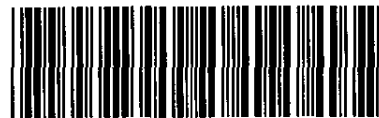


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Marathon Oil U.K. LLC
Annual Report and Financial Statements
for the year ended 31 December 2017

Company Registration No: FC009587

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Marathon Oil U.K. LLC

Annual report and financial statements for the year ended 31 December 2017

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Marathon Oil U.K. LLC

Managers and advisors for the year ended 31 December 2017

Managers

P. M. Cremin (appointed 1 April 2018)
J. A. Edens (appointed 3 July 2017)
C. R. Hubacher (resigned 31 March 2017)
C. L. Krajicek (resigned 1 April 2018)
N. W. Loupe (appointed 27 March 2017, resigned 4 May 2018)
H. F. Sandison (resigned 26 March 2017, appointed 4 May 2018)
G. D. Taylor (appointed 1 April 2018)

Company secretary

J. N. Shah-Gair

Registered office

Corporation Trust Center
1209 Orange Street
Wilmington, DE
19801
United States

Marathon Oil U.K. LLC
Operating Statements for the year ended 31 December 2017

		2017	2016
	<i>Notes</i>	\$000	\$000
Sales		195,009	136,523
Operating Costs			
Cost of products sold & operating expenses (excluding items shown below)		116,287	99,476
Depreciation, depletion & amortization	4	69,053	55,124
Asset retirement obligations - accretion expense	5	45,377	41,332
General & administrative expenses		7,054	5,886
Impairments	4	1,418	0
Licence rental expense		168	181
		239,357	201,999
Operating Loss		(44,348)	(65,476)
Deposit and other income	4	54,128	10,372
Net interest		(4,228)	(3,841)
Exchange gains	6	8,420	4,539
Income Before Taxation		13,972	(54,406)
Taxation	7	38,256	15,753
Net Income/(Loss) for the Year		52,228	(38,653)
Retained Profit/(Loss) for the Year		52,228	(38,653)
Accumulated Surplus Brought Forward		76,667	115,320
Accumulated Surplus Carried Forward	8	128,895	76,667

The accompanying notes are an integral part of these financial statements.

Marathon Oil U.K. LLC

Balance Sheet as at 31 December 2017

	<i>Notes</i>	2017 \$000	2016 \$000
Assets			
Current Assets			
Cash & cash equivalents		27,699	8,458
Accounts receivable & prepaid expenses	10	49,730	57,905
Joint venture accounts receivable		22,250	20,751
Balances due from group companies	11	58,888	120,170
Advance to holding company		5,570	5,570
Accrued taxes		0	5,993
Inventories:			
Crude oil & natural gas liquids		2,566	2,566
Natural gas		298	298
Materials & supplies		5,357	6,526
		172,358	228,237
Investments and Long-Term Receivables	12	33,375	33,375
Property, Plant and Equipment	4	72,950	241,523
Net Deferred Tax Assets	7	412,399	245,125
Other Noncurrent Assets	13	275,709	291,361
		966,791	1,039,621
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable & accrued expenses	14	24,432	16,814
Balances due to group companies	11	9,399	9,829
Accrued taxes		1,781	0
Provision for asset retirement obligation	5	35,595	32,228
		71,207	58,871
Advance From Holding Company		288	288
Provision for Asset Retirement Obligation	5	729,572	859,426
Deferred Income	15	5,032	12,572
		734,892	872,286
Shareholders' Equity			
Member interest	16	31,797	31,797
Reserves	8	128,895	76,667
	17	160,692	108,464
		966,791	1,039,621

The accompanying notes are an integral part of these financial statements. The financial statements on pages 4 to 17 were approved by the board of Managers on 22nd June 2018 and were signed on its behalf by:



H. F. Sandison
Manager
22nd June 2018

Marathon Oil U.K. LLC

Notes to the financial statements for the year ended 31 December 2017

1 Accounting Convention & Basis of Preparation

- A) The unaudited financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with section 396 of the Companies Act 2006, as modified by Overseas Companies Regulations 2009 and with accounting principles generally accepted in the U.S. as issued by the Financial Accounting Standards Board.
- B) Marathon Oil U.K. LLC (The Company) is not a primary reporting entity under accounting principles generally accepted in the U.S. and is not required to issue general purpose financial statements to shareholders. Accordingly, the disclosures in the notes to the financial statements are primarily to provide additional analysis of those figures contained in the primary statements, and do not include all disclosures required for primary reporting entities under accounting principles generally accepted in the U.S. The Managers have elected not to prepare consolidated financial statements for the Company.

2 Accounting Policies

- A) **Joint ventures**
The Company reports only its own share of revenues and expenditures incurred in relation to joint venture operations. However, current assets and liabilities are reported so as to include the gross amounts due to or by, or held by, the Company as operator, except materials and supplies and third party revenues of which only the Company's share is reported.
- B) **Foreign currencies**
The Company's functional currency is U.S. dollars, being the currency of the primary economic environment in which the Company operates. Amounts denominated in foreign currencies are translated into U.S. dollars during the period at the monthly exchange rate advised by Marathon Oil Corporation (see Note 19). Monetary assets and liabilities at the period end are translated at the closing exchange rates. Profits or losses on foreign exchange are dealt with in the income statement. Revaluation of tax liability balances are treated as a tax expense.
- C) **Sales**
Sales include revenues from the sale of the Company's share of oil and gas produced and purchased, together with the Company's share of revenues arising from the provision of associated transportation and processing services.
- D) **Revenue recognition**
Revenues are recognised when products are shipped or services are provided to customers, title is transferred, the sales price is fixed or determinable and collectability is reasonably assured.
- The Company follows the sales method of accounting for natural gas production imbalances and would recognize a liability if the existing proved reserves were not adequate to cover the current imbalance situation.
- E) **Financing costs**
All financing costs are expensed to the operating statement when incurred.

Marathon Oil U.K. LLC

Notes to the financial statements for the year ended 31 December 2017 (continued)

2 Accounting Policies continued

F) Asset retirement obligation

The fair value of asset retirement obligations is recognised in the period in which the obligations are incurred if a reasonable estimate of fair value can be made. Our asset retirement obligations primarily relate to the abandonment of oil and gas producing facilities. Asset retirement obligations for such facilities include costs to dismantle and relocate or dispose of production platforms, gathering systems, wells and related structures and restoration costs of land and seabed, including those leased. Estimates of these costs are developed for each property based on the type of production structure, depth of water, reservoir characteristics, depth of the reservoir, market demand for equipment, currently available procedures and consultations with construction and engineering professionals.

Inflation rates and credit-adjusted-risk-free interest rates are used to estimate the fair value of asset retirement obligations. Depreciation of capitalized asset retirement costs and accretion of asset retirement obligations are recorded over time. Depreciation is generally determined on a units-of-production basis based on estimated proved reserves for oil and gas production facilities, while accretion escalates over the lives of the assets

G) Taxation

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their tax bases as reported in the Company's filings with the respective taxing authorities. Deferred tax assets are recognized when it is more likely than not that they will be realized.

H) Property, plant & equipment

The Company follows the successful efforts method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and natural gas properties, to drill and equip exploratory wells that find proved reserves and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs and cost of carrying and retaining unproved reserves are expensed. Costs incurred for exploratory wells that find reserves that cannot yet be classified as proved are capitalized if (1) the well has found a sufficient quantity of reserves to justify its completion as a producing well and (2) the Company is making sufficient progress in assessing the reserves and the economic and operating viability of the project. The status of the suspended well costs is monitored continuously and reviewed not less than quarterly. Capitalized costs of producing oil and natural gas properties are depreciated and depleted on a unit-of-production basis based on estimated proved oil and gas reserves with any changes applied prospectively.

The 'cost of reserves' category comprises the cost of acquiring the Company's interests in the North Sea, and geological and geophysical costs incurred for the development and unitisation of proved reserves. These costs, together with subsequently capitalized development and drilling costs are amortized on a unit-of-production basis over the lives of the fields to which they relate. The cost of acquiring a Company interest in unproved areas is classified as unproved properties.

Support equipment and other property, plant and equipment related to oil and gas producing activities are depreciated on a straight-line basis over their estimated useful lives which range from 7 to 9 years.

Marathon Oil U.K. LLC

Notes to the financial statements for the year ended 31 December 2017 (continued)

2 Accounting Policies continued

H) Property, plant and equipment continued

Oil and gas producing properties are evaluated for impairment of value whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected undiscounted future cash flows from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss may be recognized based on the fair value of the asset. Impairment of proved properties is required when the carrying value exceeds the related undiscounted future net cash flows based on total proved and risk-adjusted probable and possible reserves. Oil and gas producing properties deemed to be impaired are written down to their fair value, as determined by discounted future net cash flows based on total proved and risk-adjusted probable and possible reserves or, if available, comparable market value. The Company evaluates its oil and gas producing properties for impairment of value by grouping assets which share significant infrastructure.

I) Inventories

Inventories are carried at the lower of cost or net realizable value. Cost of inventories is determined primarily using the moving average method.

J) Use of estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the respective reporting periods. Other items subject to estimates and assumptions include the carrying amounts of property, plant and equipment and asset retirement obligations, among others. Although we believe these estimates are reasonable, actual results could differ from these estimates.

K) Cash and cash equivalents

Cash and cash equivalents include cash on hand and on deposit and investments in highly liquid debt instruments with original maturities of three months or less.

L) Accounts Receivable

Our receivables primarily consist of customer accounts receivable, are recorded at the invoiced amounts and generally do not bear interest. We review past-due balances individually for collectability. Account balances for these customer receivables are charged directly to bad debt expense when it becomes probable the receivable will not be collected.

Marathon Oil U.K. LLC

Notes to the financial statements for the year ended 31 December 2017 (continued)

3 Activities

The Company is engaged in oil and gas exploration and production in the United Kingdom sector of the North Sea.

It is the operator in the following blocks:

Licence P108 blocks 16/3a and 16/7a	(interest 40.00%)
Licence P313 blocks 16/3b and 16/3c	(interest 26.00%)
Licence P340 block 16/7b and 16/7c	(interest 40.00%)
Licence P483 block 16/8d	(interest 30.00%)

Marathon Oil U.K. LLC

Notes to the financial statements for the year ended 31 December 2017 (continued)

4 Property, Plant and Equipment

	Cost of Reserves \$000	Producing Farm Investment \$000	Development & Drilling Investment \$000	Capitalized Asset Retirement Costs \$000	TOTAL \$000
Cost:					
At 1 January 2017	278,967	3,288,217	1,935	501,217	4,070,336
Additions	-	955	4,614	-	5,569
Impairment	-	(1,418)	-	-	(1,418)
ARO revision (see Note 5)	(1,681)	(30,655)	-	(113,727)	(146,063)
Retire ARC Assets				(427,577)	(427,577)
Excess ARO revision to other income				42,392	42,392
At 31 December 2017	277,286	3,257,099	6,549	2,305	3,543,239
Depreciation, Depletion and Amortization:					
At 1 January 2017	276,438	3,155,168	-	397,207	3,828,813
Charge for the period	848	37,731	-	30,474	69,053
Retire ARC Assets	-	-	-	(427,577)	(427,577)
At 31 December 2017	277,286	3,192,899	-	104	3,470,289
Net Book Amounts at:					
31 December 2017	0	64,200	6,549	2,201	72,950
31 December 2016	2,529	133,049	1,935	104,010	241,523

As a result of a downward adjustment to the asset retirement obligation (ARO) estimate for Brae complex, the related capitalized asset retirement cost was fully depleted. The excess adjustment was recorded against underlying assets, reducing the asset balances to zero, and the residual credit (\$42,392,000) included in deposit and other income in the operating statement. Producing farm investment includes impairment of a cancelled project.

Marathon Oil U.K. LLC

Notes to the financial statements for the year ended 31 December 2017 (continued)

5 Provision for Asset Retirement Obligation

	2017	2016
	\$000	\$000
Changes in the provision for asset retirement obligation during the year were:		
Provision for asset retirement obligation at 1 January	891,654	782,005
Liabilities settled	(21,455)	(14,301)
Accretion expense	45,377	41,332
Revision of previous estimates (see Note 4)	(146,063)	88,095
Realized exchange gains	(4,346)	(5,477)
Provision for asset retirement obligation at 31 December	765,167	891,654

The total provision for asset retirement obligation is made up of \$35,595,000 classified as short-term and \$729,572,000 classified as long-term (2016 \$32,228,000 and \$859,426,000). Revisions of estimates were primarily due to changes in timing of abandonment activities as well as changes in estimated costs.

6 Exchange Gains/(Losses)

Exchange gains totalling \$8,420,000 (2016 gain - \$4,539,000) arose on foreign currency transactions during the year and the re-measurement of monetary assets and liabilities at the exchange rates ruling at 31 December 2017 (£1 = \$1.35215; 31 December 2016 £1 = \$1.25120). Expenditures incurred in other currencies were immaterial to the results of operations of the Company.

Marathon Oil U.K. LLC

Notes to the financial statements for the year ended 31 December 2017 (continued)

7 Taxation

	2017	2016
	\$000	\$000
Operating Statement:		
The tax charge comprises:		
Petroleum Revenue Tax at 0% (2016 - 0%)		
- Current U.K. Petroleum Revenue Tax		
Credit for the year	(4,917)	(7,383)
Adjustment to prior year tax charge	(384)	501
- Deferred U.K. Petroleum Revenue Tax		
(Credit)/charge for the year	(31,003)	7,978
	(36,304)	1,096
Corporation Tax at 30% (2016 - 30%)		
- Current U.K. Corporation Tax		
Charge for the year	21,219	7,270
Adjustment to prior year tax charge	64,077	(3,056)
- Deferred U.K. Corporation Tax		
Credit for the year	(6,173)	(23,366)
Adjustment to prior year tax charge	(96,692)	(111)
	(17,569)	(19,263)
Supplementary Corporation Tax at 10% (2016 - 10%)		
- Current U.K. Supplementary Corporation Tax		
Charge for the year	6,546	2,461
Adjustment to prior year tax charge	42,477	(88)
- Deferred U.K. Supplementary Corporation Tax		
Credit for the year	(1,175)	(6,868)
Adjustment to prior year tax charge	(32,231)	(37)
Effect of rate change		6,946
	15,617	2,414
Total	(38,256)	(15,753)

Marathon Oil U.K. LLC

Notes to the financial statements for the year ended 31 December 2017 (continued)

7 Taxation (continued)

	2017 \$000	2016 \$000
Balance Sheet:		
Deferred taxation as at 31 December comprises:		
Deferred U.K. Petroleum Revenue Tax		
- Asset at 1 January	(182,359)	(190,337)
- (Credit)/charge for the year	(31,003)	7,978
Asset at 31 December	(213,362)	(182,359)
Deferred U.K. Corporation Tax		
- Asset at 1 January	(46,828)	(23,351)
- Credit for the year	(6,173)	(23,366)
- Adjustment to prior year charge	(96,692)	(111)
Asset at 31 December	(149,693)	(46,828)
Deferred U.K. Supplementary Corporation Tax		
- Asset at 1 January	(15,938)	(15,979)
- Credit for the year	(1,175)	(6,868)
- Adjustment to prior year charge	(32,231)	(37)
- Effect of rate change		6,946
Asset at 31 December	(49,344)	(15,938)
Total Asset	(412,399)	(245,125)

As at 31 December 2017 deferred tax assets of \$497,795,000 (2016 \$396,556,000) principally relate to asset retirement obligation. Deferred tax liabilities of \$85,396,000 (2016 \$151,431,000) as at that date relate principally to properties, plant and equipment. As at 31 December 2017, the Company's income tax returns related to years 2008-2016 remain subject to examination.

Marathon Oil U.K. LLC

Notes to the financial statements for the year ended 31 December 2017 (continued)

7 Taxation (continued)

During 2017, a decision was received from the First-tier Tribunal regarding the timing of deductibility for decommissioning activities which are covered by the agreement mentioned in Note 10. The capital allowances claim which the Company had made in respect of the expenditure in question was rejected. The Company is appealing against the decision and has established an uncertain tax position related to the issue.

The following table summarises the activity in unrecognised tax benefits:

	2017	2016
	\$000	\$000
Beginning Balance	0	0
Additions for tax positions of prior years	83,821	0
Ending Balance	83,821	0

If the unrecognized tax benefits as of December 31, 2017 were recognized, nil would affect our effective income tax rate. As of December 31, 2017, there are \$83,000,000 uncertain tax positions for which it is reasonably possible that the amount could significantly change during the next twelve months.

Interest and penalties, related to unrecognized tax benefits, are recorded as part of the tax provision and were \$25,000,000 for 2017, and nil for 2016. As of 31 December 2017, \$10,000,000 of interest and penalties were accrued related to income taxes and nil were accrued as of 31 December 2016.

Marathon Oil U.K. LLC

Notes to the financial statements for the year ended 31 December 2017 (continued)

8 Reserves

	2017	2016
	\$000	\$000
Retained earnings	128,895	76,667

9 Dividends Paid

The Company paid no dividend during the year (2016 \$0).

10 Accounts Receivable and Prepaid Expense

	2017	2016
	\$000	\$000
Trade Receivables	9,892	13,978
Prepayments and Accrued Income	39,106	43,317
Other	732	610
	49,730	57,905

The Company has entered into an agreement with a subsidiary whereby the subsidiary undertakes decommissioning activities on behalf of the Company in return for a fee. The Company made an initial payment of \$300,000,000 of the fee on the 18 December 2008 to cover the first phase of decommissioning services. The short term portion of this payment is included under prepayments and accrued income \$35,595,000 (2016 \$32,228,000).

11 Group Balances

Included in amounts due from group companies is \$32,653,000 (2016 - \$93,534,000) which has been loaned to Marathon Oil Investment LLC. The loan is interest-bearing, is repayable on the Company's demand and has been recorded as a current asset.

The remainder represents amounts due to/from other group companies in the ordinary course of business. These amounts are interest free, and there are no fixed repayment terms and accordingly has been presented as payable/receivable within one year.

Marathon Oil U.K. LLC

Notes to the financial statements for the year ended 31 December 2017 (continued)

12 Investments and Long Term Receivables

	2017	2016
	\$000	\$000
Investment in subsidiary undertaking	33,375	33,375

The investment in the subsidiary undertaking of \$33,375,000 (2016 \$33,375,000) is stated at cost and represents 100% of the issued share capital of Marathon Oil Decommissioning Services LLC., Marathon International Oil (G.B.) Limited, Marathon Service (G.B.) Limited and Marathon Oil North Sea (G.B.) Limited.

13 Other Noncurrent Assets

The Company has entered into an agreement with a subsidiary whereby the subsidiary undertakes decommissioning activities on behalf of the Company in return for a fee. The Company made an initial payment of \$300,000,000 of the fee on the 18 December 2008 to cover the first phase of decommissioning services. The long term portion of this payment is included under other noncurrent assets \$275,709,000 (2016 \$291,361,000).

14 Accounts Payable and Accrued Expenses

	2017	2016
	\$000	\$000
Trade creditors	6,281	6,492
Accruals	18,151	10,322
	24,432	16,814

15 Deferred Income

Deferred income comprises receipts under third-party tariff contracts in respect of contracted pipeline throughput not utilized by customers during the year or in prior years (send-or-pay).

16 Member Interest

Marathon Oil Holdings U.K. Limited holds a 100% membership interest in Marathon Oil U.K. LLC.

Marathon Oil U.K. LLC

Notes to the financial statements for the year ended 31 December 2017 (continued)

17 Reconciliation of movement in shareholders' funds

	2017	2016
	\$000	\$000
Opening shareholders' equity	108,464	147,117
Profit/(Loss) for the financial year	52,228	(38,653)
Closing shareholders' equity	160,692	108,464

18 Capital Commitments

The managers have authorized capital expenditure amounting to \$47,821,000 at 31 December 2017 (31 December 2016 \$0).

19 Holding Company

Marathon Oil U.K. LLC is incorporated in the State of Delaware in the U.S. and is a wholly owned subsidiary of Marathon Oil Holdings U.K. Limited, which in turn is an indirect wholly owned subsidiary of Marathon Oil Corporation.

The Company is included in the consolidated U.S. federal income tax return filed by Marathon Oil Corporation. No provision is made in these financial statements for any federal income tax charges or credits that may arise as a result of the inclusion of this Company within its ultimate holding company's U.S. federal income tax return.

Copies of the group accounts can be obtained from:

Marathon Oil Corporation
5555 San Felipe Street
Houston, TX
77056
USA

Or via the corporation's website at www.MarathonOil.com