

Marathon Petroleum Corp
Form 10-Q
November 07, 2013
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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, 2013

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

(I.R.S. Employer

incorporation or organization)

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 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 301,026,678 shares of Marathon Petroleum Corporation common stock outstanding as of October 31, 2013.

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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, 2013	2012	September 30, 2013	2012
Revenues and other income:				
Sales and other operating revenues (including consumer excise taxes)	\$26,253	\$21,047	\$75,256	\$61,551
Sales to related parties	3	2	7	6
Income from equity method investments	9	7	16	18
Net gain on disposal of assets	1	175	3	178
Other income	8	18	40	28
Total revenues and other income	26,274	21,249	75,322	61,781
Costs and expenses:				
Cost of revenues (excludes items below)	23,553	17,202	65,907	51,323
Purchases from related parties	103	84	254	204
Consumer excise taxes	1,631	1,463	4,685	4,271
Depreciation and amortization	299	246	888	712
Selling, general and administrative expenses	305	293	912	909
Other taxes	82	66	259	204
Total costs and expenses	25,973	19,354	72,905	57,623
Income from operations	301	1,895	2,417	4,158
Net interest and other financial income (costs)	(47)	(25)	(140)	(64)
Income before income taxes	254	1,870	2,277	4,094
Provision for income taxes	81	646	775	1,460
Net income	173	1,224	1,502	2,634
Less net income attributable to noncontrolling interests	5	—	16	—
Net income attributable to MPC	\$168	\$1,224	\$1,486	\$2,634
Per Share Data (See Note 7)				
Basic:				
Net income attributable to MPC per share	\$0.54	\$3.61	\$4.63	\$7.69
Weighted average shares outstanding	309	338	321	342
Diluted:				
Net income attributable to MPC per share	\$0.54	\$3.59	\$4.60	\$7.65
Weighted average shares outstanding	311	340	323	344
Dividends paid	\$0.42	\$0.35	\$1.12	\$0.85

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		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income	\$173	\$1,224	\$1,502	\$2,634
Other comprehensive income (loss):				
Defined benefit postretirement and post-employment plans:				
Actuarial changes, net of tax of \$34, (\$5), \$169 and \$28	57	(9)	282	46
Prior service costs, net of tax of (\$5), \$10, (\$14) and \$207	(8)	17	(23)	344
Other comprehensive income	49	8	259	390
Comprehensive income	222	1,232	1,761	3,024
Less comprehensive income attributable to noncontrolling interests	5	—	16	—
Comprehensive income attributable to MPC	\$217	\$1,232	\$1,745	\$3,024

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

Table of ContentsMarathon Petroleum Corporation
Consolidated Balance Sheets (Unaudited)

(In millions, except per share data)	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$2,018	\$4,860
Receivables, less allowance for doubtful accounts of \$9 and \$10	5,593	4,610
Inventories	5,714	3,449
Other current assets	206	110
Total current assets	13,531	13,029
Equity method investments	417	321
Property, plant and equipment, net	13,795	12,643
Goodwill	938	930
Other noncurrent assets	322	300
Total assets	\$29,003	\$27,223
Liabilities		
Current liabilities:		
Accounts payable	\$8,961	\$6,785
Payroll and benefits payable	341	364
Consumer excise taxes payable	277	325
Accrued taxes	609	598
Long-term debt due within one year	23	19
Other current liabilities	190	112
Total current liabilities	10,401	8,203
Long-term debt	3,380	3,342
Deferred income taxes	2,228	2,050
Defined benefit postretirement plan obligations	895	1,266
Deferred credits and other liabilities	835	257
Total liabilities	17,739	15,118
Commitments and contingencies (see Note 22)		
Equity		
MPC stockholders' equity:		
Preferred stock, no shares issued and outstanding (par value \$0.01 per share, 30 million shares authorized)	—	—
Common stock:		
Issued—362 million and 361 million shares (par value \$0.01 per share, 1 billion shares authorized)	4	4
Held in treasury, at cost—59 million and 28 million shares	(3,703) (1,253
Additional paid-in capital	9,748	9,527
Retained earnings	5,007	3,880
Accumulated other comprehensive loss	(205) (464
Total MPC stockholders' equity	10,851	11,694
Noncontrolling interests	413	411
Total equity	11,264	12,105
Total liabilities and equity	\$29,003	\$27,223

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

Table of ContentsMarathon Petroleum Corporation
Consolidated Statements of Cash Flows (Unaudited)

(In millions)	Nine Months Ended	
	September 30, 2013	2012
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net income	\$1,502	\$2,634
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	888	712
Pension and other postretirement benefits, net	3	119
Deferred income taxes	22	425
Net gain on disposal of assets	(3)	(178)
Equity method investments, net	(4)	13
Changes in the fair value of derivative instruments	(54)	8
Changes in:		
Current receivables	(974)	360
Inventories	(1,330)	(555)
Current accounts payable and accrued liabilities	2,028	(1,160)
All other, net	(28)	71
Net cash provided by operating activities	2,050	2,449
Investing activities:		
Additions to property, plant and equipment	(733)	(966)
Acquisitions	(1,515)	(190)
Disposal of assets	12	52
Investments—acquisition, loans and contributions	(113)	(26)
—redemptions and repayments	76	94
All other, net	22	3
Net cash used in investing activities	(2,251)	(1,033)
Financing activities:		
Long-term debt—repayments	(16)	(12)
Debt issuance costs	(2)	(6)
Issuance of common stock	37	54
Common stock repurchased	(2,341)	(850)
Dividends paid	(358)	(291)
Distributions to noncontrolling interests	(15)	—
Tax settlement with Marathon Oil Corporation	39	—
All other, net	15	(3)
Net cash used in financing activities	(2,641)	(1,108)
Net increase (decrease) in cash and cash equivalents	(2,842)	308
Cash and cash equivalents at beginning of period	4,860	3,079
Cash and cash equivalents at end of period	\$2,018	\$3,387

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

Table of ContentsMarathon Petroleum Corporation
Consolidated Statements of Equity (Unaudited)

(In millions)	MPC Stockholders' Equity							Total Equity
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests		
Balance as of December 31, 2011	\$4	\$—	\$ 9,482	\$898	\$ (879)	\$ —	\$9,505	
Net income	—	—	—	2,634	—	—	2,634	
Dividends declared	—	—	—	(291)	—	—	(291)	
Other comprehensive income	—	—	—	—	390	—	390	
Shares repurchased	—	(850)	—	—	—	—	(850)	
Shares issued (returned)—stock based compensation	—	(2)	55	—	—	—	53	
Stock-based compensation	—	—	35	—	—	—	35	
Other	—	—	(9)	—	—	—	(9)	
Balance as of September 30, 2012	\$4	\$(852)	\$ 9,563	\$3,241	\$ (489)	\$ —	\$11,467	
Balance as of December 31, 2012	\$4	\$(1,253)	\$ 9,527	\$3,880	\$ (464)	\$ 411	\$12,105	
Net income	—	—	—	1,486	—	16	1,502	
Dividends declared	—	—	—	(359)	—	—	(359)	
Distributions to noncontrolling interests	—	—	—	—	—	(15)	(15)	
Other comprehensive income	—	—	—	—	259	—	259	
Shares repurchased	—	(2,441)	100	—	—	—	(2,341)	
Shares issued (returned)—stock based compensation	—	(9)	37	—	—	—	28	
Stock-based compensation	—	—	45	—	—	1	46	
Tax settlement with Marathon Oil Corporation	—	—	39	—	—	—	39	
Balance as of September 30, 2013	\$4	\$(3,703)	\$ 9,748	\$5,007	\$ (205)	\$ 413	\$11,264	

(Shares in millions)	Common Stock	Treasury Stock
Balance as of December 31, 2011	357	—
Shares repurchased	—	(20)
Shares issued—stock-based compensation	2	—
Balance as of September 30, 2012	359	(20)
Balance as of December 31, 2012	361	(28)
Shares repurchased	—	(31)
Shares issued—stock-based compensation	1	—
Balance as of September 30, 2013	362	(59)

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—As used in this report, the terms “MPC,” “we,” “us,” “the Company” or “our” may refer to Marathon Petroleum Corporation, one or more of its consolidated subsidiaries or all of them taken as a whole.

Our business consists of refining and marketing, retail marketing and pipeline transportation operations conducted primarily in the Midwest, Gulf Coast and Southeast regions of the United States, through subsidiaries, including Marathon Petroleum Company LP, Speedway LLC 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 (“US 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, 2012. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for the full year.

In the fourth quarter of 2012, we reclassified certain expenses from selling, general and administrative expenses to cost of revenues, which is consistent with expense classifications for MPLX, MPC’s consolidated subsidiary.

Historical periods were also reclassified to conform to the current period presentation. This reclassification resulted in an increase in cost of revenues and a decrease in selling, general and administrative expenses of \$12 million and \$35 million in the three and nine months ended September 30, 2012, respectively.

2. Accounting Standards

Recently Adopted

In February 2013, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update that requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. If the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. For other amounts not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. The accounting standards update was to be applied prospectively for interim and annual periods beginning with the first quarter of 2013. The adoption of this accounting standards update in the first quarter of 2013 did not have an impact on our consolidated results of operations, financial position or cash flows. The new required disclosures are included in Note 19.

In July 2012, the FASB issued an accounting standards update that gives an entity the option to first assess qualitatively whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, through the qualitative assessment, an entity determines that it is more likely than not that the intangible asset is impaired, the quantitative impairment test must then be performed. The accounting standards update was effective for annual and interim impairment tests performed in fiscal years beginning after September 15, 2012. Early adoption was permitted. The adoption of this accounting standards update in the first quarter of 2013 did not have an impact on our consolidated results of operations, financial position or cash flows. We perform the annual intangible asset impairment testing in the fourth quarter.

In December 2011, the FASB issued an accounting standards update which was amended in January 2013 that requires disclosure of additional information related to recognized derivative instruments, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset or are not offset but are subject to an enforceable netting agreement. The purpose of the requirement is to help users evaluate the

effect or potential effect of offsetting and related netting arrangements on an entity's financial position. The update was to be applied retrospectively and was effective for interim and annual periods beginning with the first quarter of 2013. The adoption of this

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accounting standards update in the first quarter of 2013 did not have an impact on our consolidated results of operations, financial position or cash flows. The new required disclosures are included in Note 15.

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. MPLX's initial assets consisted of a 51 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, and a 100 percent interest in a butane storage cavern in West Virginia. On May 1, 2013, we sold an additional five percent interest in Pipe Line Holdings to MPLX for \$100 million. This increased MPLX's ownership interest in Pipe Line Holdings to 56 percent and reduced our ownership interest to 44 percent.

On October 31, 2012, MPLX completed its initial public offering of 19,895,000 common units. Net proceeds to MPLX from the sale of the units were \$407 million. We own a 73.6 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. The initial public offering represented the sale of a 26.4 percent interest in MPLX.

4. Acquisitions and Investments

Acquisition of Refinery and Related Logistics and Marketing Assets

On February 1, 2013, we paid \$1.49 billion to acquire from BP Products North America Inc. and BP Pipelines (North America) Inc. (collectively, "BP") the 451,000 barrel per calendar day refinery in Texas City, Texas, three intrastate natural gas liquid pipelines originating at the refinery, an allocation of BP's Colonial Pipeline Company shipper history, four light product terminals, branded-jobber marketing contract assignments for the supply of approximately 1,200 branded sites and a 1,040 megawatt electric cogeneration facility, as well as the inventory associated with these assets. We refer to these assets as the "Galveston Bay Refinery and Related Assets". Pursuant to the purchase and sale agreement, we may also be required to pay to BP a contingent earnout of up to an additional \$700 million over six years, subject to certain conditions as discussed below. These assets complement our current geographic footprint and align with our strategic initiative of growing in existing and contiguous markets to enhance our portfolio. The transaction was funded with cash on hand.

As of the acquisition date, we recorded a contingent liability of \$600 million, representing the preliminary fair value of contingent consideration we expect to pay to BP related to the earnout provision. The fair value of the contingent consideration was estimated using an income approach. The amount of cash to be paid under the arrangement is based on both a market-based crack spread and refinery throughput volumes for the months during which the contract applies, as well as established thresholds that cap the annual and total payment. The earnout payment cannot exceed \$200 million per year for the first three years of the arrangement or \$250 million per year for the last three years of the arrangement, with the total cumulative payment capped at \$700 million over the six-year period. Any excess or shortfall from the annual cap for a current year's earnout calculation will not affect subsequent years' calculations. We used internal and external forecasts for the crack spread and internal forecasts for refinery throughput volumes and applied an appropriate risk-adjusted discount rate to the range of cash flows indicated by various scenarios to determine the fair value of the arrangement. The fair value of the contingent consideration is reassessed each quarter, with changes in fair value recorded in cost of revenues. The fair value of the contingent consideration was \$606 million at September 30, 2013, which includes \$108 million classified as current. See Note 15 for additional information.

The transaction provided for a post-closing adjustment for inventory, which was finalized for \$9 million during the three months ended September 30, 2013, reducing our total consideration.

The components of the fair value of consideration transferred are as follows:

(In millions)

Cash	\$1,491
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Fair value of contingent consideration as of acquisition date	600	
Payable to seller	6	
Post-closing adjustment	(9)
Total consideration	\$2,088	

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date, pending finalization of an independent appraisal and other evaluations. During the second and third quarters of 2013, we made minor updates to the preliminary fair value measurements of assets acquired and liabilities assumed, with the revised balances shown in the table below.

(In millions)

Inventories	\$935	
Other current assets	1	
Property, plant and equipment, net	1,274	
Other noncurrent assets	88	
Accounts payable	(12)
Payroll and benefits payable	(14)
Long-term debt due within one year ^(a)	(2)
Other current liabilities	(6)
Long-term debt ^(a)	(58)
Defined benefit postretirement plan obligations	(43)
Deferred credits and other liabilities	(75)
Total	\$2,088	

^(a) Represents a capital lease obligation assumed.

Neither goodwill nor a gain from a bargain purchase was recognized in conjunction with the Galveston Bay Refinery and Related Assets acquisition.

Other noncurrent assets consist of a \$20 million intangible asset related to customer relationships and a \$68 million intangible asset related to prepaid licensed refinery technology agreements. The intangible assets related to customer relationships and prepaid licensed refinery technology agreements are being amortized on a straight-line basis over four and 15 years, respectively. The weighted average life over which these acquired intangibles are being amortized is approximately 13 years.

We recognized \$7 million of acquisition-related costs associated with the Galveston Bay Refinery and Related Assets acquisition. These costs were expensed and were included in selling, general and administrative expenses.

Our refineries and related assets are operated as an integrated system. As the information is not available by refinery, it is not practicable to disclose the revenues and net income associated with the acquisition that were included in our consolidated statements of income for the three and nine months ended September 30, 2013.

The following unaudited pro forma financial information presents consolidated results assuming the Galveston Bay Refinery and Related Assets acquisition occurred on January 1, 2012. 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.

(In millions, except per share data)	Three Months	Nine Months Ended	
	Ended September 30,	September 30,	
	2012	2013	2012
Sales and other operating revenues (including consumer excise taxes)	\$26,888	\$77,224	\$77,714
Net income attributable to MPC	1,530	1,541	2,798
Net income attributable to MPC per share - basic	\$4.53	\$4.80	\$8.18
Net income attributable to MPC per share - diluted	4.50	4.77	8.13

The pro forma information includes adjustments to align accounting policies, an adjustment to depreciation expense to reflect the fair value of property, plant and equipment, increased amortization expense related to identifiable intangible assets and the related income tax effects. The pro forma information for the nine months ended September

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30, 2013 and 2012 reflect revisions made during the second and third quarters of 2013 to the estimated fair values of assets acquired and liabilities assumed.

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Acquisitions of Convenience Stores

During the nine months ended September 30, 2013, Speedway LLC acquired nine convenience stores located in Tennessee, western Indiana and western Pennsylvania. In connection with these acquisitions, our Speedway segment recorded \$8 million of goodwill, which is deductible for income tax purposes.

In July 2012, Speedway LLC acquired 10 convenience stores located in the northern Kentucky and southwestern Ohio regions from Road Ranger LLC in exchange for cash and a truck stop location in the Chicago metropolitan area. In connection with this acquisition, our Speedway segment recorded \$5 million of goodwill, which is deductible for income tax purposes.

In May 2012, Speedway LLC acquired 87 convenience stores situated throughout Indiana and Ohio from GasAmerica Services, Inc., along with the associated inventory, intangible assets and two parcels of undeveloped real estate. In connection with this acquisition, our Speedway segment recorded \$83 million of goodwill, which is deductible for income tax purposes.

These acquisitions support our strategic initiative to increase our Speedway segment sales and profitability. The principal factors contributing to a purchase price resulting in goodwill included the acquired stores complementing our existing network in our Midwest market, access to our refined product transportation systems and the potential for higher merchandise sales.

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

Investments in Ethanol Companies

On August 1, 2013, we acquired from Mitsui & Co. (U.S.A.), Inc. its interests in three ethanol companies for \$75 million. Under the purchase agreement, we acquired an additional 24 percent interest in The Andersons Clymers Ethanol LLC ("TACE"), bringing our ownership interest to 60 percent; a 34 percent interest in The Andersons Ethanol Investment LLC, which holds a 50 percent ownership in The Andersons Marathon Ethanol LLC ("TAME"), bringing our direct and indirect ownership interest in TAME to 67 percent; and a 40 percent interest in The Andersons Albion Ethanol LLC ("TAAE"), which owns an ethanol production facility in Albion, Michigan. We hold a noncontrolling interest in each of these entities and account for them using the equity method of accounting since the minority owners have substantive participating rights.

On October 1, 2013, our ownership interest in TAAE increased to 43 percent as a result of TAAE redeeming one of the owner's interest.

5. Related Party Transactions

Our related parties include:

TAAE, in which we have a 43 percent 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 an ethanol production facility.

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

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

Other equity method investees.

Sales to related parties were as follows:

(In millions)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Centennial	\$—	\$—	\$—	\$1
Other equity method investees	3	2	7	5
Total	\$3	\$2	\$7	\$6

Fees received for operating Centennial's pipeline, which are included in other income on the consolidated statements of income, were less than \$1 million and \$1 million for the three and nine months ended September 30, 2013, respectively.

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Purchases from related parties were as follows:

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Centennial	\$4	\$—	\$4	\$9
LOOP	11	11	32	32
TAAE	8	—	8	—
TACE	42	35	92	50
TAME	31	29	98	89
Other equity method investees	7	9	20	24
Total	\$103	\$84	\$254	\$204

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

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,	December 31,
	2013	2012
Centennial	\$1	\$2
TAME	1	—
Other equity method investees	1	—
Total	\$3	\$2

At September 30, 2013, we also had a \$2 million long-term receivable from Centennial, which is included in other noncurrent assets on the consolidated balance sheet.

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

(In millions)	September 30,	December 31,
	2013	2012
Centennial	\$7	\$—
LOOP	4	4
TAAE	2	—
TACE	1	2
TAME	5	5
Other equity method investees	2	2
Total	\$21	\$13

We had a throughput and deficiency agreement with Centennial, which expired on March 31, 2012. During the first quarter of 2012, we impaired our \$14 million prepaid tariff with Centennial. For additional information on the impairment, see Note 15.

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6. Variable Interest Entity

On December 1, 2010, we completed the sale of most of our Minnesota assets. These assets included the 74,000 barrel per calendar day St. Paul Park refinery and associated terminals, 166 convenience stores primarily branded SuperAmerica®, along with the SuperMom's bakery and certain associated trademarks, SuperAmerica Franchising LLC, interests in pipeline assets in Minnesota and associated inventories. We refer to these assets as the "Minnesota Assets." The terms of the sale included (1) a preferred stock interest in the entity that holds the Minnesota Assets with a stated value of \$80 million, (2) a maximum \$125 million earnout provision payable to us over eight years, (3) a maximum \$60 million of margin support payable to the buyer over two years, up to a maximum of \$30 million per year, (4) a receivable from the buyer of \$107 million which was fully collected in 2011, and (5) lease guarantees made by us on behalf of and to the buyer related to a limited number of convenience store sites. As a result of this continuing involvement, the related gain on sale of \$89 million was initially deferred.

In July 2012, the buyer of our Minnesota Assets successfully completed an initial public offering ("IPO"). The successful completion of this IPO triggered the provisions in our May 4, 2012 settlement agreement with the buyer. Under the settlement agreement, we were released from our obligation to pay margin support and the buyer was released from its obligation to pay us under the earnout provisions contained in the original sales agreement. Also, the buyer redeemed our \$80 million preferred equity interest, paid us \$12 million for dividends accrued on our preferred equity interest and paid us \$40 million of cash, for total cash receipts of \$132 million. In addition, the buyer issued to us a second preferred security with a stated valued of \$45 million. As a result, we recognized income before income taxes of approximately \$183 million during the three months ended September 30, 2012, which included \$86 million of the deferred gain that was recorded when the sale transaction was originally closed.

During the three months ended September 30, 2013, the buyer redeemed the second preferred security for \$49 million, which included \$4 million of accrued distributions.

Certain terms of the transaction and the subsequent settlement agreement with the buyer resulted in the creation of variable interests in a variable interest entity ("VIE") that owns the Minnesota Assets. We are not the primary beneficiary of this VIE and, therefore, do not consolidate it because we lack the power to control or direct the activities that impact the VIE's operations and economic performance. At September 30, 2013, our variable interest in this VIE and maximum exposure to loss is limited to convenience store lease guarantees of \$5 million. These guarantees do not expose us to residual returns or expected losses that are significant to the VIE.

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. Diluted income per share assumes exercise of stock options and stock appreciation rights, provided the effect is not anti-dilutive.

Shares related to stock-based compensation awards excluded from the diluted share calculation as their effect would be anti-dilutive are approximately one million and two million shares for the three months ended September 30, 2013 and 2012 and one million and four million shares for the nine months ended September 30, 2013 and 2012, respectively.

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.

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(In millions, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Basic earnings per share:				
Allocation of earnings:				
Net income attributable to MPC	\$168	\$1,224	\$1,486	\$2,634
Income allocated to participating securities	—	2	2	5
Income available to common stockholders - basic	\$168	\$1,222	\$1,484	\$2,629
Weighted average common shares outstanding	309	338	321	342
Basic earnings per share	\$0.54	\$3.61	\$4.63	\$7.69
Diluted earnings per share:				
Allocation of earnings:				
Net income attributable to MPC	\$168	\$1,224	\$1,486	\$2,634
Income allocated to participating securities	—	2	2	5
Income available to common stockholders - diluted	\$168	\$1,222	\$1,484	\$2,629
Weighted average common shares outstanding	309	338	321	342
Effect of dilutive securities	2	2	2	2
Weighted average common shares, including dilutive effect	311	340	323	344
Diluted earnings per share	\$0.54	\$3.59	\$4.60	\$7.65

8. Equity

On February 1, 2012, we announced that our board of directors authorized a share repurchase plan, enabling us to purchase up to \$2.0 billion of MPC common stock over a two-year period. Through January 30, 2013, we had acquired \$1.35 billion of shares under the initial \$2.0 billion authorization. On January 30, 2013, we announced that our board of directors extended the duration of the existing \$650 million repurchase authorization and approved an additional \$2.0 billion share repurchase authorization, both to expire in December 2014. On September 26, 2013, we announced that our board of directors approved an additional \$2.0 billion share repurchase authorization through September 2015, resulting in \$6.0 billion of total share repurchase authorizations since January 1, 2012. After the effects of the accelerated share repurchase (“ASR”) programs and open market repurchases shown below, \$2.31 billion of the amounts authorized by our board of directors remain available for repurchases at September 30, 2013. 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.

In February 2012 and November 2012, we entered into \$850 million and \$500 million ASR programs, respectively, to repurchase shares of MPC common stock under the approved share repurchase plan authorized by our board of directors. The total number of shares repurchased under these ASR programs was based generally on the volume-weighted average price of our common stock during the repurchase periods. The shares repurchased under the ASR programs were accounted for as treasury stock purchase transactions, reducing the weighted average number of basic and diluted common shares outstanding by the shares repurchased, and as forward contracts indexed to our common stock. The forward contracts were accounted for as equity instruments.

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Total share repurchases transacted through ASR programs and open market transactions were as follows for the three and nine months ended September 30, 2013 and 2012:

(In millions, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Number of shares repurchased ^(a)	14	2	31	20
Cash paid for shares repurchased	\$1,028	\$—	\$2,341	\$850
Effective average cost per delivered share	\$70.73	\$41.75	\$76.01	\$41.75

The nine months ended September 30, 2013 includes one million shares received under the November 2012 ASR program, which were paid for in the fourth quarter of 2012. The three months ended September 30, 2012 includes two million shares received under the February 2012 ASR program, which were paid for in the first quarter of 2012.

As of September 30, 2013, the total number of shares we have repurchased cumulatively through the ASR programs and open market repurchases since February 2012 was 59 million shares at an average cost per share of \$62.29. The cash paid for shares repurchased was \$3.69 billion. In addition, at September 30, 2013, we had agreements to acquire additional common shares for \$42 million, which were settled in early October 2013.

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 they offer.

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 dealers and jobbers who operate Marathon[®] retail outlets;

Speedway – sells transportation fuels and convenience products in retail markets in the Midwest, primarily through Speedway[®] convenience stores; and

Pipeline Transportation – transports crude oil and other feedstocks to our refineries and other locations, delivers refined products to wholesale and retail market areas and includes the aggregated operations of MPLX and MPC's retained pipeline assets and investments.

On February 1, 2013, we acquired the Galveston Bay Refinery and Related Assets, which are part of the Refining & Marketing and Pipeline Transportation segments. Segment information for periods prior to the acquisition does 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, 2013				
Revenues:				
Customer	\$22,478	\$3,755	\$20	\$26,253
Intersegment ^(a)	2,439	1	117	2,557
Related parties	3	—	—	3
Segment revenues	24,920	3,756	137	28,813
Elimination of intersegment revenues	(2,439)	(1)	(117)	(2,557)
Total revenues	\$22,481	\$3,755	\$20	\$26,256
Segment income from operations ^(b)	\$227	\$102	\$54	\$383
Income from equity method investments	8	—	1	9
Depreciation and amortization ^(c)	246	29	19	294
Capital expenditures and investments ^(d)	243	65	42	350
(In millions)	Refining & Marketing	Speedway	Pipeline Transportation	Total
Three Months Ended September 30, 2012				
Revenues:				
Customer	\$17,242	\$3,787	\$19	\$21,048
Intersegment ^(a)	2,387	1	97	2,485
Related parties	2	—	—	2
Segment revenues	19,631	3,788	116	23,535
Elimination of intersegment revenues	(2,387)	(1)	(97)	(2,485)
Total revenues	\$17,244	\$3,787	\$19	\$21,050
Segment income from operations	\$1,691	\$76	\$52	\$1,819
Income (loss) from equity method investments	(1)	—	8	7
Depreciation and amortization ^(c)	198	29	13	240
Capital expenditures and investments ^{(d)(e)}	182	59	71	312
(In millions)	Refining & Marketing	Speedway	Pipeline Transportation	Total
Nine Months Ended September 30, 2013				
Revenues:				
Customer	\$64,238	\$10,964	\$60	\$75,262
Intersegment ^(a)	7,072	3	340	7,415
Related parties	7	—	—	7
Segment revenues	71,317	10,967	400	82,684
Elimination of intersegment revenues	(7,072)	(3)	(340)	(7,415)
Total revenues	\$64,245	\$10,964	\$60	\$75,269
Segment income from operations ^(b)	\$2,235	\$292	\$163	\$2,690
Income from equity method investments	7	—	9	16
Depreciation and amortization ^(c)	734	83	55	872
Capital expenditures and investments ^{(d)(e)(f)}	1,797	177	173	2,147

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(In millions)	Refining & Marketing	Speedway	Pipeline Transportation	Total
Nine Months Ended September 30, 2012				
Revenues:				
Customer	\$50,794	\$10,703	\$57	\$61,554
Intersegment ^(a)	6,560	3	266	6,829
Related parties	5	—	1	6
Segment revenues	57,359	10,706	324	68,389
Elimination of intersegment revenues	(6,560)	(3)	(266)	(6,829)
Total revenues	\$50,799	\$10,703	\$58	\$61,560
Segment income from operations	\$3,959	\$233	\$144	\$4,336
Income (loss) from equity method investments	(2)	—	20	18
Depreciation and amortization ^(c)	574	84	37	695
Capital expenditures and investments ^{(d)(e)}	513	257	169	939

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

(b) Included in the Pipeline Transportation segment for the three and nine months ended September 30, 2013 are \$5 million and \$15 million of corporate overhead costs attributable to MPLX, which were included in items not allocated to segments prior to MPLX's October 31, 2012 initial public offering. These expenses are not currently allocated to other 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.

(e) Includes Speedway's acquisitions of convenience stores. See Note 4.

(f) The Refining & Marketing and Pipeline Transportation segments include \$1.29 billion and \$70 million, respectively, for the acquisition of the Galveston Bay Refinery 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		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Segment income from operations	\$383	\$1,819	\$2,690	\$4,336
Items not allocated to segments:				
Corporate and other unallocated items ^{(a)(b)}	(59)	(74)	(190)	(245)
Minnesota Assets sale settlement gain ^(c)	—	183	—	183
Pension settlement expenses ^(d)	(23)	(33)	(83)	(116)
Net interest and other financial income (costs)	(47)	(25)	(140)	(64)
Income before income taxes	\$254	\$1,870	\$2,277	\$4,094

(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 costs attributable to MPLX were included in the Pipeline Transportation segment subsequent to MPLX's October 31, 2012 initial public offering.

(c) See Note 6.

(d) See Note 20.

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

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Segment capital expenditures and investments	\$350	\$312	\$2,147	\$939
Less: Investments in equity method investees	75	5	86	12
Plus: Items not allocated to segments:				
Capital expenditures not allocated to segments	54	19	106	47
Capitalized interest	7	29	15	95
Total capital expenditures ^{(a)(b)}	\$336	\$355	\$2,182	\$1,069

^(a) Capital expenditures include changes in capital accruals.

^(b) 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.

The following reconciles total revenues to sales and other operating revenues (including consumer excise taxes) as reported in the consolidated statements of income:

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Total revenues (as reported above)	\$26,256	\$21,050	\$75,269	\$61,560
Plus: Corporate and other unallocated items	—	(1)	(6)	(3)
Less: Sales to related parties	3	2	7	6
Sales and other operating revenues (including consumer excise taxes)	\$26,253	\$21,047	\$75,256	\$61,551
Total assets by reportable segment were:				

(In millions)	September 30,	December 31,
	2013	2012
Refining & Marketing	\$20,379	\$17,052
Speedway	2,036	1,947
Pipeline Transportation	1,943	1,950
Corporate and Other	4,645	6,274
Total consolidated assets	\$29,003	\$27,223

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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, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Interest:				
Net interest expense	\$(48)	\$(47)	\$(140)	\$(138)
Interest capitalized	7	29	15	95
Total net interest	(41)	(18)	(125)	(43)
Other:				
Net foreign currency losses	(1)	(1)	—	(1)
Bank service and other fees	(5)	(6)	(15)	(20)
Total other	(6)	(7)	(15)	(21)
Net interest and other financial income (costs)	\$(47)	\$(25)	\$(140)	\$(64)

11. Income Taxes

The combined federal, state and foreign income tax rate was 32 percent and 35 percent for the three months ended September 30, 2013 and 2012, respectively, and 34 percent and 36 percent for the nine months ended September 30, 2013 and 2012, respectively. The effective tax rate for the three and nine months ended September 30, 2013 is 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. The effective tax rate for the three and nine months ended September 30, 2012 exceeded the U.S. statutory rate of 35 percent due to state and local tax expense, partially offset by permanent benefit differences, including the domestic manufacturing deduction.

Prior to the June 30, 2011 spinoff transaction from Marathon Oil Corporation (“Marathon Oil”), we were included in Marathon Oil’s income tax returns for all applicable years. During 2011, we anticipated a future settlement between Marathon Oil and us upon the filing of Marathon Oil’s consolidated U.S. federal and state income tax returns for the period prior to June 30, 2011. During the second quarter of 2013, we settled with Marathon Oil for the 2011 period based on filed tax returns, resulting in a \$39 million increase to additional paid-in capital.

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 \$25 million of unrecognized tax benefits as of September 30, 2013. 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. During the second quarter of 2013, we settled with Marathon Oil our U.S. federal and related state return liabilities for the 2008-2009 tax years, resulting in a reduction in unrecognized tax benefits of \$21 million.

12. Inventories

(In millions)	September 30, 2013	December 31, 2012
Crude oil and refinery feedstocks	\$2,615	\$1,383
Refined products	2,651	1,761
Merchandise	83	74
Materials and supplies	365	231
Total (at cost)	\$5,714	\$3,449

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 last-in, first-out (“LIFO”) method. There were no liquidations of LIFO inventories for the nine months ended September 30, 2013 and 2012.

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13. Property, Plant and Equipment

(In millions)	September 30, 2013	December 31, 2012
Refining & Marketing	\$16,712	\$15,089
Speedway	2,236	2,100
Pipeline Transportation	1,901	1,747
Corporate and Other	526	473
Total	21,375	19,409
Less accumulated depreciation	7,580	6,766
Net property, plant and equipment	\$13,795	\$12,643

14. Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2013 were as follows:

(In millions)	Refining & Marketing	Speedway	Pipeline Transportation	Total
Balance at December 31, 2012	\$551	\$217	\$162	\$930
Acquisitions ^(a)	—	8	—	8
Balance at September 30, 2013	\$551	\$225	\$162	\$938

^(a) See Note 4 for information on acquisitions.

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, 2013 and December 31, 2012 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.

(In millions)	September 30, 2013 Fair Value Hierarchy				Netting and Collateral ^(a)	Net Carrying Value on Balance Sheet ^(b)	Collateral Pledged Not Offset
	Level 1	Level 2	Level 3				
Commodity derivative instruments, assets	\$88	\$—	\$—	\$ (62)	\$26	\$69	
Other assets	2	—	—	N/A	2	—	
Total assets at fair value	\$90	\$—	\$—	\$ (62)	\$28	\$69	
Commodity derivative instruments, liabilities	\$62	\$—	\$—	\$ (62)	\$—	\$—	
Contingent consideration, liability ^(c)	—	—	606	N/A	606	—	
Total liabilities at fair value	\$62	\$—	\$606	\$ (62)	\$606	\$—	

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(In millions)	December 31, 2012 Fair Value Hierarchy				Netting and Collateral ^(a)	Net Carrying Value on Balance Sheet ^(b)	Collateral Pledged Not Offset
	Level 1	Level 2	Level 3				
Commodity derivative instruments, assets	\$49	\$—	\$—	\$ (49)	\$—	\$45	
Other assets	2	—	—	N/A	2	—	
Total assets at fair value	\$51	\$—	\$—	\$ (49)	\$2	\$45	
Commodity derivative instruments, liabilities	\$88	\$—	\$—	\$ (88)	\$—	\$—	

(a) Represents the impact of netting assets, liabilities and cash collateral when a legal right of offset exists. As of December 31, 2012, cash collateral of \$39 million was netted with mark-to-market derivative liabilities.

(b) We have no derivative contracts that are subject to master netting arrangements that are reflected gross on the balance sheet.

(c) Includes \$108 million classified as current.

Commodity derivatives in Level 1 are exchange-traded contracts for crude oil and refined products measured at fair value with a market approach using the close-of-day settlement prices for the market. Commodity derivatives are covered under master netting agreements with an unconditional right to offset. Collateral deposits in futures commission merchant accounts covered by master netting agreements related to Level 1 commodity derivatives are classified as Level 1 in the fair value hierarchy.

The contingent consideration represents the fair value as of September 30, 2013 of the amount we expect to pay to BP related to the earnout provision for the Galveston Bay Refinery and Related Assets acquisition. See Note 4. The fair value of the contingent consideration was estimated using an income approach and is therefore a Level 3 liability. The amount of cash to be paid under the arrangement is based on both a market-based crack spread and refinery throughput volumes for the months during which the contract applies, as well as established thresholds that cap the annual and total payment. The earnout payment cannot exceed \$200 million per year for the first three years of the arrangement or \$250 million per year for the last three years of the arrangement, with the total cumulative payment capped at \$700 million over the six-year period. Any excess or shortfall from the annual cap for a current year's earnout calculation will not affect subsequent years' calculations. The fair value calculation used significant unobservable inputs, including (1) an estimate of refinery throughput volumes; (2) a range of internal and external crack spread forecasts from \$12 to \$18 per barrel; and (3) a range of risk-adjusted discount rates from 5 percent to 10 percent. An increase or decrease in crack spread forecasts or refinery throughput volume expectations will result in a corresponding increase or decrease in the fair value. Increases to the fair value as a result of increasing forecasts for both of these unobservable inputs, however, are limited as the earnout payment is subject to annual thresholds. An increase or decrease in the discount rate will result in a decrease or increase to the fair value, respectively. The fair value of the contingent consideration is reassessed each quarter, with changes in fair value recorded in cost of revenues.

The following is a reconciliation of the beginning and ending balances recorded for liabilities classified as Level 3 in the fair value hierarchy.

(In millions)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Beginning balance	\$611	\$—	\$—	\$—
Contingent consideration agreement	—	—	600	—
Total realized and unrealized (gains) losses included in net income	(5)	—	6	2

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Settlements of derivative instruments	—	—	—	(2)
Ending balance	\$606	\$—	\$606	\$—

There were no unrealized gains or losses recorded in net income for the three and nine months ended September 30, 2013 and 2012 related to Level 3 derivative instruments held at September 30, 2013 and 2012, respectively. See Note 16 for the income statement impacts of our derivative instruments. There was an unrealized gain of \$5 million and an unrealized loss of \$6 million related to the contingent consideration agreement for the three and nine months ended September 30, 2013, respectively.

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Fair Values – Nonrecurring

The following table shows the values of assets, by major category, measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition.

(In millions)	Nine Months Ended September 30,			
	2013		2012	
	Fair Value	Impairment	Fair Value	Impairment
Property, plant and equipment, net	\$1	\$8	\$—	\$—
Other noncurrent assets	—	—	—	14

Due to changing market conditions, we assessed one of our light products terminals for impairment. The terminal is operated by our Refining & Marketing segment. During the second quarter of 2013, we recorded an impairment charge of \$8 million for this terminal. The impairment is included in depreciation and amortization on the consolidated statements of income. The fair value of the terminal was measured using a market approach based on comparable area property values which are Level 3 inputs.

As a result of changing market conditions and declining throughput volumes, we impaired our Refining & Marketing segment's prepaid tariff with Centennial by \$14 million during the first quarter of 2012. The fair value measurement of the prepaid tariff was based on the income approach utilizing the probability of shipping sufficient volumes on Centennial's pipeline over the remaining life of the throughput and deficiency credits, which expire March 31, 2014 if not utilized. This measurement is classified as Level 3.

Fair Values – Reported

The following table summarizes financial instruments on the basis of their nature, characteristics and risk at September 30, 2013 and December 31, 2012, excluding the derivative financial instruments and contingent consideration reported above.

(In millions)	September 30, 2013		December 31, 2012	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets:				
Investments	\$203	\$14	\$263	\$59
Other	30	29	33	31
Total financial assets	\$233	\$43	\$296	\$90
Financial liabilities:				
Long-term debt ^(a)	\$3,270	\$3,002	\$3,559	\$3,006
Deferred credits and other liabilities	24	24	23	23
Total financial liabilities	\$3,294	\$3,026	\$3,582	\$3,029

^(a) Excludes capital leases

Our current assets and liabilities include financial instruments, the most significant of which are trade accounts receivable and payables. We believe the carrying values of our current assets and liabilities approximate fair value.

Our fair value assessment incorporates a variety of considerations, including (1) the short-term duration of the instruments, (2) our investment-grade credit rating and (3) our historical incurrence of and expected future insignificance of bad debt expense, which includes an evaluation of counterparty credit risk.

Fair values of our financial assets included in investments and other financial assets and of our financial liabilities included in deferred credits and other liabilities are measured primarily using an income approach and most inputs are internally generated, which results in a Level 3 classification. Estimated future cash flows are discounted using a rate deemed appropriate to obtain the fair value. Other financial assets primarily consist of environmental remediation receivables. Deferred credits and other liabilities primarily consist of insurance liabilities and environmental

remediation liabilities.

Fair value of long-term debt is measured using a market approach, based upon the average of quotes from major financial institutions and a third-party service for our debt. Because these quotes cannot be independently verified to the market, they are considered Level 3 inputs.

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16. Derivatives

For further information regarding the fair value measurement of derivative instruments, including any effect of master netting agreements or collateral, see Note 15. We do not designate any of our commodity derivative instruments as hedges for accounting purposes. Our interest rate derivative instruments were designated as fair value accounting hedges.

The following table presents the gross fair values of derivative instruments, excluding cash collateral, and where they appear on the consolidated balance sheets as of September 30, 2013 and December 31, 2012:

(In millions)	September 30, 2013		Balance Sheet
	Asset	Liability	Location
Commodity derivatives	\$88	\$62	Other current assets
	December 31, 2012		
(In millions)	Asset	Liability	Balance Sheet
Commodity derivatives	\$49	\$88	Other current assets

Derivatives Designated as Fair Value Accounting Hedges

During the first quarter of 2012, we terminated interest rate swap agreements with a notional amount of \$500 million that had been entered into as fair value accounting hedges on our 3.50 percent senior notes due in March 2016. There was a \$20 million gain on the termination of the transactions, which has been accounted for as an adjustment to our long-term debt balance. The gain is being amortized over the remaining life of the 3.50 percent senior notes, which reduces our interest expense. The interest rate swaps had no accounting hedge ineffectiveness.

Derivatives not Designated as Accounting Hedges

Derivatives that are not designated as accounting hedges may include commodity derivatives used to hedge price risk on (1) inventories, (2) fixed price sales of refined products, (3) the acquisition of foreign-sourced crude oil and (4) the acquisition of ethanol for blending with refined products.

The table below summarizes open commodity derivative contracts as of September 30, 2013.

	Position	Total Barrels (In thousands)
Crude oil ^(a)		
Exchange-traded	Long	11,350
Exchange-traded	Short	(28,810)
Refined Products ^(a)		
Exchange-traded	Long	3,405
Exchange-traded	Short	(5,168)

^(a) 100 percent of these contracts expire in the fourth quarter of 2013.

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The following table summarizes the effect of all commodity derivative instruments in our consolidated statements of income:

(In millions)	Gain (Loss)		Gain (Loss)	
	Three Months Ended		Nine Months Ended	
Income Statement Location	September 30,		September 30,	
	2013	2012	2013	2012
Sales and other operating revenues	\$9	\$(32)	\$13	\$6
Cost of revenues	(170)	(251)	(179)	58
Total	\$(161)	\$(283)	\$(166)	\$64

17. Debt

Our outstanding borrowings at September 30, 2013 and December 31, 2012 consisted of the following:

(In millions)	September 30, 2013	December 31, 2012
Marathon Petroleum Corporation:		
Revolving credit agreement due 2017	\$—	\$—
3.500% senior notes due March 1, 2016	750	750
5.125% senior notes due March 1, 2021	1,000	1,000
6.500% senior notes due March 1, 2041	1,250	1,250
Consolidated subsidiaries:		
Capital lease obligations due 2013-2028	401	355
MPLX Operations LLC revolving credit agreement due 2017	—	—
Trade receivables securitization facility due 2014	—	—
Total	3,401	3,355
Unamortized discount	(10)	(10)
Fair value adjustments ^(a)	12	16
Amounts due within one year	(23)	(19)
Total long-term debt due after one year	\$3,380	\$3,342

^(a) See Note 16 for information on interest rate swaps.

There were no borrowings or letters of credit outstanding under the revolving credit agreements or the trade receivable securitization facility at September 30, 2013.

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18. Supplemental Cash Flow Information

(In millions)	Nine Months Ended	
	September 30, 2013	2012
Net cash provided by operating activities included:		
Interest paid (net of amounts capitalized)	\$166	\$69
Net income taxes paid to taxing authorities ^(a)	1,027	776
Non-cash investing and financing activities:		
Capital lease obligations increase	\$61	\$43
Property, plant and equipment sold	43	—
Acquisitions:		
Contingent consideration ^(b)	600	—
Payable to seller ^(b)	6	—
Intangible asset acquired	—	3
Liability assumed	—	2

U.S. and most state income taxes, if incurred, were paid by Marathon Oil for periods prior to the June 30, 2011 spinoff transaction. The amount for 2012 includes payments of \$181 million for 2011 return period income taxes made to Marathon Oil under our tax sharing agreement and in return we received an equal amount of tax credits.

See Note 22.

^(b) See Note 4.

The consolidated statements of cash flows exclude changes to the consolidated balance sheets that did not affect cash. The following is a reconciliation of additions to property, plant and equipment to total capital expenditures:

(In millions)	Nine Months Ended	
	September 30, 2013	2012
Additions to property, plant and equipment	\$733	\$966
Acquisitions ^(a)	1,386	180
Increase (decrease) in capital accruals	63	(77)
Total capital expenditures	\$2,182	\$1,069

Includes \$1.36 billion in 2013 for the acquisition of the Galveston Bay Refinery and Related Assets, comprised of ^(a) total consideration, excluding inventory and other current assets, of \$1.15 billion plus assumed liabilities of \$210 million. The 2012 acquisitions exclude the inventory acquired and liability assumed. See Note 4.

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19. Accumulated Other Comprehensive Loss

The following table shows the changes in accumulated other comprehensive loss by component. Amounts in parentheses indicate debits.

(In millions)	Pension Benefits	Other Benefits	Gain on Cash Flow Hedge	Workers Compensation	Total
Balance as of December 31, 2012	\$(432)	\$(36)	\$4	\$ —	\$(464)
Other comprehensive income before reclassifications	172	3	—	2	177
Amounts reclassified from accumulated other comprehensive loss:					
Amortization – prior service credit ^(a)	(34)	(3)	—	—	(37)
– actuarial loss ^(a)	53	2	—	—	55
– settlement loss ^(a)	83	—	—	—	83
Tax expense (benefit)	(19)	—	—	—	(19)
Other comprehensive income	255	2	—	2	259
Balance as of September 30, 2013	\$(177)	\$(34)	\$4	\$ 2	\$(205)

^(a) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost. See Note 20.

20. Defined Benefit Pension and Other Postretirement Plans

The following summarizes the components of net periodic benefit costs:

(In millions)	Three Months Ended September 30,			
	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Components of net periodic benefit cost:				
Service cost	\$24	\$17	\$7	\$5
Interest cost	19	20	6	5
Expected return on plan assets	(28)	(25)	—	—
Amortization – prior service credit	(12)	(11)	(1)	(1)
– actuarial loss	14	24	1	1
– net settlement loss	23	33	—	—
Net periodic benefit cost	\$40	\$58	\$13	\$10

(In millions)	Nine Months Ended September 30,			
	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Components of net periodic benefit cost:				
Service cost	\$70	\$49	\$19	\$15
Interest cost	55	75	19	18
Expected return on plan assets	(81)	(76)	—	—
Amortization – prior service credit	(34)	(7)	(3)	(1)
– actuarial loss	53	70	2	1
– net settlement/curtailment loss	83	116	—	—
Net periodic benefit cost	\$146	\$227	\$37	\$33

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During the nine months ended September 30, 2013, we made contributions of \$158 million to our funded pension plans. We may make additional contributions to our pension plans in 2013 depending upon the anticipated funding status and plan asset performance. Current benefit payments related to unfunded pension and other postretirement benefit plans were \$8 million and \$14 million, respectively, during the nine months ended September 30, 2013.

Due to the Galveston Bay Refinery and Related Assets acquisition, during the first quarter of 2013, we remeasured certain pension and retiree medical plans resulting in a \$122 million decrease in liabilities. The decrease in liabilities was due to a 0.2 percent increase in discount rates and an increase in pension plan asset value from December 31, 2012 to the remeasurement date. The net periodic benefit costs for the nine months ended September 30, 2013 reflect these remeasurements. The purchase accounting for the Galveston Bay Refinery and Related Assets acquisition includes a \$43 million liability related to retiree medical assumed at the acquisition date. See Note 4.

During the nine months ended September 30, 2013 and 2012, we determined that lump sum payments to employees retiring in the respective year would exceed the plans' total service and interest costs for the year. Settlement losses are required to be recorded when lump sum payments exceed total service and interest costs. As a result, during the nine months ended September 30, 2013 and 2012, we recorded pension settlement expenses related to our cumulative lump sum payments made during the first nine months of 2013 and 2012, respectively.

On May 17, 2012, we communicated to our employees changes in the defined benefit pension plans for Speedway and the legacy portion of the Marathon Petroleum Retirement Plan effective January 1, 2013. Final average pensionable earnings used to calculate pension benefits under these plans were fixed as of December 31, 2012. In addition, cap protection was added to limit potential annual lump sum distribution discount rate increases. These plan amendments resulted in an overall decrease in pension liabilities of approximately \$537 million, with the offset primarily to other comprehensive income, which was recorded in the second quarter of 2012. The benefit of this liability reduction is being amortized into income through 2024.

On August 20, 2012, we communicated, to our impacted Medicare eligible retirees, changes in the post-65 medical plan coverage of the Marathon Petroleum Health Plan and the Marathon Petroleum Retiree Health Plan. Effective January 1, 2013, these Medicare eligible participants now receive a tax free contribution to a health reimbursement account, which replaces benefits provided under the previous plans. Increases are capped at 4 percent per year. This plan change resulted in a reduction in retiree medical liabilities of \$40 million. This was more than offset by an increase in retiree medical liabilities of approximately \$57 million primarily due to a reduction in discount rates as of the remeasurement date. The overall net liability increase and the offset to other comprehensive income was recorded during the three months ended September 30, 2012.

21. Stock-Based Compensation Plans

Stock Option Awards

The following table presents a summary of our stock option award activity for the nine months ended September 30, 2013:

	Number of Shares ^(a)	Weighted Average Exercise Price
Outstanding at December 31, 2012	6,172,194	\$36.17
Granted	408,603	84.65
Exercised	(1,045,210)	35.37
Forfeited, canceled or expired	(76,251)	43.05
Outstanding at September 30, 2013	5,459,336	39.86

^(a) Includes an immaterial number of stock appreciation rights.

The grant date fair value of stock option awards granted during the nine months ended September 30, 2013 was \$27.13 per share. The fair value of stock options granted to our employees is estimated on the date of the grant using the Black Scholes option-pricing model, which employs various assumptions. The assumption for expected volatility of our stock price was refined for the nine months ended September 30, 2013 to reflect a weighting of 33 percent of MPC's common stock implied volatility and 67 percent of the historical volatility for a selected group of peer

companies.

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Restricted Stock Awards

The following table presents a summary of restricted stock award activity for the nine months ended September 30, 2013:

	Shares of Restricted Stock ("RS")		Restricted Stock Units ("RSU")	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2012	638,073	\$40.83	359,111	\$31.07
Granted	250,419	87.70	18,790	74.94
RS's Vested/RSU's Issued	(238,171)	37.95	(252)	43.44
Forfeited	(23,043)	57.65	—	—
Outstanding at September 30, 2013	627,278	60.02	377,649	33.24

Performance Unit Awards

The following table presents a summary of the activity for performance unit awards to be settled in shares for the nine months ended September 30, 2013:

	Number of Units
Outstanding at December 31, 2012	2,040,000
Granted	1,782,500
Settled	—
Canceled	—
Outstanding at September 30, 2013	3,822,500

The performance unit awards granted in 2013 have a grant date fair value of \$1.12 per unit, as calculated using a Monte Carlo valuation model.

MPLX Awards

During the nine months ended September 30, 2013, MPLX granted equity-based compensation awards under the MPLX LP 2012 Incentive Compensation Plan. The compensation expense for these awards is not material to our consolidated financial statements.

22. Commitments and Contingencies

We are the subject of, or a party to, a number of pending or threatened legal actions, contingencies and commitments involving a variety of matters, including laws and regulations relating to the environment. Some of these matters are discussed below. For matters for which we have not recorded an accrued liability, we are unable to estimate a range of possible loss because the issues involved have not been fully developed through pleadings and discovery. However, the ultimate resolution of some of these contingencies could, individually or in the aggregate, be material.

Environmental matters—We are subject to federal, state, local and foreign laws and regulations relating to the environment. These laws generally provide for control of pollutants released into the environment and require responsible parties to undertake remediation of hazardous waste disposal sites and certain other locations including presently or formerly owned or operated retail marketing sites. Penalties may be imposed for noncompliance.

At September 30, 2013 and December 31, 2012, accrued liabilities for remediation totaled \$127 million and \$123 million, respectively. It is not presently possible to estimate the ultimate amount of all remediation costs that might be incurred or the penalties if any that may be imposed. Receivables for recoverable costs from certain states, under programs to assist companies in clean-up efforts related to underground storage tanks at presently or formerly owned or operated retail marketing sites, were \$49 million and \$51 million at September 30, 2013 and December 31, 2012, respectively.

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We are involved in a number of environmental enforcement matters arising in the ordinary course of business. While the outcome and impact on us cannot be predicted with certainty, management believes the resolution of these environmental matters will not, individually or collectively, have a material adverse effect on our consolidated results of operations, financial position or cash flows.

Lawsuits—In May 2007, the Kentucky attorney general filed a lawsuit against us and Marathon Oil in state court in Franklin County, Kentucky for alleged violations of Kentucky’s emergency pricing and consumer protection laws following Hurricanes Katrina and Rita in 2005. The lawsuit alleges that we overcharged customers by \$89 million during September and October 2005. The complaint seeks disgorgement of these sums, as well as penalties, under Kentucky’s emergency pricing and consumer protection laws. We are vigorously defending this litigation. We believe that this is the first lawsuit for damages and injunctive relief under the Kentucky emergency pricing laws to progress this far and it contains many novel issues. In May 2011, the Kentucky attorney general amended his complaint to include a request for immediate injunctive relief as well as unspecified damages and penalties related to our wholesale gasoline pricing in April and May 2011 under statewide price controls that were activated by the Kentucky governor on April 26, 2011 and which have since expired. The court denied the attorney general’s request for immediate injunctive relief, and the remainder of the 2011 claims likely will be resolved along with those dating from 2005. If the lawsuit is resolved unfavorably in its entirety, it could materially impact our consolidated results of operations, financial position or cash flows. However, management does not believe the ultimate resolution of this litigation will have a material adverse effect.

We are a defendant in a number of other lawsuits and other proceedings arising in the ordinary course of business. While the ultimate outcome and impact to us cannot be predicted with certainty, we believe that the resolution of these other lawsuits and proceedings will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Guarantees—We have provided certain guarantees, direct and indirect, of the indebtedness of other companies. Under the terms of most of these guarantee arrangements, we would be required to perform should the guaranteed party fail to fulfill its obligations under the specified arrangements. In addition to these financial guarantees, we also have various performance guarantees related to specific agreements.

Guarantees related to indebtedness of equity method investees—We hold interests in an offshore oil port, LOOP, and a crude oil pipeline system, LOCAP LLC. Both LOOP and LOCAP LLC have secured various project financings with throughput and deficiency agreements. Under the agreements, we are required to advance funds if the investees are unable to service their debt. Any such advances are considered prepayments of future transportation charges. The duration of the agreements vary but tend to follow the terms of the underlying debt, which extend through 2037. Our maximum potential undiscounted payments under these agreements for the debt principal totaled \$172 million as of September 30, 2013.

We hold an interest in a refined products pipeline through our investment in Centennial, and have guaranteed the payment of Centennial’s principal, interest and prepayment costs, if applicable, under a Master Shelf Agreement, which is scheduled to expire in 2024. The guarantee arose in order for Centennial to obtain adequate financing. Our maximum potential undiscounted payments under this agreement for debt principal totaled \$43 million as of September 30, 2013.

We hold an interest in an ethanol production facility through our investment in TAME, and through our participation as a lender under TAME’s revolving credit agreement, have agreed to reimburse the bank for 50 percent of any amounts drawn on a letter of credit that has been issued to secure TAME’s repayment of the tax exempt bonds. The credit agreement expires in 2018. Our maximum potential undiscounted payments under this arrangement were \$25 million at September 30, 2013.

Marathon Oil indemnifications—In conjunction with our spinoff from Marathon Oil, we have entered into arrangements with Marathon Oil providing indemnities and guarantees with recorded values of \$2 million as of September 30, 2013, which consist of unrecognized tax benefits related to MPC, its consolidated subsidiaries and the refining, marketing and transportation business operations prior to our spinoff which are not already reflected in the unrecognized tax benefits described in Note 11, and other contingent liabilities Marathon Oil may incur related to taxes. Furthermore, the separation and distribution agreement and other agreements with Marathon Oil to effect our spinoff provide for

cross-indemnities between Marathon Oil and us. In general, Marathon Oil is required to indemnify us for any liabilities relating to Marathon Oil's historical oil and gas exploration and production operations, oil sands mining operations and integrated gas operations, and we are required to indemnify Marathon Oil for any liabilities relating to Marathon Oil's historical refining, marketing and transportation operations. The terms of these indemnifications are indefinite and the amounts are not capped.

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Other guarantees—We have entered into other guarantees with maximum potential undiscounted payments totaling \$132 million as of September 30, 2013, which primarily consist of a commitment to contribute cash to an equity method investee for certain catastrophic events, up to \$50 million per event, in lieu of procuring insurance coverage, an indemnity to the co-lenders associated with an equity method investee’s credit agreement, and leases of assets containing general lease indemnities and guaranteed residual values.

General guarantees associated with dispositions – Over the years, we have sold various assets in the normal course of our business. Certain of the related agreements contain performance and general guarantees, including guarantees regarding inaccuracies in representations, warranties, covenants and agreements, and environmental and general indemnifications that require us to perform upon the occurrence of a triggering event or condition. These guarantees and indemnifications are part of the normal course of selling assets. We are typically not able to calculate the maximum potential amount of future payments that could be made under such contractual provisions because of the variability inherent in the guarantees and indemnities. Most often, the nature of the guarantees and indemnities is such that there is no appropriate method for quantifying the exposure because the underlying triggering event has little or no past experience upon which a reasonable prediction of the outcome can be based.

Contractual commitments—At September 30, 2013, our contractual commitments to acquire property, plant and equipment and advance funds to equity method investees totaled \$876 million, which includes \$700 million of contingent consideration associated with the acquisition of the Galveston Bay Refinery and Related Assets. See Note 4 for additional information on the contingent consideration.

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Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited financial statements and accompanying footnotes included under Item 1. Financial Statements and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012. Management's Discussion and Analysis of Financial Condition and Results of Operations includes various forward-looking statements concerning trends or events potentially affecting our business. You can identify our forward-looking statements by words such as "anticipate," "believe," "estimate," "expect," "forecast," "goal," "intend," "plan," "project," "seek," "target," "could," "may," "should," "would" or "will" or other similar expressions that convey the uncertainty of future events or outcomes. In accordance with "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, these statements are accompanied by cautionary language identifying important factors, though not necessarily all such factors, which could cause future outcomes to differ materially from those set forth in forward-looking statements. For additional risk factors affecting our business, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012.

Corporate Overview

We are an independent petroleum refining, marketing and transportation company. We currently own and operate seven refineries, all located in the United States, with an aggregate crude oil refining capacity of approximately 1.7 million barrels per calendar day. Our refineries supply refined products to resellers and consumers within our market areas, including the Midwest, Gulf Coast and Southeast regions of the United States. We distribute refined products to our customers through one of the largest private domestic fleets of inland petroleum product barges, one of the largest terminal operations in the United States, and a combination of MPC-owned and third-party-owned trucking and rail assets. We currently own, lease or have ownership interests in approximately 8,300 miles of crude oil and refined product pipelines to deliver crude oil to our refineries and other locations and refined products to wholesale and retail market areas. We are one of the largest petroleum pipeline companies in the United States on the basis of total volumes delivered.

Our operations consist of 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 they offer.

Refining & Marketing—refines crude oil and other feedstocks at our seven 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 business segment and to dealers and jobbers who operate Marathon[®] retail outlets;

Speedway—sells transportation fuels and convenience products in the retail market in the Midwest, primarily through Speedway[®] convenience stores; and

Pipeline Transportation—transports crude oil and other feedstocks to our refineries and other locations, delivers refined products to wholesale and retail market areas and includes the aggregated operations of MPLX and MPC's retained pipeline assets and investments.

Executive Summary

Net income attributable to MPC was \$168 million and \$1.49 billion, or \$0.54 and \$4.60 per diluted share, for the third quarter and first nine months of 2013 compared to \$1.22 billion and \$2.63 billion, or \$3.59 and \$7.65 per diluted share, for the third quarter and first nine months of 2012. The decreases were primarily due to our Refining & Marketing segment, which generated income from operations of \$227 million and \$2.24 billion in the third quarter and first nine months of 2013 compared to \$1.69 billion and \$3.96 billion in the third quarter and first nine months of 2012.

The decreases in Refining & Marketing segment income from operations were primarily due to decreases in refining and marketing gross margins, which were \$2.55 per barrel and \$5.42 per barrel in the third quarter and first nine months of 2013 compared to \$13.12 per barrel and \$10.92 per barrel in the third quarter and first nine months of 2012. These impacts were partially offset by increases in refinery throughputs and refined product sales volumes related to the Galveston Bay refinery acquired in February 2013.

Speedway segment income from operations increased \$26 million in the third quarter and \$59 million in the first nine months of 2013 compared to the third quarter and first nine months of 2012, primarily due to increases in our gasoline and distillate gross margin and our merchandise gross margin, partially offset by less income due to the absence of asset sales and higher operating expenses.

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Pipeline Transportation segment income from operations increased \$2 million in the third quarter and \$19 million in the first nine months of 2013 compared to the third quarter and first nine months of 2012. The increases primarily reflect higher transportation tariffs, partially offset by higher operating and depreciation expenses.

On February 1, 2013, we paid \$1.49 billion to acquire from BP the 451,000 barrel per calendar day refinery in Texas City, Texas, three intrastate natural gas liquid pipelines originating at the refinery, an allocation of BP's Colonial Pipeline Company shipper history, four light product terminals, branded-jobber marketing contract assignments for the supply of approximately 1,200 branded sites and a 1,040 megawatt electric cogeneration facility, as well as the inventory associated with these assets. We refer to these assets as the "Galveston Bay Refinery and Related Assets". Pursuant to the purchase and sale agreement, we may also be required to pay BP a contingent earnout of up to an additional \$700 million over six years, subject to certain conditions. These assets are part of our Refining & Marketing and Pipeline Transportation segments. Information for periods prior to the acquisition does not include amounts for these operations. See Note 4 to the unaudited consolidated financial statements for additional information on this acquisition.

On August 1, 2013, we acquired from Mitsui & Co. (U.S.A.), Inc. its interests in three ethanol companies for \$75 million. Under the purchase agreement, we acquired an additional 24 percent interest in TACE, bringing our ownership interest to 60 percent; a 34 percent interest in The Andersons Ethanol Investment LLC, which holds a 50 percent ownership in TAME, bringing our direct and indirect ownership interest in TAME to 67 percent; and a 40 percent interest in TAAE, which owns an ethanol production facility in Albion, Michigan. We hold a noncontrolling interest in each of these entities and account for them using the equity method of accounting since the minority owners have substantive participating rights.

On January 30, 2013, we announced that our board of directors approved an additional \$2.0 billion share repurchase authorization. The board also extended the remaining \$650 million share repurchase authorization for a total outstanding authorization of \$2.65 billion through December 2014. On September 26, 2013, we announced that our board of directors approved an additional \$2.0 billion share repurchase authorization through September 2015. During the first nine months of 2013, the final shares from the \$500 million ASR program were delivered to us and we paid \$2.34 billion to acquire 30 million common shares through open market share repurchases. The effective average cost was \$76.01 per delivered share. At September 30, 2013, we also had agreements to repurchase additional common shares for \$42 million, which were settled in early October 2013. As of September 30, 2013, we had total outstanding repurchase authorizations pursuant to the authorizations announced on January 30, 2013 and September 26, 2013 of approximately \$2.31 billion.

Overview of Segments

Refining & Marketing

Refining & Marketing segment income from operations depends largely on our refining and marketing gross margin and refinery throughputs.

Our refining and marketing gross margin is the difference between the prices of refined products sold and the costs of crude oil and other charge and blendstocks refined, including the costs to transport these inputs to our refineries, the costs of purchased products and refinery direct operating costs, including turnaround and major maintenance, depreciation and amortization and other manufacturing expenses. The crack spread is a measure of the difference between market prices for refined products and crude oil, commonly used by the industry as a proxy for the refining margin. Crack spreads can fluctuate significantly, particularly when prices of refined products do not move in the same relationship as the cost of crude oil. As a performance benchmark and a comparison with other industry participants, we calculate Midwest (Chicago) and U.S. Gulf Coast ("USGC") crack spreads that we believe most closely track our operations and slate of products. Light Louisiana Sweet crude oil ("LLS") prices and a 6-3-2-1 ratio of products (6 barrels of LLS crude oil producing 3 barrels of unleaded regular gasoline, 2 barrels of ultra-low sulfur diesel and 1 barrel of 3 percent sulfur residual fuel) are used for these crack-spread calculations.

Our refineries can process significant amounts of sour crude oil, which typically can be purchased at a discount to sweet crude oil. The amount of this discount, the sweet/sour differential, can vary significantly, causing our refining and marketing gross margin to differ from crack spreads based on sweet crude oil. In general, a larger sweet/sour differential will enhance our refining and marketing gross margin.

Historically, West Texas Intermediate crude oil (“WTI”) has traded at prices similar to LLS. During the first nine months of 2012 and in early 2013, WTI traded at prices significantly less than LLS, which favorably impacted our refining and marketing gross margin. Logistical constraints in the U.S. mid-continent markets and other market factors acted to keep the price of WTI from rising with the prices of crude oil produced in other regions. However, the differential between WTI and LLS significantly narrowed in the second and third quarters of 2013 due to a variety of domestic and international market conditions along with changes in logistical infrastructure. Future crude oil differentials will be dependent on a variety of market and economic factors.

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The following table provides sensitivities showing the estimated change in annual net income due to potential changes in market conditions.

(In millions, after-tax)

LLS 6-3-2-1 crack spread sensitivity ^(a) (per \$1.00/barrel change)	\$425
Sweet/sour differential sensitivity ^(b) (per \$1.00/barrel change)	225
LLS-WTI differential sensitivity ^(c) (per \$1.00/barrel change)	75
Natural gas price sensitivity (per \$1.00/million British thermal unit change)	140

^(a) Weighted 38% Chicago and 62% USGC LLS 6-3-2-1 crack spreads and assumes all other differentials and pricing relationships remain unchanged.

^(b) LLS (prompt)-[delivered cost of sour crude oil: Arab Light, Kuwait, Maya, Western Canadian Select and Mars].

^(c) Assumes 20% of crude oil throughput volumes are WTI-based domestic crude oil.

In addition to the market changes indicated by the crack spreads, the sweet/sour differential and the discount of WTI to LLS, our refining and marketing gross margin is impacted by factors such as:

• the types of crude oil and other charge and blendstocks processed;

• the selling prices realized for refined products;

• the impact of commodity derivative instruments used to hedge price risk;

• the cost of products purchased for resale; and

• changes in refinery direct operating costs, which include turnaround and major maintenance, depreciation and amortization and other manufacturing expenses.

Changes in manufacturing costs are primarily driven by the cost of energy used by our refineries, including purchased natural gas, and the level of maintenance costs. Planned major maintenance activities, or turnarounds, requiring temporary shutdown of certain refinery operating units, are periodically performed at each refinery. We had significant planned turnaround and major maintenance activities at our Catlettsburg, Kentucky; Garyville, Louisiana; and Galveston Bay refineries during the first nine months of 2013 compared to activities at our Detroit, Michigan; Garyville; and Robinson, Illinois refineries during the first nine months of 2012.

Speedway

Our retail marketing gross margin for gasoline and distillate, which is the price paid by consumers less the cost of refined products, including transportation, consumer excise taxes and bankcard processing fees, impacts the Speedway segment profitability. Numerous factors impact gasoline and distillate demand throughout the year, including local competition, seasonal demand fluctuations, the available wholesale supply, the level of economic activity in our marketing areas and weather conditions. Market demand increases for gasoline and distillate generally increase the product margin we can realize. The gross margin on merchandise sold at convenience stores historically has been less volatile. Approximately two-thirds of Speedway's gross margin was derived from merchandise sales in the third quarter and first nine months of 2013.

Pipeline Transportation

The profitability of our pipeline transportation operations primarily depends on tariff rates and the volumes shipped through the pipelines. A majority of the crude oil and refined product shipments on our common carrier pipelines serve our Refining & Marketing segment. In the fourth quarter of 2012, new transportation services agreements were entered into between MPC and MPLX, which resulted in higher tariff rates. The volume of crude oil that we transport is directly affected by the supply of, and refiner demand for, crude oil in the markets served directly by our crude oil pipelines. Key factors in this supply and demand balance are the production levels of crude oil by producers in various regions or fields, the availability and cost of alternative modes of transportation, the volumes of crude oil processed at refineries and refinery and transportation system maintenance levels. The volume of refined products that we transport is directly affected by the production levels of, and user demand for, refined products in the markets served by our refined product pipelines. In most of our markets, demand for gasoline and distillates peaks during the summer driving season, which extends from May through September of each year, and declines during the fall and winter months. As

with crude oil, other transportation alternatives and system maintenance levels influence refined product movements.

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Results of Operations

Consolidated Results of Operations

(In millions)	Three Months Ended			Nine Months Ended		
	September 30, 2013	September 30, 2012	Variance	September 30, 2013	September 30, 2012	Variance
Revenues and other income:						
Sales and other operating revenues (including consumer excise taxes)	\$26,253	\$21,047	\$5,206	\$75,256	\$61,551	\$13,705
Sales to related parties	3	2	1	7	6	1
Income from equity method investments	9	7	2	16	18	(2)
Net gain on disposal of assets	1	175	(174)	3	178	(175)
Other income	8	18	(10)	40	28	12
Total revenues and other income	26,274	21,249	5,025	75,322	61,781	13,541
Costs and expenses:						
Cost of revenues (excludes items below)	23,553	17,202	6,351	65,907	51,323	14,584
Purchases from related parties	103	84	19	254	204	50
Consumer excise taxes	1,631	1,463	168	4,685	4,271	414
Depreciation and amortization	299	246	53	888	712	176
Selling, general and administrative expenses	305	293	12	912	909	3
Other taxes	82	66	16	259	204	55
Total costs and expenses	25,973	19,354	6,619	72,905	57,623	15,282
Income from operations	301	1,895	(1,594)	2,417	4,158	(1,741)
Net interest and other financial income (costs)	(47)	(25)	(22)	(140)	(64)	(76)
Income before income taxes	254	1,870	(1,616)	2,277	4,094	(1,817)
Provision for income taxes	81	646	(565)	775	1,460	(685)
Net income	173	1,224	(1,051)	1,502	2,634	(1,132)
Less net income attributable to noncontrolling interests	5	—	5	16	—	16
Net income attributable to MPC	\$168	\$1,224	\$(1,056)	\$1,486	\$2,634	\$(1,148)

Net income attributable to MPC decreased \$1.06 billion in the third quarter and \$1.15 billion in the first nine months of 2013 compared to the third quarter and first nine months of 2012, primarily due to decreases in refining and marketing gross margins, which were \$2.55 per barrel and \$5.42 per barrel in the third quarter and first nine months of 2013 compared to \$13.12 per barrel and \$10.92 per barrel in the third quarter and first nine months of 2012. These impacts were partially offset by increases in refinery throughputs and refined product sales volumes related to the Galveston Bay refinery acquired in February 2013.

Sales and other operating revenues (including consumer excise taxes) increased \$5.21 billion in the third quarter and \$13.71 billion in the first nine months of 2013 compared to the third quarter and first nine months of 2012, primarily due to higher refined product sales volumes, which increased to 2,155 thousand barrels per day (“mbpd”) and 2,063 mbpd in the third quarter and first nine months of 2013 from 1,622 mbpd and 1,590 mbpd in the third quarter and first nine months of 2012, primarily due to the Galveston Bay refinery acquired in February 2013. This impact was partially offset by decreases in refined product selling prices.

Net gain on disposal of assets decreased \$174 million in the third quarter and \$175 million in the first nine months of 2013 compared to the third quarter and first nine months of 2012, primarily due to the absence of a \$171 million gain recognized in the third