MURPHY OIL CORP /DE
Form 10-Q
May 07, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______to ______

Commission File Number 1-8590

MURPHY OIL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**71-0361522**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
200 Peach Street P.O. Box 7000, El Dorado, Arkansas	**71731-7000**
(Address of principal executive offices)	**(Zip Code)**

(870) 862-6411

(Registrant s telephone number, including area code)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ 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). þ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange act.

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 Exchange Act).

¨ Yes þ No

Number of shares of Common Stock, $1.00 par value, outstanding at March 31, 2012 was **194,167,569.**

Table of Contents

MURPHY OIL CORPORATION

TABLE OF CONTENTS

	Page
Part I Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Income	3
Consolidated Statements of Comprehensive Income	4
Consolidated Statements of Cash Flows	5
Consolidated Statements of Stockholders Equity	6
Notes to Consolidated Financial Statements	7
Item 2. Management s Discussion and Analysis of Results of Operations and Financial Condition	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk	27
Item 4. Controls and Procedures	27
Part II Other Information	
Item 1. Legal Proceedings	28
Item 1A. Risk Factors	28
Item 6. Exhibits	28
Signature	29

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

(Thousands of dollars)

	(Unaudited) March 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 936,649	513,873
Canadian government securities with maturities greater than 90 days at the date of acquisition	494,352	532,093
Accounts receivable, less allowance for doubtful accounts of $7,813 in 2012 and $7,892 in 2011	1,485,059	1,554,184
Inventories, at lower of cost or market		
Crude oil	243,600	189,320
Finished products	190,149	254,880
Materials and supplies	227,927	222,438
Prepaid expenses	144,905	93,397
Deferred income taxes	81,962	87,486
Total current assets	3,804,603	3,447,671
Property, plant and equipment, at cost less accumulated depreciation, depletion and amortization of $7,267,611 in 2012 and $6,861,494 in 2011	10,922,959	10,475,149
Goodwill	42,820	41,863
Deferred charges and other assets	166,566	173,455
Total assets	$ 14,936,948	14,138,138
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 350,034	350,005
Accounts payable and accrued liabilities	2,650,907	2,273,139
Income taxes payable	244,948	201,784
Total current liabilities	3,245,889	2,824,928
Long-term debt	249,565	249,553
Deferred income taxes	1,282,338	1,230,111
Asset retirement obligations	613,538	615,545
Deferred credits and other liabilities	426,535	439,604
Stockholders equity		
Cumulative Preferred Stock, par $100, authorized 400,000 shares, none issued	0	0
Common Stock, par $1.00, authorized 450,000,000 shares, issued 194,345,426 shares in 2012 and 193,909,200 shares in 2011	194,345	193,909
Capital in excess of par value	833,381	817,974
Retained earnings	7,697,630	7,460,942
Accumulated other comprehensive income	398,363	310,420
Treasury stock, 177,857 shares of Common Stock in 2012 and 185,992 shares of Common Stock in 2011, at cost	(4,636)	(4,848)

Total stockholders equity	9,119,083	8,778,397
Total liabilities and stockholders equity	$ 14,936,948	14,138,138

See Notes to Consolidated Financial Statements, page 7.

The Exhibit Index is on page 30.

Table of Contents

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(Thousands of dollars, except per share amounts)

	Three Months Ended March 31, 2012	2011*
REVENUES		
Sales and other operating revenues	$ 6,991,356	6,266,009
Gain on sale of assets	90	53
Interest and other income	3,073	5,611
Total revenues	6,994,519	6,271,673
COSTS AND EXPENSES		
Crude oil and product purchases	5,514,379	4,956,376
Operating expenses	493,861	464,760
Exploration expenses, including undeveloped lease amortization	53,015	96,274
Selling and general expenses	89,187	69,661
Depreciation, depletion and amortization	340,374	263,747
Accretion of asset retirement obligations	9,778	9,487
Redetermination of Terra Nova working interest	0	(5,351)
Interest expense	11,739	11,719
Interest capitalized	(6,423)	(6,433)
Total costs and expenses	6,505,910	5,860,240
Income from continuing operations before income taxes	488,609	411,433
Income tax expense	198,538	172,991
Income from continuing operations	290,071	238,442
Income from discontinued operations, net of taxes	0	30,461
NET INCOME	$ 290,071	268,903
NET INCOME PER COMMON BASIC		
Income from continuing operations	$ 1.50	1.23
Income from discontinued operations	0.00	0.16
Net income	$ 1.50	1.39
NET INCOME PER COMMON DILUTED		
Income from continuing operations	$ 1.49	1.22
Income from discontinued operations	0.00	0.16
Net income	$ 1.49	1.38
Average Common shares outstanding		
Basic	193,922,260	193,092,509

Diluted	194,884,733	194,597,368

* Reclassified to conform to current presentation.
See Notes to Consolidated Financial Statements, page 7.

3

Table of Contents

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(Thousands of dollars)

	Three Months Ended March 31,	
	2012	2011
Net income	$ 290,071	268,903
Other comprehensive income, net of income taxes		
Net gain from foreign currency translation	82,252	99,654
Retirement and postretirement benefit plan amounts reclassified to net income	2,708	2,157
Reduction of deferred loss on interest rate hedges	2,983	0
COMPREHENSIVE INCOME	$ 378,014	370,714

See Notes to Consolidated Financial Statements, page 7.

4

Table of Contents

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Thousands of dollars)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011[1]
OPERATING ACTIVITIES		
Net income	$ 290,071	268,903
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	0	(30,461)
Depreciation, depletion and amortization	340,374	263,747
Amortization of deferred major repair costs	5,911	5,683
Expenditures for asset retirements	(6,957)	(6,479)
Dry hole costs	620	35,804
Amortization of undeveloped leases	28,632	29,387
Accretion of asset retirement obligations	9,778	9,487
Deferred and noncurrent income tax charges	7,510	813
Pretax gain from disposition of assets	(90)	(53)
Net decrease (increase) in noncash operating working capital	298,334	(140,422)
Other operating activities, net	16,823	38,554
Net cash provided by continuing operations	991,006	474,963
Net cash provided by discontinued operations	0	47,937
Net cash provided by operating activities	991,006	522,900
INVESTING ACTIVITIES		
Property additions and dry hole costs	(567,264)	(508,880)
Proceeds from sale of assets	123	76
Purchases of investment securities[2]	(469,564)	(428,253)
Proceeds from maturity of investment securities[2]	507,305	587,795
Expenditures for major repairs	0	(32)
Investing activities of discontinued operations	0	(15,471)
Other net	3,889	2,230
Net cash required by investing activities	(525,511)	(362,535)
FINANCING ACTIVITIES		
Borrowing (repayment) of notes payable	(11)	34,990
Proceeds from exercise of stock options and employee stock purchase plans	6,599	6,816
Excess tax benefits related to exercise of stock options	1,037	4,253
Withholding tax on stock-based incentive awards	(5,501)	(8,014)
Cash dividends paid	(53,383)	(53,104)
Net cash required by financing activities	(51,259)	(15,059)
Effect of exchange rate changes on cash and cash equivalents	8,540	8,288
Net increase in cash and cash equivalents	422,776	153,594
Cash and cash equivalents at January 1	513,873	535,825

Cash and cash equivalents at March 31	$ 936,649	689,419

[1] Reclassified to conform to current presentation.
[2] Investments are Canadian government securities with maturities greater than 90 days at the date of acquisition.
See Notes to Consolidated Financial Statements, page 7.

Table of Contents

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (unaudited)

(Thousands of dollars)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cumulative Preferred Stock par $100, authorized 400,000 shares, none issued	0	0
Common Stock par $1.00, authorized 450,000,000 shares, issued 194,345,426 shares at March 31, 2012 and 193,636,851 shares at March 31, 2011		
Balance at beginning of period	$ 193,909	193,294
Exercise of stock options	212	343
Awarded restricted stock	224	0
Balance at end of period	194,345	193,637
Capital in Excess of Par Value		
Balance at beginning of period	817,974	767,762
Exercise of stock options, including income tax benefits	7,976	11,910
Restricted stock transactions and other	(5,501)	(15,119)
Stock-based compensation	12,932	10,137
Sale of stock under employee stock purchase plans	0	367
Balance at end of period	833,381	775,057
Retained Earnings		
Balance at beginning of period	7,460,942	6,800,992
Net income for the period	290,071	268,903
Cash dividends	(53,383)	(53,104)
Balance at end of period	7,697,630	7,016,791
Accumulated Other Comprehensive Income		
Balance at beginning of period	310,420	449,428
Foreign currency translation gains, net of income taxes	82,252	99,654
Retirement and postretirement benefit plan adjustments, net of income taxes	2,708	2,157
Reduction of deferred loss on interest rate hedges, net of income taxes	2,983	0
Balance at end of period	398,363	551,239
Treasury Stock		
Balance at beginning of period	(4,848)	(11,926)
Sale of stock under employee stock purchase plans	212	231
Awarded restricted stock	0	6,208
Balance at end of period	(4,636)	(5,487)

Total Stockholders Equity	$ 9,119,083	8,531,237

See notes to consolidated financial statements, page 7

6

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These notes are an integral part of the financial statements of Murphy Oil Corporation and Consolidated Subsidiaries (Murphy/the Company) on pages 2 through 6 of this Form 10-Q report.

Note A Interim Financial Statements

The consolidated financial statements of the Company presented herein have not been audited by independent auditors, except for the Consolidated Balance Sheet at December 31, 2011. In the opinion of Murphy s management, the unaudited financial statements presented herein include all accruals necessary to present fairly the Company s financial position at March 31, 2012, and the results of operations, cash flows and changes in stockholders equity for the interim periods ended March 31, 2012 and 2011, in conformity with accounting principles generally accepted in the United States. In preparing the financial statements of the Company in conformity with accounting principles generally accepted in the United States, management has made a number of estimates and assumptions related to the reporting of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from the estimates.

Financial statements and notes to consolidated financial statements included in this Form 10-Q report should be read in conjunction with the Company s 2011 Form 10-K and Form 10-K/A reports, as certain notes and other pertinent information have been abbreviated or omitted in this report. Financial results for the three-month period ended March 31, 2012 are not necessarily indicative of future results.

Note B Property, Plant and Equipment

Under U.S. generally accepted accounting principles for companies that use the successful efforts method of accounting, exploratory well costs should continue to be capitalized when the well has found a sufficient quantity of reserves to justify its completion as a producing well and the company is making sufficient progress assessing the reserves and the economic and operating viability of the project.

At March 31, 2012, the Company had total capitalized exploratory well costs pending the determination of proved reserves of $563.5 million. The following table reflects the net changes in capitalized exploratory well costs during the three-month periods ended March 31, 2012 and 2011.

(Thousands of dollars)	2012	2011
Beginning balance at January 1	$ 556,412	497,765
Additions pending the determination of proved reserves	49,524	2,920
Reclassifications to proved properties based on the determination of proved reserves	(42,431)	0
Balance at March 31	$ 563,505	500,685

The following table provides an aging of capitalized exploratory well costs based on the date the drilling was completed for each individual well and the number of projects for which exploratory well costs have been capitalized. The projects are aged based on the last well drilled in the project.

	March 31					
	2012			2011		
(Thousands of dollars)	Amount	No. of Wells	No. of Projects	Amount	No. of Wells	No. of Projects
Aging of capitalized well costs:						
Zero to one year	$ 109,907	29	5	132,540	17	4
One to two years	141,441	16	4	119,789	12	4
Two to three years	55,922	9	2	33,289	4	2
Three years or more	256,235	35	5	215,067	32	5

$ 563,505	89	16	500,685	65	15

Of the $453.6 million of exploratory well costs capitalized more than one year at March 31, 2012, $264.3 million is in Malaysia, $134.6 million is in the U.S., $29.3 million is in Republic of the Congo, and $25.4 million is in Canada. In Malaysia either further appraisal or development drilling is planned and/or development studies/plans are in various stages of completion. In the U.S. drilling and development operations are planned. In Republic of the Congo further appraisal drilling is planned. In Canada a drilling and development program continues.

7

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note C Inventories

Inventories are carried at the lower of cost or market. The cost of crude oil and finished products is predominantly determined on the last-in, first-out (LIFO) method. At March 31, 2012 and December 31, 2011, the carrying values of inventories under the LIFO method were $713.1 million and $580.2 million, respectively, less than such inventories would have been valued using the first-in, first-out (FIFO) method.

Note D Discontinued Operations

In 2010, the Company announced that its Board of Directors had approved plans to exit the U.S. refining and U.K. refining and marketing businesses. On September 30, 2011, the Company sold the Superior, Wisconsin refinery and related assets for $214 million, plus certain capital expenditures between July 25 and the date of closing and the fair value of all associated hydrocarbon inventories at these locations. On October 1, 2011, the Company sold the Meraux, Louisiana refinery and related assets for $325 million, plus the fair value of associated hydrocarbon inventories. The Company has accounted for operating results of the Superior, Wisconsin and Meraux, Louisiana refineries and associated marketing assets as discontinued operations, and all prior periods presented have been reclassified to conform to this presentation. The cash proceeds from these refinery sales were used to pay down outstanding loans under existing revolving credit facilities in 2011.

The results of operations associated with these discontinued operations for the three-month period ended March 31, 2011 were as follows:

(Thousands of dollars)	2011
Revenues	$ 1,079,994
Income before income taxes	48,931
Income tax expense	18,470

The Company continues to offer for sale its U.K. refinery at Milford Haven, Wales and all U.K. product terminals and motor fuel stations. Based on current market conditions, it is possible that the Company could incur a loss on future sales of the U.K. downstream assets. Through March 31, 2012, the Company has accounted for U.K. downstream results as a component of continuing operations. If the sale of the U.K. assets continues to progress, the Company expects that the results of these operations to be sold will be presented as discontinued operations in future periods when the criteria for held for sale under U.S. generally accepted accounting principles have been met.

Note E Financing Arrangements

The Company has a $1.5 billion committed credit facility that expires in June 2016. Borrowings under the facility bear interest at 1.5% above LIBOR based on the Company s current credit rating as of March 31, 2012. Facility fees are due at varying rates on the commitment. The Company also has a shelf registration statement on file with the U.S. Securities and Exchange Commission that permits the offer and sale of debt and/or equity securities through September 2012.

Ten year notes totaling $350 million, which matured on May 1, 2012, have been classified as Current maturities of long-term debt as of March 31, 2012. The notes were repaid using $350 million of borrowings from other existing credit facilities. The Company anticipates selling approximately $500 million of new ten-year notes during the second quarter 2012. If successful with this sale offering, the proceeds would be used to repay the borrowings incurred on May 1 under other credit facilities and for general corporate purposes.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note F Cash Flow Disclosures

Additional disclosures regarding cash flow activities are provided below.

(Thousands of dollars)	Three Months Ended March 31, 2012	2011
Net (increase) decrease in operating working capital other than cash and cash equivalents:		
(Increase) decrease in accounts receivable	$ 69,126	(391,217)
(Increase) decrease in inventories	4,962	12,032
(Increase) decrease in prepaid expenses	(51,508)	(2,146)
(Increase) decrease in deferred income tax assets	5,522	4,586
Increase (decrease) in accounts payable and accrued liabilities	227,067	236,926
Increase (decrease) in current income tax liabilities	43,165	(603)
Total	$ 298,334	(140,422)
Supplementary disclosures:		
Cash income taxes paid	$ 160,210	147,547
Interest paid more (less) than amounts capitalized	490	(4,921)

Note G Employee and Retiree Benefit Plans

The Company has defined benefit pension plans that are principally noncontributory and cover most full-time employees. All pension plans are funded except for the U.S. and Canadian nonqualified supplemental plans and the U.S. directors plan. All U.S. tax qualified plans meet the funding requirements of federal laws and regulations. Contributions to foreign plans are based on local laws and tax regulations. The Company also sponsors health care and life insurance benefit plans, which are not funded, that cover most retired U.S. employees. The health care benefits are contributory; the life insurance benefits are noncontributory. In conjunction with the sale of the Superior, Wisconsin refinery in September 2011, the purchaser assumed the obligations associated with the defined benefit pension plan covering the refinery s union employees. In conjunction with the sale of the Meraux refinery in October 2011, all benefits associated with the defined pension and other postretirement benefit plans were frozen.

The table that follows provides the components of net periodic benefit expense for the three-month periods ended March 31, 2012 and 2011.

	Three Months Ended March 31,			
	Pension Benefits		Other Postretirement Benefits	
(Thousands of dollars)	2012	2011	2012	2011
Service cost	$ 5,888	5,896	1,041	1,224
Interest cost	7,292	7,993	1,449	1,647
Expected return on plan assets	(6,305)	(6,925)	0	0
Amortization of prior service cost	312	344	(46)	(64)
Amortization of transitional (asset) liability	111	(51)	2	2
Recognized actuarial net loss	3,767	2,576	489	753
Net periodic benefit expense	$ 11,065	9,833	2,935	3,562

During the three-month period ended March 31, 2012, the Company made contributions of $19.6 million to its defined benefit pension and postretirement benefit plans. Remaining funding in 2012 for the Company s defined benefit pension and postretirement plans is anticipated to be $25.8 million.

In March 2010, the United States Congress enacted a health care reform law. Along with other provisions, the law (a) eliminates the tax free status of federal subsidies to companies with qualified retiree prescription drug plans that are actuarially equivalent to Medicare Part D plans beginning in 2013; (b) imposes a 40% excise tax on high-cost health plans as defined in the law beginning in 2018; (c) eliminated lifetime or annual coverage limits and required coverage for preventative health services beginning in September 2010; and (d) imposed a fee of $2 (subsequently adjusted for inflation) for each person covered by a health insurance policy beginning in September 2010. The Company provides a health care benefit plan to eligible U.S. employees and most U.S. retired employees. The new law did not

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note G Employee and Retiree Benefit Plans *(Contd.)*

significantly affect the Company s consolidated financial statements as of March 31, 2012 and 2011 and for the three-month periods then ended. The Company continues to evaluate the various components of the law as further guidance is issued and cannot predict with certainty all the ways it may impact the Company. However, based on the evaluation performed to date, the Company currently believes that the health care reform law will not have a material effect on its financial condition, net income or cash flow in future periods.

Note H Incentive Plans

The costs resulting from all share-based payment transactions are recognized in the Consolidated Statements of Income using a fair value-based measurement method over the periods that the awards vest.

The 2007 Annual Incentive Plan (2007 Annual Plan) authorizes the Executive Compensation Committee (the Committee) to establish specific performance goals associated with annual cash awards that may be earned by officers, executives and other key employees. Cash awards under the 2007 Annual Plan are determined based on the Company s actual financial and operating results as measured against the performance goals established by the Committee. The 2007 Long-Term Incentive Plan (2007 Long-Term Plan) authorizes the Committee to make grants of the Company s Common Stock to employees. These grants may be in the form of stock options (nonqualified or incentive), stock appreciation rights (SAR), restricted stock, restricted stock units, performance units, performance shares, dividend equivalents and other stock-based incentives. The 2007 Long-Term Plan expires in 2017. A total of 6,700,000 shares are issuable during the life of the 2007 Long-Term Plan, with annual grants limited to 1% of Common shares outstanding. The Company has an Employee Stock Purchase Plan that permits the issuance of up to 980,000 shares through September 30, 2017. The Company also has a Stock Plan for Non-Employee Directors that permits the issuance of restricted stock and stock options or a combination thereof to the Company s Directors. At the Company s annual stockholders meeting to be held on May 9, 2012, it is asking shareholders to approve replacement of the 2007 Annual Plan and the 2007 Long-Term Plan with the 2012 Annual Incentive Plan and 2012 Long-Term Incentive Plan, respectively. The new proposed plans can be found in the Company s Definitive proxy statement (Definitive 14A) dated March 29, 2012.

On January 31, 2012, the Committee granted stock options for 1,643,000 shares at an exercise price of $59.655 per share. The Black-Scholes valuation for these awards was $17.74 per option. The Committee also granted 653,356 performance-based restricted stock units on that date under the 2007 Long-Term Plan. The fair value of the performance-based restricted stock units, using a Monte Carlo valuation model, ranged from $54.90 to $63.64 per unit. On February 1, 2012, the Committee granted 40,260 shares of time-based restricted stock units to the Company s Directors under the Non-employee Director Plan. These shares vest on the third anniversary of the date of grant. The fair value of these awards was estimated based on the fair market value of the Company s stock on the date of grant, which was $59.33 per share.

Cash received from options exercised under all share-based payment arrangements for the three-month periods ended March 31, 2012 and 2011 was $6.6 million and $6.8 million, respectively. The actual income tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements totaled $2.0 million and $6.0 million for the three-month periods ended March 31, 2012 and 2011, respectively.

Amounts recognized in the Consolidated Statements of Income with respect to share-based plans are as follows:

	Three Months Ended March 31	
(Thousands of dollars)	2012	2011
Compensation charged against income before tax benefit	$ 13,042	10,226
Related income tax benefit recognized in income	3,978	2,989

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note I Earnings per Share

Net income was used as the numerator in computing both basic and diluted income per Common share for the three-months ended March 31, 2012 and 2011. The following table reconciles the weighted-average shares outstanding used for these computations.

	Three Months Ended March 31	
(Weighted-average shares)	2012	2011
Basic method	193,922,260	193,092,509
Dilutive stock options and restricted stock units	962,473	1,504,859
Diluted method	194,884,733	194,597,368

Certain options to purchase shares of common stock were outstanding during the 2012 and 2011 periods but were not included in the computation of diluted EPS because the incremental shares from assumed conversion were antidilutive. These included 2,834,487 shares at a weighted average share price of $66.51 in the 2012 period and 697,994 shares at a weighted average share price of $67.64 in the 2011 period.

Note J Income Taxes

The Company s effective income tax rate generally exceeds the U.S. Federal statutory tax rate of 35.0%. The effective tax rate is calculated as the amount of income tax expense divided by income before income tax expense. For the three-month periods in 2012 and 2011, the Company s effective income tax rates were as follows:

	2012	**2011**
Three months ended March 31	40.6%	42.0%

The effective tax rates for the periods presented exceeded the U.S. Federal tax rate of 35.0% due to several factors, including: the effects of income generated in foreign tax jurisdictions, certain of which have tax rates that are higher than the U.S. Federal rate; U.S. state tax expense; and certain expenses, including exploration and other expenses in certain foreign jurisdictions, for which no income tax benefits are available or are not presently being recorded due to a lack of reasonable certainty of adequate future revenue against which to utilize these expenses as deductions.

The Company s tax returns in multiple jurisdictions are subject to audit by taxing authorities. These audits often take years to complete and settle. Although the Company believes that recorded liabilities for unsettled issues are adequate, additional gains or losses could occur in future years from resolution of outstanding unsettled matters. As of March 31, 2012, the earliest years remaining open for audit and/or settlement in our major taxing jurisdictions are as follows: United States 2008; Canada 2007; United Kingdom 2010; and Malaysia 2006.

Note K Financial Instruments and Derivatives

Murphy periodically utilizes derivative instruments to manage certain risks related to commodity prices, foreign currency exchange rates and interest rates. The use of derivative instruments for risk management is covered by operating policies and is closely monitored by the Company s senior management. The Company does not hold any derivatives for speculative purposes, and it does not use derivatives with leveraged or complex features. Derivative instruments are traded primarily with creditworthy major financial institutions or over national exchanges. The Company has a risk management control system to monitor commodity price risks and any derivatives obtained to manage a portion of such risks. For accounting purposes, the Company has not designated commodity and foreign currency derivative contracts as hedges, and therefore, it recognizes all gains and losses on these derivative contracts in its Consolidated Statements of Income. Certain interest rate derivative contracts are accounted for as hedges and the gain or loss associated with recording the fair value of these contracts has been deferred in Accumulated Other Comprehensive Income until the anticipated transactions occur.

11

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note K Financial Instruments and Derivatives *(Contd.)*

Commodity Purchase Price Risks

The Company is subject to commodity price risk related to corn that it will purchase in the future for feedstock and to wet and dried distillers grain that it will sell in the future at its ethanol production facilities in the United States. At March 31, 2012 and 2011, the Company had open physical delivery fixed-price commitment contracts for purchase of approximately 11.7 million and 7.6 million bushels of corn, respectively, for processing at its ethanol plants. The Company also had outstanding derivative contracts to sell a similar volume of these fixed-price quantities and buy them back at future prices in effect on the expected date of delivery under the purchase commitment contracts. Also, at March 31, 2012, the Company had open physical delivery fixed-price commitment contracts for sale of approximately 0.9 million equivalent bushels of wet and dried distillers grain with outstanding derivative contracts to purchase a similar volume of these fixed-price quantities and sell them back at future prices in effect on the expected date of delivery under the sale commitment contracts. The impact of marking to market these commodity derivative contracts reduced income before taxes by $0.1 million in the three-month period ended March 31, 2012 and increased income before taxes by $1.8 million in the three-month period ended March 31, 2011.

Foreign Currency Exchange Risks

The Company is subject to foreign currency exchange risk associated with operations in countries outside the United States. Short-term derivative instruments were outstanding at March 31, 2012 and 2011 to manage the risk of certain future income taxes that are payable in Malaysian ringgits. The equivalent U.S. dollars of Malaysian ringgit derivative contracts open at March 31, 2012 and 2011 were approximately $373.6 million and $405.0 million, respectively. Short-term derivative instrument contracts totaling $46.0 million and $27.0 million U.S. dollars were also outstanding at March 31, 2012 and 2011, respectively, to manage the risk of certain U.S. dollar accounts receivable associated with sale of crude oil production in Canada. The impact from marking to market these foreign currency derivative contracts increased income before taxes by $6.6 million and $12.4 million for the three-month periods ended March 31, 2012 and 2011, respectively.

At March 31, 2012 and December 31, 2011, the fair value of derivative instruments not designated as hedging instruments are presented in the following table.

(Thousands of dollars)	March 31, 2012 Asset (Liability) Derivatives		December 31, 2011 Asset (Liability) Derivatives	
Type of Derivative Contract	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity	Accounts receivable	$ 219	Accounts receivable	$ 197
Commodity	Accounts payable	(286)	Accounts payable	(489)
Foreign currency	Accounts receivable	6,550	Accounts payable	(8,459)

For the three-month periods ended March 31, 2012 and 2011, the gains and losses recognized in the consolidated statements of income for derivative instruments not designated as hedging instruments are presented in the following table.

(Thousands of dollars)	Statement of Income	Gain (Loss) Three Months Ended March 31,	
Type of Derivative Contract	Location	2012	2011
Commodity	Crude oil and product purchases	$ 645	(14,433)
Foreign currency	Interest and other income	17,515	9,527
		$ 18,160	(4,906)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note K Financial Instruments and Derivatives *(Contd.)*

Interest Rate Risks

The Company has ten-year notes totaling $350 million that matured on May 1, 2012. The Company currently anticipates replacing these notes soon after maturity with new ten-year notes, and it therefore has risk related to the interest rate associated with the anticipated sale of these notes in the second quarter of 2012. To manage this risk, in 2011 the Company entered into a series of derivative contracts known as forward starting interest rate swaps that mature in May 2012. The Company utilizes hedge accounting to defer any gain or loss on these contracts until the payment of interest on these anticipated notes occurs. There was no impact in the 2012 and 2011 Consolidated Statements of Income associated with accounting for these interest rate derivative contracts.

At March 31, 2012 and December 31, 2011, the fair value of these interest rate derivative contracts, which have been designated as hedging instruments for accounting purposes, are presented in the following table.

(Thousands of dollars)	March 31, 2012 Asset (Liability) Derivatives		December 31, 2011 Asset (Liability) Derivatives	
Type of Derivative Contract	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate	Accounts Payable	$ (21,337)	Accounts Payable	$ (25,927)

The Company carries certain assets and liabilities at fair value in its Consolidated Balance Sheets. The fair value hierarchy is based on the quality of inputs used to measure fair value, with Level 1 being the highest quality and Level 3 being the lowest quality. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1. Level 3 inputs are unobservable inputs which reflect assumptions about pricing by market participants.

The carrying value of assets and liabilities recorded at fair value on a recurring basis at March 31, 2012 and December 31, 2011 are presented in the following table.

	March 31, 2012				December 31, 2011			
(Thousands of dollars)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Foreign currency exchange derivative contracts	$ 0	6,550	0	6,550	0	0	0	0
Commodity derivative contracts	0	219	0	219	0	197	0	197
	$ 0	6,769	0	6,769	0	197	0	197
Liabilities								
Nonqualified employee savings plans	$ (8,803)	0	0	(8,803)	(8,030)	0	0	(8,030)
Foreign currency exchange derivative contracts	0	0	0	0	0	(8,459)	0	(8,459)
Commodity derivative contracts	0	(286)	0	(286)	0	(489)	0	(489)
Interest rate derivative contracts	0	(21,337)	0	(21,337)	0	(25,927)	0	(25,927)
	$ (8,803)	(21,623)	0	(30,426)	(8,030)	(34,875)	0	(42,905)

The fair value of commodity derivative contracts for corn and wet and dried distillers grain was determined based on market quotes for No. 2 yellow corn. The fair value of foreign exchange and interest rate derivative contracts was based on market quotes for similar contracts at the balance sheet date. The income effect of changes in fair value of commodity derivative contracts is recorded in Crude Oil and Product Purchases in the Consolidated Statements of Income and changes in fair value of foreign exchange derivative contracts is recorded in Interest and Other Income. There was no income effect for the change in fair value of interest rate derivative contracts. The nonqualified employee savings plan is an unfunded savings plan through which participants seek a return via phantom investments in equity securities and/or mutual funds. The fair value of this liability was based on quoted prices for these equity securities and mutual funds. The income effect of changes in the fair value of the nonqualified employee savings plan is recorded in Selling and General Expenses.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note L Accumulated Other Comprehensive Income

The components of Accumulated Other Comprehensive Income on the Consolidated Balance Sheets at March 31, 2012 and December 31, 2011 are presented net of taxes in the following table.

(Thousands of dollars)	March 31, 2012	Dec. 31, 2011
Foreign currency translation gains, net of tax	$ 578,413	496,161
Retirement and postretirement benefit plan losses, net of tax	(166,181)	(168,889)
Loss deferred for fair value of interest rate derivative contracts, net of tax	(13,869)	(16,852)
Accumulated other comprehensive income	$ 398,363	310,420

Note M Environmental and Other Contingencies

The Company s operations and earnings have been and may be affected by various forms of governmental action both in the United States and throughout the world. Examples of such governmental action include, but are by no means limited to: tax increases and retroactive tax claims; royalty and revenue sharing increases; import and export controls; price controls; currency controls; allocation of supplies of crude oil and petroleum products and other goods; expropriation of property; restrictions and preferences affecting the issuance of oil and gas or mineral leases; restrictions on drilling and/or production; laws and regulations intended for the promotion of safety and the protection and/or remediation of the environment; governmental support for other forms of energy; and laws and regulations affecting the Company s relationships with employees, suppliers, customers, stockholders and others. Because governmental actions are often motivated by political considerations and may be taken without full consideration of their consequences, and may be taken in response to actions of other governments, it is not practical to attempt to predict the likelihood of such actions, the form the actions may take or the effect such actions may have on the Company.

Murphy and other companies in the oil and gas industry are subject to numerous federal, state, local and foreign laws and regulations dealing with the environment. Violation of federal or state environmental laws, regulations and permits can result in the imposition of significant civil and criminal penalties, injunctions and construction bans or delays. A discharge of hazardous substances into the environment could, to the extent such event is not insured, subject the Company to substantial expense, including both the cost to comply with applicable regulations and claims by neighboring landowners and other third parties for any personal injury and property damage that might result.

The Company currently owns or leases, and has in the past owned or leased, properties at which hazardous substances have been or are being handled. Although the Company has used operating and disposal practices that were standard in the industry at the time, hazardous substances may have been disposed of or released on or under the properties owned or leased by the Company or on or under other locations where these wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes were not under Murphy s control. Under existing laws the Company could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater) or to perform remedial plugging operations to prevent future contamination. Certain of these historical properties are in various stages of negotiation, investigation, and/or cleanup and the Company is investigating the extent of any such liability and the availability of applicable defenses. With the sale of the U.S. refineries in 2011, the Company retained certain liabilities related to environmental matters. The Company also has insurance covering certain levels of environmental exposures. The Company believes costs related to these sites will not have a material adverse affect on Murphy s net income, financial condition or liquidity in a future period.

The U.S. Environmental Protection Agency (EPA) currently considers the Company to be a Potentially Responsible Party (PRP) at one Superfund site. The potential total cost to all parties to perform necessary remedial work at the one remaining Superfund site may be substantial. However, based on current negotiations and available information, the Company believes that it is a de minimis party as to ultimate responsibility at this Superfund site. The Company has not recorded a liability for remedial costs on Superfund sites. The Company could be required to bear a pro rata share of costs attributable to nonparticipating PRPs or could be assigned additional responsibility for remediation at the site or other Superfund sites. The Company believes that its share of the ultimate costs to clean-up the Superfund site will be immaterial and will not have a material adverse effect on its net income, financial condition or liquidity in a future period.

14

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note M Environmental and Other Contingencies ***(Contd.)***

There is the possibility that environmental expenditures could be required at currently unidentified sites, and new or revised regulations could require additional expenditures at known sites. However, based on information currently available to the Company, the amount of future remediation costs incurred at known or currently unidentified sites is not expected to have a material adverse effect on the Company s future net income, cash flows or liquidity.

Murphy and its subsidiaries are engaged in a number of other legal proceedings, all of which Murphy considers routine and incidental to its business. Based on information currently available to the Company, the ultimate resolution of these matters is not expected to have a material adverse effect on the Company s net income, financial condition or liquidity in a future period.

In the normal course of its business, the Company is required under certain contracts with various governmental authorities and others to provide financial guarantees or letters of credit that may be drawn upon if the Company fails to perform under those contracts. At March 31, 2012, the Company had contingent liabilities of $324.3 million on outstanding letters of credit. The Company has not accrued a liability in its balance sheet related to these letters of credit because it is believed that the likelihood of having these drawn is remote.

Note N Commitments

The Company has entered into forward sales contracts to mitigate the price risk for a portion of its 2012 natural gas sales volumes in the Tupper area in Western Canada. The contracts call for natural gas deliveries of approximately 50 million cubic feet per day in 2012 at an average price of Cdn$4.43 per MCF, with the contracts calling for delivery at the AECO C sales point. These contracts have been accounted for as a normal sale for accounting purposes.

Note O Terra Nova Working Interest Redetermination

The joint agreement between the owners of the Terra Nova field, offshore Eastern Canada, required a redetermination of working interests based on an analysis of reservoir quality among fault separated areas where varying ownership interests existed. Due to the redetermination process, the Company s working interest at Terra Nova was reduced from its original 12.0% to 10.475% effective January 1, 2011. The Company made a cash settlement payment in the first quarter 2011 to certain Terra Nova partners for the value of oil sold since February 2005, net of adjustments for operating expenses and capital expenditures, related to the working interest reduction. The Company had recorded cumulative expense of $102.1 million through 2010 based on the working interest reduction. Based on the final settlement paid in 2011, the Company recorded a $5.4 million benefit in the first quarter of 2011 due to the ultimate cost of the redetermination settlement being less than originally estimated. The benefit has been reflected as Redetermination of Terra Nova Working Interest in the Consolidated Statement of Income for the three-month period ended March 31, 2011.

Note P Accounting Matters

In September 2011, the Financial Accounting Standards Board (FASB) issued an accounting standards update that simplifies the annual goodwill impairment assessment process by permitting a company to assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the two-step goodwill impairment test. If a company concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the company would be required to conduct the current two-step goodwill impairment test. This change was effective for the Company for annual and interim goodwill impairment tests performed in 2012. The Company adopted the standard effective January 1, 2012 and the standard did not have a significant effect on its 2012 consolidated financial statements.

In June 2011, the FASB issued an accounting standards update that only permits two options for presentation of comprehensive income. Comprehensive income can be presented in (a) a single continuous Statement of comprehensive income, including total comprehensive income, the components of net income, and the components of other comprehensive income, or (b) in two separate but continuous statements for the Statement of Income and the Statement of Comprehensive Income. The new guidance was effective for the Company beginning in the first quarter of 2012. The Company adopted this guidance in 2012 and it continues to present comprehensive income in a

15

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note P Accounting Matters ***(Contd.)***

separate statement following the statement of income. The adoption of this standard did not have a significant effect on the Company s consolidated financial statements. In December 2011, the FASB deferred the requirement for reclassification adjustments from accumulated other comprehensive income to be measured and presented by line item in the Statement of Income.

In December 2011, the FASB issued an accounting standards update that will enhance disclosures about financial instruments and derivative instruments that are either offset in the balance sheet or are subject to an enforceable master netting arrangement or similar agreement. The guidance will be effective for all interim and annual periods beginning on or after January 1, 2013. The Company does not expect this new guidance to have a significant effect on its consolidated financial statements.

Note Q Business Segments

(Millions of dollars)	Total Assets at March 31, 2012	Three Mos. Ended March 31, 2012 External Revenues	Interseg. Revenues	Income (Loss)	Three Mos. Ended March 31, 2011 External Revenues	Interseg. Revenues	Income (Loss)
Exploration and production*							
United States	$ 2,090.0	221.1	0	50.8	168.2	0	16.5
Canada	3,865.3	307.0	0	73.3	246.1	40.2	86.4
Malaysia	3,935.2	563.9	0	224.0	517.5	0	195.8
United Kingdom	199.2	37.6	0	8.7	30.2	0	9.0
Republic of the Congo	233.8	57.6	0	1.6	34.6	0	3.6
Other	74.8	0	0	(36.8)	1.3	0	(50.9)
Total	10,398.3	1,187.2	0	321.6	997.9	40.2	260.4
Refining and marketing							
United States	1,841.0	4,264.2	0	(7.2)	3,963.1	0	9.0
United Kingdom	1,163.5	1,540.0	0	3.0	1,305.1	0	(8.7)
Total	3,004.5	5,804.2	0	(4.2)	5,268.2	0	0.3
Total operating segments	13,402.8	6,991.4	0	317.4	6,266.1	40.2	260.7
Corporate	1,534.1	3.1	0	(27.3)	5.6	0	(22.3)