsylvania In the Appalachian Basin we hold 82,000 net acres in the Marcellus shale natural gas play in Pennsylvania and West Virginia. In February 2011, we entered into a joint venture on a large portion of our Marcellus shale acreage position. Under the agreement which ends in 2012, our joint venture partner will earn 50 percent of approximately 60,000 acres under a drilling carry and has an option to acquire our remaining acreage while we retain the rights to continue to market the acreage to others. In 2011, 2 gross (1 net) outside-operated wells were drilled with 1 gross (0.5 net) well awaiting completion. We expect to participate in 4 gross (2 net) wells in 2012.

Gulf of Mexico Production

On December 31, 2011, we held material interests in seven producing fields, four of which are company-operated.

We operate and have a 65 percent working interest in the Ewing Bank Block 873 platform which is located 130 miles south of New Orleans, Louisiana. The platform started operations in 1994 and serves as a production hub for the Lobster, Oyster and Arnold fields on Ewing Bank blocks 873, 917 and 963. The facility also processes third-party production via subsea tie-backs.

We own a 50 percent working interest in the outside-operated Petronius field on Viosca Knoll Blocks 786 and 830 located 130 miles southeast of New Orleans, which includes six producing wells. The Petronius platform is capable of providing processing and transportation services to nearby third-party fields. During 2012, we plan to acquire seismic data in order to identify future drilling opportunities.

We hold a 30 percent working interest in the outside-operated Neptune field located on Atwater Valley Block 575, 120 miles off the coast of Louisiana. The development includes seven subsea wells tied back to a stand-alone platform. Additional drilling and recompletion activity is being considered for 2012.

We have a 100 percent operated working interest and an 81 percent net revenue interest in the Droshky development located on Green Canyon Block 244 off the coast of Louisiana. This development began production in mid-July of 2010 and reached peak net production of 45 mboed in the third quarter of 2010. The field will be produced to abandonment pressures which are expected to be reached in the first half of 2012.

We hold a 68 percent working interest in Ozona. Development of our operated Ozona prospect, located on Garden Banks Block 515, was delayed by the Drilling Moratorium (discussed below) and subsequent regulatory changes. In 2011, we completed the Ozona well as a single zone producer tied back to a non-operated host platform. First production began in late December 2011.

Average net sales for 2011 from the Gulf of Mexico were 30 mbbld of liquid hydrocarbons and 24 mmcfd of natural gas.

We also own a 34 percent outside-operated interest in the Neptune gas plant located onshore Louisiana. This high efficiency gas plant, which services four high pressure offshore and onshore pipelines, has a 650 mmcfd capacity.

Gulf of Mexico Exploration

We have 21 prospects, 16 of which are operated in the Gulf of Mexico. As a result of an explosion and significant spill from a deepwater rig in the Gulf of Mexico, the U.S. Department of the Interior issued a drilling moratorium on May 30, 2010 (Drilling Moratorium), to suspend the drilling of deepwater wells, and prohibit drilling any new deepwater wells

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(defined as greater than 500 foot water depth). The Drilling Moratorium was lifted on October 12, 2010. Our first exploration plan approval was received in August 2011. In 2011, we received lease extensions for 26 blocks in the Gulf of Mexico which had been impacted by the Drilling Moratorium.

A successful deepwater oil discovery well was drilled on the Gunflint prospect located on Mississippi Canyon Block 948, 160 miles southeast of New Orleans in 2008. We own a 15.25 percent interest in this outside-operated prospect. Gunflint prospect appraisal wells were subject to the Drilling Moratorium. Drilling of the first appraisal well began in December 2011, and a second appraisal well is planned for mid-year 2012.

In the first quarter of 2009, we participated in a deepwater oil discovery on the Shenandoah prospect located on Walker Ridge Block 52. We own a 10 percent interest in this outside-operated prospect. The first appraisal well is planned for mid-year 2012.

In March 2011, we completed our evaluation of the Flying Dutchman exploratory well, located on Green Canyon Block 511. We determined that the options to develop were not viable and all well costs have been expensed.

In accordance with the federal government s Drilling Moratorium, we temporarily suspended drilling an exploratory well on the Innsbruck prospect located on Mississippi Canyon Block 993 at a depth of 19,800 feet as compared to a proposed total depth of 29,500 feet. In 2011, we received approval for our current exploration plan from the BOEMRE. We have contracted a rig for this project and drilling is expected to commence in the third quarter of 2012. In December 2011, we assigned a 40 percent interest in the portion of Mississippi Canyon Block 993 that includes Innsbruck, in exchange for a 30 percent non-operated interest in Green Canyon Blocks 403 and 404 in the Kilchurn prospect plus reimbursement of certain well costs incurred to date on Innsbruck. We now have a 45 percent working interest in Innsbruck and continue to operate the prospect. The operator commenced drilling on the Kilchurn prospect in December 2011.

In October 2011, we received approval of an exploration plan from the BOEMRE for the Key Largo prospect located on Walker Ridge Block 578. We have a 60 percent working interest and are the operator of this prospect. Drilling is expected in the second half of 2012.

Africa

Equatorial Guinea We own a 63 percent operated working interest under a PSC in the Alba field which is offshore EG. During 2011, EG net liquid hydrocarbon sales averaged 38 mbbld, and net natural gas sales were 443 mmcfd. Planned maintenance in EG is scheduled for a 28-day period from late first quarter through early second quarter 2012, with operations expected to be completely shut down for eight of those days.

We hold a 63 percent operated working interest in the Deep Luba discovery on the Alba Block and we are the operator with a 90 percent interest in the Corona well on Block D. 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.

We also own a 52 percent interest in Alba Plant LLC, an equity method investee that operates an onshore LPG processing plant located on Bioko Island. Alba field natural gas is processed by the LPG plant. Under a long-term contract at a fixed price per btu, the LPG plant extracts secondary condensate and LPG from the natural gas stream and uses the natural gas in its operations. During 2011, a gross 890 mmcfd of natural gas was supplied to the LPG production facility and 4 mbbld of secondary condensate and 11 mbbld of LPG were produced by Alba Plant LLC. Our share of the income ultimately generated by the subsequent export of secondary condensate and LPG produced by Alba Plant LLC is reflected in our E&P segment.

As part of our Integrated Gas segment, we own 45 percent of AMPCO and 60 percent of EGHoldings, both of which are accounted for as equity method investments. AMPCO operates a methanol plant and EGHoldings operates an LNG production facility, both located on Bioko Island. Dry natural gas from the Alba field, which remains after the condensate and LPG are removed by Alba Plant LLC, is supplied to both of these facilities under long-term contracts at fixed prices. Because of the location of and limited local demand for natural gas in Equatorial Guinea, we consider the prices under the contracts with Alba Plant LLC, AMPCO and EGHoldings to be comparable to the price that could be realized from transactions with unrelated parties in this market under the same or similar circumstances. Our share of the income ultimately generated by the subsequent export of methanol produced by AMPCO and LNG produced by EGHoldings is reflected in our Integrated Gas segment as discussed below. During 2011, a gross 127 mmcfd of dry natural gas was supplied to the methanol plant and a gross 668 mmcfd of dry gas was supplied to the LNG production facility. Any remaining dry gas is returned offshore and reinjected into the Alba field for later production.

Libya Civil unrest, which began in February 2011 in parts of North Africa, escalated to armed conflict in Libya where we hold a 16 percent working interest in the Waha concessions, which encompass almost 13 million acres located in the Sirte Basin of eastern Libya. During the first quarter 2011, all production operations in Libya were suspended. In the

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fourth quarter of 2011, limited production resumed from the Waha concessions, but we made no deliveries of hydrocarbons. In January 2012, Libya produced 190 gross mbbld (25 net mbbld), and sales are planned to resume in the first quarter of 2012. The return of our operations in Libya to pre-conflict levels is unknown at this time; however, we and our partners in the Waha concessions are assessing the condition of our assets and determining when the full resumption of operations will be viable.

Angola Offshore Angola, we hold 10 percent working interests in Blocks 31 and 32, both of which are outside-operated. The discoveries on Blocks 31 and 32 represent several potential development hubs. In 2008, we received approval to proceed with the first deepwater development project, called the PSVM development, which includes the Plutao, Saturno, Venus and Marte discoveries and one successful appraisal well in the northeastern portion of Block 31. The PSVM development will utilize an FPSO with a total of 48 production and injection wells. Development drilling began in 2010 and first production is anticipated in mid-2012. The potential for a second development hub on this block is being evaluated. Studies are underway to establish a development in the eastern part of Block 32 and to assess the development potential of the other discoveries. We anticipate at least one development on Block 32.

Europe

Norway We operate 10 licenses and hold interests in over 249,000 net acres on the offshore Norwegian continental shelf. In 2011, net sales from Norway averaged 80 mbbld of liquid hydrocarbons and 42 mmcfd of gas.

The Alvheim development is comprised of the Kameleon, East Kameleon and Kneler fields, in which we have a 65 percent working interest, and the Boa field, in which we have a 58 percent working interest. It is produced to the Alvheim complex which consists of an FPSO with subsea infrastructure. In 2011, due to debottlenecking efforts, capacity of the FPSO increased to 86 mbbld net (149 mbbld gross). Produced oil is transported by shuttle tanker and produced natural gas is transported to the SAGE system by pipeline. At the end of 2011, the Alvheim development included 13 producing wells and two water disposal wells. An additional development well is planned in 2012.

The nearby outside-operated Vilje field, in which we own a 47 percent working interest, began producing through the Alvheim complex in August 2008. At the end of 2011, two wells were producing and an additional development, Vilje Sor had been approved. Production from Vilje Sor is estimated to begin near the end of 2013.

The Volund field, five miles south of the Alvheim FPSO was the second subsea development tied back to the Alvheim complex. The Volund development, in which we own a 65 percent operated working interest, consists of three production wells and one water injection well. First production from Volund was announced in September 2009. It initially functioned as a swing producer to allow us to maintain full capacity on the Alvheim FPSO until the second quarter of 2010 when we commenced full production. Drilling of an additional development well at Volund is planned for fourth quarter 2012, with first production scheduled in early 2013.

Also offshore Norway, are the Boyla (formerly Marihone) and Viper discoveries in which we hold a 65 percent operated working interest. The Boyla oil discovery is located in license PL340 about 12 miles south of the Volund and Alvheim fields. The Viper oil discovery is located in license PL203, immediately next to the Volund field in license PL150. Both discoveries are being evaluated for possible tie back to the Alvheim complex. An investment decision on Boyla could occur in the second quarter of 2012, with first production estimated to begin in the fourth quarter of 2014.

Exploration activities will continue in 2012 and 2013. The Velsemøy well is expected to begin drilling late in 2012 in license PL531 where we hold a 10 percent carried working interest. Drilling is expected to commence in the first quarter of 2013 on the Sverdrup well in license PL 330 where we hold a 30 percent operated working interest.

United Kingdom Net sales from the U.K. averaged 21 mbbld of liquid hydrocarbons and 55 mmcfd of natural gas. 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 39 percent working interest in the East Brae field. The Brae Alpha platform and facilities host the South, Central and West Brae fields. The North Brae field, which is produced via the Brae Bravo platform, and the East Brae field, which is produced via the East Brae platform, are natural gas condensate fields. The East Brae platform also hosts the nearby Braemar field in which we have a 28 percent working interest. Two development wells were completed at West Brae in early 2011 and we continue to pursue Brae complex projects designed to maximize natural gas recovery and maintain deliverability rates to the U.K. market.

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 twenty-five third-party fields are contracted to use the Brae system and 73 mboed are being processed or transported through the Brae infrastructure. In 2011, we installed a new module to accommodate the tie back of the third-party operated Devenick field. In addition to generating processing and pipeline tariff revenue, this third-party business optimizes infrastructure usage.

The Brae group owns a 50 percent interest in the outside-operated 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 bcf per day. The SAGE terminal at St. Fergus in northeast Scotland processes natural gas from the SAGE pipeline as well as approximately 1 bcf per day of third-party natural gas.

In the U.K. Atlantic Margin west of the Shetland Islands, we own an average 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. The export of Foinaven liquid hydrocarbons is via shuttle tanker from the FPSO to market. All natural gas sales are to the non-operated Magnus platform for use as injection gas. An upgrade of equipment on the FPSO is expected to extend the life of the fields through 2021. Additionally, the planned installation of replacement flowlines should secure the long-term integrity of the subsea infrastructure, but the related downtime is expected to cause a reduction in sales volumes in 2012. Average net sales from Foinaven were 12 mboed in 2011.

Poland Between December 2009 and October 2010, we acquired eleven 5-year licenses, totaling 2.3 million gross acres. In 2011, we farmed-out to two companies an aggregate 49 percent undivided interest in ten of these licenses which will be earned through drilling. As of December 31, 2011, we hold a 51 percent working interest in these 10 concessions, a 100 percent interest in the remaining concession for a total of 1.2 million net acres. We are operator under all licenses. We are in the early stages of exploring and evaluating the full potential of these holdings. We drilled, cored and logged our first vertical exploratory well in late 2011 and are evaluating the data. In addition, we expect to complete proprietary 2-D seismic acquisitions in the first quarter of 2012. We have a drilling commitment of one well per license and plan to drill 6 7 gross (3 4 net) exploration wells in 2012.

Canada

We hold interests in both operated and outside-operated exploration stage oil sand leases in Alberta, Canada, which would be developed using in-situ methods of extraction. These leases cover approximately 143,000 gross acres (52,000 net) in four project areas: Namur, in which we hold a 60 percent operated interest; Birchwood, in which we hold a 100 percent operated interest; Ells River, in which we hold a 20 percent outside-operated interest and Saleski in which we hold a 33 percent outside-operated interest. Exploration on the Birchwood prospect continued in the winter of 2011-2012 with a seismic program and water well drilling. Approximately 100 stratigraphic test wells were drilled on the Birchwood prospect in the winter of 2010-2011 providing data for the ongoing assessment of reservoir quality. We expect sanction of a pilot project in 2013.

Other International

Iraqi Kurdistan Region In October 2010, we acquired a position in four exploration blocks in the Iraqi Kurdistan Region. In aggregate, these contracts provide us with access to approximately 368,000 net acres. We signed PSCs for operatorship and 80 percent ownership in the Harir and Safen blocks northeast of Erbil. The KRG holds a 20 percent carried interest in these blocks. We have committed to a seismic program and to drilling one well on both Hafir and Safen during the initial three-year exploration period. We were assigned interests in two additional outside-operated blocks located north-northwest of Erbil: Atrush, in which we have a 16 percent ownership (the KRG holds a 4 percent carried interest), and Sarsang, in which we have a 20 percent interest (the KRG holds a 5 percent carried interest). In 2011, we announced the Atrush-1 discovery on the Atrush block and a second discovery, the Swara Tika-1 well on the Sarsang block. The Swara Tika-2, an appraisal well on the Sarsang block, commenced drilling in the fourth quarter of 2011. The Atrush-2, an appraisal well on the Atrush block, is planned for 2012. Planning is underway on extended well testing and early production systems, with first production expected in the fourth quarter of 2012.

Indonesia We are the operator of three exploration licenses in Indonesia: the Pasangkayu block with a 70 percent interest, the Kumawa block with a 55 percent interest, and the Bone Bay block with a 55 percent interest. In 2011 and 2010, wells were drilled on the Bravo and Romeo prospects in the Pasangkayu block. These wells were expensed as dry holes. We have notified our joint venture partner and the Indonesian government that we intend to relinquish the PSC on the Pasangkayu block. Discussions continue and we are awaiting a government response. We are evaluating the Bone Bay and Kumawa blocks.

Acquisitions and Dispositions

As previously discussed, during 2011 we closed several acquisition transactions in the Eagle Ford shale play and farmed-out minority interests in our DJ Basin and Poland acreage. Also, in March 2011, we closed the sale of our outside-operated interests in the Gudrun field development and the Brynhild and Eirin exploration areas offshore Norway.

In October 2011, we entered into definitive agreements to sell our equity method interests in Poseidon Oil Pipeline Company, L.L.C. and Odyssey Pipeline L.L.C. and certain other oil pipeline interests including the Eugene Island Pipeline System. The transaction closed on

January 3, 2012.

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In December 2011 we sold our 25 percent interest in the Stones prospect located on Walker Ridge Block 508 to the operator. We also exchanged a 100 percent interest in Atwater Valley Block 398 in the Sandpiper prospect, for a 100 percent interest in Walker Ridge Block 577 in the Key Largo prospect and a 20 percent interest in Green Canyon Block 286 in the Hypnos prospect. After this transaction, we hold a 50 percent interest in Green Canyon Block 286 and a 100 percent interest in Walker Ridge Block 577.

See Item 8. Financial Statements and Supplementary Data Note 5 to the consolidated financial statements for additional information about the acquisitions and Note 6 for additional information about the farm-outs and divestitures.

The above discussion of the E&P segment includes forward-looking statements with respect to anticipated future exploratory and development drilling activity, drilling rig activity in the U.S., planned maintenance downtime, timing of reaching abandonment pressures in Droshky, continued investments in Alaska, timing of first production from Vilje Sor, Boyla and Kurdistan, planned acquisition of seismic data for Petronius, plans to achieve first production from the PSVM development on Block 31 offshore Angola and other possible developments, plans to resume sales in Libya and the expected extension of the Foinaven fields. Some factors which could possibly 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 such as weather conditions, natural disasters, acts of war or terrorist acts and the governmental or military response, and other geological, operating and economic considerations. 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 offshore developments could further be affected by presently known data concerning size and character of reservoirs, economic recoverability, future drilling success and production experience. Predicted planned maintenance and FPSO downtime are good faith estimates and preliminary, and therefore, subject to change. The foregoing factors (among others) could cause actual results to differ materially from those set forth in the forward-looking statements.

Productive and Drilling Wells

For our E&P segment, the following tables set forth gross and net productive wells and service wells as of December 31, 2011, 2010 and 2009 and drilling wells as of December 31, 2011.

	Productive Wells[a]							
	Oil		Natural Gas		Service Wells		Drilling Wells	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
2011								
United States	5,809	2,058	3,121	1,876	2,313	734	55	28
Equatorial Guinea	-	-	14	9	4	3	-	-
Other Africa[b]	-	-	-	-	1	-	-	-
Total Africa	-	-	14	9	5	3	-	-
Total Europe	73	31	40	16	28	10	2	1
Total Other International	-							