



Shifting Gears 2018 ANNUAL REPORT



FINANCIAL HIGHLIGHTS



	2014	2015	2016	2017	2018
FUEL METRICS					
Total retail gallons sold (in billions)	3.981	4.124	4.195	4.141	4.232
Retail fuel gallons sold (per store month)	270,416	267,910	259,059	245,307	244,033
Retail fuel contribution (cents per gallon)	18.5	14.9	15.4	16.4	16.2
MERCHANDISE METRICS					
Total merchandise sales (\$ billions)	\$ 2.161	\$ 2.274	\$ 2.339	\$ 2.373	\$ 2.423
Total merchandise margin dollars (per store month)	\$ 20,491	\$ 21,274	\$ 22,484	\$ 22,585	\$ 23,086
Merchandise unit margins (%)	14.0%	14.4%	15.6%	16.1%	16.5%
Non-tobacco margin dollars (per store month)	\$ 8,043	\$ 8,742	\$ 9,163	\$ 9,288	\$ 9,615
Total non-tobacco unit margins (%)	25.1%	25.1%	25.7%	24.7%	24.4%
FINANCIAL METRICS (\$ MILLIONS)					
Net income from continuing operations	\$ 223.0	\$ 137.6	\$ 221.5	\$ 245.3	\$ 213.6
Adjusted EBITDA	\$ 445.7	\$ 342.9	\$ 400.1	\$ 405.9	\$ 411.8
Cash and cash equivalents	\$ 327.2	\$ 102.3	\$ 153.8	\$ 170.0	\$ 184.5
Capital spending	\$ 138.9	\$ 215.6	\$ 263.9	\$ 273.7	\$ 193.8
Long-term debt	\$ 488.3	\$ 490.2	\$ 629.6	\$ 860.9	\$ 842.1
Market capitalization	\$ 3,147.6	\$ 2,531.6	\$ 2,270.5	\$ 2,739.6	\$ 2,472.5
Ending share price (\$ per share)	\$ 68.86	\$ 60.74	\$ 61.47	\$ 80.36	\$ 76.64

Murphy USA Stock Performance

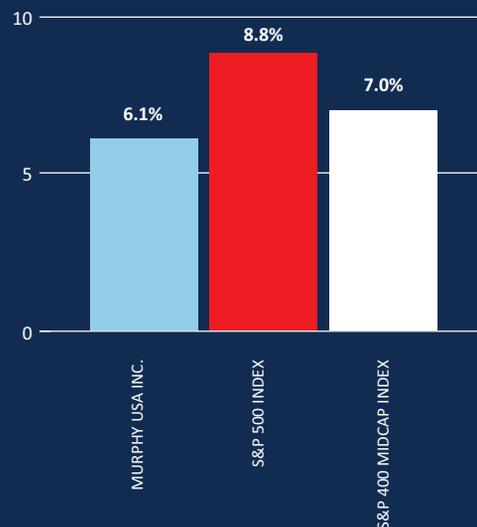
From December 31, 2013 to December 31, 2018
Based on Ending Price of Each Period

● MURPHY USA INC. ● S&P 500 INDEX ● S&P 400 MIDCAP INDEX



Total Shareholder Return, Annualized

From December 31, 2015 to December 31, 2018
Based on 10-Day Average Price at End of Each Period



LETTER TO SHAREHOLDERS

Murphy USA continued its track record of optimizing the business in 2018 while building the foundation to shift to the next gear for growth in 2019 and beyond.

Our long-term value creation formula to drive earnings per share growth highlights a year where we saw strength in our core metrics. At the same time, we built and launched new capabilities designed to grow customers and competitive advantage in the future.

Organic growth was modest in 2018 as we opened 26 new stores and began to transition away from locations in front of Walmart Supercenters to high-traffic infill locations in our most attractive growing markets. Fitting this profile, three-quarters of our new stores in 2019 will be 2,800 square feet or larger as we focus on high-quality capital returns and develop our real estate pipeline for future new stores. We razed and rebuilt 27 high performing kiosks and replaced them with larger walk-in stores with more dispensers and product offerings. We also completed our multi-year network refresh program that touched over one thousand stores.

Fuel contribution grew as we added higher quality stores and ramped up prior year additions. Fuel volumes per site were held nearly flat in a year marked by intense winter storms in Q1 while benefitting from falling crude prices in Q4. Beginning in the third quarter of 2018, fuel volumes per site improved year over year and that trend continues into 2019 as our retail fuel pricing initiatives strengthen this important capability. Political and regulatory uncertainty abated as the EPA clarified and maintained key elements of the RFS (Renewable Fuels Standard). While RIN (Renewable Identification Number) prices fell, supply and wholesale prices moved in tandem such that MUSA's PS&W contribution including RINs was virtually unchanged from 2017, when adjusting for inventory and timing differences associated with the rapid Q4 price drop.

MUSA grew its competitive advantage in 2018 as our fuel cash breakeven margin requirement improved by 0.38 cents per gallon (cpg) to 0.82 cpg. The most significant driver was the growth in merchandise contribution which achieved a record \$400 million on higher sales and unit margins. Operating costs per store were held to a 1% increase—beating inflation. Together, these improvements, more than offset a 0.28 cpg increase in credit card fees associated with higher average fuel prices in 2018.

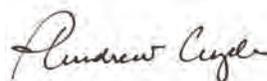
New initiatives launched in 2018 seek to achieve a Zero Breakeven in the future—further growing our competitive advantage.

By far the most exciting corporate investment Murphy USA made in 2018 was our highly distinctive loyalty program. Murphy Drive Rewards was piloted in 208 stores in north Texas and Tennessee and was an immediate success. Over 1.4 million customers have registered, including 6% of the entire population of Tennessee. We have demonstrated the ability to change customer behavior in a manner that rewards them as well as our supplier partners and is economic with our Every Day Low Price Value proposition. National enrollment began March 1, 2019 and our store associates are excited and ready to engage customers.

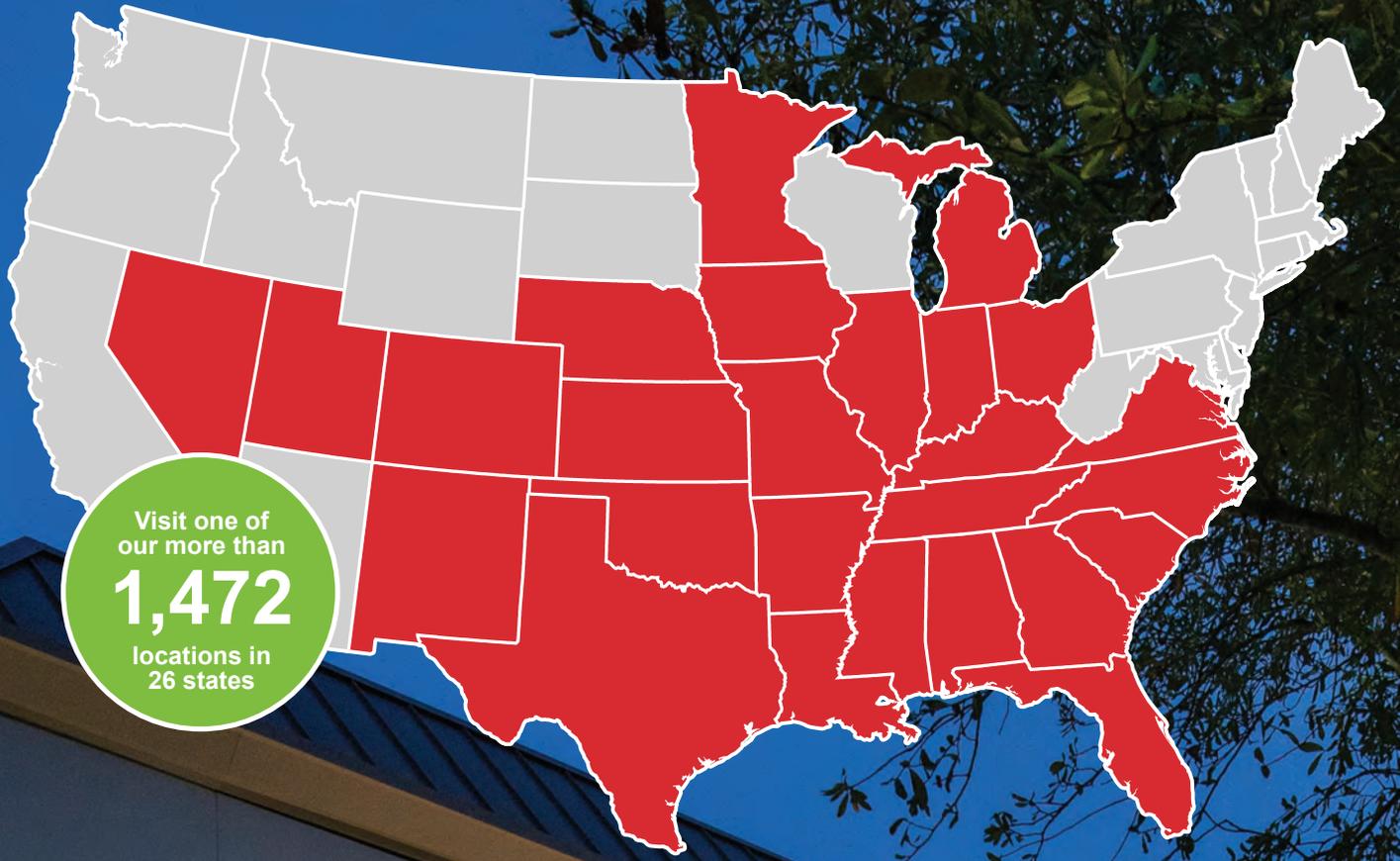
We continued to balance organic growth with share repurchases, buying back \$144 million of shares in 2018. Since the spin in 2013, just over 15 million shares have been repurchased, representing 32% of the original shares outstanding. The company ended the year with \$185 million in cash and a strong balance sheet that provides the ability to maintain our disciplined capital allocation strategy in 2019.

Earnings per share, before the impact of 2017 tax reform and a one-time gain in 2018, continues to grow from the combination of performance optimizing efforts and disciplined capital allocation. The stock price has more than doubled since spin, representing a cumulative total shareholder return just over 100%. In an industry often targeted by activist investors, Murphy USA remains internally active to create value for our stockholders.

As we shift to a higher gear for future growth, I want to thank our nearly 10,000 employees for their winning spirit and commitment to excellent service, as they are the face to our customers.



R. Andrew Clyde
President and Chief Executive Officer



Visit one of
our more than
1,472
locations in
26 states

■ Murphy USA Markets

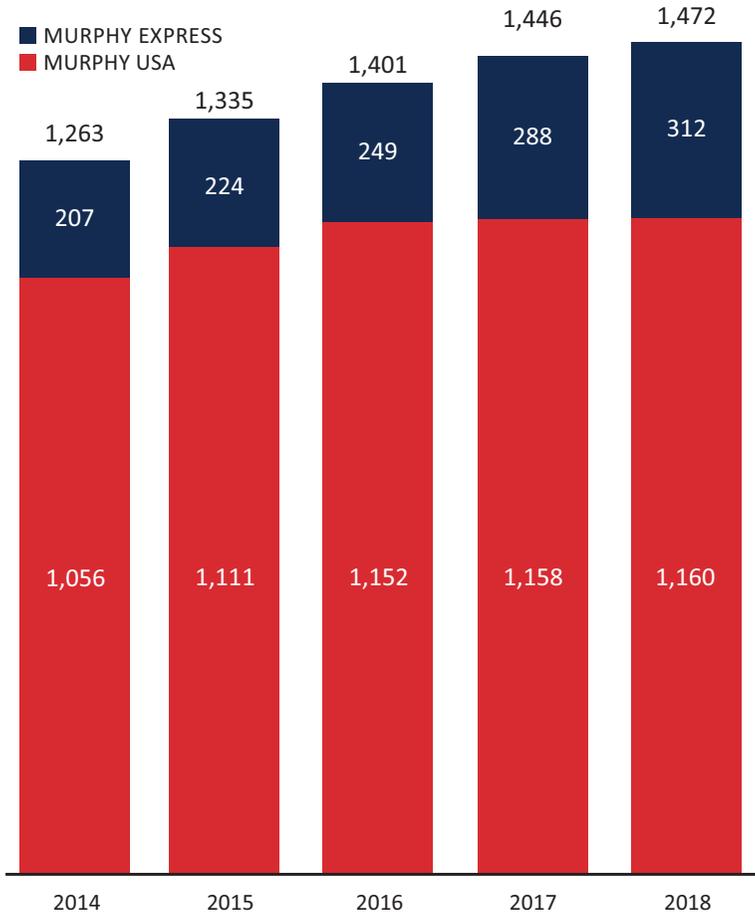
MURPHY EXPRESS



1.

STRATEGY | GROW ORGANICALLY

Growth of Murphy Retail Sites
Murphy USA and Murphy Express Locations



Murphy USA added 26 new sites in 2018, including 24 Murphy Express stores and 2 Murphy USA stores. We also razed and rebuilt 27 high performing kiosk locations, adding additional dispensers and a 1,200 square foot store with a larger assortment of merchandise products.

Over the past year, we have taken steps to evolve our organic growth strategy, developing a real estate pipeline to support construction of larger 2,800-square-foot stores in our strongest markets. In 2018, 25% of new builds were larger format stores, while 75% of the 2019 build class is comprised of stores 2,800 square feet or larger. Where smaller format sites were typically in close proximity to Walmart parking lots, the larger format sites will be at high-traffic infill locations away from Walmart. Coupled with up to 25 raze and rebuild locations, we expect to maintain a pace of 40 to 50 projects for the next two years, as we assemble a robust pipeline of locations that will support higher levels of new store growth.

We are maintaining a disciplined, return-driven philosophy around putting the right assets in the right markets to grow the portfolio responsibly. The new larger stores will play a pivotal role in enhancing our merchandise growth potential, creating a stronger brand and more compelling offer for our customers.

**OVER THE PAST YEAR, WE HAVE TAKEN STEPS TO
EVOLVE OUR ORGANIC GROWTH STRATEGY**



2.

STRATEGY

DIVERSIFY MERCHANDISE MIX

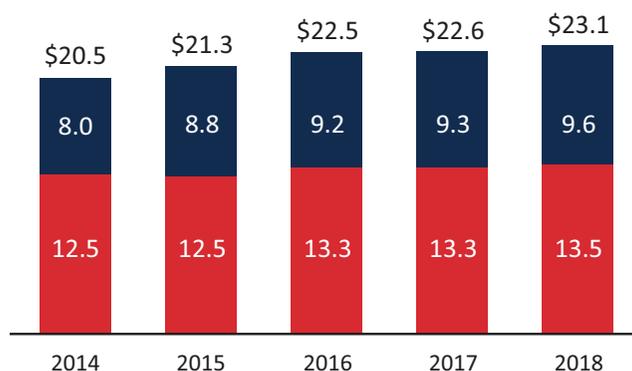
In 2018, we continued our track record of margin expansion, growing merchandise margins to a new full-year record of 16.5%, an increase of 40 basis points over 2017. Importantly, we grew margins not only by investing in larger stores, but also through innovative partnerships and promotions with our vendors, along with improving our merchandise mix and assortment, including regional tailored offers.

In June of 2018, we launched a highly successful pilot of our new and distinctive loyalty program, Murphy Drive Rewards. With more than 1 million customers registering for the program in our test markets in North Texas and Tennessee, we are excited about our nationwide rollout, which should be completed early in the second quarter of 2019. With a distinctive platform, creative offers and flexible technology, we are excited about the opportunity to engage our members in new ways while adding value and enhancing their customer experience.

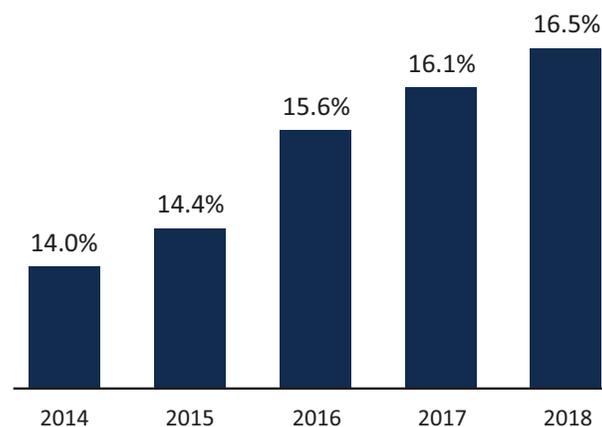
Merchandise Margin

\$K Average Per Site Month

■ NON-TOBACCO
■ TOBACCO



Merchandise Unit Margin %



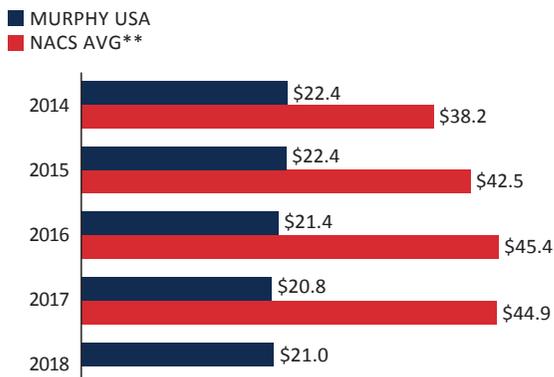
	2014	2015	2016	2017	2018	Year-over-Year Change
Merchandise Sales (in millions)	2,161	2,274	2,339	2,373	2,423	2.1%
Merchandise GM (in millions)	302	327	364	381	400	5.0%

3.

STRATEGY | SUSTAIN COST LEADERSHIP

Site Operating Expenses Versus Industry Average

Site Operating Expenses,* \$k average per site month

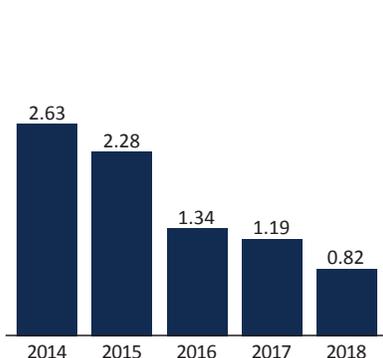


*Site Operating Expense excludes SG&A, Field Admin cost and payment fees.
 **2018 NACS Site Operating Expense data not yet available.

We continue to be a cost leader in a competitive industry that has historically been exposed to meaningful cost escalation. As an everyday low-price, high volume retailer, we have remained vigilant around creating efficiencies, which is paramount to maintaining cost and price leadership at the store level.

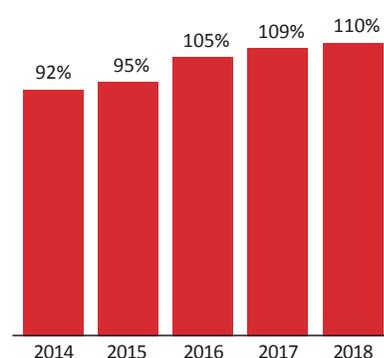
This year we improved our fuel breakeven metric by almost 40 basis points and limited our site-level operating expense to a 1.1% increase, achieving our long-term goal of beating inflation. Over the past 5 years, we have taken nearly 2 cents per gallon of costs out of the business. We have several initiatives underway in 2019 to continue this trend that will improve all three components of this key competitive metric: merchandise margin growth, operating expense efficiencies, and fuel volume growth.

Fuel Breakeven*



*Cents Per Gallon {(Operating expense excluding payment fees and rent – Merchandise Margin)/Fuel Volume}

Coverage Ratio*



*Merchandise Margin/Site Operating Expense

OVER THE PAST 5 YEARS, WE HAVE TAKEN NEARLY 2 CENTS PER GALLON OF COSTS OUT OF THE BUSINESS



MURPHY
USA
KAREN

MURPHY
USA

20%
OFF

Scanner 1

PRICE 2.99

Doritos

4.

STRATEGY

CREATE ADVANTAGE FROM MARKET VOLATILITY

Our distinctive business model and supply chain advantage allows us to deliver consistent margins over time, helping the business to better withstand periods of volatility and uncertainty. 2018 was no exception, as the business once again had to overcome weak first quarter demand that coincided with unusually impactful winter storms in our southern geographies. However, the volatility turned in our favor during the fourth quarter as crude oil prices fell sharply, which allowed us to grow both fuel volumes and margins year over year, resulting in 16.2 cents per gallon of annual contribution margin.

The Product Supply & Wholesale positions help ensure a reliable and stable supply of product inventory for our retail operations, and as such can be impacted by the direction of prices. The 2018 PS&W contribution margin of 1.5 cents per gallon reflects in part falling prices which helped support the retail business, reducing the volatility in our all-in fuel margins over time. The 5-year average contribution of 2.5 cents per gallon remains in line with our long-term view of a 2 to 3 cent cost advantage.

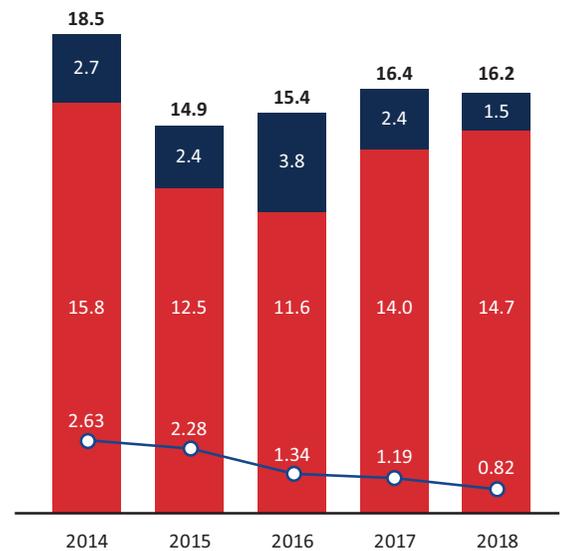
In 2019, we are focused on initiatives that we expect to grow our market share of customers and grow our supply cost advantage, which will help us compete and win in a volatile price environment as we work to optimize our total fuel contribution dollars.

WE ARE FOCUSED ON INITIATIVES THAT GROW OUR MARKET SHARE OF CUSTOMERS AND GROW OUR SUPPLY COST ADVANTAGE

Total Fuel Margin

(cents per gallon)*

■ PRODUCT SUPPLY AND WHOLESALE + RINS**
■ RETAIL
○ FUEL BREAKEVEN



*Cents per gallon based on retail volumes, before corporate overhead
**Excludes contribution from CAM pipeline divested during 2016

Total Fuel Contribution

(in millions)

■ PRODUCT SUPPLY AND WHOLESALE + RINS*
■ RETAIL



*Excludes contribution from CAM pipeline divested during 2016



COMMUNITY

At Murphy USA, we are dedicated to improving the quality of life where we live and work by supporting the causes that make these areas thrive. Giving back is part of our broader mission and commitment to our team members, customers, suppliers and other stakeholders.

In our hometown of El Dorado, Arkansas, we believe supporting local organizations further drives this mission within the community. Through our corporate campaign and matching program, we have donated over \$2.7 million to the United Way of Union County over the last six years. Our support of the Murphy Arts District, a nationally recognized festivals and events venue of newly restored historic buildings, supports the sustainment and growth of El Dorado, improving the quality of life for our entire community.

The Murphy Employee Disaster Relief Foundation was established to assist our team members in the wake of natural disasters. In 2018, we provided over \$200,000 in aid to employees in need, including many who were affected by Hurricanes Florence and Michael. Each year, we are touched by the generous response of employees across the business, who along with corporate matching funds and vendor donations, provide support in light of these tragic events. This is just one example of how our people come together to help each other in times of need.

Whether it's fostering education, donating to organizations that share our mission, meeting community needs, or the inspiring volunteer efforts of our team members, we are passionate about giving back and doing our part.

CORE VALUES

INTEGRITY

Be persistently ethical and honest to foster trust

SPIRIT

Strive to be the best

RESPECT

Value and appreciate others

CITIZENSHIP

Believe in the power of good actions

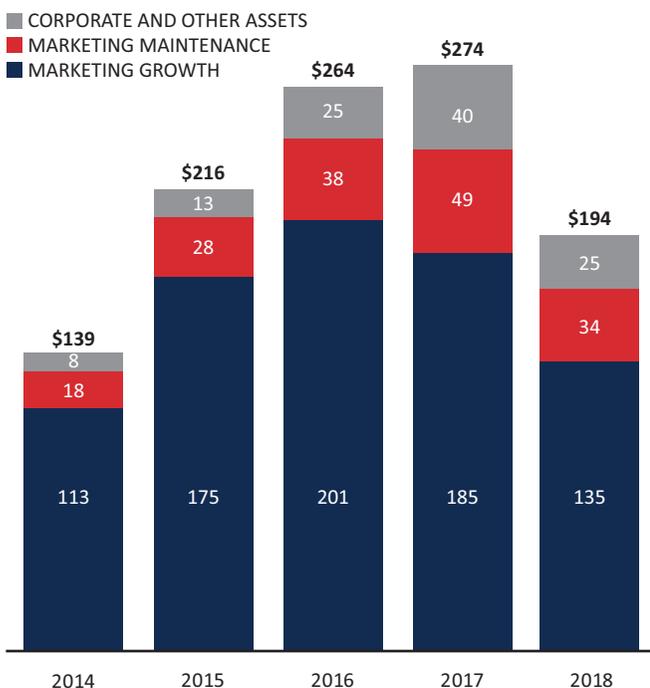
5.

STRATEGY

INVEST FOR THE LONG TERM

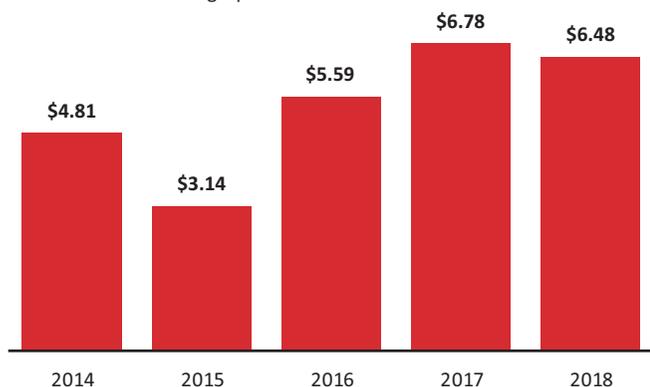
Annual Capital Expenditures

(in millions)



Earnings Per Share

Income from Continuing Operations—Diluted



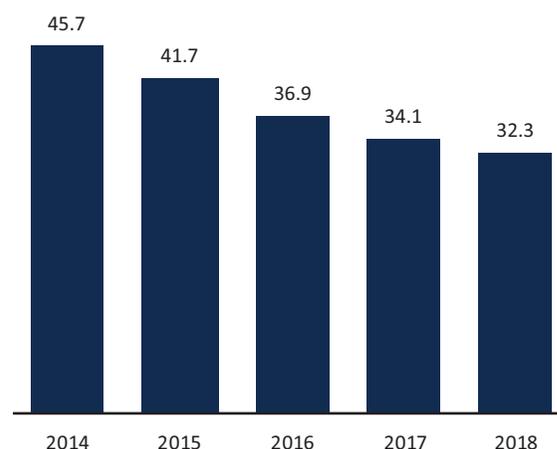
Our philosophy of investing for the long term remains a driving force in creating shareholder value, resulting in a disciplined and efficient mindset around capital allocation. In 2018, we invested \$194 million to add approximately 71k feet of new retail square footage, maintained our network and laid the groundwork for bold new initiative investments intended to propel the business higher in 2019 and beyond.

We remain committed to share repurchase as our preferred use of free cash flow, repurchasing \$144 million of stock in 2018, helping to achieve a 32% reduction in outstanding shares since spin. We will continue to allocate capital to the highest-return opportunities, balancing organic growth initiatives with opportunistic share repurchases for the benefit of long-term investors.

Our 2019 capital program is designed to preserve attractive returns, building high quality assets in attractive markets and maintaining an aggressive raze and rebuild program to improve same-store performance. We will also proactively address and implement EMV dispenser compliance across the network, while investing in critical systems and people to help make the business more competitive over the long-term.

Total Shares Outstanding

Fiscal Year End Since Spinoff
(in millions)





FORM 10-K

MURPHY
USA ★

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 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 001-35914



MURPHY USA INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

46-2279221

(I.R.S. Employer
Identification No.)

200 Peach Street

El Dorado, Arkansas

(Address of principal executive offices)

71730-5836

(Zip Code)

(870) 875-7600

(Registrant's telephone number, including area code)

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

Title of each class

Common Stock, \$0.01 Par Value

Name of each exchange on which registered

New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K _____

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter (as of June 30, 2018), based on the closing price on that date of \$74.29 was \$2,390,188,000.

Number of shares of Common Stock, \$0.01 par value, outstanding at January 31, 2019 was 32,261,729.

Documents incorporated by reference:

Portions of the Registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders on May 1, 2019 will be incorporated by reference in Part III herein.

MURPHY USA INC.
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Part I

Item 1. BUSINESS

Our business consists primarily of the marketing of retail motor fuel products and convenience merchandise through a large chain of 1,472 (as of December 31, 2018) retail stores operated by us, almost all of which are in close proximity to Walmart stores. Our retail stores are located in 26 states, primarily in the Southeast, Southwest and Midwest United States. Of these stores, 1,160 are branded Murphy USA and 312 are standalone Murphy Express locations (as of December 31, 2018). The majority of our Murphy USA locations participate in a cents-off per gallon purchased discount program for fuel with Walmart when using specific payment methods.

Our business also includes certain product supply and wholesale assets, including product distribution terminals and pipeline positions. As an independent publicly traded company, we are a low-price, high volume fuel retailer selling convenience merchandise through low cost kiosks and small store formats with key strategic relationships and experienced management.

Murphy USA Inc. ("Murphy USA" or the "Company") was incorporated in Delaware on March 1, 2013 and holds, through its subsidiaries, the former U.S. retail marketing business of its former parent company, Murphy Oil Corporation ("Murphy Oil"), plus other assets and liabilities of Murphy Oil that supported the activities of the U.S. retail marketing operations.

Our business is subject to various risks. For a description of these risks, see "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K.

Information about our operations, properties and business segments, including revenues by class of products and financial information by geographic area, are provided on pages 27 through 40, F-13, and F-28 of this Annual Report on Form 10-K.

Our Competitive Strengths

Our business foundation is built around five reinforcing strengths which we believe provide us a competitive advantage over our peers. These strengths support our Company vision which is to "Deliver every day the quickest, most friendly service and a low price value proposition to our growing customer base for the products and markets we serve."

Strategic proximity to and complementary relationship with Walmart

Of our network of 1,472 retail gasoline stores (as of December 31, 2018), the majority are situated on prime locations located near Walmart stores. We believe our proximity to Walmart stores generates significant traffic to our existing retail stores while our competitively priced gasoline and convenience offerings appeal to our shared customers. We continue to collaborate with Walmart on a fuel discount program which we believe enhances the customer value proposition as well as the competitive position of both Murphy USA and Walmart. We have an active real estate development team that purchases and leases land from third parties near Walmart Supercenters and other high traffic locations that support our low-cost, high-volume model.

Winning proposition with value-conscious consumers

Our competitively priced fuel is a compelling offering for value-conscious consumers. Despite a flat long-term outlook in overall gasoline demand (vehicle miles traveled in a normal economy essentially offsetting increased fuel efficiency), we believe value-conscious consumers that prefer convenience and service are a growing demand segment. In combination with our high traffic locations, our competitive gasoline prices drive high fuel volumes and gross profit. In addition, we are an industry leader in per-site tobacco sales with our low-priced tobacco products and in total store sales per square foot as we also sell a growing assortment of single-serve/ immediate consumption items. We continue to provide value opportunities to our customers including our new Murphy Drive Rewards loyalty program, currently being piloted in select locations, which rewards customers with discounted and free items based on purchases of qualifying fuel and merchandise.

Low cost retail operating model

We operate our retail gasoline stores with a strong emphasis on fuel sales complemented by a focused convenience offering that allows for a smaller store footprint than most of our competitors. Almost all of our recently constructed stores are standardized 1,200 square foot small store formats, which we believe have low capital expenditure, maintenance and utility requirements relative to our competitors. In the past, we have also developed standardized 208 square foot kiosks with external supercoolers when the available land or economics did not support the small store format. In addition, many of our stores require only one or two attendants to be present during business hours and 86% of our stores are located on Company-owned property and do not incur any rent expense. The combination of a focused convenience offering and standardized smaller footprint stores allows us to achieve lower overhead costs and on-site costs compared to competitors with a much larger store format. According to the 2017 National Association of Convenience Stores' State of the Industry Survey, we operate at approximately 46% of the average monthly operating costs for top quartile performing stores in the industry. In addition, we operate among the highest industry safety standards and had a Total Recordable Incident Rate (TRIR) and Days Away from Work (DAW) rate that was substantially lower than the industry averages in 2017 using the most current published data by the Bureau of Labor Statistics. Our low cost operating model translates into a low cash fuel breakeven requirement that allows us to weather extended periods of low fuel margins and which has improved by more than 3 cpg since our spinoff in 2013.

Distinctive fuel supply chain capabilities

We source fuel at very competitive industry benchmark prices due to the diversity of fuel options available to us in the bulk and rack product markets, our shipper status on major pipeline systems, and our access to numerous terminal locations. In addition, we have a strong distribution system in which we analyze intra-day supply options and dispatch third-party tanker trucks to the most favorably priced terminal to load products for each Murphy site, further reducing our fuel product costs. By participating in the broader fuel supply chain, we believe our business model provides additional upside exposure to opportunities to enhance margins and volume, such as shifting non-contractual wholesale volumes to protect retail fuel supply during periods of constrained supply and elevated margins. These activities demonstrate our belief that participating in the broader fuel supply chain provides us with added flexibility to ensure reliable low-cost fuel supply in various market conditions especially during periods of significant price volatility. It would take substantial time and investment, both in expertise and assets, for a competitor to try and replicate our existing position, and we believe this continues to be a significant barrier to any attempt to emulate our business model.

Resilient financial profile and engaged team

Our predominantly fee-simple asset base, ability to generate attractive gross margins through our low-price, high volume strategy, and our low overhead costs should help us endure prolonged periods of unfavorable commodity price movements and compressed fuel margins. We also believe our conservative financial structure further protects us from the inherently volatile fuel environment. We expect that our strong cash position and availability under our credit facility will continue to provide us with a significant level of liquidity to help maintain a disciplined capital expenditure program focused on growing ratably through periods of both high and low fuel margins. In addition, we have acquired through share repurchase over \$970 million of common stock in a little more than five years of operation. We also have more than 9,500 hardworking employees that are actively engaged to serve the customer, whether it is the external retail consumer or their internal co-workers. We believe our sustainable business model and stable organic growth opportunities support an employee value proposition that makes Murphy USA an attractive place to work.

Our Business Strategy

Our business strategy reflects a set of coherent choices that leverage our differentiated strengths and capabilities.

Grow organically

We intend for our independent growth plan to be a key driver of our organic growth over the next several years. We expect to build at a pace of 40 to 50 new sites per year, including raze-and-rebuild activity, targeting high-return locations either near Walmart Supercenters, other high traffic areas or by strategic infill in our core market areas complemented by our supply chain capabilities. While we were previously focused on smaller lot sizes, we now expect to build more stores larger than 1,200 square feet. Our real estate development team works to maintain a multi-year pipeline of projects that supports ratable expansion.

Diversify merchandise mix

We plan to continuously evaluate our kiosk strategy in an effort to maximize our site economics and return on investment, such as the installation of supercoolers to help drive outside beverage sales. Complementary to that strategy, we are continually refining, and increasingly constructing, our 1,200 square foot and larger store format design to create a foundation for increasing higher-margin non-tobacco sales and diversifying our merchandise offerings. For example, we continue to tailor our product offerings to complement the retail selection within Walmart stores, such as offering products in a variety of quantities and sizes, or stock keeping units ("SKUs"), which are more convenience-oriented. We expect to further expand merchandise revenue and margins through our primary supplier relationship with Core-Mark Holding Company, Inc. ("Core-Mark"), in addition to optimizing our promotional analytics, merchandise mix and workforce planning capabilities, in order to help boost overall site returns.

Sustain cost leadership position

We believe that sustaining our low cost position is a strategic advantage as a retailer of commodity products. We are undertaking several initiatives that have a purpose of increasing efficiency which will ultimately lead to lower costs per retail site. One of our goals is to beat inflation on per-site operating costs to help sustain low site level costs. We also believe that through our planned growth and efficiency initiatives, we can achieve reductions in overhead costs to support an overall improvement in site returns and keep costs properly scaled as we grow organically. In order to do this successfully, we will focus on the continued development of our employees and foster an operating culture aligned with business performance, including cost leadership.

Create advantage from market volatility

We plan to continue to focus our product supply and wholesale efforts on activities that enhance our ability to be a low-price retail fuel leader and our ability to take advantage of fuel price volatility. We will continue to invest in capabilities and asset positions that support our supply chain strategy. Our distinctive business model and supply chain advantage allows us to deliver consistent margins over time, helping the business to better withstand periods of volatility and uncertainty.

Invest for the long term

We maintain a portfolio of predominantly fee-simple assets and utilize what we believe to be an appropriate debt structure that will allow us to be resilient during times of fuel price and margin volatility. We believe our strong financial position should allow us to profitably execute our low-cost, high volume retail strategy through periods of both high and low fuel margins while preserving the ability to re-invest in and grow our existing sites, brand image and supporting capabilities. Furthermore, in addition to our site development capital and capability building investments we will continue to consider all alternatives for returning excess earnings or capital with a focus on maximizing shareholder value.

Industry Trends

We operate within the large, growing, competitive and highly fragmented U.S. retail fuel and convenience store industry. Several key industry trends and characteristics, include:

- Sensitivity to gas prices among cost conscious consumers, and increasing customer demand for low-priced fuel;
- Highly fragmented nature of the industry providing larger chain operators like Murphy USA with significant scale advantage;
- Significantly increased fuel capacity in the marketplace by the addition of new-to-industry retail fuel and convenience stores, and
- High levels of consumer traffic around supermarkets and large format hypermarkets, supporting complementary demand at nearby and cross-promoted retail fuel stores.

Corporate Information

Murphy USA was incorporated in Delaware on March 1, 2013 and our business consists of U.S. retail marketing operations. Our headquarters are located at 200 Peach Street, El Dorado, Arkansas 71730 and our general telephone number is (870) 875-7600. Our Internet website is www.murphyusa.com. Our website and the information contained on that site, or connected to that site, are not incorporated by reference into this Annual

Report on Form 10-K. Shares of Murphy USA common stock are traded on the NYSE under the ticker symbol “MUSA”.

Description of Our Business

We market fueling products through a network of Company retail stores and unbranded wholesale customers. During 2018, the Company sold approximately 4.2 billion gallons of motor fuel through our retail outlets. Below is a table that lists the states where we operate Company-owned stores at December 31, 2018 and the number of stores in each state.

State	No. of stores	State	No. of stores	State	No. of stores
Alabama	81	Kentucky	48	North Carolina	89
Arkansas	69	Louisiana	78	Ohio	44
Colorado	20	Michigan	27	Oklahoma	55
Florida	125	Minnesota	9	South Carolina	58
Georgia	99	Missouri	50	Tennessee	93
Iowa	22	Mississippi	55	Texas	312
Illinois	43	Nebraska	5	Utah	5
Indiana	39	Nevada	4	Virginia	22
Kansas	7	New Mexico	13	Total	<u>1,472</u>

The following table provides a history of our Company-owned station count during the three-year period ended December 31, 2018:

	Years Ended December 31,		
	2018	2017	2016
Start of period	1,446	1,401	1,335
New construction	26	45	67
Closed	—	—	(1)
End of period	<u>1,472</u>	<u>1,446</u>	<u>1,401</u>

Since 2007, we have purchased from Walmart the properties underlying 1,052 of our Company stores. Each of our owned properties that were purchased from Walmart are also subject to Easements and Covenants with Restrictions Affecting Land (“ECRs”), which impose customary restrictions on the use of such properties, which Walmart has the right to enforce. In addition, pursuant to the ECRs, certain transfers involving these properties are subject to Walmart’s right of first refusal or right of first offer. Also, pursuant to the ECRs, we are prohibited from transferring such properties to a competitor of Walmart.

For risks related to our agreements with Walmart, including the ECRs, see “Risk Factors—Risks Relating to Our Business—Walmart retains certain rights in its agreements with us, which may adversely impact our ability to conduct our business.”

For the remaining stores located on or adjacent to Walmart property that are not owned, we have a master lease agreement that allows us to rent land from Walmart. The master lease agreement contains general terms applicable to all rental sites on Walmart property in the United States. The term of the leases is ten years at each station, with us holding four successive five-year extension options at each site. Approximately half of the leased sites have over 15 years of term remaining, including renewals, should the Company decide to exercise the renewal options. The agreement permits Walmart to terminate it in its entirety, or only as to affected sites, at its option under customary circumstances (including in certain events of bankruptcy or insolvency), or if we improperly transfer the rights under the agreements to another party. In addition, the master lease agreement prohibits us from selling a leased station or allowing a third party to operate a leased station without written consent from Walmart. As of December 31, 2018, we are currently leasing 103 sites from Walmart. We also have five Murphy USA sites located near Walmart locations where we pay rent to other landowners.

As of December 31, 2018, we have 218 Murphy Express sites where we own the land and 94 locations where we rent the underlying land.

We have numerous sources for our retail fuel supply, including nearly all of the major and large oil companies operating in the U.S. We purchase fuel from oil companies, independent refiners, and other marketers at rates that fluctuate with market prices and generally are reset daily, and we sell fuel to our customers at prices that we establish daily. All fuel is delivered by the truckload as needed to replenish supply at our Company stores. Our inventories of fuel on site turn approximately once daily. By establishing motor fuel supply relationships with several alternate suppliers for most locations, we believe we are able to effectively create competition for our purchases among various fuel suppliers. We also believe that purchasing arrangements with multiple fuel suppliers may help us avoid product outages during times of motor fuel supply disruptions. At some locations, however, there are limited suppliers for fuel in that market and we may have only one supplier. Our refined products are distributed through a few product distribution terminals that are wholly-owned and operated by us and from numerous terminals owned by others. About half of our wholly-owned terminals are supplied by marine transportation and the rest are supplied by pipeline. We also receive products at terminals owned by others either in exchange for deliveries from our terminals or by outright purchase.

In addition to the motor fuel sold at our Company stores, our stores carry a broad selection of snacks, beverages, tobacco products and non-food merchandise. In 2018, we purchased more than 80% of our merchandise from a single vendor, Core-Mark, with whom we began a five year supply agreement in late January 2016.

A statistical summary of key operating and financial indicators for each of the five years ended December 31, 2018 are reported below.

	As of December 31,				
	2018	2017	2016	2015	2014
Branded retail outlets:					
Murphy USA [®]	1,160	1,158	1,152	1,111	1,056
Murphy Express	312	288	249	224	207
Total	1,472	1,446	1,401	1,335	1,263
Retail marketing:					
Retail fuel margin per gallon (cpg) (1)	14.7	14.0	11.6	12.5	15.8
Gallons sold per store month (in thousands)	244.0	245.3	259.1	267.9	270.4
Merchandise sales revenue per store month	\$ 139.7	\$ 140.5	\$ 144.4	\$ 147.7	\$ 146.8
Merchandise margin as a percentage of merchandise sales	16.5%	16.1%	15.6%	14.4%	14.0%

(1) Represents net sales prices for fuel less purchased cost of fuel.

Our business is organized into one reporting segment (Marketing). The Marketing segment includes our retail marketing sites and product supply and wholesale assets. For operating segment information, see Note 19 "Business Segments" in the accompanying audited consolidated financial statements for the three-year period ended December 31, 2018.

Competition

The U.S. petroleum business is highly competitive, particularly with regard to accessing and marketing petroleum and other refined products. We compete with other chains of retail fuel stores for fuel supply and in the retail sale of refined products to end consumers, primarily on the basis of price, but also on the basis of convenience and consumer appeal. In addition, we may also face competition from other retail fueling stores that adopt marketing strategies similar to ours by associating with non-traditional retailers, such as supermarkets, discount club stores and hypermarkets, particularly in the geographic areas in which we operate. We expect that our industry will continue to trend toward this model, resulting in increased competition to us over time. Moreover, because we do not produce or refine any of the petroleum or other refined products that we market, we compete with retail gasoline companies that have ongoing supply relationships with affiliates or former affiliates that manufacture refined products. We also compete with integrated companies that have their own production and/or refining operations that are at times able to offset losses from marketing operations with profits from producing or refining operations, and may be better positioned to withstand periods of depressed retail margins or supply shortages. In addition, we compete with other retail and wholesale gasoline marketing companies that have more extensive retail outlets and greater brand name recognition. Some of our competitors have been in existence longer

than we have and have greater financial, marketing and other resources than we do. As a result, these competitors may have a greater ability to bear the economic risks inherent in all phases of our business and may be able to respond better to changes in the economy and new opportunities within the industry.

In addition, the retail gasoline industry in the United States is highly competitive due to ease of entry and constant change in the number and type of retailers offering similar products and services. With respect to merchandise, our retail sites compete with other convenience store chains, independently owned convenience stores, supermarkets, drugstores, discount clubs, gasoline service stations, mass merchants, fast food operations and other similar retail outlets. Non-traditional retailers, including supermarkets, discount club stores and mass merchants, now compete directly with retail gasoline sites. These non-traditional gasoline retailers have obtained a significant share of the gasoline market, and their market share is expected to grow, and these retailers may use promotional pricing or discounts, both at the fuel pump and in the convenience store, to encourage in-store merchandise sales and gasoline sales. In addition, some large retailers and supermarkets are adjusting their store layouts and product prices in an attempt to appeal to convenience store customers. Major competitive factors include: location, ease of access, product and service selection, gasoline brands, pricing, customer service, store appearance, cleanliness and safety.

Market Conditions and Seasonality

Market conditions in the oil and gas industry are cyclical and subject to global economic and political events and new and changing governmental regulations. Our operating results are affected by price changes in crude oil, natural gas and refined products, as well as changes in competitive conditions in the markets we serve.

Oil prices, wholesale motor fuel costs, motor fuel sales volumes, motor fuel gross margins and merchandise sales can be subject to seasonal fluctuations. For example, consumer demand for motor fuel typically increases during the summer driving season, and typically falls during the winter months. Therefore, our revenues and/or sales volumes are typically higher in the second and third quarters of our fiscal year. Travel, recreation and construction are typically higher in these months in the geographic areas in which we operate, increasing the demand for motor fuel and merchandise that we sell. A significant change in any of these factors, including a significant decrease in consumer demand (other than typical seasonal variations), could materially affect our motor fuel and merchandise volumes, motor fuel gross profit and overall customer traffic, which in turn could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Trademarks

We sell gasoline primarily under the Murphy USA[®] and Murphy Express brands, which are trademarks of Murphy Oil. The Trademark License Agreement that we entered into with Murphy Oil in connection with the Separation contained a trademark license granting us the right to continue to use such Murphy Oil-owned trademarks throughout the term of that agreement subject to the terms and conditions therein.

In the highly competitive business in which we operate, our trade names, service marks and trademarks are important to distinguish our products and services from those of our competitors. We are not aware of any facts which would negatively impact our continuing use of any of the above trade names, service marks or trademarks.

Technology Systems

All of our Company stores use a standard hardware and software platform for point-of-sale (“POS”) that facilitates item level scanning of merchandise for sales and inventory, and the secure acceptance of all major payment methods – cash, check, credit, debit, fleet and mobile. Our standard approach to large scale and geographically dispersed deployments reduces total technology cost of ownership for the POS and inherently makes the system easier to use, support, and replace. This POS technology strategy reflects close alignment with our growth plan.

We use a combination of software as a service, commercial off the shelf software, and custom software applications developed using modern industry standard tools and methodologies to manage and run our business. For our financial systems, we use enterprise class systems which provide significant flexibility in managing corporate and store operations, as well as scalability for growth.

We invest in disaster recovery, system backups, redundancy, firewall, remote access security and virus and spam protection to ensure a high level of system security and availability. We have systems, business policies and processes around access controls, password expirations and file retention to ensure a high level of control within our technology network.

Environmental

We are subject to numerous federal, state and local environmental laws, regulations and permit requirements. Such environmental requirements have historically been subject to frequent change and tended to become more stringent over time. While we strive to comply with these environmental requirements, any violation of such requirements can result in litigation, increased costs or the imposition of significant civil and criminal penalties, injunctions or other sanctions. Compliance with these environmental requirements affects our overall cost of business, including capital costs to construct, maintain and upgrade equipment and facilities, and ongoing operating expenditures. We maintain sophisticated leak detection and remote monitoring systems for underground storage tanks at the vast majority of our retail fueling stores and install up-to-date tank, piping, and monitoring systems at our new stores. We operate above ground bulk petroleum tanks at our terminal locations and have upgraded product lines and conduct annual monitoring to help mitigate the risk of potential soil and groundwater contamination. We allocate a portion of our capital expenditure program to comply with environmental laws and regulations, and such capital expenditures are projected to be approximately \$3 million in 2019.

We could be subject to joint and several as well as strict liability for environmental contamination. Some of our current and former properties have been operated by third-parties whose handling and management of hazardous materials were not under our control, and substantially all of them have or previously had motor fuel or petroleum product storage tanks. Pursuant to certain environmental laws, we could be responsible for remediating contamination relating to such sites, including impacts attributable to prior site occupants or other third parties, and for implementing remedial measures to mitigate the risk of future contamination. We may also have liability for contamination and violations of environmental laws under contractual arrangements with third parties, such as landlords and former owners of our sites, including at our sites in close proximity to Walmart stores. Contamination has been identified at certain of our current and former terminals and retail fueling stores, and we are continuing to conduct investigation and remediation activities in relation to such properties. The discovery of additional contamination or the imposition of further remediation obligations at these or other properties could result in significant costs. In some cases, we may be eligible to receive money from state "leaking petroleum storage tank" trust funds to help fund remediation. However, receipt of such payments is subject to stringent eligibility requirements and other limitations that can significantly reduce the availability of such trust fund payments and may delay or increase the duration of associated cleanups. We could also be held responsible for contamination relating to third-party sites to which we or our predecessors have sent hazardous materials for recycling or disposal. We are currently identified as a potentially responsible party in connection with one such disposal site. Any such contamination, leaks from storage tanks or other releases of regulated materials could result in claims against us by governmental authorities and other third parties for fines or penalties, natural resource damages, personal injury and property damage. From time to time, we are subject to legal and administrative proceedings governing the remediation of contamination or spills from current and past operations, including from our terminal operations and leaking petroleum storage tanks.

Consumer demand for our products may be adversely impacted by fuel economy standards as well as greenhouse gas ("GHG") vehicle emission reduction measures. In 2010, the U.S. Environmental Protection Agency ("EPA") and the U.S. Department of Transportation's National Highway Traffic Safety Administration ("NHTSA") finalized standards raising the required Corporate Average Fuel Economy of the nation's passenger fleet to approximately 35 miles per gallon by the 2016 model year and imposing the first-ever federal GHG emissions standards on cars and light trucks. Further regulations require increases in fuel economy beginning with the 2017 through 2021 model year vehicles. NHTSA also published non-binding inaugural standards for model year 2022 through 2025 cars and trucks increasing fuel economy to the equivalent of 54.5 miles per gallon by 2025. The EPA and NHTSA also regulate GHG and fuel efficiency standards for medium and heavy-duty vehicles and in August 2016, jointly finalized "Phase 2" vehicle and engine performance standards covering model years 2021 through 2027, which apply to semi-trucks, large pick-up trucks and vans, and all types and sizes of buses and work trucks. These and any future increases in fuel economy standards or GHG emission reduction requirements could decrease demand for our products. In August 2018, NHTSA and EPA proposed to amend certain of these existing fuel economy standards for passenger cars and light trucks and establish new standards, covering model years 2021 through 2026. It is unclear if these proposals, called the Safer Affordable Fuel Efficient ("SAFE") Vehicles, which would require less stringent fuel economy standards than the existing standards, will be finalized in their current form or at all.

Air emissions from our facilities are also subject to regulation. For example, certain of our fueling stores may be required to install and maintain vapor recovery systems to control emissions of volatile organic compounds to the air during the vehicle fueling process. Recently proposed changes to requirements concerning ambient air quality standards for ground-level ozone may require additional equipment upgrades and operating controls that could increase our capital and operating expenses. Any future environmental regulatory changes may result in increased compliance costs.

Our business is also subject to increasingly stringent laws and regulations governing the content and characteristics of fuel. For example, the gasoline we sell generally must meet increasingly rigorous sulfur and benzene standards. In addition, renewable fuel standards generally require refiners and gasoline blenders to meet certain volume quotas or obtain representative trading credits for renewable fuels that are established as a percentage of their finished product production. Such fuel requirements and renewable fuel standards may adversely affect our wholesale fuel purchase costs.

Sale of Regulated Products

In certain areas where our retail sites are located, state or local laws limit the hours of operation for the sale of alcoholic beverages and restrict the sale of alcoholic beverages and tobacco products to persons younger than a certain age. State and local regulatory agencies have the authority to approve, revoke, suspend or deny applications for and renewals of permits and licenses relating to the sale of alcoholic beverages, as well as to issue fines to convenience stores for the improper sale of alcoholic beverages and tobacco products. Failure to comply with these laws may result in the loss of necessary licenses and the imposition of fines and penalties on us. Such a loss or imposition could have a material adverse effect on our business, liquidity and results of operations. In many states, retailers of alcoholic beverages have been held responsible for damages caused by intoxicated individuals who purchased alcoholic beverages from them. While the potential exposure for damage claims as a seller of alcoholic beverages and tobacco products is substantial, we have adopted procedures intended to minimize such exposure.

We also adhere to the rules governing lottery sales as determined by state lottery commissions in each state in which we make such sales.

Safety

We are subject to the requirements of the federal Occupational Safety and Health Act (“OSHA”) and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that certain information be maintained about hazardous materials used or produced in our operations and that this information be provided to employees, state and local government authorities and citizens.

Other Regulatory Matters

Our retail sites are also subject to regulation by federal agencies and to licensing and regulations by state and local health, sanitation, fire and other departments relating to the development and operation of retail sites, including regulations relating to zoning and building requirements and the preparation and sale of food. Difficulties in obtaining or failures to obtain the required licenses or approvals could delay or prevent the development of a new retail site in a particular area.

Our operations are also subject to federal and state laws governing such matters as wage rates, overtime and citizenship requirements. At the federal and state levels, there are proposals under consideration from time to time to increase minimum wage rates and periods of protected leaves. In compliance with U.S. health care reform legislation, we implemented in 2015 a “bronze level” offering to our eligible non-exempt field employees. The offering increased labor costs by an immaterial amount.

Employees

At December 31, 2018, we had over 9,500 employees, including nearly 4,100 full-time employees and 5,400 part-time employees.

Properties

Our headquarters of approximately 120,000 square feet is located at 200 Peach Street, El Dorado, Arkansas. We also own and operate two other office buildings in El Dorado, Arkansas that house our store support center and technology services personnel. We have numerous owned and leased properties for our retail fueling stores as described under “—Description of Our Business,” as well as wholly-owned product distribution terminals.

Website access to SEC Reports

Interested parties may obtain the Company’s public disclosures filed with the Securities and Exchange Commission (SEC), including Form 10-K, Form 10-Q, Form 8-K and other documents, by accessing the Investor Relations section of Murphy USA Inc.’s website at ir.corporate.murphyusa.com.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 are available on our website, free of charge, as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC. Alternatively, you may access these reports at the SEC’s website at <http://www.sec.gov>.

Item 1A. RISK FACTORS

You should carefully consider each of the following risks and all of the other information contained in this Annual Report on Form 10-K.

Our business, prospects, financial condition, results of operations or cash flows could be materially and adversely affected by any of these risks, and, as a result, the trading price of our common stock could decline.

Risks Relating to our Company

Our operations present hazards and risks, which may not be fully covered by insurance, if insured. If a significant accident or event occurs for which we are not adequately insured, our operations and financial results could be adversely affected.

The scope and nature of our operations present a variety of operational hazards and risks, including explosions, fires, toxic emissions, and natural catastrophes that must be managed through continual oversight and control. These and other risks are present throughout our operations. As protection against these hazards and risks, we maintain insurance against many, but not all, potential losses or liabilities arising from such risks. Uninsured losses and liabilities arising from operating risks could reduce the funds available to us for capital and investment spending and could have a material adverse effect on our financial condition, results of operations and cash flows.

We have debt obligations that could restrict our business and adversely impact our financial condition, results of operations or cash flows; our leverage could increase the overall cost of debt funding and decrease the overall debt capacity and commercial credit available to us in the future.

We currently have \$500 million of 6.00% Senior Notes due 2023 (the "2023 Senior Notes"), \$300 million of 5.625% Senior Notes due 2027 (the "2027 Senior Notes", and together with the 2023 Senior Notes, the "Senior Notes") and a term loan with a remaining balance of \$72 million as of December 31, 2018. We also have undrawn capacity of up to \$450 million on our credit facility, subject to the borrowing base limitation of \$177 million as of December 31, 2018. This outstanding debt could have significant consequences to our future operations, including:

- making it more difficult for us to meet our payment and other obligations under our outstanding debt;
- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;
- reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations.

In addition, our credit facilities and the indenture that governs the Senior Notes include restrictive covenants that, subject to certain exceptions and qualifications, restrict or limit our ability and the ability of our restricted subsidiaries to, among other things, incur additional indebtedness, pay dividends, make certain investments, sell certain assets and enter into certain strategic transactions, including mergers and acquisitions. These covenants and restrictions could affect our ability to operate our business, and may limit our ability to react to market conditions or take advantage of potential business opportunities as they arise.

Our leverage may increase the overall cost of debt funding and decrease the overall debt capacity and commercial credit available to us. Our leverage could increase with additional borrowings on our shelf registration statement. We have below investment-grade ratings from Moody's and S&P based on our current capital structure. Our credit ratings could be lowered or withdrawn entirely by a ratings agency if, in its judgment, the circumstances warrant. If our existing ratings are lowered, or otherwise we do not obtain an investment grade rating in the future, or if we do and a rating agency were to downgrade us again to below investment grade, our borrowing costs would increase and our funding sources could decrease. Actual or anticipated changes or downgrades in our ratings, including any announcement that our ratings are under review for a downgrade, could adversely affect our business, cash flows, financial condition and operating results.

Our ability to meet our payment obligations under the Senior Notes and our other debt depends on our ability to generate significant cash flow in the future.

Our ability to meet our payment and other obligations under our debt instruments, including the Senior Notes, depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot provide assurance that our business will generate cash flow from operations, or that future borrowings will be available to us under our credit agreement or any future credit facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Senior Notes and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including the Senior Notes, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Senior Notes and our other debt.

Despite our current indebtedness levels, we may be able to incur substantially more debt. This could exacerbate further the risks associated with our leverage.

We and our subsidiaries may incur substantial additional indebtedness, including secured indebtedness, in the future, subject to the terms of the indentures governing the Senior Notes and our credit agreement that limit our ability to do so. Such additional indebtedness may include additional notes, which will also be guaranteed by the guarantors, to the extent permitted by the indentures and our credit agreement. Although the indentures limit our ability and the ability of our subsidiaries to create liens securing indebtedness, there are significant exceptions to these limitations that will allow us and our subsidiaries to secure significant amounts of indebtedness without equally and ratably securing the notes. If we or our subsidiaries incur secured indebtedness and such secured indebtedness is either accelerated or becomes subject to a bankruptcy, liquidation or reorganization, our and our subsidiaries' assets would be used to satisfy obligations with respect to the indebtedness secured thereby before any payment could be made on the notes that are not similarly secured. In addition, the indentures governing the Senior Notes will not prevent us or our subsidiaries from incurring other liabilities that do not constitute indebtedness. If new debt or other liabilities are added to our current debt levels, the related risks that we now face could intensify.

In connection with our Separation from Murphy Oil, Murphy Oil has agreed to indemnify us for certain liabilities and we have agreed to indemnify Murphy Oil for certain liabilities. If we are required to act under these indemnities to Murphy Oil, we may need to divert cash to meet those obligations and our financial results could be negatively impacted. The Murphy Oil indemnity may not be sufficient to insure us against the full amount of liabilities for which it will be allocated responsibility, and Murphy Oil may not be able to satisfy its indemnification obligations to us in the future.

Pursuant to the Separation and Distribution Agreement ("the Separation") and certain other agreements with Murphy Oil, Murphy Oil has agreed to indemnify us for certain liabilities, and we have agreed to indemnify Murphy Oil for certain liabilities. Indemnities that we may be required to provide Murphy Oil are not subject to any cap, may be significant and could negatively impact our business, particularly indemnities relating to our actions that could impact the tax-free nature of the distribution. Third parties could also seek to hold us responsible for any of the liabilities that Murphy Oil has agreed to retain, and under certain circumstances, we may be subject to continuing contingent liabilities of Murphy Oil following the Separation. Further, Murphy Oil may not be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from Murphy Oil any amounts for which we are held liable, we may be temporarily required to bear these losses ourselves. Each of these risks could negatively affect our business, results of operations and financial condition.

Risks Relating to Our Business

Volatility in the global prices of oil and petroleum products and general economic conditions that are largely out of our control, as well as seasonal variations in fuel pricing, can significantly affect our operating results.

Our net income is significantly affected by changes in the margins on retail and wholesale gasoline marketing operations. Oil and domestic wholesale gasoline markets are volatile. General political conditions, acts of war or terrorism, instability in oil producing regions, particularly in the Middle East and South America, and the value of U.S. dollars relative to other foreign currencies, particularly those of oil producing nations, could significantly affect oil supplies and wholesale gasoline costs. In addition, the supply of gasoline and our wholesale purchase costs could be adversely affected in the event of a shortage, which could result from, among other things, lack of capacity at oil refineries, sustained increase in global demand or the fact that our gasoline contracts do not guarantee an uninterrupted, unlimited supply of gasoline. Our wholesale purchase costs could also be adversely affected by increasingly stringent regulations regarding the content and characteristics of fuel products, including International Maritime Organization ("IMO") 2020 requirements. Significant increases and volatility in wholesale gasoline costs could result in lower gasoline gross margins per gallon. This volatility makes it extremely difficult to predict the effect that future wholesale cost fluctuations will have on our operating results and financial condition in future periods.

Except in limited cases, we typically do not seek to hedge any significant portion of our exposure to the effects of changing prices of commodities. Dramatic increases in oil prices reduce retail gasoline gross margins, because wholesale gasoline costs typically increase faster than retailers are able to pass them along to customers. We purchase refined products, particularly gasoline, needed to supply our retail stores. Therefore, our most significant costs are subject to volatility of prices for these commodities. Our ability to successfully manage operating costs is important because we have little or no influence on the sales prices or regional and worldwide consumer demand for oil and gasoline. Furthermore, oil prices, wholesale motor fuel costs, motor fuel sales volumes, motor fuel gross margins and merchandise sales can be subject to seasonal fluctuations. For example, consumer demand for motor fuel typically increases during the summer driving season, and typically falls during the winter months. Travel, recreation and construction are typically higher in these months in the geographic areas in which we operate, increasing the demand for motor fuel and merchandise that we sell. Therefore, our revenues and/or sales volumes are typically higher in the second and third quarters of our fiscal year. A significant change in any of these factors, including a significant decrease in consumer demand (other than typical seasonal variations), could materially affect our motor fuel and merchandise volumes, motor fuel gross profit and overall customer traffic, which in turn could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Further, recessionary economic conditions, higher interest rates, higher gasoline and other energy costs, inflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws or other economic factors may affect consumer spending or buying habits, and could adversely affect the demand for products we sell at our retail sites. Unfavorable economic conditions, higher gasoline prices and unemployment levels can affect consumer confidence, spending patterns and vehicle miles driven. These factors can lead to sales declines in both gasoline and general merchandise, and in turn have an adverse impact on our business, financial condition, results of operations and cash flows.

Walmart continues to be a key relationship with regard to our Murphy USA network.

At December 31, 2018, our 1,472 Company stores were almost all located in close proximity to Walmart Supercenter stores. Therefore, our relationship with Walmart, the continued goodwill of Walmart and the integrity of Walmart's brand name in the retail marketplace are all important drivers for our business. Any deterioration in our relationship with Walmart could have an adverse effect on operations of the stores that are branded Murphy USA and participate in a discount. In addition, our competitive posture could be weakened by negative changes at Walmart. Many of our Company stores benefit from customer traffic generated by Walmart retail stores, and if the customer traffic through these host stores decreases due to the economy or for any other reason, our sales could be materially and adversely affected.

The current level of revenue that is generated from RINs may not be sustainable.

Murphy USA's business is impacted by its ability to generate revenues from capturing and subsequently selling Renewable Identification Numbers ("RINs"), a practice enabled through the blending of petroleum-based fuels with renewable fuels. RIN prices also have an impact on our cost of goods sold for petroleum products, which can be positive or negative depending on the movement of RIN prices. The market price for RINs fluctuates based on a variety of factors, including but not limited to governmental and regulatory action and market dynamics. In 2018, RIN prices were unstable, in part due to rumored changes to the Renewable Fuel Standard program and to the rules regulating the RINs market itself. Although a decline in RIN prices could have a material impact on the Company's revenues, Murphy USA's business model is not dependent on its ability to generate revenues from the sale of RINs.

In 2017, independent refiners filed suit to pursue a fundamental change to the Renewable Fuel Standard program, the regulatory means by which the federal government requires the introduction of an increasing amount of renewable fuel into the fuel supply. Specifically, the independent refiners seek a shift of the burden for compliance—the point of obligation, as it is known—from refiners to blenders. This litigation is ongoing. As it is, refiners are obligated to obtain—either by blending biofuels into petroleum-based fuels or through purchase on the open market—and then retire with the federal government RINs to satisfy their individual obligations. If this burden were to be shifted, Murphy USA would potentially have to utilize the RINs that it obtains through its blending activities to satisfy a new obligation and would therefore be unable to sell those RINs to third parties. This could have a significant impact on the Company's current business model, unless it were able to pass along these costs to consumers or other parties.

We are exposed to risks associated with the interruption of supply and increased costs as a result of our reliance on third-party supply and transportation of refined products.

We utilize key product supply and wholesale assets, including our pipeline positions and product distribution terminals, to supply our retail fueling stores. Much of our competitive advantage arises out of these proprietary arrangements which, if disrupted, could materially and adversely affect us. In addition to our own operational risks discussed above, we could experience interruptions of supply or increases in costs to deliver refined products to market if the ability of the pipelines or vessels to transport petroleum or refined products is disrupted because of weather events, accidents, governmental regulations or third-party actions. Furthermore, at some of our locations there are very few suppliers for fuel in that market.

Changes in credit card expenses could reduce our gross margin, especially on gasoline.

A significant portion of our retail sales involve payment using credit cards. We are assessed credit card fees as a percentage of transaction amounts and not as a fixed dollar amount or percentage of our gross margins. Higher gasoline prices result in higher credit card expenses, and an increase in credit card use or an increase in credit card fees would have a similar effect. Therefore, credit card fees charged on gasoline purchases that are more expensive as a result of higher gasoline prices are not necessarily accompanied by higher gross margins. In fact, such fees may cause lower gross margins. Lower gross margins on gasoline sales caused by higher credit card fees may decrease our overall gross margin and could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Walmart retains certain rights in its agreements with us, which may adversely impact our ability to conduct our business.

Our owned properties that were purchased from Walmart are subject to Easements with Covenants and Restrictions Affecting Land (the "ECRs") between us and Walmart. The ECRs impose customary restrictions on the use of our properties, which Walmart has the right to enforce. The ECRs also provide that if we propose to sell a fueling station property or any portion thereof (other than in connection with the sale of all or substantially all of our properties that were purchased from Walmart or in connection with a bona fide financing), Walmart has a right of first refusal to purchase such property or portion thereof on similar terms. Subject to certain exceptions (including a merger in which we participate, the transfer of any of our securities or a change in control of us), if we market for sale to a third party all or substantially all of our properties that were purchased from Walmart, or if we receive an unsolicited offer to purchase such properties that we intend to accept, we are required to notify Walmart. Walmart then has the right, within 90 days of receipt of such notice, to make an offer to purchase such properties. If Walmart

makes such an offer, for a period of one year we will generally only be permitted to accept third-party offers where the net consideration to us would be greater than that offered by Walmart.

The ECRs also prohibit us from transferring all or substantially all of our fueling station properties that were purchased from Walmart to a “competitor” of Walmart, as reasonably determined by Walmart. The term “competitor” is generally defined in the ECRs as an entity that owns, operates or controls grocery stores or supermarkets, wholesale club operations similar to that of a Sam’s Club, discount department stores or other discount retailers similar to any of the various Walmart store prototypes or pharmacy or drug stores.

Similarly, some of our leased properties are subject to certain rights retained by Walmart. Our master lease agreement states that if Murphy Oil USA, Inc. is acquired or becomes party to any merger or consolidation that results in a material change in the management of the stores, Walmart will have the option to purchase the stores at fair market value. The master lease also prohibits us from selling all or any portion of a station without first offering to sell all or such portion to Walmart on the same terms and conditions. These provisions may restrict our ability to conduct our business on the terms and in the manner we consider most favorable and may adversely affect our future growth.

An inability to maintain a multi-year new store project pipeline may cause our Company's growth to slow in 2020 and beyond.

While we have a high confidence level that our growth of 40 to 50 new constructions for 2019 (including raze-and-rebuild) is secure due to our existing pipeline of land closures, the future development relies on the continued growth of our project pipeline. We have a very active Asset Development group that works to focus on our key target areas to locate suitable traffic count locations for this future growth. If the Asset Development group is unable to locate suitable locations or is unable to close the purchase of those locations in a timely fashion, the Company could find that it does not have sufficient land to fulfill its pipeline.

We currently have one primary supplier for over 80% of our merchandise. A disruption in supply could have a material effect on our business.

In 2018, over 80% of our merchandise, including most tobacco products and grocery items, was purchased from a single wholesale grocer, Core-Mark. We began a five year supply contract with Core-Mark in late January 2016. If Core-Mark is unable to fulfill its obligations under our contract, alternative suppliers that we could use in the event of a disruption may not be immediately available. A disruption in supply could have a material effect on our business, financial condition, results of operations and cash flows.

We may be unable to protect or maintain our rights in the trademarks we use in our business.

We expect to use the Murphy USA[®] and Murphy Express trademarks under the Trademark License Agreement that we entered into with Murphy Oil, which will continue to own those trademarks. Murphy Oil’s actions and our actions to protect our rights in those trademarks may not be adequate to prevent others from using similar marks or otherwise violating our rights in those trademarks. Furthermore, our right to use those trademarks is limited to the marketing business and can be terminated by Murphy Oil upon the occurrence of certain events, such as our uncured material breach, insolvency or change of control.

Capital financing may not always be available to fund our activities.

We usually must spend and risk a significant amount of capital to fund our activities. Although most capital needs are funded from operating cash flow, the timing of cash flows from operations and capital funding needs may not always coincide, and the levels of cash flow may not fully cover capital funding requirements.

From time to time, we may need to supplement our cash generated from operations with proceeds from financing activities. We have entered into a credit facility to provide us with available financing for working capital and other general corporate purposes. This credit facility is intended to meet any ongoing cash needs in excess of internally generated cash flows. Uncertainty and illiquidity in financial markets may materially impact the ability of the participating financial institutions to fund their commitments to us under our credit facility. Accordingly, we may not be able to obtain the full amount of the funds available under our credit facility to satisfy our cash requirements, and our failure to do so could have a material adverse effect on our operations and financial position. Further, since the credit facility is secured by receivables and inventories, low commodity prices can limit the borrowing base to an

amount substantially less than its ceiling as the resulting collateral for the loan is required to be valued at then current pricing on a monthly basis.

We could be adversely affected if we are not able to attract and retain highly qualified senior personnel.

We are dependent on our ability to attract and retain highly qualified senior personnel. If, for any reason, we are not able to attract and retain qualified senior personnel, our business, financial condition, results of operations and cash flows could be adversely affected.

Risks Relating to Our Industry

We operate in a highly competitive industry, which could adversely affect us in many ways, including our profitability, our ability to grow, and our ability to manage our businesses.

We operate in the oil and gas industry and experience intense competition from other independent retail and wholesale gasoline marketing companies. The U.S. marketing petroleum business is highly competitive, particularly with regard to accessing and marketing petroleum and other refined products. We compete with other chains of retail fuel stores for fuel supply and in the retail sale of refined products to end consumers, primarily on the basis of price, but also on the basis of convenience and consumer appeal. In addition, we may also face competition from other retail fueling stores that adopt marketing strategies similar to ours by associating with non-traditional retailers, such as supermarkets, discount club stores and hypermarkets, particularly in the geographic areas in which we operate. We expect that our industry will continue to trend toward this model, resulting in increased competition to us over time. Moreover, because we do not produce or refine any of the petroleum or other refined products that we market, we compete with retail gasoline companies that have ongoing supply relationships with affiliates or former affiliates that manufacture refined products. We also compete with integrated companies that have their own production and/or refining operations that are at times able to offset losses from marketing operations with profits from producing or refining operations, and may be better positioned to withstand periods of depressed retail margins or supply shortages. In addition, we compete with other retail and wholesale gasoline marketing companies that have more extensive retail outlets and greater brand name recognition. Some of our competitors have been in existence longer than we have and have greater financial, marketing and other resources than we do. As a result, these competitors may have a greater ability to bear the economic risks inherent in all phases of our business and may be able to respond better to changes in the economy and new opportunities within the industry. Such competition could adversely affect us, including our profitability, our ability to grow and our ability to manage our business.

In addition, the retail gasoline industry in the United States is highly competitive due to ease of entry and constant change in the number and type of retailers offering similar products and services. With respect to merchandise, our retail sites compete with other convenience store chains, independently owned convenience stores, supermarkets, drugstores, discount clubs, gasoline service stations, mass merchants, fast food operations and other similar retail outlets. Non-traditional retailers, including supermarkets, discount club stores and mass merchants, now compete directly with retail gasoline sites. These non-traditional gasoline retailers have obtained a significant share of the gasoline market, and their market share is expected to grow, and these retailers may use promotional pricing or discounts, both at the fuel pump and in the convenience store, to encourage in-store merchandise sales and gasoline sales. In addition, some large retailers and supermarkets are adjusting their store layouts and product prices in an attempt to appeal to convenience store customers. Major competitive factors include: location, ease of access, product and service selection, gasoline brands, pricing, customer service, store appearance, cleanliness and safety. Competition from these retailers may reduce our market share and our revenues, and the resulting impact on our business and results of operations could be materially adverse.

Changes in consumer behavior and travel as a result of changing economic conditions, the development of alternative energy technologies or otherwise could affect our business.

In the retail gasoline industry, customer traffic is generally driven by consumer preferences and spending trends, growth rates for commercial truck traffic and trends in travel and weather. Changes in economic conditions generally, or in the regions in which we operate, could adversely affect consumer spending patterns and travel in our markets. In particular, weakening economic conditions may result in decreases in miles driven and discretionary consumer spending and travel, which affect spending on gasoline and convenience items. In addition, changes in the types of products and services demanded by consumers may adversely affect our merchandise sales and gross margin. Additionally, negative publicity or perception surrounding gasoline suppliers could adversely affect their reputation and brand image, which may negatively affect our gasoline sales and gross margin. Our success

depends on our ability to anticipate and respond in a timely manner to changing consumer demands and preferences while continuing to sell products and services that remain relevant to the consumer and thus will positively impact overall retail gross margin.

Similarly, advanced technology, improved fuel efficiency and increased use of “green” automobiles (e.g., those automobiles that do not use gasoline or that are powered by hybrid engines) would reduce demand for gasoline. Developments regarding climate change and the effects of greenhouse gas emissions on climate change and the environment may lead to increased use of “green” automobiles. Consequently, attitudes toward gasoline and its relationship to the environment may significantly affect our sales and ability to market our products. Reduced consumer demand for gasoline could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our operations and earnings have been and will continue to be affected by worldwide political developments.

Many governments, including those that are members of the Organization of Petroleum Exporting Countries (“OPEC”), unilaterally intervene at times in the orderly market of petroleum and natural gas produced in their countries through such actions as setting prices, determining rates of production, and controlling who may buy and sell the production. In addition, prices and availability of petroleum, natural gas and refined products could be influenced by political unrest and by various governmental policies to restrict or increase petroleum usage and supply. Other governmental actions that could affect our operations and earnings include tax changes, royalty increases and regulations concerning: currency fluctuations, protection and remediation of the environment, concerns over the possibility of global warming being affected by human activity including the production and use of hydrocarbon energy, restraints and controls on imports and exports, safety, and relationships between employers and employees. As a retail gasoline marketing company, we are significantly affected by these factors. Because these and other factors are subject to changes caused by governmental and political considerations and are often made in response to changing internal and worldwide economic conditions and to actions of other governments or specific events, it is not practical to attempt to predict the effects of such factors on our future operations and earnings.

Our business is subject to operational hazards and risks normally associated with the marketing of petroleum products.

We operate in many different locations around the United States. The occurrence of an event, including but not limited to acts of nature such as hurricanes, floods, earthquakes and other forms of severe weather, and mechanical equipment failures, industrial accidents, fires, explosions, acts of war and intentional terrorist attacks could result in damage to our facilities, and the resulting interruption and loss of associated revenues; environmental pollution or contamination; and personal injury, including death, for which we could be deemed to be liable, and which could subject us to substantial fines and/or claims for punitive damages.

We store gasoline in storage tanks at our retail sites. Our operations are subject to significant hazards and risks inherent in storing gasoline. These hazards and risks include, but are not limited to, fires, explosions, spills, discharges and other releases, any of which could result in distribution difficulties and disruptions, environmental pollution, governmentally imposed fines or cleanup obligations, personal injury or wrongful death claims and other damage to our properties and the properties of others. Any such event could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Certain of our assets such as gasoline terminals and certain retail fueling stores lie near the U.S. coastline and are vulnerable to hurricane and tropical storm damages, which may result in shutdowns. The U.S. hurricane season runs from June through November, but the most severe storm activities usually occur in late summer, such as with Hurricanes Katrina and Rita in 2005 and Hurricanes Harvey and Irma in 2017. Although we maintain insurance for certain of these risks as described below, due to policy deductibles and possible coverage limits, weather-related risks are not fully insured.

We are subject to various environmental laws, regulations and permit requirements, which could expose us to significant expenditures, liabilities or obligations and reduce product demand.

We are subject to stringent federal, state and local environmental laws and regulations governing, among other things, the generation, storage, handling, use and transportation of petroleum products and hazardous materials; the emission and discharge of such substances into the environment; the content and characteristics of fuel products; the process safety of our facilities; and human health and safety. Pursuant to such environmental laws and regulations, we are also required to obtain permits from governmental authorities for certain of our operations. While we strive to abide by these requirements, we cannot assure you that we have been or will be at all times in compliance with such laws, regulations and permits. If we violate or fail to comply with these requirements, we could be subject to litigation, costs, fines or other sanctions. Environmental requirements, and the enforcement and interpretation thereof, change frequently and have generally become more stringent over time. Compliance with existing and future environmental laws, regulations and permits may require significant expenditures. In addition, to the extent fuel content and characteristic standards increase our wholesale purchase costs, we may be adversely affected if we are unable to recover such costs in our pricing.

We could be subject to joint and several as well as strict liability for environmental contamination, without regard to fault or the legality of our conduct. In particular, we could be liable for contamination relating to properties that we own, lease or operate or that we or our predecessors previously owned, leased or operated. Substantially all of these properties have or in the past had storage tanks to store motor fuel or petroleum products. Leaks from such tanks may impact soil or groundwater and could result in substantial costs. We could also be held responsible for contamination relating to third-party sites to which we or our predecessors have sent regulated materials. In addition to potentially significant investigation and remediation costs, any such contamination, leaks from storage tanks or other releases of regulated materials can give rise to claims from governmental authorities and other third parties for fines or penalties, natural resource damages, personal injury and property damage.

Our business is also affected by fuel economy standards and GHG vehicle emission reduction measures. As such fuel economy and GHG reduction requirements become more stringent over time, demand for our products may be adversely affected. In addition, some of our facilities are subject to GHG regulation. We are currently required to report annual GHG emissions from certain of our operations, and additional GHG emission-related requirements that may affect our business have been finalized or are in various phases of discussion or implementation. Any existing or future GHG emission requirements could result in increased operating costs and additional compliance expenses.

Our expenditures, liabilities and obligations relating to environmental matters could have a material adverse effect on our business, product demand, reputation, results of operations and financial condition.

Future tobacco legislation, campaigns to discourage smoking, increases in tobacco taxes and wholesale cost increases of tobacco products could have a material adverse impact on our retail operating revenues and gross margin.

Sales of tobacco products have historically accounted for an important portion of our total sales of convenience store merchandise. Significant increases in wholesale cigarette costs and tax increases on tobacco products, as well as future legislation and national and local campaigns to discourage smoking in the United States, may have an adverse effect on the demand for tobacco products, and therefore reduce our revenues and profits. Also, increasing regulations, including those for e-cigarettes and vapor products could offset some of the recent gains we have experienced from selling these products. Competitive pressures in our markets can make it difficult to pass price increases on to our customers. We also operate in some jurisdictions that have recently raised the minimum age to purchase tobacco products to 21. These factors could materially and adversely affect our retail price of cigarettes, cigarette unit volume and sales, merchandise gross margin and overall customer traffic. Reduced sales of tobacco products or smaller gross margins on the sales we make could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Currently, major cigarette manufacturers offer substantial rebates to retailers. We include these rebates as a component of our gross margin. In the event these rebates are no longer offered, or decreased, our profit from cigarette sales will decrease accordingly. In addition, reduced retail display allowances on cigarettes offered by cigarette manufacturers would negatively affect gross margins. These factors could materially affect our retail price of cigarettes, cigarette unit volume and revenues, merchandise gross margin and overall customer traffic, which could in turn have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our retail operations are subject to extensive government laws and regulations, and the cost of compliance with such laws and regulations can be material.

Our retail operations are subject to extensive local, state and federal governmental laws and regulations relating to, among other things, the sale of alcohol, tobacco, employment conditions, including minimum wage requirements, and public accessibility requirements. The cost of compliance with these laws and regulations can have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, failure to comply with local, state and federal laws and regulations to which our operations are subject may result in penalties and costs that could adversely affect our business, financial condition, results of operations and cash flows.

In certain areas where our retail sites are located, state or local laws limit the retail sites' hours of operation or sale of alcoholic beverages, tobacco products, possible inhalants and lottery tickets, in particular to minors. Failure to comply with these laws could adversely affect our revenues and results of operations because these state and local regulatory agencies have the power to revoke, suspend or deny applications for and renewals of permits and licenses relating to the sale of these products or to seek other remedies, such as the imposition of fines or other penalties.

Regulations related to wages also affect our business. Any appreciable increase in the statutory minimum wage or changes in overtime rules would result in an increase in our labor costs and such cost increase, or the penalties for failing to comply with such statutory minimums, could adversely affect our business, financial condition, results of operations and cash flows.

In compliance with U.S. health care reform legislation, we implemented in 2015 a "bronze level" health care offering to our eligible non-exempt field employees. The offering of health care increased labor costs by an immaterial amount.

Any changes in the laws or regulations described above that are adverse to us and our properties could affect our operating and financial performance. In addition, new regulations are proposed from time to time which, if adopted, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Future consumer or other litigation could adversely affect our business, financial condition, results of operations and cash flows.

Our retail operations are characterized by a high volume of customer traffic and by transactions involving a wide array of product selections. These operations carry a higher exposure to consumer litigation risk when compared to the operations of companies operating in many other industries. Consequently, we have been, and may in the future be from time to time, involved in lawsuits seeking cash settlements for alleged personal injuries, property damages and other business-related matters, as well as energy content, off-specification gasoline, products liability and other legal actions in the ordinary course of our business. While these actions are generally routine in nature and incidental to the operation of our business, if our assessment of any action or actions should prove inaccurate, our business, financial condition, results of operations and cash flows could be adversely affected. For more information about our legal matters, see Note 17 "Contingencies" to the consolidated historical financial statements for the three years ended December 31, 2018 included in this Annual Report on Form 10-K. Further, adverse publicity about consumer or other litigation may negatively affect us, regardless of whether the allegations are true, by discouraging customers from purchasing gasoline or merchandise at our retail sites.

We rely on our technology systems and network infrastructure to manage numerous aspects of our business, and a disruption of these systems could adversely affect our business.

We depend on our technology systems and network infrastructure to manage numerous aspects of our business and provide analytical information to management. These systems are an essential component of our business and growth strategies, and a serious disruption to them could significantly limit our ability to manage and operate our business efficiently. These systems are vulnerable to, among other things, damage and interruption from power loss or natural disasters, computer system and network failures, loss of telecommunications services, physical and electronic loss of data, security breaches and computer viruses, which could result in a loss of sensitive business information, systems interruption or the disruption of our business operations. To protect against unauthorized access or attacks, we have implemented infrastructure protection technologies and disaster recovery plans, but there can be no assurance that a technology systems breach or systems failure, which may occur and go undetected, will not have a material adverse effect on our financial condition or results of operations. In addition,

there is a deadline of October 1, 2020 to install Europay, Mastercard, and Visa ("EMV") chip readers at automated fuel pumps. The failure to migrate to chip readers would cause the Company to be financially responsible for any fraud and counterfeit chargebacks occurring at the point of sale.

Our business and our reputation could be adversely affected by the failure to protect sensitive customer, employee or vendor data or to comply with applicable regulations relating to data security and privacy.

In the normal course of our business as a gasoline and merchandise retailer, we obtain large amounts of personal data, including credit and debit card information from our customers. While we have invested significant amounts in the protection of our technology systems and maintain what we believe are adequate security controls over individually identifiable customer, employee and vendor data provided to us, a breakdown or a breach in our systems that results in the unauthorized release of individually identifiable customer or other sensitive data could nonetheless occur and have a material adverse effect on our reputation, operating results and financial condition. Such a breakdown or breach could also materially increase the costs we incur to protect against such risks. Also, a material failure on our part to comply with regulations relating to our obligation to protect such sensitive data or the privacy rights of our customers, employees and others could subject us to fines or other regulatory sanctions and potentially to lawsuits and adversely affect our brand name.

Compliance with and changes in tax laws could adversely affect our performance.

We are subject to extensive tax liabilities imposed by multiple jurisdictions, including income taxes, indirect taxes (excise/duty, sales/use and gross receipts taxes), payroll taxes, franchise taxes, withholding taxes and ad valorem taxes. Tax laws and regulations are dynamic and subject to change as new laws are passed and new interpretations of existing laws are issued and applied. This activity could result in increased expenditures for tax liabilities in the future. Many of these liabilities are subject to periodic audits by the respective taxing authority. Subsequent changes to our tax liabilities as a result of these audits may subject us to interest and penalties.

Risks Relating to Our Common Stock

The price of our common stock may fluctuate significantly and if securities or industry analysts publish unfavorable research reports about our business or if they downgrade their rating on our common stock, the price of our common stock could decline.

The price at which our common stock trades may fluctuate significantly. The trading price of our common stock could be subject to wide fluctuations in response to a number of factors, including, but not limited to:

- fluctuations in quarterly or annual results of operations, especially if they differ from our previously announced guidance or forecasts made by analysts;
- announcements by us of anticipated future revenues or operating results, or by others concerning us, our competitors, our customers, or our industry;
- our ability to execute our business plan;
- competitive environment;
- regulatory developments; and
- changes in overall stock market conditions, including the stock prices of our competitors.

Provisions in our Certificate of Incorporation and Bylaws and certain provisions of Delaware law could delay or prevent a change in control of us.

The existence of some provisions of our Certificate of Incorporation and Bylaws and Delaware law could discourage, delay or prevent a change in control of us that a stockholder may consider favorable. These include provisions:

- providing for a classified board of directors;
- providing that our directors may be removed by our stockholders only for cause;

- establishing supermajority vote requirements for our shareholders to amend certain provisions of our Certificate of Incorporation and our Bylaws;
- authorizing a large number of shares of stock that are not yet issued, which would allow our board of directors to issue shares to persons friendly to current management, thereby protecting the continuity of our management, or which could be used to dilute the stock ownership of persons seeking to obtain control of us;
- prohibiting stockholders from calling special meetings of stockholders or taking action by written consent; and
- establishing advance notice requirements for nominations of candidates for election to our board of directors or for proposing matters that can be acted on by stockholders at the annual stockholder meetings.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which may have an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging takeover attempts that could have resulted in a premium over the market price for shares of our common stock.

These provisions apply even if a takeover offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our board of directors determines is not in our and our stockholders' best interests.

We may issue preferred stock with terms that could dilute the voting power or reduce the value of our common stock.

Our Certificate of Incorporation authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designations, powers, preferences and relative, participating, optional and other rights, and such qualifications, limitations or restrictions as our board of directors generally may determine. The terms of one or more classes or series of preferred stock could dilute the voting power or reduce the value of our common stock. For example, we could grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or dividend, distribution or liquidation preferences we could assign to holders of preferred stock could affect the residual value of the common stock.

Our Bylaws designate a state or federal court located within the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a preferred judicial forum for disputes with us or our directors, officers or other employees.

Our Bylaws provide that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of Delaware General Corporation Law, our Certificate of Incorporation (including any certificate of designations for any class or series of our preferred stock) or our Bylaws, in each case, as amended from time to time, or (iv) any action asserting a claim governed by the internal affairs doctrine shall be a state or federal court located within the State of Delaware, in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have received notice of and consented to the foregoing provision. This forum selection provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable or cost-effective for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees.

We may not achieve the intended benefits of having an exclusive forum provision if it is found to be unenforceable.

We have included an exclusive forum provision in our Bylaws as described above. However, the enforceability of similar exclusive jurisdiction provisions in other companies' bylaws or certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with any action, a court could find the exclusive jurisdiction provision contained in our Bylaws to be inapplicable or unenforceable in such action. Although in June 2013 the Delaware Court of Chancery upheld the statutory and contractual validity of exclusive forum-selection bylaw provisions, and in 2015 the Delaware General Corporation Law was amended to permit forum-selection provisions applicable to "integral corporate claims", the validity of forum-selection provisions continues to be tested with litigation. Furthermore, the Delaware Court of Chancery emphasized that such provisions may not be enforceable under circumstances where they are found to operate in an unreasonable or unlawful manner or in a manner inconsistent with a board's fiduciary duties. Also, it is uncertain whether non-Delaware courts consistently will enforce such exclusive forum-selection bylaw provisions. If a court were to find our choice of forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions and we may not obtain the benefits of limiting jurisdiction to the courts selected.

Item 1B. UNRESOLVED STAFF COMMENTS

The Company had no unresolved comments from the staff of the U.S. Securities and Exchange Commission as of December 31, 2018.

Item 2. PROPERTIES

Descriptions of the Company's properties are included in Item 1 of this Annual Report on Form 10-K beginning on page 2.

Item 3. LEGAL PROCEEDINGS

Murphy USA and its subsidiaries are engaged in a number of legal proceedings, all of which Murphy USA considers incidental to its business. See Note 17 "Contingencies" in the accompanying consolidated financial statements for the three years ended December 31, 2018. Based on information currently available to the Company, the ultimate resolution of matters referred to in this item is not expected to have a material adverse effect on the Company's net income, financial condition or liquidity in a future period.

SUPPLEMENTAL INFORMATION; Executive Officers of the Registrant

The age at January 1, 2019, present corporate office and length of service in office of each of the Company's executive officers, as of December 31, 2018, are reported in the following listing. Executive officers are elected annually but may be removed from office at any time by the Board of Directors.

R. Andrew Clyde – Age 55; President and Chief Executive Officer, Director and Member of the Executive Committee since August 2013. Mr. Clyde has led Murphy USA's successful value-creation strategy since its spin-off in 2013. Mr. Clyde served Booz & Company (and prior to August 2008, Booz Allen Hamilton) in its global energy practice. He joined the firm in 1993, was elected vice president in 2000 and held leadership roles as North American Energy Practice Leader and Dallas office Managing Partner and served on the firm's Board Nominating Committee. Mr. Clyde received a master's degree in Management with Distinction from the Kellogg Graduate School of Management at Northwestern University. He received a BBA in Accounting and a minor in Geology from Southern Methodist University.

Mindy K. West – Age 49; Executive Vice President, Fuels, Chief Financial Officer, and Treasurer since August 2013. Ms. West joined Murphy Oil in 1996 and has held positions in Accounting, Employee Benefits, Planning and Investor Relations. In 2007, she was promoted to Vice President & Treasurer for Murphy Oil. She holds a bachelor's degree in Finance from the University of Arkansas and a bachelor's degree in Accounting from Southern Arkansas University. She is a Certified Public Accountant and a Certified Treasury Professional.

John A. Moore – Age 51; Senior Vice President and General Counsel since August 2013. Mr. Moore joined Murphy Oil in 1995 as Associate Attorney in the Law Department. He was promoted to Attorney in 1998 and Senior Attorney in 2005. He was promoted to Manager, Law and assumed the role of Corporate Secretary for Murphy Oil in 2011. Mr. Moore holds a bachelor's degree in Philosophy from Ouachita Baptist University and a Law degree from the University of Arkansas.

Robert J. Chumley – Age 54; Senior Vice President, Merchandising and Marketing since September 2016. Mr. Chumley joined the Company from 7-Eleven Inc., where he served as Senior Product Director, Vice President of Merchandising and Senior Vice President of Innovation. His previous experience includes Sales and Marketing leadership roles with Procter and Gamble, Coca-Cola, Kellogg's and Gillette. Mr. Chumley graduated from the Royal Military College of Canada with a Bachelors of Engineering degree. After graduation he served as a commissioned officer in the Royal Canadian Navy. Mr. Chumley also holds an MBA from Dalhousie University.

Terry P. Hatten – Age 52; Senior Vice President, Human Resources since June 2018. Mr. Hatten joined the Company from Commercial Metal Company where he served as Chief Human Resources Officer. His previous experience includes Human Resources leadership roles at General Nutrition Centers (GNC), Dean Foods, and Pepsi Bottling Group. He graduated with a bachelor of arts degree from Gannon University. Mr. Hatten also holds a master's degree in industrial and labor relations from Indiana University of Pennsylvania.

Item 4. MINE SAFETY DISCLOSURES

Not applicable

Part II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the New York Stock Exchange using "MUSA" as the trading symbol. There were 1,987 stockholders of record as of December 31, 2018.

The declaration and amount of any dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, earnings, cash flows, capital requirements of our business, covenants associated with our debt obligations, legal requirements, regulatory constraints, industry practice and other factors the board of directors deems relevant.

We are a holding company and have no direct operations. As a result, we will be able to pay dividends on our common stock only from available cash on hand and distributions received from our subsidiaries. There can be no assurance we will continue to pay any dividend even if we commence the payment of dividends. We did not declare any cash dividends on our common stock for the two years ended December 31, 2018.

The indenture governing the Senior Notes and the credit agreement governing our credit facilities and term loan contain restrictive covenants that limit, among other things, the ability of Murphy USA and the restricted subsidiaries to make certain restricted payments, which as defined under both agreements, include the declaration or payment of any dividends of any sort in respect of its capital stock and repurchase of shares of our common stock. See "Management's Discussion and Analysis of Financial Condition and Operating Results—Capital Resources and Liquidity—Debt" and Note 7 "Long-Term Debt" to the accompanying audited consolidated financial statements for the three years ended December 31, 2018.

In May 2014, the Company's Board of Directors authorized a stock repurchase plan of up to \$50 million of the Company's common stock. This plan was completed in May 2014. In October 2014, the Company's Board of Directors authorized a second stock repurchase plan of up to \$250 million of the Company's common stock which was completed by September 30, 2015.

In January 2016, the Board of Directors approved a strategic allocation of capital for the Company to pursue its independent growth plan and to undertake a share repurchase program of up to \$500 million for the two capital programs through December 31, 2017. The Company completed its \$500 million share repurchase plan in December 2017.

During 2018, the company purchased an additional \$144 million of its common stock as approved by the Board of Directors in small tranches during the first and second quarters.

Equity Compensation Plan Information

The table below contains information about securities authorized for issuance under equity compensation plans. The features of these plans are discussed further in Note 10 "Incentive Plans" to our audited consolidated financial statements.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (2)
	(a)	(b)	(c)
Equity compensation plans approved by security holders	669,269	\$65.71	3,835,958
Equity compensation plans not approved by security holders	—	—	—
Total	669,269	\$65.71	3,835,958

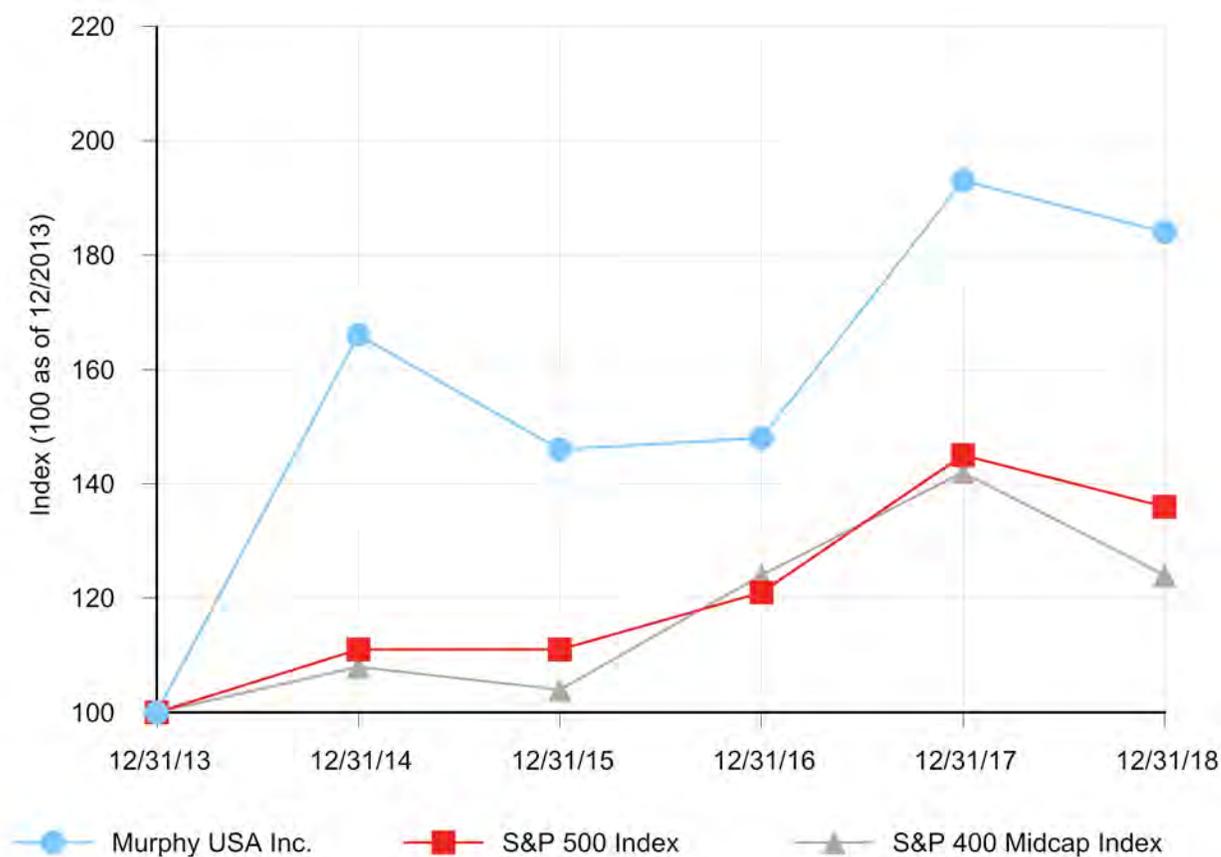
(1) Amounts in this column include outstanding restricted stock units.

(2) Number of shares available for issuance includes 3,446,501 available shares under the 2013 Long-Term Incentive Plan as of December 31, 2018 plus 389,457 available shares under the 2013 Stock Plan for Non-Employee Directors as of December 31, 2018. Assumes each restricted stock unit is equivalent to one share and each performance unit is equal to two shares.

SHAREHOLDER RETURN PERFORMANCE PRESENTATION

The following graph presents a comparison of cumulative total shareholder returns (including the reinvestment of dividends) as if a \$100 investment was made on December 31, 2013, the Standard and Poor's 500 Stock Index Fund (S&P 500 Index) and the S&P 400 Midcap Index. This performance information is "furnished" by the Company and is not considered as "filed" with this Annual Report on Form 10-K and is not incorporated into any document that incorporates this Annual Report on Form 10-K by reference.

Murphy USA Inc. Comparison of Cumulative Shareholder Returns



Shareholder Return Performance Table

	Murphy USA Inc.		S&P 500 Index		S&P 400 Midcap Index	
December 31, 2013	\$	100	\$	100	\$	100
December 31, 2014	\$	166	\$	111	\$	108
December 31, 2015	\$	146	\$	111	\$	104
December 31, 2016	\$	148	\$	121	\$	124
December 31, 2017	\$	193	\$	145	\$	142
December 31, 2018	\$	184	\$	136	\$	124

Item 6. SELECTED FINANCIAL DATA

<i>(Millions of dollars, except per share data)</i>	2018	2017	2016	2015	2014
Results of Operations for the Year					
Net sales and other operating revenues	\$ 14,362.9	\$ 12,826.6	\$ 11,594.6	\$ 12,699.4	\$ 16,986.0
Net cash provided by operating activities	\$ 398.7	\$ 283.6	\$ 337.4	\$ 215.8	\$ 305.6
Income from continuing operations	\$ 213.6	\$ 245.3	\$ 221.5	\$ 137.6	\$ 223.0
Net income (loss)	\$ 213.6	\$ 245.3	\$ 221.5	\$ 176.3	\$ 243.9
Per Common Share - diluted					
Income (loss) from continuing operations	\$ 6.48	\$ 6.78	\$ 5.59	\$ 3.14	\$ 4.81
Income (loss) from discontinued operations	\$ —	\$ —	\$ —	\$ 0.88	\$ 0.45
Net income (loss)	\$ 6.48	\$ 6.78	\$ 5.59	\$ 4.02	\$ 5.26
Capital Expenditures for the Year					
Marketing	\$ 169.2	\$ 234.0	\$ 239.1	\$ 202.4	\$ 131.1
Corporate and other	24.6	39.7	24.8	9.5	4.2
Subtotal	\$ 193.8	\$ 273.7	\$ 263.9	\$ 211.9	\$ 135.3
Discontinued operations	—	—	—	3.7	3.6
Total capital expenditures	\$ 193.8	\$ 273.7	\$ 263.9	\$ 215.6	\$ 138.9
Financial condition at December 31					
Current ratio	1.19	1.15	1.00	1.11	1.67
Working capital	\$ 92.0	\$ 80.9	\$ 1.0	\$ 43.4	\$ 277.6
Net property, plant and equipment	\$ 1,748.2	\$ 1,679.5	\$ 1,532.7	\$ 1,369.3	\$ 1,248.1
Total assets	\$ 2,360.8	\$ 2,331.0	\$ 2,088.7	\$ 1,886.2	\$ 1,949.3
Long-term debt	\$ 842.1	\$ 860.9	\$ 629.6	\$ 490.2	\$ 488.3
Stockholders' equity	\$ 807.3	\$ 738.4	\$ 697.1	\$ 792.3	\$ 858.7
Long-term debt - percent of capital employed (1)	51.1%	53.8%	47.5%	38.2%	36.2%

Notes:

(1) Calculated as Long-Term Debt on the Balance Sheet divided by the sum of Long-Term Debt plus Stockholders' Equity.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Management's Discussion and Analysis of Results of Operations and Financial Condition ("Management's Discussion and Analysis") is the Company's analysis of its financial performance and of significant trends that may affect future performance. It should be read in conjunction with the consolidated financial statements and notes included in this Annual Report on Form 10-K. It contains forward-looking statements including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations and intentions. The words "anticipate," "estimate," "believe," "budget," "continue," "could," "intend," "may," "plan," "potential," "predict," "seek," "should," "will," "would," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and similar expressions identify forward-looking statements. The Company does not undertake to update, revise or correct any of the forward-looking information unless required to do so under the federal securities laws. Readers are cautioned that such forward-looking statements should be read in conjunction with the Company's disclosures under "Forward-Looking Statements" and "Risk Factors" included elsewhere in this Annual Report on Form 10-K.

For purposes of this Management's Discussion and Analysis, references to "Murphy USA", the "Company", "we", "us" and "our" refer to Murphy USA Inc. and its subsidiaries on a consolidated basis.

Management's Discussion and Analysis is organized as follows:

- *Executive Overview*—this section provides an overview of our business and the results of operations and financial condition for the periods presented. It includes information on the basis of presentation with respect to the amounts presented in the Management's Discussion and Analysis and a discussion of the trends affecting our business.
- *Results of Operations*—this section provides an analysis of our results of operations, including the results of our business segments for the three years ended December 31, 2018.
- *Capital Resources and Liquidity*—this section provides a discussion of our financial condition and cash flows as of and for the three years ended December 31, 2018. It also includes a discussion of our capital structure and available sources of liquidity.
- *Critical Accounting Policies*—this section describes the accounting policies and estimates that we consider most important for our business and that require significant judgment.

Executive Overview

Our Business and Separation from Murphy Oil

Our business consists primarily of the U.S. retail marketing business that was separated from Murphy Oil, our former parent company, plus other assets, liabilities and operating expenses of Murphy Oil that are associated with supporting the activities of the U.S. retail marketing operations. We market refined products through a network of retail gasoline stores and unbranded wholesale customers. Our owned retail stores are almost all located near Walmart stores and use the brand name Murphy USA[®]. We also market gasoline and other products at stand alone stores under the Murphy Express brand. At December 31, 2018, we had a total of 1,472 Company stores in 26 states, principally in the Southeast, Southwest and Midwest United States.

Basis of Presentation

Murphy USA was incorporated in March 2013 in contemplation of the Separation, and until the Separation was completed on August 30, 2013, it had not commenced operations and had no material assets, liabilities or commitments. Accordingly, the financial information presented in this Management's Discussion and Analysis and the accompanying consolidated financial statements reflect the historical results of operations, financial position and cash flows of Murphy USA.

Trends Affecting Our Business

Our operations are significantly impacted by the gross margins we receive on our fuel sales. These gross margins are commodity-based, change daily and are volatile. While we expect our total fuel sales volumes to grow over time and the gross margins we realize on those sales to remain strong, these gross margins can change rapidly due to many factors. These factors include, but are not limited to, the price of refined products, interruptions in supply caused by severe weather, severe refinery mechanical failures for an extended period of time, and competition in the local markets in which we operate.

The cost of our main sales products, gasoline and diesel, is greatly impacted by the cost of crude oil in the United States. Generally, rising prices for crude oil increase the Company's cost for wholesale fuel products purchased. When wholesale fuel costs rise, the Company is not always able to immediately pass these price increases on to its retail customers at the pump, which in turn squeezes the Company's sales margin. Also, rising prices tend to cause our customers to reduce discretionary fuel consumption, which tends to reduce our fuel sales volumes. Crude oil prices in 2018 started the year in the \$60 per barrel range and climbed to approximately \$75 per barrel in October before dropping in November and December to approximately \$45 per barrel by year end 2018. Margins in 2018 were above our recent historical average of 13.6 cents per gallon due to the volatility in the price environment.

In addition, our revenues are impacted by our ability to leverage our diverse supply infrastructure in pursuit of obtaining the lowest cost of fuel supply available; for example, activities such as blending bulk fuel with ethanol and bio-diesel to capture and subsequently sell Renewable Identification Numbers ("RINs"). Under the Energy Policy Act of 2005, the EPA is authorized to set annual quotas establishing the percentage of motor fuels consumed in the United States that must be attributable to renewable fuels. Obligated parties are required to demonstrate that they have met any applicable quotas by submitting a certain amount of RINs to the EPA. RINs in excess of the set quota can then be sold in a market for RINs at then-prevailing prices. The market price for RINs fluctuates based on a variety of factors, including but not limited to governmental and regulatory action. There are other market related factors that can impact the net benefit we receive for RINs on a company-wide basis either favorably or unfavorably. RIN prices slid downward in 2018, opening the year in the high \$0.60 range, declining quickly to below the \$0.30 range by mid year and then decreasing through the latter part of the year to the \$0.10 range before ending the year in the \$0.20 range. Our business model does not depend on our ability to generate revenues from RINs. Revenue from the sales of RINs is included in "Other operating revenues" in the Consolidated Income Statements.

As of December 31, 2018, we have \$800 million of Senior Notes and \$72 million of term loan outstanding. We believe that we will generate sufficient cash from operations to fund our ongoing operating requirements. We expect to use the credit facilities to provide us with available financing intended to meet any ongoing cash needs in excess of internally generated cash flows. To the extent necessary, we will borrow under these facilities to fund our ongoing operating requirements. At December 31, 2018, we have additional available capacity under the committed \$450 million credit facilities (subject to the borrowing base), together with capacity under a \$150 million incremental uncommitted facility. There can be no assurances, however, that we will generate sufficient cash from operations or be able to draw on the credit facilities, obtain commitments for our incremental facility and/or obtain and draw upon other credit facilities.

The Company currently anticipates total capital expenditures (including land for future development) for the full year 2019 to range from approximately \$225 million to \$275 million depending on how many new sites are completed. We intend to fund our capital program in 2019 primarily using operating cash flow, but will supplement funding where necessary using borrowings under available credit facilities.

We believe that our business will continue to grow in the future as we expect to build additional locations chosen by our real estate development team that have the characteristics we look for in a strong site. The pace of this growth is continually monitored by our management, and these plans can be altered based on operating cash flows generated and the availability of debt facilities.

Seasonality

Our business has inherent seasonality due to the concentration of our retail sites in certain geographic areas, as well as customer behaviors during different seasons. In general, sales volumes and operating incomes are highest in the second and third quarters during the summer activity months and lowest during the winter months.

Business Segments

Our business is organized into one reporting segment (Marketing). The Marketing segment includes our retail marketing sites and product supply and wholesale assets. For operating segment information, see Note 19 “Business Segments” in the accompanying audited consolidated financial statements for the three-year period ended December 31, 2018.

Results of Operations

Consolidated Results

For the year ended December 31, 2018, the Company reported net income of \$213.6 million or \$6.48 per diluted share on revenue of \$14.4 billion. Net income was \$245.3 million for 2017 or \$6.78 per diluted share on revenue of \$12.8 billion.

A summary of the Company’s earnings by business segment follows:

<i>(millions of dollars)</i>	Year ended December 31,		
	2018	2017	2016
Marketing	\$ 214.2	\$ 295.3	\$ 249.8
Corporate and other assets	(0.6)	(50.0)	(28.3)
Net income	<u>\$ 213.6</u>	<u>\$ 245.3</u>	<u>\$ 221.5</u>

Net income for 2018 decreased compared to 2017, primarily due to:

- No recognition of deferred tax benefits related to the passage of the Tax Cuts and Jobs Act in 2017;
- Higher station and other operating expenses;
- Higher depreciation

The items below partially offset the decrease in earnings in the current period:

- Higher total fuel contribution due to improved retail fuel margins combined with higher product supply and wholesale margins, excluding RINs;
- Net settlement proceeds from Deepwater Horizon oil spill recorded in Corporate and other assets;
- Higher merchandise contribution

Net income for 2017 increased compared to 2016 primarily due to:

- Recognition of deferred tax benefits related to the passage of the Tax Cuts and Jobs Act in 2017;
- Higher total fuel contribution due to improved retail fuel margins;
- Higher merchandise contribution

2018 versus 2017

Revenues for the year ended December 31, 2018 increased \$1.5 billion, or 12.0%, compared to 2017. The improvement was primarily due to an increase in retail fuel prices of 29 cents per gallon (cpg) for the full year, in addition, total retail volumes increased 2.2% due primarily to an increase in the number of stores.

Cost of sales increased \$1.5 billion, or 12.8%, compared to 2017. This increase was due to higher volumes of retail fuel sold at a higher average cost, higher wholesale costs, higher merchandise costs and increased store count.

Station and other operating expenses increased \$26.4 million, or 5.1% in 2018 due primarily to the addition of 26 new stores, along with 27 larger stores under our raze-and-rebuild program. On an average per store month (APSM) basis, the station operating expenses applicable to the retail marketing business increased 0.7% in 2018. The largest area of increase was in maintenance expense.

Selling, general and administrative expenses for 2018 were lower by \$5.0 million. The decrease was mainly due to lower charitable donation expenses in 2018, partially offset by higher labor and employee benefit costs.

Net settlement proceeds for 2018 were \$50.4 million (before tax), which represented the net settlement of damages incurred in connection with the 2010 Deepwater Horizon oil spill.

Interest expense in 2018 increased by \$6.2 million compared to 2017 due primarily to expense for the full year 2018 for the 2027 Senior Notes which were issued early in the second quarter of 2017 combined with a lower amount of capitalized interest.

Income tax expense is higher in 2018 by \$65.5 million due to the benefit recognized in 2017 related to the enactment of the Tax Cuts and Jobs Act which resulted in the existing net deferred tax liabilities being revalued to lower Corporate tax rates. The effective income tax expense rate in 2018 was 22.0% compared to a tax benefit of 2.2% for 2017.

2017 versus 2016

Revenues for the year ended December 31, 2017 declined \$1.2 billion, or 10.6%, compared to 2016. Leading the improvement was an increase in retail fuel prices of six cents per gallon (cpg) for the full year. Partially offsetting the higher retail prices were lower total retail volumes of 1.3% due to increasing competition.

Cost of sales increased \$1.2 billion, or 11.2%, compared to 2016. This increase was due to higher wholesale prices of motor fuel for both retail and wholesale as a result of the increase in crude oil prices in the latter half of the year.

Station and other operating expenses were higher in 2017 than in 2016 due primarily to the addition of 45 new stores in 2017, along with 21 larger stores under our raze-and-rebuild program, compared to 67 stores added in 2016. On an average per store month (APSM) basis, the expenses applicable to the retail marketing business decreased 2.6% in 2017. The largest area of decrease was in labor and benefits which were improved in the current year due to initiatives undertaken over the prior two years.

Selling, general and administrative expenses for 2017 were higher by \$18.5 million. The 2017 amount contained higher labor and benefits due to increased head count combined with a \$10 million charitable donation made as part of a tax planning strategy.

Net interest expense in 2017 increased by \$7.0 million compared to 2016 due to the issuance of the 2027 Senior Notes early in the second quarter of 2017.

Income tax expense (benefit) was lower in 2017 by \$135.8 million due to the enactment of the Tax Cuts and Jobs Act which resulted in the existing net deferred tax liabilities being revalued to lower Corporate tax rates. The effective rate in 2017 was a benefit of 2.2% compared to an effective rate of 37.1% for 2016.

Segment Results

Marketing

Income from continuing operations before income taxes in the Marketing segment for 2018 decreased \$8.7 million, or 3.0%, from 2017 due to increased operating costs with the addition of new sites not fully offset by higher margins. Net income in 2018 was \$81.1 million lower because 2017 had a one-time revaluation of existing net deferred tax liabilities that generated an \$88.9 million deferred tax benefit.

The tables below show the results for the Marketing segment for the three years ended December 31, 2018 along with certain key metrics for the segment.

(Millions of dollars, except revenue per store month (in thousands) and store counts)

Marketing Segment	Years Ended December 31,		
	2018	2017	2016
Operating revenues			
Petroleum product sales	\$ 11,858.4	\$ 10,287.9	\$ 9,070.6
Merchandise sales	2,423.0	2,372.6	2,338.6
Other	80.9	165.7	185.1
Total operating revenues	<u>\$ 14,362.3</u>	<u>\$ 12,826.2</u>	<u>\$ 11,594.3</u>
Operating expenses			
Petroleum product cost of goods sold	11,251.1	9,773.2	8,604.0
Merchandise cost of goods sold	2,022.5	1,991.4	1,974.5
Station and other operating expenses	541.3	514.9	493.3
Depreciation and amortization	124.5	110.5	92.2
Selling, general and administrative	136.2	141.2	122.7
Accretion of asset retirement obligations	2.0	1.8	1.6
Total operating expenses	<u>\$ 14,077.6</u>	<u>\$ 12,533.0</u>	<u>\$ 11,288.3</u>
Gain (loss) on sale of assets	<u>(1.1)</u>	<u>(3.9)</u>	<u>88.2</u>
Income from operations	283.6	289.3	394.2
Other income (expense)			
Interest expense	(0.1)	(0.1)	(0.1)
Other nonoperating income	0.2	3.2	2.9
Total other income (expense)	<u>\$ 0.1</u>	<u>\$ 3.1</u>	<u>\$ 2.8</u>
Income from continuing operations			
before income taxes	283.7	292.4	397.0
Income tax expense (benefit)	<u>69.5</u>	<u>(2.9)</u>	<u>147.2</u>
Income from continuing operations	<u>\$ 214.2</u>	<u>\$ 295.3</u>	<u>\$ 249.8</u>
Total tobacco sales revenue per same store sales*	\$ 101.2	\$ 105.5	\$ 112.0
Total non-tobacco sales revenue per same store sales*	<u>39.1</u>	<u>37.1</u>	<u>35.5</u>
Total merchandise sales revenue per same store sales*	<u>\$ 140.3</u>	<u>\$ 142.6</u>	<u>\$ 147.5</u>
*2017 amounts not revised for 2018 raze-and-rebuild activity			
Store count at end of period	1,472	1,446	1,401
Total store months during the period	17,343	16,880	16,194

Key Fuel Operating Metrics	Twelve Months Ended December 31,		
	2018	2017	2016
Total fuel contribution (\$ Millions)	\$ 685.6	\$ 677.7	\$ 647.2
Total fuel contribution (including retail, PS&W and RINS) (cpg)	16.2	16.4	15.4
Total retail fuel contribution (\$ Millions)	\$ 624.2	\$ 581.0	\$ 485.8
Retail fuel volume - chain (Million gal)	4,232.2	4,140.9	4,195.2
Retail fuel volume - per site (K gals APSM)	244.0	245.3	259.1
Retail fuel volume - per site (K gal SSS)*	242.6	245.3	260.5
Retail fuel margin (cpg excluding credit card fees)	14.7	14.0	11.6
PS&W including RINs contribution (cpg)	1.5	2.4	3.8

*2017 amounts not revised for 2018 raze-and-rebuild activity

Key Merchandise Operating Metrics	Twelve Months Ended December 31,		
	2018	2017	2016
Total merchandise contribution (\$ Millions)	\$ 400.4	\$ 381.2	\$ 364.1
Total merchandise sales (\$ Millions)	\$ 2,423.0	\$ 2,372.7	\$ 2,338.6
Total merchandise sales (\$K SSS)*	\$ 140.3	\$ 142.6	\$ 147.5
Merchandise unit margin (%)	16.5%	16.1%	15.6%
Tobacco contribution (\$K SSS)*	\$ 13.7	\$ 13.7	\$ 13.8
Non-tobacco contribution (\$K SSS)*	\$ 9.6	\$ 9.2	\$ 9.1
Total merchandise contribution (\$K SSS)*	\$ 23.3	\$ 22.9	\$ 22.9

*2017 amounts not revised for 2018 raze-and-rebuild activity

2018 versus 2017

Total fuel volumes for the year ended December 31, 2018 were up 2.2%. Retail fuel volumes in 2018 on a same store sales ("SSS") basis were lower by 0.6% compared to 2017. The decline in retail volumes on an SSS basis was related to restrained retail demand and ongoing competitive pressures.

The Marketing segment had total revenues of \$14.4 billion in 2018 compared to approximately \$12.8 billion in 2017, an increase of \$1.6 billion. Revenue amounts included excise taxes collected and remitted to government authorities of \$1.8 billion in 2018 and \$2.0 billion in 2017. The Company adopted ASC Topic 606 as of January 1, 2018 using the modified retrospective method. The impact of the excise and sales taxes collected and remitted to government authorities included in petroleum product sales that would have been recognized under previous revenue recognition guidance would have increased 2018 petroleum product sales (at retail) by \$25.4 million and petroleum product sales (at wholesale) by \$171.2 million for a total increase in petroleum product sales of \$196.5 million.

Total fuel sales volumes on an SSS basis were 242,562 gallons per month in 2018, down 0.6% from 245,289 gallons per month in the prior year. Retail fuel margin increased in 2018 to 14.7 cpg, compared to 14.0 cpg in the prior year. The higher fuel margins in the period were attributed to more price volatility in 2018 compared to 2017. Total product supply and wholesale margin dollars before RINs increased in the current year, but was offset by a decline in the contribution from RINs sales. During 2018, operating income included \$75.2 million from the sale of 227 million RINs at an average selling price of \$0.33 per RIN compared to 2017's \$160.3 million for the sale of 224 million RINs at an average price of \$0.72 per RIN.

Merchandise sales were up 2.1% in 2018 to \$2.4 billion. Merchandise margins increased 40 basis points, to 16.5% in 2018 from 16.1% in 2017. This improvement in margin was primarily caused by optimizing promotional programs and manufacturer price increases in tobacco along with new products at better margins. On an SSS basis, total merchandise sales were down 0.2% with tobacco products down 1.6%, partially offset by a 3.8%

increase in non-tobacco sales. Total margins on an SSS basis for 2018 were up 2.9% with tobacco margins higher 3.1%, combined with a 2.6% increase in non-tobacco margins.

Station and other operating expenses increased \$26.4 million in 2018 compared to 2017 levels, an increase of 5.1%. This increase in total dollars was due mainly to increased store count. Excluding credit card fees on an APSM basis, station and other operating expenses at the retail level were higher in 2018 by 1.1% compared to 2017 levels. This increase was due primarily to higher maintenance related expenses.

Depreciation and amortization increased \$14.0 million in 2018, an increase of 12.7%. This increase was caused by more stores operating in the 2018 period compared to the prior year.

Selling, general and administrative expenses decreased \$5.0 million in 2018 compared to 2017. The lower SG&A costs were primarily due to decreased donations expense in 2018 partially offset by higher incentive awards expense.

2017 versus 2016

Total fuel volumes for the year ended December 31, 2017 were down 1.3%. Retail fuel volumes in 2017 on an SSS basis were lower by 4.8% compared to 2016. The decline in retail volumes on an SSS basis was due primarily to subdued retail demand and increased competitive pressures.

The Marketing segment had total revenues of \$12.8 billion in 2017 compared to approximately \$11.6 billion in 2016, an increase of \$1.2 billion. Revenue amounts included excise taxes collected and remitted to government authorities of \$2.0 billion in 2017 and 2016. Total fuel sales volumes on an SSS basis averaged 245,289 gallons per month in 2017, down 5.8% from 260,519 gallons per month in the prior year. Retail fuel margin increased in 2017 to 14 cpg, compared to 11.6 cpg in the prior year. The higher fuel margins in the period were attributed to more volatility in 2017 compared to 2016. Total product supply and wholesale margin dollars excluding RINs declined in the current year but this decline was more than offset by the sale of RINs. During 2017, operating income included \$160.3 million from the sale of 224 million RINs at an average selling price of \$0.72 per RIN compared to the 2016 inclusion of \$181.1 million for the sale of 221 million RINs at an average price of \$.82 per RIN.

Merchandise sales were up 1.5% in 2017 to \$2.4 billion. Merchandise margins increased 50 basis points, from 15.6% in 2016 to 16.1% in 2017. This improvement in margin was primarily caused by optimizing promotional programs and manufacturer price increases in tobacco along with new products at slightly better margins. On an SSS basis, total merchandise sales were down 1.6% primarily to lower tobacco products sales, partially offset by a 3.3% increase in non-tobacco sales. Total margins on an SSS basis were up 1.3% with tobacco products up 2.3%, partially offset by a 0.2% decrease in non-tobacco margin.

Station and other operating expenses increased \$21.5 million in 2017 compared to 2016 levels, an increase of 4.4%. This increase in total dollars was due mainly to increased store count. On an APSM basis, amounts were lower in 2017. This decline was due primarily to lower labor and benefits costs due to the Company's labor initiatives in the year. Excluding credit card fees on an APSM basis, station and other operating expenses at the retail level were lower by 2.6% compared to 2016 levels.

Depreciation and amortization increased \$18.3 million in 2017, an increase of 19.8%. This increase was caused by more stores operating in the 2017 period compared to the prior year.

Selling, general and administrative expenses increased \$18.5 million in 2017 compared to 2016. The higher SG&A costs in 2017 reflect higher costs associated with the Company's business improvement initiatives, including technology projects.

Corporate and other assets

2018 versus 2017

Income from continuing operations for Corporate and other assets in 2018 was a loss of \$0.6 million, or \$49.4 million improved when compared to a loss of \$50.0 million in 2017. The improvement was due to recording net settlement proceeds of approximately \$39.3 million (after tax) from the 2010 Deepwater Horizon oil spill. Net interest expense was higher in the current year by \$6.2 million primarily due to the addition of the \$300 million Senior Notes on April 25, 2017 and lower capitalized interest. Depreciation and amortization expense for 2018 was \$3.1 million more than in the prior year.

2017 versus 2016

Income from continuing operations for Corporate and other assets declined in 2017 to a loss of \$50.0 million compared to a loss of \$28.3 million in 2016. The 2017 year included net interest expense of \$46.7 million compared to interest expense in 2017 of \$39.7 million. The increase in net interest expense in 2018 was primarily due to the new 2027 Senior Notes of \$300 million that were issued in early 2017. The remainder of the change between years was related to tax impacts from the adoption of the Tax Cuts and Jobs Act in 2017 that resulted from the revaluation of net deferred tax liabilities.

Non-GAAP Measures

The following table sets forth the Company's EBITDA and Adjusted EBITDA for the three years ended December 31, 2018. EBITDA means net income (loss) plus net interest expense, plus income tax expense, depreciation and amortization, and Adjusted EBITDA adds back (i) other non-cash items (e.g., impairment of properties and accretion of asset retirement obligations) and (ii) other items that management does not consider to be meaningful in assessing our operating performance (e.g., (income) from discontinued operations, gain (loss) on sale of assets and other non-operating expense (income)). EBITDA and Adjusted EBITDA are not measures that are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

We use Adjusted EBITDA in our operational and financial decision-making, believing that the measure is useful to eliminate certain items in order to focus on what we deem to be a more reliable indicator of ongoing operating performance and our ability to generate cash flow from operations. Adjusted EBITDA is also used by many of our investors, research analysts, investment bankers, and lenders to assess our operating performance. We believe that the presentation of Adjusted EBITDA provides useful information to investors because it allows understanding of a key measure that we evaluate internally when making operating and strategic decisions, preparing our annual plan and evaluating our overall performance. However, non-GAAP measures are not a substitute for GAAP disclosures, and EBITDA and Adjusted EBITDA may be prepared differently by us than by other companies using similarly titled non-GAAP measures.

The reconciliation of net income to EBITDA and Adjusted EBITDA is as follows:

<i>(Millions of dollars)</i>	Years Ended December 31,		
	2018	2017	2016
Net income	\$ 213.6	\$ 245.3	\$ 221.5
Income tax expense (benefit)	60.3	(5.2)	130.5
Interest expense, net of interest income	51.4	45.4	39.1
Depreciation and amortization	134.0	116.9	98.6
EBITDA	<u>459.3</u>	<u>402.4</u>	<u>489.8</u>
Net settlement proceeds	(50.4)	—	—
Accretion of asset retirement obligations	2.0	1.8	1.7
(Gain) loss on sale of assets	1.1	3.9	(88.2)
Other nonoperating (income) expense	(0.2)	(2.2)	(3.1)
Adjusted EBITDA	<u>\$ 411.8</u>	<u>\$ 405.9</u>	<u>\$ 400.1</u>

Capital Resources and Liquidity

Significant sources of capital

As of December 31, 2018, we had \$184.5 million of cash and cash equivalents. Our cash management policy provides that cash balances in excess of a certain threshold are reinvested in certain types of low-risk investments.

We have borrowing capacity under a committed \$450 million asset based loan facility (the "ABL facility") (subject to the borrowing base) and a \$72 million term loan, as well as a \$150 million incremental uncommitted facility. At December 31, 2018 we had \$450 million of borrowing capacity that we could utilize for working capital and other general corporate purposes under our existing facility, including to support our operating model as

described herein. Our borrowing base limit for the facility is approximately \$177 million based on December 31, 2018 balance sheet information. See “Debt – Credit Facilities” for the calculation of our borrowing base.

We also have a shelf registration on file with the SEC for an indeterminate amount of debt and equity securities for future issuance, subject to our internal limitations on the amount of debt to be issued under this shelf registration statement.

We believe our short-term and long-term liquidity is adequate to fund not only our operations, but also our anticipated near-term and long-term funding requirements, including capital spending programs, execution of announced share repurchase programs, potential dividend payments, repayment of debt maturities and other amounts that may ultimately be paid in connection with contingencies.

Operating Activities

Net cash provided by operating activities was \$398.7 million for the year ended December 31, 2018 and \$283.6 million for the comparable period in 2017, an increase of 40.6%, primarily because of changes in deferred income taxes, changes in noncash working capital, and depreciation. Net income decreased \$31.7 million in 2018 compared to 2017 and benefits from changes in deferred and non-current income tax changes were \$88.3 million. In addition, the amount of cash generated from drawdown of working capital in the 2018 period improved by \$39.2 million.

Net cash provided by operating activities was \$337.4 million in 2016. The primary reason for changes in the amounts between 2017 and 2016 related to higher net income, offset by changes in deferred income taxes and changes in noncash working capital.

Investing Activities

For the year ended December 31, 2018, cash required by investing activities was \$209.1 million compared to cash required by investing activities of \$262.1 million in 2017. The investing cash decrease of \$53.0 million in 2018 was primarily due to lower capital expenditures in the current year. Capital expenditures in 2018 required cash of \$204.3 million compared to \$258.3 million in 2017.

In 2017, cash required by investing activities was \$262.1 million while 2016 required cash from investing activities of \$134.8 million due primarily to capital expenditures in 2017 having no offset by asset sales or restricted cash when compared to 2016.

Financing Activities

Financing activities in the year ended December 31, 2018 required net cash of \$175.1 million compared to a net cash required of \$5.3 million in the year ended December 31, 2017. The increase in financing cash requirements was due to no new debt issuances, partially offset by lower repayments of the term loan and less spent on share repurchases in 2018. Net cash required by financing activities in 2016 was \$151.1 million. In 2016 the differences were due to the amount of stock repurchases and debt issuances.

Debt

Our long-term debt at December 31, 2018 and 2017 was as set forth below:

(Millions of dollars)	December 31,	
	2018	2017
6.00% senior notes due 2023 (net of unamortized discount of \$4.1 at 2018 and \$5.0 at 2017)	\$ 495.9	\$ 495.0
5.625% senior notes due 2027 (net of unamortized discount of \$3.1 at 2018 and \$3.5 at 2017)	296.9	296.5
Term loan due 2020 (effective rate of 5.0% at 2018 and 4.15% at 2017)	72.0	92.0
Capitalized lease obligations, vehicles, due through 2022	2.3	2.4
Unamortized debt issuance costs	(3.8)	(5.1)
Total long-term debt	863.3	880.8
Less current maturities	21.2	19.9
Total long-term debt, net of current	\$ 842.1	\$ 860.9

Senior Notes

On August 14, 2013, Murphy Oil USA, Inc., our primary operating subsidiary, issued the 6.00% Senior Notes due 2023 (the "2023 Senior Notes") in an aggregate principal amount of \$500 million. The 2023 Senior Notes are fully and unconditionally guaranteed by Murphy USA, and are guaranteed by certain 100% owned subsidiaries that guarantee our credit facilities. The indenture governing the 2023 Senior Notes contains restrictive covenants that limit, among other things, the ability of Murphy USA, Murphy Oil USA, Inc. and the restricted subsidiaries to incur additional indebtedness or liens, dispose of assets, make certain restricted payments or investments, enter into transactions with affiliates or merge with or into other entities.

On April 25, 2017, Murphy Oil USA, Inc., issued \$300 million of 5.625% Senior Notes due 2027 (the "2027 Senior Notes") under its existing shelf registration statement. The 2027 Senior Notes are fully and unconditionally guaranteed by Murphy USA, and are guaranteed by certain 100% owned subsidiaries that guarantee our credit facilities. The indenture governing the 2027 Senior Notes contains restrictive covenants that are essentially identical to the covenants for the 2023 Senior Notes.

The 2023 and 2027 Senior Notes and the guarantees rank equally with all of our and the guarantors' existing and future senior unsecured indebtedness and effectively junior to our and the guarantors' existing and future secured indebtedness (including indebtedness with respect to the credit facilities) to the extent of the value of the assets securing such indebtedness. The 2023 and 2027 Senior Notes are structurally subordinated to all of the existing and future third-party liabilities, including trade payables, of our existing and future subsidiaries that do not guarantee the notes.

Credit Facilities and Term Loan

On August 30, 2013, we entered into a credit agreement, which provided for a committed \$450 million asset-based loan (ABL) facility (with availability subject to the borrowing base described below) and a \$150 million term facility. It also provided for a \$200 million uncommitted incremental facility. On September 2, 2014, we amended the credit agreement to extend the maturity date to September 2, 2019 and amend the terms of the various covenants. On March 10, 2016, we amended the agreement to extend the effective date of the ABL to March 10, 2021, added a \$200 million term loan facility that was immediately drawn down and is due on March 10, 2020 and requires quarterly principal payments of \$10 million that began July 1, 2016 (now \$5 million per quarter), and reduced the uncommitted incremental facility to \$150 million.

The borrowing base is expected, at any time of determination, to be an amount (net of reserves) equal to the sum of:

- 100% of eligible cash at such time, plus
- 90% of eligible credit card receivables at such time, plus

- 90% of eligible investment grade accounts, plus
- 85% of eligible other accounts, plus
- 80% of eligible product supply/wholesale refined products inventory at such time, plus
- 75% of eligible retail refined products inventory at such time, plus

the lesser of (i) 70% of the average cost of eligible retail merchandise inventory at such time and (ii) 85% of the net orderly liquidation value of eligible retail merchandise inventory at such time.

The ABL facility includes a \$200 million sublimit for the issuance of letters of credit. Letters of credit issued under the ABL facility reduce availability under the ABL facility.

Interest payable on the credit facilities is based on either:

- the London interbank offered rate, adjusted for statutory reserve requirements (the “Adjusted LIBO Rate”); or
- the Alternate Base Rate, which is defined as the highest of (a) the prime rate, (b) the federal funds effective rate from time to time plus 0.50% per annum and (c) the one-month Adjusted LIBO Rate plus 1.00% per annum,

plus, (A) in the case Adjusted LIBO Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 1.50% to 2.00% per annum depending on a total debt to EBITDA ratio under the ABL facility or (ii) with respect to the term facility, spreads ranging from 2.50% to 2.75% per annum depending on a total debt to EBITDA ratio and (B) in the case of Alternate Base Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 0.50% to 1.00% per annum depending on a total debt to EBITDA ratio under the ABL facility or (ii) with respect to the term facility, spreads ranging from 1.50% to 1.75% per annum depending on a total debt to EBITDA ratio.

The interest rate period with respect to the Adjusted LIBO Rate interest rate option can be set at one-, two-, three-, or six-months as selected by us in accordance with the terms of the credit agreement.

The credit agreement contains certain covenants that limit, among other things, the ability of us and our subsidiaries to incur additional indebtedness or liens, to make certain investments, to enter into sale-leaseback transactions, to make certain restricted payments, to enter into consolidations, mergers or sales of material assets and other fundamental changes, to transact with affiliates, to enter into agreements restricting the ability of subsidiaries to incur liens or pay dividends, or to make certain accounting changes. In addition, the credit agreement requires us to maintain a minimum fixed charge coverage ratio of a minimum of 1.0 to 1.0 when availability for at least three consecutive business days is less than the greater of (a) 17.5% of the lesser of the aggregate ABL facility commitments and the borrowing base and (b) \$70,000,000 (including as of the most recent fiscal quarter end on the first date when availability is less than such amount) as well as a maximum secured debt to EBITDA ratio of 4.5 to 1.0 at any time when term facility commitments or term loans thereunder are outstanding. As of December 31, 2018, our fixed charge coverage ratio was 1.10. Our secured debt to EBITDA ratio as of December 31, 2018 was 0.16 to 1.0.

The credit agreement contains restrictions on certain payments, including dividends, when availability under the credit agreement is less than or equal to the greater of \$100 million and 25% of the lesser of the revolving commitments and the borrowing base and our fixed charge coverage ratio is less than 1.0 to 1.0 (unless availability under the credit agreement is greater than \$100.0 million and 40% of the lesser of the revolving commitments and the borrowing base). As of December 31, 2018, our ability to make restricted payments was not limited as our fixed charge coverage ratio was greater than 1.0 to 1.0.

All obligations under the credit agreement are guaranteed by Murphy USA and the subsidiary guarantors party thereto, and all obligations under the credit agreement, including the guarantees of those obligations, are secured by certain assets of Murphy USA, Murphy Oil USA, Inc. and the guarantors party thereto.

Contractual Obligations

The following table summarizes our aggregate contractual fixed and variable obligations as of December 31, 2018.

<i>(Millions of dollars)</i>	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Debt obligations (a)	\$ 874.8	\$ 21.4	\$ 53.4	\$ 500.0	\$ 300.0
Operating lease obligations	184.9	13.7	25.9	22.8	122.5
Purchase obligations (b)	279.8	197.0	82.8	—	—
Asset retirement obligations	159.2	—	—	—	159.2
Other long-term obligations, including interest on long-term debt	302.8	68.0	96.2	82.4	56.2
Total	\$ 1,801.5	\$ 300.0	\$ 258.2	\$ 605.2	\$ 638.0

(a) For additional information, see Note 7 "Long-Term Debt" in the accompanying audited consolidated financial statements.

(b) Primarily includes ongoing new retail station construction in progress at December 31, 2018, commitments to purchase land, take-or-pay supply contracts and other services. See Note 16 "Commitments" in the audited consolidated financial statements for the year ended December 31, 2018.

Capital Spending

Capital spending and investments in our Marketing segment relate primarily to the acquisition of land and the construction of new Company stores. Our Marketing capital is also deployed to improve our existing sites, which we refer to as sustaining capital. We use sustaining capital in this business as needed to ensure reliability and continued performance of our sites. We also invest in our Corporate and other assets segment which is primarily technology related. The following table outlines our capital spending and investments by segment for the three years ended December 31, 2018:

<i>(Millions of dollars)</i>	2018	2017	2016
Marketing:			
Company stores	\$ 134.1	\$ 182.9	\$ 199.5
Terminals	0.6	2.3	1.8
Sustaining capital	34.5	48.9	37.8
Corporate and other assets	24.6	39.7	24.8
Total	\$ 193.8	\$ 273.7	\$ 263.9

We currently expect capital expenditures for the full year 2019 to range from approximately \$225 million to \$275 million, including \$140 million for retail growth, approximately \$30 million for maintenance capital, with the remaining funds earmarked for other corporate investments, including EMV compliance and other strategic initiatives. See Note 16 "Commitments" in the audited consolidated financial statements for the three years ended December 31, 2018 included in this Annual Report on Form 10-K.

Critical Accounting Policies

Impairment of Long-Lived Assets

Individual retail sites are reviewed for impairment periodically or whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Our primary indicator that operating store assets may not be recoverable is consistent negative cash flow over a twenty-four month period for those retail sites that have been open in the same location for a sufficient period to allow for meaningful analysis of ongoing results. We also monitor other factors when evaluating retail sites for impairment, including individual site execution of operating plans and local market conditions.

When an evaluation is required, the projected future undiscounted cash flows to be generated from each retail site over its remaining economic life are compared to the carrying value of the long-lived assets of that site to determine if a write-down of the carrying value to fair value is required. When determining future cash flows associated with an individual retail site, we make assumptions about key variables such as sales volume, gross margins and expenses. Cash flows vary for each retail site year to year. Changes in market demographics, traffic patterns, competition and other factors impact the overall operations of certain of our individual retail site locations. Similar changes may occur in the future that will require us to record impairment charges. We have not made any material change in the methodology used to estimate future cash flows of retail site locations during the past three years.

Our impairment evaluations are based on assumptions we deem to be reasonable. If the actual results of our retail sites are not consistent with the estimates and judgments we have made in estimating future cash flows and determining fair values, our actual impairment losses could vary positively or negatively from our estimated impairment losses. Providing sensitivity analysis if other assumptions were used in performing the impairment evaluations is not practical due to the significant number of assumptions involved in the estimates.

Tax Matters

We are subject to extensive tax liabilities imposed by multiple jurisdictions, including income taxes, indirect taxes (excise/duty, sales/use, and gross receipts taxes), payroll taxes, franchise taxes, withholding taxes and ad valorem taxes. New tax laws and regulations and changes in existing tax laws and regulations are continuously being enacted or proposed that could result in increased expenditures for tax liabilities that cannot be predicted at this time. In addition, we have received claims from various jurisdictions related to certain tax matters. Tax liabilities include potential assessments of penalty and interest amounts.

We record tax liabilities based on our assessment of existing tax laws and regulations. A contingent loss related to a transactional tax claim is recorded if the loss is both probable and estimable. The recording of our tax liabilities requires significant judgments and estimates. Actual tax liabilities can vary from our estimates for a variety of reasons, including different interpretations of tax laws and regulations and different assessments of the amount of tax due. In addition, in determining our income tax provision, we must assess the likelihood that our deferred tax assets will be recovered through future taxable income. Significant judgment is required in estimating the amount of valuation allowance, if any, that should be recorded against those deferred income tax assets. If our actual results of operations differ from such estimates or our estimates of future taxable income change, the valuation allowance may need to be revised. However, an estimate of the sensitivity to earnings that would result from changes in the assumptions and estimates used in determining our tax liabilities is not practicable due to the number of assumptions and tax laws involved, the various potential interpretations of the tax laws, and the wide range of possible outcomes. The Company is occasionally challenged by taxing authorities over the amount and/or timing of recognition of revenues and deductions in its various income tax returns. Although the Company believes it has adequate accruals for matters not resolved with various taxing authorities, gains or losses could occur in future years from changes in estimates or resolution of outstanding matters. See Note 9 "Income Taxes" in the accompanying audited consolidated financial statements for the three-year period ended December 31, 2018 for a further discussion of our tax liabilities.

Asset Retirement Obligations

We operate above ground and underground storage tanks at our facilities. We recognize the estimated future cost to remove these underground storage tanks ("USTs") over their estimated useful lives. We record a discounted liability for the fair value of an asset retirement obligation with a corresponding increase to the carrying value of the related long-lived asset at the time a UST is installed. We depreciate the amount added to cost of the property and recognize accretion expense in connection with the discounted liability over the remaining life of the UST.

We have not made any material changes in the methodology used to estimate future costs for removal of a UST during the past three years. We base our estimates of such future costs on our prior experience with removal and normal and customary costs we expect to incur associated with UST removal. We compare our cost estimates with our actual removal cost experience, if any, on an annual basis, and if the actual costs we experience exceed our original estimates, we will recognize an additional liability for estimated future costs to remove the USTs. Because these estimates are subjective and are currently based on historical costs with adjustments for estimated future changes in the associated costs, the dollar amount of these obligations could change as more information is obtained. There were no material changes in our asset retirement obligation estimates during 2018, 2017 or 2016.

See also Note 8 “Asset Retirement Obligation” in the accompanying audited consolidated financial statements for the three-year period ended December 31, 2018.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain statements or may suggest “forward-looking” information (as defined in the Private Securities Litigation Reform Act of 1995) that involve risk and uncertainties, including, but not limited to anticipated store openings, fuel margins, merchandise margins, sales of RINs and trends in our operations. Such statements are based upon the current beliefs and expectations of the Company’s management and are subject to significant risks and uncertainties. Actual future results may differ materially from historical results or current expectations depending upon factors including, but not limited to: our ability to continue to maintain a good business relationship with Walmart; successful execution of our growth strategy, including our ability to realize the anticipated benefits from such growth initiatives, and the timely completion of construction associated with our newly planned stores which may be impacted by the financial health of third parties; our ability to effectively manage our inventory, manage disruptions in our supply chain and control costs; the impact of severe weather events, such as hurricanes, floods and earthquakes; the impact of any systems failures, cybersecurity and/or security breaches, including any security breach that results in theft, transfer or unauthorized disclosure of customer, employee or company information or our compliance with information security and privacy laws and regulations in the event of such an incident; successful execution of our information technology strategy; future tobacco or e-cigarette legislation and any other efforts that make purchasing tobacco products more costly or difficult which may hurt our revenues and impact gross margins; efficient and proper allocation of our capital resources; compliance with debt covenants; availability and cost of credit; and changes in interest rates. The Company undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events, new information or future circumstances.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

We are exposed to market risks related to the volatility in the price of crude oil and refined products (primarily gasoline and diesel) used in our operations. These fluctuations can affect our revenues and purchases, as well as the cost of operating, investing and financing activities. We make limited use of derivative instruments to manage certain risks related to commodity prices. The use of derivative instruments for risk management is covered by operating policies and is closely monitored by our middle-office function and the Company’s senior management.

As described in Note 12 “Financial Instruments and Risk Management” in the accompanying audited consolidated financial statements, there were short-term commodity derivative contracts in place at December 31, 2018 to hedge the purchase price of refined products. A 10% increase or decrease in the respective benchmark price of the commodities underlying these derivative contracts would have been immaterial to the Company. Changes in the fair value of these derivative contracts generally offset the changes in the value for an equivalent volume of these products.

For additional information about our use of derivative instruments, see Note 12 “Financial Instruments and Risk Management” in our audited consolidated financial statements for the three year period ended December 31, 2018 included in this Annual Report on Form 10-K.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this item appears on pages F-1 through F-40, which follow the exhibit index of this Annual Report on Form 10-K.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Our management has evaluated, with the participation of our principal executive and financial officers, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective and appropriately allowed for timely decisions regarding required disclosures as of December 31, 2018.

Internal Control over Financial Reporting

The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules that generally require every company that files reports with the SEC to evaluate its effectiveness of internal controls over financial reporting.

Management has conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018. Management's report is included on page F-1 of this Annual Report on Form 10-K. KPMG LLP, an independent registered public accounting firm, has made an independent assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 and their report is included on page F-3 of this Annual Report on Form 10-K.

There were no changes in the Company's internal controls over financial reporting that occurred during the fourth quarter of 2018 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

None

Part III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Certain information regarding executive officers of the Company is included under the caption “Executive Officers of the Registrant” in Part I of this Annual Report on Form 10-K. Other information required by this item is incorporated by reference to the Registrant’s definitive Proxy Statement for the Annual Meeting of Stockholders on May 1, 2019 under the captions “Election of Directors” and “Committees”.

Murphy USA has adopted a Code of Business Conduct and Ethics, which can be found under the Corporate Governance tab at <http://ir.corporate.murphyusa.com>. Stockholders may also obtain free of charge a copy of the Code of Business Conduct and Ethics by writing to the Company’s Secretary at P.O. Box 7300, El Dorado, AR 71730-5836. Any future amendments to or waivers of the Company’s Code of Business Conduct and Ethics will be posted on the Company’s Internet Web site.

Item 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference to Murphy USA’s definitive Proxy Statement for the Annual Meeting of Stockholders on May 1, 2019 under the captions “Compensation Discussion and Analysis” and “Compensation of Directors” and in various compensation schedules.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item is incorporated by reference to Murphy USA’s definitive Proxy Statement for the Annual Meeting of Stockholders on May 1, 2019 under the captions “Security Ownership of Certain Beneficial Owners,” “Security Ownership of Management,” and “Equity Compensation Plan Information.”

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference to Murphy USA’s definitive Proxy Statement for the Annual Meeting of Stockholders on May 1, 2019 under the caption “Review, Approval or Ratification of Transactions with Related Persons.”

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item is incorporated by reference to Murphy USA’s definitive Proxy Statement for the Annual Meeting of Stockholders on May 1, 2019 under the caption “Audit Committee Report.”

Part IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements – The consolidated financial statements of Murphy USA Inc. and consolidated subsidiaries are located or begin on the pages of this Annual Report on Form 10-K as indicated below.

	<u>Page No.</u>
Report of Management - Financial Statements	F-1
Report of Management - Internal Controls	F-1
Report of Independent Registered Public Accounting Firm	F-2
Report of Independent Registered Public Accounting Firm	F-3
Consolidated Balance Sheets	F-4
Consolidated Income Statements	F-5
Consolidated Statements of Cash Flows	F-6
Consolidated Statements of Changes in Equity	F-7
Notes to Consolidated Financial Statements	F-8
Supplemental Quarterly Information (Unaudited)	F-39

2. Financial Statement Schedules

Schedule II – Valuation Accounts and Reserves	F-40
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All other financial statement schedules are omitted because they are either not applicable or the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits – The following is an index of exhibits that are hereby filed as indicated by asterisk (*), that are considered furnished rather than filed, or that are incorporated by reference. Exhibits other than those listed have been omitted since they either are not required or are not applicable.

<u>Exhibit Number</u>	<u>Description</u>
2.1	Separation and Distribution Agreement, dated August 30, 2013, between Murphy Oil Corporation and Murphy USA Inc. (incorporated by reference to Murphy USA's Current Report on Form 8-K filed September 5, 2013)
3.1	Murphy USA Inc. Amended and Restated Certificate of Incorporation (incorporated by reference to Murphy USA's Quarterly Report on Form 10-Q filed November 8, 2013)
3.2	Murphy USA Inc. Amended and Restated Bylaws (incorporated by reference to Murphy USA's Quarterly Report on Form 10-Q filed November 8, 2013)
4.1	Indenture (including form of notes), dated August 14, 2013, among Murphy Oil USA, Inc., as the Issuer, Murphy USA Inc., as a guarantor, the other guarantors party thereto and U.S. Bank National Association, as trustee (incorporated by reference to Murphy USA's Current Report on Form 8-K filed August 16, 2013)
4.2	Registration Rights Agreement, dated August 14, 2013, among Murphy Oil USA, Inc., Murphy USA Inc., certain subsidiaries of Murphy USA Inc. and J.P. Morgan Securities LLC, as representative of the initial purchasers named therein (incorporated by reference to Murphy USA's Current Report on Form 8-K filed August 16, 2013)
4.3	Indenture (including form of notes) dated as of April 25, 2017 among Murphy Oil USA, Inc., Murphy USA Inc., as a guarantor, the other guarantors party thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to Murphy USA's Current Report on Form 8-K filed April 25, 2017)
10.1	Tax Matters Agreement, dated August 30, 2013, between Murphy Oil Corporation and Murphy USA Inc. (incorporated by reference to Murphy USA's Current Report on Form 8-K filed September 5, 2013)
10.2	Trademark License Agreement, dated August 30, 2013, between Murphy Oil Corporation and Murphy USA Inc. (incorporated by reference to Murphy USA's Current Report on Form 8-K filed September 5, 2013)
10.3	Hangar Rental Agreement, dated August 30, 2013, between Murphy Oil Corporation and Murphy USA Inc. (incorporated by reference to Murphy USA's current report on Form 8-K filed September 5, 2013)
10.4	Aircraft Maintenance Labor Pooling Agreement, dated August 30, 2013, between Murphy Oil Corporation and Murphy USA Inc. (incorporated by reference to Murphy USA's Current Report on Form 8-K filed September 5, 2013)
10.5	Airplane Interchange Agreement, dated August 30, 2013, between Murphy Oil Corporation and Murphy USA Inc. (incorporated by reference to Murphy USA's Current Report on Form 8-K filed September 5, 2013)
10.6	Credit Agreement, dated August 30, 2013, among Murphy USA Inc., Murphy Oil USA, Inc., the Borrowing Subsidiaries, the Lenders party thereto and JPMorgan Chase Bank, N.A. (incorporated by reference to Murphy USA's Current Report on Form 8-K filed September 5, 2013)
10.7	Severance Protection Agreement dated as of August 20, 2013 between Murphy USA and R. Andrew Clyde, (incorporated by reference to Murphy USA's Current Report on Form 8-K filed August 22, 2013)†
10.8	Murphy USA Inc. 2013 Long-Term Incentive Plan, as amended and restated effective as of February 9, 2017)† (incorporated by reference to Murphy USA Inc's Annual Report on Form 10-K filed February 22, 2017)
10.9	Form of Murphy USA Inc. 2013 Annual Incentive Plan, as amended and restated effective as of February 12, 2014)†
10.10	Murphy USA Inc. 2013 Stock Plan for Non-Employee Directors (incorporated by reference to Murphy USA's Registration Statement on Form S-8 (File No. 333-191131) filed September 12, 2013)†
10.11*	Murphy USA Inc. Supplemental Executive Retirement Plan, as amended and restated, on October 1, 2018, and effective January 1, 2019 * †
10.12	Form of Murphy USA 2013 Long-Term Incentive Plan Option Grant Agreement (incorporated by reference to Murphy USA's Quarterly Report on Form 10-Q filed November 8, 2013) †

- 10.13 Form of Murphy USA 2013 Long-Term Incentive Plan RSU Agreement (incorporated by reference to Murphy USA's Quarterly Report on Form 10-Q filed November 8, 2013)†
- 10.14 Form of Murphy USA 2013 Long-Term Incentive Plan Performance Share Agreement (incorporated by reference to Murphy USA's Quarterly Report on Form 10-Q filed November 8, 2013)†
- 10.15 Form of Murphy USA 2013 Non-Employee Director Award (incorporated by reference to Murphy USA's Quarterly Report on Form 10-Q filed November 8, 2013) †
- 10.16 Third Amendment, dated as of September 2, 2014, to the Credit Agreement, dated as of August 30, 2013, among Murphy Oil USA, Inc. as borrower, Murphy USA Inc. and certain subsidiaries, and JP Morgan Chase Bank, N.A. as administrative agent and the other lenders party thereto (incorporated by reference to Murphy USA's Quarterly Report on Form 10-Q filed November 6, 2014)
- 10.17 Amended and Restated Credit Agreement, dated as of March 10, 2016 among Murphy Oil USA, Inc., as the borrower, Murphy USA Inc., certain subsidiaries of Murphy Oil USA, Inc., as borrowing subsidiaries, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to Form 8-K as filed on March 16, 2016)
- 10.18 Consulting Agreement with former officer John Corrigan (incorporated by reference to Exhibit 10.1 to Murphy USA's Quarterly Report on Form 10-Q filed May 3, 2018) †
- 10.19 Consulting Agreement with former officer Daryl Schofield (incorporated by reference to Exhibit 10.2 to Murphy USA's Quarterly Report on Form 10-Q filed August 2, 2018) †
- 10.20* Murphy USA Inc. 2019 Annual Incentive Plan, as amended and restated, on February 7, 2019 and effective as of January 1, 2019*†
- 21* List of Subsidiaries of Murphy USA
- 23.1* Consent of KPMG LLP, Independent Registered Public Accounting Firm
- 31.1* Certification required by Rule 13a-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Principal Executive Officer
- 31.2* Certification required by Rule 13a-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Principal Financial Officer
- 32.1* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Principal Executive Officer
- 32.2* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Principal Financial Officer
- 101. INS* XBRL Instance Document
- 101. SCH* XBRL Taxonomy Extension Schema Document
- 101. CAL* XBRL Taxonomy Extension Calculation Linkbase Document
- 101. DEF* XBRL Taxonomy Extension Definition Linkbase Document
- 101. LAB* XBRL Taxonomy Extension Labels Linkbase Document
- 101. PRE* XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith

† Management contract or compensatory plan or arrangement

Item 16. Form 10-K Summary

None.

REPORT OF MANAGEMENT- CONSOLIDATED FINANCIAL STATEMENTS

The management of Murphy USA Inc. is responsible for the preparation and integrity of the accompanying consolidated financial statements and other financial data. The statements were prepared in conformity with U.S. generally accepted accounting principles appropriate in the circumstances and include some amounts based on informed estimates and judgments, with consideration given to materiality.

An independent, registered public accounting firm, KPMG LLP, has audited the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board and provides an objective, independent opinion about the Company's consolidated financial statements. The Audit Committee of the Board of Directors appoints the independent registered public accounting firm; ratification of the appointment is solicited annually from the shareholders. KPMG LLP's opinion covering the Company's consolidated financial statements can be found on page F-2.

The Board of Directors appoints an Audit Committee annually to implement and to support the Board's oversight function of the Company's financial reporting, accounting policies, internal controls and independent registered public accounting firm. This Committee is composed solely of directors who are not employees of the Company. The Committee meets routinely with representatives of management, the Company's internal audit team and the independent registered public accounting firm to review and discuss the adequacy and effectiveness of the Company's internal controls, the quality and clarity of its financial reporting, the scope and results of independent and internal audits, and to fulfill other responsibilities included in the Committee's Charter. The independent registered public accounting firm and the Company's internal audit team have unrestricted access to the Committee, without management presence, to discuss audit findings and other financial matters.

REPORT OF MANAGEMENT – INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). The Company's internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles. All internal control systems have inherent limitations, and therefore, can provide only reasonable assurance with respect to the reliability of financial reporting and preparation of consolidated financial statements.

Management has conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on the results of this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018.

KPMG LLP has performed an audit of the Company's internal control over financial reporting and their opinion thereon can be found on page F-3.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Murphy USA Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Murphy USA Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated income statements, statements of cash flows, and statements of changes in equity for each of the years in the three-year period ended December 31, 2018, and the related notes and financial statement Schedule II (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 19, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.

Shreveport, Louisiana
February 19, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Murphy USA Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Murphy USA Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated income statements, statements of cash flows, and statements of changes in equity for each of the years in the three-year period ended December 31, 2018, and the related notes and financial statement Schedule II (collectively, the consolidated financial statements), and our report dated February 19, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management - Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Shreveport, Louisiana
February 19, 2019

Murphy USA Inc.
Consolidated Balance Sheets

	December 31,	
	2018	2017
<i>(Millions of dollars, except share amounts)</i>		
Assets		
Current assets		
Cash and cash equivalents	\$ 184.5	\$ 170.0
Accounts receivable—trade, less allowance for doubtful accounts of \$1.1 in 2018 and 2017	138.8	225.2
Inventories, at lower of cost or market	221.5	182.5
Prepaid expenses and other current assets	25.3	36.5
Total current assets	570.1	614.2
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$974.2 in 2018 and \$874.7 in 2017	1,748.2	1,679.5
Other assets	42.5	37.3
Total assets	\$ 2,360.8	\$ 2,331.0
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt	\$ 21.2	\$ 19.9
Trade accounts payable and accrued liabilities	456.9	513.4
Total current liabilities	478.1	533.3
Long-term debt, including capitalized lease obligations	842.1	860.9
Deferred income taxes	192.2	154.2
Asset retirement obligations	30.7	28.2
Deferred credits and other liabilities	10.4	16.0
Total liabilities	1,553.5	1,592.6
Stockholders' Equity		
Preferred Stock, par \$0.01, (authorized 20,000,000 shares, none outstanding)	—	—
Common Stock, par \$0.01, (authorized 200,000,000 shares, 46,767,164 shares issued at December 31, 2018 and 2017, respectively)	0.5	0.5
Treasury stock (14,505,681 and 12,675,630 shares held at December 31, 2018 and 2017, respectively)	(940.3)	(806.5)
Additional paid in capital (APIC)	539.0	549.9
Retained earnings	1,208.1	994.5
Total stockholders' equity	807.3	738.4
Total liabilities and stockholders' equity	\$ 2,360.8	\$ 2,331.0

See accompanying notes to consolidated financial statements.

Murphy USA Inc.
Consolidated Income Statements

<i>(Millions of dollars except per share amounts)</i>	Years Ended December 31,		
	2018	2017	2016
Operating Revenues			
Petroleum product sales (a)	\$ 11,858.4	\$ 10,287.9	\$ 9,070.6
Merchandise sales	2,423.0	2,372.7	2,338.6
Other operating revenues	81.5	166.0	185.4
Total operating revenues	<u>14,362.9</u>	<u>12,826.6</u>	<u>11,594.6</u>
Operating Expenses			
Petroleum product cost of goods sold (a)	11,251.1	9,773.2	8,604.0
Merchandise cost of goods sold	2,022.5	1,991.4	1,974.5
Station and other operating expenses	541.3	514.9	493.3
Depreciation and amortization	134.0	116.9	98.6
Selling, general and administrative	136.2	141.2	122.7
Accretion of asset retirement obligations	2.0	1.8	1.6
Total operating expenses	<u>14,087.1</u>	<u>12,539.4</u>	<u>11,294.7</u>
Net settlement proceeds	50.4	—	—
Gain (loss) on sale of assets	(1.1)	(3.9)	88.2
Income from operations	<u>325.1</u>	<u>283.3</u>	<u>388.1</u>
Other income (expense)			
Interest income	1.5	1.3	0.6
Interest expense	(52.9)	(46.7)	(39.7)
Other nonoperating income (expense)	0.2	2.2	3.1
Total other income (expense)	<u>(51.2)</u>	<u>(43.2)</u>	<u>(36.0)</u>
Income before income taxes	<u>273.9</u>	<u>240.1</u>	<u>352.1</u>
Income tax expense (benefit)	<u>60.3</u>	<u>(5.2)</u>	<u>130.6</u>
Net Income	<u>\$ 213.6</u>	<u>\$ 245.3</u>	<u>\$ 221.5</u>
Basic and Diluted Earnings Per Common Share			
Basic	\$ 6.54	\$ 6.85	\$ 5.64
Diluted	\$ 6.48	\$ 6.78	\$ 5.59
Weighted-average shares outstanding (in thousands):			
Basic	32,674	35,816	39,269
Diluted	32,983	36,156	39,646
Supplemental information:			
(a) Includes excise taxes of:	\$ 1,838.9	\$ 1,973.1	\$ 1,961.5

See accompanying notes to consolidated financial statements.

Murphy USA Inc.
Consolidated Statements of Cash Flows

<i>(Millions of dollars)</i>	Years Ended December 31,		
	2018	2017	2016
Operating Activities			
Net income	\$ 213.6	\$ 245.3	\$ 221.5
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	134.0	116.9	98.6
Deferred and noncurrent income tax charges (benefits)	37.9	(50.4)	40.4
Accretion of asset retirement obligations	2.0	1.8	1.6
Pretax (gains) losses from sale of assets	1.1	3.9	(88.2)
Net decrease (increase) in noncash operating working capital	2.3	(36.9)	53.7
Other operating activities - net	7.8	3.0	9.8
Net cash provided by operating activities	398.7	283.6	337.4
Investing Activities			
Property additions	(204.3)	(258.3)	(262.1)
Proceeds from sale of assets	1.2	0.9	85.3
Changes in restricted cash	—	—	68.6
Other investing activities - net	(6.0)	(4.7)	(29.0)
Other	—	—	2.4
Net cash required by investing activities	(209.1)	(262.1)	(134.8)
Financing Activities			
Purchase of treasury stock	(144.4)	(206.0)	(323.3)
Repayments of long-term debt	(21.3)	(131.4)	(20.4)
Additions to long-term debt	—	338.8	200.0
Debt issuance costs	—	(1.1)	(3.2)
Amounts related to share-based compensation	(9.4)	(5.6)	(4.2)
Net cash required by financing activities	(175.1)	(5.3)	(151.1)
Net change in cash and cash equivalents	14.5	16.2	51.5
Cash, cash equivalents, and restricted cash at January 1	170.0	153.8	102.3
Cash, cash equivalents, and restricted cash at December 31	\$ 184.5	\$ 170.0	\$ 153.8
Reconciliation of Cash, Cash Equivalents and Restricted Cash			
Cash and Cash equivalents at beginning of period	\$ 170.0	\$ 153.8	\$ 33.7
Restricted cash at beginning of period	—	—	68.6
Cash, cash equivalents, and restricted cash at beginning of period	\$ 170.0	\$ 153.8	\$ 102.3
Cash and cash equivalents at end of period	\$ 184.5	\$ 170.0	\$ 153.8
Restricted cash at end of period	—	—	—
Cash, cash equivalents, and restricted cash at end of period	\$ 184.5	\$ 170.0	\$ 153.8

See accompanying notes to consolidated financial statements.

Murphy USA Inc.
Consolidated Statements of Changes in Equity

<i>(Millions of dollars, except share amounts)</i>	Common Stock		Treasury Stock	APIC	Retained Earnings	Total
	Shares	Par				
Balance as of December 31, 2015	46,767,164	\$ 0.5	\$ (294.1)	\$ 558.1	\$ 527.7	\$ 792.2
Net income	—	—	—	—	221.5	221.5
Purchase of treasury stock	—	—	(323.3)	—	—	(323.3)
Issuance of common stock	—	—	—	—	—	—
Issuance of treasury stock	—	—	9.4	(9.4)	—	—
Amounts related to share-based compensation	—	—	—	(2.7)	—	(2.7)
Share-based compensation expense	—	—	—	9.3	—	9.3
Balance as of December 31, 2016	46,767,164	0.5	(608.0)	555.3	749.2	697.0
Net income	—	—	—	—	245.3	245.3
Purchase of treasury stock	—	—	(206.0)	—	—	(206.0)
Issuance of common stock	—	—	—	—	—	—
Issuance of treasury stock	—	—	7.5	(7.4)	—	0.1
Amounts related to share-based compensation	—	—	—	(5.6)	—	(5.6)
Share-based compensation expense	—	—	—	7.6	—	7.6
Balance as of December 31, 2017	46,767,164	0.5	(806.5)	549.9	994.5	738.4
Net income	—	—	—	—	213.6	213.6
Purchase of treasury stock	—	—	(144.4)	—	—	(144.4)
Issuance of common stock	—	—	—	—	—	—
Issuance of treasury stock	—	—	10.6	(10.6)	—	—
Amounts related to share-based compensation	—	—	—	(9.4)	—	(9.4)
Share-based compensation expense	—	—	—	9.1	—	9.1
Balance as of December 31, 2018	<u>46,767,164</u>	<u>\$ 0.5</u>	<u>\$ (940.3)</u>	<u>\$ 539.0</u>	<u>\$ 1,208.1</u>	<u>\$ 807.3</u>

See accompanying notes to consolidated financial statements.

Note 1 — Description of Business and Basis of Presentation

The business of Murphy USA Inc. and its subsidiaries ("Murphy USA" or the "Company") primarily consists of the U.S. retail marketing business that was separated from its former parent company, Murphy Oil Corporation ("Murphy Oil"), plus other assets, liabilities and operating expenses of Murphy Oil that were associated with supporting the activities of the U.S. retail marketing operations. Murphy USA was incorporated in March 2013. The separation was approved by the Murphy Oil board of directors on August 7, 2013, and was completed on August 30, 2013 through the distribution of 100% of the outstanding capital stock of Murphy USA to holders of Murphy Oil common stock on the record date of August 21, 2013. Following the separation, Murphy USA is an independent, publicly traded company, and Murphy Oil retains no ownership interest in Murphy USA.

Murphy USA markets refined products through a network of retail gasoline stores and unbranded wholesale customers. Murphy USA's owned retail stores are almost all located in close proximity to Walmart stores in 26 states and use the brand name Murphy USA®. Murphy USA also markets gasoline and other products at standalone stores under the Murphy Express brand. At December 31, 2018, Murphy USA had a total of 1,472 Company stores. The Company also has certain product supply and wholesale assets, including product distribution terminals and pipeline positions.

Note 2 – Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION – These consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and include the accounts of Murphy USA Inc. and its subsidiaries for all periods presented. All significant intercompany accounts and transactions within the consolidated financial statements have been eliminated.

REVENUE RECOGNITION – Revenue is recognized when obligations under the terms of a contract with our customers are satisfied; generally, this occurs with the transfer of control of our petroleum products, convenience merchandise, Renewable Identification Numbers ("RINs") and other assets to our third-party customers. Revenue is measured as the amounts of consideration we expect to receive in exchange for transferring goods or providing services. Excise and sales tax that we collect where we have determined we are the principal in the transaction have been recorded as revenue on a jurisdiction-by-jurisdiction basis.

The Company enters into buy/sell and similar arrangements when petroleum products are held at one location but are needed at a different location. The Company often pays or receives funds related to the buy/sell arrangement based on location or quality differences. The Company accounts for such transactions on a net basis in its Consolidated Income Statements. See Note 3 "Revenues" for additional information.

SHIPPING AND HANDLING COSTS – Costs incurred for the shipping and handling of motor fuel are included in Petroleum product cost of goods sold in the Consolidated Income Statements. Costs incurred for the shipping and handling of convenience store merchandise are included in Merchandise cost of goods sold in the Consolidated Income Statements.

TAXES COLLECTED FROM CUSTOMERS AND REMITTED TO GOVERNMENT AUTHORITIES – Excise and other taxes collected on sales of refined products and remitted to governmental agencies are included in operating revenues and operating expenses in the Consolidated Income Statements. Excise taxes on petroleum products collected and remitted were \$1.8 billion in 2018, \$2.0 billion in 2017, and \$2.0 billion in 2016.

CASH EQUIVALENTS – Short-term investments, which include government securities, money market funds and other instruments with government securities as collateral, that have an original maturity of three months or less from the date of purchase are classified as cash equivalents.

ACCOUNTS RECEIVABLE – The Company's accounts receivable are recorded at the invoiced amount and do not bear interest. The accounts receivable primarily consists of amounts owed to the Company from credit card companies and by customers for wholesale sales of refined petroleum products. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses on these receivables. The Company reviews this allowance for adequacy at least quarterly and bases its assessment on a combination of current information about its customers and historical write-off experience. Any trade accounts receivable balances

Murphy USA Inc.
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written off are charged against the allowance for doubtful accounts. The Company has not experienced any significant credit-related losses in the past three years.

INVENTORIES – Inventories of most finished products are valued at the lower of cost, generally applied on a last-in, first-out (“LIFO”) basis, or market. Any increments to LIFO inventory volumes are valued based on the first purchase price for these volumes during the year. Merchandise inventories held for resale are carried at average cost. Materials and supplies are valued at the lower of average cost or estimated value.

VENDOR ALLOWANCES AND REBATES – Murphy USA receives payments for vendor allowances, volume rebates and other related payments from various suppliers of its convenience store merchandise. Vendor allowances for price markdowns are credited to merchandise cost of goods sold during the period the related markdown is recognized. Volume rebates of merchandise are recorded as reductions to merchandise cost of goods sold when the merchandise qualifying for the rebate is sold. Slotting and stocking allowances received from a vendor are recorded as a reduction to cost of sales over the period covered by the agreement.

PROPERTY, PLANT AND EQUIPMENT – Additions to property, plant and equipment, including renewals and betterments, are capitalized and recorded at cost. Certain marketing facilities are primarily depreciated using the composite straight-line method with depreciable lives ranging from 16 to 25 years. Gasoline stations, improvements to gasoline stations and other assets are depreciated over 3 to 50 years by individual unit on the straight-line method. The Company capitalizes interest costs as a component of construction in progress on individually significant projects based on the weighted average interest rates incurred on its long-term borrowings. Total interest cost capitalized in 2018 was \$2.2 million and \$3.8 million in 2017.

The Company has undertaken like-kind exchange (“LKE”) transactions under the Federal tax code in an effort to acquire and sell real and personal property in a tax efficient manner. The Company generally enters into forward transactions, in which property is sold and the proceeds are reinvested by acquiring similar property; and reverse transactions, in which property is acquired and similar property is subsequently sold. A qualified LKE intermediary is used to facilitate these LKE transactions. Proceeds from forward LKE transactions are held by the intermediary and are classified as restricted cash on the Company's balance sheet because the funds must be reinvested in similar properties. If the acquisition of suitable LKE properties is not completed within 180 days of the sale of the Company-owned property, the proceeds are distributed to the Company by the intermediary and are reclassified as available cash and applicable income taxes are determined. An exchange accommodation titleholder, a type of variable interest entity, is used to facilitate reverse like-kind exchanges. The acquired assets are held by the exchange accommodation titleholder until the exchange transactions are complete. If the Company determines that it is the primary beneficiary of the exchange accommodation titleholder, the replacements assets held by the exchange accommodation titleholder are consolidated and recorded in Property, Plant and Equipment on the Consolidated Balance Sheets. The unspent proceeds that are held in trust with the intermediary are recorded as noncurrent assets in the Consolidated Balance Sheet as the cash was restricted for the acquisition of property, plant and equipment. At December 31, 2018 and December 31, 2017, the Company had no open LKE transactions with an intermediary.

IMPAIRMENT OF ASSETS – Long-lived assets, which include property and equipment and finite-lived intangible assets, are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. A long-lived asset is not recoverable if its carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If a long-lived asset is not recoverable, an impairment loss is recognized for the amount by which the carrying amount of the long-lived asset exceeds its fair value, with fair value determined based on discounted estimated net cash flows or other appropriate methods.

ASSET RETIREMENT OBLIGATIONS – The Company records a liability for asset retirement obligations (“ARO”) equal to the fair value of the estimated cost to retire an asset. The ARO liability is initially recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed in service. The ARO liability is estimated using existing regulatory requirements and anticipated future inflation rates. When the liability is initially recorded, the Company increases the carrying amount of the related long-lived asset by an amount equal to the original liability. The liability is increased over time to reflect the change in its present value, and the capitalized cost is depreciated over the useful life of the related long-lived asset. The Company reevaluates the adequacy of its recorded ARO liability at least annually. Actual costs of asset retirements such as dismantling service stations and site restoration are charged against the related liability. Any difference between costs incurred

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upon settlement of an asset retirement obligation and the recorded liability is recognized as a gain or loss in the Company's Consolidated Income Statements.

ENVIRONMENTAL LIABILITIES – A liability for environmental matters is established when it is probable that an environmental obligation exists and the cost can be reasonably estimated. If there is a range of reasonably estimated costs, the most likely amount will be recorded, or if no amount is most likely, the minimum of the range is used. Related expenditures are charged against the liability. Environmental remediation liabilities have not been discounted for the time value of future expected payments. Environmental expenditures that have future economic benefit are capitalized.

INCOME TAXES – The Company accounts for income taxes using the asset and liability method. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred income taxes are measured using the enacted tax rates that are assumed will be in effect when the differences reverse. The Company routinely assesses the realizability of deferred tax assets based on available positive and negative evidence including assumptions of future taxable income, tax planning strategies and other pertinent factors. A deferred tax asset valuation allowance is recorded when evidence indicates that it is more likely than not that all or a portion of these deferred tax assets will not be realized in a future period. The accounting principles for income tax uncertainties permit recognition of income tax benefits only when they are more likely than not to be realized.

The Company's results of operations were included in the consolidated federal income tax return of Murphy Oil prior to the separation, while in most cases, these results have been included in the various state tax returns of Murphy USA historically. The Company has elected to classify any interest expense and penalties related to the underpayment of income taxes in Income tax expense in the Consolidated Income Statements.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES – The fair value of a derivative instrument is recognized as an asset or liability in the Company's Consolidated Balance Sheets. Upon entering into a derivative contract, the Company may designate the derivative as either a fair value hedge or a cash flow hedge, or decide that the contract is not a hedge, and therefore, recognize changes in the fair value of the contract in earnings. The Company documents the relationship between the derivative instrument designated as a hedge and the hedged items as well as its objective for risk management and strategy for use of the hedging instrument to manage the risk. See Note 12 and Note 15 for further information about the Company's derivatives.

STOCK-BASED COMPENSATION – The fair value of awarded stock options, restricted stock, restricted stock units and performance stock units is determined based on a combination of management assumptions for awards issued. The Company uses the Black-Scholes option pricing model for computing the fair value of stock options. The primary assumptions made by management included the expected life of the stock option award and the expected volatility of the Company's common stock prices. The Company uses both historical data and current information to support its assumptions. Stock option expense is recognized on a straight-line basis over the requisite service period of three years. The Company uses a Monte Carlo valuation model to determine the fair value of performance-based stock units that are based on performance compared against a peer group and the related expense is recognized over the three-year requisite service period. Management estimates the number of all awards that will not vest and adjusts its compensation expense accordingly. Differences between estimated and actual vested amounts are accounted for as an adjustment to expense when known. See Note 10 for a discussion of the basis of allocation of such costs.

USE OF ESTIMATES – In preparing the financial statements of the Company in conformity with U.S. GAAP, management has made a number of estimates and assumptions related to the reporting of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from the estimates. On an ongoing basis, we review our estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

Note 3 – Revenues

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting policies under Topic 605.

There was no material impact to opening retained earnings as a result of adoption of Topic 606 that resulted in a cumulative effect adjustment.

The following tables disaggregates our revenue by major source for the years ended December 31, 2018 and 2017 and 2016.

<i>(Millions of dollars)</i>	Years Ended December 31,		
	2018	2017	2016
Marketing Segment			
Petroleum product sales (at retail) ¹	\$ 10,459.2	\$ 9,041.5	\$ 8,087.4
Petroleum product sales (at wholesale) ¹	1,399.2	1,246.4	980.5
Other Petroleum product sales	—	—	2.7
Total petroleum product sales	11,858.4	10,287.9	9,070.6
Merchandise sales	2,423.0	2,372.6	2,338.6
Other operating revenues:			
RINs	75.2	160.3	181.2
Other revenues ²	5.7	5.4	3.9
Total marketing segment revenues	14,362.3	12,826.2	\$ 11,594.3
Corporate and Other Assets	0.6	0.4	\$ 0.3
Total revenues	<u>\$ 14,362.9</u>	<u>\$ 12,826.6</u>	<u>\$ 11,594.6</u>

¹ Includes excise and sales taxes that remain eligible for inclusion under Topic 606

² Primarily includes collection allowance on excise and sales taxes and other miscellaneous items

The Company adopted ASC Topic 606 as of January 1, 2018 using the modified retrospective method. The impact of the excise and sales taxes collected and remitted to government authorities included in petroleum product sales that would have been recognized under previous revenue recognition guidance would have increased 2018 petroleum product sales (at retail) by \$25.4 million and petroleum product sales (at wholesale) by \$171.2 million for a total increase in petroleum product sales of \$196.5 million.

Marketing segment

Petroleum product sales (at retail). For our retail store locations, the revenue related to petroleum product sales is recognized as the fuel is pumped to our customers. The transaction price at the pump typically includes some portion of sales or excise taxes as levied in the respective jurisdictions. Those taxes that are collected for remittance to governmental entities on a pass through basis are not recognized as revenue and they are recorded to a liability account until they are paid. Our customers typically use a mixture of cash, checks, credit cards and debit cards to pay for our products as they are received. We have accounts receivable from the various credit/debit card providers at any point in time related to product sales made on credit cards and debit cards. These receivables are typically collected in two to seven days, depending on the terms with the particular credit/debit card providers. Payment fees retained by the credit/debit card providers are recorded as station and other operating expenses.

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Petroleum product sales (at wholesale). Our sales of petroleum products at wholesale are generally recorded as revenue when the deliveries have occurred and legal ownership of the product has transferred to the customer. Title transfer for bulk refined product sales typically occurs at pipeline custody points and upon trucks loading at product terminals. For bulk pipeline sales, we record receivables from customers that are generally collected within a week from custody transfer date. For our rack product sales, the majority of our customers' accounts are drafted by us within 10 days from product transfer.

Merchandise sales. For our retail store locations, the revenue related to merchandise sales is recognized as the customer completes their purchase at our locations. The transaction price typically includes some portion of sales tax as levied in the respective jurisdictions. Those taxes that are collected for remittance to governmental entities on a pass through basis are not recognized as revenue and they are recorded to a liability account until they are paid. As noted above, a mixture of payment types are used for these revenues and the same terms for credit/debit card receivables are realized.

The most significant judgment with respect to merchandise sales revenue is determining whether we are the principal or agent for some categories of merchandise such as lottery tickets, lotto tickets, newspapers and other small categories of merchandise. For scratch-off lottery tickets, we have determined we are the principal in the majority of the jurisdictions and therefore we record those sales on a gross basis. We have some categories of merchandise (such as lotto tickets) where we are the agent and the revenues recorded for those transactions are our net commission only.

In June 2018 the Company initiated a loyalty pilot program through a limited number of its retail locations. The customers earn rewards based on their spending or other promotional activities. This program creates a performance obligation which requires us to defer a portion of sales revenue to the loyalty program participants until they redeem their rewards. The rewards may be redeemed for merchandise or cash discounts on fuel purchases. Earned rewards expire after an account is inactive for a period of 90 days. We recognize loyalty revenue when a customer redeems an earned reward. Deferred revenue associated with Murphy Rewards is included in trade accounts payable and accrued liabilities in our consolidated balance sheet. Due to the limited nature of the pilot program and the short amount of time the program has been in effect, the deferred revenues recorded in the year 2018 were immaterial.

RINs sales. For the sale of RINs, we recognize revenue when the RIN is transferred to the counter-party and the sale is completed. Receivables from our counter-parties related to the RIN sales are typically collected within five days of the sale.

Other revenues. Items reported as other operating revenues include collection allowances for excise and sales tax and other miscellaneous items and are recognized as revenue when the transaction is completed.

Accounts receivable

Trade accounts receivable on the balance sheet represents both receivables related to contracts with customers and other trade receivables. At December 31, 2018 and December 31, 2017, we had \$79.4 million and \$145.6 million of receivables, respectively, related to contracts with customers recorded. All of the trade accounts receivable related to contracts with customers outstanding at December 31, 2018 and December 31, 2017 were considered to be short term. These receivables were generally related to credit and debit card transactions along with short term bulk and wholesale sales from our customers, which have a very short settlement window.

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Note 4 — Inventories

Inventories consisted of the following:

<i>(Millions of dollars)</i>	December 31,	
	2018	2017
Finished products - FIFO basis	\$ 219.4	\$ 231.9
Less LIFO reserve - finished products	(115.5)	(167.2)
Finished products - LIFO basis	103.9	64.7
Store merchandise for resale	107.2	104.8
Materials and supplies	10.4	13.0
Total inventories	<u>\$ 221.5</u>	<u>\$ 182.5</u>

At December 31, 2018 and 2017, the replacement cost (market value) of last-in, first-out (LIFO) inventories exceeded the LIFO carrying value by \$115.5 million and \$167.2 million, respectively.

Note 5 – Property, Plant and Equipment

<i>(Millions of dollars)</i>	Estimated Useful Life	December 31, 2018		December 31, 2017	
		Cost	Net	Cost	Net
Land		\$ 591.9	\$ 591.9	\$ 586.5	\$ 586.5
Pipeline and terminal facilities	16 to 25 years	73.1	41.6	72.0	43.0
Retail gasoline stations	3 to 50 years	1,890.6	1,018.5	1,752.6	968.9
Buildings	20 to 45 years	55.0	41.8	54.6	42.9
Other	3 to 20 years	111.8	54.4	88.5	38.2
		<u>\$ 2,722.4</u>	<u>\$ 1,748.2</u>	<u>\$ 2,554.2</u>	<u>\$ 1,679.5</u>

Depreciation expense of \$133 million, \$115 million and \$97 million was recorded for the years ended December 31, 2018, 2017 and 2016, respectively.

Note 6 – Accounts Payable and Accrued Liabilities

Trade accounts payable and accrued liabilities consisted of the following:

<i>(Millions of dollars)</i>	December 31,	
	2018	2017
Trade accounts payable	\$ 274.9	\$ 339.6
Excise taxes/withholdings payable	89.7	89.4
Accrued insurance obligations	21.8	21.4
Accrued taxes other than income	26.6	25.3
Other	43.9	37.7
Accounts payable and accrued liabilities	<u>\$ 456.9</u>	<u>\$ 513.4</u>

Note 7 — Long-Term Debt

Long-term debt consisted of the following:

<i>(Millions of dollars)</i>	December 31,	
	2018	2017
6.00% senior notes due 2023 (net of unamortized discount of \$4.1 at 2018 and \$5.0 at 2017)	\$ 495.9	\$ 495.0
5.625% senior notes due 2027 (net of unamortized discount of \$3.1 at 2018 and \$3.5 at 2017)	296.9	296.5
Term loan due 2020 (effective rate of 5.0% at 2018 and 4.15% at 2017)	72.0	92.0
Capitalized lease obligations, vehicles, due through 2022	2.3	2.4
Unamortized debt issuance costs	(3.8)	(5.1)
Total long-term debt	863.3	880.8
Less current maturities	21.2	19.9
Total long-term debt, net of current	\$ 842.1	\$ 860.9

Senior Notes

On August 14, 2013, Murphy Oil USA, Inc., our primary operating subsidiary, issued 6.00% Senior Notes due 2023 (the "2023 Senior Notes") in an aggregate principal amount of \$500 million. The 2023 Senior Notes are fully and unconditionally guaranteed by Murphy USA, and are guaranteed by certain 100% owned subsidiaries that guarantee our credit facilities. The indenture governing the 2023 Senior Notes contains restrictive covenants that limit, among other things, the ability of Murphy USA, Murphy Oil USA, Inc. and the restricted subsidiaries to incur additional indebtedness or liens, dispose of assets, make certain restricted payments or investments, enter into transactions with affiliates or merge with or into other entities.

On April 25, 2017, Murphy Oil USA, Inc., issued \$300 million of 5.625% Senior Notes due 2027 (the "2027 Senior Notes") under its existing shelf registration statement. The 2027 Senior Notes are fully and unconditionally guaranteed by Murphy USA, and are guaranteed by certain 100% owned subsidiaries that guarantee our credit facilities. The indenture governing the 2027 Senior Notes contains restrictive covenants that are essentially identical to the covenants for the 2023 Senior Notes.

The 2023 and 2027 Senior Notes and the guarantees rank equally with all of our and the guarantors' existing and future senior unsecured indebtedness and effectively junior to our and the guarantors' existing and future secured indebtedness (including indebtedness with respect to the credit facilities) to the extent of the value of the assets securing such indebtedness. The 2023 and 2027 Senior Notes are structurally subordinated to all of the existing and future third-party liabilities, including trade payables, of our existing and future subsidiaries that do not guarantee the notes.

Credit Facilities and Term Loan

On August 30, 2013, we entered into a credit agreement, which provides for a committed \$450 million asset-based loan (ABL) facility (with availability subject to the borrowing base described below) and a \$150 million term facility. It also provided for a \$200 million uncommitted incremental facility. On September 2, 2014, we amended the credit agreement to extend the maturity date to September 2, 2019 and amend the terms of the various covenants. On March 10, 2016, we amended the agreement to extend the effective date of the ABL to March 10, 2021, added a \$200 million term loan facility that was immediately drawn down and is due on March 10, 2020 and requires quarterly principal payments of \$10 million that began July 1, 2016 (now \$5 million per quarter), and reduced the uncommitted incremental facility to \$150 million.

The borrowing base is expected, at any time of determination, to be an amount (net of reserves) equal to the sum of:

- 100% of eligible cash at such time, plus
- 90% of eligible credit card receivables at such time, plus
- 90% of eligible investment grade accounts, plus

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- 85% of eligible other accounts, plus
- 80% of eligible product supply/wholesale refined products inventory at such time, plus
- 75% of eligible retail refined products inventory at such time, plus

the lesser of (i) 70% of the average cost of eligible retail merchandise inventory at such time and (ii) 85% of the net orderly liquidation value of eligible retail merchandise inventory at such time.

The ABL facility includes a \$200 million sublimit for the issuance of letters of credit. Letters of credit issued under the ABL facility reduce availability under the ABL facility.

Interest payable on the credit facilities is based on either:

- the London interbank offered rate, adjusted for statutory reserve requirements (the "Adjusted LIBO Rate"); or
- the Alternate Base Rate, which is defined as the highest of (a) the prime rate, (b) the federal funds effective rate from time to time plus 0.50% per annum and (c) the one-month Adjusted LIBO Rate plus 1.00% per annum,

plus, (A) in the case Adjusted LIBO Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 1.50% to 2.00% per annum depending on a total debt to EBITDA ratio under the ABL facility or (ii) with respect to the term facility, spreads ranging from 2.50% to 2.75% per annum depending on a total debt to EBITDA ratio and (B) in the case of Alternate Base Rate borrowings, (i) with respect to the ABL facility, spreads ranging from 0.50% to 1.00% per annum depending on a total debt to EBITDA ratio under the ABL facility or (ii) with respect to the term facility, spreads ranging from 1.50% to 1.75% per annum depending on a total debt to EBITDA ratio.

The interest rate period with respect to the Adjusted LIBO Rate interest rate option can be set at one-, two-, three-, or six-months as selected by us in accordance with the terms of the credit agreement.

The credit agreement contains certain covenants that limit, among other things, the ability of us and our subsidiaries to incur additional indebtedness or liens, to make certain investments, to enter into sale-leaseback transactions, to make certain restricted payments, to enter into consolidations, mergers or sales of material assets and other fundamental changes, to transact with affiliates, to enter into agreements restricting the ability of subsidiaries to incur liens or pay dividends, or to make certain accounting changes. In addition, the credit agreement requires us to maintain a minimum fixed charge coverage ratio of a minimum of 1.0 to 1.0 when availability for at least three consecutive business days is less than the greater of (a) 17.5% of the lesser of the aggregate ABL facility commitments and the borrowing base and (b) \$70,000,000 (including as of the most recent fiscal quarter end on the first date when availability is less than such amount) as well as a maximum secured debt to EBITDA ratio of 4.5 to 1.0 at any time when term facility commitments or term loans thereunder are outstanding. As of December 31, 2018, our fixed charge coverage ratio was 1.10. Our secured debt to EBITDA ratio as of December 31, 2018 was 0.16 to 1.0.

The credit agreement contains restrictions on certain payments, including dividends, when availability under the credit agreement is less than or equal to the greater of \$100 million and 25% of the lesser of the revolving commitments and the borrowing base and our fixed charge coverage ratio is less than 1.0 to 1.0 (unless availability under the credit agreement is greater than \$100 million and 40% of the lesser of the revolving commitments and the borrowing base). As of December 31, 2018, our ability to make restricted payments was not limited as our fixed charge coverage ratio was greater than 1.0 to 1.0.

All obligations under the credit agreement are guaranteed by Murphy USA and the subsidiary guarantors party thereto, and all obligations under the credit agreement, including the guarantees of those obligations, are secured by certain assets of Murphy USA, Murphy Oil USA, Inc. and the guarantors party thereto.

Note 8 — Asset Retirement Obligations (ARO)

The majority of the ARO recognized by the Company at December 31, 2018 and 2017 related to the estimated costs to dismantle and abandon certain of its retail gasoline stations. The Company has not recorded an ARO for certain of its marketing assets because sufficient information is presently not available to estimate a range of potential settlement dates for the obligation. These assets are consistently being upgraded and are expected to be operational into the foreseeable future. In these cases, the obligation will be initially recognized in the period in which sufficient information exists to estimate the obligation.

A reconciliation of the beginning and ending aggregate carrying amount of the ARO is shown in the following table.

<i>(Millions of dollars)</i>	December 31,	
	2018	2017
Balance at beginning of period	\$ 28.2	\$ 26.2
Accretion expense	2.0	1.8
Settlements of liabilities	(0.3)	(0.3)
Liabilities incurred	0.8	0.5
Balance at end of period	<u>\$ 30.7</u>	<u>\$ 28.2</u>

The estimation of future ARO is based on a number of assumptions requiring professional judgment. The Company cannot predict the type of revisions to these assumptions that may be required in future periods due to the lack of availability of additional information.

Note 9 — Income Taxes

The components of income from continuing operations before income taxes for each of the three years ended December 31, 2018 and income tax expense (benefit) attributable thereto were as follows:

<i>(Millions of dollars)</i>	Years Ended December 31,		
	2018	2017	2016
Income (loss) from continuing operations before income taxes	<u>\$ 273.9</u>	<u>\$ 240.1</u>	<u>\$ 352.1</u>
Income tax expense (benefit)			
Federal - Current	\$ 18.4	39.2	74.9
Federal - Deferred	31.0	(50.7)	38.8
State - Current and deferred	10.9	6.3	16.9
Total	<u>\$ 60.3</u>	<u>\$ (5.2)</u>	<u>\$ 130.6</u>

The following table reconciles income taxes based on the U.S. statutory tax rate to the Company's income tax expense (benefit).

<i>(Millions of dollars)</i>	Years Ended December 31,		
	2018	2017	2016
Income tax expense based on the U.S. statutory tax rate	\$ 57.5	\$ 84.0	\$ 123.2
State income taxes, net of federal benefit	8.3	3.0	11.5
Effect of U.S. tax law change	—	(88.9)	—
Other, net	(5.5)	(3.3)	(4.1)
Total	<u>\$ 60.3</u>	<u>\$ (5.2)</u>	<u>\$ 130.6</u>

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An analysis of the Company's deferred tax assets and deferred tax liabilities at December 31, 2018 and 2017 showing the tax effects of significant temporary differences is as follows:

<i>(Millions of dollars)</i>	December 31,	
	2018	2017
Deferred tax assets		
Property costs and asset retirement obligations	\$ 3.3	\$ 2.8
Employee benefits	6.3	4.4
Other deferred tax assets	2.6	3.5
Total gross deferred tax assets	12.2	10.7
Deferred tax liabilities		
Accumulated depreciation and amortization	(171.6)	(142.1)
State deferred taxes	(25.9)	(18.9)
Other deferred tax liabilities	(6.9)	(3.9)
Total gross deferred tax liabilities	(204.4)	(164.9)
Net deferred tax liabilities	\$ (192.2)	\$ (154.2)

In management's judgment, the net deferred tax assets in the preceding table will more likely than not be realized as reductions of future taxable income or by utilizing available tax planning strategies.

In December 2017, the Tax Cuts and Jobs Act ("the Act") was enacted, which made major changes to the Federal income tax system for corporations and individuals. Two key corporate provisions of the Act that impacted the Company in 2017 were the reduction of the Federal corporate income tax rate from 35% to 21% and the increase of Federal bonus depreciation from 50% to 100% on certain qualifying assets retroactive to September 27, 2017. As a result, the Company calculated the impact of the Act in its year-end income tax provision in accordance with its understanding of the Act and guidance available as of the date of the filing and as a result recorded \$88.9 million as a tax benefit in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional amount related primarily to the remeasurement of certain deferred tax assets and liabilities based on the rates of which they are expected to reverse in the future.

In conjunction with the effectiveness of the Act, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the implications of U.S. GAAP in situations where the registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, the Company made its best estimate and recorded provisional amounts related to certain equity and fixed asset temporary differences based on available information as of December 31, 2017. These amounts were finalized in the fourth quarter of 2018 and with immaterial adjustments being recorded as a component of tax expense.

The Company was included in Murphy Oil's tax returns for the periods prior to separation and include state jurisdictions that are subject to audit by taxing authorities. These audits often take years to complete and settle. As of December 31, 2018, the earliest year remaining open for Federal audit and/or settlement is 2015 and for the states it ranges from 2013-2017. Although the Company believes that recorded liabilities for unsettled issues are adequate, additional gains or losses could occur in future periods from resolution of outstanding unsettled matters.

The FASB's rules for accounting for income tax uncertainties clarify the criteria for recognizing uncertain income tax benefits and require additional disclosures about uncertain tax positions. Under U.S. GAAP the financial statement recognition of the benefit for a tax position is dependent upon the benefit being more likely than not to be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement. Liabilities associated with uncertain income tax positions are included in Deferred Credits and Other Liabilities in the Consolidated Balance Sheets.

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A reconciliation of the beginning and ending amount of the consolidated liability for unrecognized income tax benefits during the year ended December 31, 2018 and 2017 is shown in the following table.

<i>(Millions of dollars)</i>	Year Ended December 31,	
	2018	2017
Balance at January 1	\$ 4.4	\$ 7.9
Additions for tax positions related to prior years	—	4.4
Additions for tax positions related to current year	0.2	—
Settlements with taxing authorities	(3.9)	(5.5)
Expiration of statutes of limitation	—	(2.4)
Balance at December 31	\$ 0.7	\$ 4.4

All additions or reductions to the above liability affect the Company's effective tax rate in the respective period of change. The Company accounts for any applicable interest and penalties on uncertain tax positions as a component of income tax expense. Income tax expense for the years ended December 31, 2018, 2017 and 2016 included interest and penalties of \$(1.6) million, \$0.4 million, and \$1.5 million, respectively, associated with uncertain tax positions.

During the next twelve months, the Company currently expects to add immaterial amounts to the liability for uncertain taxes for 2019 events. Although existing liabilities could be reduced by settlement with taxing authorities or lapse due to statute of limitations, the Company believes that the changes in its unrecognized tax benefits due to these events will not have a material impact on the Consolidated Income Statement during 2019.

We adopted ASU 2016-09 on January 1, 2017, which requires the excess tax benefits or deficiencies to be reflected in the Consolidated Statements of Income as a component of the provision for income taxes whereas they previously were recognized in paid-in-capital. Total excess tax benefits recognized in the twelve months ended December 31, 2018 and 2017 was \$2.5 million and \$2.2 million, respectively.

Note 10 — Incentive Plans

Prior to the separation, our employees participated in the Murphy Oil 2007 Long-Term Incentive Plan (the "2007 Plan") and the Murphy Oil 2012 Long-Term Incentive Plan (the "2012 Plan") and received Murphy Oil restricted stock awards and options to purchase shares of Murphy Oil common stock. While participating in these two plans, costs resulting from share-based payment transactions were allocated and recognized as an expense in the financial statements using a fair value-based measurement method over the periods that the awards vested.

2013 Long-Term Incentive Plan

Effective August 30, 2013, certain of our employees began to participate in the Murphy USA 2013 Long-Term Incentive Plan, which was subsequently amended and restated effective as of February 12, 2014 (the "MUSA 2013 Plan"). The MUSA 2013 Plan authorizes the Executive Compensation Committee of our Board of Directors ("the Committee") to grant non-qualified or incentive stock options, stock appreciation rights, stock awards (including restricted stock and restricted stock unit awards), cash awards, and performance awards to our employees. Prior to the amendment and restatement of the MUSA 2013 Plan on February 12, 2014, 10 million shares of MUSA common stock were authorized to be delivered under the MUSA 2013 Plan over the life of the plan. Pursuant to the amendment and restatement of the plan effective as of February 12, 2014, this was reduced to 5.5 million shares of common stock. No more than 1 million shares of common stock may be awarded to any one employee, subject to adjustment for changes in capitalization. The maximum cash amount payable pursuant to any "performance-based" award to any participant in any calendar year is \$5 million.

In connection with the separation, stock compensation awards granted under the 2007 Plan and the 2012 Plan by Murphy Oil (pre-separation awards) were adjusted or substituted as follows:

- Vested stock options were equitably adjusted so that the grantee holds more options to purchase Murphy Oil common stock at a lower strike price.

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- Unvested stock options and stock appreciation rights held by MUSA employees were replaced with substitute awards of options to purchase shares of MUSA common stock.
- Unvested restricted stock units will be replaced with adjusted, substitute awards for restricted stock units of MUSA common stock. The new awards of restricted stock are intended to generally preserve the intrinsic value of the original award determined as of the separation and distribution date.
- Vesting periods of awards were unaffected by the adjustment and substitution, except that for vested Murphy Oil stock options the MUSA employees have until the earlier of two years from the date of the separation or the stated expiration date of the option to exercise the award.

Awards granted in connection with the adjustment and substitution of awards originally issued under the 2007 Plan and the 2012 Plan are a part of the MUSA 2013 Plan and reduce the maximum number of shares of common stock available for delivery under the MUSA 2013 Plan. During the period from August 30, 2013 to December 31, 2018, the Company granted a total of 2,053,499 awards from the MUSA 2013 Plan which leaves 3,446,501 remaining shares to be granted in future years (after consideration of the amendments made to the MUSA 2013 Plan in February 2014 by the Board of Directors). At present, the Company expects to issue all shares that vest out of existing treasury shares rather than issuing new common shares.

2013 Stock Plan for Non-employee Directors

Effective August 8, 2013, Murphy USA adopted the 2013 Murphy USA Stock Plan for Non-employee Directors (the "Directors Plan"). The directors for Murphy USA are compensated with a mixture of cash payments and equity-based awards. Awards under the Directors Plan may be in the form of restricted stock, restricted stock units, stock options, or a combination thereof. An aggregate of 500,000 shares of common stock shall be available for issuance of grants under the Directors Plan. Since 2013, 110,543 time-based restricted stock units have been granted under the terms of the Directors Plan which leaves 389,457 shares available to be granted in the future.

Amounts recognized in the financial statements by the Company with respect to all share-based plans are shown in the following table. All expense prior to August 30, 2013 was incurred under the 2007 Plan and the 2012 Plan while all amounts after August 30, 2013 were incurred in the MUSA 2013 Plan and the Directors Plan.

<i>(Millions of dollars)</i>	2018	December 31, 2017	2016
Compensation charged against income before income tax benefit	\$ 9.2	\$ 7.5	\$ 9.3
Related income tax benefit recognized in income	\$ 1.9	\$ 2.6	\$ 3.3

As of December 31, 2018, there was \$12.2 million in compensation costs to be expensed over approximately the next 1.7 years related to unvested share-based compensation arrangements granted by the Company. Employees who have stock options are required to net settle their options in shares, after applicable statutory withholding taxes are considered, upon each stock option exercise. Therefore, no cash is received upon exercise. Total income tax benefits realized from tax deductions related to stock option exercises under share-based payment arrangements were \$2.1 million, \$0.6 million, and \$1.6 million for the years ended December 31, 2018, 2017, and 2016, respectively.

STOCK OPTIONS – The Committee fixes the option price of each option granted at no less than fair market value (FMV) on the date of the grant and fixes the option term at no more than 7 years from such date. Each option granted through December 31, 2013 under the MUSA 2013 Plan was nonqualified and was issued to replace awards of Murphy Oil that were previously granted to employees of the Company prior to the separation from Murphy Oil. The remaining term of each option granted mirrored the remaining term of the original award that it replaced and the exercise price was adjusted based on the terms of the Employee Matters Agreement entered into between the Company and Murphy Oil in connection with the separation. Post separation in 2013, the only awards issued were to replace the unvested awards of Murphy Oil that were forfeited in conjunction with the separation. Therefore, the accounting for those awards was a continuation of the Murphy Oil fair value that was previously calculated using the Black-Scholes pricing model and used the following original assumptions to calculate the fair value used for expense purposes.

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Following are the assumptions used originally by Murphy Oil to value the original awards.

	Years Ended December 31,
	2012 and 2011
Fair value per option grant	12.37 - 20.34
Assumptions	
Dividend yield	1.80% - 2.27%
Expected volatility	37.00% - 39.62%
Risk-free interest rate	0.55% - 2.10%
Expected life	4.00 yrs. - 5.20 yrs.

As a result of the separation from Murphy Oil, the unvested Murphy Oil options were replaced with an appropriate number of Company options bearing an exercise price that was adjusted to preserve the intrinsic value near the date of the separation in connection with the terms of the Employee Matters Agreement. The grant date fair values of the options replaced with MUSA 2013 Plan awards ranged from \$32.53 to \$40.25. Because of these adjustments, no further Black-Scholes fair values were required to be calculated for the post separation period. The adjustment and substitution of the stock compensation awards occurred in conjunction with the distribution of MUSA common stock to Murphy Oil stockholders. As a result, no grant, exercise, or cancellation activity occurred on MUSA stock compensation awards during the year ended December 31, 2013.

In February 2018, the Committee granted nonqualified stock options to certain employees of the Company. Following are the assumptions used by the Company to value the original awards:

	Year Ended December 31,		
	2018	2017	2016
Fair value per option grant	\$ 17.32	\$ 15.45	\$ 16.08
Assumptions			
Dividend yield	—	—	—
Expected volatility	27.0%	26.0%	26.1%
Risk-free interest rate	2.43%	1.65%	1.26%
Expected life	3.9 years	4.2 years	5.7 years

Changes in options outstanding for Company employees during the period from December 31, 2015 to December 31, 2018 are presented in the following table:

	Number of Shares	Average Exercise Price
Outstanding at December 31, 2015	465,756	\$ 42.22
Granted at FMV	96,500	59.11
Vested and issued	(126,969)	34.48
Forfeited	(14,350)	58.28
Outstanding at December 31, 2016	420,937	47.88
Granted at FMV	114,800	65.75
Exercised	(43,887)	37.41
Forfeited	(25,950)	63.63
Outstanding at December 31, 2017	465,900	52.39
Granted at FMV	97,600	71.07
Exercised	(220,938)	39.48
Forfeited	(32,200)	69.21
Outstanding at December 31, 2018	310,362	\$ 65.71
Exercisable at December 31, 2016	218,937	\$ 38.32
Exercisable at December 31, 2017	254,375	\$ 42.80
Exercisable at December 31, 2018	100,662	\$ 64.17

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Additional information about stock options outstanding at December 31, 2018 is shown below:

Range of Exercise Prices per Option	Options Outstanding			Options Exercisable		
	No. of Options	Avg. Life Remaining in Years	Aggregate Intrinsic Value	No. of Options	Avg. Life Remaining in Years	Aggregate Intrinsic Value
\$32.53 to \$39.99	7,062	3.2	\$ 280,472	7,062	3.2	\$ 280,472
\$40.00 to \$59.99	74,800	4.1	1,311,244	35,500	4.1	622,315
\$60.00 to \$69.99	94,000	5.1	1,023,660	—	0.0	—
\$70.00 to \$79.99	134,500	4.8	776,363	58,100	3.0	352,667
	<u>310,362</u>	4.7	<u>\$ 3,391,739</u>	<u>100,662</u>	3.4	<u>\$ 1,255,454</u>

RESTRICTED STOCK UNITS (MUSA 2013 Plan) – The Committee has granted time based restricted stock units (RSUs) as part of the compensation plan for its executives and certain other employees since its inception. During 2018, the Committee granted time-based restricted stock units to certain employees and the weighted average grant date fair value was determined to be \$71.91 per unit. These awards were granted under the MUSA 2013 Plan and vest over 3 years. Changes in restricted stock units outstanding for Company employees during the period from December 31, 2015 to December 31, 2018 are presented in the following table:

<i>(Number of units)</i>	Employee RSU's
Outstanding at December 31, 2015	356,300
Granted at FMV	74,325
Vested and issued	(142,392)
Forfeited	(18,888)
Outstanding at December 31, 2016	269,345
Granted at FMV	111,471
Vested and issued	(60,688)
Forfeited	(61,112)
Outstanding at December 31, 2017	259,016
Granted FMV	69,179
Vested and issued	(96,815)
Forfeited	(37,902)
Outstanding at December 31, 2018	193,478

PERFORMANCE-BASED RESTRICTED STOCK UNITS (MUSA 2013 Plan) – In February 2018, the Committee awarded performance-based restricted stock units (performance units) to certain employees. Half of the performance units vest based on a 3-year return on average capital employed (ROACE) calculation and the other half vest based on a 3-year total shareholder return (TSR) calculation that compares MUSA to a group of 16 peer companies. The portion of the awards that vest based on TSR qualify as a market condition and must be valued using a Monte Carlo valuation model. For the TSR portion of the awards, the fair value was determined to be \$87.60 per unit. For the ROACE portion of the awards, the valuation was based on the grant date fair value of \$71.00 per unit and the number of awards will be periodically assessed to determine the probability of vesting.

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Changes in performance-based restricted stock units outstanding for Company employees during the period from December 31, 2015 to December 31, 2018 are presented in the following table:

<i>(Number of units)</i>	Employee PSU's
Outstanding at December 31, 2015	102,394
Granted	53,300
Vested and issued	—
Forfeited	(7,954)
Outstanding at December 31, 2016	147,740
Granted	53,800
Vested and issued	(60,816)
Forfeited	(16,000)
Outstanding at December 31, 2017	124,724
Granted	66,284
Vested and issued	(51,296)
Forfeited	(15,300)
Outstanding at December 31, 2018	124,412

RESTRICTED STOCK UNITS (Directors Plan) – The Committee has also granted time based RSUs to the non-employee directors of the Company as part of their overall compensation package for being a member of the Board of Directors and the grant fair value was \$69.42 per unit. These awards typically vest at the end of three years. Changes in restricted stock units outstanding for Company non-employee directors during the period from December 31, 2015 to December 31, 2018 are presented in the following table:

<i>(Number of units)</i>	Director RSU's
Outstanding at December 31, 2015	63,774
Granted at FMV	19,900
Vested and issued	(34,332)
Forfeited	—
Outstanding at December 31, 2016	49,342
Granted at FMV	15,948
Vested and issued	(19,944)
Forfeited	—
Outstanding at December 31, 2017	45,346
Granted at FMV	10,921
Vested and issued	(15,250)
Forfeited	—
Outstanding at December 31, 2018	41,017

Note 11 — Employee and Retiree Benefit Plans

THRIFT PLAN – At the time of the spin-off, Murphy USA set up a new qualified defined contribution plan for full-time employees with an asset transfer from the Murphy Oil defined contribution plan. Most full-time employees of the Company may participate in savings plans by contributing up to a specified percentage of their base pay. The Company matches contributions at 100% of each employee's contribution with a maximum match of 6%. In addition, the Company makes profit sharing contributions on an annual basis. Eligible employees receive a stated percentage of their base and incentive pay of 5%, 7%, or 9% determined on a formula that is based on a combination of age and years of service. The Company's combined expenses related for this plan were \$9.7 million in 2018, \$12.1 million in 2017 and \$10.5 million in 2016.

PROFIT SHARING PLAN – Eligible part-time employees may participate in the Company’s noncontributory profit sharing plan. Each year, the Company may make a discretionary employer contribution in an amount determined and authorized at the discretion of the Board of Directors. Eligible employees receive an allocation based on their compensation earned for the year the contribution is allocated. The Company’s expenses related to this plan were \$(0.8) million in 2018, \$2.2 million in 2017 and \$1.8 million in 2016.

Note 12 — Financial Instruments and Risk Management

DERIVATIVE INSTRUMENTS — The Company makes limited use of derivative instruments to manage certain risks related to commodity prices. The use of derivative instruments for risk management is covered by operating policies and is closely monitored by the Company’s senior management. The Company does not hold any derivatives for speculative purposes and it does not use derivatives with leveraged or complex features. Derivative instruments are traded primarily with creditworthy major financial institutions or over national exchanges such as the New York Mercantile Exchange (“NYMEX”). As of December 31, 2018, all current derivative activity is immaterial.

At December 31, 2018 and 2017 cash deposits of \$1.0 million and \$2.7 million, respectively, related to commodity derivative contracts were reported in Prepaid expenses and other current assets in the Consolidated Balance Sheets. These cash deposits have not been used to reduce the reported net liabilities on the derivative contracts at December 31, 2018 and 2017.

Note 13 – Earnings Per Share

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average of common shares outstanding during the period. Diluted earnings per common share adjusts basic earnings per common share for the effects of stock options and restricted stock in the periods where such items are dilutive.

On August 30, 2013, 46,743,316 shares of our common stock were distributed to the shareholders of Murphy Oil in connection with the separation. For comparative purposes, we have assumed this amount to be outstanding as of the beginning of each prior period prior to the separation presented in the calculation of weighted average shares outstanding.

During May 2014, the Company authorized a share repurchase program that was approved by the Board of Directors for approximately \$50 million worth of common stock of the Company. At the completion of this program, the Company had acquired 1,040,636 shares of common stock for an average price of \$48.07 per share including brokerage fees. In October 2014, the Company announced a \$250 million share repurchase program that was completed prior to the end of 2015. In this repurchase, 4,196,349 shares were repurchased for an average price of \$59.58 per share.

On January 25, 2016, the Company announced that it would proceed with an independent growth plan in which we will concentrate on acquiring land from third parties rather than acquiring land directly from Walmart. In conjunction with this announcement, the Board of Directors approved a strategic allocation of capital for the Company to pursue new additional growth opportunities and to undertake a share repurchase program of the Company’s common stock. The Board authorized up to \$500 million in total for the two capital programs through December 31, 2017. For the year ended December 31, 2017, the Company acquired 2,586,190 shares of common stock for an average price of \$68.34 per share including brokerage fees which included completion of the \$500 million repurchase program. Based on market conditions and other factors, the Company repurchased an additional 379,054 common shares for \$29 million, with an average price of \$77.20, during the fourth quarter of 2017. Upon completion of the most recent repurchase plan authorized by the Murphy USA Inc. Board of Directors in December 2017, the Company remains committed to share repurchases under quarterly allocations in line with its past practice, subject to market conditions and cash availability. During 2018 the Company acquired 1,994,632 common shares for \$144.4 million, with an average price of \$72.39 per share including brokerage fees.

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The following table provides a reconciliation of basic and diluted earnings per share computations for the years ended December 31, 2018, 2017 and 2016 (in millions, except per share amounts):

<i>(Millions of dollars except per share amounts)</i>	Years ended December 31,		
	2018	2017	2016
Earnings per common share:			
Net income per share - basic			
Net income attributable to common stockholders	\$ 213.6	\$ 245.3	\$ 221.5
Weighted average common shares outstanding (in thousands)	32,674	35,816	39,269
Earnings per common share	\$ 6.54	\$ 6.85	\$ 5.64
Earnings per common share - assuming dilution:			
Net income per share - diluted			
Net income attributable to common stockholders	\$ 213.6	\$ 245.3	\$ 221.5
Weighted average common shares outstanding (in thousands)	32,674	35,816	39,269
Common equivalent shares:			
Share-based awards	309	340	377
Weighted average common shares outstanding - assuming dilution (in thousands)	32,983	36,156	39,646
Earnings per common share assuming dilution	\$ 6.48	\$ 6.78	\$ 5.59

We have excluded from the earnings-per-share calculation certain stock options and shares that are considered to be anti-dilutive under the treasury stock method. For the reported periods, the number of time-based restrictive stock units, performance based units and non-qualified stock options that are excluded due to their anti-dilutive nature is immaterial.

Note 14 — Other Financial Information

CASH FLOW DISCLOSURES — Cash income taxes paid (collected), net of refunds, were \$17.4 million, \$51.7 million and \$70.8 million for the three years ended December 31, 2018, 2017 and 2016, respectively. Interest paid, net of amounts capitalized, was \$50.4 million, \$41.5 million and \$37.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

CHANGES IN WORKING CAPITAL -

<i>(Millions of dollars)</i>	2018	2017	2016
Accounts receivable	\$ 86.6	\$ (41.7)	\$ (47.2)
Inventories	(39.0)	(16.3)	2.1
Prepaid expenses and other current assets	11.4	(5.2)	13.7
Accounts payable and accrued liabilities	(56.7)	26.9	83.4
Income taxes payable	—	(0.6)	1.7
Net decrease (increase) in noncash operating working capital	\$ 2.3	\$ (36.9)	\$ 53.7

Note 15 — Assets and Liabilities Measured at Fair Value

The Company carries certain assets and liabilities at fair value in its Consolidated Balance Sheets. The fair value hierarchy is based on the quality of inputs used to measure fair value, with Level 1 being the highest quality and Level 3 being the lowest quality. Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

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Level 2 inputs are observable inputs other than quoted prices included within Level 1. Level 3 inputs are unobservable inputs which reflect assumptions about pricing by market participants.

At the balance sheet date, the fair value of derivatives contracts was determined using NYMEX quoted values but were immaterial. The carrying value of the Company's Cash and cash equivalents, Accounts receivable-trade, and Trade accounts payable and accrued liabilities approximates fair value.

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at December 31, 2018 and 2017. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The table excludes Cash and cash equivalents, Accounts receivable-trade, and Trade accounts payable and accrued liabilities, all of which had fair values approximating carrying amounts. The fair value of Current and Long-term debt was estimated based on rates offered to the Company at that time for debt of the same maturities. The Company has off-balance sheet exposures relating to certain financial guarantees and letters of credit. The fair value of these, which represents fees associated with obtaining the instruments, was nominal.

<i>(Millions of dollars)</i>	December 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Current and long-term debt	\$ (863.3)	\$ (866.7)	\$ (880.8)	\$ (904.9)

Note 16 – Commitments

The Company leases land, gasoline stations, and other facilities under operating leases. During the next five years, expected future rental payments under all operating leases are approximately \$13.7 million in 2019, \$13.3 million in 2020, \$12.5 million in 2021, \$11.7 million in 2022, and \$11.1 million in 2023. Rental expense for noncancelable operating leases, including contingent payments when applicable, was \$15.2 million in 2018, \$14.0 million in 2017 and \$23.2 million in 2016.

Commitments for capital expenditures were approximately \$240.5 million at December 31, 2018, including \$219.5 million approved for potential construction of future Murphy USA and Murphy Express gasoline stations (including land) at year-end, along with \$15.4 million for improvements of existing stations, to be financed with our operating cash flow and/or incurrence of indebtedness.

The Company has certain take-or-pay contracts primarily to supply our terminals with a noncancelable remaining term of 2.7 years. At December 31, 2018, our minimum annual payments under our take-or-pay contracts are estimated to be \$7.9 million in 2019, \$7.9 million in 2020 and \$4.9 million in 2021.

Note 17 — Contingencies

The Company's operations and earnings have been and may be affected by various forms of governmental action. Examples of such governmental action include, but are by no means limited to: tax increases and retroactive tax claims; import and export controls; price controls; allocation of supplies of crude oil and petroleum products and other goods; laws and regulations intended for the promotion of safety and the protection and/or remediation of the environment; governmental support for other forms of energy; and laws and regulations affecting the Company's relationships with employees, suppliers, customers, stockholders and others. Because governmental actions are often motivated by political considerations, may be taken without full consideration of their consequences, and may be taken in response to actions of other governments, it is not practical to attempt to predict the likelihood of such actions, the form the actions may take or the effect such actions may have on the Company.

ENVIRONMENTAL MATTERS AND LEGAL MATTERS — Murphy USA is subject to numerous federal, state and local laws and regulations dealing with the environment. Violation of such environmental laws, regulations and permits can result in the imposition of significant civil and criminal penalties, injunctions and other sanctions. A discharge of hazardous substances into the environment could, to the extent such event is not insured, subject the Company to substantial expense, including both the cost to comply with applicable regulations and claims by

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neighboring landowners and other third parties for any personal injury, property damage and other losses that might result.

The Company currently owns or leases, and has in the past owned or leased, properties at which hazardous substances have been or are being handled. Although the Company believes it has used operating and disposal practices that were standard in the industry at the time, hazardous substances may have been disposed of or released on or under the properties owned or leased by the Company or on or under other locations where they have been taken for disposal. In addition, many of these properties have been operated by third parties whose management of hazardous substances was not under the Company's control. Under existing laws, the Company could be required to remediate contaminated property (including contaminated groundwater) or to perform remedial actions to prevent future contamination. Certain of these contaminated properties are in various stages of negotiation, investigation, and/or cleanup, and the Company is investigating the extent of any related liability and the availability of applicable defenses. With the sale of the U.S. refineries in 2011, Murphy Oil retained certain liabilities related to environmental matters. Murphy Oil also obtained insurance covering certain levels of environmental exposures. With respect to the previously owned refinery properties, Murphy Oil retained those liabilities in the Separation and Distribution agreement that was entered into related to the separation on August 30, 2013. With respect to any remaining potential liabilities, the Company believes costs related to these sites will not have a material adverse effect on Murphy USA's net income, financial position or liquidity in a future period.

Certain environmental expenditures are likely to be recovered by the Company from other sources, primarily environmental funds maintained by certain states. Since no assurance can be given that future recoveries from other sources will occur, the Company has not recorded a benefit for likely recoveries at December 31, 2018, however certain jurisdictions provide reimbursement for these expenses which have been considered in recording the net exposure. The U.S. Environmental Protection Agency (EPA) currently considers the Company a Potentially Responsible Party (PRP) at one Superfund site. As to the site, the potential total cost to all parties to perform necessary remedial work at this site may be substantial. However, based on current negotiations and available information, the Company believes that it is a de minimis party as to ultimate responsibility at the Superfund site. Accordingly, the Company has not recorded a liability for remedial costs at the Superfund site at December 31, 2018. The Company could be required to bear a pro rata share of costs attributable to nonparticipating PRPs or could be assigned additional responsibility for remediation at this site or other Superfund sites. The Company believes that its share of the ultimate costs to clean-up this site will be immaterial and will not have a material adverse effect on its net income, financial position or liquidity in a future period.

Based on information currently available to the Company, the amount of future remediation costs to be incurred to address known contamination sites is not expected to have a material adverse effect on the Company's future net income, cash flows or liquidity. However, there is the possibility that additional environmental expenditures could be required to address contamination, including as a result of discovering additional contamination or the imposition of new or revised requirements applicable to known contamination.

Murphy USA is engaged in a number of other legal proceedings, all of which the Company considers routine and incidental to its business. Based on information currently available to the Company, the ultimate resolution of those other legal matters is not expected to have a material adverse effect on the Company's net income, financial condition or liquidity in a future period.

The Company was contacted by the State of Mississippi to settle alleged violations of the state's Petroleum Underground Storage Tank system requirements at several of the Company's facilities. We have settled this matter with the state's Department of Environmental Quality and paid a civil penalty in June 2018 of \$0.1 million. The resolution of this matter did not have a material impact on our results of operations or financial condition.

INSURANCE — The Company maintains insurance coverage at levels that are customary and consistent with industry standards for companies of similar size. Murphy USA maintains statutory workers compensation insurance with a deductible of \$1.0 million per occurrence, general liability insurance with a deductible of \$3.0 million per occurrence, and auto liability insurance with a deductible of \$0.3 million per occurrence. As of December 31, 2018, there were a number of outstanding claims that are of a routine nature. The estimated incurred but unpaid liabilities relating to these claims are included in Trade account payables and accrued liabilities on the Consolidated Balance Sheets. While the ultimate outcome of these claims cannot presently be determined, management believes that the accrued liability of \$19.8 million will be sufficient to cover the related liability and that the ultimate disposition of these claims will have no material effect on the Company's financial position and results of operations.

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The Company has obtained insurance coverage as appropriate for the business in which it is engaged, but may incur losses that are not covered by insurance or reserves, in whole or in part, and such losses could adversely affect our results of operations and financial position.

TAX MATTERS — Murphy USA is subject to extensive tax liabilities imposed by multiple jurisdictions, including income taxes, indirect taxes (excise/duty, sales/use and gross receipts taxes), payroll taxes, franchise taxes, withholding taxes and ad valorem taxes. New tax laws and regulations and changes in existing tax laws and regulations are continuously being enacted or proposed that could result in increased expenditures for tax liabilities in the future. Many of these liabilities are subject to periodic audits by the respective taxing authority. Subsequent changes to our tax liabilities because of these audits may subject us to interest and penalties.

OTHER MATTERS — In the normal course of its business, the Company is required under certain contracts with various governmental authorities and others to provide financial guarantees or letters of credit that may be drawn upon if the Company fails to perform under those contracts. At December 31, 2018, the Company had contingent liabilities of \$16.1 million on outstanding letters of credit. The Company has not accrued a liability in its balance sheet related to these financial guarantees and letters of credit because it is believed that the likelihood of having these drawn is remote.

Note 18 — Recent Accounting and Reporting Rules

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 amends the existing accounting standards for lease accounting by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under current GAAP. ASU 2016-02 requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach and early adoption is permitted. The Company will adopt ASU 2016-02 January 1, 2019 using the modified retrospective transition approach, including certain practical expedients, and is in the process of implementing changes to its systems and processes in conjunction with its review of lease agreements. We have implemented a third-party software solution to assist with the accounting under the new standard and are nearing completion of our testing and optimization of the system. The Company is also finalizing procedures to validate the completeness of its inventory of arrangements that meet the new definition of an operating lease, in parallel to documenting internal policy decisions and permitted elections. The most significant change at the date of adoption will be the recognition of both right-of-use assets and deferred lease liabilities of between \$100-\$115 million on its balance sheet primarily for existing real estate operating leases as well as additional required disclosures.

Note 19 — Business Segments

Our operations include the sale of retail motor fuel products and convenience merchandise along with the wholesale and bulk sale capabilities of our product supply and wholesale group. As the primary purpose of the product supply and wholesale group is to support our retail operations and provide fuel for their daily operation, the bulk and wholesale fuel sales are secondary to the support functions played by these groups. As such, they are all treated as one segment for reporting purposes as they sell the same products. This Marketing segment contains essentially all of the revenue generating activities of the Company. Results not included in the reportable segment include Corporate and Other Assets. The reportable segment was determined based on information reviewed by the Chief Operating Decision Maker.

Segment Information <i>(Millions of dollars)</i>	Marketing	Corporate and Other Assets	Consolidated
Year ended December 31, 2018			
Segment income (loss)	\$ 214.2	(0.6)	\$ 213.6
Revenues from external customers	14,362.3	0.6	14,362.9
Interest income	—	1.5	1.5
Interest expense	(0.1)	(52.8)	(52.9)
Income tax expense (benefit)	69.5	(9.2)	60.3
Significant noncash charges (credits)			
Depreciation and amortization	124.5	9.5	134.0
Accretion of asset retirement obligations	2.0	—	2.0
Deferred and noncurrent income taxes (benefits)	39.0	(1.1)	37.9
Additions to property, plant and equipment	169.2	24.6	193.8
Total assets at year-end	\$ 2,012.0	348.8	\$ 2,360.8
Year ended December 31, 2017			
Segment income (loss)	\$ 295.3	(50.0)	\$ 245.3
Revenues from external customers	12,826.2	0.4	12,826.6
Interest income	—	1.3	1.3
Interest expense	(0.1)	(46.6)	(46.7)
Income tax expense (benefit)	(2.9)	(2.3)	(5.2)
Significant noncash charges (credits)			
Depreciation and amortization	110.5	6.4	116.9
Accretion of asset retirement obligations	1.8	—	1.8
Deferred and noncurrent income taxes (benefits)	(61.3)	10.9	(50.4)
Additions to property, plant and equipment	234.0	39.7	273.7
Total assets at year-end	\$ 2,023.4	307.6	\$ 2,331.0
Year ended December 31, 2016			
Segment income (loss)	\$ 249.8	(28.3)	\$ 221.5
Revenues from external customers	11,594.3	0.3	11,594.6
Interest income	—	0.6	0.6
Interest expense	(0.1)	(39.6)	(39.7)
Income tax expense (benefit)	147.2	(16.6)	130.6
Significant noncash charges (credits)			
Depreciation and amortization	92.2	6.4	98.6
Accretion of asset retirement obligations	1.6	—	1.6
Deferred and noncurrent income taxes (benefits)	51.3	(10.9)	40.4
Additions to property, plant and equipment	239.1	24.8	263.9
Total assets at year-end	\$ 1,858.0	230.7	\$ 2,088.7

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Note 20 – Guarantor Subsidiaries

Certain of the Company's 100% owned, domestic subsidiaries (the "Guarantor Subsidiaries") fully and unconditionally guarantee, on a joint and several basis, certain of the outstanding indebtedness of the Company, including the 6.00% senior notes due 2023 and the 5.625% senior notes due 2027. The following consolidating schedules present financial information on a consolidated basis in conformity with the SEC's Regulation S-X Rule 3-10(d):

CONSOLIDATING BALANCE SHEET

(Millions of dollars)

December 31, 2018

Assets	Parent Company	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Current assets						
Cash and cash equivalents	\$ —	\$ 184.0	\$ 0.5	\$ —	\$ —	\$ 184.5
Accounts receivable—trade, less allowance for doubtful accounts of \$1.1 in 2018	—	138.8	—	—	—	138.8
Inventories, at lower of cost or market	—	221.5	—	—	—	221.5
Prepaid expenses and other current assets	—	25.1	0.2	—	—	25.3
Total current assets	—	569.4	0.7	—	—	570.1
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$974.2 in 2018	—	1,745.9	2.3	—	—	1,748.2
Investments in subsidiaries	2,437.0	144.4	—	—	(2,581.4)	—
Other assets	—	42.5	—	—	—	42.5
Total assets	<u>\$ 2,437.0</u>	<u>\$ 2,502.2</u>	<u>\$ 3.0</u>	<u>\$ —</u>	<u>\$ (2,581.4)</u>	<u>\$ 2,360.8</u>
Liabilities and Stockholders' Equity						
Current liabilities						
Current maturities of long-term debt	\$ —	\$ 21.2	\$ —	\$ —	\$ —	\$ 21.2
Inter-company accounts payable	(0.1)	203.0	(48.6)	(154.3)	—	—
Trade accounts payable and accrued liabilities	—	456.9	—	—	—	456.9
Total current liabilities	(0.1)	681.1	(48.6)	(154.3)	—	478.1
Long-term debt, including capitalized lease obligations	—	842.1	—	—	—	842.1
Deferred income taxes	—	192.2	—	—	—	192.2
Asset retirement obligations	—	30.7	—	—	—	30.7
Deferred credits and other liabilities	—	10.4	—	—	—	10.4
Total liabilities	(0.1)	1,756.5	(48.6)	(154.3)	—	1,553.5
Stockholders' Equity						
Preferred Stock, par \$0.01 (authorized 20,000,000 shares, none outstanding)	—	—	—	—	—	—
Common Stock, par \$0.01 (authorized 200,000,000 shares, 46,767,164 shares issued at December 31, 2018)	0.5	—	0.1	—	(0.1)	0.5
Treasury stock (14,505,681 shares held at December 31, 2018)	(940.3)	—	—	—	—	(940.3)
Additional paid in capital (APIC)	1,195.1	572.8	52.0	87.5	(1,368.4)	539.0
Retained earnings	2,181.8	172.9	(0.5)	66.8	(1,212.9)	1,208.1
Total stockholders' equity	2,437.1	745.7	51.6	154.3	(2,581.4)	807.3
Total liabilities and stockholders' equity	<u>\$ 2,437.0</u>	<u>\$ 2,502.2</u>	<u>\$ 3.0</u>	<u>\$ —</u>	<u>\$ (2,581.4)</u>	<u>\$ 2,360.8</u>

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING BALANCE SHEET

(Millions of dollars)

December 31, 2017

Assets	Parent Company	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Current assets						
Cash and cash equivalents	\$ —	\$ 169.9	\$ 0.1	\$ —	\$ —	\$ 170.0
Accounts receivable—trade, less allowance for doubtful accounts of \$1.1 in 2017	—	225.2	—	—	—	225.2
Inventories, at lower of cost or market	—	182.5	—	—	—	182.5
Prepaid expenses and other current assets	—	36.5	—	—	—	36.5
Total current assets	—	614.1	0.1	—	—	614.2
Property, plant and equipment, at cost less accumulated depreciation and amortization of \$874.7 in 2017	—	1,678.3	1.2	—	—	1,679.5
Investments in subsidiaries	2,223.4	144.9	—	—	(2,368.3)	—
Other assets	—	37.3	—	—	—	37.3
Total assets	<u>\$ 2,223.4</u>	<u>\$ 2,474.6</u>	<u>\$ 1.3</u>	<u>\$ —</u>	<u>\$ (2,368.3)</u>	<u>\$ 2,331.0</u>
Liabilities and Stockholders' Equity						
Current liabilities						
Current maturities of long-term debt	\$ —	\$ 19.9	\$ —	\$ —	\$ —	\$ 19.9
Inter-company accounts payable	829.2	(624.1)	(50.8)	(154.3)	—	—
Trade accounts payable and accrued liabilities	—	513.4	—	—	—	513.4
Total current liabilities	829.2	(90.8)	(50.8)	(154.3)	—	533.3
Long-term debt, including capitalized lease obligations	—	860.9	—	—	—	860.9
Deferred income taxes	—	154.2	—	—	—	154.2
Asset retirement obligations	—	28.2	—	—	—	28.2
Deferred credits and other liabilities	—	16.0	—	—	—	16.0
Total liabilities	829.2	968.5	(50.8)	(154.3)	—	1,592.6
Stockholders' Equity						
Preferred Stock, par \$0.01 (authorized 20,000,000 shares, none outstanding)	—	—	—	—	—	—
Common Stock, par \$0.01 (authorized 200,000,000 shares, 46,767,164 shares issued at December 31, 2017)	0.5	—	0.1	—	(0.1)	0.5
Treasury stock (12,675,630 shares held at December 31, 2017)	(806.5)	—	—	—	—	(806.5)
Additional paid in capital (APIC)	1,205.7	573.1	52.0	87.5	(1,368.4)	549.9
Retained earnings	994.5	933.0	—	66.8	(999.8)	994.5
Total stockholders' equity	1,394.2	1,506.1	52.1	154.3	(2,368.3)	738.4
Total liabilities and stockholders' equity	<u>\$ 2,223.4</u>	<u>\$ 2,474.6</u>	<u>\$ 1.3</u>	<u>\$ —</u>	<u>\$ (2,368.3)</u>	<u>\$ 2,331.0</u>

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING INCOME STATEMENT

(Millions of dollars)

Year ended December 31, 2018

	Parent Company	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues						
Petroleum product sales	\$ —	\$ 11,858.4	\$ —	\$ —	\$ —	\$ 11,858.4
Merchandise sales	—	2,423.0	—	—	—	2,423.0
Other operating revenues	—	81.5	—	—	—	81.5
Total operating revenues	<u>—</u>	<u>14,362.9</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,362.9</u>
Operating expenses						
Petroleum product cost of goods sold	—	11,251.1	—	—	—	11,251.1
Merchandise cost of goods sold	—	2,022.5	—	—	—	2,022.5
Station and other operating expenses	—	541.3	—	—	—	541.3
Depreciation and amortization	—	134.0	—	—	—	134.0
Selling, general and administrative	—	136.2	—	—	—	136.2
Accretion of asset retirement obligations	—	2.0	—	—	—	2.0
Total operating expenses	<u>—</u>	<u>14,087.1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,087.1</u>
Net settlement proceeds	—	50.4	—	—	—	50.4
Gain (loss) on sale of assets	—	(1.1)	—	—	—	(1.1)
Income from operations	<u>—</u>	<u>325.1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>325.1</u>
Other income (expense)						
Interest income	—	1.5	—	—	—	1.5
Interest expense	—	(52.9)	—	—	—	(52.9)
Other nonoperating income/expense	973.7	(972.9)	(0.6)	—	—	0.2
Total other income (expense)	<u>973.7</u>	<u>(1,024.3)</u>	<u>(0.6)</u>	<u>—</u>	<u>—</u>	<u>(51.2)</u>
Income from continuing operations before income taxes	973.7	(699.2)	(0.6)	—	—	273.9
Income tax expense (benefit)	—	60.4	(0.1)	—	—	60.3
Income (loss)	973.7	(759.6)	(0.5)	—	—	213.6
Equity earnings in affiliates, net of tax	213.6	(0.5)	—	—	(213.1)	—
Net Income (Loss)	<u>\$ 1,187.3</u>	<u>\$ (760.1)</u>	<u>\$ (0.5)</u>	<u>\$ —</u>	<u>\$ (213.1)</u>	<u>\$ 213.6</u>

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING INCOME STATEMENT

(Millions of dollars)

Year ended December 31, 2017

	Parent Company	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues						
Petroleum product sales	\$ —	\$ 10,287.9	\$ —	\$ —	\$ —	\$ 10,287.9
Merchandise sales	—	2,372.7	—	—	—	2,372.7
Ethanol sales and other	—	166.0	—	—	—	166.0
Total operating revenues	<u>—</u>	<u>12,826.6</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,826.6</u>
Operating Expenses						
Petroleum product cost of goods sold	—	9,773.2	—	—	—	9,773.2
Merchandise cost of goods sold	—	1,991.4	—	—	—	1,991.4
Station and other operating expenses	—	514.9	—	—	—	514.9
Depreciation and amortization	—	116.9	—	—	—	116.9
Selling, general and administrative	—	141.2	—	—	—	141.2
Accretion of asset retirement obligations	—	1.8	—	—	—	1.8
Total operating expenses	<u>—</u>	<u>12,539.4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,539.4</u>
Gain (loss) on sale of assets	—	(3.9)	—	—	—	(3.9)
Income from operations	<u>—</u>	<u>283.3</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>283.3</u>
Other income (expense)						
Interest income	—	1.3	—	—	—	1.3
Interest expense	—	(46.7)	—	—	—	(46.7)
Other nonoperating income	—	2.2	—	—	—	2.2
Total other income (expense)	<u>—</u>	<u>(43.2)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(43.2)</u>
Income from continuing operations before income taxes	—	240.1	—	—	—	240.1
Income tax expense (benefit)	—	(5.2)	—	—	—	(5.2)
Income from continuing operations	—	245.3	—	—	—	245.3
Equity earnings in affiliates, net of tax	245.3	—	—	—	(245.3)	—
Net Income	<u>\$ 245.3</u>	<u>\$ 245.3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (245.3)</u>	<u>\$ 245.3</u>

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING INCOME STATEMENT

(Millions of dollars)

Year ended December 31, 2016

	Parent Company	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating Revenues						
Petroleum product sales	\$ —	\$ 9,070.6	\$ —	\$ —	\$ —	\$ 9,070.6
Merchandise sales	—	2,338.6	—	—	—	2,338.6
Ethanol sales and other	—	185.4	—	—	—	185.4
Total operating revenues	—	11,594.6	—	—	—	11,594.6
Operating expenses						
Petroleum product cost of goods sold	—	8,604.0	—	—	—	8,604.0
Merchandise cost of goods sold	—	1,974.5	—	—	—	1,974.5
Station and other operating expenses	—	493.3	—	—	—	493.3
Depreciation and amortization	—	98.6	—	—	—	98.6
Selling, general and administrative	—	122.7	—	—	—	122.7
Accretion of asset retirement obligations	—	1.6	—	—	—	1.6
Total operating expenses	—	11,294.7	—	—	—	11,294.7
Gain (loss) on sale of assets	—	88.2	—	—	—	88.2
Income from operations	—	388.1	—	—	—	388.1
Other income (expense)						
Interest income	—	0.6	—	—	—	0.6
Interest expense	—	(39.7)	—	—	—	(39.7)
Other nonoperating income	—	3.1	—	—	—	3.1
Total other income (expense)	—	(36.0)	—	—	—	(36.0)
Income from continuing operations before income taxes	—	352.1	—	—	—	352.1
Income tax expense (benefit)	—	130.6	—	—	—	130.6
Income from continuing operations	—	221.5	—	—	—	221.5
Equity earnings in affiliates, net of tax	221.5	—	—	—	(221.5)	—
Net Income	\$ 221.5	\$ 221.5	\$ —	\$ —	\$ (221.5)	\$ 221.5

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING STATEMENT OF CASH FLOWS

(Millions of dollars)

Year ended December 31, 2018

	Parent Company	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating Activities						
Net income (loss)	\$ 1,187.3	\$ (760.1)	\$ (0.5)	\$ —	\$ (213.1)	\$ 213.6
Adjustments to reconcile net income (loss) to net cash provided by operating activities						
Depreciation and amortization	—	134.0	—	—	—	134.0
Deferred and noncurrent income tax charges (benefits)	—	37.9	—	—	—	37.9
Accretion of asset retirement obligations	—	2.0	—	—	—	2.0
(Gain) loss from sale of assets	—	1.1	—	—	—	1.1
Net decrease (increase) in noncash operating working capital	—	2.4	(0.1)	—	—	2.3
Equity in earnings	(213.6)	0.5	—	—	213.1	—
Other operating activities - net	—	7.8	—	—	—	7.8
Net cash provided by (required by) operating activities	<u>973.7</u>	<u>(574.4)</u>	<u>(0.6)</u>	<u>—</u>	<u>—</u>	<u>398.7</u>
Investing Activities						
Property additions	—	(203.1)	(1.2)	—	—	(204.3)
Proceeds from sale of assets	—	1.2	—	—	—	1.2
Other investing activities - net	—	(6.0)	—	—	—	(6.0)
Net cash provided by (required by) investing activities	<u>—</u>	<u>(207.9)</u>	<u>(1.2)</u>	<u>—</u>	<u>—</u>	<u>(209.1)</u>
Financing Activities						
Purchase of treasury stock	(144.4)	—	—	—	—	(144.4)
Repayments of long-term debt	—	(21.3)	—	—	—	(21.3)
Amounts related to share-based compensation	—	(9.4)	—	—	—	(9.4)
Net distributions to parent	(829.3)	827.1	2.2	—	—	—
Net cash provided by (required by) financing activities	<u>(973.7)</u>	<u>796.4</u>	<u>2.2</u>	<u>—</u>	<u>—</u>	<u>(175.1)</u>
Net change in cash and cash equivalents	—	14.1	0.4	—	—	14.5
Cash, cash equivalents, and restricted cash at January 1	—	169.9	0.1	—	—	170.0
Cash, cash equivalents, and restricted cash at December 31	<u>\$ —</u>	<u>\$ 184.0</u>	<u>\$ 0.5</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 184.5</u>

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING STATEMENT OF CASH FLOWS

(Millions of dollars)

Year ended December 31, 2017

Operating Activities	Parent Company	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 245.3	\$ 245.3	\$ —	\$ —	\$ (245.3)	\$ 245.3
Adjustments to reconcile net income (loss) to net cash provided by operating activities						
Depreciation and amortization	—	116.9	—	—	—	116.9
Deferred and noncurrent income tax charges (credits)	—	(50.4)	—	—	—	(50.4)
Accretion of asset retirement obligations	—	1.8	—	—	—	1.8
(Gains) loss from sale of assets	—	3.9	—	—	—	3.9
Net decrease (increase) in noncash operating working capital	—	(36.9)	—	—	—	(36.9)
Equity in earnings	(245.3)	—	—	—	245.3	—
Other operating activities - net	—	3.0	—	—	—	3.0
Net cash provided by (required by) operating activities	—	283.6	—	—	—	283.6
Investing Activities						
Property additions	—	(257.1)	(1.2)	—	—	(258.3)
Proceeds from sale of assets	—	0.9	—	—	—	0.9
Other investing activities - net	—	(4.7)	—	—	—	(4.7)
Net cash provided by (required by) investing activities	—	(260.9)	(1.2)	—	—	(262.1)
Financing Activities						
Purchase of treasury stock	(206.0)	—	—	—	—	(206.0)
Repayments of long-term debt	—	(131.4)	—	—	—	(131.4)
Additions to long-term debt	—	338.8	—	—	—	338.8
Debt issuance costs	—	(1.1)	—	—	—	(1.1)
Amounts related to share-based compensation	—	(5.6)	—	—	—	(5.6)
Net distributions to parent	206.0	(207.3)	1.3	—	—	—
Net cash provided by (required by) financing activities	—	(6.6)	1.3	—	—	(5.3)
Net change in cash and cash equivalents	—	16.1	0.1	—	—	16.2
Cash, cash equivalents, and restricted cash at January 1	—	153.8	—	—	—	153.8
Cash, cash equivalents, and restricted cash at December 31	\$ —	\$ 169.9	\$ 0.1	\$ —	\$ —	\$ 170.0

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING STATEMENT OF CASH FLOWS

(Millions of dollars)

Year ended December 31, 2016

Operating Activities	Parent Company	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 221.5	\$ 221.5	\$ —	\$ —	\$ (221.5)	\$ 221.5
Adjustments to reconcile net income (loss) to net cash provided by operating activities						
Depreciation and amortization	—	98.6	—	—	—	98.6
Deferred and noncurrent income tax charges (credits)	—	40.4	—	—	—	40.4
Accretion of asset retirement obligations	—	1.6	—	—	—	1.6
(Gains) loss from sale of assets	—	(88.2)	—	—	—	(88.2)
Net decrease (increase) in noncash operating working capital	—	53.7	—	—	—	53.7
Equity in earnings	(221.5)	—	—	—	221.5	—
Other operating activities - net	—	9.8	—	—	—	9.8
Net cash provided by (required by) operating activities	—	337.4	—	—	—	337.4
Investing Activities						
Property additions	—	(262.1)	—	—	—	(262.1)
Proceeds from sale of assets	—	85.3	—	—	—	85.3
Changes in restricted cash	—	68.6	—	—	—	68.6
Other investing activities - net	—	(29.0)	—	—	—	(29.0)
Other	—	2.4	—	—	—	2.4
Net cash provided by (required by) investing activities	—	(134.8)	—	—	—	(134.8)
Financing Activities						
Purchase of treasury stock	(323.3)	—	—	—	—	(323.3)
Repayments of long-term debt	—	(20.4)	—	—	—	(20.4)
Additions to long-term debt	—	200.0	—	—	—	200.0
Debt issuance costs	—	(3.2)	—	—	—	(3.2)
Amounts related to share-based compensation	—	(4.2)	—	—	—	(4.2)
Net distributions to parent	323.3	(323.3)	—	—	—	—
Net cash provided by (required by) financing activities	—	(151.1)	—	—	—	(151.1)
Net change in cash and cash equivalents	—	51.5	—	—	—	51.5
Cash, cash equivalents and restricted cash at January 1	—	102.3	—	—	—	102.3
Cash, cash equivalents and restricted cash at December 31	\$ —	\$ 153.8	\$ —	\$ —	\$ —	\$ 153.8
Reconciliation of Cash, Cash Equivalents and Restricted Cash						
Cash and cash equivalents at beginning of period	\$ —	\$ 33.7	\$ —	\$ —	\$ —	\$ 33.7
Restricted cash at beginning of period	—	68.6	—	—	—	68.6
Cash, cash equivalents and restricted cash at beginning of period	\$ —	\$ 102.3	\$ —	\$ —	\$ —	\$ 102.3
Cash and cash equivalents at end of period	\$ —	\$ 153.8	\$ —	\$ —	\$ —	\$ 153.8
Restricted cash at end of period	—	—	—	—	—	\$ —
Cash, cash equivalents and restricted cash at end of period	\$ —	\$ 153.8	\$ —	\$ —	\$ —	\$ 153.8

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING STATEMENT OF CHANGES IN EQUITY

(Millions of dollars)

Year ended December 31, 2018

Statement of Stockholders' Equity	Parent Company	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Common Stock						
Balance as of December 31, 2017	\$ 0.5	\$ —	\$ 0.1	\$ —	\$ (0.1)	\$ 0.5
Issuance of common stock	—	—	—	—	—	—
Balance as of December 31, 2018	<u>\$ 0.5</u>	<u>\$ —</u>	<u>\$ 0.1</u>	<u>\$ —</u>	<u>\$ (0.1)</u>	<u>\$ 0.5</u>
Treasury Stock						
Balance as of December 31, 2017	\$ (806.5)	\$ —	\$ —	\$ —	\$ —	\$ (806.5)
Issuance of common stock	10.6	—	—	—	—	10.6
Repurchase of common stock	(144.4)	—	—	—	—	(144.4)
Balance as of December 31, 2018	<u>\$ (940.3)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (940.3)</u>
APIC						
Balance as of December 31, 2017	\$ 1,205.7	\$ 573.1	\$ 52.0	\$ 87.5	\$ (1,368.4)	\$ 549.9
Issuance of common stock	(10.6)	—	—	—	—	(10.6)
Amounts related to share-based compensation	—	(9.4)	—	—	—	(9.4)
Share-based compensation expense	—	9.1	—	—	—	9.1
Balance as of December 31, 2018	<u>\$ 1,195.1</u>	<u>\$ 572.8</u>	<u>\$ 52.0</u>	<u>\$ 87.5</u>	<u>\$ (1,368.4)</u>	<u>\$ 539.0</u>
Retained Earnings						
Balance as of December 31, 2017	\$ 994.5	\$ 933.0	\$ —	\$ 66.8	\$ (999.8)	\$ 994.5
Net income	1,187.3	(760.1)	(0.5)	—	(213.1)	213.6
Balance as of December 31, 2018	<u>\$ 2,181.8</u>	<u>\$ 172.9</u>	<u>\$ (0.5)</u>	<u>\$ 66.8</u>	<u>\$ (1,212.9)</u>	<u>\$ 1,208.1</u>

CONSOLIDATING STATEMENTS OF CHANGES IN EQUITY

(Millions of dollars)

Year ended December 31, 2017

Statement of Stockholders' Equity	Parent Company	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Common Stock						
Balance as of December 31, 2016	\$ 0.5	\$ —	\$ 0.1	\$ —	\$ (0.1)	\$ 0.5
Issuance of common stock	—	—	—	—	—	—
Balance as of December 31, 2017	<u>\$ 0.5</u>	<u>\$ —</u>	<u>\$ 0.1</u>	<u>\$ —</u>	<u>\$ (0.1)</u>	<u>\$ 0.5</u>
Treasury Stock						
Balance as of December 31, 2016	\$ (608.0)	\$ —	\$ —	\$ —	\$ —	\$ (608.0)
Issuance of common stock	7.5	—	—	—	—	7.5
Repurchase of common stock	(206.0)	—	—	—	—	(206.0)
Balance as of December 31, 2017	<u>\$ (806.5)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (806.5)</u>
APIC						
Balance as of December 31, 2016	\$ 1,213.1	\$ 571.1	\$ 52.0	\$ 87.5	\$ (1,368.4)	\$ 555.3
Issuance of common stock	(7.4)	—	—	—	—	(7.4)
Amounts related to share-based compensation	—	(5.6)	—	—	—	(5.6)
Reclassification of equity	—	—	—	—	—	—
Share-based compensation expense	—	7.6	—	—	—	7.6
Balance as of December 31, 2017	<u>\$ 1,205.7</u>	<u>\$ 573.1</u>	<u>\$ 52.0</u>	<u>\$ 87.5</u>	<u>\$ (1,368.4)</u>	<u>\$ 549.9</u>
Retained Earnings						
Balance as of December 31, 2016	\$ 749.2	\$ 687.7	\$ —	\$ 66.8	\$ (754.5)	\$ 749.2
Net income	245.3	245.3	—	—	(245.3)	245.3
Balance as of December 31, 2017	<u>\$ 994.5</u>	<u>\$ 933.0</u>	<u>\$ —</u>	<u>\$ 66.8</u>	<u>\$ (999.8)</u>	<u>\$ 994.5</u>

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Millions of dollars)

Year ended December 31, 2016

Statement of Stockholders' Equity	Parent Company	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Common Stock						
Balance as of December 31, 2015	\$ 0.5	\$ —	\$ 0.1	\$ —	\$ (0.1)	\$ 0.5
Issuance of common stock	—	—	—	—	—	—
Balance as of December 31, 2016	<u>\$ 0.5</u>	<u>\$ —</u>	<u>\$ 0.1</u>	<u>\$ —</u>	<u>\$ (0.1)</u>	<u>\$ 0.5</u>
Treasury Stock						
Balance as of December 31, 2015	\$ (294.1)	\$ —	\$ —	\$ —	\$ —	\$ (294.1)
Issuance of common stock	9.4	—	—	—	—	9.4
Repurchase of common stock	(323.3)	—	—	—	—	(323.3)
Balance as of December 31, 2016	<u>\$ (608.0)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (608.0)</u>
APIC						
Balance as of December 31, 2015	\$ 1,222.5	\$ 564.5	\$ 52.0	\$ 87.5	\$ (1,368.4)	\$ 558.1
Issuance of common stock	(9.4)	—	—	—	—	(9.4)
Amounts related to share-based compensation	—	(2.7)	—	—	—	(2.7)
Share-based compensation expense	—	9.3	—	—	—	9.3
Balance as of December 31, 2016	<u>\$ 1,213.1</u>	<u>\$ 571.1</u>	<u>\$ 52.0</u>	<u>\$ 87.5</u>	<u>\$ (1,368.4)</u>	<u>\$ 555.3</u>
Retained Earnings						
Balance as of December 31, 2015	\$ 527.7	\$ 466.2	\$ —	\$ 66.8	\$ (533.0)	\$ 527.7
Net income	221.5	221.5	—	—	(221.5)	221.5
Balance as of December 31, 2016	<u>\$ 749.2</u>	<u>\$ 687.7</u>	<u>\$ —</u>	<u>\$ 66.8</u>	<u>\$ (754.5)</u>	<u>\$ 749.2</u>

Murphy USA Inc.
Supplemental Quarterly Information (Unaudited)

<i>(Millions of dollars except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Year Ended December 31, 2018					
Sales and other operating revenues	\$ 3,244.2	\$ 3,829.0	\$ 3,788.0	\$ 3,501.7	\$ 14,362.9
Income (loss) from continuing operations before income taxes	\$ 47.3	\$ 69.1	\$ 57.0	\$ 100.5	\$ 273.9
Income (loss) from continuing operations	\$ 39.3	\$ 51.8	\$ 45.0	\$ 77.5	\$ 213.6
Net income (loss)	\$ 39.3	\$ 51.8	\$ 45.0	\$ 77.5	\$ 213.6
Income (loss) from continuing operations (per Common share)					
Basic	\$ 1.17	\$ 1.59	\$ 1.40	\$ 2.40	\$ 6.54
Diluted	\$ 1.16	\$ 1.58	\$ 1.38	\$ 2.38	\$ 6.48
Net income (loss) (per Common share)					
Basic	\$ 1.17	\$ 1.59	\$ 1.40	\$ 2.40	\$ 6.54
Diluted	\$ 1.16	\$ 1.58	\$ 1.38	\$ 2.38	\$ 6.48
Year Ended December 31, 2017					
Sales and other operating revenues	\$ 2,999.6	\$ 3,211.2	\$ 3,236.3	\$ 3,379.5	\$ 12,826.6
Income (loss) from continuing operations before income taxes	\$ (9.8)	\$ 89.9	\$ 108.8	\$ 51.2	\$ 240.1
Income (loss) from continuing operations	\$ (3.0)	\$ 55.5	\$ 67.9	\$ 124.9	\$ 245.3
Net income (loss)	\$ (3.0)	\$ 55.5	\$ 67.9	\$ 124.9	\$ 245.3
Income (loss) from continuing operations (per Common share)					
Basic	\$ (0.08)	\$ 1.52	\$ 1.92	\$ 3.62	\$ 6.85
Diluted	\$ (0.08)	\$ 1.51	\$ 1.90	\$ 3.58	\$ 6.78
Net income (loss) (per Common share)					
Basic	\$ (0.08)	\$ 1.52	\$ 1.92	\$ 3.62	\$ 6.85
Diluted	\$ (0.08)	\$ 1.51	\$ 1.90	\$ 3.58	\$ 6.78

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
Murphy USA Inc.
Valuation Accounts and Reserves

<i>(Millions of dollars)</i>	Balance at January 1,	Charged (Credited) to Expense	Deductions	Balance at December 31,
2018				
Deducted from assets accounts				
Allowance for doubtful accounts	\$ 1.1	0.5	(0.5)	1.1
2017				
Deducted from assets accounts				
Allowance for doubtful accounts	\$ 1.9	(0.8)	—	1.1
2016				
Deducted from assets accounts				
Allowance for doubtful accounts	\$ 2.0	—	(0.1)	1.9

OUR BOARD OF DIRECTORS



R. Andrew Clyde, Director

R. Andrew Clyde, as CEO, successfully led the spin-off of Murphy USA and established it as a standalone company. He has led the development and execution of Murphy USA's strategy for the past five years. At Booz & Company, Mr. Clyde spent 20 years working with downstream energy and retail clients on strategy, organization and performance improvement engagements.

Executive Committee



R. Madison Murphy, Chairman

R. Madison Murphy served as Chairman of the Board of Murphy Oil Corporation from 1994 to 2004. He also served on the Board of Directors of Murphy Oil Corporation and previously on the Board of Directors of Deltic Timber Corporation and BancorpSouth (a NYSE bank holding company).

Executive Committee and ex-officio of all Committees



Claiborne P. Deming, Director

Claiborne P. Deming is the current Chairman of the Board of Murphy Oil Corporation. Having previously served as President and Chief Executive Officer at Murphy Oil Corporation, Mr. Deming provides valuable insight into the Company's challenges, opportunities and operations with over 30 years' experience in the oil and gas industry.

*Executive Committee and
Executive Compensation Committee*



Thomas M. Gattle, Jr., Director

Thomas M. Gattle, Jr. is Chairman of the Board, President, and Chief Executive Officer of TerralRiver Service, a private company operating fertilizer terminals, boats and barges. His many years of experience as a successful company owner and executive officer provides valuable insight for our Board on both financial and operational matters.

*Audit Committee and
Nominating and Governance Committee*



Fred L. Holliger, Director

Fred L. Holliger served as Chairman and CEO of Giant Industries, a NYSE listed petroleum refining and retail convenience store company. He later consulted with Western Refining Company, a NYSE listed crude oil refiner and marketer.

*Executive Compensation Committee and
Nominating and Governance Committee*



James W. Keyes, Director

James W. Keyes is Chairman of Wild Oats LLC. Previously, he served as Chairman and CEO of Blockbuster and prior to that, Chief Executive Officer of 7-Eleven, the nation's largest convenience store chain.

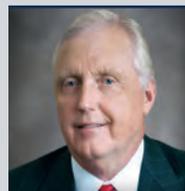
*Executive Committee and
Executive Compensation Committee*



Diane N. Landen, Director

Diane N. Landen is Owner and President of Vantage Communications, Vice Chairman and Executive Vice President of Noalmark Broadcasting Corporation, and a Partner at Munoco Company.

*Audit Committee and
Nominating and Governance Committee*



David B. Miller, Director

David B. Miller is Co-Founder and Managing Partner of EnCap Investments LP, a leading provider of private equity capital to the oil and gas industry. He previously served as President of PMC Reserve Acquisition Company, and as Co-Chief Executive Officer of MAZE Exploration, a Denver-based oil and gas company he co-founded. Mr. Miller also serves on the Board of Directors of Halcon Resources Corporation, an independent energy company.

*Executive Compensation Committee and
Nominating and Governance Committee*



Hon. Jeanne L. Phillips, Director

Ambassador Jeanne L. Phillips is Senior Vice President of Corporate Engagement & International Relations of Hunt Consolidated, Inc. where she has been employed since 2004. Prior to joining Hunt, she served President George W. Bush as the U.S. Permanent Representative to the Organization for Economic Cooperation and Development (OECD) with rank of ambassador in Paris from 2001 until the summer of 2003.

*Audit Committee and
Nominating and Governance Committee*



Jack T. Taylor, Director

Jack T. Taylor is a Director of Genesis Energy LP and Sempra Energy, a NYSE listed Fortune 500 energy services company. Mr. Taylor served as Executive Vice Chair of U.S. Operations at KPMG and has over 35 years of experience as a public accountant.

Audit Committee



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