MARATHON OIL CORP
Form 10-Q
May 03, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2018

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-5153
Marathon Oil Corporation
(Exact name of registrant as specified in its charter)

Delaware	25-0996816
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5555 San Felipe Street, Houston, TX 77056-2723
(Address of principal executive offices)

(713) 629-6600
(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 þ No o

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 þ No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	(Do not check if a smaller reporting company)
Smaller reporting company o	Emerging growth company o		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

There were 853,194,016 shares of Marathon Oil Corporation common stock outstanding as of April 30, 2018.

MARATHON OIL CORPORATION

Unless the context otherwise indicates, references to "Marathon Oil," "we," "our," or "us" in this Form 10-Q are references to Marathon Oil Corporation, including its wholly owned and majority-owned subsidiaries, and its ownership interests in equity method investees (corporate entities, partnerships, limited liability companies and other ventures over which Marathon Oil exerts significant influence by virtue of its ownership interest).
For certain industry specific terms used in this Form 10-Q, please see "Definitions" in our 2017 Annual Report on Form 10-K.

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Part I - Financial Information
Item 1. Financial Statements

MARATHON OIL CORPORATION
Consolidated Statements of Income (Unaudited)

	Three Months Ended March 31,	
(In millions, except per share data)	2018	2017
Revenues and other income:		
Revenues from contracts with customers	$1,537	$873
Net gain (loss) on commodity derivatives	(102)	81
Marketing revenues	—	34
Income from equity method investments	37	69
Net gain (loss) on disposal of assets	257	1
Other income	4	14
Total revenues and other income	1,733	1,072
Costs and expenses:		
Production	217	153
Marketing, including purchases from related parties	—	34
Other operating	130	89
Exploration	52	28
Depreciation, depletion and amortization	590	556
Impairments	8	4
Taxes other than income	64	39
General and administrative	100	97
Total costs and expenses	1,161	1,000
Income (loss) from operations	572	72
Net interest and other	(45)	(78)
Other net periodic benefit costs	(3)	(10)
Income (loss) from continuing operations before income taxes	524	(16)
Provision (benefit) for income taxes	168	34
Income (loss) from continuing operations	356	(50)
Income (loss) from discontinued operations	—	(4,907)
Net income (loss)	$356	$(4,957)
Per basic share:		
Income (loss) from continuing operations	$0.42	$(0.06)
Income (loss) from discontinued operations	$—	$(5.78)
Net income (loss)	$0.42	$(5.84)
Per diluted share:		
Income (loss) from continuing operations	$0.42	$(0.06)
Income (loss) from discontinued operations	$—	$(5.78)
Net income (loss)	$0.42	$(5.84)
Dividends per share	$0.05	$0.05
Weighted average common shares outstanding:		
Basic	851	849
Diluted	852	849

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

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MARATHON OIL CORPORATION
Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
(In millions)	2018	2017
Net income (loss)	$356	$(4,957)
Other comprehensive income (loss)		
Postretirement and postemployment plans		
Change in actuarial loss and other	4	4
Income tax provision	—	—
Postretirement and postemployment plans, net of tax	4	4
Foreign currency hedges		
Net recognized loss reclassified to discontinued operations	—	34
Income tax provision (benefit)	—	(4)
Foreign currency hedges, net of tax	—	30
Other, net of tax	—	1
Other comprehensive income (loss)	4	35
Comprehensive income (loss)	$360	$(4,922)

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

MARATHON OIL CORPORATION
Consolidated Balance Sheets (Unaudited)

(In millions, except per share data)	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$1,613	$563
Receivables, less reserve of $9 and $12	1,100	1,082
Notes receivable	—	748
Inventories	110	126
Other current assets	66	36
Current assets held for sale	13	11
Total current assets	2,902	2,566
Equity method investments	806	847
Property, plant and equipment, less accumulated depreciation, depletion and amortization of $21,872 and $21,564	16,931	17,665
Goodwill	98	115
Other noncurrent assets	849	764
Noncurrent assets held for sale	48	55
Total assets	$21,634	$22,012
Liabilities		
Current liabilities:		
Accounts payable	$1,335	$1,395
Payroll and benefits payable	85	108
Accrued taxes	128	177
Other current liabilities	359	288
Current liabilities held for sale	2	—
Total current liabilities	1,909	1,968
Long-term debt	5,495	5,494
Deferred tax liabilities	221	833
Defined benefit postretirement plan obligations	331	362
Asset retirement obligations	1,445	1,428
Deferred credits and other liabilities	197	217
Noncurrent liabilities held for sale	2	2
Total liabilities	9,600	10,304
Commitments and contingencies		
Stockholders’ Equity		
Preferred stock – no shares issued or outstanding (no par value, 26 million shares authorized)	—	—
Common stock:		
Issued – 937 million shares and 937 million shares (par value $1 per share, 1.1 billion shares authorized)	937	937
Held in treasury, at cost – 84 million and 87 million shares	(3,175)	(3,325)
Additional paid-in capital	7,237	7,379
Retained earnings	7,093	6,779
Accumulated other comprehensive loss	(58)	(62)
Total stockholders' equity	12,034	11,708

Total liabilities and stockholders' equity	$21,634	$22,012

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

MARATHON OIL CORPORATION
Consolidated Statements of Cash Flows (Unaudited)

(In millions)	Three Months Ended March 31, 2018	2017
Operating activities:		
Net income (loss)	$356	$(4,957)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Discontinued operations	—	4,907
Depreciation, depletion and amortization	590	556
Impairments	8	4
Exploratory dry well costs and unproved property impairments	42	20
Net (gain) loss on disposal of assets	(257)	(1)
Deferred income taxes	(31)	14
Net (gain) loss on derivative instruments	102	(77)
Net settlements of derivative instruments	(59)	(7)
Stock based compensation	14	14
Equity method investments, net	32	13
Changes in:		
Current receivables	(130)	(1)
Inventories	(9)	(10)
Current accounts payable and accrued liabilities	81	(1)
All other operating, net	(90)	27
Net cash provided by operating activities from continuing operations	649	501
Investing activities:		
Additions to property, plant and equipment	(662)	(283)
Acquisitions, net of cash acquired	(4)	—
Deposits for acquisitions	—	(180)
Disposal of assets, net of cash transferred to buyer	1,180	—
Equity method investments - return of capital	9	12
All other investing, net	(74)	1
Net cash provided by (used in) investing activities from continuing operations	449	(450)
Financing activities:		
Purchases of common stock	(9)	(7)
Dividends paid	(42)	(42)
All other financing, net	2	(1)
Net cash provided by (used in) financing activities	(49)	(50)
Cash flow from discontinued operations:		
Operating activities	—	95
Investing activities	—	(9)
Changes in cash included in current assets held for sale	—	(86)
Net increase in cash and cash equivalents of discontinued operations	—	—
Effect of exchange rate on cash and cash equivalents	1	1
Net increase (decrease) in cash and cash equivalents	1,050	2
Cash and cash equivalents at beginning of period	563	2,488
Cash and cash equivalents at end of period	$1,613	$2,490

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

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MARATHON OIL CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

These consolidated financial statements are unaudited; however, in the opinion of 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 disclosed otherwise. These consolidated financial statements, including notes, have been prepared in accordance with the applicable rules of the SEC and do not include all of the information and disclosures required by U.S. GAAP for complete financial statements.

These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2017 Annual Report on Form 10-K. The results of operations for the first quarter of 2018 are not necessarily indicative of the results to be expected for the full year.

As a result of the sale of our Canadian business in 2017, we reflected this business as discontinued operations in all historical periods presented. Disclosures in this report related to results of operations and cash flows are presented on the basis of continuing operations unless otherwise stated. See Note 5 for discussion of the divestiture in further detail.

Reclassifications

In the first quarter of 2018 we adopted the new Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers using the modified retrospective method. To conform the historical presentation to our current presentation, we reclassified gains/losses arising from our commodity derivatives out of the revenue from contracts with customers line item and into a separate line, net gain (loss) on commodity derivatives, on the consolidated statements of income. Additionally, in the first quarter of 2018 we adopted the new pension accounting standards update on a retrospective basis, and reclassified the required cost elements from general and administrative expense into production expense, exploration expense, and other net periodic benefit costs. See Note 2 for further discussion of the adoption of these accounting standards.

2. Accounting Standards

Not Yet Adopted

Lease accounting standard

In February 2016, the FASB issued a new lease accounting standard, which requires lessees to recognize most leases, including operating leases, on the balance sheet as a right of use asset and lease liability. Short-term leases can continue being accounted for off balance sheet based on a policy election. This standard does not apply to leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources, including the intangible right to explore for those natural resources and rights to use the land in which those natural resources are contained. This standard is effective for us in the first quarter of 2019 and shall be applied using a modified retrospective approach at the beginning of the earliest period presented in the financial statements. Early adoption is permitted.

As a result of adoption of this standard, we anticipate to recognize a right of use asset and lease liability on the adoption date. We plan to apply practical expedients provided in the standard that allow, amongst others, not to reassess contracts that commenced prior to the adoption. We also anticipate to elect a policy not to recognize right of use assets and lease liabilities related to short-term leases.

We continue to evaluate our contracts and are gathering the necessary data to determine the financial impact of this standard on our consolidated financial statements and related disclosures. We are also evaluating our systems, processes, internal controls, and technology requirements and solutions needed to comply with the requirements of this standard. While we cannot currently estimate the financial impact this standard has on our consolidated financial statements, the adoption is anticipated to result in an increase in both assets and liabilities related to our leases.

Hedge accounting standard

In August 2017, the FASB issued a new accounting standards update that amends the hedge accounting model to enable entities to hedge certain financial and nonfinancial risk attributes previously not allowed. The amendment also reduces the overall complexity of documenting, assessing and measuring hedge effectiveness. This standard is effective for us in the first quarter of 2019. Early adoption is permitted in any interim or annual period. The amendment mandates modified retrospective adoption when accounting for hedge relationships in effect as of the adoption date. None of our derivative instruments are currently designated as hedges; as a result we do not expect the

adoption of this standard to have a significant impact on our consolidated results of operations, financial position or cash flows.

MARATHON OIL CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

Goodwill standard
In January 2017, the FASB issued a new accounting standards update that eliminates the requirement to calculate the implied fair value of the goodwill (i.e., Step 2 of goodwill impairment test under the current guidance) to measure a goodwill impairment charge. We anticipate the standard to require entities to record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on Step 1 under the current guidance). This standard is effective for us in the first quarter of 2020 and shall be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Since we plan to adopt the standard on a prospective basis, we do not expect an impact on our consolidated results of operations, financial position or cash flows for prior periods.
Financial instruments - credit losses
In June 2016, the FASB issued a new accounting standards update that changes the impairment model for trade receivables, net investments in leases, debt securities, loans and certain other instruments. The standard requires the use of a forward-looking "expected loss" model as opposed to the current "incurred loss" model. This standard is effective for us in the first quarter of 2020 and will be adopted on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the adoption period. Early adoption is permitted starting January 2019. We are evaluating the provisions of this accounting standards update and assessing the impact, if any, it may have on our consolidated results of operations, financial position or cash flows.
Recently Adopted
Revenue recognition standard
On January 1, 2018, we adopted the new ASC Topic 606, Revenue from Contracts with Customers and all the related amendments ("new revenue standard") using the modified retrospective method. We evaluated the effect of transition by applying the provisions of the new revenue standard to contracts with remaining obligations as of January 1, 2018. No cumulative adjustment to retained earnings was necessary as a result of adopting this standard.
Results for reporting periods beginning after January 1, 2018 are presented under the new revenue standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies. The primary change relates to the presentation of marketing revenues and marketing expenses from the historical gross presentation to the current net presentation, included within revenues from contracts with customers, for a portion of our international contracts.
We concluded that the adoption of the new revenue standard did not result in any significant changes to our consolidated balance sheet or statement of cash flow. The following table summarizes the impacts of adopting the new revenue standard on our consolidated income statement for the quarter ended March 31, 2018.

	Three Months Ended March 31, 2018		
(In millions)	As reported	Adjustments	Presentation without adoption of ASC Topic 606
Revenues and other income:			
Revenues from contracts with customers	$1,537	$ (104)	$ 1,433
Marketing revenues	—	32	32
Other income	4	(1)	3
Costs and expenses:			
Marketing, including purchases from related parties	$—	$ 32	$ 32
Other operating	130	(3)	127

MARATHON OIL CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

Pension accounting standard

In the first quarter of 2018, we adopted the new accounting standards update that changes how employers that sponsor defined pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. As a result, employers are required to present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. We adopted this standard on a retrospective basis, and reclassified the required cost elements from general and administrative expense into production expense, exploration expense, and other net periodic benefit costs. The adoption of this standard did not have a significant impact on our consolidated balance sheet or statement of cash flows. The following table summarizes the impacts of adopting this standard on our historical consolidated income statement for the quarter ended March 31, 2017.

(In millions)	Three Months Ended March 31, 2017		
	Previously Reported	As reclassified	Effect of Change Higher/(Lower)
Production	151	153	2
Exploration	28	28	—
General and administrative	109	97	(12)
Income from operations	62	72	10
Other net periodic benefit costs [a]	—	10	10

[a] Includes net settlement loss and other net periodic benefit costs, excluding service costs (See Note 16).

Classification in the statement of cash flows

In August 2016, the FASB issued a new accounting standards update which seeks to reduce the existing diversity in practice in how certain transactions are classified in the statement of cash flows. This standard was effective for us in the first quarter of 2018, and was applied retrospectively. Adoption of this standard did not have a significant impact on our consolidated statements of cash flows.

Presentation of restricted cash in the statement of cash flows

In November 2016, the FASB issued a new accounting standards update that requires entities to show the changes in the total of cash, cash equivalents and restricted cash in the statement of cash flows. As a result, we no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. When cash, cash equivalents, and restricted cash are presented in more than one line item on the balance sheet, the standard requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. This standard was effective for us in the first quarter of 2018, and was applied retrospectively. Adoption of this standard did not have a significant impact on our consolidated statements of cash flows.

Accounting for sale or transfer of nonfinancial assets

In February 2017, the FASB issued a new accounting standards update that clarifies the accounting for the sale or transfer of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales. The standard also clarifies that the derecognition of all businesses (except those related to conveyances of oil and gas mineral rights or contracts with customers) should be accounted for in accordance with the derecognition and deconsolidation guidance in Subtopic 810-10. This standard was effective for us in the first quarter of 2018, and was applied using the modified retrospective approach. Adoption of this standard did not have a significant impact on our consolidated results of operations, financial position or cash flows.

Definition of a business

In January 2017, the FASB issued a new accounting standards update that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities constitutes a business. The guidance requires us to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single

identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities would not represent a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in the new revenue guidance. This standard was effective for us in the first quarter of 2018, and was applied prospectively. Adoption of this standard did not have a significant impact on our consolidated results of operations, financial position or cash flows.

MARATHON OIL CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

Financial instruments updates
In January 2016, the FASB issued an accounting standards update that addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. We adopted this standard in the first quarter of 2018. Adoption of this standard did not have a significant impact on our consolidated results of operations, financial position or cash flows.

3. Income (Loss) per Common Share

Basic income (loss) per share is based on the weighted average number of common shares outstanding. Diluted income per share assumes exercise of stock options in all periods, provided the effect is not antidilutive. The per share calculations below exclude 8 million of stock options for the three months period ended March 31, 2018 and 12 million stock options for the three months period ended March 31, 2017 that were antidilutive.

	Three Months Ended March 31,	
(In millions, except per share data)	2018	2017
Income (loss) from continuing operations	$356	$(50)
Income (loss) from discontinued operations	—	(4,907)
Net income (loss)	$356	$(4,957)
Weighted average common shares outstanding	851	849
Effect of dilutive securities	1	—
Weighted average common shares, diluted	852	849
Per basic share:		
Income (loss) from continuing operations	$0.42	$(0.06)
Income (loss) from discontinued operations	$—	$(5.78)
Net income	$0.42	$(5.84)
Per diluted share:		
Income (loss) from continuing operations	$0.42	$(0.06)
Income (loss) from discontinued operations	$—	$(5.78)
Net income	$0.42	$(5.84)

4. Acquisitions

In the second quarter of 2017, we closed on our two acquisitions totaling approximately 91,000 net acres in the Permian basin of New Mexico. On May 1, 2017, we closed on our acquisition with BC Operating, Inc. and other entities for $1.1 billion in cash, subject to post-closing adjustments, to acquire approximately 70,000 net surface acres and current production of approximately 5,000 net barrels of oil equivalent per day. On June 1, 2017, we closed on our acquisition with Black Mountain Oil & Gas and other private sellers for approximately $700 million in cash, subject to post-closing adjustments, to acquire approximately 21,000 net surface acres. The purchase price for these acquisitions was paid with cash on hand. We accounted for these transactions as asset acquisitions, with substantially all of the purchase price allocated to unproved property within property, plant and equipment.

5. Dispositions

International E&P Segment
On March 1, 2018, we closed on the sale of our subsidiary, Marathon Oil Libya Limited, which held our 16.33% non-operated interest in the Waha concessions in Libya, to a subsidiary of Total S.A. (Elf Aquitaine SAS) for proceeds of approximately $450 million, excluding closing adjustments, and recognized a pre-tax gain of $255 million.
In the third quarter of 2017, we entered into separate agreements to sell certain non-core properties in our International E&P segment for combined proceeds of $53 million, before closing adjustments. We closed on one of the asset sales in the fourth quarter of 2017 and recognized no net pre-tax gain or loss on sale. The remaining asset sale is expected to

close during 2018 and is classified as held for sale in the consolidated balance sheet as of March 31, 2018, with total assets of $61 million and total liabilities of $4 million.

MARATHON OIL CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

Canadian Business - Discontinued Operations
On May 31, 2017 we closed on the sale of our Canadian business, which included our 20% non-operated interest in the AOSP to Shell and Canadian Natural Resources Limited for $2.5 billion, excluding closing adjustments. Under the terms of the agreement, $1.8 billion was paid to us upon closing and the remaining proceeds were paid in the first quarter of 2018. At closing we received two notes receivable for the remaining proceeds, each with a face value of $375 million, which we received payment for in the first quarter of 2018. In the first quarter of 2017, we recorded a non-cash impairment charge of $6.6 billion (after-tax of $4.96 billion) primarily related to the property, plant and equipment of our Canadian business. As the effective date of the transaction is January 1, 2017, we recorded a loss on sale of $43 million during the second quarter of 2017 due to second quarter results of operations from our Canadian business that were recorded in our financial statements, but transferred to the buyer upon closing.
Our Canadian business is reflected as discontinued operations in the consolidated statements of income and the consolidated statements of cash flows for all periods presented. The following table contains select amounts reported in our historical consolidated statements of income as discontinued operations:

	Three Months Ended March 31,	
(In millions)	2018	2017
Total revenue and other income	$—	$258
Costs and expenses:		
Production	—	151
Depreciation, depletion and amortization	—	39
Impairments	—	6,636
Other	—	13
Total costs and expenses	—	6,839
Pretax income (loss) from discontinued operations	—	(6,581)
Provision (benefit) for income taxes	—	(1,674)
Income (loss) from discontinued operations	$—	$(4,907)

6. Revenues
The majority of our revenues are derived from the sale of crude oil and condensate, natural gas liquids ("NGLs") and natural gas under spot and term agreements with our customers in the U.S. and various international locations.
The following tables present our revenues from contracts with customers disaggregated by product type and geographic areas.

	Three Months Ended March 31, 2018					
United States E&P				Northern		Total
(In millions)	Eagle Ford	Bakken	Oklahoma	Delaware	Other U.S.	U.S. E&P
Crude oil and condensate	$366	$ 330	$ 115	$ 55	$ 53	$919
Natural gas liquids	42	15	37	6	3	103
Natural gas	33	10	43	5	7	98
Other	2	—	—	—	3	5
Revenues from contracts with customers	$443	$ 355	$ 195	$ 66	$ 66	$1,125

MARATHON OIL CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

	Three Months Ended March 31, 2018				
International E&P				Other	Total
(In millions)	E.G.	U.K.	Libya	International	Int'l E&P
Crude oil and condensate	$71	$95	$187	$ 23	$376
Natural gas liquids	1	—	—	—	1
Natural gas	9	8	9	—	26
Other	—	9	—	—	9
Revenues from contracts with customers	$81	$112	$196	$ 23	$412

The pricing in our hydrocarbon sales agreements are variable, determined using various published benchmarks which are adjusted for negotiated quality and location differentials. As a result, revenue collected under our agreements with customers is highly dependent on the market conditions and may fluctuate considerably as the hydrocarbon market prices rise or fall. Typically, our customers pay us monthly, within a short period of time after we deliver the hydrocarbon products. As such, we do not have any financing element associated with our contracts. We do not have any issues related to returns or refunds, as product specifications are standardized for the industry and are typically measured when transferred to a common carrier or midstream entity, and other contractual mechanisms (e.g., price adjustments) are used when products do not meet those specifications.

In limited cases, we may also collect advance payments from customers as stipulated in our agreements; payments in excess of recognized revenue are recorded as contract liabilities on our consolidated balance sheet.

Under our hydrocarbon sales agreements, the entire consideration amount is variable either due to pricing and/or volumes. We recognize revenue in the amount of variable consideration allocated to distinct units of hydrocarbons transferred to a customer. Such allocation reflects the amount of total consideration we expect to collect for completed deliveries of hydrocarbons and the terms of variable payment relate specifically to our efforts to satisfy the performance obligations under these contracts. Our performance obligations under our hydrocarbon sales agreements are to deliver either the entire production from the dedicated wells or specified contractual volumes of hydrocarbons.

We often serve as the operator for jointly owned oil and gas properties. As part of this role, we perform activities to explore, develop and produce oil and gas properties in accordance with the joint operating arrangement and collective decisions of the joint parties. Other working interest owners reimburse us for costs incurred based on our agreements. We determined that these activities are not performed as part of customer relationships, in accordance with the new revenue standard, and such reimbursements will continue to not be recorded as revenues within the scope of the new revenue standard.

In addition, we commonly market the share of production belonging to other working interest owners as the operator of jointly owned oil and gas properties. We concluded that those marketing activities are carried out as part of the collaborative arrangement, and we do not purchase or otherwise obtain control of other working interest owners' share of production. Therefore, we act as a principal only in regards to the sale of our share of production and recognize revenue for the volumes associated with our net production.

Crude oil and condensate

For the crude sales agreements, we satisfy our performance obligations and recognize revenue once customers take control of the crude at the designated delivery points, which include pipelines, trucks or vessels.

Natural gas and NGLs

When selling natural gas and NGLs, we engage midstream entities to process our production stream by separating natural gas from the NGLs. Frequently, these midstream entities also purchase our natural gas and NGLs under the same agreements. In these situations, we determined the performance obligation is complete and satisfied at the tailgate of the processing plant when the natural gas and NGLs become identifiable and measurable products. We determined the plant tailgate is the point in time where control, as defined in the new revenue standard, is transferred to midstream entities and they are entitled to significant risks and rewards of ownership of the natural gas and NGLs.

The amounts due to midstream entities for gathering and processing services are recognized as shipping and handling cost, as part of the other operating expense in our consolidated statement of income, since we make those payments in exchange for distinct services. Under some of our natural gas processing agreements, we have an option to take the processed natural gas and NGLs in-kind and sell to customers other than the processing company. In those circumstances, our performance obligations are complete after delivering the processed hydrocarbons to the customer at the designated delivery points, which may be the tailgate of the processing plant or an alternative delivery point requested by the customer.

MARATHON OIL CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

We have “percentage-of-proceeds” arrangements with some midstream entities where they retain a percentage of the proceeds collected for selling our processed natural gas and NGLs as compensation for their processing and marketing services. We recognize revenue for the gross sales volumes and recognize the proceeds retained by midstream companies as shipping and handling cost.

Contract receivables and assets

The following table provides information about receivables and contract assets from contracts with customers.

(In millions)	March 31, 2018	January 1, 2018
Receivables from contracts with customers, which are included in receivables, less reserves	$ 802	$ 811
Contract asset	$ 29	$ —

The contract asset represents the crude oil delivered to one of our customers in the U.K. for which payment will be collected over time as it becomes due under the pricing terms stipulated in the sales agreement. As a practical expedient, when the balance of this U.K. customer is a contract asset, we do not adjust revenue for the effects of a significant financing element as the period between when crude oil is delivered to the customer and when payment is expected to be received is one year or less at contract inception.

Significant changes in the contract asset balance during the period are as follows.

(In millions)	Three Months Ended March 31, 2018
Contract asset balance as of January 1, 2018	$ —
Revenue recognized as performance obligations are satisfied	48
Amounts invoiced to customers	(19)
Contract asset balance as of March 31, 2018	$ 29

7. Segment Information

We have two reportable operating segments. Both of these segments are organized and managed based upon both geographic location and the nature of the products and services it offers.

- United States E&P ("U.S. E&P") – explores for, produces and markets crude oil and condensate, NGLs and natural gas in the United States
- International E&P ("Int’l E&P") – explores for, produces and markets crude oil and condensate, NGLs and natural gas outside of the United States and produces and markets products manufactured from natural gas, such as LNG and methanol, in Equatorial Guinea (“E.G.”)

Information regarding assets by segment is not presented because it is not reviewed by the chief operating decision maker (“CODM”). Segment income (loss) represents income (loss) which excludes certain items not allocated to our operating segments, net of income taxes. A portion of our corporate and operations general and administrative support costs are not allocated to the operating segments. These unallocated costs primarily consist of employment costs (including pension effects), professional services, facilities and other costs associated with corporate and operations support activities. Additionally, items which affect comparability such as: gains or losses on dispositions, certain impairments, unrealized gains or losses on commodity derivative instruments, pension settlement losses or other items (as determined by the CODM) are not allocated to operating segments.

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(In millions)	Three Months Ended March 31, 2018			
	U.S. E&P	Int'l E&P	Not Allocated to Segments	Total
Revenues from contracts with customers	$1,125	$412	$ —	$1,537
Net gain (loss) on commodity derivatives	(59)	—	(43) [(b)]	(102)
Income from equity method investments	—	37	—	37
Net gain (loss) on disposal of assets	—	—	257 [(c)]	257
Other income	3	1	—	4
Less:				
Production expenses	151	67	(1)	217
Other operating	111	19	—	130
Exploration	51	1	—	52
Depreciation, depletion and amortization	528	54	8	590
Impairments	—	—	8	8
Taxes other than income	64	—	—	64
General and administrative	36	9	55	100
Net interest and other	—	—	45	45
Other net periodic benefit costs	—	(2)	5 [(d)]	3
Income tax provision (benefit)	3	170	(5)	168
Segment income (loss) / Income (loss) from continuing operations	$125	$132	$ 99	$356
Capital expenditures [(a)]	$611	$6	$ 5	$622

[(a)] Includes accruals.
[(b)] Unrealized loss on commodity derivative instruments (See Note 12).
[(c)] Primarily related to the gain on sale of our Libya subsidiary (See Note 5).
[(d)] Includes pension settlement loss of $4 million (See Note 16).

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	Three Months Ended March 31, 2017				
(In millions)	U.S. E&P	Int'l E&P	Not Allocated to Segments		Total
Revenue from contracts with customers	$670	$203	$	—	$873
Net gain (loss) on commodity derivatives	4	—	77	(b)	81
Marketing revenues	6	28	—		34
Income from equity method investments	—	69	—		69
Net gain (loss) on disposal of assets	1	—	—		1
Other income	4	10	—		14
Less:					
Production expenses	109	44	—		153
Marketing costs	7	27	—		34
Other operating	74	15	—		89
Exploration	26	2	—		28
Depreciation, depletion and amortization	472	75	9		556
Impairments	4	—	—		4
Taxes other than income	39	—	—		39
General and administrative	33	6	58		97
Net interest and other	—	—	78		78
Other net periodic benefit costs					