

Marathon Petroleum Corp  
Form 10-Q  
November 02, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

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 001-35054  
Marathon Petroleum Corporation  
(Exact name of registrant as specified in its charter)  
Delaware  
(State or other jurisdiction of incorporation or organization)

27-1284632  
(I.R.S. Employer Identification No.)

539 South Main Street, Findlay, Ohio  
(Address of principal executive offices)  
(419) 422-2121

45840-3229  
(Zip code)

(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. 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.) 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. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) 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  No

There were 532,974,077 shares of Marathon Petroleum Corporation common stock outstanding as of October 30, 2015.

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Unless otherwise stated or the context otherwise indicates, all references in this Form 10-Q to “MPC,” “us,” “our,” “we” or “the Company” mean Marathon Petroleum Corporation and its consolidated subsidiaries.

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## Part I – Financial Information

## Item 1. Financial Statements

## Marathon Petroleum Corporation

## Consolidated Statements of Income (Unaudited)

(In millions, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Revenues and other income:				
Sales and other operating revenues (including consumer excise taxes)	\$18,716	\$25,438	\$56,444	\$75,567
Income from equity method investments	23	29	58	121
Net gain on disposal of assets	2	2	6	14
Other income	17	12	71	57
Total revenues and other income	18,758	25,481	56,579	75,759
Costs and expenses:				
Cost of revenues (excludes items below)	14,165	21,935	43,575	65,571
Purchases from related parties	61	112	219	401
Consumer excise taxes	1,988	1,622	5,759	4,736
Depreciation and amortization	508	322	1,233	967
Selling, general and administrative expenses	392	342	1,143	1,004
Other taxes	95	86	296	288
Total costs and expenses	17,209	24,419	52,225	72,967
Income from operations	1,549	1,062	4,354	2,792
Net interest and other financial income (costs)	(70)	(50)	(215)	(144)
Income before income taxes	1,479	1,012	4,139	2,648
Provision for income taxes	521	333	1,439	898
Net income	958	679	2,700	1,750
Less net income attributable to noncontrolling interests	10	7	35	24
Net income attributable to MPC	\$948	\$672	\$2,665	\$1,726
Per Share Data (See Note 7)				
Basic:				
Net income attributable to MPC per share	\$1.77	\$1.19	\$4.93	\$3.00
Weighted average shares outstanding	535	565	540	575
Diluted:				
Net income attributable to MPC per share	\$1.76	\$1.18	\$4.90	\$2.98
Weighted average shares outstanding	538	569	544	579
Dividends paid	\$0.32	\$0.25	\$0.82	\$0.67

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

Table of ContentsMarathon Petroleum Corporation  
Consolidated Statements of Comprehensive Income (Unaudited)

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$958	\$679	\$2,700	\$1,750
Other comprehensive income (loss):				
Defined benefit postretirement and post-employment plans:				
Actuarial changes, net of tax of \$3, (\$1), \$15 and \$0	5	(2	) 25	—
Prior service costs, net of tax of (\$5), (\$5), (\$14) and (\$14)	(8	) (8	) (24	) (24
Other comprehensive income (loss)	(3	) (10	) 1	(24
Comprehensive income	955	669	2,701	1,726
Less comprehensive income attributable to noncontrolling interests	10	7	35	24
Comprehensive income attributable to MPC	\$945	\$662	\$2,666	\$1,702

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

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Consolidated Balance Sheets (Unaudited)

(In millions, except share data)	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$2,044	\$1,494
Receivables, less allowance for doubtful accounts of \$35 and \$13	3,124	4,058
Inventories	5,556	5,642
Other current assets	137	145
Total current assets	10,861	11,339
Equity method investments	1,073	865
Property, plant and equipment, net	16,294	16,261
Goodwill	1,565	1,566
Other noncurrent assets	368	394
Total assets	\$30,161	\$30,425
Liabilities		
Current liabilities:		
Accounts payable	\$4,993	\$6,661
Payroll and benefits payable	417	427
Consumer excise taxes payable	342	463
Accrued taxes	845	647
Long-term debt due within one year	780	27
Other current liabilities	309	354
Total current liabilities	7,686	8,579
Long-term debt	5,912	6,575
Deferred income taxes	1,942	2,014
Defined benefit postretirement plan obligations	1,139	1,099
Deferred credits and other liabilities	557	768
Total liabilities	17,236	19,035
Commitments and contingencies (see Note 21)		
Equity		
MPC stockholders' equity:		
Preferred stock, no shares issued and outstanding (par value \$0.01 per share, 30 million shares authorized)	—	—
Common stock:		
Issued – 729 million and 726 million shares (par value \$0.01 per share, 1 billion shares authorized)	7	7
Held in treasury, at cost – 195 million and 179 million shares	(7,083	) (6,299
Additional paid-in capital	9,929	9,841
Retained earnings	9,736	7,515
Accumulated other comprehensive loss	(312	) (313
Total MPC stockholders' equity	12,277	10,751
Noncontrolling interests	648	639
Total equity	12,925	11,390
Total liabilities and equity	\$30,161	\$30,425

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



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Consolidated Statements of Cash Flows (Unaudited)

(In millions)	Nine Months Ended	
	September 30,	
	2015	2014
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net income	\$2,700	\$1,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,233	967
Pension and other postretirement benefits, net	51	123
Deferred income taxes	(6)	(126)
Net gain on disposal of assets	(6)	(14)
Equity method investments, net	8	(39)
Changes in the fair value of derivative instruments	9	(35)
Changes in:		
Current receivables	931	424
Inventories	86	(731)
Current accounts payable and accrued liabilities	(1,707)	318
All other, net	(46)	85
Net cash provided by operating activities	3,253	2,722
Investing activities:		
Additions to property, plant and equipment	(1,277)	(952)
Acquisitions, net of cash acquired	—	(2,831)
Disposal of assets	14	19
Investments – acquisitions, loans and contributions	(221)	(341)
– redemptions, repayments and return of capital	4	3
All other, net	52	78
Net cash used in investing activities	(1,428)	(4,024)
Financing activities:		
Long-term debt – borrowings	528	2,903
– repayments	(433)	(32)
Debt issuance costs	(4)	(19)
Issuance of common stock	29	21
Common stock repurchased	(773)	(1,449)
Dividends paid	(443)	(386)
Distributions to noncontrolling interests	(29)	(20)
Contingent consideration payment	(175)	(172)
All other, net	25	18
Net cash provided by (used in) financing activities	(1,275)	864
Net increase (decrease) in cash and cash equivalents	550	(438)
Cash and cash equivalents at beginning of period	1,494	2,292
Cash and cash equivalents at end of period	\$2,044	\$1,854

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

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Consolidated Statements of Equity (Unaudited)

(In millions)	MPC Stockholders' Equity				Accumulated		Total Equity
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Noncontrolling Interests	
Balance as of December 31, 2013	\$7	\$(4,155)	\$9,765	\$5,507	\$ (204 )	\$ 412	\$11,332
Net income	—	—	—	1,726	—	24	1,750
Dividends declared	—	—	—	(386 )	—	—	(386 )
Distributions to noncontrolling interests	—	—	—	—	—	(20 )	(20 )
Other comprehensive loss	—	—	—	—	(24 )	—	(24 )
Shares repurchased	—	(1,449 )	—	—	—	—	(1,449 )
Shares issued (returned) – stock-based compensation	—	(12 )	21	—	—	—	9
Stock-based compensation	—	—	44	—	—	1	45
Other	—	—	—	9	—	—	9
Balance as of September 30, 2014	\$7	\$(5,616)	\$9,830	\$6,856	\$ (228 )	\$ 417	\$11,266
Balance as of December 31, 2014	\$7	\$(6,299)	\$9,841	\$7,515	\$ (313 )	\$ 639	\$11,390
Net income	—	—	—	2,665	—	35	2,700
Dividends declared	—	—	—	(444 )	—	—	(444 )
Distributions to noncontrolling interests	—	—	—	—	—	(29 )	(29 )
Other comprehensive income	—	—	—	—	1	—	1
Shares repurchased	—	(773 )	—	—	—	—	(773 )
Shares issued (returned) – stock-based compensation	—	(11 )	29	—	—	—	18
Stock-based compensation	—	—	59	—	—	1	60
Issuance of MPLX LP common units	—	—	—	—	—	2	2
Balance as of September 30, 2015	\$7	\$(7,083)	\$9,929	\$9,736	\$ (312 )	\$ 648	\$12,925
(Shares in millions)	Common Stock	Treasury Stock					
Balance as of December 31, 2013	724	(130 )					
Shares repurchased	—	(34 )					
Shares issued – stock-based compensation	2	—					
Balance as of September 30, 2014	726	(164 )					
Balance as of December 31, 2014	726	(179 )					
Shares repurchased	—	(15 )					
Shares issued (returned) – stock-based compensation	3	(1 )					
Balance as of September 30, 2015	729	(195 )					

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





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Notes to Consolidated Financial Statements (Unaudited)

1. Description of the Business and Basis of Presentation

Description of the Business—Our business consists of refining and marketing, retail marketing and pipeline transportation operations conducted primarily in the Midwest, Gulf Coast, East Coast and Southeast regions of the United States, through subsidiaries, including Marathon Petroleum Company LP, Speedway LLC and its subsidiaries (“Speedway”) and MPLX LP and its subsidiaries (“MPLX”).

See Note 9 for additional information about our operations.

Basis of Presentation—All significant intercompany transactions and accounts have been eliminated.

These interim consolidated financial statements are unaudited; however, in the opinion of our management, these statements reflect all adjustments necessary for a fair statement of the results for the periods reported. All such adjustments are of a normal, recurring nature unless otherwise disclosed. These interim consolidated financial statements, including the notes, have been prepared in accordance with the rules of the Securities and Exchange Commission applicable to interim period financial statements and do not include all of the information and disclosures required by United States generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year.

We completed a two-for-one stock split in June 2015. All historical share and per share data included in this report has been retroactively restated on a post-split basis. Additionally, we adopted the updated Financial Accounting Standards Board (“FASB”) debt issuance cost standard as of June 30, 2015 and applied the changes retrospectively to the prior period presented.

2. Accounting Standards

Recently Adopted

In April 2015, the FASB issued an accounting standards update to simplify the presentation of debt issuance costs. The update requires that debt issue costs for term debt are to be presented on the balance sheet as a direct reduction of the term debt liability as opposed to a deferred charge within other noncurrent assets. The change is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015. Retrospective application is required and early adoption is permitted. Our early adoption of this standard in the second quarter of 2015 did not have a material impact on our consolidated results of operations, financial position or cash flows. In August 2015, the FASB subsequently issued a clarification as to the handling of debt issuance costs related to line-of-credit arrangements that allows for the presentation of these costs as an asset. This clarification did not have any impact on our consolidated results of operations, financial position or cash flows.

In June 2014, the FASB issued an accounting standards update for the elimination of the concept of development stage entity (“DSE”) from U.S. GAAP and removes the related incremental reporting. The standards update eliminates the additional financial statement requirements specific to a DSE and was adopted in the first quarter of 2015. In addition, the portion of the standard to amend the consolidation model that eliminates the special provisions in the variable interest entity (“VIE”) rules for assessing the sufficiency of the equity of a DSE is effective in the first quarter of 2016. Adoption of this standards update in the first quarter of 2015 and 2016 has not and is not expected to have an impact on our consolidated results of operations, financial position or cash flows.

In April 2014, the FASB issued an accounting standards update that redefines the criteria for determining discontinued operations and introduces new disclosures related to these disposals. The updated definition of a discontinued operation is the disposal of a component (or components) of an entity or the classification of a component (or components) of an entity as held for sale that represents a strategic shift for an entity and has (or will have) a major impact on an entity’s operations and financial results. The standard requires disclosure of additional financial information for discontinued operations and individually material components not qualifying for discontinued operation presentation, as well as information regarding an entity’s continuing involvement with the discontinued operation. The accounting standards update was effective prospectively for annual periods beginning on or after

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December 15, 2014, and interim periods within those years. Adoption of this standards update in the first quarter of 2015 did not impact our consolidated results of operations, financial position or cash flows.

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Not Yet Adopted

In September 2015, the FASB issued an accounting standard update that eliminates the requirement to restate prior period financial statements for measurement period adjustments. This update requires that the cumulative impact of a measurement period adjustment be recognized in the reporting period in which the adjustment is identified. The standard is effective for interim and annual periods beginning after December 15, 2015 with early application permitted. Adoption of this standard is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

In May 2015, the FASB issued an accounting standard update that eliminates the requirement to categorize in the fair value hierarchy investments that are measured at net asset value using the practical expedient. The standard is effective for fiscal years beginning after December 15, 2015 and interim periods within the fiscal year. Retrospective application is required and early adoption is permitted. While we expect adoption of this standard to affect our fair value hierarchy disclosures, we do not believe it will have an impact on our consolidated results of operations, financial position or cash flows.

In April 2015, the FASB issued an accounting standards update clarifying whether a customer should account for a cloud computing arrangement as an acquisition of a software license or as a service arrangement by providing characteristics that a cloud computing arrangement must have in order to be accounted for as a software license acquisition. The change is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015. Retrospective or prospective application is allowed and early adoption is permitted. Adoption of this standard is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

In February 2015, the FASB issued an accounting standards update making targeted changes to the current consolidation guidance. The new standard changes the considerations related to substantive rights, related parties, and decision making fees when applying the VIE consolidation model and eliminates certain guidance for limited partnerships and similar entities under the voting interest consolidation model. The update is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015. Early adoption is permitted. We expect to continue to consolidate our master limited partnership, MPLX, after implementing this standard, but it will impact the determination of whether MPLX is a VIE and related disclosures. Otherwise the standard is not expected to have a material impact on our results of operations, financial position or cash flows.

In August 2014, the FASB issued an accounting standards update requiring management to assess an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Management will be required to assess if there is substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Disclosures will be required if conditions give rise to substantial doubt and the type of disclosure will be determined based on whether management's plans will be able to alleviate the substantial doubt. The accounting standards update will be effective for the first annual period ending after December 15, 2016, and for annual periods and interim periods thereafter with early application permitted.

In May 2014, the FASB issued an accounting standards update for revenue recognition that is aligned with the International Accounting Standards Board's revenue recognition standard. The guidance in the update states that revenue is recognized when a customer obtains control of a good or service. Recognition of the revenue will involve a multiple step approach including identifying the contract, identifying the separate performance obligations, determining the transaction price, allocating the price to the performance obligations and then recognizing the revenue as the obligations are satisfied. Additional disclosures will be required to provide adequate information to understand the nature, amount, timing and uncertainty of reported revenues and revenues expected to be recognized. The accounting standards update will be effective on a retrospective or modified retrospective basis for annual reporting periods beginning after December 15, 2017, and interim periods within those years, with early adoption permitted, no earlier than January 1, 2017. We are in the process of determining the impact of the new standard on our consolidated financial statements.

3. MPLX LP

MPLX is a publicly traded master limited partnership that was formed by us to own, operate, develop and acquire pipelines and other midstream assets related to the transportation and storage of crude oil, refined products and other hydrocarbon-based products.

As of September 30, 2015, we owned a 71.5 percent interest in MPLX, including the two percent general partner interest. We consolidate this entity for financial reporting purposes since we have a controlling financial interest, and we record a noncontrolling interest for the interest owned by the public. As of September 30, 2015, MPLX's assets consisted of a 99.5 percent general partner interest in MPLX Pipe Line Holdings LP ("Pipe Line Holdings"), which owns a network of common carrier crude oil and product pipeline systems and associated storage assets in the Midwest and Gulf Coast regions of the United States. MPLX also owns a 100 percent interest in a butane cavern in Neal, West Virginia.

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Pending Merger with Markwest Energy Partners, L.P.

On July 11, 2015, MPLX and MarkWest Energy Partners, L.P. (“MWE”) entered into a definitive merger agreement (“Merger Agreement”) whereby MWE would become a wholly owned subsidiary of MPLX (the “Merger”). Under the terms of the Merger Agreement, each common unit of MWE issued and outstanding immediately prior to the effective time of the Merger will be converted into the right to receive 1.09 common units of MPLX representing limited partner interests in MPLX, plus a one-time cash payment to MWE unitholders. As of September 30, 2015, the implied total enterprise value for MWE was approximately \$13.7 billion, including the assumption of debt of approximately \$4.6 billion. MPC would contribute \$675 million of cash to MPLX to fund the one-time cash payment. The transaction between MPLX and MWE, which is subject to approval by MWE unitholders and to customary closing conditions and regulatory approvals, is expected to close in the fourth quarter of 2015. Following completion of the transaction, we expect to continue to consolidate MPLX’s financial results.

Sales and Contributions to MPLX

On March 1, 2014, we sold MPLX a 13 percent interest in Pipe Line Holdings for \$310 million. MPLX financed this transaction with \$40 million of cash on-hand and \$270 million of borrowings on its bank revolving credit facility.

On December 1, 2014, we sold and contributed interests in Pipe Line Holdings totaling 30.5 percent to MPLX for \$600 million in cash and 2.9 million MPLX common units valued at \$200 million. MPLX financed the cash portion of this transaction with \$600 million of borrowings on its bank revolving credit facility.

The sales and contribution of our interests in Pipe Line Holdings to MPLX resulted in a change in our ownership in Pipe Line Holdings, but not a change in control. We accounted for them as transactions between entities under common control and did not record a gain or loss.

Public Offerings

On December 8, 2014, MPLX completed a public offering of 3.5 million common units at a price to the public of \$66.68 per common unit, for aggregate net proceeds of \$221 million. MPLX used the net proceeds from this offering to repay borrowings under its bank revolving credit facility and for general partnership purposes. On December 10, 2014, we exercised our right to maintain our two percent general partner interest in MPLX by purchasing 130 thousand general partner units for \$9 million.

On February 12, 2015, MPLX completed a public offering of \$500 million aggregate principal amount of four percent unsecured senior notes due February 15, 2025 (the “MPLX Senior Notes”). See Note 16 for more information.

4. Acquisitions and Investments

Acquisition of Hess’ Retail Operations and Related Assets

On September 30, 2014, we acquired from Hess Corporation (“Hess”) all of Hess’ retail locations, transport operations and shipper history on various pipelines, including approximately 40,000 barrels per day on Colonial Pipeline for \$2.82 billion. We refer to these assets as “Hess’ Retail Operations and Related Assets.” The transaction was funded with a combination of debt and available cash. The transaction provided for an adjustment for working capital, which was finalized during the first quarter of 2015, resulting in a \$3 million reduction to our total consideration. This amount is consistent with the estimate we used in prior periods and therefore, the fair value of the assets acquired and liabilities assumed remain unchanged from year-end 2014.

The purchase price allocation resulted in the recognition of \$629 million in goodwill by our Speedway segment. The goodwill primarily relates to the expected benefits of a significantly expanded retail platform that should enable growth in new markets, as well as the potential for higher merchandise sales by utilizing Speedway’s marketing approach at the acquired locations. We also expect strategic benefits from the financial and operational scale we expect to realize across our entire retail network. The goodwill is deductible for tax purposes.

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The following unaudited pro forma financial information presents consolidated results assuming the acquisition of Hess' Retail Operations and Related Assets occurred on January 1, 2013. The pro forma financial information does not give effect to potential synergies that could result from the acquisition and is not necessarily indicative of the results of future operations.

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
(In millions, except per share data)		
Sales and other operating revenues (including consumer excise taxes)	\$28,284	\$84,232
Net income attributable to MPC	698	1,749
Net income attributable to MPC per share – basic	\$1.24	\$3.04
Net income attributable to MPC per share – diluted	1.23	3.02

The pro forma information includes adjustments to align accounting policies, increased depreciation expense to reflect the fair value of property, plant and equipment, increased amortization expense related to the fair value of identifiable intangible assets, additional interest expense related to financing the acquisition, as well as the related income tax effects.

**Acquisition of Biodiesel Facility**

On April 1, 2014, we purchased a biodiesel facility in Cincinnati, Ohio from Felda Iffco Sdn Bhd, Malaysia for \$40 million. The plant currently produces biodiesel, glycerin and other by-products and has a capacity of approximately 60 million gallons per year.

Neither goodwill nor a gain from a bargain purchase was recognized in conjunction with the acquisition.

Assuming the acquisition had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

**Investment in Ocean Vessel Joint Venture**

In September 2015, we acquired a 50 percent ownership interest in a new joint venture with Crowley Maritime Corporation through our investment in Crowley Ocean Partners LLC. The joint venture will operate and charter four new Jones Act product tankers, most of which will be leased to MPC. Contributions to the joint venture with respect to each vessel will occur at the vessel's delivery. In September 2015, we contributed \$38 million in connection with delivery of the first vessel. The remaining three vessels are expected to be delivered by the third quarter of 2016. We account for our ownership interest in Crowley Ocean Partners LLC as an equity method investment. See Note 21 for information on our conditional guarantee of the indebtedness of the joint venture and future contributions to Crowley Ocean Partners LLC.

**Investments in Pipeline Companies**

In July 2014, we exercised our option to acquire a 35 percent ownership interest in Enbridge Inc.'s Southern Access Extension pipeline ("SAX") through our investment in Illinois Extension Pipeline Company, LLC ("Illinois Extension Pipeline"). During the nine months ended September 30, 2015, we made contributions of \$94 million to Illinois Extension Pipeline to fund our portion of the construction costs for the SAX project. We have contributed \$214 million since project inception. We account for our ownership interest in Illinois Extension Pipeline as an equity method investment. See Note 21 for information on future contributions to Illinois Extension Pipeline.

In March 2014, we acquired from Chevron Raven Ridge Pipe Line Company an additional seven percent interest in Explorer Pipeline Company ("Explorer") for \$77 million, bringing our ownership interest to 25 percent. As a result of this increase in our ownership, we now account for our investment in Explorer using the equity method of accounting rather than the cost method. The cumulative impact of the change was applied as an adjustment to 2014 retained earnings.

In November 2013, we agreed to serve as an anchor shipper for the Sandpiper pipeline project and fund 37.5 percent of the construction costs of the project, which will become part of Enbridge Energy Partners L.P.'s ("Enbridge Energy Partners") North Dakota System. In exchange for these commitments, we will earn an approximate 27 percent equity interest in Enbridge Energy Partners' North Dakota System when the Sandpiper pipeline is placed into service, which

is expected to be in 2017. We also have the option to increase our ownership interest to approximately 30 percent through additional investments in future system improvements. During the nine months ended September 30, 2015, we made contributions of \$69 million to North Dakota Pipeline Company LLC (“North Dakota Pipeline”). We have contributed \$285 million since project inception. We account for our interest in North Dakota Pipeline using the equity method of accounting. See Note 21 for information on future contributions to North Dakota Pipeline.



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## 5. Variable Interest Entity

As stated in Note 4, we have a 35 percent ownership interest in Illinois Extension Pipeline. Illinois Extension Pipeline is considered a VIE because it is a development stage entity and the equity in the entity is not sufficient to fund the construction of the SAX pipeline. Our maximum exposure to loss due to this VIE at September 30, 2015 was \$213 million, which equates to our investment in Illinois Extension Pipeline.

We are not the primary beneficiary of this VIE because we do not have the power to control the activities that significantly influence the economic performance of the entity and, therefore, do not consolidate the entity. The activities that most significantly impact the VIE's economic performance are the actual construction costs and risks associated with the on-going construction. Through our vote, we have shared power to direct the construction activities, but do not have the sole ability to control the construction activities.

## 6. Related Party Transactions

Our related parties include:

Centennial Pipeline LLC ("Centennial"), in which we have a 50 percent noncontrolling interest. Centennial owns a refined products pipeline and storage facility.

Explorer, in which we have a 25 percent interest. Explorer owns and operates a refined products pipeline.

LOCAP LLC ("LOCAP"), in which we have a 59 percent noncontrolling interest. LOCAP owns and operates a crude oil pipeline.

LOOP LLC ("LOOP"), in which we have a 51 percent noncontrolling interest. LOOP owns and operates the only U.S. deepwater oil port.

TAAE, in which we have a 43 percent noncontrolling interest, TACE, in which we have a 60 percent noncontrolling interest and TAME, in which we have a 67 percent direct and indirect noncontrolling interest. These companies each own and operate an ethanol production facility.

Other equity method investees.

We believe that transactions with related parties were conducted on terms comparable to those with unaffiliated parties.

Sales to related parties, which are included in sales and other operating revenues (including consumer excise taxes) on the consolidated statements of income, were \$1 million and \$2 million for the three months ended September 30, 2015 and 2014 and \$4 million and \$6 million for the nine months ended September 30, 2015 and 2014, respectively.

Purchases from related parties were as follows:

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Centennial	\$—	\$—	\$—	\$7
Explorer	2	10	16	32
LOCAP	6	6	17	16
LOOP	12	12	38	77
TAAE	11	19	39	61
TACE	7	33	38	90
TAME	21	29	64	111
Other equity method investees	2	3	7	7
Total	\$61	\$112	\$219	\$401

Related party purchases from Centennial consist primarily of refinery feedstocks and refined product transportation costs. Related party purchases from Explorer consist primarily of refined product transportation costs. Related party purchases from LOCAP, LOOP and other equity method investees consist primarily of crude oil transportation costs and crude oil purchases. Related party purchases from TAAE, TACE and TAME consist of ethanol purchases.



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Receivables from related parties, which are included in receivables, less allowance for doubtful accounts on the consolidated balance sheets, were as follows:

(In millions)	September 30, 2015	December 31, 2014
Centennial	\$1	\$2
Explorer	—	2
TAME	—	3
Total	\$1	\$7

Payables to related parties, which are included in accounts payable on the consolidated balance sheets, were as follows:

(In millions)	September 30, 2015	December 31, 2014
Explorer	\$2	\$3
LOCAP	2	2
LOOP	4	4
TAAE	2	2
TACE	1	2
TAME	2	5
Total	\$13	\$18

#### 7. Income per Common Share

We compute basic earnings per share by dividing net income attributable to MPC by the weighted average number of shares of common stock outstanding. The average number of shares of common stock and per share amounts have been retroactively restated to reflect the two-for-one stock split completed in June 2015. Diluted income per share assumes exercise of certain stock-based compensation awards, provided the effect is not anti-dilutive.

MPC grants certain incentive compensation awards to employees and non-employee directors that are considered to be participating securities. Due to the presence of participating securities, we have calculated our earnings per share using the two-class method.

(In millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic earnings per share:				
Allocation of earnings:				
Net income attributable to MPC	\$948	\$672	\$2,665	\$1,726
Income allocated to participating securities	1	1	3	3
Income available to common stockholders – basic	\$947	\$671	\$2,662	\$1,723
Weighted average common shares outstanding	535	565	540	575
Basic earnings per share	\$1.77	\$1.19	\$4.93	\$3.00
Diluted earnings per share:				
Allocation of earnings:				
Net income attributable to MPC	\$948	\$672	\$2,665	\$1,726
Income allocated to participating securities	1	1	3	3
Income available to common stockholders – diluted	\$947	\$671	\$2,662	\$1,723
Weighted average common shares outstanding	535	565	540	575
Effect of dilutive securities	3	4	4	4
Weighted average common shares, including dilutive effect	538	569	544	579
Diluted earnings per share	\$1.76	\$1.18	\$4.90	\$2.98



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The following table summarizes the shares that were anti-dilutive and, therefore, were excluded from the diluted share calculation.

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Shares issued under stock-based compensation plans	1	1	1	1

## 8. Equity

On July 29, 2015, our board of directors approved an additional \$2.0 billion share repurchase authorization expiring in July 2017. As of September 30, 2015, our board of directors had approved \$10.0 billion in total share repurchase authorization since January 1, 2012 and we have repurchased a total of \$7.05 billion of our common stock, leaving \$2.95 billion available for repurchases. Under these authorizations, we have acquired 194 million shares at an average cost per share of \$36.36.

We may utilize various methods to effect the repurchases, which could include open market repurchases, negotiated block transactions, accelerated share repurchases or open market solicitations for shares, some of which may be effected through Rule 10b5-1 plans. The timing and amount of future repurchases, if any, will depend upon several factors, including market and business conditions, and such repurchases may be discontinued at any time.

Total share repurchases were as follows for the three and nine months ended September 30, 2015 and 2014:

(In millions, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Number of shares repurchased	3	7	15	33
Cash paid for shares repurchased	\$156	\$301	\$773	\$1,449
Effective average cost per delivered share	\$50.86	\$42.57	\$49.97	\$43.62

At September 30, 2015, we had agreements to acquire 196,000 common shares for \$9 million, which were settled in early October 2015.

On April 29, 2015, our board of directors approved a two-for-one stock split in the form of a stock dividend, which was distributed on June 10, 2015 to shareholders of record at the close of business on May 20, 2015. The total number of authorized shares of common stock and common stock par value per share remain unchanged. All historical share and per share data included in this report have been retroactively restated on a post-split basis.

## 9. Segment Information

We have three reportable segments: Refining & Marketing; Speedway; and Pipeline Transportation. Each of these segments is organized and managed based upon the nature of the products and services it offers.

Refining & Marketing – refines crude oil and other feedstocks at our refineries in the Gulf Coast and Midwest regions of the United States, purchases ethanol and refined products for resale and distributes refined products through various means, including barges, terminals and trucks that we own or operate. We sell refined products to wholesale marketing customers domestically and internationally, to buyers on the spot market, to our Speedway segment and to independent entrepreneurs who operate Marathon® retail outlets.

Speedway – sells transportation fuels and convenience merchandise in retail markets in the Midwest, East Coast and Southeast regions of the United States.

Pipeline Transportation – transports crude oil and other feedstocks to our refineries and other locations, delivers refined products to wholesale and retail market areas. This segment includes the aggregated operations of MPLX.

On September 30, 2014, we acquired Hess' Retail Operations and Related Assets, substantially all of which are part of the Speedway segment. Segment information for the periods prior to the acquisition do not include amounts for these operations. See Note 4.

Segment income represents income from operations attributable to the reportable segments. Corporate administrative expenses and costs related to certain non-operating assets are not allocated to the reportable segments. In addition, certain items that affect comparability (as determined by the chief operating decision maker) are not allocated to the reportable segments.



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(In millions)	Refining & Marketing	Speedway	Pipeline Transportation	Total
Three Months Ended September 30, 2015				
Revenues:				
Customer	\$13,441	\$5,256	\$19	\$18,716
Intersegment <sup>(a)</sup>	3,191	1	145	3,337
Segment revenues	\$16,632	\$5,257	\$164	\$22,053
Segment income from operations <sup>(b)</sup>	\$1,457	\$243	\$72	\$1,772
Income from equity method investments	6	—	17	23
Depreciation and amortization <sup>(c)</sup>	269	63	20	352
Capital expenditures and investments <sup>(d)</sup>	298	130	114	542
(In millions)	Refining & Marketing	Speedway	Pipeline Transportation	Total
Three Months Ended September 30, 2014				
Revenues:				
Customer	\$21,568	\$3,854	\$16	\$25,438
Intersegment <sup>(a)</sup>	2,400	2	136	2,538
Segment revenues	\$23,968	\$3,856	\$152	\$27,976
Segment income from operations <sup>(b)</sup>	\$971	\$119	\$69	\$1,159
Income from equity method investments	17	—	12	29
Depreciation and amortization <sup>(c)</sup>	257	33	20	310
Capital expenditures and investments <sup>(d)(e)</sup>	318	2,707	224	3,249
(In millions)	Refining & Marketing	Speedway	Pipeline Transportation	Total
Nine Months Ended September 30, 2015				
Revenues:				
Customer	\$41,277	\$15,116	\$51	\$56,444
Intersegment <sup>(a)</sup>	9,349	3	427	9,779
Segment revenues	\$50,626	\$15,119	\$478	\$66,223
Segment income from operations <sup>(b)</sup>	\$3,979	\$538	\$218	\$4,735
Income from equity method investments	20	—	38	58
Depreciation and amortization <sup>(c)</sup>	804	188	59	1,051
Capital expenditures and investments <sup>(d)</sup>	734	275	352	1,361

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(In millions)	Refining & Marketing	Speedway	Pipeline Transportation	Total
Nine Months Ended September 30, 2014				
Revenues:				
Customer	\$64,295	\$11,220	\$52	\$75,567
Intersegment <sup>(a)</sup>	7,223	4	396	7,623
Segment revenues	\$71,518	\$11,224	\$448	\$83,190
Segment income from operations <sup>(b)</sup>	\$2,593	\$271	\$222	\$3,086
Income from equity method investments	76	—	45	121
Depreciation and amortization <sup>(c)</sup>	782	90	58	930
Capital expenditures and investments <sup>(d)(e)</sup>	731	2,783	418	3,932

(a) Management believes intersegment transactions were conducted under terms comparable to those with unaffiliated parties.

(b) Corporate overhead expenses attributable to MPLX are included in the Pipeline Transportation segment. Corporate overhead expenses are not allocated to the Refining & Marketing and Speedway segments.

(c) Differences between segment totals and MPC totals represent amounts related to unallocated items and are included in "Items not allocated to segments" in the reconciliation below.

(d) Capital expenditures include changes in capital accruals, acquisitions and investments in affiliates.

(e) The Speedway and Refining & Marketing segments include \$2.63 billion and \$54 million, respectively, for the acquisition of Hess' Retail Operations and Related Assets. See Note 4.

The following reconciles segment income from operations to income before income taxes as reported in the consolidated statements of income:

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Segment income from operations	\$1,772	\$1,159	\$4,735	\$3,086
Items not allocated to segments:				
Corporate and other unallocated items <sup>(a)(b)</sup>	(77)	(76)	(233)	(204)
Pension settlement expenses <sup>(c)</sup>	(2)	(21)	(4)	(90)
Impairment <sup>(d)</sup>	(144)	—	(144)	—
Net interest and other financial income (costs)	(70)	(50)	(215)	(144)
Income before income taxes	\$1,479	\$1,012	\$4,139	\$2,648

(a) Corporate and other unallocated items consists primarily of MPC's corporate administrative expenses and costs related to certain non-operating assets.

(b) Corporate overhead expenses attributable to MPLX are included in the Pipeline Transportation segment. Corporate overhead expenses are not allocated to the Refining & Marketing and Speedway segments.

(c) See Note 19.

(d) Relates to the cancellation of the Residual Oil Upgrader Expansion project. See Note 13.

The following reconciles segment capital expenditures and investments to total capital expenditures:

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Segment capital expenditures and investments	\$542	\$3,249	\$1,361	\$3,932
Less: Investments in equity method investees	72	177	221	341
Plus: Items not allocated to segments:				
Capital expenditures not allocated to segments	33	22	95	60
Capitalized interest	10	7	26	20



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Total capital expenditures <sup>(a)</sup>	\$513	\$3,101	\$1,261	\$3,671
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<sup>(a)</sup> Capital expenditures include changes in capital accruals. See Note 17 for a reconciliation of total capital expenditures to additions to property, plant and equipment as reported in the consolidated statements of cash flows.

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## 10. Other Items

Net interest and other financial income (costs) was:

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Interest income	\$2	\$2	\$5	\$5
Interest expense	(77	) (56	) (226	) (154
Interest capitalized	11	7	27	20
Other financial costs	(6	) (3	) (21	) (15
Net interest and other financial income (costs)	\$(70	) \$(50	) \$(215	) \$(144

## 11. Income Taxes

The combined federal, state and foreign income tax rate was 35 percent and 33 percent for the three months ended September 30, 2015 and 2014 and 35 percent and 34 percent for the nine months ended September 30, 2015 and 2014, respectively. The effective tax rate for the three and nine months ended September 30, 2015 and 2014 is equivalent to or slightly less than the U.S. statutory rate of 35 percent primarily due to certain permanent benefit differences, including the domestic manufacturing deduction, partially offset by state and local tax expense.

We are continuously undergoing examination of our income tax returns, which have been completed for our U.S. federal and state income tax returns through the 2009 and 2003 tax years, respectively. We had \$12 million of unrecognized tax benefits as of September 30, 2015. Pursuant to our tax sharing agreement with Marathon Oil, the unrecognized tax benefits related to pre-spinoff operations for which Marathon Oil was the taxpayer remain the responsibility of Marathon Oil and we have indemnified Marathon Oil accordingly. See Note 21 for indemnification information.

## 12. Inventories

(In millions)

September 30,  
2015