Marathon Oil Announces Executive Compensation Changes and GHG Emissions Intensity Reduction Initiatives

HOUSTON, Jan. 27, 2021 /PRNewswire/ -- Marathon Oil Corporation (NYSE: MRO) today announced an update regarding its environmental, social, and governance (ESG) performance, including significant changes to its executive compensation framework as well as new quantitative greenhouse gas (GHG) emissions reduction initiatives. The Company believes continuously improving all elements of its ESG performance is essential to successfully executing its long-term strategy of maximizing shareholder value, including the delivery of strong financial returns and sustainable free cash flow while maintaining a solid balance sheet and returning capital to shareholders.

Highlights

- CEO and Board total compensation reduced 25%[1] with Board compensation mix shifted more toward equity and CEO mix further aligned with broader industry norms
- Short-term incentive (STI) scorecard simplified to focus on Marathon's core financial and ESG framework
    - Prioritizes safety, environmental performance, capital efficiency, capital discipline/free cash flow generation, and financial/balance sheet strength
    - Production metrics eliminated from annual cash bonus scorecard
- Long-term incentive (LTI) framework redesigned to mitigate overreliance on relative total shareholder return (TSR) against direct E&P peers
    - S&P 500 and S&P Energy indices introduced as peer comparators to promote improved performance vs. broader market
    - Free cash flow generation incorporated into LTI framework
- Expect 2020 GHG emissions intensity reduction of approximately 20%[2] vs. 2019; improved total Company gas capture to 98.5% for fourth quarter 2020
- Raising the bar on environmental performance with announcement of quantitative GHG reduction initiatives
    - Added 2021 GHG emissions intensity target to STI scorecard, representing approximate 30% reduction to GHG emissions intensity vs. 2019
    - Announced medium-term goal to reduce GHG emissions intensity by at least 50% by 2025 vs. 2019
- Achieved second consecutive year of record safety performance in 2020, as measured by total recordable incident rate (TRIR) for both employees and contractors

"To realize improved outcomes for all stakeholders, we believe energy companies must deliver competitive financial results relative to the S&P 500 while simultaneously driving meaningful improvement to all elements of ESG performance," said President, CEO and Chairman Lee Tillman. "Marathon Oil has taken a leadership role in driving the changes our industry needs, prioritizing free cash flow, debt reduction, and return of capital to shareholders. We believe strong corporate governance is foundational to delivering ultimate shareholder value, and have modified our executive compensation framework to further align management interests with stakeholders and to incentivize the behaviors we believe are most important. We are also announcing an ambitious goal to meaningfully reduce our GHG emissions intensity by 2025, building on the momentum we established in 2020. We believe oil and gas will be an essential contributor to the transition to a lower carbon future and it is imperative that the Company and our industry address the dual challenge of meeting the world's growing energy demand while also responding to the risk of climate change."

Governance and Executive Compensation

Marathon Oil is fully committed to best-in-class corporate governance as its foundation for executing its long-term strategy. The Company has modified its executive compensation framework to enhance executive alignment with shareholders, incentivize achievement of its core strategic objectives, and encourage the behaviors the Company believes are most likely to maximize long-term shareholder value.

More specifically, the Company is reducing annual Board compensation by 25% with the mix shifted more toward equity. The Company is also reducing CEO total direct compensation by 25%, including a

35% reduction to long-term incentive (LTI) awards. These changes are intended to better align CEO compensation quantum and mix with the broader industry and current business environment. Other senior officers will also participate in total compensation reductions and the Company's revised compensation program.

Marathon Oil's short-term incentive (STI) annual cash bonus scorecard has been restructured to better reflect the Company's financial and ESG framework. The scorecard has been simplified to prioritize performance in 5 areas deemed critical for long-term shareholder value creation: 1) safety (total recordable incident rate); 2) environmental (GHG emissions intensity); 3) capital efficiency (corporate free cash flow breakeven); 4) capital discipline/free cash flow (reinvestment rate), and5) financial/balance sheet strength (cash flow per debt adjusted share). All production and growth metrics have been eliminated from the Company's annual bonus scorecard.

Additionally, the Company has revised its LTI compensation framework, now focused on three vehicles, all of which are denominated in shares: restricted stock units (RSUs), relative total shareholder returns performance stock units (TSR PSUs), and free cash flow performance stock units (FCF PSUs). The revised framework is intended to mitigate an overreliance on relative TSR against direct E&P peers by introducing the S&P 500 and S&P Energy indices as peer comparators within the relative TSR calculation to promote improved performance vs. the broader market. Additionally, the introduction of FCF PSUs further diversifies the LTI performance metrics and underscores the Company's priority to generate sustainable free cash flow.

As announced previously, in January, the Company appointed Brent Smolik, formerly of Noble Energy Corporation, to its Board of Directors. Over half of the Company's directors have now been appointed to their positions since 2018, with average director tenure less than five years, well below the S&P 500 average for 2020. Eight of nine directors are independent and all committees are made up of entirely NYSE independent directors. In addition to strong refreshment and independence, the Board of Directors includes a diversity of perspectives. Two of nine directors, including the chairs of the Audit and Finance and Health, Environmental, Safety, and Corporate Responsibility (HESCR) Committees, are female. Two of nine directors self-identify as an ethnicity other than Caucasian/White.

Environmental

Reducing greenhouse gas (GHG) emissions intensity is central to Marathon Oil's strategic goals of minimizing its environmental impact, addressing the risks of climate change, and delivering strong long-term financial performance.

During 2020, the Company made significant progress in improving its environmental performance, achieving an estimated 20% reduction to its GHG emissions intensity relative to 2019 and improving total Company gas capture to approximately 98.5% for fourth quarter 2020.

For 2021, the Company has established a quantitative GHG intensity target, representing a reduction of more than 30% relative to 2019, which has been added to the Company's executive compensation STI scorecard. Further, Marathon Oil has disclosed a new medium-term goal highlighting the Company's commitment to significant ongoing improvement to its environmental performance. By 2025, the Company's goal is to reduce its GHG intensity by more than 50% relative to 2019. The Company has already identified concrete steps to assist in achieving this improvement, including but not limited to continued replacement of pneumatic controllers with lower emitting technology, connecting additional sites to utility power, and investing in soil carbon sequestration to offset emissions.

Safety

Marathon Oil views safety as a core value and a key component of its ESG performance, as keeping its workforce safe, both employees and contractors, is and always will be a top priority. Importantly, 2020 represented the Company's second consecutive year of record safety performance, as measured by TRIR. As noted above, peer leading safety performance will remain a component of the Company's executive compensation scorecard.

Methodology and definitions for GHG emissions and safety performance are based on information from the Company's 2019 MRO Sustainability Report that can be found on the Company's website. The Company reports direct (Scope 1) and indirect (Scope 2) GHG emissions, with emissions intensity measured by metric tonnes carbon dioxide equivalent (CO_2e) emissions per thousand barrels of oil equivalent of hydrocarbons produced from Marathon Oil-operated facilities.

Footnotes:

[1]: Exclusive of temporary reductions announced in 2020

[2]: Preliminary estimate subject to final calculation

Forward-looking Statements
This release contains 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. All statements, other than statements of historical fact, including without limitation statements regarding the Company's future capital budgets and allocations, GHG emissions reduction initiatives, targets or goals, future performance, business strategy and other plans and objectives for future operations, are forward-looking statements. Words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "future," "goal," "guidance," "intend," "may," "outlook," "plan," "positioned," "project," "seek," "should," "target," "will," "would," or similar words may be used to identify forward-looking statements; however, the absence of these words does not mean that the statements are not forward-looking. While the Company believes its assumptions concerning future events are reasonable, a number of factors could cause actual results to differ materially from those projected, including, but not limited to: conditions in the oil and gas industry, including supply/demand levels for crude oil and condensate, NGLs and natural gas and the resulting impact on price; changes in expected reserve or production levels; changes in political or economic conditions in the U.S. and Equatorial Guinea, including changes in foreign currency exchange rates, interest rates, inflation rates; actions taken by the members of the Organization of the Petroleum Exporting Countries (OPEC) and Russia affecting the production and pricing of crude oil; and other global and domestic political, economic or diplomatic developments; capital available for exploration and development; risks related to the Company's hedging activities; voluntary or involuntary curtailments, delays or cancellations of certain drilling activities; well production timing; liability resulting from litigation; drilling and operating risks; lack of, or disruption in, access to storage capacity, pipelines or other transportation methods; availability of drilling rigs, materials and labor, including the costs associated therewith; difficulty in obtaining necessary approvals and permits; non-performance by third parties of contractual obligations; unforeseen hazards such as weather conditions, a health pandemic (including COVID-19), acts of war or terrorist acts and the government or military response thereto; cyber-attacks; changes in safety, health, environmental, tax and other regulations, requirements or initiatives, including initiatives addressing the impact of global climate change, air emissions, or water management; other geological, operating and economic considerations; and the risk factors, forward-looking statements and challenges and uncertainties described in the Company's 2019 Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other public filings and press releases, available at https://ir.marathonoil.com/. Except as required by law, the Company undertakes no obligation to revise or update any forward-looking statements as a result of new information, future events or otherwise.

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