HESS CORP
Form 10-Q
August 03, 2012

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 *June 30, 2012*

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)

(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 þ 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 þ 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 þ	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 þ

At June 30, 2012, there were 341,512,444 shares of Common Stock outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	June 30, 2012	December 31, 2011
	(In millions, except share amounts)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 409	$ 351
Accounts receivable		
Trade	4,187	4,761
Other	321	250
Inventories	1,309	1,423
Other current assets	1,699	1,554
Total current assets	7,925	8,339
INVESTMENTS IN AFFILIATES	450	384
PROPERTY, PLANT AND EQUIPMENT		
Total at cost	42,130	39,710
Less reserves for depreciation, depletion, amortization and lease impairment	15,574	14,998
Property, plant and equipment net	26,556	24,712
GOODWILL	2,266	2,305
DEFERRED INCOME TAXES	2,973	2,941
OTHER ASSETS	444	455
TOTAL ASSETS	$ 40,614	$ 39,136
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 2,707	$ 3,712
Accrued liabilities	3,378	3,524
Taxes payable	700	812
Short-term debt and current maturities of long-term debt	299	52
Total current liabilities	7,084	8,100
LONG-TERM DEBT	7,546	6,005
DEFERRED INCOME TAXES	2,654	2,843
ASSET RETIREMENT OBLIGATIONS	1,781	1,844
OTHER LIABILITIES AND DEFERRED CREDITS	1,590	1,752

Total liabilities		20,655		20,544
EQUITY				
Hess Corporation Stockholders Equity				
Common stock, par value $1.00 Authorized 600,000,000 shares Issued 341,512,444 shares at June 30, 2012; 339,975,610 shares at December 31, 2011		342		340
Capital in excess of par value		3,470		3,417
Retained earnings		16,854		15,826
Accumulated other comprehensive income (loss)		(779)		(1,067)
Total Hess Corporation stockholders equity		19,887		18,516
Noncontrolling interests		72		76
Total equity		19,959		18,592
TOTAL LIABILITIES AND EQUITY	$	40,614	$	39,136

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 June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In millions, except per share amounts)			
REVENUES AND NON-OPERATING INCOME				
Sales (excluding excise taxes) and other operating revenues	$ 9,304	$ 9,853	$ 18,986	$ 20,068
Income (loss) from equity investment in HOVENSA L.L.C.		(49)		(97)
Gains on asset sales			36	343
Other, net	5	2	34	7
Total revenues and non-operating income	9,309	9,806	19,056	20,321
COSTS AND EXPENSES				
Cost of products sold (excluding items shown separately below)	5,969	6,841	12,648	13,881
Production expenses	677	599	1,350	1,130
Marketing expenses	265	247	516	530
Exploration expenses, including dry holes and lease impairment	196	257	449	570
Other operating expenses	41	42	82	84
General and administrative expenses	172	174	339	338
Interest expense	105	97	209	196
Depreciation, depletion and amortization	769	588	1,450	1,146
Asset impairments	59		59	
Total costs and expenses	8,253	8,845	17,102	17,875
INCOME BEFORE INCOME TAXES	1,056	961	1,954	2,446
Provision (benefit) for income taxes	521	392	859	903
NET INCOME	535	569	1,095	1,543
Less: Net income (loss) attributable to noncontrolling interests	(14)	(38)	1	7
NET INCOME ATTRIBUTABLE TO HESS CORPORATION	$ 549	$ 607	$ 1,094	$ 1,536
BASIC NET INCOME PER SHARE	$ 1.62	$ 1.80	$ 3.24	$ 4.56
DILUTED NET INCOME PER SHARE	1.61	1.78	3.21	4.52
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (DILUTED)	340.4	340.4	340.4	339.7
COMMON STOCK DIVIDENDS PER SHARE	$ .10	$ .10	$ .20	$ .20

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 June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In millions)			
NET INCOME	$ 535	$ 569	$ 1,095	$ 1,543
OTHER COMPREHENSIVE INCOME (LOSS):				
Derivatives designated as cash flow hedges				
Effect of hedge losses reclassified to income	312	182	466	343
Income taxes on effect of hedge losses reclassified to income	(119)	(68)	(176)	(128)
Net effect of hedge losses reclassified to income	193	114	290	215
Change in fair value of cash flow hedges	443	(5)	(36)	(10)
Income taxes on change in fair value of cash flow hedges	(174)	2	13	4
Net change in fair value of cash flow hedges	269	(3)	(23)	(6)
Change in deferred gains (losses) on cash flow hedges, after-tax	462	111	267	209
Pension and other postretirement plans				
Change in plan liabilities	22	12	43	23
Income taxes on change in plan liabilities	(8)	(5)	(16)	(9)
Change in plan liabilities, after-tax	14	7	27	14
Foreign currency translation adjustment and other	(204)	93	(8)	279
TOTAL OTHER COMPREHENSIVE INCOME	272	211	286	502
COMPREHENSIVE INCOME	807	780	1,381	2,045
Less: Comprehensive income (loss) attributable to noncontrolling interests	(20)	(38)	(1)	12
COMPREHENSIVE INCOME ATTRIBUTABLE TO HESS CORPORATION	$ 827	$ 818	$ 1,382	$ 2,033

See accompanying notes to consolidated financial statements.

PART I FINANCIAL INFORMATION (CONT D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,095	$ 1,543
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	1,450	1,146
Asset impairments	59	
Exploratory dry hole costs and lease impairment	241	351
Provision (benefit) for deferred income taxes	(48)	(1)
(Income) loss from equity investment in HOVENSA L.L.C.		97
Gains on asset sales	(36)	(343)
Stock compensation expense	46	48
Changes in operating assets and liabilities and other	(579)	(17)
Net cash provided by operating activities	2,228	2,824
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(3,856)	(2,457)
Proceeds from asset sales	132	359
Other, net	(41)	(57)
Net cash used in investing activities	(3,765)	(2,155)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings of debt with maturities of 90 days or less	1,697	
Debt with maturities of greater than 90 days		
Borrowings	403	4
Repayments	(408)	(49)
Cash dividends paid	(102)	(102)
Other, net	5	64
Net cash provided by (used in) financing activities	1,595	(83)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58	586
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	351	1,608
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 409	$ 2,194

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 Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (In millions)	Total Hess Stockholders Equity	Noncontrolling Interests	Total Equity
BALANCE AT JANUARY 1, 2012	$ 340	$ 3,417	$ 15,826	$ (1,067)	$ 18,516	$ 76	$ 18,592
Net income			1,094		1,094	1	1,095
Other comprehensive income (loss)				288	288	(2)	286
Comprehensive income (loss)					1,382	(1)	1,381
Activity related to restricted common stock awards, net	2	24			26		26
Employee stock options, including income tax benefits		26			26		26
Performance share units		3			3		3
Cash dividends declared			(68)		(68)		(68)
Noncontrolling interests, net			2		2	(3)	(1)
BALANCE AT JUNE 30, 2012	$ 342	$ 3,470	$ 16,854	$ (779)	$ 19,887	$ 72	$ 19,959
BALANCE AT JANUARY 1, 2011	$ 338	$ 3,256	$ 14,254	$ (1,159)	$ 16,689	$ 120	$ 16,809
Net income			1,536		1,536	7	1,543
Other comprehensive income (loss)				497	497	5	502
Comprehensive income (loss)					2,033	12	2,045
Activity related to restricted common stock awards, net	1	24			25		25
Employee stock options, including income tax benefits	1	89			90		90
Cash dividends declared			(68)		(68)		(68)
Noncontrolling interests, net		4	3		7	(4)	3

BALANCE AT JUNE 30, 2011	$ 340	$ 3,373	$ 15,725	$ (662)	$ 18,776	$ 128	$ 18,904

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) consolidated financial position at June 30, 2012 and December 31, 2011 and the consolidated results of operations for the three and six month periods ended June 30, 2012 and 2011 and the consolidated cash flows for the six month periods ended June 30, 2012 and 2011. 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 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, 2011. Certain information in the financial statements and notes has been reclassified to conform to the current period presentation.

Effective January 1, 2012, the Corporation adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which requires comprehensive income to be presented either at the end of the income statement or as a separate statement immediately following the income statement. The Corporation elected to adopt the separate statement method.

Effective January 1, 2012, the Corporation adopted FASB ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. For the Corporation, this standard requires additional disclosures related to fair value measurements, which are included in Note 13, Risk Management and Trading Activities.

2. Dispositions

In January 2012, the Corporation completed the sale of its interest in the Snohvit Field (Snohvit) (Hess 3%), offshore Norway, for cash proceeds of $132 million. The transaction resulted in a gain of $36 million, after deducting the net book value of assets including allocated goodwill of $14 million. Snohvit was producing at a net rate of approximately 3,000 barrels of oil equivalent per day (boepd) at the time of sale.

In February 2011, the Corporation completed the sale of its interests in certain natural gas producing assets in the United Kingdom North Sea for cash proceeds of $359 million, after post-closing adjustments. These disposals resulted in pre-tax gains totaling $343 million ($310 million after income taxes). These assets had a productive capacity of approximately 15,000 boepd.

3. Inventories

Inventories were as follows:

	June 30, 2012	December 31, 2011
	(In millions)	
Crude oil and other charge stocks	$ 535	$ 451
Refined petroleum products and natural gas	1,497	1,762
Less: LIFO adjustment	(1,254)	(1,276)
	778	937
Merchandise, materials and supplies	531	486
Total inventories	$ 1,309	$ 1,423

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PART I FINANCIAL INFORMATION (CONT D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. Property, Plant and Equipment

Assets Held for Sale: In February 2012, the Corporation reached an agreement to sell its interests in the Bittern Field (Hess 28%) in the United Kingdom North Sea. In May 2012, the Corporation also reached an agreement to sell its interests in the Schiehallion Field (Hess 16%) in the United Kingdom North Sea, the associated floating production, storage and offloading vessel, and the West of Shetland pipeline system. Both of these transactions are subject to various regulatory and other approvals.

The Corporation has classified the Bittern and Schiehallion assets and another property as assets held for sale. At June 30, 2012, the carrying amount of these assets totaling $944 million, including allocated goodwill of $87 million, was reported in Other current assets. In addition, related asset retirement obligations and deferred income taxes totaling $672 million were reported in Accrued liabilities. In accordance with GAAP, properties classified as held for sale are not depreciated but are subject to impairment testing.

Capitalized Exploratory Well Costs: The following table discloses the net changes in capitalized exploratory well costs pending determination of proved reserves for the six months ended June 30, 2012 (in millions):

Balance at January 1	$	2,022
Additions to capitalized exploratory well costs pending the determination of proved reserves		230
Reclassifications to wells, facilities, and equipment based on the determination of proved reserves		(13)
Capitalized exploratory well costs charged to expense		(58)
Balance at end of period	$	2,181

Capitalized exploratory well costs charged to expense in the preceding table exclude $69 million of exploratory well costs which were incurred and subsequently expensed in 2012. Capitalized exploratory well costs greater than one year old after completion of drilling were $1,763 million at June 30, 2012. Approximately 37% of the capitalized well costs in excess of one year relates to the Pony discovery in the deepwater Gulf of Mexico. The Corporation is in discussions with the owners of the adjacent Knotty Head discovery on Green Canyon Block 512 on a proposal to jointly develop the field. Negotiation of a joint operating agreement, including working interest percentages for the partners, and planning for the field development are progressing. Approximately 34% relates to Block WA-390-P, offshore Western Australia, where development planning and commercial activities, including negotiations with liquefaction partners, are ongoing. Approximately 15% relates to Area 54, offshore Libya, where force majeure was lifted in March 2012 and the Corporation is pursuing commercial options. Approximately 7% relates to offshore Ghana where further drilling is ongoing. The remainder of the capitalized well costs in excess of one year relates 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.

5. Asset Impairments

In the second quarter of 2012, the Corporation recorded a charge of $59 million ($36 million after-tax) in the Exploration and Production (E&P) segment to reduce the carrying value of certain properties in the Eagle Ford shale in Texas to their fair value. These properties are part of an asset exchange with a joint venture partner that was completed in the third quarter of 2012.

6. Libyan Operations

In response to civil unrest in Libya and the resulting imposition of sanctions, production at the Waha Field was suspended in the first quarter of 2011. During the fourth quarter of 2011, the sanctions were lifted and production was restored. The Corporation s Libyan production averaged 22,000 barrels of oil per day in the second quarter of 2012. The force majeure covering the Corporation s offshore exploration interests was withdrawn in March 2012.

PART I FINANCIAL INFORMATION (CONT D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. HOVENSA L.L.C. Joint Venture

In January 2012, HOVENSA L.L.C. (HOVENSA) announced a decision to shut down its refinery in St. Croix, U.S. Virgin Islands. As a result, the Corporation recorded an accrued liability of $487 million at December 31, 2011 for its share of future funding commitments for costs to shut down HOVENSA s refinery. The Corporation and its partner fully funded their estimated commitments in the first quarter of 2012.

8. Long-term Debt

In the first six months of 2012, the Corporation borrowed a net of $1,730 million from available credit facilities, which consisted of $1,222 million from its syndicated revolving credit facility, $475 million from the Corporation s short-term credit facilities and $33 million from its asset-backed credit facility. The Corporation also had net repayments of $38 million relating to other debt during the first six months of 2012. At June 30, 2012, the Corporation classified $708 million of outstanding borrowings under short-term and asset-backed credit facilities as long-term, based on availability under its $4 billion syndicated revolving credit facility.

9. Foreign Currency

Pre-tax foreign currency gains (losses) amounted to the following:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In millions)			
Pre-tax foreign currency gains (losses)	$ (14)	$ (8)	$ 8	$ (9)

10. Retirement Plans

Components of net periodic pension cost consisted of the following:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In millions)			
Service cost	$ 18	$ 14	$ 36	$ 28
Interest cost	22	22	44	44
Expected return on plan assets	(29)	(27)	(58)	(54)
Amortization of net loss	21	11	42	22
Pension expense	$ 32	$ 20	$ 64	$ 40

For the full year of 2012, the Corporation expects to contribute approximately $150 million to its funded pension plans. Through June 30, 2012, the Corporation contributed $83 million of this amount.

PART I FINANCIAL INFORMATION (CONT D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

11. Weighted Average Common Shares

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Common shares basic	338,527	337,235	338,216	336,435
Effect of dilutive securities				
Stock options	1,036	2,001	1,152	1,867
Restricted common stock	866	1,187	1,050	1,412
Common shares diluted	340,429	340,423	340,418	339,714

In March 2012, the Corporation changed the long-term incentive award program for its officers such that 50% of the shares awarded annually are performance share units (PSU s) and the remaining 50% are in the form of restricted stock, with stock option awards being eliminated. The number of shares of common stock to be issued under the PSU agreement is based on a comparison of the Corporation s total shareholder return (TSR) to the TSR of a predetermined group of fifteen peer companies over a three-year performance period ending December 31, 2014. Payouts of the 2012 performance share awards will range from 0% to 200% of the target award based on the Corporation s TSR ranking within the peer group. Dividend equivalents for the performance period will accrue on performance shares and will only be paid out on earned shares after the performance period.

The Corporation granted 1,525,646 shares of restricted stock and 415,773 PSU s during the six months ended June 30, 2012, and 713,280 shares of restricted stock and 2,142,270 stock options for the same period in 2011. The weighted average common shares used in the diluted earnings per share calculations exclude the effect of 8,144,000 and 7,509,000 out-of-the-money stock options, respectively, and 408,122 of PSU s for the three and six months ended June 30, 2012, as well as 1,618,000 and 2,153,000 out-of-the-money stock options for the same periods in 2011.

12. Segment Information

The Corporation s results by operating segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions)			
Operating revenues				
Exploration and Production	$ 3,324	$ 2,856	$ 6,220	$ 5,543
Marketing and Refining	5,993	7,029	12,793	14,592
Less: Transfers between affiliates	(13)	(32)	(27)	(67)
Total (*)	$ 9,304	$ 9,853	$ 18,986	$ 20,068

Net income (loss) attributable to Hess Corporation				
Exploration and Production	$ 644	$ 747	$ 1,279	$ 1,726
Marketing and Refining	8	(39)	19	
Corporate, including interest	(103)	(101)	(204)	(190)
Total	$ 549	$ 607	$ 1,094	$ 1,536

(*) *Operating revenues exclude excise and similar taxes of approximately $650 million and $590 million for the three months ended June 30, 2012 and 2011, respectively, and $1,290 million and $1,150 million for the six months ended June 30, 2012 and 2011, respectively.*

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:

	June 30, 2012	December 31, 2011
	(In millions)	
Exploration and Production	$ 34,363	$ 32,323
Marketing and Refining	5,427	6,302
Corporate	824	511
Total	$ 40,614	$ 39,136

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 to changes in interest rates and foreign currency values. In the disclosures that follow, risk management activities are referred to as energy marketing and corporate 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.

The Corporation maintains a control environment 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. These controls apply to all of the Corporation s risk management and trading activities, including the consolidated trading partnership. 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.

Energy Marketing 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 table below shows the gross volume of the Corporation s energy marketing commodity contracts outstanding:

	June 30, 2012	December 31, 2011
Crude oil and refined petroleum products (millions of barrels)	26	28
Natural gas (millions of mcf)	2,760	2,616
Electricity (millions of megawatt hours)	355	244

PART I FINANCIAL INFORMATION (CONT D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The changes in fair value of certain energy marketing commodity contracts that are not designated as hedges are recognized currently in earnings. Revenues from the sales contracts are recognized in Sales and other operating revenues in the Statement of Consolidated Income, while supply contract purchases and net settlements from financial derivatives related to these energy marketing activities are recognized in Cost of products sold in the Statement of Consolidated Income. Net realized and unrealized pre-tax gains on derivative contracts not designated as hedges amounted to $24 million and $31 million for the three months ended June 30, 2012 and 2011, respectively, and $79 million and $28 million for the six months ended June 30, 2012 and 2011, respectively.

At June 30, 2012, a portion of energy marketing commodity contracts were designated as cash flow hedges to hedge the 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 June 30, 2012, the maximum duration was approximately two years.

The Corporation records 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 reclassifies amounts to Cost of products sold in the Statement of Consolidated Income as the hedged transactions are recognized in earnings. At June 30, 2012, the after-tax deferred losses relating to energy marketing activities recorded in Accumulated other comprehensive income (loss) were $40 million ($64 million at December 31, 2011). The Corporation estimates that after-tax losses of approximately $26 million will be reclassified into earnings over the next twelve months. During the three months ended June 30, 2012 and 2011, the Corporation reclassified after-tax losses from Accumulated other comprehensive income (loss) of $25 million and $33 million, respectively, and $51 million and $53 million for the six months ended June 30, 2012 and 2011, respectively.

The amounts of ineffectiveness recognized immediately in Cost of products sold were gains of approximately $1 million and less than $1 million for the three months ended June 30, 2012 and 2011, respectively, and a gain of less than $1 million and a loss of $2 million for the six months ended June 30, 2012 and 2011, respectively. The pre-tax amount of deferred hedge losses is reflected in Accounts payable 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.

As a result of changes in the fair value of energy marketing cash flow hedge positions, after-tax deferred losses increased by $3 million and decreased by $1 million for the three months ended June 30, 2012 and 2011, respectively, and increased by $27 million and decreased by $3 million for the six months ended June 30, 2012 and 2011, respectively.

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

The table below shows the gross volume of the Corporate risk management derivative contracts outstanding:

	June 30, 2012	December 31, 2011
Commodity, primarily crude oil (millions of barrels)	32	51
Foreign exchange (millions of U.S. Dollars)	$ 1,026	$ 900
Interest rate swaps (millions of U.S. Dollars)	$ 880	$ 895

During 2008, the Corporation closed Brent crude oil cash flow hedges covering 24,000 barrels per day through 2012, by entering into offsetting contracts with the same counterparty. As a result, the valuation of those contracts is no longer subject to change due to price fluctuations. The deferred hedge losses as of the date that the hedges were closed are being recorded in earnings as the hedged transactions occur. For 2012, the

Corporation has entered into Brent crude oil hedges using fixed-

PART I FINANCIAL INFORMATION (CONT D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

price swap contracts to hedge the variability of forecasted future cash flows from 120,000 barrels per day of crude oil sales volumes for the full year. The average price for these hedges is $107.70 per barrel.

Realized losses from E&P hedging activities reduced Sales and other operating revenues by $141 million and $128 million for the three months ended June 30, 2012 and 2011, respectively ($89 million and $81 million after-tax, respectively), and $385 million and $256 million for the six months ended June 30, 2012 and 2011, respectively ($240 million and $162 million after-tax, respectively).

At June 30, 2012, the after-tax deferred losses in Accumulated other comprehensive income (loss) related to Brent crude oil hedges were $42 million ($286 million at December 31, 2011), which will be reclassified into earnings during the remainder of 2012 as the hedged crude oil sales are recognized. The amount of ineffectiveness from Brent crude oil hedges that was recognized immediately in Sales and other operating revenues was a gain of $3 million for the three months ended June 30, 2012 and a loss of $8 million for the six months ended June 30, 2012.

At June 30, 2012, the Corporation had interest rate swaps with a gross notional amount 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. The Corporation recorded an increase of $13 million and $5 million (excluding accrued interest) for the three months ended June 30, 2012 and 2011, respectively, and an increase of $10 million and $3 million (excluding accrued interest) for the six months ended June 30, 2012 and 2011, 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 (losses) on derivative contracts used for Corporate risk management activities and not designated as hedges amounted to the following:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In millions)			
Commodity	$	$	$	$ 1
Foreign exchange	(22)	(6)	4	13
Total	$ (22)	$ (6)	$ 4	$ 14

Trading Activities: Trading activities are conducted principally through a trading partnership in which the Corporation has a 50% voting interest. This consolidated entity intends 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 table below shows the gross volume of derivative contracts outstanding relating to trading activities:

	June 30, 2012	December 31, 2011

Commodity		
Crude oil and refined petroleum products (millions of barrels)	2,222	2,169
Natural gas (millions of mcf)	4,774	4,203
Electricity (millions of megawatt hours)	161	304
Foreign exchange (millions of U.S. Dollars)	$ 629	$ 581
Other		
Interest rate (millions of U.S. Dollars)	$ 198	$ 182
Equity securities (millions of shares)	17	16

PART I FINANCIAL INFORMATION (CONT D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Pre-tax unrealized and realized gains (losses) recorded in Sales and other operating revenues in the Statement of Consolidated Income from trading activities amounted to the following:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In millions)			
Commodity	$ (25)	$ (72)	$ 8	$ 50
Foreign exchange	2	(3)	2	(8)
Other	(2)	(3)	(1)	10
Total	$ (25)	$ (78)	$ 9	$ 52

Fair Value Measurements: The table below reflects the gross and net fair values of the Corporation s risk management and trading derivative instruments:

	Accounts Receivable	Accounts Payable
	(In millions)	
June 30, 2012		
Derivative contracts designated as hedging instruments		
Commodity	$ 287	$ (112)
Interest rate and other	70	(2)
Total derivative contracts designated as hedging instruments	357	(114)
Derivative contracts not designated as hedging instruments (*)		
Commodity	9,430	(9,848)
Foreign exchange	12	(19)
Other	27	(19)
Total derivative contracts not designated as hedging instruments	9,469	(9,886)
Gross fair value of derivative contracts	9,826	(10,000)
Master netting arrangements	(8,453)	8,453
Cash collateral (received) posted	(171)	65
Net fair value of derivative contracts	$ 1,202	$ (1,482)
December 31, 2011		
Derivative contracts designated as hedging instruments		
Commodity	$ 181	$ (216)

Other		61		(3)
Total derivative contracts designated as hedging instruments		242		(219)
Derivative contracts not designated as hedging instruments (*)				
Commodity		9,350		(9,823)
Foreign exchange		6		(21)
Other		12		(24)
Total derivative contracts not designated as hedging instruments		9,368		(9,868)
Gross fair value of derivative contracts		9,610		(10,087)
Master netting arrangements		(7,962)		7,962
Cash collateral (received) posted		(121)		117
Net fair value of derivative contracts	$	1,527	$	(2,008)

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

PART I FINANCIAL INFORMATION (CONT D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Corporation generally enters into master netting arrangements to mitigate counterparty credit risk. Master netting arrangements are standardized contracts that govern all specified transactions with the same counterparty and allow the Corporation to terminate all contracts upon occurrence of certain events, such as a counterparty s default or bankruptcy. Where these arrangements provide the right of offset and the Corporation s intent and practice is to offset amounts in the case of contract terminations, the Corporation s policy is to record the fair value of derivative assets and liabilities on a net basis.

The Corporation determines fair value in accordance with the fair value measurements accounting standard (Accounting Standards Codification (Topic 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) 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 fair values for the Corporation s net physical derivative and financial assets and (liabilities) that are based on this hierarchy:

	Level 1	Level 2	Level 3 (In millions)	Collateral and counterparty netting	Balance
June 30, 2012					
Assets					
Derivative contracts					
Commodity	$ 263	$ 1,054	$ 258	$ (132)	$ 1,443
Foreign exchange		3			3
Interest rate and other	3	76	2	(1)	80
Collateral and counterparty netting	(43)	(100)	(10)	(171)	(324)
Total derivative contracts	223	1,033	250	(304)	1,202
Other assets measured at fair value on a recurring basis	2		4	(1)	5
Total assets measured at fair value on a recurring basis	$ 225	$ 1,033	$ 254	$ (305)	$ 1,207

PART I   FINANCIAL INFORMATION (CONT D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	Level 1	Level 2	Level 3 (In millions)	Collateral and counterparty netting	Balance
June 30, 2012					
Liabilities					
Derivative contracts					
Commodity	$ (228)	$ (1,413)	$ (177)	$ 132	$ (1,686)
Foreign exchange		(10)			(10)
Other	(2)	(3)		1	(4)
Collateral and counterparty netting	43	100	10	65	218
Total derivative contracts	(187)	(1,326)	(167)	198	(1,482)
Other liabilities measured at fair value on a recurring basis	(45)	(5)		1	(49)
Total liabilities measured at fair value on a recurring basis	$ (232)	$ (1,331)	$ (167)	$ 199	$ (1,531)
Other fair value measurement disclosures					
Long-term debt	$	$ (8,725)	$	$	$ (8,725)
December 31, 2011					
Assets					
Derivative contracts					
Commodity	$ 135	$ 1,188	$ 511	$ (67)	$ 1,767
Interest rate and other		66			66
Collateral and counterparty netting	(33)	(148)	(4)	(121)	(306)
Total derivative contracts	102	1,106	507	(188)	1,527
Other assets measured at fair value on a recurring basis	7	34		(2)	39
Total assets measured at fair value on a recurring basis	$ 109	$ 1,140	$ 507	$ (190)	$ 1,566
Liabilities					
Derivative contracts					
Commodity	$ (191)	$ (1,501)	$ (650)	$ 67	$ (2,275)
Foreign exchange		(15)			(15)
Other		(18)	(2)		(20)
Collateral and counterparty netting	33	148	4	117	302
Total derivative contracts	(158)	(1,386)	(648)	184	(2,008)
Other liabilities measured at fair value on a recurring basis		(52)	(2)	2	(52)
Total liabilities measured at fair value on a recurring basis	$ (158)	$ (1,438)	$ (650)	$ 186	$ (2,060)

Other fair value measurement disclosures					
Long-term debt	$	$ (7,317)	$	$	$ (7,317)

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HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In the second quarter of 2012, the Corporation recorded a charge of $59 million ($36 million after-tax) to reduce the carrying value of certain properties in the Eagle Ford shale in Texas to their fair value. The valuation of these properties is considered a non-recurring Level 3 fair value measurement and is based on an income approach using a probability weighted discounted cash flow model. The most significant unobservable inputs used in this valuation include resource potential, future commodity prices, expected capital requirements and operating expenses.

The following table provides changes in physical derivatives and financial assets and (liabilities) that are measured at fair value based on Level 3 inputs:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions)			
Balance at beginning of period	$ (268)	$ 787	$ (143)	$ 412
Unrealized pre-tax gains (losses)				
Included in earnings (a)	77	(208)	(46)	104
Included in other comprehensive income (b)	43	7	43	17
Purchases (c)	10	702	230	1,517
Sales (c)	(23)	(776)	(257)	(1,595)
Settlements (d)	180	(52)	217	(32)
Transfers into Level 3	23	(72)	50	11
Transfers out of Level 3	45	(16)	(7)	(62)
Balance at end of period	$ 87	$ 372	$ 87	$ 372

(a) *The unrealized pre-tax gains (losses) included in earnings that are reflected in Sales and other operating revenues in the Statement of Consolidated Income amounted to $105 million and $(48) million for the three and six months ended June 30, 2012, respectively. The unrealized pre-tax gains (losses) included in earnings that are reflected in Cost of products sold in the Statement of Consolidated Income amounted to $(28) million and $2 million for the three and six months ended June 30, 2012, respectively.*

(b) *The unrealized pre-tax gains (losses) included in Other comprehensive income are reflected in the Change in fair value of cash flow hedges in the Statement of Consolidated Comprehensive Income.*

(c) *Purchases and sales primarily represent option premiums paid or received, respectively, during the reporting period.*

(d) *Settlements represent realized gains and (losses) on derivatives settled during the reporting period.*

The following table provides net transfers into and out of each level of the fair value hierarchy:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions)			
Transfers into Level 1	$ 155	$ 18	$ 159	$ (8)
Transfers out of Level 1	257	65	248	279
	$ 412	$ 83	$ 407	$ 271

Transfers into Level 2	$ (342)	$ (2)	$ (293)	$ 6
Transfers out of Level 2	(138)	7	(157)	(226)
	$ (480)	$ 5	$ (450)	$ (220)
Transfers into Level 3	$ 23	$ (72)	$ 50	$ 11
Transfers out of Level 3	45	(16)	(7)	(62)
	$ 68	$ (88)	$ 43	$ (51)

PART I FINANCIAL INFORMATION (CONT D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Corporation s policy is to recognize transfers in and transfers out as of the end of the reporting period. Transfers between levels result from the passage of time as contracts move closer to their maturities, fluctuations in the market liquidity for certain contracts and/or changes in the level of significance of fair value measurement inputs.

The significant unobservable inputs used in Level 3 fair value measurements for the Corporation s physical commodity contracts and derivative instruments primarily include less liquid delivered locations for physical commodity contracts or volatility assumptions for out-of-the-money options. The following table provides information about the Corporation s significant recurring unobservable inputs used in the Level 3 fair value measurements. Natural gas contracts are usually quoted and transacted using basis pricing relative to an active pricing location (e.g., Henry Hub), for which price inputs represent the approximate value of differences in geography and local market conditions. All other price inputs below represent full contract prices. Significant changes in any of the inputs below, independently or correlated, may result in a different fair value.

	Unit of Measurement		Range / Weighted Average
June 30, 2012			
Assets			
Commodity contracts with a fair value of $258 million			
Contract prices			
Crude oil and refined petroleum products	$ / bbl	$	74.91 - 118.12 / 98.87
Electricity	$ / MWH	$	21.60 - 87.16 / 48.93
Basis prices			
Natural gas	$ / MMBTU	$	(1.07) - 3.97 / 0.53
Contract volatilities			
Crude oil and refined petroleum products	%		23.00 - 32.00 / 29.00
Natural gas	%		36.00 - 55.00 / 53.00
Electricity	%		21.00 - 70.00 / 33.00
Liabilities			
Commodity contracts with a fair value of $177 million			
Contract prices			
Crude oil and refined petroleum products	$ / bbl	$	74.91 - 128.70 / 103.14
Electricity	$ / MWH	$	25.60 - 87.16 / 51.42
Basis prices			
Natural gas	$ / MMBTU	$	(0.70) - 3.97 / 0.88
Contract volatilities			
Crude oil and refined petroleum products	%		28.00 - 32.00 / 30.00
Natural gas	%		23.00 - 57.00 / 33.00
Electricity	%		40.00 - 40.00 / 40.00

Note: Fair value measurement for all recurring inputs was performed using an income approach technique.

Credit Risk: The Corporation is exposed to credit risks that may at times be concentrated with certain counterparties, groups of counterparties or customers. Accounts receivable are generated from a diverse domestic and international customer base. The Corporation s net receivables at June 30, 2012 are concentrated with the following counterparty and customer industry segments: Integrated Oil Companies 28%, Refiners 9%, Government Entities 9%, Services 9%, Trading Companies 8% and Real Estate 7%. The Corporation reduces its risk related to certain counterparties by using master netting arrangements and requiring collateral, generally cash or letters of credit. The Corporation records the cash collateral received or posted as an offset to the fair value of derivatives executed with the same counterparty. At June 30, 2012 and December 31, 2011, the Corporation held cash from counterparties of $171 million and $121 million, respectively. The Corporation posted cash to counterparties at June 30, 2012 and December 31, 2011 of $65 million and $117 million, respectively.

PART I FINANCIAL INFORMATION (CONT D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At June 30, 2012, the Corporation had outstanding letters of credit totaling $1 billion, primarily issued to satisfy margin requirements. Certain of the Corporation s agreements also contain contingent collateral provisions that could require the Corporation to post additional collateral if the Corporation s credit rating declines. As of June 30, 2012, the net liability related to derivatives with contingent collateral provisions was approximately $453 million before cash collateral posted of $9 million. At June 30, 2012, all three major credit rating agencies that rate the Corporation s debt had assigned an investment grade rating. If two of the three agencies were to downgrade the Corporation s rating to below investment grade, as of June 30, 2012, the Corporation would be required to post additional collateral of approximately $170 million.

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

Overview

Hess Corporation (the Corporation) is a global integrated energy company that operates in two segments, Exploration and Production (E&P) and Marketing and Refining (M&R). The E&P segment explores for, develops, produces, purchases, transports and sells crude oil and natural gas. The M&R segment manufactures refined petroleum products and purchases, markets and trades refined petroleum products, natural gas and electricity.

The Corporation reported net income of $549 million in the second quarter of 2012 compared to $607 million in the second quarter of 2011. Net income for the second quarter of 2012 included an after-tax charge of $36 million which affected the comparability of earnings between periods. For further discussion of all items affecting comparability, see pages 20 and 24.

Exploration and Production

E&P reported net income of $644 million in the second quarter of 2012 compared to $747 million in the second quarter of 2011. Excluding the item affecting comparability referenced above, E&P net income was $680 million in the second quarter of 2012. In the second quarter of 2012, the Corporation s average worldwide crude oil selling price, including the effect of hedging, was $86.86 per barrel compared with $97.20 per barrel in the second quarter of 2011. Worldwide crude oil and natural gas production was 429,000 barrels of oil equivalent per day (boepd) in the second quarter of 2012 up from 372,000 boepd in the same period of 2011, principally reflecting an increase in production from the Bakken oil shale play and the resumption of operations in Libya. The Corporation now expects its full year production to average between 395,000 and 405,000 boepd, including Libyan operations, up from the previous forecast of 370,000 to 390,000 boepd, which excluded Libya.

The following is an update of E&P activities during the second quarter of 2012:

- In North Dakota, net production from the Bakken oil shale play was 55,000 boepd for the second quarter of 2012, up from 25,000 boepd in the second quarter of 2011. For the full year of 2012, the Corporation now expects net Bakken production to average between 54,000 and 58,000 boepd.

- At the Llano Field (Hess 50%) in the deepwater Gulf of Mexico, a successful workover was performed on the Llano #3 well, which had been shut-in for mechanical reasons in the first quarter of 2011. In June 2012, net production averaged 13,000 boepd.

- The Corporation signed agreements with its partner to develop nine discovered natural gas fields in the North Malay Basin (NMB), located offshore Peninsular Malaysia. The Corporation will have a 50% working interest and will become operator of the project. First production is forecast to commence in 2013.

- The Corporation reached an agreement to sell its interests in the Schiehallion Field (Hess 16%) in the United Kingdom North Sea, the associated floating production, storage and offloading vessel, and the West of Shetland pipeline system for $503 million subject to normal closing adjustments. This asset sale is expected to close in the fourth quarter of 2012.

- The Corporation agreed with its joint venture partner to exchange its working interests in certain properties in the Eagle Ford shale in Texas and $85 million in cash for additional working interests in other properties in the Eagle Ford shale and properties in the Paris Basin in France. The Eagle Ford portion of the exchange was completed in the third quarter and the Paris Basin portion is expected to complete in the third quarter, subject to various approvals. In the second quarter of 2012, the Corporation recorded a charge of $59 million ($36 million after-tax) to reduce to fair value the carrying value of the divested Eagle Ford properties.

The Corporation completed drilling the Hickory North-1 well, offshore Ghana and commenced its technical evaluation of the discovery. The well encountered approximately 100 net feet of gas condensate pay.

Offshore Brunei, the Jagus East well on Block CA-1 (Hess 14%), encountered hydrocarbons. This well, along with the Julong East discovery, is being evaluated and additional exploration and appraisal drilling is planned in 2013.

In June, the operator spud the Ness Deep well, located on Green Canyon 507 (Hess 50%) in the deepwater Gulf of Mexico. The well is anticipated to take approximately 160 days to drill.

Overview (continued)

Status of Libyan Operations

In response to civil unrest in Libya and the resulting imposition of sanctions, production at the Waha Field was suspended in the first quarter of 2011. During the fourth quarter of 2011, the sanctions were lifted and production was restored. The Corporation s Libyan production averaged 22,000 barrels of oil per day in the second quarter of 2012. The force majeure covering the Corporation s offshore exploration interests was withdrawn in March 2012.

Marketing and Refining

M&R generated income of $8 million in the second quarter of 2012, compared to a loss of $39 million in the second quarter of 2011. The increase in earnings is primarily due to improved refining results, partially offset by lower marketing earnings. In the first quarter of 2012, HOVENSA L.L.C. (HOVENSA) shut down its refinery in St. Croix, U.S. Virgin Islands, and started the transition to operating the complex as an oil storage terminal.

Results of Operations

The after-tax results by major operating activity are summarized below:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In millions, except per share amounts)			
Exploration and Production	$ 644	$ 747	$ 1,279	$ 1,726
Marketing and Refining	8	(39)	19	
Corporate	(39)	(42)	(77)	(70)
Interest expense	(64)	(59)	(127)	(120)
Net income attributable to Hess Corporation	$ 549	$ 607	$ 1,094	$ 1,536
Net income per share (diluted)	$ 1.61	$ 1.78	$ 3.21	$ 4.52

Items Affecting Comparability Between Periods

The following table summarizes, on an after-tax basis, items of income (expense) that are included in net income and affect comparability between periods. The items in the table below are explained and the pre-tax amounts are shown on page 24.

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In millions)			
Exploration and Production	$ (36)	$	$	$ 310

In the following discussion and elsewhere in this report, the financial effects of certain transactions are disclosed on an after-tax basis. Management reviews segment earnings on an after-tax basis and uses after-tax amounts in its review of variances in segment earnings. Management believes that after-tax amounts are preferable for explaining variances in earnings, since these after-tax amounts show the entire effect of a transaction rather than only the pre-tax amount. After-tax amounts are determined by applying the income tax rate in each tax jurisdiction to pre-tax amounts.

PART I FINANCIAL INFORMATION (CONT D.)

Results of Operations (continued)

Comparison of Results

Exploration and Production

Following is a summarized income statement of the Corporation s E&P operations:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In millions)			
Sales and other operating revenues (*)	$ 2,989	$ 2,698	$ 5,609	$ 5,311
Gains on asset sales			36	343
Other, net	1	(5)	28	(4)
Total revenues and non-operating income	2,990	2,693	5,673	5,650
Costs and expenses				
Production expenses, including related taxes	677	599	1,350	1,130
Exploration expenses, including dry holes and lease impairment	196	257	449	570
General, administrative and other expenses	79	76	144	160
Depreciation, depletion and amortization	743	553	1,402	1,090
Asset impairments	59		59	
Total costs and expenses	1,754	1,485	3,404	2,950
Results of operations before income taxes	1,236	1,208	2,269	2,700
Provision for income taxes	592	461	990	974
Results of operations attributable to Hess Corporation	$ 644	$ 747	$ 1,279	$ 1,726

(*) *Amounts differ from E&P operating revenues in Note 12, Segment Information, primarily due to the exclusion of sales of hydrocarbons purchased from third parties.*

The changes in E&P earnings are primarily attributable to changes in selling prices, sales volumes, costs and expenses and items affecting comparability between periods as described below:

Selling prices: Lower average realized selling prices, primarily of crude oil including the effects of hedging, decreased E&P revenues by approximately $290 million and $210 million in the second quarter and first six months of 2012, respectively, compared with the corresponding periods in 2011.

The Corporation s average selling prices were as follows:

	Three Months Ended June 30,	Six Months Ended June 30,

	2012	2011	2012	2011
Crude oil per barrel (including hedging)				
United States	$ 91.97	$ 106.62	$ 93.81	$ 99.12
Europe	76.20	87.75	78.05	85.84
Africa	89.01	97.74	88.91	90.04
Asia	105.89	113.44	110.70	111.91
Worldwide	86.86	97.20	88.23	92.05
Crude oil per barrel (excluding hedging)				
United States	$ 92.48	$ 106.62		