MURPHY OIL CORP /DE
Form 10-Q
November 05, 2015

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 September 30, 2015

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	71730-7000
(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.
[X] 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).
[X] 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 [X] 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 [X] No
Number of shares of Common Stock, $1.00 par value, outstanding at September 30, 2015 was 172,024,733

MURPHY OIL CORPORATION

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS (unaudited)

(Thousands of dollars)

	September 30, 2015	December 31, 2014*
ASSETS		
Current assets		
Cash and cash equivalents	$ 878,667	1,193,308
Canadian government securities with maturities greater than 90 days at the date of acquisition	415,097	461,313
Accounts receivable, less allowance for doubtful accounts of $1,605 in 2015 and $1,609 in 2014	432,791	873,277
Inventories, at lower of cost or market		
Crude oil	53,170	51,757
Materials and supplies	127,426	190,976
Prepaid expenses	157,455	77,281
Deferred income taxes	48,781	55,107
Assets held for sale	52,416	376,130
Total current assets	2,165,803	3,279,149
Property, plant and equipment, at cost less accumulated depreciation, depletion and amortization of $11,617,367 in 2015 and $9,503,524 in 2014	10,168,750	13,331,047
Deferred charges and other assets	293,409	62,582
Assets held for sale	–	50,960
Total assets	$ 12,627,962	16,723,738
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 12,173	465,388
Accounts payable and accrued liabilities	1,621,415	2,471,897
Income taxes payable	7,588	59,054
Liabilities associated with assets held for sale	10,059	151,548
Total current liabilities	1,651,235	3,147,887
Long-term debt, including capital lease obligation	3,327,689	2,517,669
Deferred income taxes	306,379	1,193,864

Asset retirement obligations	885,984	841,526
Deferred credits and other liabilities	428,221	441,048
Liabilities associated with assets held for sale	–	8,310
Stockholders' equity		
Cumulative Preferred Stock, par $100, authorized 400,000 shares, none issued	–	–
Common Stock, par $1.00, authorized 450,000,000 shares, issued 195,055,724 shares in 2015 and 195,040,149 shares in 2014	195,056	195,040
Capital in excess of par value	902,241	906,741
Retained earnings	6,859,542	8,728,032
Accumulated other comprehensive loss	(621,759)	(170,255)
Treasury stock, 23,030,991 shares of Common Stock in 2015 and 17,540,636 shares of Common Stock in 2014, at cost	(1,306,626)	(1,086,124)
Total stockholders' equity	6,028,454	8,573,434
Total liabilities and stockholders' equity	$ 12,627,962	16,723,738

*Reclassified to conform to current presentation.

See Notes to Consolidated Financial Statements, page 7.

The Exhibit Index is on page 33.

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(Thousands of dollars, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
REVENUES				
Sales and other operating revenues	$ 665,589	1,431,007	2,133,360	4,070,120
Gain (loss) on sale of assets	60	(133)	154,183	(5,130)
Interest and other income	49,300	2,163	87,443	3,468
Total revenues	714,949	1,433,037	2,374,986	4,068,458
COSTS AND EXPENSES				
Lease operating expenses	183,826	265,518	643,736	813,638
Severance and ad valorem taxes	14,265	28,574	54,099	83,793
Exploration expenses, including undeveloped lease amortization	58,149	117,433	251,842	390,711
Selling and general expenses	71,791	82,960	237,934	269,986
Depreciation, depletion and amortization	433,706	499,151	1,318,123	1,354,393
Impairment of assets	2,300,974	–	2,300,974	–
Accretion of asset retirement obligations	11,918	12,600	35,437	36,992
Interest expense	32,009	34,970	91,945	101,625
Interest capitalized	(1,864)	(5,323)	(5,072)	(19,244)
Other expense	18,192	662	81,804	1,297
Total costs and expenses	3,122,966	1,036,545	5,010,822	3,033,191
Income (loss) from continuing operations before income taxes	(2,408,017)	396,492	(2,635,836)	1,035,267
Income tax expense (benefit)	(820,935)	125,435	(963,298)	452,255
Income (loss) from continuing operations	(1,587,082)	271,057	(1,672,538)	583,012
Loss from discontinued operations, net of taxes	(8,344)	(25,350)	(11,163)	(52,639)
NET INCOME (LOSS)	$ (1,595,426)	245,707	(1,683,701)	530,373
PER COMMON SHARE – BASIC				
Income (loss) from continuing operations	$ (9.22)	1.52	(9.55)	3.25
Loss from discontinued operations	(0.04)	(0.14)	(0.07)	(0.29)
Net income (loss)	$ (9.26)	1.38	(9.62)	2.96
PER COMMON SHARE – DILUTED				
Income (loss) from continuing operations	$ (9.22)	1.51	(9.55)	3.23
Loss from discontinued operations	(0.04)	(0.14)	(0.07)	(0.29)
Net income (loss)	$ (9.26)	1.37	(9.62)	2.94

Average Common shares outstanding				
Basic	172,205,433	177,535,503	175,047,295	179,259,573
Diluted	172,205,433	178,856,078	175,047,295	180,578,085

See Notes to Consolidated Financial Statements, page 7.

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

(Thousands of dollars)

	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Net income (loss)	$ (1,595,426)	245,707	(1,683,701)	530,373
Other comprehensive income (loss), net of tax				
Net loss from foreign currency translation	(195,440)	(192,329)	(462,054)	(195,374)
Retirement and postretirement benefit plans	3,116	1,505	9,105	3,996
Deferred loss on interest rate hedges reclassified to interest expense	482	484	1,445	1,450
Other comprehensive loss	(191,842)	(190,340)	(451,504)	(189,928)
COMPREHENSIVE INCOME (LOSS)	$ (1,787,268)	55,367	(2,135,205)	340,445

See Notes to Consolidated Financial Statements, page 7.

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Thousands of dollars)

	Nine Months Ended September 30,	
	2015	2014
OPERATING ACTIVITIES		
Net income (loss)	$ (1,683,701)	530,373
Adjustments to reconcile net income (loss) to net cash provided by continuing operations activities:		
Loss from discontinued operations	11,163	52,639
Depreciation, depletion and amortization	1,318,123	1,354,393
Impairment of assets	2,300,974	–
Amortization of deferred major repair costs	5,450	6,390
Dry hole costs	120,459	203,607
Amortization of undeveloped leases	62,331	55,745
Accretion of asset retirement obligations	35,437	36,992
Deferred and noncurrent income tax charges (benefits)	(975,120)	64,557
Pretax (gains) losses from disposition of assets	(154,183)	5,130
Net decrease in noncash operating working capital	97,026	6,940
Other operating activities, net	(41,431)	17,531
Net cash provided by continuing operations activities	1,096,528	2,334,297
INVESTING ACTIVITIES		
Property additions and dry hole costs	(1,975,069)	(2,806,705)
Proceeds from sales of property, plant and equipment	423,842	3,138
Purchase of investment securities*	(865,251)	(672,689)
Proceeds from maturity of investment securities*	852,394	587,341
Other investing activities, net	(19,538)	(19,233)
Net cash required by investing activities	(1,583,622)	(2,908,148)
FINANCING ACTIVITIES		
Borrowings of debt	885,000	1,050,000
Repayments of debt	(450,000)	–
Capital lease obligation payments	(7,156)	–
Purchase of treasury stock	(250,000)	(375,000)
Withholding tax on stock-based incentive awards	(8,976)	(6,786)
Cash dividends paid	(184,789)	(174,248)
Other financing activities, net	(153)	(1,384)
Net cash provided (required) by financing activities	(16,074)	492,582
CASH FLOWS FROM DISCONTINUED OPERATIONS		
Operating activities	(4,866)	(83,974)

Investing activities	5,343	(12,101)
Changes in cash included in current assets held for sale	179,774	103,694
Net increase in cash and cash equivalents of discontinued operations	180,251	7,619
Effect of exchange rate changes on cash and cash equivalents	8,276	(2,484)
Net decrease in cash and cash equivalents	(314,641)	(76,134)
Cash and cash equivalents at January 1	1,193,308	750,155
Cash and cash equivalents at September 30	$ 878,667	674,021

*Investments are Canadian government securities with maturities greater than 90 days at the date of acquisition.

See Notes to Consolidated Financial Statements, page 7.

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (unaudited)

(Thousands of dollars)

	Nine Months Ended September 30,	
	2015	2014
Cumulative Preferred Stock – par $100, authorized 400,000 shares, none issued	$ –	–
Common Stock – par $1.00, authorized 450,000,000 shares, issued 195,055,724 shares at September 30, 2015 and 195,036,689 shares at September 30, 2014		
Balance at beginning of period	195,040	194,920
Exercise of stock options	16	117
Balance at end of period	195,056	195,037
Capital in Excess of Par Value		
Balance at beginning of period	906,741	902,633
Exercise of stock options, including income tax benefits	(73)	(11,354)
Restricted stock transactions and other	(38,260)	(27,977)
Stock-based compensation	33,925	33,291
Other	(92)	(26)
Balance at end of period	902,241	896,567
Retained Earnings		
Balance at beginning of period	8,728,032	8,058,792
Net income (loss) for the period	(1,683,701)	530,373
Cash dividends	(184,789)	(174,248)
Balance at end of period	6,859,542	8,414,917
Accumulated Other Comprehensive Income (Loss)		
Balance at beginning of period	(170,255)	172,119
Foreign currency translation loss, net of income taxes	(462,054)	(195,374)
Retirement and postretirement benefit plans, net of income taxes	9,105	3,996
Deferred loss on interest rate hedges reclassified to interest expense, net of income taxes	1,445	1,450
Balance at end of period	(621,759)	(17,809)
Treasury Stock		
Balance at beginning of period	(1,086,124)	(732,734)

Purchase of treasury shares	(250,000)	(375,000)
Sale of stock under employee stock purchase plans	322	345
Awarded restricted stock, net of forfeitures	29,176	21,185
Balance at end of period	(1,306,626)	(1,086,204)
Total Stockholders' Equity	$ 6,028,454	8,402,508

See Notes to Consolidated Financial Statements, page 7.

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 – Nature of Business and Interim Financial Statements

NATURE OF BUSINESS – Murphy Oil Corporation is an international oil and gas company that conducts its business through various operating subsidiaries. The Company produces oil and natural gas in the United States, Canada and Malaysia and conducts oil and natural gas exploration activities worldwide. The Company has an interest in a Canadian synthetic oil operation.

INTERIM FINANCIAL STATEMENTS – 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 September 30, 2015 and December 31, 2014, and the results of operations, cash flows and changes in stockholders' equity for the interim periods ended September 30, 2015 and 2014, in conformity with accounting principles generally accepted in the United States of America (U.S.). In preparing the financial statements of the Company in conformity with accounting principles generally accepted in the U.S., 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 2014 Form 10-K report, as certain notes and other pertinent information have been abbreviated or omitted in this report. Financial results for the nine-month period ended September 30, 2015 are not necessarily indicative of future results.

Note B – Property, Plant and Equipment

During the third quarter 2015, declines in future oil and gas prices provided indications of possible impairments in certain of the Company's producing properties. As a result of management's assessments, during the third quarter of 2015, the Company recognized a pretax noncash impairment charge of approximately $2,301.0 million to reduce the carrying value of certain producing properties in the Gulf of Mexico, Western Canada and Malaysia to their estimated fair value. The fair values were determined by internal discounted cash flow models using estimates of future production, prices from futures exchanges, costs, and a discount rate believed to be consistent with those used by principal market participants in the applicable region. The following table reflects the recognized impairments for the three-month and nine-month periods of 2015.

	Three Months and Nine Months Ended September 30, 2015	
(Thousands of dollars)	Impairment Expense	Net of Taxes
Gulf of Mexico	$ 144,800	94,120
Western Canada – Heavy Oil	683,574	495,591
Malaysia	1,472,600	946,773
	$ 2,300,974	1,536,484

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 September 30, 2015, the Company had total capitalized exploratory well costs pending the determination of proved reserves of 209.7 million. The following table reflects the net changes in capitalized exploratory well costs during the nine-month periods ended September 30, 2015 and 2014.

(Thousands of dollars)	2015	2014
Beginning balance at January 1	$ 120,455	393,030
Additions pending the determination of proved reserves	89,197	13,595
Balance at September 30	$ 209,652	406,625

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note B – Property, Plant and Equipment (Contd.)

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.

	September 30,					
	2015			2014		
(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	$ 52,249	5	3	$ 32,192	2	1
One to two years	32,192	2	1	36,676	2	1
Two to three years	27,842	2	–	51,898	6	–
Three years or more	97,369	4	2	285,859	22	7
	$ 209,652	13	6	$ 406,625	32	9

Of the $157.4 million of exploratory well costs capitalized more than one year at September 30, 2015, $91.5 million is in the U.S. and $65.9 million is in Brunei. In both geographical areas, either further appraisal or development drilling is planned and/or development studies/plans are in various stages of completion.

During 2015, the Company completed the second phase of the sale of 30% of its oil and gas assets in Malaysia and received net cash proceeds of $417.2 million. The Company recorded an after-tax gain of $218.8 million on the sale of the final 10% portion of the total 30% sold. Combined net cash proceeds received to date from the 30% sale totaled $1.87 billion.

See also Note E for discussion regarding a capital lease of production equipment at the Kakap field.

Note C – Inventories

Inventories are carried at the lower of cost or market. For the Company's U.K. refining and marketing operations reported as discontinued operations, the cost of crude oil and finished products in prior periods was predominantly determined on the last-in, first-out (LIFO) method. The sale of the U.K. refining and marketing operations was completed in June 2015 and all inventories reported under the LIFO method were included in the sale. At December 31, 2014, the carrying value of inventories under the LIFO method was $44.9 million less than such inventories would have been valued using the first-in, first-out (FIFO) method. These inventories were included in Current assets held for sale on the Consolidated Balance Sheet as of December 31, 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note D – Discontinued Operations

The Company has accounted for its U.K. refining and marketing operations as discontinued operations for all periods presented. The Company completed its agreement to sell the remaining U.K. downstream assets at the end of the second quarter of 2015. The 2015 nine-month period includes an adjustment to the impairment recognized as a result of the

final sale of the U.K. downstream assets. There were no adjustments to impairment in the three month period ended September 30, 2015.

The results of operations associated with these discontinued operations for the three-month and nine-month periods ended September 30, 2015 and 2014 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Thousands of dollars)	2015	2014	2015	2014
Revenues	$ (1,342)	509,037	381,154	2,752,557
Loss before income taxes	$ (8,366)	(27,163)	(8,029)	(61,396)
Income tax (benefit) expense	(22)	(1,813)	3,134	(8,757)
Loss from discontinued operations	$ (8,344)	(25,350)	(11,163)	(52,639)

The following table presents the carrying value of the major categories of assets and liabilities of U.K. refining and marketing operations reflected as held for sale on the Company's Consolidated Balance Sheets at September 30, 2015 and December 31, 2014.

	September 30,	December 31,

(Thousands of dollars)	2015	2014
Current assets		
Cash	$ 20,738	200,512
Accounts receivable	12,067	97,568
Inventories	313	42,161
Other	19,298	35,889
Total current assets held for sale	$ 52,416	376,130
Non-current assets		
Property, plant and equipment, net	$ –	50,947
Other	–	13
Total non-current assets held for sale	$ –	50,960
Current liabilities		
Accounts payable	$ 2,895	59,023
Other accrued taxes payable	428	40,653
Accrued compensation and severance	3,715	30,872
Refinery decommissioning cost	3,021	21,000
Total current liabilities associated with assets held for sale	$ 10,059	151,548
Non-current liabilities		
Deferred income taxes payable	$ –	3,873
Deferred credits and other liabilities	–	4,437
Total non-current liabilities associated with assets held for sale	$ –	8,310

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note E – Financing Arrangements and Debt

The Company has a $2.0 billion committed credit facility that expires in June 2017. Borrowings under the facility bear interest at 1.25% above LIBOR based on the Company's current credit rating as of September 30, 2015. In addition, facility fees of 0.25% are charged on the full $2.0 billion commitment. The Company also had unused uncommitted credit facilities that totaled approximately $157.2 million at September 30, 2015. These uncommitted facilities may be withdrawn by the various banks at any time. On October 16, 2015, the Company renewed its 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 October 2018.

The Company and its partners are parties to a 25-year lease of production equipment at the Kakap field offshore Malaysia. The lease has been accounted for as a capital lease, and payments under the agreement are to be made over a 15-year period through June 2028. Current maturities and long-term debt on the Consolidated Balance Sheet included $12.2 million and $213.0 million, respectively, associated with this lease at September 30, 2015.

Note F – Cash Flow Disclosures

Additional disclosures regarding cash flow activities are provided below.

	Nine Months Ended September 30,	
(Thousands of dollars)	2015	2014
Net decrease in operating working capital other than cash and cash equivalents:		
Decrease in accounts receivable	$ 389,413	29,586
Increase in inventories	(16,607)	(3,326)
Increase in prepaid expenses	(87,051)	(2,235)
Decrease in deferred income tax assets	4,863	1,290
Increase (decrease) in accounts payable and accrued liabilities	(134,458)	59,369
Decrease in current income tax liabilities	(59,134)	(77,744)
Total	$ 97,026	6,940
Supplementary disclosures (including discontinued operations):		
Cash income taxes paid, net of refunds	$ 111,897	438,309
Interest paid, net of amounts capitalized	60,766	44,657

Non-cash investing activities, related to continuing operations:		
Asset retirement costs capitalized	$ 55,258	15,509
Decrease in capital expenditure accrual	374,720	106,031

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 active and retired U.S. employees. Additionally, most U.S. retired employees are covered by a life insurance benefit plan. The health care benefits are contributory; the life insurance benefits are noncontributory.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

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

The table that follows provides the components of net periodic benefit expense for the three-month and nine-month periods ended September 30, 2015 and 2014.

	Three Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
(Thousands of dollars)	2015	2014	2015	2014
Service cost	$ 5,898	6,208	826	672
Interest cost	8,972	8,239	1,192	1,278
Expected return on plan assets	(10,471)	(8,506)	–	–
Amortization of prior service cost	187	227	(21)	(20)
Amortization of transitional asset	402	208	2	1
Recognized actuarial loss	3,885	1,735	193	59
Net periodic benefit expense	$ 8,873	8,111	2,192	1,990

	Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
(Thousands of dollars)	2015	2014	2015	2014
Service cost	$ 15,751	19,048	2,482	2,016
Interest cost	24,893	24,707	3,576	3,833
Expected return on plan assets	(27,882)	(25,514)	–	–
Amortization of prior service cost	580	680	(62)	(61)
Amortization of transitional asset	947	628	5	4
Recognized actuarial loss	11,667	5,201	578	177
	25,956	24,750	6,579	5,969
Special termination benefits	8,606	–	–	–
Curtailments	306	–	–	–
Net periodic benefit expense	$ 34,868	24,750	6,579	5,969

Termination and curtailment expenses for the nine months ended September 30, shown in the table above relate to restructuring activities in the U.S. undertaken by the Company in the second quarter 2015.

During the nine-month period ended September 30, 2015, the Company made contributions of $33.8 million to its defined benefit pension and postretirement benefit plans. Remaining required funding in 2015 for the Company's defined benefit pension and postretirement plans is anticipated to be $2.4 million.

Note H – Incentive Plans

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

The 2012 Annual Incentive Plan (2012 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 2012 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 2012 Long-Term Incentive Plan (2012 Long-Term Plan) authorizes the Committee to make grants of the Company's Common Stock and other stock-based incentives to employees. These grants may be in the form of stock options (nonqualified or incentive), stock appreciation rights (SAR), restricted stock, restricted stock units (RSU), performance units, performance shares, dividend equivalents and other stock-based incentives. The 2012 Long-Term Plan expires in 2022. A total of 8,700,000 shares are issuable during the life of the 2012 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note H – Incentive Plans (Contd.)

In February 2015, the Committee granted stock options for 991,000 shares at an exercise price of either $49.65 or $51.63 per share. The Black-Scholes valuation for these awards was $10.97 per option. The Committee also granted 455,000 performance-based RSU and 233,400 time-based RSU in February. The fair value of the performance-based RSU, using a Monte Carlo valuation model, ranged from $44.03 to $48.12 per unit. The fair value of time-based RSU was estimated based on the fair market value of the Company's stock on the date of grant, which was $49.65 per share. Additionally, the Committee granted 847,400 SAR and 616,790 units of cash-settled RSU (RSU-C) to certain employees. The SAR and RSU- C are to be settled in cash, net of applicable income taxes, and are accounted for as liability-type awards. The initial fair value of these SAR was equivalent to the stock options granted, while the initial value of RSU-C was equivalent to equity-settled restricted stock units granted. Also in February, the Committee granted 48,665 shares of time-based RSU to the Company's Directors under the Non-employee Director Plan. These shares vest on the third anniversary of the date of grant. The estimated fair value of these awards ranged between $49.09 and $50.90 per unit on date of grant.

Beginning January 1, 2014, all stock option exercises are non-cash transactions for the Company. The employee will receive net shares, after applicable statutory withholding taxes, upon each exercise. The actual income tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements totaled $3.8 million for the nine-month period ended September 30, 2014. No income tax benefit was realized from option exercises for the nine-month period ended September 30, 2015.

Amounts recognized in the financial statements with respect to share-based plans are as follows:

	Nine Months Ended September 30,	
(Thousands of dollars)	2015	2014
Compensation charged against income before tax benefit	$ 30,722	45,373
Related income tax benefit recognized in income	9,046	14,036

Note I – Earnings per Share

Net income (loss) was used as the numerator in computing both basic and diluted income per Common share for the three-month and nine-month periods ended September 30, 2015 and 2014. The following table reconciles the weighted-average shares outstanding used for these computations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Weighted-average shares)	2015	2014	2015	2014
Basic method	172,205,433	177,535,503	175,047,295	179,259,573
Dilutive stock options and restricted stock units*	–	1,320,575	–	1,318,512
Diluted method	172,205,433	178,856,078	175,047,295	180,578,085

*Due to a net loss recognized by the Company for the three-month and nine-month periods ended September 30, 2015,

no unvested stock awards were included in the computation of diluted earnings per share because the effect would have

been anti-dilutive.

The following table reflects certain options to purchase shares of common stock that were outstanding during the 2015 and 2014 periods but were not included in the computation of diluted earnings per share because the incremental shares from the assumed conversion were antidilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Antidilutive stock options excluded from diluted shares	5,807,453	1,998,009	5,770,731	1,855,667
Weighted average price of these options	$ 53.13	58.53	53.25	58.80

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note J – Income Taxes

The Company's effective income tax rate often exceeds the statutory U.S. tax rate of 35%. The effective tax rate is calculated as the amount of income tax expense divided by income before income tax expense. For the three-month and nine-month periods in 2015 and 2014, the Company's effective income tax rates were as follows:

	2015	2014
Three months ended September 30	34.1%	31.6%
Nine months ended September 30	36.6%	43.7%

The effective tax rates for most periods generally exceed the U.S. statutory tax rate of 35% due to several factors, including: the effects of income generated in foreign tax jurisdictions, certain of which have income 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 effective tax rate for the

nine-month period ended September 30, 2015 was above the U.S. statutory tax rate primarily due to a deferred tax benefit associated with the sale of Malaysian assets. The effective tax rate for the nine-month period ended September 30, 2014 was above the U.S. statutory tax rate, primarily due to other expenses in certain foreign jurisdictions for which no tax benefits were recognized.

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 September 30, 2015, the earliest years remaining open for audit and/or settlement in our major taxing jurisdictions are as follows:

United States – 2011; Canada – 2008; Malaysia – 2008; and United Kingdom – 2012.

During the third quarter of 2015, the Company received approval from the Malaysia Ministry of Finance granting "marginal" field status to three of its fields in its two shallow-water blocks, SK 309 and SK 311, offshore Sarawak. A "marginal" field is a field with a Field Development Plan which shows potential crude oil reserves not exceeding 30 million stock tank barrels or natural gas reserves not exceeding 500 billion standard cubic feet. Incentives include a reduced tax rate from the current 38% statutory rate to 25% on taxable income in the fields, accelerated capital allowance claims on capital spending and export duty exemption on crude oil sales. The benefits of the reduced statutory tax rate may be carried back to the earliest date of production from the impacted field from 2013 forward. As a result of this reduced tax rate, the Company

recorded total income tax benefits of approximately $21.8 million in the three-month and nine-month periods ended September 30, 2015.

Note K – Financial Instruments and Risk Management

Murphy often uses 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, such as the New York Mercantile Exchange (NYMEX). 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 Operations. Certain interest rate derivative contracts were accounted for as hedges and the net payment upon settlement recording the fair value of these contracts was deferred in Accumulated Other Comprehensive Loss. This deferred cost is being reclassified to Interest Expense in the Consolidated Statements of Operations over the period until the associated notes mature in 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note K – Financial Instruments and Risk Management (Contd.)

Commodity Purchase Price Risks

The Company is subject to commodity price risk related to crude oil, natural gas liquids and natural gas it produces and sells. The Company had open derivative contracts at September 30, 2015 and 2014. The impact from marking to market these commodity derivative contracts improved loss before income taxes by $24.2 million for the nine-month period ended September 30, 2015 and decreased income before income taxes by $17.2 million for the nine-month period ended September 30, 2014.

Open West Texas Intermediate (WTI) contracts for each period were as follows:

At September 30, 2015	Volumes (barrels per day)	Swap Prices	
October – December 2015	15,000	$ 63.30	per barrel
At September 30, 2014			
October – December 2014	22,000	$ 93.26	per barrel

Subsequent to September 30, 2015, the Company added 20,000 barrels per day in WTI contracts for all of 2016 at an average price of $52.01 per barrel.

Foreign Currency Exchange Risks

The Company is subject to foreign currency exchange risk associated with operations in countries outside the U.S. Short-term derivative instrument contracts totaling $6.2 million and $15.0 million U.S. dollars were outstanding at September 30, 2015 and 2014, 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 improved income (loss) before income taxes by $22 thousand and $0.2 million for the nine-month periods ended September 30, 2015 and 2014, respectively.

At September 30, 2015 and December 31, 2014, the fair value of derivative instruments not designated as hedging instruments are presented in the following table.

	September 30, 2015		December 31, 2014	
(Thousands of dollars)	Asset (Liability) Derivatives		Asset (Liability) Derivatives	
Type of Derivative Contract	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity	Accounts receivable	$ 31,999	Accounts receivable	$ 23,168
Foreign exchange	Accounts receivable	22	Accounts payable	(25)

For the three-month and nine-month periods ended September 30, 2015 and 2014, the gains and losses recognized in the Consolidated Statements of Operations for derivative instruments not designated as hedging instruments are presented in the following table.

		Gain (Loss)			
		Three Months Ended		Nine Months Ended	
(Thousands of dollars)		September 30,		September 30,	
Type of Derivative Contract	Statement of Operations Location	2015	2014	2015	2014
Commodity	Sales and other operating revenues	$ 39,392	37,305	46,811	(17,150)
Foreign exchange	Interest and other income	33	(838)	47	4,062
		$ 39,425	36,467	46,858	(13,088)

Interest Rate Risks

In 2011 the Company entered into a series of derivative contracts known as forward starting interest rate swaps to manage interest rate risk associated with $350 million of 10-year notes that were sold in May 2012. These interest rate swaps matured in May 2012. Under hedge accounting rules, the Company deferred the net cost associated with these contracts to match the payment of interest on these notes through 2022. During each of the nine-month periods ended September 30, 2015 and 2014, $2.2 million of the deferred cost on the interest rate swaps was charged to income as a component of Interest Expense. The remaining cost deferred on these matured contracts at September 30, 2015 was $12.8 million, which is recorded, net of income taxes of $6.9 million, in Accumulated Other Comprehensive

Loss in the Consolidated Balance Sheet. The Company expects to charge approximately $0.7 million of this deferred cost to income in the form of interest expense during the remaining three months of 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note K – Financial Instruments and Risk Management (Contd.)

Fair Values – Nonrecurring

As a result of significantly lower commodity prices during the third quarter of 2015, the Company recognized approximately $2,301.0 million in pretax noncash impairment charges related to producing properties. The fair value information associated with these impaired properties is presented in the following table.

	September 30, 2015				
	Fair Value Level 1	Level 2	Level 3	Net Book Value Prior to Impairment	Total Pretax (Noncash) Impairment Loss
(Thousands of dollars)					
Assets:					
Impaired proved properties					
Gulf of Mexico	$ –	–	216,602	361,402	144,800
Western Canada	–	–	23,526	707,100	683,574
Malaysia	–	–	1,208,900	2,681,500	1,472,600
	$ –	–	1,449,028	3,750,002	2,300,974

The fair values were determined by internal discounted cash flow models using estimates of future production, prices from futures exchanges, costs, and a discount rate believed to be consistent with those used by principal market participants in the applicable region.

Fair Values – Recurring

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 September 30, 2015 and December 31, 2014 are presented in the following table.

	September 30, 2015				December 31, 2014			
(Thousands of dollars)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Foreign currency exchange derivative contracts	$ –	22	–	22	–	–	–	–
Commodity derivative contracts	–	31,999	–	31,999	–	23,168	–	23,168
	$ –	32,021	–	32,021	–	23,168	–	23,168
Liabilities:								
Nonqualified employee savings plans	$ 12,195	–	–	12,195	14,408	–	–	14,408
Foreign currency exchange derivative contracts	–	–	–	–	–	25	–	25
	$ 12,195	–	–	12,195	14,408	25	–	14,433

The fair value of WTI crude oil derivative contracts was determined based on active market quotes for WTI crude oil at the balance sheet date. The fair value of foreign exchange derivative contracts was based on market quotes for similar contracts at the balance sheet dates. The income effect of changes in the fair value of crude oil derivative contracts is recorded in Sales and Other Operating Revenues in the Consolidated Statements of Operations and changes in fair value of foreign exchange derivative contracts is recorded in Interest and Other Income. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note K – Financial Instruments and Risk Management (Contd.)

in the fair value of the nonqualified employee savings plan is recorded in Selling and General Expenses in the Consolidated Statements of Operations.

The Company offsets certain assets and liabilities related to derivative contracts when the legal right of offset exists. There were no offsetting positions recorded at September 30, 2015 and December 31, 2014.

Note L – Accumulated Other Comprehensive Loss

The components of Accumulated Other Comprehensive Loss on the Consolidated Balance Sheets at December 31, 2014 and September 30, 2015 and the changes during the nine-month period ended September 30, 2015 are presented net of taxes in the following table.

(Thousands of dollars)	Foreign Currency Translation Gains (Losses)[1]	Retirement and Postretirement Benefit Plan Adjustments[1]	Deferred Loss on Interest Rate Derivative Hedges[1]	Total[1]
Balance at December 31, 2014	$ 33,701	(189,752)	(14,204)	(170,255)
Components of other comprehensive income (loss):				
Before reclassifications to income	(503,799)	767	–	(503,032)
Reclassifications to income	41,745 [2]	8,338 [3]	1,445 [4]	51,528
Net other comprehensive income (loss)	(462,054)	9,105	1,445	(451,504)
Balance at September 30, 2015	$ (428,353)	(180,647)	(12,759)	(621,759)

1All amounts are presented net of income taxes.

2Reclassifications for the nine-month period ended September 30, 2015 are included in discontinued operations and primarily relate to financial adjustments recognized upon selling all operational assets in the U.K.

3Reclassifications before taxes of $12,768 for the nine-month period ended September 30, 2015 are included in the computation of net periodic benefit expense. See Note G for additional information. Related income taxes of $4,430 for the nine-month period ended September 30, 2015 are included in Income tax expense.

4Reclassifications before taxes of $2,222 for the nine-month period ended September 30, 2015 are included in Interest expense. Related income taxes of $777 for the nine-month period ended September 30, 2015 are included in Income tax expense.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note M – Environmental and Other Contingencies (Contd.)

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. The Company has retained certain liabilities related to environmental matters at formerly owned U.S. refineries that were sold in 2011. The Company also obtained insurance covering certain levels of environmental exposures related to past operations of these refineries. 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.

During the first quarter 2015, the Company's subsidiary in Canada identified a leak or leaks at an infield condensate transfer pipeline at the Seal field in a remote area of Alberta. The pipeline was immediately shut down and the Company's emergency response plan was activated. In cooperation with local governmental regulators, and with the assistance of qualified consultants, an investigation and remediation plan is progressing as planned and the Company's insurers have been notified. The Company has not yet established a complete estimate of the costs to remediate the site. Based on the assessments done to date, the Company recorded $43.9 million in other expense during the first quarter 2015 associated with the estimated costs of remediating the site. Further refinements in the estimated total cost to remediate the site are anticipated in future periods, including possible fines from regulators and insurance recoveries. It is possible that the ultimate net remediation costs

to the Company associated with the condensate leak or leaks will exceed the amount of expense recorded through September 30, 2015.

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.

Note N – Commitments

The Company has entered into forward sales contracts to mitigate the price risk for a portion of its 2015 and 2016 natural gas sales volumes in Western Canada. The natural gas sales contracts call for deliveries in 2015 and 2016 of approximately 65 million cubic feet per day at Cdn $4.13 per MCF and 59 million cubic feet per day at Cdn $3.19 per MCF, respectively. These natural gas contracts have been accounted for as normal sales for accounting purposes.

Note O – New Accounting Principles

In April 2015, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) that simplifies the presentation of debt issuance costs. The ASU requires that the cost of issuing debt be presented on the balance sheet as a direct reduction from the associated debt liability. These costs have historically been recorded as an asset, rather than a direct reduction of debt. This ASU does not affect the results of operations, as costs of debt issuance will continue to be amortized to interest expense. The Company is required to adopt the ASU effective in the first quarter of 2016, but early adoption is permitted. The Company has elected to adopt this ASU early, effective with the first quarter of 2015. This change in accounting principle is preferable due to allowing debt issuance costs and debt issuance discounts to be presented similarly in the Balance Sheet as reductions to recorded debt balances. A retrospective change to the December 31, 2014 Balance Sheet as previously presented is required due to the adoption. The retrospective adjustment to the December 31, 2014 Balance Sheet is shown below:

(Thousands of dollars)	As Previously Reported December 31, 2014	Adjustment Effect	December 31, 2014 As Adjusted
Deferred charges and other assets	$ 81,151	(18,569)	62,582
Long-term debt	(2,536,238)	18,569	(2,517,669)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note P – Business Segments

(Millions of dollars)	Total Assets at September 30, 2015	Three Months Ended September 30, 2015 External Revenues	Three Months Ended September 30, 2015 Income (Loss)	Three Months Ended September 30, 2014 External Revenues	Three Months Ended September 30, 2014 Income (Loss)
Exploration and production*					
United States	$ 5,935.2	335.1	(107.8)	667.6	130.5
Canada	2,540.5	123.2	(507.0)	246.9	40.4
Malaysia	2,527.8	207.3	(952.7)	516.4	148.0
Other	155.3	–	(28.6)	–	(7.5)
Total exploration and production	11,158.8	665.6	(1,596.1)	1,430.9	311.4
Corporate	1,416.8	49.3	9.0	2.1	(40.4)
Assets/revenue/income (loss) from continuing operations	12,575.6	714.9	(1,587.1)	1,433.0	271.0
Discontinued operations, net of tax	52.4	–	(8.3)	–	(25.3)
Total	$ 12,628.0	714.9	(1,595.4)	1,433.0	245.7

(Millions of dollars)	Nine Months Ended September 30, 2015 External Revenues	Nine Months Ended September 30, 2015 Income (Loss)	Nine Months Ended September 30, 2014 External Revenues	Nine Months Ended September 30, 2014 Income (Loss)
Exploration and production*				
United States	$ 955.0	(218.1)	1,660.4	335.3
Canada	428.4	(577.8)	807.4	160.9
Malaysia	897.6	(701.9)	1,592.2	482.6
Other	–	(130.7)	(0.2)	(256.0)
Total exploration and production	2,281.0	(1,628.5)	4,059.8	722.8
Corporate	94.0	(44.0)	8.6	(139.8)
Revenue/income (loss) from continuing operations	2,375.0	(1,672.5)	4,068.4	583.0
Discontinued operations, net of tax	–	(11.2)	–	(52.6)
Total	$ 2,375.0	(1,683.7)	4,068.4	530.4

*Additional details about results of oil and gas operations are presented in the table on pages 25 and 26.

18

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overall Review

During the third quarter 2015, worldwide benchmark oil and natural gas prices continued to be significantly below average comparable benchmark prices during the third quarter 2014. These lower oil and natural gas prices have led the Company to incur losses from operations in 2015 and due to decline of future oil prices from previous quarter-end levels resulted in the Company recognizing significant noncash impairment expenses totaling $2,301.0 million before tax and $1,536.5 million after-tax for producing heavy oil properties in Western Canada and producing offshore properties in Malaysia and the Gulf of Mexico. Although the Company is aggressively attacking its overall cost structure, a continuation of very low commodity prices would continue to lead to adverse effects on the Company's income and cash flow.

Results of Operations

Murphy's income by type of business is presented below.

	Income (Loss)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions of dollars)	2015	2014	2015	2014
Exploration and production	$ (1,596.1)	311.4	(1,628.5)	722.8
Corporate and other	9.0	(40.4)	(44.0)	(139.8)
Income (loss) from continuing operations	(1,587.1)	271.0	(1,672.5)	583.0
Discontinued operations	(8.3)	(25.3)	(11.2)	(52.6)
Net income (loss)	$ (1,595.4)	245.7	(1,683.7)	530.4

Murphy's net loss in the third quarter of 2015 was $1,595.4 million ($9.26 per diluted share) compared to net income of $245.7 million ($1.37 per diluted share) in the third quarter of 2014. Income (loss) from continuing operations decreased from a profit of $271.0 million ($1.51 per diluted share) in the 2014 quarter to a loss of $1,587.1 million ($9.22 per diluted share) in 2015. In the 2015 third quarter, the Company's exploration and production continuing operations incurred a loss of $1,596.1 million compared to earnings of $311.4 million in the 2014 quarter. The net loss in the 2015 quarter was unfavorably impacted by impairments and lower revenues due to significantly lower realized oil and natural gas sales prices, offset in part by lower exploration costs, depreciation expense and lease operating expenses. The corporate function had after-tax income of $9.0 million in the 2015 third quarter compared to after-tax costs of $40.4 million in the 2014 period with the favorable variance in the current period mostly due to foreign exchange effects and lower administrative costs. The 2015 third quarter included a loss from discontinued operations of $8.3 million ($0.04 per diluted share) compared to a loss of $25.3 million ($0.14 per diluted share) in the 2014 period. Discontinued operations primarily consist of costs relating to winding down of refining and marketing operations in the U.K., the final components of which were sold at the end of the second quarter 2015.

For the first nine months of 2015, net loss totaled $1,683.7 million ($9.62 per diluted share) compared to net income of $530.4 million ($2.94 per diluted share) for the same period in 2014. Continuing operations had a loss of $1,672.5 million ($9.55 per diluted share) in the first nine months of 2015, down from income of $583.0 million ($3.23 per diluted share) for the 2014 period. In the first nine months of 2015, the Company's exploration and production operations incurred a loss of $1,628.5 million compared to earnings of $722.8 million in the same period of 2014. Exploration and production earnings in 2015 were below the 2014 period primarily due to impairment charges coupled with significantly lower oil prices realized and lower oil volumes sold, partially offset by lower operating expenses, lower depreciation expense, lower exploration expenses and lower selling and general expenses coupled with the gain on the second phase of its sale of assets in Malaysia. Corporate after-tax costs were $44.0 million in the first nine months of 2015 compared to after-tax costs of $139.8 million in 2014 as the current period had a favorable variance for the effects of foreign currency exchange, lower administrative cost, and increased tax benefits partially offset by higher net interest expense. Net loss in the first nine months of 2015 included a loss from discontinued operations of $11.2 million ($0.07 per diluted share) compared to a loss of $52.6 million ($0.29 per diluted share) in the 2014 period.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Contd.)

Results of Operations (Contd.)

Exploration and Production

Results of exploration and production continuing operations are presented by geographic segment below.

	Income (Loss)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions of dollars)	2015	2014	2015	2014
Exploration and production				
United States	$ (107.8)	130.5	(218.1)	335.3
Canada	(507.0)	40.4	(577.8)	160.9
Malaysia	(952.7)	148.0	(701.9)	482.6
Other International	(28.6)	(7.5)	(130.7)	(256.0)
Total	$ (1,596.1)	311.4	(1,628.5)	722.8

Third quarter 2015 vs. 2014

United States exploration and production operations reported a loss of $107.8 million in the third quarter of 2015 compared to a profit of $130.5 million in the 2014 quarter. Results were $238.3 million lower in the 2015 quarter compared to the same period in 2014 due to asset impairments primarily caused by low oil prices and lower realized oil and natural gas sales prices, partially offset by increased oil sales volumes. Revenue in the U.S. fell $332.5 million in the third quarter 2015 primarily due to lower oil and natural gas realized sales prices. However, produced oil volumes were higher in 2015 at both Eagle Ford Shale in South Texas and in the Gulf of Mexico. Lease operating expenses decreased by $17.1 million due to lower costs in Eagle Ford Shale and lower repair costs offshore Gulf of Mexico compared to same quarter 2014. Severance and ad valorem taxes in the 2015 quarter were $13.2 million lower than the 2014 period primarily due to weaker average commodity prices. Depreciation expense decreased $13.7 million in 2015 compared to 2014 due to lower unit rates in the 2015 period. Impairment expense was $144.8 million in 2015 due to write down of certain producing properties in the Gulf of Mexico. Exploration expenses were down $64.1 million in the third quarter of 2015 primarily related to lower dry hole costs.

Operations in Canada had losses of $507.0 million in the third quarter 2015 compared to earnings of $40.4 million in the 2014 quarter. Canadian results of operations were $547.4 million lower in the 2015 quarter and included losses for both conventional oil and natural gas operations and synthetic oil operations. Results for conventional operations were $525.6 million lower in 2015 due to impairment expense, lower average realized sales prices for crude oil and natural gas and lower oil volume sold. These were partially offset by higher natural gas volumes produced and lower operating expenses. Oil production for conventional operations was lower in Canada in the 2015 period compared to 2014 primarily due to lower volumes for both the Seal heavy oil area and offshore East Coast properties. Natural gas sales volumes increased in 2015 due to higher production in the Tupper area of Western Canada as a result of second half 2014 drilling activities. Lease operating expenses associated with conventional operations were $20.0 million lower in the 2015 quarter due to weaker Canadian dollar exchange rates an