

HESS CORP
Form 10-Q
May 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarter ended March 31, 2013

or

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

For the transition period from _____ to _____

Commission File Number 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)

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

(Address of Principal Executive Offices)

10036

(Zip Code)

(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 March 31, 2013, there were 343,297,818 shares of Common Stock outstanding.

PART I FINANCIAL INFORMATION**Item 1. Financial Statements.****HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****CONSOLIDATED BALANCE SHEET (UNAUDITED)**

	March 31, 2013	December 31, 2012
	(In millions, except share amounts)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 444	\$ 642
Accounts receivable		
Trade	1,567	4,057
Other	273	281
Inventories	686	1,259
Assets held for sale	7,545	1,092
Other current assets	903	1,056
Total current assets	11,418	8,387
INVESTMENTS IN AFFILIATES	337	443
PROPERTY, PLANT AND EQUIPMENT		
Total at cost	40,255	45,553
Less: Reserves for depreciation, depletion, amortization and lease impairment	14,604	16,746
Property, plant and equipment net	25,651	28,807
GOODWILL	1,869	2,208
DEFERRED INCOME TAXES	2,742	3,126
OTHER ASSETS	362	470
TOTAL ASSETS	\$ 42,379	\$ 43,441
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 571	\$ 2,809
Accrued liabilities	2,616	3,287
Taxes payable	751	960
Liabilities associated with assets held for sale	3,064	539
Short-term debt and current maturities of long-term debt	1,904	787
Total current liabilities	8,906	8,382
LONG-TERM DEBT	5,472	7,324
DEFERRED INCOME TAXES	2,210	2,662
ASSET RETIREMENT OBLIGATIONS	1,994	2,212

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OTHER LIABILITIES AND DEFERRED CREDITS	1,272	1,658
Total liabilities	19,854	22,238
EQUITY		
Hess Corporation Stockholders' Equity		
Common stock, par value \$1.00		
Authorized 600,000,000 shares		
Issued 343,297,818 shares at March 31, 2013;		
341,527,617 shares at December 31, 2012	343	342
Capital in excess of par value	3,569	3,524
Retained earnings	18,958	17,717
Accumulated other comprehensive income (loss)	(452)	(493)
Total Hess Corporation stockholders' equity	22,418	21,090
Noncontrolling interests	107	113
Total equity	22,525	21,203
TOTAL LIABILITIES AND EQUITY	\$ 42,379	\$ 43,441

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 March 31, 2013 2012	
	(In millions, except per share amounts)	
REVENUES AND NON-OPERATING INCOME		
Sales and other operating revenues	\$ 3,466	\$ 2,896
Gains on asset sales	688	36
Other, net	(37)	29
Total revenues and non-operating income	4,117	2,961
COSTS AND EXPENSES		
Cost of products sold (excluding items shown separately below)	596	270
Operating costs and expenses	585	535
Production and severance taxes	130	138
Exploration expenses, including dry holes and lease impairment	219	253
General and administrative expenses	149	132
Interest expense	106	104
Depreciation, depletion and amortization	679	662
Total costs and expenses	2,464	2,094
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,653	867
Provision for income taxes	470	328
INCOME FROM CONTINUING OPERATIONS	1,183	539
INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES	90	21
NET INCOME	1,273	560
Less: Net income (loss) attributable to noncontrolling interests	(3)	15
NET INCOME ATTRIBUTABLE TO HESS CORPORATION	\$ 1,276	\$ 545
NET INCOME ATTRIBUTABLE TO HESS CORPORATION PER SHARE		
BASIC:		
Continuing operations	\$ 3.47	\$ 1.58
Discontinued operations	0.29	0.03
NET INCOME PER SHARE	\$ 3.76	\$ 1.61
DILUTED:		
Continuing operations	\$ 3.43	\$ 1.57
Discontinued operations	0.29	0.03
NET INCOME PER SHARE	\$ 3.72	\$ 1.60

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WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (DILUTED)		342.6		340.3
COMMON STOCK DIVIDENDS PER SHARE	\$.10	\$.10

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	
	March 31,	
	2013	2012
	(In millions)	
NET INCOME	\$ 1,273	\$ 560
OTHER COMPREHENSIVE INCOME (LOSS):		
Derivatives designated as cash flow hedges		
Effect of hedge losses reclassified to income	4	154
Income taxes on effect of hedge losses reclassified to income	(2)	(57)
Net effect of hedge losses reclassified to income	2	97
Change in fair value of cash flow hedges	18	(479)
Income taxes on change in fair value of cash flow hedges	(7)	187
Net change in fair value of cash flow hedges	11	(292)
Change in derivatives designated as cash flow hedges, after-tax	13	(195)
Pension and other postretirement plans		
Actuarial gains (losses) in plan liabilities	245	
Income taxes on actuarial changes in plan liabilities	(89)	
Net effect of actuarial gains (losses) in plan liabilities	156	
Amortization of net actuarial losses	22	21
Income taxes on amortization of net actuarial losses	(8)	(8)
Net effect of amortization of net actuarial losses	14	13
Change in pension and other postretirement plans, after-tax	170	13
Foreign currency translation adjustment		
Foreign currency translation adjustment	(169)	196
Reclassified to Gains on asset sales	25	
Change in foreign currency translation adjustment	(144)	196
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	39	14
COMPREHENSIVE INCOME	1,312	574
Less: Comprehensive income (loss) attributable to noncontrolling interests	(5)	19
COMPREHENSIVE INCOME ATTRIBUTABLE TO HESS CORPORATION	\$ 1,317	\$ 555

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See accompanying notes to consolidated financial statements.

PART I FINANCIAL INFORMATION (CONT. D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****STATEMENT OF CONSOLIDATED CASH FLOWS (UNAUDITED)**

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,273	\$ 560
Adjustments to reconcile net income to net cash provided by operating activities		
Gains on asset sales	(688)	(36)
Depreciation, depletion and amortization	679	662
Exploratory dry hole costs	30	88
Lease impairment	79	57
Stock compensation expense	12	13
Provision (benefit) for deferred income taxes	141	(143)
Income from discontinued operations	(90)	(21)
Changes in operating assets and liabilities	(650)	(213)
Cash provided by operating activities continuing operations	786	967
Cash provided by operating activities discontinued operations	33	21
Net cash provided by operating activities	819	988
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(1,509)	(1,856)
Proceeds from asset sales	1,326	132
Other, net	(66)	(26)
Cash used in investing activities continuing operations	(249)	(1,750)
Cash used in investing activities discontinued operations	(12)	(22)
Net cash used in investing activities	(261)	(1,772)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayments) of debt with maturities of 90 days or less	(913)	581
Debt with maturities of greater than 90 days		
Borrowings	185	390
Repayments	(24)	(82)
Cash dividends paid	(35)	(68)
Other, net	31	8
Cash provided by (used in) financing activities continuing operations	(756)	829
Cash provided by (used in) financing activities discontinued operations		
Net cash provided by (used in) financing activities	(756)	829
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(198)	45
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	642	351
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 444	\$ 396

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See accompanying notes to consolidated financial statements.

PART I FINANCIAL INFORMATION (CONT. D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****STATEMENT OF CONSOLIDATED EQUITY (UNAUDITED)**

	Common Stock	Capital in Excess of Par	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (In millions)	Total Hess Stockholders Equity	Noncontrolling Interests	Total Equity
BALANCE AT JANUARY 1, 2013	\$ 342	\$ 3,524	\$ 17,717	\$ (493)	\$ 21,090	\$ 113	\$ 21,203
Net income			1,276		1,276	(3)	1,273
Other comprehensive income (loss)				41	41	(2)	39
Comprehensive income (loss)					1,317	(5)	1,312
Restricted common stock awards, net	1	8			9		9
Employee stock options, including income tax benefits		33			33		33
Performance share units		4			4		4
Cash dividends declared			(35)		(35)		(35)
Noncontrolling interests, net						(1)	(1)
BALANCE AT MARCH 31, 2013	\$ 343	\$ 3,569	\$ 18,958	\$ (452)	\$ 22,418	\$ 107	\$ 22,525
BALANCE AT JANUARY 1, 2012	\$ 340	\$ 3,417	\$ 15,826	\$ (1,067)	\$ 18,516	\$ 76	\$ 18,592
Net income			545		545	15	560
Other comprehensive income (loss)				10	10	4	14
Comprehensive income (loss)					555	19	574
Restricted common stock awards, net	2	7			9		9
Employee stock options, including income tax benefits		17			17		17
Cash dividends declared			(34)		(34)		(34)
Noncontrolling interests, net						(1)	(1)
BALANCE AT MARCH 31, 2012	\$ 342	\$ 3,441	\$ 16,337	\$ (1,057)	\$ 19,063	\$ 94	\$ 19,157

See accompanying notes to consolidated financial statements.

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 Hess Corporation's (the Corporation or Hess) consolidated financial position at March 31, 2013 and December 31, 2012 and the consolidated results of operations and cash flows for the three month periods ended March 31, 2013 and 2012. The unaudited results of operations for the interim periods reported are not necessarily indicative of results to be expected for the full year.

In March 2013, the Corporation announced an asset sales program that includes divesting its downstream businesses and oil and gas properties in Indonesia and Thailand to continue its transformation into a more focused pure play exploration and production (E&P) company. The downstream businesses to be divested include its terminal, retail, energy marketing and energy trading operations. The Corporation has initiated a sales process for each of the assets in the program and anticipates completing the divestitures within one year. In February 2013, the Corporation ceased refining at its Port Reading facility, completing its exit from all refining operations. The results of the terminal, retail, energy marketing, energy trading and Port Reading refining operations (the downstream businesses) have been classified as discontinued operations for all periods presented. See Note 2, Discontinued Operations. Unless indicated otherwise, the information in the notes to the Consolidated Financial Statements relates to the Corporation's continuing operations.

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 U.S. generally accepted accounting principles (GAAP) 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 Form 10-K for the year ended December 31, 2012. Certain information in the financial statements and notes has been reclassified to conform to the current period presentation.

Recently adopted accounting pronouncements: Effective January 1, 2013, the Corporation adopted ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (AOCI) which requires aggregated disclosures of amounts reclassified out of AOCI as well as a presentation of changes in AOCI balances by component. The changes in AOCI by component, including amounts reclassified out of AOCI in their entirety are presented in the Statement of Consolidated Comprehensive Income.

Effective January 1, 2013, the Corporation adopted ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities which requires disclosure of information needed to evaluate the effects or potential effects of the contractual right of setoff for assets and liabilities. This accounting standard update applies to assets and liabilities related to financial instruments and derivatives subject to an enforceable master netting arrangement or similar agreement. The required disclosures are presented in Note 13, Risk Management and Trading Activities.

2. Discontinued Operations

As a result of the Corporation's plans to divest its downstream businesses, the results of operations for these businesses have been reported as discontinued operations in the Statement of Consolidated Income and the related assets and liabilities have been classified as held for sale at March 31, 2013 in the Consolidated Balance Sheet. The downstream businesses were previously included in the reported Marketing and Refining segment.

PART I FINANCIAL INFORMATION (CONT D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Sales and other operating revenues and income from discontinued operations for the downstream businesses were as follows:

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Sales and other operating revenues	\$ 7,413	\$ 6,800
Income from discontinued operations before income taxes	\$ 144	\$ 30
Provision for income taxes	54	9
Income from discontinued operations, net of income taxes	90	21
Less: Net income (loss) attributable to noncontrolling interests	(10)	9
Net income from discontinued operations attributable to Hess Corporation	\$ 100	\$ 12

The following table presents the assets and liabilities of the discontinued downstream businesses that are classified as held for sale (in millions):

	March 31, 2013
Accounts receivable	\$ 2,888
Inventories	457
Investment in affiliates	173
Property, plant and equipment, net	1,130
Other assets	145
Total assets	\$ 4,793
Accounts payable and accrued liabilities	\$ 2,467
Other liabilities and deferred credits	143
Total liabilities	\$ 2,610

The inventories of the downstream businesses consisted of \$1,200 million of refined petroleum products and natural gas, less a last-in, first out (LIFO) adjustment of \$851 million, and \$108 million of merchandise.

3. Exit and Disposal Costs

The following table provides the components of and changes in the Corporation's restructuring accruals:

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	E&P	Corporate and Other	Discontinued Operations (a)	Total
	(In millions)			
<u>Employee Severance</u>				
Balance at beginning of period	\$	\$	\$	\$
Provision	71	18	69	158 (b)
Payments				
Balance at March 31, 2013	71	18	69	158

PART I FINANCIAL INFORMATION (CONT. D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

	E&P	Corporate and Other	Discontinued Operations (a)	Total
	(In millions)			
Facility Exit Costs				
Balance at beginning of period				
Provision			21	21 (c)
Payments			(2)	(2)
Balance at March 31, 2013			19	19
Total restructuring accruals at March 31, 2013	\$ 71	\$ 18	\$ 88	\$ 177

(a) Comprises the downstream businesses.

(b) Of the total employee severance charges, \$34 million was included in Operating costs and expenses, \$14 million in Exploration expenses, \$41 million in General and administrative expenses and \$69 million in Income from discontinued operations.

(c) Included in Income from discontinued operations.

The employee severance charges resulted primarily from the Corporation's asset sales program announced in March 2013, that was initiated to continue the transformation to a more focused pure play E&P company, and were based on probable amounts incurred under ongoing severance arrangements or other statutory requirements, plus amounts earned through March 31, 2013 under enhanced benefit arrangements. The Corporation expects to incur additional enhanced benefit charges of approximately \$115 million beyond the amounts accrued at March 31, 2013, of which \$21 million relates to E&P, \$26 million to Corporate and Other and \$68 million to discontinued operations. These additional enhanced benefit charges will be recognized ratably over the estimated future service period. The Corporation's estimate of employee severance costs could change due to a number of factors, including the number of employees that work through the requisite service date and the timing of when each divestiture occurs. The facility exit costs relate to the shutdown of the Port Reading refining operations in February 2013. In order to complete this shutdown, the Corporation expects to incur approximately \$40 million of additional costs beyond the amounts accrued at March 31, 2013, principally costs to idle the refinery equipment.

In the first quarter of 2013, the Corporation also recorded \$80 million of additional depreciation after reducing the estimated useful life for the Port Reading refining facility due to its decision to cease refining operations. The additional depreciation is included in Income from discontinued operations.

4. Dispositions

In March 2013, the Corporation sold its interests in the Azeri-Chirag-Guneshli (ACG) fields (Hess 3%), offshore Azerbaijan in the Caspian Sea, and the associated Baku-Tbilisi-Ceyhan (BTC) oil transportation pipeline company (Hess 2%) for cash proceeds of \$884 million. The transaction resulted in an after-tax gain of \$360 million, after deducting the net book value of assets including allocated goodwill of \$52 million.

In January 2013, the Corporation completed the sale of its interests in the Beryl fields and the Scottish Area Gas Evacuation System (SAGE) in the United Kingdom North Sea for cash proceeds of \$442 million. The transaction resulted in an after-tax gain of \$323 million, after deducting the net book value of assets including allocated goodwill of \$48 million.

In January 2012, the Corporation completed the sale of its interest in the Snohvit Field (Hess 3%), a liquefied natural gas project offshore Norway, for cash proceeds of \$132 million. The transaction resulted in an after-tax gain of \$36 million, after deducting the net book value of assets including allocated goodwill of \$14 million.

PART I FINANCIAL INFORMATION (CONT D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****5. Inventories**

Inventories consisted of the following:

	March 31, 2013	December 31, 2012
	(In millions)	
Crude oil and other charge stocks	\$ 284	\$ 493
Refined petroleum products and natural gas		1,362
Less: LIFO		(1,123)
	284	732
Merchandise, materials and supplies	402	527
Total inventories	\$ 686	\$ 1,259

In the first quarter of 2013, the Corporation recognized a gain of \$218 million (\$137 million after income taxes) in Income from discontinued operations relating to the liquidation of LIFO inventories following the cessation of refining operations at the Port Reading facility. The inventories of the downstream businesses have been classified as Assets held for sale at March 31, 2013.

6. Property, Plant and Equipment***Assets Held for Sale***

Exploration and Production: In March 2013, the Corporation reached agreements to sell its assets in the Eagle Ford Shale in Texas for \$265 million and its Russian subsidiary, Samara-Nafta. In March, the Corporation also approved a plan to divest its assets in Thailand (principally comprising Pailin (Hess 15%) and Sinphuhorm (Hess 35%)) and in Indonesia (principally comprising Pangkah (Hess 75%) and Natuna (Hess 23%)). In April 2013, the Corporation completed the sale of 100% of Samara-Nafta for \$2.05 billion and received net after-tax proceeds of approximately \$1.9 billion after working capital and other adjustments for its 90% interest. See Note 14, Subsequent Events. At March 31, 2013, the Corporation classified as held for sale its oil and gas assets in Russia, Indonesia, Thailand and the Eagle Ford Shale in Texas. At March 31, 2013, E&P assets totaling \$2,752 million, primarily comprising the net property, plant and equipment balances and allocated goodwill of \$339 million, were classified as Assets held for sale. In addition, liabilities, primarily comprising asset retirement obligations and deferred income taxes totaling \$454 million, were reported in Liabilities associated with assets held for sale. At December 31, 2012, long-term assets totaling \$1,092 million, primarily comprising the net property, plant and equipment balances and allocated goodwill of \$100 million, were classified as held for sale and reported in Other current assets. In addition, related asset retirement obligations and deferred income taxes totaling \$539 million were reported in Liabilities associated with assets held for sale.

Downstream Businesses: As of March 31, 2013, the assets and liabilities of the downstream businesses have been classified as held for sale. See Note 2, Discontinued Operations.

Capitalized Exploratory Well Costs: The following table discloses the net changes in capitalized exploratory well costs pending determination of proved reserves for the three months ended March 31, 2013 (in millions):

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Balance at January 1	\$	2,259
Additions to capitalized exploratory well costs pending the determination of proved reserves		100
Reclassifications to wells, facilities and equipment based on the determination of proved reserves		(4)
Capitalized exploratory well costs charged to expense		(2)
Dispositions		(78)
Balance at end of period	\$	2,275

PART I FINANCIAL INFORMATION (CONT D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

The preceding table excludes exploratory dry hole costs of \$28 million which were incurred and subsequently expensed in 2013. Capitalized exploratory well costs greater than one year old after completion of drilling were \$1,771 million at March 31, 2013. Approximately 37% of the capitalized well costs in excess of one year related to Block WA-390-P, offshore Western Australia, where development planning and commercial activities, including negotiations with potential liquefaction partners, are ongoing. Successful negotiation with a third party liquefaction partner is necessary before the Corporation can negotiate a gas sales agreement and sanction development of the project. Approximately 37% related to the Corporation's Pony discovery on Block 468 in the deepwater Gulf of Mexico. In the third quarter of 2012, the Corporation signed an exchange agreement with partners of the adjacent Green Canyon Block 512, which contains the Knotty Head discovery. Under this agreement covering Blocks 468 and 512, Hess was appointed operator and has a 20% working interest in the blocks, now collectively referred to as Stampede. Field development planning is progressing and the project is targeted for sanction in 2014. Approximately 15% related to Area 54, offshore Libya, where force majeure was withdrawn in March 2012 following civil unrest and the Corporation is pursuing commercial options. Approximately 7% related to offshore Ghana where the Corporation completed drilling its seventh consecutive successful exploration well in February 2013. Discussions regarding the appraisal plan for the block are ongoing with the Ghanaian government. In parallel, the Corporation has begun pre-development studies on the block. The remainder of the capitalized well costs in excess of one year related to projects where further drilling is planned or development planning and other assessment activities are ongoing to determine the economic and operating viability of the projects.

7. Goodwill

The changes in the carrying amount of goodwill, all of which relate to the E&P segment, are as follows (in millions):

	March 31, 2013
Balance at beginning of period	\$ 2,208
Reclassified to Assets held for sale	(339)
Balance at end of period	\$ 1,869

8. Debt

In the first quarter of 2013, the Corporation repaid a net amount of \$728 million under available credit facilities, which consisted of net repayments of \$713 million on its syndicated revolving credit facility and \$200 million on the Corporation's short-term credit facilities, partially offset by borrowings of \$185 million from its asset-backed credit facility. In addition, the Corporation repaid \$24 million of other debt. At March 31, 2013, the Corporation classified as short-term \$1,620 million of borrowings under its available credit facilities, based on its intent to repay these amounts using expected proceeds from its announced or agreed asset sales. See Note 14, Subsequent Events.

9. Foreign Currency

Pre-tax foreign currency gains (losses) included in Other, net in the Statement of Consolidated Income amounted to the following:

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Pre-tax foreign currency gains (losses)	\$ (31)	\$ 21

PART I FINANCIAL INFORMATION (CONT. D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****10. Retirement Plans**

Components of net periodic pension cost consisted of the following:

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Service cost	\$ 20	\$ 18
Interest cost	22	22
Expected return on plan assets	(33)	(29)
Amortization of net loss	21	21
Pension expense	\$ 30	\$ 32

During the first quarter of 2013, the Corporation's pension and other postretirement plans were impacted by a significant reduction in the expected future service from active participants due to the Corporation's announced asset sales program initiated to continue the transformation to a more focused pure play E&P company. The impact of the resulting curtailment and remeasurement was a reduction of approximately \$245 million in the Corporation's accrued benefit plan liabilities and pre-tax unrecognized actuarial losses recorded in Accumulated other comprehensive income (loss). As a result, the Corporation's full year 2013 pension expense is now estimated to be approximately \$80 million, of which approximately \$60 million relates to the amortization of unrecognized net actuarial losses.

In 2013, the Corporation expects to contribute approximately \$140 million to its funded pension plans. Through March 31, 2013, the Corporation contributed \$40 million of this amount.

11. Weighted Average Common Shares

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

	Three Months Ended March 31,	
	2013	2012
	(In millions,	
	except per share amounts)	
Income from continuing operations, net of income taxes	\$ 1,183	\$ 539
Less: Net income (loss) attributable to noncontrolling interests	7	6
Net income from continuing operations attributable to Hess Corporation	1,176	533
Income from discontinued operations, net of income taxes	90	21
Less: Net income (loss) attributable to noncontrolling interests	(10)	9

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Net income from discontinued operations attributable to Hess Corporation		100		12
Net income attributable to Hess Corporation	\$	1,276	\$	545
Weighted average common shares outstanding:				
Basic		339.2		338.0
Effect of dilutive securities				
Restricted common stock		1.3		1.0
Stock options		1.3		1.3
Performance share units		0.8		
Diluted		342.6		340.3

PART I FINANCIAL INFORMATION (CONT. D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

	Three Months Ended March 31,	
	2013	2012
	(In millions, except per share amounts)	
Net income attributable to Hess Corporation per share:		
Basic:		
Continuing operations	\$ 3.47	\$ 1.58
Discontinued operations	0.29	0.03
Net income per share	\$ 3.76	\$ 1.61
Diluted:		
Continuing operations	\$ 3.43	\$ 1.57
Discontinued operations	0.29	0.03
Net income per share	\$ 3.72	\$ 1.60

The Corporation granted 1,199,332 shares of restricted stock and 279,093 performance share units (PSUs) in the first quarter of 2013 and 1,509,752 shares of restricted stock and 415,773 PSUs for the same period in 2012. The weighted average common shares used in the diluted earnings per share calculations exclude the effect of 6,077,460 out-of-the-money stock options for the three months ended March 31, 2013 and 6,641,000 out-of-the-money stock options for the same period in 2012.

12. Segment Information

The Corporation is an E&P company that develops, produces, purchases, transports and sells crude oil and natural gas. The Corporation also purchases, markets and trades refined petroleum products, natural gas and electricity through its downstream businesses. In the first quarter of 2013, the Corporation announced plans to divest the downstream businesses, which were previously included in the reported Marketing and Refining operating segment. Accordingly, the results of operations for the downstream businesses have been classified as discontinued operations. With this change the Corporation now has one operating segment, Exploration and Production, and a Corporate and Other segment, which is primarily comprised of corporate and interest expenses.

The Corporation's results by operating segment were as follows:

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Operating revenues: Exploration and Production	\$ 3,466	\$ 2,896
Net income (loss) attributable to Hess Corporation:		
Exploration and Production	\$ 1,286	\$ 635
Corporate and Other	(110)	(102)
Income from continuing operations	1,176	533

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Discontinued operations	downstream businesses		100		12
Total			\$ 1,276	\$	545

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:

	March 31, 2013	December 31, 2012
	(In millions)	
Exploration and Production	\$ 36,941	\$ 37,687
Corporate and Other	484	813
Discontinued operations – downstream businesses	4,954	4,941
Total	\$ 42,379	\$ 43,441

13. Risk Management and Trading Activities

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, refined petroleum products and electricity, as well as changes in interest rates and foreign currency values. In the disclosures that follow, risk management activities are referred to as corporate and energy marketing risk management activities. The Corporation also has trading operations, principally through a 50% voting interest in a consolidated partnership, that trades energy-related commodities, securities and derivatives. These activities are also exposed to commodity price risks primarily related to the prices of crude oil, natural gas, refined petroleum products and electricity as well as foreign currency values. In March 2013, the Corporation announced plans to divest the downstream businesses, which include its energy marketing risk management and trading activities. Accordingly, the results from energy marketing risk management and trading activities have been classified as discontinued operations and the related assets and liabilities reported as held for sale in the Consolidated Balance Sheet.

The Corporation maintains a control environment for all of its risk management and trading activities under the direction of its chief risk officer and through its corporate risk policy, which the Corporation's senior management has approved. Controls include volumetric, term and value at risk limits. The chief risk officer must approve the trading of new instruments or commodities. Risk limits are monitored and reported on a daily basis to business units and senior management. The Corporation's risk management department also performs independent price verifications (IPV's) of sources of fair values, validations of valuation models and analyzes changes in fair value measurements on a daily, monthly and/or quarterly basis. The Corporation's treasury department is responsible for administering foreign exchange rate and interest rate hedging programs using similar controls and processes, where applicable.

The Corporation's risk management department, in performing the IPV procedures, utilizes independent sources and valuation models that are specific to the individual contracts and pricing locations to identify positions that require adjustments to better reflect the market. This review is performed quarterly and the results are presented to the chief risk officer and senior management. The IPV process considers the reliability of the pricing services through assessing the number of available quotes, the frequency at which data is available and, where appropriate, the comparability between pricing sources.

Following is a description of the Corporation's activities that use derivatives as part of their operations and strategies. Derivatives include both financial instruments and forward purchase and sale contracts. Gross notional amounts of both long and short positions are presented in the volume tables below. These amounts include long and short positions that offset in closed positions and have not reached contractual maturity. Gross notional amounts do not quantify risk or represent assets or liabilities of the Corporation, but are used in the calculation of cash settlements under the contracts.

Corporate Risk Management Activities: Corporate risk management activities include transactions designed to reduce risk in the selling prices of crude oil, refined petroleum products 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 the forward selling price of a portion of the Corporation's crude oil, refined petroleum products or natural gas production. Forward contracts may also be used to purchase certain currencies in which the

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Corporation does business with the intent of reducing exposure to foreign currency fluctuations. These forward contracts comprise various currencies including the British Pound and Thai Baht. Interest rate swaps may be used to convert interest payments on certain long-term debt from fixed to floating rates.

PART I FINANCIAL INFORMATION (CONT D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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

	March 31, 2013	December 31, 2012
Commodity, primarily crude oil (millions of barrels)	25	1
Foreign exchange (millions of U.S. Dollars)	\$ 537	\$ 1,285
Interest rate swaps (millions of U.S. Dollars)	\$ 880	\$ 880

In the first quarter of 2013, the Corporation entered into Brent crude oil hedges using fixed-price swap contracts to hedge the variability of forecasted future cash flows from 90,000 barrels of oil per day (bopd) of crude oil sales volumes for the remainder of the calendar year at an average price of approximately \$109.70 per barrel. In 2012, the Corporation had entered into Brent crude oil hedges using fixed-price swap contracts to hedge 120,000 bopd of crude oil sales volumes for the full year at an average price of \$107.70 per barrel. In 2012, the Corporation also realized hedge losses from previously closed Brent crude oil hedges that covered 24,000 bopd during the year.

Realized losses from Exploration and Production hedging activities reduced Sales and other operating revenues by \$18 million and \$244 million for the three months ended March 31, 2013 and 2012, respectively (\$11 million and \$151 million after-taxes, respectively). At March 31, 2013, the after-tax deferred gains in Accumulated other comprehensive income (loss) related to Brent crude oil hedges were \$9 million, which will be reclassified into earnings during the remainder of 2013 as the hedged crude oil sales are recognized in earnings. The amount of ineffectiveness from Brent crude oil hedges that was recognized immediately in Sales and other operating revenues was a gain of \$15 million and a loss of \$11 million for the three months ended March 31, 2013 and 2012, respectively.

At March 31, 2013 and December 31, 2012, the Corporation had interest rate swaps with gross notional amounts of \$880 million, which were designated as fair value hedges. Changes in the fair value of interest rate swaps and the hedged fixed-rate debt are recorded in Interest expense in the Statement of Consolidated Income. For the three months ended March 31, 2013 and 2012, the Corporation recorded a decrease of \$5 million and \$3 million (excluding accrued interest), respectively, in the fair value of interest rate swaps and a corresponding adjustment in the carrying value of the hedged fixed-rate debt.

Gains or losses on foreign exchange contracts that are not designated as hedges are recognized immediately in Other, net in Revenues and non-operating income in the Statement of Consolidated Income. Net realized and unrealized pre-tax gains and losses on foreign exchange contracts amounted to a loss of \$33 million and a gain of \$26 million for the three months ended March 31, 2013 and 2012, respectively.

Energy Marketing Risk Management Activities: In its energy marketing activities, the Corporation sells refined petroleum products, natural gas and electricity principally to commercial and industrial businesses at fixed and floating prices for varying periods of time. Commodity contracts such as futures, forwards, swaps and options, together with physical assets such as storage and pipeline capacity, are used to obtain supply and reduce margin volatility or lower costs related to sales contracts with customers.

The gross volumes of the Corporation's energy marketing commodity contracts outstanding were as follows:

	March 31, 2013	December 31, 2012
Crude oil and refined petroleum products (millions of barrels)	28	26
Natural gas (millions of mcf)	2,913	2,938
Electricity (millions of megawatt hours)	269	278

The changes in fair value of certain energy marketing commodity contracts that are not designated as hedges, as well as revenues from the sales contracts, supply contract purchases and net settlements from financial derivatives related to these energy marketing activities, are recognized

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currently in Income from discontinued operations in the Statement of Consolidated Income. Net realized and unrealized pre-tax gains and losses on derivative contracts not designated as hedges amounted to gains of \$32 million and \$55 million for the three months ended March 31, 2013 and 2012, respectively.

PART I FINANCIAL INFORMATION (CONT D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

At March 31, 2013, a portion of energy marketing commodity contracts were designated as cash flow hedges to hedge variability of expected future cash flows of forecasted supply transactions. The length of time over which the Corporation hedges exposure to variability in future cash flows is predominantly one year or less. For contracts outstanding at March 31, 2013, the maximum duration was approximately three years.

The Corporation recorded the effective portion of changes in the fair value of cash flow hedges as a component of Accumulated other comprehensive income (loss) in the Consolidated Balance Sheet and then reclassified amounts to Income from discontinued operations in the Statement of Consolidated Income as the hedged transactions are recognized in earnings. After-tax deferred losses relating to energy marketing activities recorded in Accumulated other comprehensive income (loss) were \$18 million at March 31, 2013 and \$22 million at December 31, 2012. After-tax losses of approximately \$11 million are expected to be reclassified into Income from discontinued operations over the next twelve months.

The amounts of pre-tax ineffectiveness recognized immediately in Income from discontinued operations were a gain of approximately \$1 million and a loss of approximately \$1 million for the three months ended March 31, 2013 and 2012, respectively. The pre-tax amount of deferred hedge losses is reflected in Liabilities associated with assets held for sale and the related income tax benefits are recorded as deferred income tax assets, which are included in Other current assets in the Consolidated Balance Sheet.

Trading Activities: Trading activities are conducted principally through a trading partnership in which the Corporation has a 50% voting interest. This consolidated entity operates to generate earnings through various strategies primarily using energy-related commodities, securities and derivatives. The Corporation also takes trading positions for its own account. The information that follows represents 100% of the trading partnership and the Corporation's proprietary trading accounts.

The gross volumes of derivative contracts outstanding relating to trading activities were as follows:

	March 31, 2013	December 31, 2012
Commodity		
Crude oil and refined petroleum products (millions of barrels)	1,516	1,179
Natural gas (millions of mcf)	3,782	3,377
Electricity (millions of megawatt hours)	12	19
Foreign exchange (millions of U.S. Dollars)	\$ 178	\$ 412
Other		
Interest rate (millions of U.S. Dollars)	\$ 149	\$ 167
Equity securities (millions of shares)	16	14
Pre-tax unrealized and realized gains (losses) recorded in Income from discontinued operations in the Statement of Consolidated Income from trading activities amounted to the following:		

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Commodity	\$ (7)	\$ 33
Other	6	1
Total	\$ (1)	\$ 34

Fair Value Measurements: The Corporation generally enters into master netting arrangements to mitigate legal and counterparty credit risk. Master netting arrangements are generally accepted overarching master contracts that govern all individual transactions with the same counterparty entity as a single legally enforceable agreement. The United States Bankruptcy Code provides for the enforcement of certain termination and netting rights under certain types of contracts upon the bankruptcy filing of a counterparty, commonly known as the safe harbor provisions. If a master netting arrangement

PART I FINANCIAL INFORMATION (CONT. D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

provides for termination and netting upon the counterparty's bankruptcy, these rights are generally enforceable with respect to safe harbor transactions. If these arrangements provide the right of offset and the Corporation's intent and practice is to offset amounts in the case of such a termination, the Corporation's policy is to record the fair value of derivative assets and liabilities on a net basis.

In the normal course of business the Corporation relies on legal and credit risk mitigation clauses providing for adequate credit assurance as well as close-out netting, including two-party netting and single counterparty multilateral netting. As applied to the Corporation, two-party netting is the right to net amounts owing under safe harbor transactions between a single defaulting counterparty entity and a single Hess entity, and single counterparty multilateral netting is the right to net amounts owing under safe harbor transactions among a single defaulting counterparty entity and multiple Hess entities. The Corporation is reasonably assured that these netting rights would be upheld in a bankruptcy proceeding in the United States in which the defaulting counterparty is a debtor under the United States Bankruptcy Code.

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 (iv):

	Gross Amounts Offset in the Consolidated Balance Sheet			Net Amounts Presented in the Consolidated Balance Sheet (iii) = (i) + (ii)	Gross Amounts Not Offset in the Consolidated Balance Sheet (iv)	Net Amount (v) = (iii) + (iv)
	Gross Amounts (i)	Physical Derivative and Financial Instruments (ii)	Cash Collateral* (ii)			
	(In millions)					
March 31, 2013						
Assets						
Derivative contracts						
Commodity	\$ 3,613	\$ (2,990)	\$ (45)	\$ 578	\$ (55)	\$ 523
Interest rate and other	85	(8)	(4)	73	(4)	69
Counterparty netting		(51)		(51)		(51)
Total derivative contracts	\$ 3,698	\$ (3,049)	\$ (49)	\$ 600	\$ (59)	\$ 541
Liabilities						
Derivative contracts						
Commodity	\$ (3,668)	\$ 2,990	\$	\$ (678)	\$ 55	\$ (623)
Other	(13)	8		(5)	4	(1)
Counterparty netting		51		51		51
Total derivative contracts	\$ (3,681)	\$ 3,049	\$	\$ (632)	\$ 59	\$ (573)
December 31, 2012						
Assets						
Derivative contracts						
Commodity	\$ 3,253	\$ (2,661)	\$ (34)	\$ 558	\$ (45)	\$ 513

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Interest rate and other	100	(8)	92	(6)	86	
Counterparty netting		(81)	(81)		(81)	
Total derivative contracts	\$ 3,353	\$ (2,750)	\$ (34)	\$ 569	\$ (51)	518
Liabilities						
Derivative contracts						
Commodity	\$ (3,312)	\$ 2,661	\$ 5	\$ (646)	\$ 45	\$ (601)
Other	(10)	8		(2)	6	4
Counterparty netting		81		81		81
Total derivative contracts	\$ (3,322)	\$ 2,750	\$ 5	\$ (567)	\$ 51	\$ (516)

* There is no cash collateral that was not offset in the Consolidated Balance Sheet.

PART I FINANCIAL INFORMATION (CONT D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Included in net assets and liabilities that were offset in the Consolidated Balance Sheet as reflected in column (iii) of the table above were the assets and liabilities related to the Corporation's discontinued operations in the amounts of \$487 million and \$628 million as of March 31, 2013, respectively (\$483 million and \$565 million as of December 31, 2012). The amounts at March 31, 2013 were classified as held for sale in the Consolidated Balance Sheet. The remainder of net assets and liabilities that were offset in the Consolidated Balance Sheet as reflected in column (iii) of the table above, related to the Corporation's continuing operations and were included in Accounts receivable Trade and Accounts payable, respectively.

The table below reflects the gross and net fair values of the corporate and energy marketing risk management and trading derivative instruments.

	Accounts Receivable	Accounts Payable
	(In millions)	
March 31, 2013		
Derivative contracts designated as hedging instruments		
Commodity	\$ 90	\$ (93)
Interest rate and other	62	(2)
Total derivative contracts designated as hedging instruments	152	(95)
Derivative contracts not designated as hedging instruments*		
Commodity	3,523	(3,575)
Foreign exchange	9	(3)
Other	14	(8)
Total derivative contracts not designated as hedging instruments	3,546	(3,586)
Gross fair value of derivative contracts	3,698	(3,681)
Master netting arrangements	(3,049)	3,049
Cash collateral (received) posted	(49)	
Net fair value of derivative contracts	\$ 600	\$ (632)
December 31, 2012		
Derivative contracts designated as hedging instruments		
Commodity	\$ 65	\$ (124)
Interest rate and other	72	(2)
Total derivative contracts designated as hedging instruments	137	(126)
Derivative contracts not designated as hedging instruments*		
Commodity	3,188	(3,188)
Foreign exchange	14	
Other	14	(8)

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Total derivative contracts not designated as hedging instruments	3,216	(3,196)
Gross fair value of derivative contracts	3,353	(3,322)
Master netting arrangements	(2,750)	2,750
Cash collateral (received) posted	(34)	5
Net fair value of derivative contracts	\$ 569	\$ (567)

* *Includes trading derivatives and derivatives used for risk management.*

The Corporation determines fair value in accordance with the fair value measurements accounting standard (Accounting Standards Codification 820 Fair Value Measurements and Disclosures), which established a hierarchy that categorizes the sources of inputs, which generally range from quoted prices for identical instruments in a principal trading market (Level 1)

PART I FINANCIAL INFORMATION (CONT D.)**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

to estimates determined using related market data (Level 3). Measurements derived indirectly from observable inputs or from quoted prices from markets that are less liquid are considered Level 2.

When Level 1 inputs are available within a particular market, those inputs are selected for determination of fair value over Level 2 or 3 inputs in the same market. To value derivatives that are characterized as Level 2 and 3, the Corporation uses observable inputs for similar instruments that are available from exchanges, pricing services or broker quotes. These observable inputs may be supplemented with other methods, including internal extrapolation or interpolation, that result in the most representative prices for instruments with similar characteristics. Multiple inputs may be used to measure fair value, however, the level of fair value for each physical derivative and financial asset or liability presented below is based on the lowest significant input level within this fair value hierarchy.

The following table provides the Corporation's net physical derivative and financial assets and (liabilities) that are measured at fair value based on this hierarchy:

	Level 1	Level 2	Level 3	Counterparty netting	Collateral	Balance
	(In millions)					
March 31, 2013						
Assets						
Derivative contracts						
Commodity	\$ 93	\$ 468	\$ 217	\$ (155)	\$ (45)	\$ 578
Interest rate and other	8	70		(1)	(4)	73
Collateral and counterparty netting	(1)	(46)	(4)			(51)
Total derivative contracts	100	492	213	(156)	(49)	600
Other assets measured at fair value on a recurring basis		31				31