Marathon Petroleum Corp
Form 10-Q
November 05, 2018

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, 2018
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	27-1284632
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
539 South Main Street, Findlay, Ohio	45840-3229
(Address of principal executive offices)	(Zip code)

(419) 422-2121
(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 x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files.) Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes ¨ No x
There were 690,853,526 shares of Marathon Petroleum Corporation common stock outstanding as of October 31, 2018.

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MARATHON PETROLEUM CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018
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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 “th Company” mean Marathon Petroleum Corporation and its consolidated subsidiaries.

GLOSSARY OF TERMS

Throughout this report, the following company or industry specific terms and abbreviations are used:

ASC	Accounting Standards Codification
ASU	Accounting Standards Update
barrel	One stock tank barrel, or 42 United States gallons liquid volume, used in reference to crude oil or other liquid hydrocarbons.
bcf/d	One billion cubic feet per day
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
GAAP	Accounting principles generally accepted in the United States
IDR	Incentive Distribution Right
LCM	Lower of cost or market
LIFO	Last in, first out, an inventory costing method
LLS	Louisiana Light Sweet crude oil, an oil index benchmark price
mbpd	Thousand barrels per day
MMBtu	One million British thermal units, an energy measurement
MMcf/d	One million cubic feet of natural gas per day
NGL	Natural gas liquids, such as ethane, propane, butanes and natural gasoline
OTC	Over-the-Counter
ppm	Parts per million
RIN	Renewable Identification Number
SEC	United States Securities and Exchange Commission
TCJA	Tax Cuts and Jobs Act of 2017
ULSD	Ultra-low sulfur diesel
USGC	U.S. Gulf Coast
VIE	Variable interest entity
WTI	West Texas Intermediate crude oil, an oil index benchmark price

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MARATHON PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share data)	2018	2017	2018	2017
Revenues and other income:				
Sales and other operating revenues[a]	$22,787	$19,053	$63,599	$53,220
Sales to related parties	201	157	572	458
Income from equity method investments	96	84	262	224
Net gain on disposal of assets	1	—	6	12
Other income	47	92	122	219
Total revenues and other income	23,132	19,386	64,561	54,133
Costs and expenses:				
Cost of revenues (excludes items below)[a]	20,457	16,617	57,344	47,664
Purchases from related parties	149	148	428	420
Depreciation and amortization	555	517	1,616	1,574
Selling, general and administrative expenses	445	411	1,271	1,286
Other taxes	123	116	348	339
Total costs and expenses	21,729	17,809	61,007	51,283
Income from operations	1,403	1,577	3,554	2,850
Net interest and other financial costs	240	158	618	465
Income before income taxes	1,163	1,419	2,936	2,385
Provision for income taxes	222	415	525	706
Net income	941	1,004	2,411	1,679
Less net income attributable to:				
Redeemable noncontrolling interest	19	16	55	49
Noncontrolling interests	185	85	527	214
Net income attributable to MPC	$737	$903	$1,829	$1,416
Per Share Data (See Note 8)				
Basic:				
Net income attributable to MPC per share	$1.63	$1.79	$3.96	$2.75
Weighted average shares outstanding	451	504	462	514
Diluted:				
Net income attributable to MPC per share	$1.62	$1.77	$3.92	$2.73
Weighted average shares outstanding	456	508	466	518

(a) The 2018 period reflects an election to present certain taxes on a net basis concurrent with our adoption of ASU 2014-09, Revenue - Revenue from Contracts with Customers ("ASC 606"). See Notes 2 and 3 for further information.

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

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MARATHON PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Net income	$941	$1,004	$2,411	$1,679
Other comprehensive income (loss):				
Defined benefit postretirement and post-employment plans:				
Actuarial changes, net of tax of $24, $2, $29 and $9, respectively	75	4	89	15
Prior service costs, net of tax of ($3), ($4), ($7) and ($12), respectively	(7)	(7)	(21)	(20)
Other, net of tax of ($1), $0, ($2) and $0, respectively	(3)	—	(5)	—
Other comprehensive income (loss)	65	(3)	63	(5)
Comprehensive income	1,006	1,001	2,474	1,674
Less comprehensive income attributable to:				
Redeemable noncontrolling interest	19	16	55	49
Noncontrolling interests	185	85	527	214
Comprehensive income attributable to MPC	$802	$900	$1,892	$1,411

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

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MARATHON PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions, except share data)	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents (MPLX: $37 and $5, respectively)	$ 4,992	$ 3,011
Receivables, less allowance for doubtful accounts of $10 and $11 (MPLX: $462 and $299, respectively)	5,408	4,695
Inventories (MPLX: $81 and $65, respectively)	5,339	5,550
Other current assets (MPLX: $33 and $29, respectively)	134	145
Total current assets	15,873	13,401
Equity method investments (MPLX: $4,104 and $4,010, respectively)	4,910	4,787
Property, plant and equipment, net (MPLX: $14,271 and $12,187, respectively)	27,717	26,443
Goodwill (MPLX: $2,586 and $2,245, respectively)	3,713	3,586
Other noncurrent assets (MPLX: $470 and $479, respectively)	818	830
Total assets	$ 53,031	$ 49,047
Liabilities		
Current liabilities:		
Accounts payable (MPLX: $757 and $621, respectively)	$ 8,016	$ 8,297
Payroll and benefits payable (MPLX: $2 and $1, respectively)	493	591
Accrued taxes (MPLX: $53 and $38, respectively)	657	670
Debt due within one year (MPLX: $1 and $1, respectively)	26	624
Other current liabilities (MPLX: $224 and $130, respectively)	442	296
Total current liabilities	9,634	10,478
Long-term debt (MPLX: $12,889 and $6,945, respectively)	18,423	12,322
Deferred income taxes (MPLX: $13 and $5, respectively)	3,206	2,654
Defined benefit postretirement plan obligations	1,045	1,099
Deferred credits and other liabilities (MPLX: $274 and $230, respectively)	689	666
Total liabilities	32,997	27,219
Commitments and contingencies (see Note 22)		
Redeemable noncontrolling interest	1,003	1,000
Equity		
MPC stockholders’ equity:		
Preferred stock, no shares issued and outstanding (par value $0.01 per share, 30 million shares authorized)	—	—
Common stock:		
Issued – 735 million and 734 million shares (par value $0.01 per share, 1 billion shares authorized)	7	7
Held in treasury, at cost – 284 million and 248 million shares	(12,495)	(9,869)
Additional paid-in capital	13,703	11,262
Retained earnings	14,119	12,864
Accumulated other comprehensive loss	(168)	(231)
Total MPC stockholders’ equity	15,166	14,033
Noncontrolling interests	3,865	6,795

Total equity	19,031	20,828
Total liabilities, redeemable noncontrolling interest and equity	$ 53,031	$ 49,047

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

MARATHON PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Nine Months Ended September 30, 2018	2017
Operating activities:		
Net income	$2,411	$1,679
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs and debt discount	51	46
Depreciation and amortization	1,616	1,574
Pension and other postretirement benefits, net	38	(32)
Deferred income taxes	42	57
Net gain on disposal of assets	(6)	(12)
Income from equity method investments	(262)	(224)
Distributions from equity method investments	345	256
Changes in the fair value of derivative instruments	13	101
Changes in:		
Current receivables	(709)	(296)
Inventories	215	163
Current accounts payable and accrued liabilities	(316)	654
All other, net	(7)	(99)
Net cash provided by operating activities	3,431	3,867
Investing activities:		
Additions to property, plant and equipment	(2,315)	(1,928)
Acquisitions, net of cash acquired	(453)	(249)
Disposal of assets	19	64
Investments – acquisitions, loans and contributions	(222)	(730)
– redemptions, repayments and return of capital	16	60
All other, net	60	166
Net cash used in investing activities	(2,895)	(2,617)
Financing activities:		
Commercial paper – issued	—	300
– repayments	—	(300)
Long-term debt – borrowings	10,735	2,661
– repayments	(5,401)	(470)
Debt issuance costs	(53)	(28)
Issuance of common stock	24	27
Common stock repurchased	(2,612)	(1,622)
Dividends paid	(637)	(578)
Issuance of MPLX LP common units	—	473
Distributions to noncontrolling interests	(599)	(505)
Contributions from noncontrolling interests	9	128
Contingent consideration payment	—	(89)
All other, net	(22)	(44)
Net cash provided by (used in) financing activities	1,444	(47)

Net increase in cash, cash equivalents and restricted cash	1,980	1,203
Cash, cash equivalents and restricted cash at beginning of period	3,015	892
Cash, cash equivalents and restricted cash at end of period	$4,995	$2,095

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

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MARATHON PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY AND REDEEMBALE NONCONTROLLING INTEREST
(Unaudited)

	MPC Stockholders' Equity							
(In millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity	Redeemable Non-controlling Interest
Balance as of December 31, 2016	$7	$(7,482)	$11,060	$10,206	$(234)	$6,646	$20,203	$1,000
Net income	—	—	—	1,416	—	214	1,630	49
Dividends declared	—	—	—	(578)	—	—	(578)	—
Distributions to noncontrolling interests	—	—	—	—	—	(456)	(456)	(49)
Contributions from noncontrolling interests	—	—	—	—	—	128	128	—
Other comprehensive loss	—	—	—	—	(5)	—	(5)	—
Shares repurchased	—	(1,622)	—	—	—	—	(1,622)	—
Stock-based compensation	—	(14)	64	—	—	5	55	—
Impact from equity transactions of MPLX LP	—	—	112	—	—	335	447	—
Balance as of September 30, 2017	$7	$(9,118)	$11,236	$11,044	$(239)	$6,872	$19,802	$1,000
Balance as of December 31, 2017	$7	$(9,869)	$11,262	$12,864	$(231)	$6,795	$20,828	$1,000
Cumulative effect of adopting new accounting standards	—	—	—	63	—	1	64	—
Net income	—	—	—	1,829	—	527	2,356	55
Dividends declared	—	—	—	(637)	—	—	(637)	—
Distributions to noncontrolling interests	—	—	—	—	—	(547)	(547)	(52)
Contributions from noncontrolling interests	—	—	—	—	—	9	9	—
Other comprehensive income	—	—	—	—	63	—	63	—
Shares repurchased	—	(2,612)	—	—	—	—	(2,612)	—
Stock-based compensation	—	(14)	59	—	—	8	53	—
Impact from equity transactions of MPLX LP	—	—	2,382	—	—	(2,928)	(546)	—
Balance as of September 30, 2018	$7	$(12,495)	$13,703	$14,119	$(168)	$3,865	$19,031	$1,003

(Shares in millions)	Common Stock	Treasury Stock
Balance as of December 31, 2016	731	(203)
Shares repurchased	—	(31)
	2	(1)

Shares issued (returned) – stock-based compensation		
Balance as of September 30, 2017	733	(235)
Balance as of December 31, 2017	734	(248)
Shares repurchased	—	(36)
Shares issued – stock-based compensation	1	—
Balance as of September 30, 2018	735	(284)

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 and midstream services conducted primarily in the Midwest, Gulf Coast, East Coast, Northeast and Southeast regions of the United States, through subsidiaries, including Marathon Petroleum Company LP (“MPC LP”), Speedway LLC and its subsidiaries (“Speedway”) and MPLX LP and its subsidiaries (“MPLX”).

See Note 10 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 SEC applicable to interim period financial statements and do not include all of the information and disclosures required by 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, 2017. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year.

Certain prior period financial statement amounts have been reclassified to conform to current period presentation.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Revenue Recognition

As described in Note 3, we adopted ASC 606 effective January 1, 2018. We recognize revenue based on consideration specified in contracts or agreements with customers when we satisfy our performance obligations by transferring control over products or services to a customer. Concurrent with our adoption of ASC 606, we made an accounting policy election that all taxes assessed by a governmental authority that are both imposed on and concurrent with a revenue-producing transaction and collected from our customers will be recognized on a net basis within sales and other operating revenues.

The adoption of ASC 606 did not materially change our revenue recognition patterns, which are described below by reportable segment:

- Refining & Marketing - The vast majority of our Refining & Marketing contracts contain pricing that is based on the market price for the product at the time of delivery. Our obligations to deliver product volumes are typically satisfied and revenue is recognized when control of the product transfers to our customers. Concurrent with the transfer of control, we typically receive the right to payment for the delivered product, the customer accepts the product and the customer has significant risks and rewards of ownership of the product. Payment terms require customers to pay shortly after delivery and do not contain significant financing components.
- Speedway - Revenue is recognized when our customers receive control of the transportation fuels or merchandise. Payments from customers are received at the time sales occur in cash or by credit or debit card. Speedway offers a loyalty rewards program to its customers. We defer a minor portion of revenue on sales to the loyalty program participants until the participants redeem their rewards. The related contract liability, as defined in ASC 606, is not material to our financial statements.
- Midstream - Midstream revenue transactions typically are defined by contracts under which we sell a product or provide a service. Revenues from sales of product are recognized when control of the product transfers to the customer. Revenues from sales of services are recognized over time when the performance obligation is satisfied as services are provided in a series. We have elected to use the output measure of progress to recognize revenue based on the units delivered, processed or transported. The transaction prices in our Midstream contracts often have both fixed

components, related to minimum volume commitments, and variable components, which are primarily dependent on volumes. Variable consideration will generally not be estimated at contract inception as the transaction price is specifically allocable to the services provided at each period end.

Refer to Note 10 for disclosure of our revenue disaggregated by segment and product line, as well as a description of our reportable segment operations.

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3. ACCOUNTING STANDARDS

Recently Adopted

ASU 2014-09, Revenue - Revenue from Contracts with Customers (ASC 606)

On January 1, 2018, we adopted the new revenue standard, applying the modified retrospective method, whereby a cumulative effect is recorded to opening retained earnings and ASC 606 is applied prospectively. We recorded a net increase of $1 million to our retained earnings balance as of January 1, 2018 due to the cumulative effect of applying the new revenue standard.

Impact of Adoption

The adoption of ASC 606 did not materially change our revenue recognition patterns. The most significant impacts of adopting ASC 606 for the three and nine month periods ended September 30, 2018 are as follows:

- a reduction of sales and other operating revenues of $1.40 billion for the three months ended September 30, 2018 and $4.01 billion for the nine months ended September 30, 2018 due to our accounting policy election to present taxes incurred concurrently with revenue producing transactions and collected on behalf of our customers on a net basis. For the three and nine months ended September 30, 2017, taxes are reflected on a gross basis in sales and other operating revenues and cost of revenues, and include $1.34 billion and $3.81 billion, respectively, of taxes that are now subject to our net basis accounting policy election.
- an increase to both sales and other operating revenues and cost of revenues of $148 million for the three months ended September 30, 2018 and $388 million for the nine months ended September 30, 2018 related to certain Midstream contract provisions for third-party reimbursements, non-cash consideration and imbalances that require gross presentation under ASC 606. Comparative information continues to be reported under the accounting standards in effect for those periods.

Practical Expedients

We elected the completed contract practical expedient and only applied ASC 606 to contracts that were not completed as of January 1, 2018.

We do not disclose information on the future performance obligations for any contract with expected duration of one year or less at inception. As of September 30, 2018, we do not have future performance obligations that are material to future periods.

Receivables

On the accompanying consolidated balance sheets, receivables, less allowance for doubtful accounts primarily consists of customer receivables. Significant, non-customer balances included in our receivables at September 30, 2018 include matching buy/sell receivables of $1.73 billion and income tax receivables of $102 million.

ASU 2016-16, Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory

We adopted this ASU in the first quarter of 2018 and recorded a $61 million cumulative-effect adjustment as an increase to retained earnings as of January 1, 2018 with the offset recorded as a reduction to deferred income taxes.

We also adopted the following ASUs during the first nine months of 2018, none of which had a material impact to our financial statements or financial statement disclosures:

ASU		Effective Date
2017-09	Stock Compensation - Scope of Modification Accounting	January 1, 2018
2017-07	Retirement Benefits - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost	January 1, 2018
2017-05	Gains and Losses from the Derecognition of Nonfinancial Assets - Clarifying the Scope of Asset Derecognition Guidance	January 1, 2018
2017-01	Business Combinations - Clarifying the Definition of a Business	January 1, 2018
2016-18	Statement of Cash Flows - Restricted Cash	January 1, 2018

2016-15	Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments	January 1, 2018
2016-01	Financial Instruments - Recognition and Measurement of Financial Assets and Liabilities	January 1, 2018

Not Yet Adopted

ASU 2018-02, Reporting Comprehensive Income - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued an ASU allowing an entity the choice to reclassify to retained earnings the tax effects related to the TCJA that are stranded in accumulated other comprehensive income. We do not expect adoption of this standard to have a material impact on our financial statements. The amendment is effective beginning in 2019.

ASU 2017-12, Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued an ASU to amend the hedge accounting rules to simplify the application of hedge accounting guidance and better portray the economic results of risk management activities in the financial statements. The guidance expands the ability to hedge nonfinancial and financial risk components, reduces complexity in fair value hedges of interest rate risk, eliminates the requirement to separately measure and report hedge ineffectiveness and eases certain hedge effectiveness assessment requirements. The guidance is effective beginning in 2019. We are currently evaluating the impact of this guidance, including transition elections and required disclosures, on our financial statements and the timing of adoption. However, since we have not historically designated our commodity derivatives as hedges, we do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

ASU 2017-04, Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued an ASU which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the new guidance, the recognition of an impairment charge is calculated based on the amount by which the carrying amount exceeds the reporting unit’s fair value, which could be different from the amount calculated under the current method using the implied fair value of the goodwill; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The guidance should be applied on a prospective basis, and is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019.

ASU 2016-13, Credit Losses - Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued an ASU related to the accounting for credit losses on certain financial instruments. The guidance requires that for most financial assets, losses be based on an expected loss approach which includes estimates of losses over the life of exposure that considers historical, current and forecasted information. Expanded disclosures related to the methods used to estimate the losses as well as a specific disaggregation of balances for financial assets are also required. The change is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We do not expect application of this ASU to have a material impact on our consolidated financial statements.

ASU 2016-02 and 2018-11, Leases

In February 2016, the FASB issued an ASU requiring lessees to record virtually all leases on their balance sheets. The ASU also requires expanded disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. For lessors, this amended guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance will be effective for fiscal years beginning after December 15, 2018, and interim periods within those years. We will transition to the new guidance by recording leases on our balance sheet as of January 1, 2019. We continue to evaluate the impact of this standard on our financial statements, disclosures, internal controls and accounting policies. This evaluation process includes reviewing all forms of leases, performing a completeness assessment over the lease population and analyzing the practical expedients in order to determine the best path of implementing changes to existing processes and controls. We are implementing a third-party supported lease accounting information system to account for our lease population in accordance with this new standard and establishing internal controls over the new system. We have completed a significant portion of the design and testing of the new system and commenced lease data loading and testing. We believe the adoption of the standard will have a material impact on our consolidated financial statements as virtually all leases will be recognized as a right of use asset and lease obligation.

4. MPLX LP

MPLX is a diversified, growth-oriented publicly traded master limited partnership formed by us to own, operate, develop and acquire midstream energy infrastructure assets. MPLX is engaged in the gathering, processing and transportation of natural gas; the gathering, transportation, fractionation, storage and marketing of NGLs; and the transportation, storage, distribution and marketing of crude oil and refined petroleum products.

As of September 30, 2018, we owned 63.6 percent of the outstanding MPLX common units and we control MPLX through our ownership of the general partner of MPLX. MPLX is a VIE because the limited partners of MPLX do not have substantive kick-out or substantive participating rights over the general partner. We are the primary beneficiary of MPLX because in

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addition to our significant economic interest, we also have the power, through our 100 percent ownership of the general partner, to control the decisions that most significantly impact MPLX. We therefore consolidate MPLX and record a noncontrolling interest for the 36.4 percent interest owned by the public. We also record a redeemable noncontrolling interest related to MPLX’s preferred units.

The creditors of MPLX do not have recourse to MPC’s general credit through guarantees or other financial arrangements. The assets of MPLX are the property of MPLX and cannot be used to satisfy the obligations of MPC. MPC has effectively guaranteed certain indebtedness of LOOP LLC (“LOOP”) and LOCAP LLC (“LOCAP”), in which MPLX holds an interest. See Note 22 for more information.

Dropdowns to MPLX and GP/IDR Exchange

On February 1, 2018, we contributed our refining logistics assets and fuels distribution services to MPLX in exchange for $4.1 billion in cash and approximately 112 million common units and 2 million general partner units from MPLX. MPLX financed the cash portion of the transaction with its $4.1 billion 364-day term loan facility, which was entered into on January 2, 2018. We agreed to waive approximately one-third of the first quarter 2018 distributions on the common units issued in connection with this transaction. The contributions of these assets were accounted for as transactions between entities under common control and we did not record a gain or loss.

Immediately following the February 1, 2018 dropdown to MPLX, our IDRs were cancelled and our economic general partner interest was converted into a non-economic general partner interest, all in exchange for 275 million newly issued MPLX common units (“GP/IDR Exchange”). As a result of this transaction, the general partner units and IDRs were eliminated, are no longer outstanding and no longer participate in distributions of cash from MPLX.

On September 1, 2017, we contributed our joint-interest ownership in certain pipelines and storage facilities to MPLX in exchange for $420 million in cash and approximately 19 million common units and 378 thousand general partner units from MPLX. We also agreed to waive approximately two-thirds of the third quarter 2017 common unit distributions, IDRs and general partner distributions with respect to the common units issued in this transaction. The contributions of these assets were accounted for as transactions between entities under common control and we did not record a gain or loss.

On March 1, 2017, we contributed certain terminal, pipeline and storage assets to MPLX in exchange for $1.5 billion in cash and approximately 13 million common units and 264 thousand general partner units from MPLX. We also agreed to waive two-thirds of the first quarter 2017 common unit distributions, IDRs and general partner distributions with respect to the common units issued in this transaction. The contributions of these assets were accounted for as transactions between entities under common control and we did not record a gain or loss.

Noncontrolling Interest in MPLX

As a result of equity transactions of MPLX, we are required to adjust non-controlling interest and additional paid-in capital. Changes in MPC’s additional paid-in capital resulting from changes in its ownership interests in MPLX were as follows:

	Nine Months Ended September 30,	
(In millions)	2018	2017
Increase due to the issuance of MPLX LP common units to the public	$6	$25
Increase due to the issuance of MPLX LP common units and general partner units to MPC	1,114	113
Increase due to GP/IDR Exchange	1,808	—
Increase in MPC's additional paid-in capital	2,928	138
Tax impact	(546)	(26)
Increase in MPC's additional paid-in capital, net of tax	$2,382	$112

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Agreements

We have various long-term, fee-based commercial agreements with MPLX. Under these agreements, MPLX provides transportation, storage, distribution and marketing services to us. Under certain agreements, we commit to provide MPLX with minimum quarterly throughput and distribution volumes of crude oil and refined products and minimum storage volumes of crude oil, refined products and butane. Under certain other agreements, we commit to pay for 100 percent of available capacity for certain marine transportation and refining logistics assets. We also have agreements with MPLX that establish fees for operational and management services provided between us and MPLX and for executive management services and certain general and administrative services provided by us to MPLX. These transactions are eliminated in consolidation, but are reflected as intersegment transactions between our Refining & Marketing and Midstream segments.

5. ACQUISITIONS

Acquisition of Andeavor

On October 1, 2018, we completed the acquisition of Andeavor. Under the terms of the merger agreement, Andeavor stockholders had the option to choose 1.87 shares of MPC common stock or $152.27 in cash per share of Andeavor common stock. The merger agreement included election proration provisions that resulted in approximately 22.9 million shares of Andeavor common stock being converted into cash consideration and the remaining 128.2 million shares of Andeavor common stock being converted into stock consideration. Andeavor stockholders received in the aggregate approximately 239.8 million shares of MPC common stock valued at $19.8 billion and approximately $3.5 billion in cash in connection with the Andeavor acquisition.

We are completing our analysis of the purchase price consideration and estimating the fair value of assets acquired and liabilities assumed in connection with the Andeavor acquisition, which is likely to result in a significant amount of goodwill.

We recognized $14 million in transaction costs related to the Andeavor acquisition, which are reflected in selling, general and administrative expenses for the nine months ended September 30, 2018.

Acquisition of Mt. Airy Terminal

On September 26, 2018, MPLX acquired an eastern U.S. Gulf Coast export terminal (“Mt. Airy Terminal”) from Pin Oak Holdings, LLC for total consideration of $451 million. The terminal includes 4 million barrels of third-party leased storage capacity and a 120 mbpd dock. The Mt. Airy Terminal is located on the Mississippi River between New Orleans and Baton Rouge, near several Gulf Coast refineries, including our Garyville Refinery, and numerous rail lines and pipelines. The Mt. Airy Terminal will be accounted for within the Midstream segment.

MPLX is still in the process of finalizing the fair value of assets acquired and liabilities assumed, however, the provisional amounts that have been recorded are $330 million for property, plant and equipment and $126 million for goodwill with the remaining difference from the acquisition price being attributable primarily to net assumed liabilities. Goodwill represents the significant growth potential of the terminal due to the multiple pipelines and rail lines which cross the property, the terminal’s position as an aggregation point for liquids growth in the region for both ocean-going vessels and inland barges, the proximity of the terminal to our Garyville refinery and other refineries in the region as well as the capability to construct an additional dock at the site.

The amount of revenue and income from operations associated with the acquisition from the terminal acquisition date to September 30, 2018 did not have a material impact on the consolidated financial statements. In addition, assuming the terminal acquisition had occurred on January 1, 2017, the consolidated pro forma results would not have been materially different from the reported results.

Acquisition of Ozark Pipeline

On March 1, 2017, MPLX acquired the Ozark pipeline from Enbridge Pipelines (Ozark) LLC for approximately $219 million, including purchase price adjustments made in the second quarter of 2017. Based on the fair value of assets acquired and liabilities assumed at the acquisition date, the final purchase price was primarily allocated to property, plant and equipment. The Ozark pipeline is a 433-mile, 22-inch diameter crude oil pipeline originating in Cushing, Oklahoma, and terminating in Wood River, Illinois, capable of transporting approximately 230 mbpd. We account for the Ozark pipeline within the Midstream segment.

Assuming the acquisition of the Ozark pipeline had occurred on January 1, 2016, the consolidated pro forma results would not have been materially different from reported results.

Investment in Pipeline Company

On February 15, 2017, MPLX acquired a partial, indirect equity interest in the Dakota Access Pipeline (“DAPL”) and Energy Transfer Crude Oil Company Pipeline (“ETCOP”) projects, collectively referred to as the Bakken Pipeline system, through a joint venture with Enbridge Energy Partners L.P. (“Enbridge Energy Partners”). The Bakken Pipeline system is capable of transporting more than 520 mbpd of crude oil from the Bakken/Three Forks production area in North Dakota to the Midwest through Patoka, Illinois and ultimately to the Gulf Coast. MPLX contributed $500 million of the $2 billion purchase price paid by the joint venture, MarEn Bakken Company LLC (“MarEn Bakken”), to acquire a 36.75 percent indirect equity interest in the Bakken Pipeline system from Energy Transfer Partners, L.P. (“ETP”) and Sunoco Logistics Partners, L.P. (“SXL”). MPLX holds, through a subsidiary, a 25 percent interest in MarEn Bakken, which equates to an approximate 9.2 percent indirect equity interest in the Bakken Pipeline system. We account for the investment in MarEn Bakken as part of our Midstream segment using the equity method of accounting.

Formation of Gathering and Processing Joint Venture

Effective January 1, 2017, MPLX and Antero Midstream formed a joint venture, Sherwood Midstream LLC (“Sherwood Midstream”), to support the development of Antero Resources Corporation’s Marcellus Shale acreage in West Virginia. MPLX has a 50 percent ownership interest in Sherwood Midstream. In connection with this transaction, MPLX contributed assets then under construction at the Sherwood Complex with a fair value of approximately $134 million and cash of approximately $20 million. Antero Midstream made an initial capital contribution of approximately $154 million.

Also effective January 1, 2017, MPLX converted all of its ownership interests in MarkWest Ohio Fractionation Company, L.L.C. (“Ohio Fractionation”), a previously wholly-owned subsidiary, to Class A Interests and amended its LLC Agreement to create Class B-3 Interests, which were sold to Sherwood Midstream for $126 million in cash. The Class B-3 Interests provide Sherwood Midstream with the right to fractionation revenue and the obligation to pay expenses related to 20 mbpd of capacity in the Hopedale 3 fractionator.

Effective January 1, 2017, MPLX and Sherwood Midstream formed a joint venture, Sherwood Midstream Holdings LLC (“Sherwood Midstream Holdings”), for the purpose of owning, operating and maintaining all of the shared assets for the benefit of and use in the operation of the gas plants and other assets owned by Sherwood Midstream and the gas plants and deethanization facilities owned by MPLX. MPLX contributed certain real property, equipment and facilities with a fair value of approximately $209 million to Sherwood Midstream Holdings in exchange for a 79 percent initial ownership interest. Sherwood Midstream contributed cash of approximately $44 million to Sherwood Midstream Holdings in exchange for a 21 percent initial ownership interest. The net book value of the contributed assets was approximately $203 million. The contribution was determined to be an in-substance sale of real estate. During the nine months ended September 30, 2018, MPLX sold to Sherwood Midstream six percent of its equity ownership in Sherwood Midstream Holdings for $15 million.

We account for our direct interests in Sherwood Midstream and Sherwood Midstream Holdings as part of our Midstream segment using the equity method of accounting. We continue to consolidate Ohio Fractionation and have recognized a noncontrolling interest for Sherwood Midstream’s interest in that entity.

See Note 6 for additional information related to the investments in Sherwood Midstream, Ohio Fractionation and Sherwood Midstream Holdings.

6. VARIABLE INTEREST ENTITIES

In addition to MPLX, as described in Note 4, the following entities are also VIEs.

Crowley Coastal Partners

In May 2016, Crowley Coastal Partners LLC (“Crowley Coastal Partners”) was formed to own an interest in both Crowley Ocean Partners LLC (“Crowley Ocean Partners”) and Crowley Blue Water Partners LLC (“Crowley Blue Water Partners”). We have determined that Crowley Coastal Partners is a VIE based on the terms of the existing financing arrangements for Crowley Blue Water Partners and Crowley Ocean Partners and the associated debt guarantees by MPC and Crowley. Our maximum exposure to loss at September 30, 2018 was $483 million, which includes our equity method investment in Crowley Coastal Partners and the debt guarantees provided to each of the lenders to

Crowley Blue Water Partners and Crowley Ocean Partners. 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 outcomes of the entity and, therefore, do not consolidate the entity.

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MarkWest Utica EMG

On January 1, 2012, MarkWest Utica Operating Company, LLC (“Utica Operating”), a wholly-owned and consolidated subsidiary of MarkWest, and EMG Utica, LLC (“EMG Utica”), executed agreements to form a joint venture, MarkWest Utica EMG LLC (“MarkWest Utica EMG”), to develop significant natural gas gathering, processing and NGL fractionation, transportation and marketing infrastructure in eastern Ohio.

As of September 30, 2018, MPLX had a 56 percent ownership interest in MarkWest Utica EMG. MarkWest Utica EMG's inability to fund its planned activities without subordinated financial support qualify it as a VIE. Utica Operating is not deemed to be the primary beneficiary due to EMG Utica’s voting rights on significant matters. We account for our ownership interest in MarkWest Utica EMG as an equity method investment. Our maximum exposure to loss as a result of our involvement with MarkWest Utica EMG includes our equity investment, any additional capital contribution commitments and any operating expenses incurred by the subsidiary operator in excess of compensation received for the performance of the operating services. Our equity investment in MarkWest Utica EMG at September 30, 2018 was $2.1 billion.

Ohio Gathering

Ohio Gathering Company, L.L.C. (“Ohio Gathering”) is a subsidiary of MarkWest Utica EMG and is engaged in providing natural gas gathering services in the Utica Shale in eastern Ohio. Ohio Gathering is a joint venture between MarkWest Utica EMG and Summit Midstream Partners, LLC. As of September 30, 2018, MPLX had a 34 percent indirect ownership interest in Ohio Gathering. As this entity is a subsidiary of MarkWest Utica EMG, which is accounted for as an equity method investment, MPLX reports its portion of Ohio Gathering’s net assets as a component of its investment in MarkWest Utica EMG.

Sherwood Midstream

As described in Note 5, MPLX and Antero Midstream formed a joint venture, Sherwood Midstream, to support the development of Antero Resources Corporation’s Marcellus Shale acreage in West Virginia. As of September 30, 2018, MPLX had a 50 percent ownership interest in Sherwood Midstream. Sherwood Midstream’s inability to fund its planned activities without additional subordinated financial support qualify it as a VIE. MPLX is not deemed to be the primary beneficiary, due to Antero Midstream’s voting rights on significant matters. We account for our ownership interest in Sherwood Midstream using the equity method of accounting. Our maximum exposure to loss as a result of our involvement with Sherwood Midstream includes our equity investment, any additional capital contribution commitments and any operating expenses incurred by the subsidiary operator in excess of compensation received for the performance of the operating services. Our equity investment in Sherwood Midstream at September 30, 2018 was $325 million.

Ohio Fractionation

As described in Note 5, MPLX converted all of its ownership interests in Ohio Fractionation to Class A Interests and amended its LLC Agreement to create Class B-3 Interests, which were sold to Sherwood Midstream, providing it with the right to fractionation revenue and the obligation to pay expenses related to 20 mbpd of capacity in the Hopedale 3 fractionator. Ohio Fractionation’s inability to fund its operations without additional subordinated financial support qualify it as a VIE. MPLX has been deemed to be the primary beneficiary of Ohio Fractionation because it has control over decisions that could significantly impact its financial performance, and as a result, consolidates Ohio Fractionation.

Sherwood Midstream Holdings

As described in Note 5, MPLX and Sherwood Midstream entered into a joint venture, Sherwood Midstream Holdings, for the purpose of owning, operating and maintaining all of the shared assets for the benefit of and use in the operation of the gas plants and other assets owned by Sherwood Midstream and the gas plants and deethanization facilities owned by MPLX. MPLX had an initial 79 percent direct ownership in Sherwood Midstream Holdings, in addition to an initial 10.5 percent indirect interest through its ownership in Sherwood Midstream. Sherwood Midstream Holdings’ inability to fund its operations without additional subordinated financial support qualify it as a VIE. We account for our ownership interest in Sherwood Midstream Holdings using the equity method of accounting as Sherwood Midstream is considered to be the general partner and controls all decisions related to Sherwood Midstream Holdings.

Our maximum exposure to loss as a result of our involvement with Sherwood Midstream Holdings includes our equity investment, any additional capital contribution commitments and any operating expenses incurred by the subsidiary operator in excess of compensation received for the performance of the operating services. Our equity investment in Sherwood Midstream Holdings at September 30, 2018 was $155 million.

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7. RELATED PARTY TRANSACTIONS

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

Significant transactions with related parties were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Sales to related parties[(a)]	$201	$157	$572	$458
Purchases from related parties[(b)]	149	148	428	420

(a) Sales to related parties consists primarily of sales of refined products to PFJ Southeast, an equity affiliate which owns and operates travel plazas primarily in the Southeast region of the United States.

(b) We obtain transportation services and purchase ethanol from certain of our equity affiliates, none of which is individually material.

8. INCOME PER COMMON SHARE

We compute basic earnings per share by dividing net income attributable to MPC less income allocated to participating securities by the weighted average number of shares of common stock outstanding. Since MPC grants certain incentive compensation awards to employees and non-employee directors that are considered to be participating securities, we have calculated our earnings per share using the two-class method. Diluted income per share assumes exercise of certain stock-based compensation awards, provided the effect is not anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share data)	2018	2017	2018	2017
Basic earnings per share:				
Allocation of earnings:				
Net income attributable to MPC	$737	$903	$1,829	$1,416
Income allocated to participating securities	—	—	1	1
Income available to common stockholders – basic	$737	$903	$1,828	$1,415
Weighted average common shares outstanding	451	504	462	514
Basic earnings per share	$1.63	$1.79	$3.96	$2.75
Diluted earnings per share:				
Allocation of earnings:				
Net income attributable to MPC	$737	$903	$1,829	$1,416
Income allocated to participating securities	—	—	1	1
Income available to common stockholders – diluted	$737	$903	$1,828	$1,415
Weighted average common shares outstanding	451	504	462	514
Effect of dilutive securities	5	4	4	4
Weighted average common shares, including dilutive effect	456	508	466	518
Diluted earnings per share	$1.62	$1.77	$3.92	$2.73

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Shares issuable under stock-based compensation plans	—	1	—	1

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9. EQUITY

As of September 30, 2018, we had $5.58 billion of share repurchase authorization remaining under authorizations from our board of directors. 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share data)	2018	2017	2018	2017
Number of shares repurchased	5	8	36	31
Cash paid for shares repurchased	$400	$452	$2,612	$1,622
Average cost per share	$73.03	$53.85	$71.80	$52.16

Our dividend payments were $0.46 and $0.40 per common share for the three months ended September 30, 2018 and 2017, respectively, and $1.38 and $1.12 per common share for the nine months ended September 30, 2018 and 2017, respectively.

10. SEGMENT INFORMATION

We have three reportable segments: Refining & Marketing; Speedway; and Midstream. 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 six refineries in the Gulf Coast and Midwest regions of the United States, purchases refined products and ethanol for resale and distributes refined products through transportation, storage, distribution and marketing services provided by our Midstream segment. We sell refined products to wholesale marketing customers domestically and internationally, to buyers on the spot market, to our Speedway business 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, Southeast and Gulf Coast regions of the United States.
- Midstream – gathers, processes and transports natural gas; gathers, transports, fractionates, stores and markets NGLs; and transports, stores, distributes and markets crude oil and refined products principally for the Refining & Marketing segment via refining logistics assets, pipelines, terminals, towboats and barges. The Midstream segment primarily reflects the results of MPLX, our sponsored master limited partnership.

As discussed in Note 4, on February 1, 2018, we contributed certain refining logistics assets and fuels distribution services to MPLX. The results of these new businesses are reported in the Midstream segment prospectively from February 1, 2018, resulting in a net reduction of $230 million and $643 million to Refining & Marketing segment results and a net increase to Midstream segment results of the same amount for the three and nine months ended September 30, 2018, respectively. No effect was given to prior periods as these entities were not considered businesses prior to February 1, 2018.

Segment income represents income from operations attributable to the reportable segments. Corporate administrative expenses, except for those attributable to MPLX, 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. In the third quarter we began reporting segment capital expenditures and investments excluding acquisitions in the current and comparative periods.

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(In millions)	Refining & Marketing	Speedway	Midstream	Total
Three Months Ended September 30, 2018				
Revenues:				
Third party	$ 16,552	$ 5,393	$ 842	$22,787
Intersegment	2,931	1	787	3,719
Related party	199	2	—	201
Segment revenues	$ 19,682	$ 5,396	$ 1,629	$26,707
Segment income from operations	$ 666	$ 161	$ 679	$1,506
Income from equity method investments	7	18	71	96
Depreciation and amortization[(a)]	257	76	205	538
Capital expenditures and investments[(b)]	226	98	593	917

(In millions)	Refining & Marketing	Speedway	Midstream	Total
Three Months Ended September 30, 2017				
Revenues:				
Third party	$ 13,573	$ 4,895	$ 585	$19,053
Intersegment[(c)]	2,904	1	369	3,274
Related party	155	2	—	157
Segment revenues	$ 16,632	$ 4,898	$ 954	$22,484
Segment income from operations	$ 1,097	$ 208	$ 355	$1,660
Income from equity method investments[(a)]	6	20	57	83
Depreciation and amortization[(a)]	266	68	169	503
Capital expenditures and investments[(b)]	198	108	423	729

(In millions)	Refining & Marketing	Speedway	Midstream	Total
Nine Months Ended September 30, 2018				
Revenues:				
Third party	$ 46,069	$ 15,225	$ 2,305	$63,599
Intersegment	8,181	4	2,180	10,365
Related party	566	6	—	572
Segment revenues	$ 54,816	$ 15,235	$ 4,485	$74,536
Segment income from operations	$ 1,558	$ 415	$ 1,863	$3,836
Income from equity method investments[(a)]	14	51	196	261
Depreciation and amortization[(a)]	761	228	577	1,566
Capital expenditures and investments[(b)]	613	225	1,676	2,514

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(In millions)	Refining & Marketing	Speedway	Midstream	Total
Nine Months Ended September 30, 2017				
Revenues:				
Third party	$ 37,485	$ 14,070	$ 1,665	$53,220
Intersegment[(c)]	8,302	3	1,076	9,381
Related party	452	6	—	458
Segment revenues	$ 46,239	$ 14,079	$ 2,741	$63,059
Segment income from operations	$ 1,589	$ 581	$ 996	$3,166
Income from equity method investments[(a)]	10	54	139	203
Depreciation and amortization[(a)]	805	197	528	1,530
Capital expenditures and investments[(b)]	570	221	1,267	2,058

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

(b) Capital expenditures include changes in capital accruals and investments in affiliates. See reconciliation from segment totals to MPC total capital expenditures below.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Segment income from operations	$1,506	$1,660	$3,836	$3,166
Items not allocated to segments:				
Corporate and other unallocated items[(a)]	(103)	(85)	(283)	(251)
Litigation	—	—	—	(86)
Impairments[(b)]	—	2	1	21
Income from operations	1,403	1,577	3,554	2,850
Net interest and other financial costs	240	158	618	465
Income before income taxes	$1,163	$1,419	$2,936	$2,385

(a) Corporate and other unallocated items consists primarily of MPC’s corporate administrative expenses and costs related to certain non-operating assets, except for corporate overhead expenses attributable to MPLX, which are included in the Midstream segment. Corporate overhead expenses are not allocated to the Refining & Marketing and Speedway segments.

(b) Includes MPC’s share of gains from the sale of assets remaining from the canceled Sandpiper pipeline project.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Segment capital expenditures and investments	$917	$729	$2,514	$2,058
Less investments in equity method investees	104	53	222	230

Plus items not allocated to segments:				
Corporate	7	19	42	53
Capitalized interest	21	13	55	39
Total capital expenditures[a]	$841	$708	$2,389	$1,920

(a) Capital expenditures include changes in capital accruals. See Note 18 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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Revenues by product line were as follows:

(In millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Refined products	$19,815	$16,374	$55,265	$45,689
Merchandise	1,340	1,370	3,756	3,905
Crude oil and refinery feedstocks	1,011	878	2,872	2,389
Midstream services, transportation and other	621	431	1,706	1,237
Sales and other operating revenues	$22,787	$19,053	$63,599	$53,220

11. NET INTEREST AND OTHER FINANCIAL COSTS

Net interest and other financial costs were as follows:

(In millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Interest income	$(26)	$(7)	$(71)	$(16)
Interest expense	233	172	675	508
Interest capitalized	(21)	(14)	(55)	(47)
Pension and other postretirement non-service costs[(a)]	45	1	47	—
Loss on extinguishment of debt	—	—	4	—
Other financial costs	9	6	18	20
Net interest and other financial costs	$240	$158	$618	$465

[(a)] See Note 20.

12. INCOME TAXES

The combined federal, state and foreign income tax rate was 19 percent and 29 percent for the three months ended September 30, 2018 and 2017, respectively, and 18 percent and 30 percent for the nine months ended September 30, 2018 and 2017, respectively. The effective tax rate for the three and nine months ended September 30, 2018 was less than the U.S. statutory rate of 21 percent primarily due to certain permanent tax differences related to net income attributable to noncontrolling interest offset by state and local tax expense. The effective tax rate for the three and nine months ended September 30, 2017 was less than the then applicable U.S. statutory rate of 35 percent primarily due to certain permanent tax differences related to net income attributable to noncontrolling interest, the domestic manufacturing deduction and equity compensation offset by state and local tax expense.

We are continuously undergoing examination of our income tax returns, which have been completed through the 2007 tax year for state returns and the 2009 tax year for our U.S. federal return. As of September 30, 2018, we had $21 million of unrecognized tax benefits.

Prior to its spin-off on June 30, 2011, Marathon Petroleum Corporation was included in the Marathon Oil Corporation (“Marathon Oil”) federal income tax returns for all applicable years. During the third quarter of 2017, Marathon Oil received a notice of Final Partnership Administrative Adjustment (“FPAA”) from the U.S. Internal Revenue Service for taxable year 2010, relating to certain pre-spinoff transactions. Marathon Oil filed a U.S. Tax Court petition disputing these adjustments during the fourth quarter of 2017. We received an FPAA for taxable years 2011-2014 for items resulting from this matter and filed a U.S. Tax Court petition for tax years 2011-2014 to dispute these corollary adjustments in the fourth quarter of 2017. We continue to believe that the issue in dispute is more likely than not to be fully sustained and, therefore, no liability has been accrued for this matter.

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 22 for indemnification information.

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13. INVENTORIES

(In millions)	September 30, 2018	December 31, 2017
Crude oil and refinery feedstocks	$ 1,717	$ 2,056
Refined products	3,005	2,839
Materials and supplies	465	494
Merchandise	152	161
Total	$ 5,339	$ 5,550

Inventories are carried at the lower of cost or market value. The cost of inventories of crude oil and refinery feedstocks, refined products and merchandise is determined primarily under the LIFO method. There were no material LIFO inventory liquidations recognized for the nine months ended September 30, 2018.

14. PROPERTY, PLANT AND EQUIPMENT

(In millions)	September 30, 2018	December 31, 2017
Refining & Marketing[a]	$ 18,708	$ 19,490
Speedway	5,520	5,358
Midstream[a]	18,213	14,898
Corporate and Other	835	792
Total	43,276	40,538
Less accumulated depreciation	15,559	14,095
Property, plant and equipment, net	$ 27,717	$ 26,443

(a) On February 1, 2018, we contributed certain refining logistics assets and fuels distribution services to MPLX. In connection with this transaction, approximately $830 million of net property, plant and equipment was recorded to the Midstream segment with an offsetting reduction to the Refining & Marketing segment.

We own a 33 percent undivided joint interest in the Capline Pipeline System (“Capline”), a crude oil pipeline that runs from St. James, Louisiana to Patoka, Illinois. We account for this undivided joint interest by recognizing our proportionate share of Capline’s assets on our balance sheet, which are primarily classified as property, plant and equipment. Capline experienced a significant reduction in shipment volumes in the second quarter of 2018 primarily due to recently completed competing pipelines. The pipeline’s owners are proceeding with planning for the reversal of the pipeline to support southbound movements of crude oil as supported by shipper interest indicated during a non-binding open season conducted in 2017. Pending agreement among the owners, southbound service is estimated to commence by the second half of 2022. In the second quarter of 2018, we evaluated our share of Capline assets for impairment in accordance with ASC 360, and determined no impairment existed due to the probability of continuing future cash flows associated with a reversed Capline. We continue to monitor developments in the commercial outlook for Capline and noted no significant changes in the third quarter. As of September 30, 2018, our carrying value was $154 million.

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15. FAIR VALUE MEASUREMENTS

Fair Values—Recurring

The following tables present assets and liabilities accounted for at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 by fair value hierarchy level. We have elected to offset the fair value amounts recognized for multiple derivative contracts executed with the same counterparty, including any related cash collateral as shown below; however, fair value amounts by hierarchy level are presented on a gross basis in the following tables.