

HESS CORP
Form 10-Q
November 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-1204

HESS CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE

(State or Other Jurisdiction of Incorporation or Organization)

13-4921002

(I.R.S. Employer Identification Number)

1185 AVENUE OF THE AMERICAS, NEW YORK, N.Y.

(Address of Principal Executive Offices)

10036

(Zip Code)

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(Registrant's Telephone Number, Including Area Code is (212) 997-8500)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its Corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

At September 30, 2015, there were 286,097,193 shares of Common Stock outstanding.

HESS CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	September 30, 2015	December 31, 2014
	(In millions, except share amounts)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$3,013	\$ 2,444
Accounts receivable		
Trade	1,211	1,642
Other	311	431
Inventories	535	527
Other current assets	527	1,643
Total current assets	5,597	6,687
PROPERTY, PLANT AND EQUIPMENT		
Total — at cost	48,138	46,522
Less: Reserves for depreciation, depletion, amortization and lease impairment	21,255	19,005
Property, plant and equipment — net	26,883	27,517
GOODWILL	1,473	1,858
DEFERRED INCOME TAXES	2,109	2,169
OTHER ASSETS	394	347
TOTAL ASSETS	\$36,456	\$ 38,578
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$537	\$ 708
Accrued liabilities	1,930	3,781
Taxes payable	79	294
Current maturities of long-term debt	78	68
Total current liabilities	2,624	4,851
LONG-TERM DEBT	6,474	5,919
DEFERRED INCOME TAXES	1,618	2,009
ASSET RETIREMENT OBLIGATIONS	2,161	2,281
OTHER LIABILITIES AND DEFERRED CREDITS	1,216	1,198
Total liabilities	14,093	16,258
EQUITY		
Hess Corporation stockholders' equity		
Common stock, par value \$1.00		
Authorized — 600,000,000 shares		
Issued — 286,097,193 shares at September 30, 2015; 285,834,964 shares at	286	286

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December 31, 2014		
Capital in excess of par value	4,097	3,277
Retained earnings	18,530	20,052
Accumulated other comprehensive income (loss)	(1,582)	(1,410)
Total Hess Corporation stockholders' equity	21,331	22,205
Noncontrolling interests	1,032	115
Total equity	22,363	22,320
TOTAL LIABILITIES AND EQUITY	\$36,456	\$ 38,578

See accompanying Notes to Consolidated Financial Statements.

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME (UNAUDITED)

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014	2015	2014	2015
(In millions, except per share amounts)				
REVENUES AND NON-OPERATING INCOME				
Sales and other operating revenues	\$1,671	\$2,678	\$5,162	\$8,180
Gains on asset sales, net	50	31	50	820
Other, net	(32)	27	(38)	(89)
Total revenues and non-operating income	1,689	2,736	5,174	8,911
COSTS AND EXPENSES				
Cost of products sold (excluding items shown separately below)	356	423	990	1,208
Operating costs and expenses	508	511	1,517	1,551
Production and severance taxes	29	69	110	209
Exploration expenses, including dry holes and lease impairment	144	90	503	669
General and administrative expenses	119	139	417	424
Interest expense	84	75	255	241
Depreciation, depletion and amortization	988	838	2,972	2,349
Impairment	—	—	385	—
Total costs and expenses	2,228	2,145	7,149	6,651
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE				
INCOME TAXES	(539)	591	(1,975)	2,260
Provision (benefit) for income taxes	(300)	232	(807)	563
INCOME (LOSS) FROM CONTINUING OPERATIONS	(239)	359	(1,168)	1,697
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF				
INCOME TAXES	(13)	671	(40)	684
NET INCOME (LOSS)	(252)	1,030	(1,208)	2,381
Less: Net income (loss) attributable to noncontrolling interests	27	22	27	56
NET INCOME (LOSS) ATTRIBUTABLE TO HESS CORPORATION	\$(279)	\$1,008	\$(1,235)	\$2,325
NET INCOME (LOSS) ATTRIBUTABLE TO HESS CORPORATION				
PER SHARE				
BASIC:				
Continuing operations	\$(0.94)	\$1.19	\$(4.21)	\$5.51
Discontinued operations	(0.04)	2.16	(0.14)	2.03
NET INCOME (LOSS) PER SHARE	\$(0.98)	\$3.35	\$(4.35)	\$7.54

DILUTED:

Continuing operations	\$(0.94)	\$1.18	\$(4.21)	\$5.43
Discontinued operations	(0.04)	2.13	(0.14)	2.01
NET INCOME (LOSS) PER SHARE	\$(0.98)	\$3.31	\$(4.35)	\$7.44

WEIGHTED AVERAGE NUMBER OF COMMON SHARES

OUTSTANDING (DILUTED)	283.5	305.0	283.8	312.7
COMMON STOCK DIVIDENDS PER SHARE	\$0.25	\$0.25	\$0.75	\$0.75

See accompanying Notes to Consolidated Financial Statements.

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended September 30, 2015 2014		Nine Months Ended September 30, 2015 2014	
	(In millions)			
NET INCOME (LOSS)	\$(252)	\$1,030	\$(1,208)	\$2,381
OTHER COMPREHENSIVE INCOME (LOSS):				
Derivatives designated as cash flow hedges				
Effect of hedge (gains) losses reclassified to income	(34)	(8)	(34)	(18)
Income taxes on effect of hedge (gains) losses reclassified to income	13	3	13	7
Net effect of hedge (gains) losses reclassified to income	(21)	(5)	(21)	(11)
Change in fair value of cash flow hedges	109	90	111	64
Income taxes on change in fair value of cash flow hedges	(41)	(34)	(42)	(24)
Net change in fair value of cash flow hedges	68	56	69	40
Change in derivatives designated as cash flow hedges, after taxes	47	51	48	29
Pension and other postretirement plans				
(Increase) reduction in unrecognized actuarial losses	(5)	—	(20)	(4)
Income taxes on actuarial changes in plan liabilities	1	—	7	2
(Increase) reduction in unrecognized actuarial losses, net	(4)	—	(13)	(2)
Amortization of net actuarial losses	29	19	73	42
Income taxes on amortization of net actuarial losses	(10)	(7)	(24)	(15)
Net effect of amortization of net actuarial losses	19	12	49	27
Change in pension and other postretirement plans, after taxes	15	12	36	25
Foreign currency translation adjustment				
Foreign currency translation adjustment	(208)	(166)	(256)	(203)
Change in foreign currency translation adjustment	(208)	(166)	(256)	(203)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(146)	(103)	(172)	(149)
COMPREHENSIVE INCOME (LOSS)	(398)	927	(1,380)	2,232
Less: Comprehensive income (loss) attributable to noncontrolling interests	27	22	27	56
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO HESS CORPORATION	\$(425)	\$905	\$(1,407)	\$2,176

See accompanying Notes to Consolidated Financial Statements.

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30, 2015 2014 (In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$(1,208)	\$2,381
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
(Gains) losses on asset sales, net	(50)	(820)
Depreciation, depletion and amortization	2,972	2,349
Impairment	385	—
Loss from equity affiliates	10	84
Exploratory dry hole costs	180	297
Exploration lease impairment	139	183
Stock compensation expense	71	65
Provision (benefit) for deferred income taxes	(819)	220
(Income) loss from discontinued operations, net of income taxes	40	(684)
Changes in operating assets and liabilities	(331)	(657)
Cash provided by (used in) operating activities - continuing operations	1,389	3,418
Cash provided by (used in) operating activities - discontinued operations	(31)	(35)
Net cash provided by (used in) operating activities	1,358	3,383
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(3,386)	(3,686)
Proceeds from asset sales	25	2,978
Other, net	(44)	(136)
Cash provided by (used in) investing activities - continuing operations	(3,405)	(844)
Cash provided by (used in) investing activities - discontinued operations	108	2,407
Net cash provided by (used in) investing activities	(3,297)	1,563
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt with maturities of greater than 90 days		
Borrowings	600	598
Repayments	(51)	(553)
Common stock acquired and retired	(142)	(2,638)
Cash dividends paid	(215)	(232)
Employee stock options exercised, including income tax benefits	11	191
Noncontrolling interests, net	2,329	(4)
Other, net	(24)	—

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Cash provided by (used in) financing activities - continuing operations	2,508	(2,638)
Cash provided by (used in) financing activities - discontinued operations	—	(2)
Net cash provided by (used in) financing activities	2,508	(2,640)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	569	2,306
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,444	1,814
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$3,013	\$4,120

See accompanying Notes to Consolidated Financial Statements.

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED EQUITY (UNAUDITED)

	Capital in		Retained	Accumulated	Total Hess	Noncontrolling	Total
	Common	Excess of	Earnings	Other	Stockholders	Interests	Equity
	Stock	Par		Comprehensive	Equity		Equity
	(In millions)			Income			
				(Loss)			
BALANCE AT JANUARY 1, 2015	\$286	\$3,277	\$20,052	\$ (1,410)	\$ 22,205	\$ 115	\$22,320
Net income (loss)			(1,235)		(1,235)	27	(1,208)
Other comprehensive income (loss)				(172)	(172)	—	(172)
Comprehensive income (loss)					(1,407)	27	(1,380)
Activity related to restricted common stock awards, net	1	46	—	—	47	—	47
Employee stock options, including income tax benefits	—	14	—	—	14	—	14
Performance share units	—	19	—	—	19	—	19
Cash dividends declared	—	—	(215)	—	(215)	—	(215)
Common stock acquired and retired	(1)	(18)	(72)	—	(91)	—	(91)
Formation of Bakken Midstream joint venture	—	759	—	—	759	1,305	2,064
Noncontrolling interests, net	—	—	—	—	—	(415)	(415)
BALANCE AT SEPTEMBER 30, 2015	\$286	\$4,097	\$18,530	\$ (1,582)	\$ 21,331	\$ 1,032	\$22,363
BALANCE AT JANUARY 1, 2014	\$325	\$3,498	\$21,235	\$ (338)	\$ 24,720	\$ 64	\$24,784
Net income (loss)			2,325		2,325	56	2,381
Other comprehensive income (loss)				(149)	(149)	—	(149)
Comprehensive income (loss)					2,176	56	2,232
Activity related to restricted common stock awards, net	1	46	—	—	47	—	47
Employee stock options, including income tax benefits	3	190	—	—	193	—	193
Performance share units	—	14	—	—	14	—	14
Cash dividends declared	—	—	(232)	—	(232)	—	(232)
Common stock acquired and retired	(30)	(331)	(2,308)	—	(2,669)	—	(2,669)
Noncontrolling interests, net	—	—	—	—	—	(4)	(4)
BALANCE AT SEPTEMBER 30, 2014	\$299	\$3,417	\$21,020	\$ (487)	\$ 24,249	\$ 116	\$24,365

See accompanying Notes to Consolidated Financial Statements.

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PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

The financial statements included in this report reflect all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the Corporation's consolidated financial position at September 30, 2015 and December 31, 2014, the consolidated results of operations for the three months and nine months ended September 30, 2015 and 2014, and consolidated cash flows for the nine months ended September 30, 2015 and 2014. The unaudited results of operations for the interim periods reported are not necessarily indicative of results to be expected for the full year.

The financial statements were prepared in accordance with the requirements of the Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain notes or other financial information that are normally required by generally accepted accounting principles (GAAP) in the United States have been condensed or omitted from these interim financial statements. These statements, therefore, should be read in conjunction with the consolidated financial statements and related notes included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014.

The statements of consolidated income for the three months and nine months ended September 30, 2014 and consolidated cash flows for the nine months ended September 30, 2014, have been recast to reflect the Corporation's energy trading joint venture, HETCO, which was sold in February 2015, as discontinued operations. In Note 14, Segment Information, the Corporation has reported a new operating segment to reflect the establishment of the Bakken Midstream operating segment in the second quarter of 2015 and have presented prior period numbers on a comparable basis. Certain information in the financial statements and notes has been reclassified to conform to the current period presentation.

New Accounting Pronouncements: In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, as a new Accounting Standards Codification (ASC) Topic ASC 606. This ASU is effective for the Corporation beginning in the first quarter of 2018, with early adoption permitted from the first quarter of 2017. The Corporation is currently assessing the impact of the ASU on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, which makes changes to both the variable interest model and the voting model, affecting all reporting entities involved with limited partnerships or similar entities. This ASU is effective for the Corporation beginning in the first quarter of 2016, with early adoption permitted. The Corporation is currently assessing the impact of the ASU on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. This ASU is effective for the Corporation beginning in the first quarter of 2016, with early adoption permitted. The Corporation does not expect that the ASU will have a material impact to its consolidated financial statements.

2. Bakken Midstream Joint Venture

On July 1, 2015 the Corporation sold a 50% interest in Hess Infrastructure Partners LP (HIP) to Global Infrastructure Partners (GIP) for net cash consideration of approximately \$2.6 billion. HIP and its affiliates comprise the Corporation's Bakken Midstream operating segment which provides fee-based services including crude oil and natural gas gathering, processing of natural gas and the fractionation of natural gas liquids (NGLs), terminaling and loading crude oil and natural gas liquids, transportation of crude oil by rail car and the storage and terminaling of propane, primarily located in the Bakken shale play of North Dakota. Such services are currently provided solely to the Corporation's Bakken shale operations under tariff agreements with Bakken Midstream entities, with plans to market services to third parties in the future. The Corporation operates the Bakken Midstream assets and operations, including routine and emergency maintenance and repair services under various operational and administrative services agreements.

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The tariff agreements between the Corporation and the Bakken Midstream entities are 10-year, fee-based commercial agreements, with HIP having the sole option to renew the agreements for an additional 10-year term. These agreements include minimum volume commitments based on dedicated production, inflation escalators and fee recalculation mechanisms. The Bakken Midstream segment has minimal direct commodity price exposure, and the Corporation retains ownership of the crude oil, natural gas or natural gas liquids processed, terminaled, stored or transported by the Bakken Midstream segment.

The Corporation consolidates the activities of HIP, which qualifies as a variable interest entity (VIE) under U.S. generally accepted accounting principles. The Corporation, through its 50% ownership, has concluded that it is the primary beneficiary of the VIE, as defined in the accounting standards, since it has the power to direct those activities that most significantly impact the economic performance of HIP. This conclusion was based on a qualitative analysis that considered HIP's governance structure, the commercial agreements between HIP and the Corporation, and the voting rights established between the members which provide the Corporation the ability to control the operations of HIP.

As a result of the July 1, 2015 sale transaction, the Corporation recorded an after-tax gain of \$759 million in additional paid-in-capital and an increase to total shareholder's equity of \$1,305 million in noncontrolling interest representing GIP's proportional share of the Corporation's basis in the net assets of HIP. The results attributable to GIP's 50% ownership is reported within Net income (loss) attributable to noncontrolling interests in the Statement of Consolidated Income, while the carrying amount of GIP's equity is included as Noncontrolling interests in the Consolidated Balance Sheet.

Upon formation, the joint venture incurred \$600 million of debt through a 5-year Term Loan A facility with the proceeds distributed equally to the partners. See Note 7, Debt. HIP liabilities totaling \$727 million at September 30, 2015 are on a nonrecourse basis to the Corporation, while HIP assets available to settle the obligations of HIP included Cash and cash equivalents totaling \$9 million and Property, plant and equipment totaling \$2,233 million at September 30, 2015.

3. Discontinued Operations

The results of operations for the Corporation's divested energy trading joint venture, HETCO, which was sold in February 2015, and other previously divested downstream businesses have been reported as discontinued operations in the Statement of Consolidated Income for all applicable periods up until the date of sale.

Sales and other operating revenues and Income (loss) from discontinued operations were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(In millions)			
Sales and other operating revenues	\$—	\$3,096	\$14	\$9,346

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Income (loss) from discontinued operations before income taxes	\$ (16)	\$ 1,057	\$ (59)	\$ 1,063
Current tax provision (benefit)	—	—	—	—
Deferred tax provision (benefit)	(3)	386	(19)	379
Provision (benefit) for income taxes	(3)	386	(19)	379
Income (loss) from discontinued operations, net of income taxes	\$ (13)	\$ 671	\$ (40)	\$ 684
Less: Net income (loss) attributable to noncontrolling interests	—	22	—	56
Income (loss) from discontinued operations attributable to Hess Corporation	\$ (13)	\$ 649	\$ (40)	\$ 628

In September 2014, the Corporation completed the sale of its retail business for cash proceeds of approximately \$2.8 billion. This transaction resulted in a pre-tax gain of \$954 million (\$602 million after income taxes).

At December 31, 2014, HETCO assets totaling \$1,035 million, which consisted of accounts receivable and other long lived assets, were reported in Other current assets, and liabilities totaling \$797 million, which consisted primarily of accounts payable, were reported in Accrued liabilities in the Consolidated Balance Sheet.

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. Inventories

Inventories consisted of the following:

	September 30, 2015	December 31, 2014
	(In millions)	
Crude oil and natural gas liquids	\$ 217	\$ 246
Materials and supplies	318	281
Total inventories	\$ 535	\$ 527

5. Capitalized Exploratory Well Costs

The following table discloses the net changes in capitalized exploratory well costs pending determination of proved reserves for the nine months ended September 30, 2015 (in millions):

Balance at January 1	\$	1,416
Additions to capitalized exploratory well costs pending the determination of proved reserves		326
Reclassifications to wells, facilities and equipment based on the determination of proved reserves		(72)
Capitalized exploratory well costs charged to expense		(120)
Balance at September 30, 2015	\$	1,550

Capitalized exploratory well costs charged to expense in the preceding table primarily relate to the Dinarta Block in the Kurdistan Region of Iraq following the decision of the Corporation and its partner in March 2015 to cease further drilling activity in the region. In addition, the Corporation expensed \$60 million of exploratory well costs incurred during 2015 that are not reflected in the preceding table.

Capitalized exploratory well costs greater than one year old after completion of drilling were \$1,293 million at September 30, 2015. Approximately 65% of the capitalized well costs in excess of one year relates to Block WA-390-P, offshore Western Australia, where development planning and commercial activities for the Corporation's natural gas discoveries are ongoing. In December 2014, the Corporation executed a non-binding letter of intent with the North West Shelf (NWS), a third party joint venture with existing natural gas processing and liquefaction facilities. Successful execution of binding agreements with NWS is necessary before the Corporation can execute a

gas sales agreement and sanction development of the project. Approximately 35% of the capitalized well costs in excess of one year relates to offshore Ghana, where the Corporation has drilled seven successful exploration wells. Appraisal plans for the seven discoveries on the block were submitted to the Ghanaian government in June 2013 for approval. Four of the plans were approved and discussions continue with the government on the three remaining appraisal plans. In 2014, the Corporation completed three appraisal wells in Ghana. Well results continue to be evaluated and development planning is progressing. The government of Côte d'Ivoire has challenged the maritime border between it and the country of Ghana, which includes a portion of our Deepwater Tano Cape Three Points license. We are unable to proceed with development of this license until there is a resolution of this matter, which may also impact our ability to develop the license.

6. Goodwill

In the second quarter of 2015, the Corporation established a new operating segment, the Bakken Midstream segment which had previously been reported as part of the Onshore reporting unit within the E&P operating segment. As a result, the Corporation has two operating segments, E&P and Bakken Midstream. The E&P operating segment previously had two reporting units, Offshore which had allocated goodwill of \$1,098 million and Onshore which had allocated goodwill of \$760 million prior to forming the Bakken Midstream operating segment. Upon formation of the Bakken Midstream operating segment, the Corporation allocated \$375 million of goodwill from the Onshore reporting unit to the Bakken Midstream operating segment based on the relative fair values of the Bakken Midstream business and the remainder of the Onshore reporting unit. There has been no change to the composition of the Offshore reporting unit.

In accordance with accounting standards for goodwill, the Corporation performed impairment tests at June 30, 2015 on the Offshore and Onshore reporting units prior to creation of the Bakken Midstream segment. No impairment resulted from

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

this assessment. In addition, accounting standards require that following a reorganization, allocated goodwill should be tested for impairment. The Corporation also performed impairment tests on the allocated goodwill for the Bakken Midstream and the Onshore reporting unit at June 30, 2015. Goodwill allocated to the Bakken Midstream operating segment passed the impairment test but the goodwill allocated to the Onshore reporting unit did not pass the impairment test. As a result, the Corporation recorded a noncash pre-tax charge of \$385 million (\$385 million after income taxes) in the second quarter of 2015 to reflect the Onshore reporting unit's goodwill at its implied fair value of zero based on a hypothetical purchase price allocation as stipulated in the accounting standards.

Fair value of the Corporation's Onshore reporting unit was determined using multiple valuation techniques, including projected discounted cash flows of producing assets and known development projects. The determination of projected discounted cash flows depends on estimates about oil and gas reserves, future prices, operating costs, capital expenditures, discount rate and timing of future net cash flows. The Corporation also considered the relative market valuation of similar peer companies using market multiples, and other observable market data, in determining fair value of the Onshore reporting unit. The valuation methodologies used represent Level 3 measurements as defined by accounting standards. Fair value of the Bakken Midstream operating segment was based on the value implied in the Corporation's announced sale in June 2015 of a 50% interest in the Bakken Midstream business.

The changes in the carrying amount of goodwill are as follows (in millions):

	Exploration and Production	Bakken Midstream	Total
Beginning balance at January 1	\$ 1,858	\$ —	\$1,858
Reclassification	(375)	375	—
Impairment	(385)	—	(385)
Ending balance at September 30, 2015	\$ 1,098	\$ 375	\$1,473

7. Debt

In January 2015, the Corporation entered into a \$4 billion syndicated revolving credit facility that expires in January 2020. The new facility, which replaced a \$4 billion facility that was scheduled to expire in April 2016, can be used for borrowings and letters of credit. Based on the Corporation's credit rating as of September 30, 2015, borrowings on the facility will generally bear interest at a rate of 1.075% above the London Interbank Offered Rate (LIBOR) with the facility fee amounting to 0.175% per annum. The interest rate and facility fee are subject to adjustment if the Corporation's credit rating changes. The restrictions on the amount of total borrowings and secured debt are substantially similar to the previous facility. At September 30, 2015, there were no borrowings outstanding or letters of credit issued against the syndicated revolving credit facility.

In July 2015, HIP, a 50/50 joint venture between the Corporation and GIP, incurred \$600 million of debt through a 5-year Term Loan A facility. The proceeds from the debt were distributed equally to the partners. HIP also entered

into a \$400 million 5-year syndicated revolving credit facility, which can be used for borrowings and letters of credit and is expected to fund the joint venture's operating activities and capital expenditures. Borrowings on both loan facilities generally bear interest at LIBOR plus an applicable margin ranging from 1.10% to 2.00%. Facility fees on the revolving credit facility accrue at an applicable rate every quarter, ranging from 0.15% to 0.35% per annum. Prior to obtaining credit ratings, applicable interest margins and facility fees are based on the joint venture's leverage ratio, which is calculated as total debt to Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). If the joint venture obtains credit ratings, pricing levels will be based on its credit ratings in effect from time to time. The joint venture is subject to customary covenants in the credit agreement, including financial covenants that generally require a leverage ratio of no more than 5.0 to 1.0 for the prior four fiscal quarters and an interest coverage ratio, which is calculated as EBITDA to interest expense, of no less than 2.25 to 1.0 for the prior four fiscal quarters. At September 30, 2015, borrowings attributable to the joint venture amounted to \$600 million on the Term Loan A loan facility. This debt is non-recourse to the Corporation.

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

8. Dispositions

In the third quarter of 2015, the Corporation completed the sale of approximately 13,000 acres of Utica dry gas acreage for a sales price of approximately \$120 million. The transaction resulted in a pre-tax gain of \$49 million (\$31 million after income taxes).

9. Exit and Severance Costs

During the nine months ended September 30, 2015, the Corporation recorded exit related costs of \$11 million associated with vacant office space. During the three and nine months ended September 30, 2014, the Corporation recorded exit related costs of \$20 million and \$44 million, respectively. In addition, the Corporation incurred severance expense of \$11 million for the three and nine months ended September 30, 2015 and incurred severance expense totaling \$16 million and \$77 million during the three months and nine months ended September 30, 2014, respectively, primarily related to the Corporation's divestiture program. During the three and nine months ended September 30, 2015, payments for accrued severance costs amounted to \$6 million and \$43 million, respectively. The Corporation has accrued liabilities of \$20 million for exit related costs and \$44 million for severance at September 30, 2015.

10. Retirement Plans

Components of net periodic pension cost consisted of the following:

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	2015	2014	2015	2014
	(In millions)			
Service cost	\$18	\$15	\$53	\$40
Interest cost	26	26	78	75
Expected return on plan assets	(42)	(41)	(127)	(121)
Amortization of unrecognized net actuarial losses	19	8	58	23
Settlement loss	10	11	15	19
Pension expense	\$31	\$19	\$77	\$36

In 2015, the Corporation expects to contribute approximately \$45 million to its funded pension plans. Through September 30, 2015, the Corporation contributed \$41 million of this amount.

11. Income Taxes

In the third quarter of 2015, the Corporation received approval for an international investment incentive. As a result, the Corporation recognized a tax benefit of \$50 million in the current period.

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

12. Weighted Average Common Shares

The net income (loss) and weighted average number of common shares used in the basic and diluted earnings per share computations were as follows:

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014	2015	2014	2015
	(In millions, except per share amounts)			
Net income (loss) from continuing operations, net of income taxes	\$ (239)	\$ 359	\$ (1,168)	\$ 1,697
Less: Net income (loss) attributable to noncontrolling interests	27	—	27	—
Net income (loss) from continuing operations attributable to Hess Corporation	\$ (266)	\$ 359	\$ (1,195)	\$ 1,697
Income (loss) from discontinued operations, net of income taxes	(13)	671	(40)	684
Less: Net income (loss) attributable to noncontrolling interests	—	22	—	56
Net income (loss) from discontinued operations attributable to Hess Corporation	(13)	649	(40)	628
Net income (loss) attributable to Hess Corporation	\$ (279)	\$ 1,008	\$ (1,235)	\$ 2,325

Weighted average common shares outstanding:

Basic	283.5	300.7	283.8	308.6
Effect of dilutive securities				
Restricted common stock	—	1.5	—	1.4
Stock options	—	2.0	—	2.0
Performance share units	—	0.8	—	0.7
Diluted	283.5	305.0	283.8	312.7

Net income (loss) attributable to Hess Corporation per share:

Basic:

Continuing operations	\$ (0.94)	\$ 1.19	\$ (4.21)	\$ 5.51
Discontinued operations	(0.04)	2.16	(0.14)	2.03
Net income (loss) per share	\$ (0.98)	\$ 3.35	\$ (4.35)	\$ 7.54

Diluted:

Continuing operations	\$ (0.94)	\$ 1.18	\$ (4.21)	\$ 5.43
Discontinued operations	(0.04)	2.13	(0.14)	2.01
Net income (loss) per share	\$ (0.98)	\$ 3.31	\$ (4.35)	\$ 7.44

The Corporation granted 1,127,242 shares of restricted stock, 362,873 performance share units (PSUs) and 521,773 stock options during the nine months ended September 30, 2015 and 1,073,179 shares of restricted stock, 298,222 PSUs and 162,911 stock options for the same period in 2014. The Corporation excluded 6,983,524 stock options, 2,955,200 restricted stock awards and 915,238 PSUs from the computation of diluted shares for the three months ended September 30, 2015 and excluded 6,928,958 stock options, 2,953,075 restricted stock awards and 988,963 PSUs from the computation of diluted shares for the nine months ended September 30, 2015 as they are anti-dilutive. The weighted average common shares used in the diluted earnings per share calculations for the three

and nine months ended September 30, 2014 excluded stock options amounting to 124,357 and 1,214,422, respectively, as they were anti-dilutive.

The Corporation is permitted but not required to repurchase up to \$6.5 billion of outstanding common shares under a Board authorized plan. During the third quarter and first nine months of 2015, the Corporation purchased \$55 million and \$91 million of common stock, respectively. As of September 30, 2015 total shares repurchased under the plan were 64.1 million shares at a cost of approximately \$5.4 billion.

13. Guarantees and Contingencies

The Corporation is subject to loss contingencies with respect to various claims, lawsuits and other proceedings. A liability is recognized in the Corporation's consolidated financial statements when it is probable that a loss has been incurred and the amount can be reasonably estimated. If the risk of loss is probable, but the amount cannot be reasonably estimated or the risk of loss is only reasonably possible, a liability is not accrued; however, the Corporation discloses the nature of those contingencies. The Corporation cannot predict with certainty if, how or when existing claims, lawsuits and proceedings will

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PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

be resolved or what the eventual relief, if any, may be, particularly for proceedings that are in their early stages of development or where plaintiffs seek indeterminate damages. Numerous issues may need to be resolved, including through lengthy discovery, conciliation and/or arbitration proceedings, or litigation before a loss or range of loss can be reasonably estimated. Subject to the foregoing, in management's opinion, based upon currently known facts and circumstances, the outcome of such lawsuits, claims and proceedings is not expected to have a material adverse effect on the financial condition of the Corporation. However, the Corporation could incur judgments, enter into settlements or revise its opinion regarding the outcome of certain matters, and such developments could have a material adverse effect on its results of operations in the period in which the amounts are accrued and its cash flows in the period in which the amounts are paid.

In July 2004, HOVENSA LLC (HOVENSA), a 50/50 joint venture between the Corporation's subsidiary, Hess Oil Virgin Islands Corp. (HOVIC), and a subsidiary of Petroleos de Venezuela S.A. (PDVSA), and HOVIC each received a letter from the Commissioner of the Virgin Islands Department of Planning and Natural Resources and Natural Resources Trustees, advising of the Trustee's intention to bring suit against HOVIC and HOVENSA under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The letter alleges that HOVIC and HOVENSA are potentially responsible for damages to natural resources arising from releases of hazardous substances from the HOVENSA refinery, which had been operated by HOVIC until October 1998. An action was filed on May 5, 2005 in the District Court of the Virgin Islands against HOVENSA, HOVIC and other companies that operated industrial facilities on the south shore of St. Croix asserting that the defendants are liable under CERCLA and territorial statutory and common law for damages to natural resources. In 2014 HOVIC, HOVENSA and the government of the U.S. Virgin Islands entered into a settlement agreement pursuant to which HOVENSA paid \$3.5 million and agreed to pay the government of the U.S. Virgin Islands an additional \$40 million no later than December 31, 2014. HOVENSA was unable to make this additional payment because the U.S. Virgin Islands legislature did not approve a proposed operating agreement required to complete a proposed sale of HOVENSA, which would have provided funds to make the settlement payment. Under the terms of the settlement agreement, the U.S. Virgin Islands government was granted a first lien on HOVENSA's assets to secure the settlement payment, and in January 2015 the government commenced a foreclosure action to enforce this lien. On September 15, 2015, HOVENSA filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States District Court of the Virgin Islands - Bankruptcy Division (the "Bankruptcy Court"). As part of its chapter 11 case, HOVENSA is pursuing a court-supervised sale process, seeking to sell all or substantially all of its assets pursuant to section 363 of the Bankruptcy Code. The Bankruptcy Court has approved certain procedures by which HOVENSA will receive bids for its assets and determine the eventual buyer of its assets in the section 363 sale process. The Bankruptcy Court also entered an order approving HOVENSA's entry into a \$40 million debtor-in-possession credit facility with HOVENSA's owners for the purpose of funding HOVENSA through December 31, 2015. HOVIC has committed to fund up to \$20 million, if needed, to HOVENSA, with PDVSA funding the remainder of the facility. The Corporation cannot predict with certainty if, how, or when HOVENSA's chapter 11 case will be resolved. As part of HOVENSA's chapter 11 case, parties, including the government of the Virgin Islands and other creditors, may pursue claims against HOVENSA, HOVIC, or the Registrant relating to the ownership and management of, and business dealings with HOVENSA.

On September 13, 2015, two days before HOVENSA filed for chapter 11 relief, the government of the U.S. Virgin Islands filed a complaint against the Corporation in the territorial Superior Court of the Virgin Islands, Division of St. Croix, alleging, among other things, that the Corporation violated the Territory's Criminally Influenced and Corrupt

Organizations Act and committed various torts in connection with the 50% ownership interest of its subsidiary, HOVIC, in HOVENSA. In the complaint, the government of the U.S. Virgin Islands claims aggregate damages of up to approximately \$1.5 billion and is seeking a treble damage award with respect to certain claims. The Corporation has filed a notice removing the complaint to the federal District Court of the Virgin Islands and filed a motion to refer the complaint to the Bankruptcy Court presiding over HOVENSA's chapter 11 case. The Corporation will vigorously defend itself and believes that it has strong defenses against these claims alleged by the government of the U.S. Virgin Islands.

In February 2015, the Pension Benefit Guaranty Corporation (PBGC) issued a notice of determination to terminate the HOVENSA pension plan. Resolution of this matter with the PBGC will likely occur in connection with HOVENSA's pending chapter 11 case.

The Corporation is from time to time involved in other judicial and administrative proceedings, including proceedings relating to other environmental matters. The Corporation cannot predict with certainty if, how or when such proceedings will be resolved or what the eventual relief, if any, may be, particularly for proceedings that are in their early stages of

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

development or where plaintiffs seek indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters before a loss or range of loss can be reasonably estimated for any proceeding. Subject to the foregoing, in management's opinion, based upon currently known facts and circumstances, the outcome of such proceedings is not expected to have a material adverse effect on the financial condition, results of operations or cash flows of the Corporation.

14. Segment Information

The Corporation has two operating segments, Exploration and Production and Bakken Midstream. The Exploration and Production operating segment explores for, develops, produces, purchases and sells crude oil, natural gas liquids and natural gas with production operations primarily in the United States (U.S.), Denmark, Equatorial Guinea, the Joint Development Area of Malaysia/Thailand (JDA), Malaysia, and Norway. The Bakken Midstream operating segment provides fee-based services including crude oil and natural gas gathering, processing of natural gas and the fractionation of natural gas liquids, terminaling and loading crude oil and natural gas liquids, transportation of crude oil by rail car and the storage and terminaling of propane, primarily located in the Bakken shale play of North Dakota. All unallocated costs are reflected under Corporate, Interest and Other.

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents operating segment financial data for continuing operations (in millions):

For the Three Months Ended September 30, 2015	Exploration and Production	Bakken Midstream	Corporate, Interest and Other	Eliminations	Total
Operating Revenues - Third parties	\$ 1,671	\$ —	\$ —	\$ —	\$1,671
Intersegment Revenues	—	148	—	(148)	—
Operating Revenues	\$ 1,671	\$ 148	\$ —	\$ (148)	\$1,671
Net income (loss) from continuing operations attributable to Hess Corporation	\$ (188)	\$ 16	\$ (94)	\$ —	\$ (266)
Depreciation, depletion and amortization	963	22	3	—	988
Provision (benefit) for income taxes	(256)	10	(54)	—	(300)
Capital Expenditures*	770	88	—	—	858
For the Three Months Ended September 30, 2014	Exploration and Production	Bakken Midstream	Corporate, Interest and Other	Eliminations	Total
Operating Revenues - Third parties	\$ 2,678	\$ —	\$ —	\$ —	\$2,678
Intersegment Revenues	—	89	—	(89)	—
Operating Revenues	\$ 2,678	\$ 89	\$ —	\$ (89)	\$2,678
Net income (loss) from continuing operations attributable to Hess Corporation	\$ 433	\$ 8	\$ (82)	\$ —	\$ 359
Depreciation, depletion and amortization	815	19	4	—	838
Provision (benefit) for income taxes	278	5	(51)	—	232
Capital Expenditures*	1,296	47	19	—	1,362
For the Nine Months Ended September 30, 2015	Exploration and Production	Bakken Midstream	Corporate, Interest and Other	Eliminations	Total
Operating Revenues - Third parties	\$ 5,162	\$ —	\$ —	\$ —	\$5,162
Intersegment Revenues	—	423	—	(423)	—
Operating Revenues	\$ 5,162	\$ 423	\$ —	\$ (423)	\$5,162

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Net income (loss) from continuing operations attributable to Hess Corporation	\$ (1,004)	\$ 75	\$ (266)	\$ —	\$(1,195)
Depreciation, depletion and amortization	2,899	65	8	—	2,972
Provision (benefit) for income taxes	(687)	45	(165)	—	(807)
Capital Expenditures*	2,915	193	—	—	3,108

For the Nine Months Ended September 30, 2014	Exploration	Bakken	Corporate,	Eliminations	Total
	and Production	Midstream	Interest and Other		
Operating Revenues - Third parties	\$ 8,180	\$ —	\$ —	\$ —	\$8,180
Intersegment Revenues	—	218	—	(218)	—
Operating Revenues	\$ 8,180	\$ 218	\$ —	\$ (218)	\$8,180

Net income (loss) from continuing operations attributable to Hess Corporation	\$ 2,003	\$ 2	\$ (308)	\$ —	\$1,697
Depreciation, depletion and amortization	2,289	48	12	—	2,349
Provision (benefit) for income taxes	754	2	(193)	—	563
Capital Expenditures*	3,491	168	51	—	3,710

* Capital expenditures include accruals.

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Identifiable assets by operating segment were as follows:

	September 30, 2015	December 31, 2014
	(In millions)	
Exploration and Production	\$30,898	\$ 32,742
Bakken Midstream	2,650	2,465
Corporate, Interest and Other	2,908	2,213
Continuing operations	36,456	37,420
Discontinued operations	—	1,158
Total	\$36,456	\$ 38,578

15. Financial Risk Management

In the normal course of its business, the Corporation is exposed to commodity risks related to changes in the prices of crude oil, natural gas liquids, and natural gas as well as changes in interest rates and foreign currency values. In the disclosures that follow, corporate risk management activities refer to the mitigation of these risks through hedging activities.

Corporate Financial Risk Management Activities: Financial risk management activities include transactions designed to reduce risk in the selling prices of crude oil or natural gas produced by the Corporation or to reduce exposure to foreign currency or interest rate movements. Generally, futures, swaps or option strategies may be used to fix or reduce volatility in the forward selling price of a portion of the Corporation's crude oil or natural gas production. Forward contracts may also be used to purchase certain currencies in which the Corporation does business with the intent of reducing exposure to foreign currency fluctuations. These forward contracts comprise various currencies, primarily the British Pound and Danish Krone. Interest rate swaps may be used to convert interest payments on certain long-term debt from fixed to floating rates.

The gross notional volumes of Corporate risk management derivative contracts outstanding were as follows:

	September 30, 2015	December 31, 2014
Commodity, primarily crude oil (millions of barrels)	9	—
Foreign exchange (millions of USD)	\$ 985	\$ 1,189
Interest rate swaps (millions of USD)	\$ 1,300	\$ 1,300

In the first quarter of 2015, the Corporation entered into Brent crude oil collars to hedge 50,000 barrels of oil per day (bopd) from March 2015 to December 2015 at a cost of \$38 million. This program was supplemented in the second quarter of 2015 by entering into West Texas Intermediate (WTI) crude oil collars to hedge 20,000 bopd from May 6, 2015 to December 2015 at a cost of \$10 million. Under the terms of both programs, the floor price to be received by the Corporation is \$60 per barrel and the ceiling price it may receive is \$80 per barrel. All crude oil collars have been designated as cash flow hedges.

Realized and unrealized gains from Brent and WTI crude oil collars for the three and nine months ended September 30, 2015 increased Sales and other operating revenues by \$42 million and \$24 million, respectively, which was net of pre-tax losses of \$23 million and \$46 million, respectively, associated with changes in time value of the hedging contracts. Realized and unrealized gains in 2014 amounted to \$37 million and \$36 million for the three months and nine months ended September 30, 2014, respectively. There was no significant hedge ineffectiveness for the three months and nine months ended September 30, 2015. The Corporation recorded gains associated with hedge ineffectiveness of approximately \$6 million and \$2 million for the three months and nine months ended September 30, 2014, respectively. At September 30, 2015, the after-tax deferred gains in Accumulated other comprehensive income (loss) related to crude oil collars was approximately \$47 million, which will be reclassified into earnings during 2015 as the hedged crude oil sales are recognized in earnings.

At September 30, 2015 and December 31, 2014, the Corporation had interest rate swaps with gross notional amounts of \$1,300 million. During the first quarter of 2015, the Corporation settled existing interest rate swaps and received cash proceeds of \$41 million. Simultaneously, the Corporation entered into new interest rate swap arrangements. All interest rate

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

swaps have been designated as fair value hedges. The Corporation recorded increases of \$10 million and \$14 million for the three months and nine months ended September 30, 2015, respectively, and decreases of \$10 million and \$5 million for the three months and nine months ended September 30, 2014, respectively, in the fair value of interest rate swaps (excluding accrued interest). These items, excluding accrued interest, offset changes in the carrying value of the hedged fixed-rate debt.

Total foreign exchange gains and losses are reported in Other, net in Revenues and non-operating income in the Statement of Consolidated Income and amounted to a loss of \$15 million and a loss of \$7 million in the three months and nine months ended September 30, 2015, respectively, compared with a gain of \$19 million and a loss of \$6 million in the three months and nine months ended September 30, 2014, respectively. Gains on foreign exchange derivative contracts not designated as hedges, which are a component of total foreign exchange gains and losses, amounted to \$13 million and \$71 million in the three and nine months ended September 30, 2015, respectively, and \$81 million and \$68 million the three and nine months ended September 30, 2014, respectively.

Fair Value Measurements: The following table provides information about the effect of netting arrangements on the presentation of the Corporation's physical and financial derivative assets and (liabilities) that are measured at fair value, with the effect of single counterparty multilateral netting being included in column (v):

	Gross Amounts Offset in the Consolidated Balance Sheet			Net Amounts Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet	Net Amounts
	Gross Amounts (i)	Financial Instrument (ii)	Cash Collateral (iii)	(iv)=(i)+(ii)+(iii)	(v)	(vi)=(iv)+(v)
	(In millions)					
September 30, 2015						
Assets						
Derivative contracts						
Commodity	\$97	\$ (21)	\$ —	\$ 76	\$ —	\$ 76
Interest rate and other	33	(4)	—	29	—	29
Counterparty netting	—	—	—	—	—	—
Total derivative contracts	\$130	\$ (25)	\$ —	\$ 105	\$ —	\$ 105
Liabilities						
Derivative contracts						
Commodity	\$(24)	\$ 21	\$ —	\$ (3)	\$ —	\$ (3)
Other	(4)	4	—	—	—	—
Counterparty netting	—	—	—	—	—	—

Total derivative contracts	\$(28)	\$ 25	\$	—	\$ (3)	\$	—	\$ (3)
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The net assets and liabilities reflected in column (iv) of the table above were included in Accounts receivable – Trade and Accounts payable, respectively.

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PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The table below reflects the gross and net fair values of risk management derivative instruments:

	Accounts Receivable	Accounts Payable
	(In millions)	
September 30, 2015		
Derivative contracts designated as hedging instruments		
Commodity	\$76	\$ —
Interest rate and other	14	—
Total derivative contracts designated as hedging instruments	90	—
Derivative contracts not designated as hedging instruments		
Commodity	21	(24)
Foreign exchange	19	(4)
Total derivative contracts not designated as hedging instruments	40	(28)
Gross fair value of derivative contracts	130	(28)
Master netting arrangements	(25)	25
Net fair value of derivative contracts	\$105	\$ (3)

At September 30, 2015, Level 1 items comprised \$3 million of Derivative liabilities. Level 2 items comprised Derivative assets of \$105 million, which included commodity contracts of \$76 million and interest rate and other items of \$29 million. The Corporation did not have Level 3 instruments at September 30, 2015. For all other short-term financial instruments, primarily cash and cash equivalents, accounts receivable and accounts payable, the carrying value approximated the respective fair value at September 30, 2015. Total Long-term debt of \$6,552 million at September 30, 2015, had a fair value of \$6,935 million based on Level 2 inputs.

Discontinued Operations - Trading Activities: In the first quarter of 2015, the Corporation sold its interest in the energy trading joint venture, HETCO. Pursuant to the terms of the sale, the successor entity is permitted to continue to utilize the Corporation's guarantees issued in favor of counterparties existing as of the sales date until November 12, 2015, provided that new trades are for a period of one year or less, comply with certain credit requirements, and net exposures remain within value at risk limits previously applied by the Corporation. The Corporation has the right to seek reimbursement from the successor entity upon any counterparty draw on the applicable guarantee from the Corporation. The fair value of the guarantee recorded by the Corporation amounted to \$11 million.

PART I - FINANCIAL INFORMATION (CONT'D.)

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

Overview

Hess Corporation is a global Exploration and Production (E&P) company that explores for, develops, produces, purchases, and sells crude oil, natural gas liquids, and natural gas with production operations primarily in the United States (U.S.), Denmark, Equatorial Guinea, the Joint Development Area of Malaysia/Thailand (JDA), Malaysia, and Norway. The Corporation's Bakken Midstream operating segment, which was established in the second quarter of 2015, provides fee-based services including crude oil and natural gas gathering, processing of natural gas and the fractionation of natural gas liquids, transportation of crude oil by rail car, terminaling and loading crude oil and natural gas and the storage and terminaling of propane, primarily in the Bakken shale play of North Dakota. Certain previously reported amounts have been recast to reflect the separation of Bakken Midstream business from the E&P operating segment.

Third Quarter Results

The Corporation reported a net loss of \$279 million in the third quarter of 2015, compared with net income of \$1,008 million in the third quarter of 2014. Excluding items affecting comparability of earnings between periods on page 21, adjusted net losses were \$291 million in the third quarter of 2015 down from adjusted net income of \$377 million in the third quarter of 2014. Lower realized selling prices reduced adjusted third quarter 2015 results by approximately \$745 million after-tax compared with the prior-year quarter. In addition, third quarter 2015 results benefitted from higher production and lower cash operating costs that were partially offset by higher depreciation, depletion, and amortization expense.

Response to Low Oil Prices

In response to the decline in oil prices that began in late 2014, the Corporation conducted an extensive company-wide review of its cost base and engaged with our suppliers to identify opportunities to reduce costs. As a result of these efforts to date, the Corporation has lowered its projected 2015 E&P capital and exploratory expenditures by \$300 million to \$4.1 billion and lowered forecasted cash operating costs by approximately \$300 million, or approximately \$2.50 per barrel. In addition, the Corporation significantly reduced share repurchases during the nine months ended September 30, 2015 to \$91 million.

While the Corporation's 2016 budgeting process will not be finalized until the end of the year, the Corporation presently expects full year 2016 E&P capital and exploratory expenditures to be in the range of \$2.9 billion to \$3.1 billion. Oil and gas production in 2016 is forecast to be in the range of 330,000 to 350,000 barrels of oil equivalent per day (boepd) compared with projected production of 370,000 to 375,000 boepd in 2015. Based on current strip crude oil prices, the Corporation forecasts a significant net loss and a net operating cash flow deficit (including capital expenditures) in 2015 and 2016. At September 30, 2015, the Corporation had \$3.0 billion in cash and cash equivalents and total liquidity of nearly \$8 billion. The Corporation expects to fund its net operating cash flow deficit (including capital expenditures) for the remainder of 2015 and the full year of 2016 with existing cash on hand, and, if necessary, borrowings under its credit facilities. The Corporation plans to maintain its financial flexibility and will continue to pursue further cost reductions and supply chain savings. Depending on where crude oil prices trend, the Corporation may take other steps to improve its financial position by further reducing its planned capital program, accessing other sources of liquidity by issuing debt and equity securities, and/or pursuing further asset sales.

Exploration and Production

E&P incurred a net loss of \$188 million in the third quarter of 2015 compared with net income of \$433 million in the third quarter of 2014. Excluding items affecting comparability of earnings between periods, the adjusted net loss was \$221 million in the third quarter of 2015 compared to adjusted net income of \$404 million in 2014. In the third quarter of 2015, the Corporation's average worldwide crude oil selling price, including the effect of hedging, was \$45.66 per barrel down from \$96.78 per barrel in the third quarter of 2014. The average worldwide natural gas liquids selling price was \$7.17 per barrel in the third quarter of 2015, down from \$29.62 per barrel in the year-ago quarter while the average worldwide natural gas selling price was \$4.02 per thousand cubic feet (mcf) in the third quarter of 2015 compared with \$5.59 per mcf in the third quarter a year-ago. Worldwide crude oil and natural gas production was 380,000 barrels of oil equivalent per day (boepd) in the third quarter of 2015, compared with 318,000 boepd in the same period of 2014.

PART I - FINANCIAL INFORMATION (CONT'D.)

Overview (continued)

The following is an update of E&P activities:

- In North Dakota, net production from the Bakken oil shale play increased to an average of 113,000 boepd for the third quarter of 2015 compared with 86,000 boepd in the prior-year quarter due to continued drilling activities. The Corporation brought 48 gross operated wells on production in the third quarter of 2015 bringing the year-to-date total to 185 wells, and expects a further 34 wells to be brought on production in the fourth quarter of 2015. Drilling and completion costs per operated well averaged \$5.3 million for the third quarter of 2015, a reduction of 26% from the third quarter of 2014. The Corporation operated an average of seven rigs in the third quarter of 2015 compared with 17 rigs in the third quarter of 2014. The Corporation expects full year 2015 Bakken production to approximate 110,000 boepd. Based on preliminary forecasts, the Corporation intends to operate four Hess operated rigs in 2016 and expects full-year 2016 production to be in the range of 95,000 boepd to 105,000 boepd.
 - In the Utica shale, net production amounted to 28,000 boepd in the third quarter of 2015, compared to 11,000 boepd in the prior-year quarter. Five wells were drilled, five wells were completed and eleven wells were brought on production across the Corporation's joint venture acreage in the third quarter of 2015. The Corporation is currently in discussions with its joint venture partner on activity levels for 2016. In the third quarter of 2015, the Corporation completed the sale of approximately 13,000 acres of Utica dry gas acreage for consideration of approximately \$120 million.
 - In the Gulf of Mexico, third quarter net production was 83,000 boepd compared to 70,000 boepd in the prior-year quarter, with higher volumes from Tubular Bells, which totaled 19,000 boepd in the third quarter of 2015, being primarily offset by lower production from the Llano Field. During the third quarter, the Tubular Bells Field experienced a mechanical issue related to a subsurface safety valve that is stuck in the closed position, as well as a near wellbore skin effect at two producing wells and, consequently, these items will require subsurface well intervention work. As a result, full-year 2015 production from Tubular Bells is expected to approximate 20,000 boepd.
- Net production from the Valhall Field, offshore Norway increased to 35,000 boepd for the third quarter of 2015 compared with 25,000 boepd in the prior-year quarter due to a higher number of active wells and increased facility uptime in the current period.
- At the North Malay Basin in the Gulf of Thailand, the Corporation progressed fabrication of the Central Processing Platform, which is part of the full-field development project. The project is on schedule to be completed in 2017.
- In Guyana at the Stabroek Block (Hess 30 percent), the operator, Esso Exploration and Production Guyana Limited, announced a significant oil discovery at the Liza-1 well in the second quarter of 2015. The operator plans to drill an appraisal well in the first quarter of 2016 and is currently completing preparatory technical work and developing drilling plans. A new 17,000 square kilometer 3D seismic shoot is in process and the operator, along with its partners, continues to evaluate the resource potential of the block.

PART I - FINANCIAL INFORMATION (CONT'D.)

Results of Operations

The after-tax income (loss) by major operating activity is summarized below:

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014	2014	2014	2014
	(In millions, except per share amounts)			
Net income (loss) attributable to Hess Corporation:				
Exploration and Production	\$(188)	\$433	\$(1,004)	\$2,003
Bakken Midstream	16	8	75	2
Corporate, Interest and Other	(94)	(82)	(266)	(308)
Income (loss) from continuing operations	(266)	359	(1,195)	1,697
Discontinued operations	(13)	649	(40)	628
Total	\$(279)	\$1,008	\$(1,235)	\$2,325
Net income (loss) attributable to Hess Corporation per share - Diluted:				
Continuing operations	\$(0.94)	\$1.18	\$(4.21)	\$5.43
Discontinued operations				