

MARATHON OIL CORP

Form 10-Q

May 02, 2019

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0000101778 mro:AmpcoMember 2018-12-31 0000101778 mro:AlbaPlantLlcMember 2018-12-31 0000101778
us-gaap:ForeignCountryMember mro:UKGovernmentMember 2017-12-31 iso4217:USD xbrli:pure mro:segment
iso4217:USD utreg:bbl xbrli:shares iso4217:USD xbrli:shares mro:Bbls_per_day utreg:Rate

**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 March 31, 2019**

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$1.00	MRO	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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 Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

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

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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 817,916,151 shares of Marathon Oil Corporation common stock outstanding as of April 30, 2019.

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 2018 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, 2019 2018	
<i>(In millions, except per share data)</i>		
Revenues and other income:		
Revenues from contracts with customers	\$1,200	\$1,537
Net loss on commodity derivatives	(91)	(102)
Income from equity method investments	11	37
Net gain on disposal of assets	42	257
Other income	35	4
Total revenues and other income	1,197	1,733
Costs and expenses:		
Production	187	217
Shipping, handling and other operating	154	130
Exploration	59	52
Depreciation, depletion and amortization	554	590
Impairments	6	8
Taxes other than income	72	64
General and administrative	94	100
Total costs and expenses	1,126	1,161
Income from operations	71	572
Net interest and other	(49)	(45)
Other net periodic benefit costs	5	(3)
Income before income taxes	27	524
Provision (benefit) for income taxes	(147)	168
Net income	\$174	\$356
Net income per share:		
Basic	\$0.21	\$0.42
Diluted	\$0.21	\$0.42
Weighted average common shares outstanding:		
Basic	819	851
Diluted	820	852

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

MARATHON OIL CORPORATION**Consolidated Statements of Comprehensive Income (Unaudited)**

<i>(In millions)</i>	Three Months Ended March 31, 2019 2018	
Net income	\$ 174	\$ 356
Other comprehensive income (loss), net of tax		
Change in actuarial loss in postretirement and postemployment plans	(4)	4
Other comprehensive income (loss)	(4)	4
Comprehensive income	\$ 170	\$ 360

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

MARATHON OIL CORPORATION
Consolidated Balance Sheets (Unaudited)

	March 31, 2019	December 31, 2018
<i>(In millions, except par value and share amounts)</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$1,019	\$1,462
Receivables, less reserve of \$12 and \$11	1,086	1,079
Inventories	83	96
Other current assets	160	257
Current assets held for sale	428	27
Total current assets	2,776	2,921
Equity method investments	719	745
Property, plant and equipment, less accumulated depreciation, depletion and amortization of \$17,669 and \$21,830	16,714	16,804
Goodwill	97	97
Other noncurrent assets	440	723
Noncurrent assets held for sale	664	31
Total assets	\$21,410	\$21,321
Liabilities		
Current liabilities:		
Accounts payable	\$1,310	\$1,320
Payroll and benefits payable	76	154
Accrued taxes	149	181
Other current liabilities	220	170
Current liabilities held for sale	103	7
Total current liabilities	1,858	1,832
Long-term debt	5,501	5,499
Deferred tax liabilities	192	199
Defined benefit postretirement plan obligations	179	195
Asset retirement obligations	192	1,081
Deferred credits and other liabilities	317	279
Noncurrent liabilities held for sale	963	108
Total liabilities	9,202	9,193
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, 1.925 billion shares authorized at March 31, 2019 and 1.925 billion shares authorized at December 31, 2018)	937	937
Held in treasury, at cost – 117 million shares and 118 million shares	(3,745)	(3,816)
Additional paid-in capital	7,149	7,238
Retained earnings	7,808	7,706
Accumulated other comprehensive income	59	63

Total stockholders' equity	12,208	12,128
Total liabilities and stockholders' equity	\$21,410	\$ 21,321

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

MARATHON OIL CORPORATION
Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31, 2019 2018	
<i>(In millions)</i>		
Increase (decrease) in cash and cash equivalents		
Operating activities:		
Net income	\$174	\$356
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	554	590
Impairments	6	8
Exploratory dry well costs and unproved property impairments	49	42
Net gain on disposal of assets	(42)	(257)
Deferred income taxes	(31)	(31)
Net loss on derivative instruments	91	102
Net settlements of derivative instruments	22	(59)
Pension and other post retirement benefits, net	(25)	(34)
Stock-based compensation	14	14
Equity method investments, net	14	32
Changes in:		
Current receivables	(73)	(130)
Inventories	4	(9)
Current accounts payable and accrued liabilities	(102)	81
Other current assets and liabilities	14	(25)
All other operating, net	(154)	(31)
Net cash provided by operating activities	515	649
Investing activities:		
Additions to property, plant and equipment	(615)	(662)
Additions to other assets	14	(72)
Acquisitions, net of cash acquired	—	(4)
Disposal of assets, net of cash transferred to the buyer	13	1,180
Equity method investments - return of capital	12	9
All other investing, net	12	(2)
Net cash provided by (used in) investing activities	(564)	449
Financing activities:		
Purchases of common stock	(30)	(9)
Dividends paid	(41)	(42)
All other financing, net	(1)	2
Net cash used in financing activities	(72)	(49)
Effect of exchange rate on cash and cash equivalents	1	1
Net increase (decrease) in cash and cash equivalents	(120)	1,050
Cash and cash equivalents at beginning of period	1,462	563
Cash and cash equivalents at end of period	\$1,342	\$1,613
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	\$1,019	\$1,613
Cash and cash equivalents included in current assets held for sale	323	—

Total cash and cash equivalents

\$1,342 \$1,613

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

5

MARATHON OIL CORPORATION
Consolidated Statements of Stockholders' Equity (Unaudited)

(In millions)	Total Equity of Marathon Oil Stockholders					
	Preferred Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Three Months Ended March 31, 2018						
December 31, 2017 Balance	\$— 937	\$ (3,325)	\$ 7,379	\$ 6,779	\$ (62)	\$ 11,708
Shares issued - stock-based compensation	—	158	(93)	—	—	65
Shares repurchased	—	(8)	—	—	—	(8)
Stock-based compensation	—	—	(49)	—	—	(49)
Net income	—	—	—	356	—	356
Other comprehensive income (loss)	—	—	—	—	4	4
Dividends paid (per share amount of \$0.05)	—	—	—	(42)	—	(42)
March 31, 2018 Balance	\$— 937	\$ (3,175)	\$ 7,237	\$ 7,093	\$ (58)	\$ 12,034
Three Months Ended March 31, 2019						
December 31, 2018 Balance	\$— 937	\$ (3,816)	\$ 7,238	\$ 7,706	\$ 63	\$ 12,128
Cumulative-effect adjustment (Note 2)	—	—	—	(31)	—	(31)
Shares issued - stock-based compensation	—	101	(39)	—	—	62
Shares repurchased	—	(30)	—	—	—	(30)
Stock-based compensation	—	—	(50)	—	—	(50)
Net income	—	—	—	174	—	174
Other comprehensive income (loss)	—	—	—	—	(4)	(4)
Dividends paid (per share amount of \$0.05)	—	—	—	(41)	—	(41)
March 31, 2019 Balance	\$— 937	\$ (3,745)	\$ 7,149	\$ 7,808	\$ 59	\$ 12,208

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

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 2018 Annual Report on Form 10-K. The results of operations for the first quarter of 2019 are not necessarily indicative of the results to be expected for the full year.

As a result of the announcement to sell our U.K. business in the first quarter of 2019, we have reflected these assets and liabilities as held for sale at March 31, 2019 in the consolidated balance sheet and the consolidated statement of cash flows. The related disclosures in this report exclude these held for sale amounts, unless otherwise noted. This divestiture is discussed in further detail in [Note 4](#).

Reclassifications

We have reclassified certain prior year amounts between operating cash flow to present it on a basis comparable with the current year's presentation with no impact on net cash provided by operating activities.

2. Accounting Standards

Not Yet Adopted

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 (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 (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. We plan to adopt the standard on a prospective basis, and do not expect a material 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

Lease accounting standard

In February 2016, the FASB issued a new leasing accounting standard, which modified the definition of a lease and established comprehensive accounting and financial reporting requirements for leasing arrangements. It requires lessees to recognize a lease liability and a right-of-use (“ROU”) asset for all leases, including operating leases, with a term of greater than 12 months on the balance sheet. On January 1, 2019, we adopted the new lease accounting standard using the modified retrospective method and applied to all leases that existed as of that date. It 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.

MARATHON OIL CORPORATION**Notes to Consolidated Financial Statements (Unaudited)**

The new lease standard requires certain accounting policy decisions while also providing a number of optional practical expedients for transition accounting. Our accounting policies and the practical expedients utilized are summarized below:

• Implemented an accounting policy to not recognize any right-of-use assets and lease liabilities related to short-term leases on the balance sheet.

• Implemented an accounting policy to not separate the lease and nonlease components for all asset classes, except for vessels.

• Elected the package of practical expedients which allows us to not reassess our prior conclusions regarding the lease identification and lease classification for contracts that commenced or expired prior to the effective date.

Elected the practical expedient pertaining to land easements which allows us to continue accounting for existing agreements under the previous accounting policies as nonlease transactions. Any modifications of existing contracts or new agreements will be assessed under the new lease accounting guidance and may become leases in the future.

As a result of the adoption, we recorded approximately \$156 million of ROU assets and \$160 million of lease liabilities on our consolidated balance sheet and a cumulative-effect adjustment to stockholders' equity on the date of adoption of \$31 million. As of March 31, 2019, we have approximately \$254 million of lease liabilities and \$247 million of ROU assets on our consolidated balance sheet related to long-term leases further discussed in **Note 12**. The increase in ROU assets and liabilities during the quarter is due to new contracts signed in the first quarter of 2019. We continue presenting all prior comparative periods without any restatements.

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 was effective for us in the first quarter of 2019. Adoption of this standard did not have a significant impact on our consolidated results of operations, financial position or cash flows.

3. Income and Dividends 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 5 million and 8 million of stock options for the three months ended March 31, 2019 and 2018 that were antidilutive.

<i>(In millions, except per share data)</i>	Three Months Ended March 31, 2019 2018	
Net income	\$ 174	\$ 356
Weighted average common shares outstanding	819	851
Effect of dilutive securities	1	1
Weighted average common shares, diluted	820	852
Net income per share:		
Basic	\$0.21	\$0.42
Diluted	\$0.21	\$0.42
Dividends per share	\$0.05	\$0.05

4. Dispositions***International Segment***

In the first quarter of 2019, we entered into an agreement to sell our U.K. business, Marathon Oil U.K. LLC ("MOUK") and Marathon Oil West of Shetlands Limited ("MOWOS"). Subject to customary adjustments, the closing consideration payable to us will be approximately \$140 million, which reflects the assumption by the buyer of the cash equivalent balance and working capital balance, which was approximately \$350 million at December 31, 2018. These properties are classified as held for sale in the consolidated balance sheet at March 31, 2019, with total assets of \$947 million and total liabilities of \$997 million, including an asset retirement obligation of \$960 million. For the three months ended March 31, 2019 and 2018, we had approximately \$13 million and \$52 million in income before income taxes relating to our U.K business. Though there are certain contractual

MARATHON OIL CORPORATION**Notes to Consolidated Financial Statements (Unaudited)**

requirements that must be satisfied, the transaction is expected to close in the second half of 2019, with an effective date of January 1, 2019.

In the fourth quarter of 2018, we entered into an agreement to sell our subsidiary, Marathon Oil KDV B.V., which holds our 15% non-operated interest in the Atrush block in Kurdistan for proceeds of \$63 million, before closing adjustments. This property is classified as held for sale in the consolidated balance sheet at March 31, 2019 and December 31, 2018, with total assets of \$145 million and \$58 million, and total liabilities of \$69 million and \$17 million. We expect the transaction to close in the second quarter of 2019.

In the first quarter of 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.

5. Revenues

The majority of our revenues are derived from the sale of crude oil and condensate, NGLs and natural gas under spot and term agreements with our customers in the United States and various international locations.

The following tables present our revenues from contracts with customers disaggregated by product type and geographic areas.

United States	Three Months Ended March 31, 2019					Total
	Eagle Ford	Bakken	Oklahoma	Delaware	Other U.S.	
<i>(In millions)</i>						
Crude oil and condensate	\$318	\$ 372	\$ 77	\$ 64	\$ 28	\$859
Natural gas liquids	35	10	22	8	2	77
Natural gas	34	12	45	6	6	103
Other	2	—	—	—	21	23
Revenues from contracts with customers	\$389	\$ 394	\$ 144	\$ 78	\$ 57	\$1,062
	Three Months Ended March 31, 2019					
International	Other			International Total		
<i>(In millions)</i>	E.	G.U.	K.			
Crude oil and condensate	\$47	\$ 56	\$ 10			\$ 113
Natural gas liquids	1	1	—			2
Natural gas	7	8	—			15
Other	—	8	—			8
Revenues from contracts with customers	\$55	\$ 73	\$ 10			\$ 138
	Three Months Ended March 31, 2018					
United States	Northern					Total
Eagle Ford	Bakken	Oklahoma	Delaware	Other U.S.		
<i>(In millions)</i>						
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)*

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

Contract receivables and liabilities

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

<i>(In millions)</i>	March 31, 2019	January 1, 2019
Receivables from contracts with customers, included in receivables, less reserves	\$ 751	\$ 714
Contract asset (liability)	\$ —	\$ (1)

The contract liability primarily relates to the advance consideration received from customers for crude oil sales and processing services in the U.K. A contract asset would represent crude oil delivered in the U.K. to a customer 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.

Changes in the contract asset (liability) balance during the period are as follows.

<i>(In millions)</i>	Three Months Ended March 31, 2019
Contract asset (liability) balance as of January 1, 2019	\$ (1)
Revenue recognized as performance obligations are satisfied	24
Amounts invoiced to customers	(23)
Contract asset (liability) balance as of March 31, 2019	\$ —

6. Segment Information

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

United States ("U.S.") – explores for, produces and markets crude oil and condensate, NGLs and natural gas in the United States

International ("Int'l") – 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 represents income 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, proved property impairments, change in tax associated with a tax legislation change, 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.

MARATHON OIL CORPORATION*Notes to Consolidated Financial Statements (Unaudited)***Three Months Ended March 31,
2019**

<i>(In millions)</i>	U.S.	Int'l	Not Allocated to Segments	Total
Revenues from contracts with customers	\$1,062	\$138	\$ —	\$1,200
Net gain (loss) on commodity derivatives	22	—	(113)	(91) ^(b)
Income from equity method investments	—	11	—	11
Net gain on disposal of assets	—	—	42	42 ^(c)
Other income	1	3	31	35 ^(d)
Less costs and expenses:				
Production	139	50	(2)	187
Shipping, handling and other operating	140	13	1	154
Exploration	59	—	—	59
Depreciation, depletion and amortization	514	34	6	554
Impairments	—	—	6	6 ^(e)
Taxes other than income	74	—	(2)	72
General and administrative	29	7	58	94
Net interest and other	—	—	49	49
Other net periodic benefit costs	—	(2)	(3)	(5)
Income tax benefit	(2)	(11)	(134)	(147) ^(f)
Segment income	\$132	\$61	\$ (19)	\$174
Capital expenditures ^(a)	\$606	\$5	\$ 3	\$614

^(a) Includes accruals.

^(b) Unrealized loss on commodity derivative instruments (See [Note 13](#)).

^(c) Primarily related to the sale of our working interest in the Droshky field (Gulf of Mexico), which closed during the first quarter of 2019.

^(d) Primarily related to the indemnification of certain tax liabilities in connection with the 2010-2011 Federal Tax Audit with the IRS (See [Note 7](#)).

^(e) Due to the anticipated sale of our non-operated interest in the Atrush block in Kurdistan (See [Note 10](#)).

^(f) Primarily relates to the settlement of the 2010-2011 Federal Tax Audit with the IRS (See [Note 7](#)).

MARATHON OIL CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

**Three Months Ended March 31,
2018**

<i>(In millions)</i>	U.S.	Int'l	Not Allocated to Segments	Total
Revenue from contracts with customers	\$1,125	\$412	\$ —	\$1,537
Net loss on commodity derivatives	(59)	—	(43)	(102) ^(b)
Income from equity method investments	—	37	—	37
Net gain on disposal of assets	—	—	257	257 ^(c)
Other income	3	1	—	4
Less costs and expenses:				
Production	151	67	(1)	217
Shipping, handling and 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	3 ^(d)
Income tax provision (benefit)	3	170	(5)	168
Segment income	\$125	\$132	\$ 99	\$356
Capital expenditures ^(a)	\$611	\$6	\$ 5	\$622

^(a) Includes accruals.

^(b) Unrealized loss on commodity derivative instruments (See [Note 13](#)).

^(c) Primarily related to the gain on the sale of our Libya subsidiary (See [Note 4](#)).

^(d) Includes pension settlement loss of \$4 million (See [Note 18](#)).

MARATHON OIL CORPORATION**Notes to Consolidated Financial Statements (Unaudited)****7. Income Taxes****Effective Tax Rate**

The effective income tax rate is influenced by a variety of factors including the geographic and functional sources of income and the relative magnitude of these sources of income. The difference between the total provision and the sum of the amounts allocated to segments is reported in the "Not Allocated to Segments" column of the tables in **Note 6**.

For the three months ended March 31, 2019 and 2018, our effective income tax rates were as follows:

	Three Months Ended March 31, 2019 2018	
Effective income tax expense (benefit) rate ^(a)	(544)%	32%

^(a) In all periods presented, we maintained our valuation allowance on our net federal deferred tax assets in the U.S.

The following items caused the effective income tax rates to be different from our U.S. statutory tax rate of 21% for 2019 and 2018:

During the three months ended March 31, 2019, we settled the 2010-2011 U.S. Federal Tax Audit ("IRS Audit") resulting in a tax benefit of \$126 million. Additionally, we recorded a non-cash deferred tax benefit of \$18 million in the U.K. related to an internal restructuring. These two items are discrete to the first quarter of 2019. Excluding these discrete adjustments, the effective income tax rate for the quarter was a benefit of 8%.

During the three months ended March 31, 2018, we incurred tax expense in Libya of \$162 million. Excluding Libya, the effective income tax rate for the three months ended March 31, 2018, was an expense of 2%.

As a result of the IRS Audit settlement, the uncertain tax positions previously established are now effectively settled. The release of the accrued uncertain tax positions resulted in a \$126 million tax benefit, primarily related to the additional alternative minimum tax ("AMT") credits, see **Note 22** for further detail.

Pursuant to the Tax Sharing Agreement we entered into with Marathon Petroleum Corporation ("MPC") in connection with the 2011 spin-off transaction, MPC agreed to indemnify us for certain liabilities. In addition to the benefit from the settlement of the IRS Audit in the first quarter of 2019, we recorded a current receivable and other income of \$42 million for indemnity payments due from MPC for tax expense and interest we had previously recognized. The indemnity relates to tax and interest allocable to MPC as a result of the IRS Audit. During the second quarter of 2019, we paid the IRS, and were subsequently reimbursed by MPC which settled their indemnity obligation.

During the three months ended March 31, 2019, we withdrew our appeal related to the Brae area decommissioning costs in the U.K, thus the uncertain tax positions previously established are now considered effectively settled with no tax expense or benefit impact in the first quarter of 2019.

8. Inventories

Crude oil and natural gas are recorded at weighted average cost and carried at the lower of cost or net realizable value. Supplies and other items consist principally of tubular goods and equipment which are valued at weighted average cost and reviewed periodically for obsolescence or impairment when market conditions indicate.

	March December	
	31,	31,
<i>(In millions)</i>	2019	2018
Crude oil and natural gas	\$ 12	\$ 11
Supplies and other items	71	85

Inventories \$ 83 \$ 96

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MARATHON OIL CORPORATION*Notes to Consolidated Financial Statements (Unaudited)***9. Property, Plant and Equipment**

	March 31, 2019	December 31, 2018
<i>(In millions)</i>		
United States	\$16,068	\$ 16,011
International	566	710
Corporate	80	83
Net property, plant and equipment	\$16,714	\$ 16,804

We had no exploratory well costs capitalized greater than one year as of March 31, 2019 and December 31, 2018.

10. Impairments

The following table summarizes impairment charges of proved properties. Additionally, it presents the values of assets, by major category, measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition.

	Three Months Ended March 31,			
	2019		2018	
<i>(In millions)</i>	Fair Value	Impairment	Fair Value	Impairment
Long-lived assets held for use	\$37	\$ 6	\$50	\$ 8

2019 – During the three months ended March 31, 2019, we recorded a property impairment charge of \$6 million, as a result of the anticipated sale of our subsidiary, Marathon Oil KDV B.V., in our International segment to a fair value of \$37 million. The related fair value was measured using the market approach, based upon anticipated sales proceeds less costs to sell which resulted in a Level 2 classification. See **Note 4** for discussion of the divestiture in further detail.

2018 – During the three months ended March 31, 2018, we recorded a proved property impairment of \$8 million, to a fair value of \$50 million, as a result of anticipated sales proceeds in our non-operated Sarsang block in Kurdistan. The Sarsang block is included in our International segment. The fair value was measured using the market approach, based upon anticipated sales proceeds less costs to sell, which resulted in a Level 2 classification.

The following table summarizes impairment charges of unproved properties included as a component of exploration expense:

	Three Months Ended March 31, 2019		2018	
<i>(In millions)</i>				
Exploration Expenses				
Unproved property impairments	\$44	\$ 40		
Dry well costs	5	2		
Geological and geophysical	6	6		
Other	4	4		
Total exploration expenses	\$59	\$ 52		

MARATHON OIL CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

11. Asset Retirement Obligations

Asset retirement obligations primarily consist of estimated costs to remove, dismantle and restore land or seabed at the end of oil and gas production operations. Changes in asset retirement obligations for the three months ended were as follows:

<i>(In millions)</i>	March 31,	
	2019	2018
Beginning balance	\$1,145	\$1,483
Incurred liabilities, including acquisitions	12	4
Settled liabilities, including dispositions	(109)	(8)
Accretion expense (included in depreciation, depletion and amortization)	13	18
Revisions of estimates	11	—
Held for sale	(862)	—
Ending balance	\$210	\$1,497

March 31, 2019

Settled liabilities is primarily related to the sale of our working interest in the Droshky field (Gulf of Mexico), which closed during the first quarter of 2019.

Held for sale include the asset retirement obligations associated with the sale of our U.K. business, which was partially offset by settled liabilities for dispositions primarily related to the Droshky field in the first quarter of 2019. See **Note 4** for discussion of the divestitures in further detail.

Ending balance includes \$18 million classified as short-term at March 31, 2019.

March 31, 2018

Ending balance includes \$52 million classified as short-term at March 31, 2018.

12. Leases

Supplemental balance sheet information related to leases was as follows:

<i>(In millions)</i>	March 31,	
	2019	
Operating Leases:	Balance Sheet Location:	
ROU asset	Other noncurrent assets	\$ 247
Current portion of long-term lease liability	Other current liabilities	\$ 92
Long-term lease liability	Deferred credits and other liabilities	\$ 162

In determining our ROU assets and long-term lease liabilities, the new lease standard requires certain accounting policy decisions, while also providing a number of optional practical expedients for transition accounting. Our accounting policies and the practical expedients utilized are summarized below:

• Implemented an accounting policy to not recognize any right-of-use assets and lease liabilities related to short-term leases on the balance sheet.

• Implemented an accounting policy to not separate the lease and nonlease components for all asset classes, except for vessels.

• Elected the package of practical expedients which allows us to not reassess our prior conclusions regarding the lease identification and lease classification for contracts that commenced or expired prior to the effective date.

• Elected the practical expedient pertaining to land easements which allows us to continue accounting for existing agreements under the previous accounting policies as nonlease transactions. Any modifications of existing contracts or new agreements will be assessed under the new lease accounting guidance and may become leases in the future.

We enter into various lease agreements to support our operations including drilling rigs, well fracturing equipment, compressors, buildings, aircraft, vessels, vehicles and miscellaneous field equipment. We primarily act as a lessee in these transactions and all of our existing leases are classified as either short-term or long-term operating leases.

The majority of the drilling rig agreements and all of fracturing equipment agreements are classified as short-term leases based on the noncancellable period for which we have the right to use the equipment and assessment of options present in each agreement. We also incur variable lease costs under these agreements primarily related to chemicals and sand used in fracturing operations or various additional on-demand equipment and labor. The lease costs associated with the drilling rigs and fracturing equipment are primarily capitalized as part of the well costs.

Our long-term leases are comprised of compressors, buildings, drilling rigs, aircraft, vessels, vehicles and miscellaneous field equipment. Our lease agreements may require both fixed and variable payments; none of the variable payments are rate or index-based, therefore only fixed payments were considered for recognizing lease liabilities and ROU assets related to long-term leases. Also, based on our election not to separate the lease and nonlease components, fixed payments related to equipment, crew and other nonlease components are included in the initial measurement of lease liabilities and ROU assets for all asset classes, except for vessels. For vessels, the contractual consideration was allocated between lease and nonlease components based on estimates provided by service providers.

Our leased assets may be used in joint oil and gas operations with other working interest owners. We recognize lease liabilities and ROU assets only when we are the signatory to a contract as an operator of joint properties. Such lease liabilities and ROU assets are determined based on gross contractual obligations. As we use the leased assets for joint operations, we have the contractual right to recover the other working interest owners' share of lease costs. As a result, our lease costs are presented on a net basis, reduced for any costs recoverable from other working interest owners. The table below presents our net lease costs as of March 31, 2019 with the majority of operating lease costs expensed as incurred, while the majority of the short-term and variable term lease costs are capitalized into property, plant and equipment.

<i>(In millions)</i>	Three Months Ended March 31, 2019
Lease costs:	
Operating lease costs ^(a)	\$ 21
Short-term lease costs ^(b)	81
Variable lease costs ^(c)	60
Total lease costs	\$ 162

Other information:

ROU assets obtained in exchange for new operating lease liabilities^(d) \$ 268

^(a) Represents our net share of the ROU asset amortization and the interest expense.

^(b) Represents our net share of lease costs arising from leases of less than 1 year but longer than one month that were not included in the lease liability.

^(c) Represents our net share of variable lease payments that were not included in the lease liability.

^(d) Represents the cumulative value of ROU assets recognized at lease inception during the quarter. This amount is then amortized as we utilize the ROU asset, the net effect of which is the ending ROU asset of \$247 million (first table above).

We use our periodic internal borrowing rate to discount future contractual payments to their present values. The weighted average lease term and the discount rate relevant to long-term leases were three years and 4% as of March 31, 2019. The remaining annual undiscounted cash flows associated with long-term leases and the reconciliation of these cash flows to the lease liabilities recognized on the consolidated balance sheet is summarized below.

<i>(In millions)</i>	Operating Lease Obligations
2019	\$ 80

2020	94
2021	57
2022	34
2023	4
Thereafter	1
Total undiscounted lease payments	\$ 270
Less: Amount representing interest	16
Total operating lease liabilities	\$ 254
Current portion of long-term lease liability as of March 31, 2019	\$ 92
Long-term lease liability as of March 31, 2019	\$ 162

MARATHON OIL CORPORATION**Notes to Consolidated Financial Statements (Unaudited)**

Our wholly-owned subsidiary, Marathon E.G. Production Limited, is a lessor for residential housing in Equatorial Guinea, which is occupied by EGHoldings, a related party equity method investee – see **Note 21**. The lease was classified as an operating lease and expires in 2024, with a lessee option to extend through 2034. Lease payments are fixed for the entire duration of the agreement at approximately \$6 million per year. Our lease income is reported in other income in our consolidated statements of income for all periods presented. The undiscounted cash flows to be received under this lease agreement are summarized below.

<i>(In millions)</i>	Operating Lease Future Cash Receipts
2019	\$ 5
2020	6
2021	6
2022	6
2023	6
Thereafter	66
Total undiscounted cash flows	\$ 95

In 2018, we signed an agreement with an owner/lessor to construct and lease a new build-to-suit office building in Houston, Texas. The new Houston office location is expected to be completed in 2021. The lessor and other participants are providing financing for up to \$380 million, to fund the estimated project costs. As of March 31, 2019, project costs incurred totaled \$47 million, primarily for land acquisition and initial design costs. The initial lease term is five years and will commence once construction is substantially complete and the new Houston office is ready for occupancy. At the end of the initial lease term, we can negotiate to extend the lease term for an additional five years, subject to the approval of the participants; purchase the property subject to certain terms and conditions; or remarket the property to an unrelated third party. The lease contains a residual value guarantee of approximately 89% of the total acquisition and construction costs.

13. Derivatives

For further information regarding the fair value measurement of derivative instruments see **Note 14**. All of our commodity derivatives are subject to enforceable master netting arrangements or similar agreements under which we report net amounts. The following tables present the gross fair values of derivative instruments and the reported net amounts along with where they appear on the consolidated balance sheets.

March 31, 2019				
<i>(In millions)</i>	Asset	Liability	Net Asset (Liability)	Balance Sheet Location
Not Designated as Hedges				
Commodity	\$18	\$ —	\$ 18	Other current assets
Commodity	1	—	1	Other noncurrent assets
Commodity	—	1	(1)	Other current liabilities
Commodity	—	4	(4)	Deferred credits and other liabilities
Total Not Designated as Hedges	\$19	\$ 5	\$ 14	

December 31, 2018				
<i>(In millions)</i>	Asset	Liability	Net Asset (Liability)	Balance Sheet Location
Not Designated as Hedges				

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Commodity	\$131	\$	—	\$	131	Other current assets
Commodity	—	4		(4)	Deferred credits and other liabilities
Total Not Designated as Hedges	\$131	\$	4	\$	127	

MARATHON OIL CORPORATION**Notes to Consolidated Financial Statements (Unaudited)****Commodity Derivatives**

We have entered into multiple crude oil derivatives indexed to the respective indices as noted in the table below, related to a portion of our forecasted United States sales through 2021. These derivatives consist of three-way collars, basis swaps and NYMEX roll basis swaps. Three-way collars consist of a sold call (ceiling), a purchased put (floor) and a sold put. The ceiling price is the maximum we will receive for the contract volumes; the floor is the minimum price we will receive, unless the market price falls below the sold put strike price. In this case, we receive the NYMEX WTI price plus the difference between the floor and the sold put price. These commodity derivatives were not designated as hedges. The following table sets forth outstanding derivative contracts as of March 31, 2019, and the weighted average prices for those contracts:

	2019			2020	2021
Crude Oil	Second	Third	Fourth	Full	First
	Quarter	Quarter	Quarter	Year	Quarter
NYMEX WTI Three-Way Collars ^(a)					
Volume (Bbls/day)	70,000	50,000	50,000	—	—
Weighted average price per Bbl:					
Ceiling	\$71.21	\$75.88	\$75.88	—	—
Floor	\$55.86	\$57.80	\$57.80	—	—
Sold put	\$48.71	\$50.80	\$50.80	—	—
Basis Swaps - Argus WTI Midland ^(b)					
Volume (Bbls/day)	10,000	15,000	15,000	15,000	—
Weighted average price per Bbl	\$(0.82)	\$(1.40)	\$(1.40)	\$(0.94)	—
Basis Swaps - Net Energy Clearbrook ^(c)					
Volume (Bbls/day)	1,000	1,000	1,000	—	—
Weighted average price per Bbl	\$(3.50)	\$(3.50)	\$(3.50)	—	—
Basis Swaps - NYMEX WTI / ICE Brent ^(d)					
Volume (Bbls/day)	5,000	5,000	5,000	5,000	3,278
Weighted average price per Bbl	\$(7.24)	\$(7.24)	\$(7.24)	\$(7.24)	\$(7.24)
NYMEX Roll Basis Swaps					
Volume (Bbls/day)	60,000	60,000	60,000	—	—
Weighted average price per Bbl	\$0.38	\$0.38	\$0.38	—	—

Between April 1, 2019 and April 29, 2019, we entered into 20,000 Bbls/day and 20,000 Bbls/day of three-way collars for July - December 2019 and January - June 2020, with a ceiling of \$70.00, a sold put of \$47.00, and a floor of \$55.00. We also entered into 10,000 Bbls/day of three-way collars for July - December 2019 with a ceiling of \$74.09, a sold put of \$48.00, and a floor of \$55.00.

(b) The basis differential price is indexed against Argus WTI Midland.

(c) The basis differential price is indexed against Net Energy Canada Bakken SW at Clearbrook ("UHC").

(d) The basis differential price is indexed against International Commodity Exchange ("ICE") Brent and NYMEX WTI.

The mark-to-market impact and settlement of these commodity derivative instruments appears in net gain (loss) on commodity derivatives in our consolidated statements of income. The mark-to-market impact for the three months ended March 31, 2019 was a loss of \$113 million compared to a loss of \$43 million for the same period in 2018. Net settlements of commodity derivative instruments for the three months ended March 31, 2019 was a gain of \$22 million compared to a loss of \$59 million for the same period in 2018.

MARATHON OIL CORPORATION**Notes to Consolidated Financial Statements (Unaudited)****14. Fair Value Measurements***Fair Values – Recurring*

The following tables present assets and liabilities accounted for at fair value on a recurring basis as of March 31, 2019 and December 31, 2018 by hierarchy level.

<i>(In millions)</i>	March 31, 2019			Total
	Level 1	Level 2	Level 3	
Derivative instruments, assets				
Commodity ^(a)	\$—	\$ 16	\$	—\$ 16
Derivative instruments, assets	\$—	\$ 16	\$	—\$ 16
Derivative instruments, liabilities				
Commodity ^(a)	\$(2)	\$ —	\$	—\$(2)
Derivative instruments, liabilities	\$(2)	\$ —	\$	—\$(2)

^(a) Derivative instruments are recorded on a net basis in our consolidated balance sheet. See **Note 13**.

<i>(In millions)</i>	December 31, 2018			Total
	Level 1	Level 2	Level 3	
Derivative instruments, assets				
Commodity ^(a)	\$21	\$ 106	\$	—\$ 127
Derivative instruments, assets	\$21	\$ 106	\$	—\$ 127
Derivative instruments, liabilities				
Derivative instruments, liabilities	\$—	\$ —	\$	—\$—

^(a) Derivative instruments are recorded on a net basis in our consolidated balance sheet. See **Note 13**.

Commodity derivatives include three-way collars, basis swaps and NYMEX roll basis swaps. These instruments are measured at fair value using either a Black-Scholes or a modified Black-Scholes Model. For basis swaps and NYMEX roll basis swaps, inputs to the models include only commodity prices and interest rates and are categorized as Level 1 because all assumptions and inputs are observable in active markets throughout the term of the instruments. For three-way collars, inputs to the models include commodity prices, and implied volatility and are categorized as Level 2 because predominantly all assumptions and inputs are observable in active markets throughout the term of the instruments.

Fair Values – Nonrecurring

See **Note 4** and **Note 10** for detail on our fair values for nonrecurring items, such as impairments.

Fair Values – Financial Instruments

Our current assets and liabilities include financial instruments, the most significant of which are receivables, the current portion of our long-term debt and payables. We believe the carrying values of our receivables and payables approximate fair value. Our fair value assessment incorporates a variety of considerations, including (1) the short-term duration of the instruments, (2) our credit rating and (3) our historical incurrence of and expected future insignificant bad debt expense, which includes an evaluation of counterparty credit risk.

MARATHON OIL CORPORATION**Notes to Consolidated Financial Statements (Unaudited)**

The following table summarizes financial instruments, excluding receivables, payables and derivative financial instruments, and their reported fair values by individual balance sheet line item at March 31, 2019 and December 31, 2018.

<i>(In millions)</i>	March 31, 2019		December 31, 2018	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Financial assets				
Current assets	\$4	\$ 3	\$3	\$ 3
Other noncurrent assets	25	32	76	81
Total financial assets	\$29	\$ 35	\$79	\$ 84
Financial liabilities				
Other current liabilities	\$42	\$ 58	\$37	\$ 58
Long-term debt, including current portion ^(a)	5,875	5,528	5,469	5,528
Deferred credits and other liabilities	86	111	93	88
Total financial liabilities	\$6,003	\$ 5,697	\$5,599	\$ 5,674

^(a) Excludes capital leases and debt issuance costs.

Fair values of our financial assets included in other noncurrent assets, and of our financial liabilities included in other current liabilities and deferred credits and other liabilities, are measured 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.

All of our long-term debt instruments are publicly traded. A market approach, based upon quotes from major financial institutions, which are Level 2 inputs, is used to measure the fair value of our debt.

15. Debt**Revolving Credit Facility**

As of March 31, 2019, we had no borrowings against our \$3.4 billion revolving credit facility (the “Credit Facility”), as described below.

The Credit Facility includes a covenant requiring that our ratio of total debt to total capitalization not exceed 65% as of the last day of each fiscal quarter. If an event of default occurs, the lenders holding more than half of the commitments may terminate the commitments under the Credit Facility and require the immediate repayment of all outstanding borrowings and the cash collateralization of all outstanding letters of credit under the Credit Facility. As of March 31, 2019, we were in compliance with this covenant with a debt-to-capitalization ratio of 31%.

Long-term debt

As of March 31, 2019, we had \$5.5 billion in long-term debt outstanding, with our next debt maturity in the amount of \$600 million due in June 2020.

16. Stockholders' Equity

In the first quarter of 2019, we acquired approximately 1 million common shares at a cost of \$14 million which were held as treasury stock. Including these repurchases, the total remaining in our share repurchase authorization was \$786 million at March 31, 2019. Purchases under the program are made at our discretion and may be in either open market transactions, including block purchases, or in privately negotiated transactions using cash on hand, cash generated from operations or proceeds from potential asset sales. This program may be changed based upon our financial condition or changes in market conditions and is subject to termination prior to completion.

MARATHON OIL CORPORATION**Notes to Consolidated Financial Statements (Unaudited)****17. Incentive Based Compensation***Stock options, restricted stock awards and restricted stock units*

The following table presents a summary of activity for the first three months of 2019:

	Stock Options		Restricted Stock Awards & Units	
	Number of Shares	Weighted Average Exercise Price	Awards	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2018	6,180,007	\$ 24.39	8,504,946	\$ 14.04
Granted	648,526	(a) \$ 16.79	3,824,208	\$ 16.98
Exercised/Vested	(10,470)	\$ 14.92	(3,519,699)	\$ 12.37
Canceled	(151,412)	\$ 27.15	(157,302)	\$ 14.58
Outstanding at March 31, 2019	6,666,651	\$ 23.60	8,652,153	\$ 16.01

(a) The weighted average grant date fair value of stock option awards granted was \$6.62 per share.

Stock-based performance unit awards

During the first three months of 2019, we granted 656,636 stock-based performance units to certain officers to be settled in shares. The grant date fair value per unit was \$20.66, as calculated using a Monte Carlo valuation model. At the grant date, each unit represents the value of one share of our common stock. These units are settled in shares, and the number of shares of our common stock to be paid is based on the vesting percentage, which can be from zero to 200% based on performance achieved and as determined by the Compensation Committee of the Board of Directors. The performance goals are tied to our total shareholder return ("TSR") as compared to TSR for a group of peer companies determined by the Compensation Committee of our Board of Directors. Dividend equivalents may accrue during the performance period and would be paid in cash at the end of the performance period based on the amount of dividends credited generally over the performance period on shares of our common stock that represent the number of the units granted multiplied by the vesting percentage.

18. Defined Benefit Postretirement Plans

The following summarizes the components of net periodic benefit cost:

(In millions)	Pension Benefits				Other Benefits			
	2019		2018		2019		2018	
Service cost	\$4	\$4	\$—	\$1				
Interest cost	7	7	1	2				
Expected return on plan assets	(8)	(9)	—	—				
Amortization:								
– prior service credit	(2)	(2)	(4)	(2)				
– actuarial loss	2	3	—	—				
Net settlement loss ^(a)	—	4	—	—				
Net periodic benefit cost ^(b)	\$3	\$7	\$(3)	\$1				

(a) Settlements are recognized as they occur, once it is probable that lump sum payments from a plan for a given year will exceed the plan's total service and interest cost for that year.

(b) Net periodic benefit cost reflects a calculated market-related value of plan assets which recognizes changes in fair value over three years.

During the first three months of 2019, we made contributions of \$18 million to our funded pension plans and we expect to make additional contributions up to an estimated \$32 million over the remainder of 2019. During the first three months of 2019, we made payments of \$2 million and \$5 million related to unfunded pension plans and other postretirement benefit plans. The U.K. pension plan is classified as held for sale in the consolidated balance sheet as of March 31, 2019. See **Note 4** for further information on this disposition.

MARATHON OIL CORPORATION**Notes to Consolidated Financial Statements (Unaudited)****19. Reclassifications Out of Accumulated Other Comprehensive Income (Loss)**

The following table presents a summary of amounts reclassified from accumulated other comprehensive income (loss):

<i>(In millions)</i>	Three Months Ended March 31,		Income Statement Line
	2019	2018	
Postretirement and postemployment plans			
Amortization of prior service credit	\$ 6	\$ 4	Other net periodic benefit costs
Amortization of actuarial loss	(2)	(3)	Other net periodic benefit costs
Net settlement loss	—	(4)	Other net periodic benefit costs
	4	(3)	Income (loss) before income taxes
	—	—	(Provision) benefit for income taxes ^(a)
Total reclassifications to expense, net of tax	\$ 4	\$ (3)	Net income (loss)

^(a) During 2019 and 2018 we had a full valuation allowance on net federal deferred tax assets and as such, there is no tax impact to our postretirement and postemployment plans.

20. Supplemental Cash Flow Information

<i>(In millions)</i>	Three Months Ended March 31, 20192018	
Included in operating activities:		
Interest paid, net of amounts capitalized	\$52	\$ 52
Income taxes paid to taxing authorities	29	231
Noncash investing activities:		
Increase in asset retirement costs	\$23	\$ 4
Asset retirement obligations assumed by buyer ^(a)	98	1

^(a) In the first quarter of 2019, we closed on the sale of our working interest in the Droshky field (Gulf of Mexico), including our \$98 million asset retirement obligation.

Other noncash investing activities include accrued capital expenditures for the three months ended March 31, 2019 and 2018 of \$250 million and \$279 million.

21. Equity Method Investments

During the periods ended March 31, 2019 and December 31, 2018 our equity method investees were considered related parties and included:

EGHoldings, in which we have a 60% noncontrolling interest. EGHoldin