

HESS CORP
Form 10-K
February 26, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

or

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

For the transition period from _____ to _____

Commission File Number 1-1204

Hess Corporation

(Exact name of Registrant as specified in its charter)

DELAWARE	13-4921002
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification Number)
1185 AVENUE OF THE AMERICAS,	10036
NEW YORK, N.Y.	(Zip Code)
(Address of principal executive offices)	

(Registrant's telephone number, including area code, is (212) 997-8500)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (par value \$1.00)	New York Stock Exchange
Depository Shares, each representing 1/20 th interest in a share of 8% Series A Mandatory Convertible Preferred Stock (par value \$1.00)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark whether the registrant submitted electronically and posted on its Corporate website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

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

The aggregate market value of voting stock held by non-affiliates of the Registrant amounted to \$16,710,000,000, computed using the outstanding common shares and closing market price on June 30, 2015, the last business day of the Registrant's most recently completed second fiscal quarter.

At February 19, 2016, there were 315,240,299 shares of Common Stock outstanding.

Part III is incorporated by reference from the Proxy Statement for the 2016 annual meeting of stockholders.

HESS CORPORATION

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Unless the context indicates otherwise, references to “Hess”, the “Corporation”, “Registrant”, “we”, “us”, “our” and “its” refer consolidated business operations of Hess Corporation and its subsidiaries.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain sections in this Annual Report on Form 10-K, including information incorporated by reference herein, and those made under the captions Business and Properties, Management’s Discussion and Analysis of Financial Condition

and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk contain “forward-looking” statements, as defined under the Private Securities Litigation Reform Act of 1995. Generally, the words “anticipate,” “estimate,” “expect,” “forecast,” “guidance,” “could,” “may,” “should,” “believe,” “intend,” “project,” “plan,” “predict,” “will,” expressions identify forward-looking statements, which generally are not historical in nature. Forward-looking statements related to our operations are based on our current understanding, assessments, estimates and projections. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our current projections or expectations. As and when made, we believe that these forward-looking statements are reasonable. However, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made and there can be no assurance that such forward-looking statements will occur. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Risk factors that could materially impact future actual results are discussed under Item 1A. Risk Factors within this document.

PART I

Items 1 and 2. Business and Properties

Hess Corporation, incorporated in the State of Delaware in 1920, is a global Exploration and Production (E&P) company engaged in exploration, development, production, transportation, purchase and sale of crude oil, natural gas liquids, and natural gas with production operations located primarily in the United States (U.S.), Denmark, Equatorial Guinea, the Joint Development Area of Malaysia/Thailand (JDA), Malaysia, and Norway. The Bakken Midstream operating segment, which was established in the second quarter of 2015, provides fee-based services, including crude oil and natural gas gathering, processing of natural gas and the fractionation of natural gas liquids, transportation of crude oil by rail car, terminaling and loading crude oil and natural gas liquids, and the storage and terminaling of propane, primarily in the Bakken shale play of North Dakota. In July 2015, we sold a 50% interest in Hess Infrastructure Partners LP (HIP) for net cash consideration of approximately \$2.6 billion. HIP and its affiliates primarily comprise the Bakken Midstream operating segment.

In 2013, we announced several initiatives to continue our transformation from an integrated energy company into a more geographically focused pure play E&P company. These initiatives represented the culmination of a multi-year strategic transformation designed to leverage our lean manufacturing capabilities across unconventional assets, exploit our deepwater drilling and project development capabilities, and execute a smaller, more targeted exploration program. This transformation was completed in 2015.

During 2013 through 2015, the Corporation sold mature or lower margin E&P assets in Algeria, Azerbaijan, Indonesia, Russia, Thailand, the United Kingdom (UK) North Sea, and certain interests onshore in the U.S. In addition, the transformation plan included fully exiting the Corporation's Marketing and Refining (M&R) business, including its terminal, retail, energy marketing and energy trading operations, as well as the permanent shutdown of refining operations at its Port Reading, NJ facility. HOVENSA L.L.C. (HOVENSA), a 50/50 joint venture between the Corporation's subsidiary, Hess Oil Virgin Islands Corp. (HOVIC), and a subsidiary of Petroleos de Venezuela S.A. (PDVSA), had previously shut down its U.S. Virgin Islands refinery in 2012 and continued operating solely as an oil storage terminal through the first quarter of 2015. In September 2015, HOVENSA filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States District Court of the Virgin Islands. In December 2015, the Government of St. Croix ratified a new operating agreement with the buyer of HOVENSA's storage terminals, refining units, and marine infrastructure (St. Croix Facility) and in January 2016, the buyer completed the purchase of the assets of the St. Croix Facility. Under the court approved Chapter 11 plan of liquidation (the "Liquidation Plan"), HOVENSA established a liquidating trust to distribute certain assets and sale proceeds to its creditors, established an environmental response trust to administer to HOVENSA's remaining environmental obligations and will conduct an orderly wind-down of its remaining activities. See Item 3. Legal Proceedings.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for further details.

Exploration and Production

Proved Reserves

Proved reserves are calculated using the average price during the twelve month period ending December 31 determined as an unweighted arithmetic average of the price on the first day of each month within the year, unless prices are defined by contractual agreements, excluding escalations based on future conditions. Crude oil prices used in the determination of proved reserves at December 31, 2015 were \$55.10 per barrel for Brent (2014: \$101.35) and \$50.13 per barrel for WTI (2014: \$94.42). Negative reserve revisions resulting from lower crude oil prices in 2015 reduced proved reserves at December 31, 2015 by 234 million barrels of oil equivalent (boe), and represent the primary reason for the decrease in total proved reserves year-on-year. These negative revisions represent primarily proved undeveloped reserves that were not economically producible at the stipulated lower prices.

Our total proved developed and undeveloped reserves at December 31 were as follows:

	Crude Oil, Condensate & Natural Gas Liquids (a)				Total Barrels of Oil Equivalent (BOE) (b)	
	2015	2014	2015	2014	2015	2014
	(Millions of barrels)		(Millions of mcf)		(Millions of barrels)	
Developed						
United States	304	320	368	350	365	378
Europe (c)	126	123	123	96	147	139
Africa	148	163	137	144	171	187
Asia	5	3	643	329	112	58
	583	609	1,271	919	795	762
Undeveloped						
United States	116	311	137	270	139	356
Europe (c)	104	168	111	124	122	189
Africa	24	25	11	11	26	27
Asia	—	4	24	557	4	97
	244	508	283	962	291	669
Total						
United States	420	631	505	620	504	734
Europe (c)	230	291	234	220	269	328
Africa	172	188	148	155	197	214
Asia	5	7	667	886	116	155
	827	1,117	1,554	1,881	1,086	1,431

(a) Total proved reserves of natural gas liquids were 101 million barrels (proved developed - 63 million barrels; proved undeveloped - 38 million barrels) at December 31, 2015, and 145 million barrels (proved developed - 65 million barrels; proved undeveloped - 80 million barrels) at December 31, 2014. Of the total proved natural gas liquids reserves, 72% were in the U.S. and 28% were in Norway at December 31, 2015 (2014: 82% and 18%, respectively). Natural gas liquids do not sell at prices equivalent to crude oil. See the average selling prices in the table on page 8.

(b) Reflects natural gas reserves converted on the basis of relative energy content of six mcf equals one barrel of oil equivalent (one mcf represents one thousand cubic feet). Barrel of oil equivalence does not necessarily result in price equivalence, as the equivalent price of natural gas on a barrel of oil equivalent basis has been substantially

lower than the corresponding price for crude oil over the recent past. See the average selling prices in the table on page 8.

(c) Proved reserves in Norway, which represented 21% of our total reserves at December 31, 2015 (2014: 20%), were as follows:

	Crude Oil, Condensate & Natural Gas Liquids		Natural Gas		Total Barrels of Oil Equivalent (BOE) (b)	
	2015	2014	2015	2014	2015	2014
	(Millions of barrels)		(Millions of mcf)		(Millions of barrels)	
Developed	98	95	84	67	112	106
Undeveloped	100	161	107	113	118	180
Total	198	256	191	180	230	286

Proved undeveloped reserves were 27% of our total proved reserves at December 31, 2015 on a boe basis (2014: 47%). Proved reserves held under production sharing contracts totaled 5% of our crude oil and natural gas liquids reserves, and 44% of our natural gas reserves at December 31, 2015 (2014: 5% and 49%, respectively).

For additional information regarding our proved oil and gas reserves, see the Supplementary Oil and Gas Data to the Consolidated Financial Statements presented on pages 83 through 91, which includes a discussion of the implications that potential sustained lower crude oil prices may have on proved reserves at December 31, 2016.

Production

Worldwide crude oil, natural gas liquids and natural gas production was as follows:

	2015	2014	2013
Crude oil (thousands of barrels per day)			
United States			
Bakken	81	66	55
Other Onshore	10	10	10
Total Onshore	91	76	65
Offshore	56	51	43
Total United States	147	127	108
Europe			
Norway	27	25	20
Denmark	11	11	8
Russia	—	—	16
	38	36	44
Africa			