HESS CORP
Form 10-K
March 01, 2007

Table of Contents

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

Form 10-K

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

For the fiscal year ended December 31, 2006
or

o 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)

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

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

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

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 o No þ

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 o

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. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The aggregate market value of voting stock held by non-affiliates of the Registrant amounted to $12,765,000,000 as of June 30, 2006.

At December 31, 2006, there were 315,017,951 shares of Common Stock outstanding.

Part III is incorporated by reference from the Proxy Statement for the annual meeting of stockholders to be held on May 2, 2007.

HESS CORPORATION

Form 10-K

TABLE OF CONTENTS

Item No.		Page
	PART I	
1. and 2.	Business and Properties	2
1A.	Risk Factors Related to Our Business and Operations	10
3.	Legal Proceedings	12
4.	Submission of Matters to a Vote of Security Holders	15
	Executive Officers of the Registrant	15
	PART II	
5.	Market for the Registrant s Common Stock and Related Stockholder Matters	16
6.	Selected Financial Data	19
7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	20
7A.	Quantitative and Qualitative Disclosures About Market Risk	38
8.	Financial Statements and Supplementary Data	42
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	85
9A.	Controls and Procedures	85
9B.	Other Information	85
	PART III	
10.	Directors, Executive Officers and Corporate Governance of the Registrant	85
11.	Executive Compensation	85
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	85
13.	Certain Relationships and Related Transactions, and Director Independence	85
14.	Principal Accounting Fees and Services	86
	PART IV	
15.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	86
	Signatures	89

EX-10.7: SAVINGS AND STOCK BONUS PLAN
EX-10.10: AMENDED PENSION RESTORATION PLAN
EX-21: SUBSIDIARIES
EX-31.1: CERTIFICATION
EX-31.2: CERTIFICATION
EX-32.1: CERTIFICATION
EX-32.2: CERTIFICATION

Table of Contents

PART I

Items 1 and 2. *Business and Properties*

Hess Corporation (formerly Amerada Hess Corporation) (the Registrant) is a Delaware corporation, incorporated in 1920. On May 3, 2006, Amerada Hess Corporation changed its name to Hess Corporation. The Registrant and its subsidiaries (collectively referred to as the Corporation or Hess) 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. These exploration and production activities take place in the United States, United Kingdom, Norway, Denmark, Equatorial Guinea, Algeria, Malaysia, Thailand, Russia, Gabon, Azerbaijan, Indonesia, Libya, Egypt, and other countries. The M&R segment manufactures, purchases, transports, trades and markets refined petroleum products, natural gas and electricity. The Corporation owns 50% of a refinery joint venture in the United States Virgin Islands, and another refining facility, terminals and retail gasoline stations, most of which include convenience stores, located on the East Coast of the United States.

Exploration and Production

The Corporation s total proved reserves at December 31 were as follows:

	2006	2005
Crude oil and natural gas liquids (millions of barrels)	**832**	692
Natural gas (millions of mcf)	**2,466**	2,406
Total barrels of oil equivalent* (millions of barrels)	**1,243**	1,093

* *Reflects natural gas reserves converted on the basis of relative energy content (six mcf equals one barrel).*

Of the total proved reserves (on a barrel of oil equivalent basis), 14% are located in the United States, 36% are located in Europe (consisting of reserves in the North Sea and Russia), 25% are located in Africa and the remainder are located in Indonesia, Thailand, Malaysia, and Azerbaijan. On a barrel of oil equivalent basis, 40% of the Corporation s December 31, 2006 worldwide proved reserves are undeveloped (42% in 2005). Proved reserves at December 31, 2006 include 26% and 56%, respectively, of crude oil and natural gas reserves held under production sharing contracts.

Worldwide crude oil and natural gas liquids production amounted to 257,000 barrels per day in 2006 compared with 244,000 barrels per day in 2005. Worldwide natural gas production was 612,000 mcf per day in 2006 compared with 544,000 mcf per day in 2005. On a barrel of oil equivalent basis, production was 359,000 barrels per day in 2006 compared with 335,000 barrels per day in 2005.

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

	2006	2005
Crude oil (thousands of barrels per day)		

United States		
Onshore	**15**	21
Offshore	**21**	23
	36	44
Europe		
United Kingdom	**50**	54
Norway	**22**	26
Denmark	**19**	24
Russia	**18**	6
	109	110

2

	2006	**2005**
Africa		
Equatorial Guinea	**28**	30
Algeria	**22**	25
Gabon	**12**	12
Libya	**23**	
	85	67
Asia and other		
Azerbaijan	**7**	4
Other	**5**	3
	12	7
Total	**242**	228
Natural gas liquids (thousands of barrels per day)		
United States		
Onshore	**7**	8
Offshore	**3**	4
	10	12
Europe		
United Kingdom	**4**	3
Norway	**1**	1
	5	4
Total	**15**	16
Natural gas (thousands of mcf per day)		
United States		
Onshore	**54**	74
Offshore	**56**	63
	110	137
Europe		
United Kingdom	**244**	222
Norway	**22**	28
Denmark	**17**	24
	283	274
Asia and other		

Joint Development Area of Malaysia and Thailand	**131**	51
Thailand	**60**	57
Indonesia	**26**	25
Other	**2**	
	219	133
Total	**612**	544
Barrels of oil equivalent*	**359**	335

* *Reflects natural gas production converted on the basis of relative energy content (six mcf equals one barrel).*

The Corporation presently estimates that its 2007 barrel of oil equivalent production will be approximately 370,000 to 380,000 barrels per day. The Corporation is developing a number of oil and gas fields and has an inventory of domestic and foreign exploration prospects.

3

United States

During 2006, 18% of the Corporation s crude oil and natural gas liquids production and 18% of its natural gas production were from United States operations. The Corporation operates mainly offshore in the Gulf of Mexico and onshore in Texas and North Dakota. During 2006, the Corporation completed the sale of its interests in certain producing properties in the Permian Basin in Texas and New Mexico and certain U.S. Gulf Coast oil and gas producing assets. Total net production from assets sold was approximately 8,000 barrels of oil equivalent per day at the time of sale.

In the second quarter of 2006, the Shenzi development (Hess 28%) in the Green Canyon Block area of the deepwater Gulf of Mexico was sanctioned by the operator and first oil is expected in the second half of 2009. Plans for the Shenzi development in 2007 include the drilling of development wells and continued construction of platform components and subsea equipment installation. In February 2007, the Corporation acquired a 28% interest in the Genghis Khan oil and gas development located in the deepwater Gulf of Mexico on Green Canyon Blocks 652 and 608 for $371 million. The Genghis Khan development is part of the same geologic structure as the Shenzi development and first production from this development is expected in the second half of 2007.

In 2006, an exploration well on the Corporation s Pony prospect (Hess 100%) on Green Canyon Block 468 in the deepwater Gulf of Mexico encountered 475 feet of oil saturated sandstone in Miocene age reservoirs. Drilling of an appraisal sidetrack well on the Pony Prospect was completed in January 2007 which encountered 280 feet of oil saturated sandstone in Miocene age reservoirs after penetrating sixty percent of its geological objective. Drilling of the sidetrack well was stopped for mechanical reasons after successfully recovering 450 feet of conventional core. The Corporation is currently drilling an appraisal well about 7,400 feet northwest of the discovery well.

In 2006, on the Tubular Bells prospect (Hess 20%) in the Mississippi Canyon area of the deepwater Gulf of Mexico a successful appraisal well encountered hydrocarbons approximately 5 miles from the initial discovery well. The operator intends to drill two sidetrack wells in 2007 which will further delineate the field.

The Corporation has an interest in the Seminole-San Andres Unit (Hess 34.3%) in the Permian Basin. A residual oil zone development at the Seminole-San Andres Unit is expected to commence in 2007 and it is anticipated that production from this development will begin in 2009. The Corporation intends to use carbon dioxide gas from its interests in the West Bravo Dome and Bravo Dome fields in New Mexico for the enhanced recovery effort in this residual oil zone development.

At December 31, 2006, the Corporation has interests in over 400 exploration blocks in the Gulf of Mexico. The Corporation has 1,525,304 net undeveloped acres in the Gulf of Mexico.

Europe

During 2006, 44% of the Corporation s crude oil and natural gas liquids production and 46% of its natural gas production were from European operations.

United Kingdom: Production of crude oil and natural gas liquids from the United Kingdom North Sea was 54,000 barrels per day in 2006 compared with 57,000 barrels per day in 2005, principally from the Corporation s non-operated interests in the Beryl (Hess 22.2%), Bittern (Hess 28.3%), Schiehallion (Hess 15.7%) and Clair (Hess 9.3%) fields. Natural gas production from the United Kingdom in 2006 was 244,000 mcf of natural gas per day compared with 222,000 mcf per day in 2005, primarily from gas fields in the Easington Catchment Area (Hess 28.8%), as well as Everest (Hess 18.7%), Lomond (Hess 16.7%) and Beryl (Hess 22.2%). In addition, production

from the Atlantic (Hess 25%) and Cromarty (Hess 90%) fields commenced in June of 2006 and the fields produced at a combined rate of approximately 95,000 mcf per day net to Hess in the second half of 2006.

In the first half of 2007, the Corporation expects to complete the sale of its interests in the Scott and Telford fields with an effective date of January 1, 2007 for approximately $100 million. The Corporation s share of net production from these fields was 9,000 barrels of oil equivalent per day at the end of 2006.

Norway: Crude oil and natural gas liquids production was 23,000 barrels per day in 2006 and 27,000 barrels per day in 2005. Natural gas production averaged 22,000 mcf per day in 2006 and 28,000 mcf per day in 2005. Substantially all of the Norwegian production is from the Corporation s interest in the Valhall field (Hess 28.1%).

Denmark: Net production from the Corporation s interest in the South Arne field (Hess 57.5%) was 19,000 barrels of crude oil per day in 2006 and 24,000 barrels of crude oil per day in 2005. Natural gas production was 17,000 mcf per day in 2006 and 24,000 mcf per day in 2005.

Russia: The Corporation s activities in Russia are conducted through its 80%-owned interest in a corporate joint venture operating in the Volga-Urals region of Russia. Production averaged 18,000 barrels of crude oil per day in 2006 compared to 6,000 barrels per day in 2005. The Corporation s initial interest in its Russian joint venture was acquired during 2005.

Africa

During 2006, 33% of the Corporation s crude oil and natural gas liquids production was from African operations.

Equatorial Guinea: The Corporation is the operator and owns an interest in Block G (Hess 85%) which contains the Ceiba field and Okume Complex. Net production from the Ceiba field averaged 28,000 barrels of crude oil per day in 2006 and 30,000 barrels per day in 2005. Production of crude oil from the Okume Complex commenced in December 2006. The Corporation estimates that its net share of 2007 production from the Okume Complex will average approximately 20,000 barrels of oil per day. In 2007, the Corporation plans to complete the construction of offshore production facilities and to drill additional development wells at the Okume Complex.

Algeria: The Corporation has a 49% interest in a venture with the Algerian national oil company that is redeveloping three oil fields. The Corporation s share of production averaged 22,000 and 25,000 barrels of crude oil per day in 2006 and 2005, respectively. The Corporation has also submitted a plan of development for a small oil discovery on Block 401C, which is currently awaiting government approval.

Libya: In January 2006, the Corporation, in conjunction with its Oasis Group partners, re-entered its former oil and gas production operations in the Waha concessions in Libya (Hess 8.16%). The re-entry terms included a 25-year extension of the concessions and payments by the Corporation to the Libyan National Oil Corporation of $359 million. The Corporation s net share of 2006 production from Libya averaged 23,000 barrels of oil per day. The Corporation also owns a 100% interest in offshore exploration Area 54.

Gabon: Through its 77.5% owned Gabonese subsidiary, the Corporation has interests in the Rabi Kounga, Toucan and Atora fields. The Corporation s share of production averaged 12,000 barrels of crude oil per day in 2006 and 2005.

Egypt: In January 2006, the Corporation acquired a 55% working interest in the deepwater section of the West Mediterranean Block 1 Concession (the West Med Block) in Egypt for $413 million. The Corporation has a 25-year development lease for the West Med Block, which contains four existing natural gas discoveries and additional exploration opportunities.

Asia and Other

During 2006, 5% of the Corporation s crude oil and natural gas liquids production and 36% of its natural gas production were from Asian operations.

Joint Development Area of Malaysia and Thailand: The Corporation owns an interest in the production sharing agreement covering Block A-18 of the Joint Development Area (JDA) (Hess 50%) in the Gulf of Thailand. Net production averaged 131,000 mcf of natural gas and 2,000 barrels of crude oil per day in 2006 compared to 51,000 mcf of natural gas and 1,000 barrels of crude oil per day in 2005. In 2007, the Corporation s capital investments in the

JDA will be primarily focused on facilities expansion and development drilling associated with the additional contracted gas sales of 400,000 mcf per day (gross) in 2008. It is anticipated that production associated with these additional gas sales will begin ramping up in the fourth quarter of 2007.

Thailand: The Corporation has an interest in the Pailin gas field (Hess 15%) offshore Thailand. Net production from the Corporation s interest averaged 60,000 mcf and 57,000 mcf of natural gas per day in 2006 and 2005, respectively. The Corporation is the operator and owns an interest in the onshore natural gas project in the Phu

Table of Contents

Horm Block (Hess 35%) which commenced production in November 2006. The Corporation estimates its net share of 2007 production from Phu Horm will average approximately 30,000 mcf of natural gas per day.

Indonesia: The Corporation s net share of natural gas production from Indonesia averaged 26,000 mcf per day in 2006 and 25,000 mcf per day in 2005 primarily from its interest in the Natuna A gas field (Hess 23%). The Ujung Pangkah project (Hess 75%), where the Corporation is the operator, is expected to commence gas sales by mid 2007 under an existing gas sales agreement for 440 million mcf (gross) over a 20 year period with an expected plateau rate of 100,000 mcf per day (gross). The Corporation s plans for Ujung Pangkah in 2007 include drilling additional development wells, the completion of onshore and offshore gas facilities and the commencement of a crude oil development project. The Corporation also owns an interest in the Jambi Merang natural gas project (Hess 25%).

Azerbaijan: The Corporation has an interest in the Azeri-Chirag-Gunashli (ACG) fields (Hess 2.72%) in the Caspian Sea. Net production from its interest averaged 7,000 barrels of crude oil per day in 2006 and 4,000 barrels per day in 2005. Phase 2 production from the ACG fields commenced during 2006. The Corporation also holds an interest in the Baku-Tbilisi-Ceyhan (BTC) Pipeline (Hess 2.36%), which started operation in the second quarter of 2006.

Oil and Gas Reserves

The Corporation s net proved oil and gas reserves at the end of 2006, 2005 and 2004 are presented under Supplementary Oil and Gas Data on pages 80 and 81 in the accompanying financial statements.

During 2006, the Corporation provided oil and gas reserve estimates for 2005 to the United States Department of Energy. Such estimates are compatible with the information furnished to the SEC on Form 10-K for the year ended December 31, 2005, although not necessarily directly comparable due to the requirements of the individual requests. There were no differences in excess of 5%.

The Corporation has no contracts or agreements to sell fixed quantities of its crude oil production. In the United States, natural gas is sold on a spot basis and under contracts for varying periods to local distribution companies, and commercial, industrial and other purchasers. The Corporation s United States natural gas production is expected to approximate 20% of its 2007 sales commitments under long-term contracts. The Corporation attempts to minimize price and supply risks associated with its United States natural gas supply commitments by entering into purchase contracts with third parties having adequate sources of supply, on terms substantially similar to those under its commitments and by leasing storage facilities. In international markets, the Corporation generally sells its natural gas production under long-term sales contracts. In the United Kingdom, the Corporation also sells a portion of its natural gas production on a spot basis.

Average selling prices and average production costs

	2006	2005	2004
Average selling prices (including the effects of hedging) (Note A)			
Crude oil, including condensate and natural gas liquids (per barrel)			
United States	**$ 57.41**	$ 33.86	$ 27.87
Europe	**55.80**	33.30	26.24
Africa	**51.18**	32.10	26.35
Asia and other	**61.52**	54.69	38.36
Worldwide	**54.81**	33.69	26.86
Natural gas (per mcf)			

United States	**$ 6.59**	$ 7.93	$ 5.18
Europe	**6.20**	5.29	3.96
Asia and other	**4.05**	4.02	3.90
Worldwide	**5.50**	5.65	4.31

	2006	2005	2004
Average production (lifting) costs per barrel of oil equivalent produced (Note B)			
United States	**$ 9.54**	$ 7.46	$ 6.42
Europe	**10.73**	8.13	6.35
Africa	**9.03**	7.99	7.72
Asia and other	**6.54**	7.29	6.05
Worldwide	**9.55**	7.91	6.59

Note A: Includes inter-company transfers valued at approximate market prices and the effect of the Corporation s hedging activities.

Note B: Production (lifting) costs consist of amounts incurred to operate and maintain the Corporation s producing oil and gas wells, related equipment and facilities (including lease costs of floating production and storage facilities) and production and severance taxes. Production costs in 2005 exclude Gulf of Mexico hurricane related expenses. The average production costs per barrel of oil equivalent reflect the crude oil equivalent of natural gas production converted based on the basis of relative energy content (six mcf equals one barrel).

The table above does not include costs of finding and developing proved oil and gas reserves, or the costs of related general and administrative expenses, interest expense and income taxes.

Gross and net undeveloped acreage at December 31, 2006

	Undeveloped Acreage (Note A)	
	Gross	Net
	(In thousands)	
United States	2,199	1,672
Europe	2,893	984
Africa	13,527	9,572
Asia and other	16,486	10,016
Total (Note B)	35,105	22,244

Note A: Includes acreage held under production sharing contracts.

Note B: Approximately 5% of net undeveloped acreage held at December 31, 2006 will expire during the next three years.

Gross and net developed acreage and productive wells at December 31, 2006

	Developed Acreage Applicable to	Productive Wells (Note A)

	Productive Wells		Oil		Gas	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
	(In thousands)					
United States	450	385	708	396	74	59
Europe	1,183	587	283	98	163	37
Africa	9,919	958	844	105	3	
Asia and other	2,185	624	40	3	320	60
Total	13,737	2,554	1,875	602	560	156

Note A: Includes multiple completion wells (wells producing from different formations in the same bore hole) totaling 301 gross wells and 62 net wells.

Table of Contents

Number of net exploratory and development wells drilled

	Net Exploratory Wells			Net Development Wells		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Productive wells						
United States	**1**		4	**24**	28	32
Europe	**1**	3		**20**	6	5
Africa		1	1	**17**	12	12
Asia and other	**6**	1	1	**11**	8	2
Total	**8**	5	6	**72**	54	51
Dry holes						
United States	**4**	2	1		2	
Europe		1	1			1
Africa		1	2		1	1
Asia and other			1			1
Total	**4**	4	5		3	3
Total	**12**	9	11	**72**	57	54

Number of wells in process of drilling at December 31, 2006

	Gross Wells	Net Wells
United States	12	7
Europe	13	6
Africa	21	8
Asia and other	19	4
Total	65	25

Number of waterfloods and pressure maintenance projects in process of installation at December 31, 2006 2

Marketing and Refining

Refined product sales of the M&R businesses were as follows:

	2006	**2005**

	(Thousands of barrels per day)	
Gasoline	**218**	213
Distillates	**144**	136
Residuals	**60**	64
Other	**37**	43
Total	**459**	456

Refining: The Corporation owns a 50% interest in HOVENSA L.L.C. (HOVENSA), a refining joint venture in the United States Virgin Islands with a subsidiary of Petroleos de Venezuela S.A. (PDVSA). In addition, it owns and operates a refining facility in Port Reading, New Jersey.

HOVENSA: Refining operations at HOVENSA consist of crude units, a fluid catalytic cracking unit and a delayed coker unit. The following table summarizes capacity and utilization rates for HOVENSA:

	Refinery Capacity (Thousands of barrels per day)	Refinery Utilization	
		2006	2005
Crude	500	**89.7%**	92.2%
Fluid catalytic cracker	150	**84.3%**	81.9%
Coker	58	**84.3%**	92.8%

The fluid catalytic cracking unit at HOVENSA was shut down for approximately 22 days of unscheduled maintenance in 2006.

The delayed coker unit permits HOVENSA to run lower-cost heavy crude oil. HOVENSA has a long-term supply contract with PDVSA to purchase 115,000 barrels per day of Venezuelan Merey heavy crude oil. PDVSA also supplies 155,000 barrels per day of Venezuelan Mesa medium gravity crude oil to HOVENSA under a long-term crude oil supply contract. The remaining crude oil requirements are purchased mainly under contracts of one year or less from third parties and through spot purchases on the open market. After sales of refined products by HOVENSA to unrelated third parties, the Corporation purchases 50% of HOVENSA s remaining production at market prices.

Port Reading Facility: The Corporation owns and operates a fluid catalytic cracking facility in Port Reading, New Jersey, with a capacity of 65,000 barrels per day. This facility processes residual fuel oil and vacuum gas oil and operated at a rate of approximately 63,000 barrels per day in 2006 and 55,000 barrels per day in 2005. Substantially all of Port Reading s production is gasoline and heating oil.

Marketing: The Corporation markets refined petroleum products on the East Coast of the United States to the motoring public, wholesale distributors, industrial and commercial users, other petroleum companies, governmental agencies and public utilities. It also markets natural gas and electricity to utilities and other industrial and commercial customers. During 2006 and 2005, the Corporation selectively expanded its energy marketing business by acquiring natural gas and electricity customer accounts.

The Corporation has 1,350 HESS® gasoline stations at December 31, 2006, including stations owned by the WilcoHess joint venture (Hess 44%). Approximately 88% of the gasoline stations are operated by the Company or WilcoHess. Of the operated stations, 92% have convenience stores on the sites. Most of the Corporation s gasoline stations are in New York, New Jersey, Pennsylvania, Florida, Massachusetts, North Carolina and South Carolina.

Refined product sales averaged 459,000 barrels per day in 2006 and 456,000 barrels per day in 2005. Of total refined products sold in 2006, approximately 50% was obtained from HOVENSA and Port Reading. The Corporation purchased the balance from others under short-term supply contracts and by spot purchases from various sources.

The Corporation has 22 terminals with an aggregate storage capacity of 22 million barrels in its East Coast marketing areas.

The Corporation has a 50% voting interest in a consolidated partnership that trades energy commodities and derivatives. The Corporation also takes energy commodity and derivative trading positions for its own account.

The Corporation also has a 50% interest in a joint venture, Hess LNG, which is pursuing investments in liquefied natural gas (LNG) terminals and related supply, trading and marketing opportunities. The joint venture is pursuing the development of LNG terminal projects located in Fall River, Massachusetts and Shannon, Ireland.

The Corporation has a wholly-owned subsidiary that provides distributed electricity generating equipment to industrial and commercial customers as an alternative to purchasing electricity from local utilities. The Corporation also has invested in long-term technology to develop fuel cells for electricity generation through a venture with other parties.

Competition and Market Conditions

See Item 1A, Risk Factors Related to Our Business and Operations, for a discussion of competition and market conditions.

Other Items

Compliance with various existing environmental and pollution control regulations imposed by federal, state, local and foreign governments is not expected to have a material adverse effect on the Corporation s earnings and competitive position within the industry. The Corporation spent $15 million in 2006 for environmental remediation. The United States Environmental Protection Agency (EPA) has adopted rules that limit the amount of sulfur in gasoline and diesel fuel. Capital expenditures necessary to comply with the low-sulfur gasoline requirements at Port Reading were $72 million, of which $23 million was spent in 2005 and the remainder was spent in 2006. Capital expenditures to comply with low-sulfur gasoline and diesel fuel requirements at HOVENSA are expected to be approximately $420 million, of which $360 million has been spent to date and the remainder will be spent in 2007. HOVENSA expects to finance these capital expenditures through cash flow from operations.

The number of persons employed by the Corporation at year end was approximately 13,700 in 2006 and 12,800 in 2005.

The Corporation s Internet address is www.hess.com. On its website, the Corporation makes available free of charge its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Corporation electronically files with or furnishes such material to the Securities and Exchange Commission. Copies of the Corporation s Code of Business Conduct and Ethics, its Corporate Governance Guidelines and the charters of the Audit Committee, the Compensation and Management Development Committee and the Corporate Governance and Nominating Committee of the Board of Directors are available on the Corporation s website and are also available free of charge upon request to the Secretary of the Corporation at its principal executive offices. The Corporation has also filed with the New York Stock Exchange (NYSE) its annual certification that the Corporation s chief executive officer is unaware of any violation of the NYSE s corporate governance standards.

Item 1A. ***Risk Factors Related to Our Business and Operations***

Our business activities and the value of our securities are subject to significant risk factors, including those described below. The risk factors described below could negatively affect our operations, financial condition, liquidity and results of operations, and as a result holders and purchasers of our securities could lose part or all of their investments. It is possible additional risks relating to our securities may be described in a prospectus supplement if we issue securities in the future.

Commodity Price Risk: Our estimated proved reserves, revenue, operating cash flows, operating margins, future earnings and trading operations are highly dependent on the prices of crude oil, natural gas and refined petroleum products, which are influenced by numerous factors beyond our control. Historically these prices have been very volatile. The major foreign oil producing countries, including members of the Organization of Petroleum Exporting Countries (OPEC), exert considerable influence over the supply and price of crude oil and refined petroleum products. Their ability or inability to agree on a common policy on rates of production and other matters has a significant impact on the oil markets. The derivatives markets may also influence the selling prices of crude oil, natural gas and refined petroleum products. A significant downward trend in commodity prices would have a material adverse effect on our revenues, profitability and cash flow and could result in a reduction in the carrying value of our oil and gas assets,

goodwill and proved oil and gas reserves. To the extent that we engage in hedging activities to mitigate commodity price volatility, we will not realize the benefit of price increases above the hedged price.

Technical Risk: We own or have access to a finite amount of oil and gas reserves which will be depleted over time. Replacement of oil and gas reserves is subject to successful exploration drilling, development activities, and enhanced recovery programs. Therefore, future oil and gas production is dependent on technical success in finding

and developing additional hydrocarbon reserves. Exploration activity involves the interpretation of seismic and other geological and geophysical data, which does not always successfully predict the presence of commercial quantities of hydrocarbons. Drilling risks include adverse unexpected conditions, irregularities in pressure or formations, equipment failure, blowouts and weather interruptions. Future developments may be affected by unforeseen reservoir conditions which negatively affect recovery factors or flow rates. The costs of drilling and development activities have also been increasing, which could negatively affect expected economic returns. Although due diligence is used in evaluating acquired oil and gas properties, similar uncertainties may be encountered in the production of oil and gas on properties acquired from others.

Oil and Gas Reserves and Discounted Future Net Cash Flow Risks: Numerous uncertainties exist in estimating quantities of proved reserves and future net revenues from those reserves. Actual future production, oil and gas prices, revenues, taxes, capital expenditures, operating expenses, geologic success and quantities of recoverable oil and gas reserves may vary substantially from those assumed in the estimates and could materially affect the estimated quantities and future net revenues of our proved reserves. In addition, reserve estimates may be subject to downward or upward revisions based on production performance, purchases or sales of properties, results of future development, prevailing oil and gas prices, production sharing contracts which may decrease reserves as crude oil and natural gas prices increase, and other factors.

Political Risk: Federal, state, local, territorial and foreign laws and regulations relating to tax increases and retroactive tax claims, expropriation of property, cancellation of contract rights, and changes in import regulations, as well as other political developments may affect our operations. For example, during 2006, the governments of the United Kingdom and Algeria increased taxation on our crude oil and natural gas revenues in response to higher crude oil and natural gas prices. Some of the international areas in which we operate may be politically less stable than our domestic operations. In addition, the increasing threat of terrorism around the world poses additional risks to the operations of the oil and gas industry. In our M&R segment, we market motor fuels through lessee-dealers and wholesalers in certain states where legislation prohibits producers or refiners of crude oil from directly engaging in retail marketing of motor fuels. Similar legislation has been periodically proposed in the U.S. Congress and in various other states.

Environmental Risk: Our oil and gas operations, like those of the industry, are subject to environmental hazards such as oil spills, produced water spills, gas leaks and ruptures and discharges of substances or gases that could expose us to substantial liability for pollution or other environmental damage. Our operations are also subject to numerous United States federal, state, local and foreign environmental laws and regulations. Non-compliance with these laws and regulations may subject us to administrative, civil or criminal penalties, remedial clean-ups and natural resource damages or other liabilities. In addition, increasingly stringent environmental regulations, particularly relating to the production of motor and other fuels, has resulted, and will likely continue to result, in higher capital expenditures and operating expenses for us and the oil and gas industry generally.

Competitive Risk: The petroleum industry is highly competitive and very capital intensive. We encounter competition from numerous companies in each of our activities, particularly in acquiring rights to explore for crude oil and natural gas and in the purchasing and marketing of refined products and natural gas. Many competitors, including national oil companies, are larger and have substantially greater resources. We are also in competition with producers and marketers of other forms of energy. Increased competition for worldwide oil and gas assets has significantly increased the cost of acquisitions. In addition, competition for drilling services and equipment has affected the availability of drilling rigs and increased capital and operating costs.

Catastrophic Risk: Although we maintain an appropriate level of insurance coverage against property and casualty losses, our oil and gas operations are subject to unforeseen occurrences which may damage or destroy assets or interrupt operations. Examples of catastrophic risks include hurricanes, fires, explosions and blowouts. These

occurrences have affected us from time to time. During 2005, our annual Gulf of Mexico production of crude oil and natural gas was reduced by 7,000 barrels of oil equivalent per day (boepd) due to the impact of Hurricanes Katrina and Rita.

Item 3. ***Legal Proceedings***

Purported class actions consolidated under a complaint captioned: *In re Amerada Hess Securities* Litigation were filed in United States District Court for the District of New Jersey against the Registrant and certain executive officers and former executive officers of the Registrant alleging that these individuals sold shares of the Registrant s common stock in advance of the Registrant s acquisition of Triton Energy Limited (Triton) in 2001 in violation of federal securities laws. In April 2003, the Registrant and the other defendants filed a motion to dismiss for failure to state a claim and failure to plead fraud with particularity. On March 31, 2004, the court granted the defendants motion to dismiss the complaint. The plaintiffs were granted leave to file an amended complaint. Plaintiffs filed an amended complaint in June 2004. Defendants moved to dismiss the amended complaint. In June 2005, this motion was denied. On January 30, 2007, the District Court issued an order preliminarily approving settlement of this action and providing for notice to members of the class of plaintiffs. While continuing to deny the allegations of the complaint and all charges of wrongdoing or liability arising in connection with the subject matter of the action, the defendants agreed with plaintiffs to settle the action on the terms set forth in the stipulation of settlement in order to avoid the cost, inconvenience and uncertainty of continued protracted litigation. Under the terms of the settlement, defendants have caused to be deposited into an escrow account the sum of $9 million, which after payment of certain administrative expenses and plaintiffs attorney fees, will be distributed according to a plan of allocation to class members who submit valid and timely proof of claim and release forms. All of the amount deposited was paid by the defendants insurer. The settlement is subject to final approval of the district court and certain other conditions, including that not more than 5% of shares owned by class members eligible to participate in the settlement elect to opt out of the settlement.

The Registrant, along with many other companies engaged in refining and marketing of gasoline, has been a party to lawsuits and claims related to the use of methyl tertiary butyl ether (MTBE) in gasoline. A series of substantially identical lawsuits, many involving water utilities or governmental entities, were filed in jurisdictions across the United States against producers of MTBE and petroleum refiners who produce gasoline containing MTBE, including the Registrant. These cases have been consolidated in the Southern District of New York and the Registrant is named as a defendant in 43 of the 69 cases pending. The principal allegation in all cases is that gasoline containing MTBE is a defective product and that these parties are strictly liable in proportion to their share of the gasoline market for damage to groundwater resources and are required to take remedial action to ameliorate the alleged effects on the environment of releases of MTBE. In some cases, punitive damages are also sought. In April 2005, the District Court denied the primary legal aspects of the defendants motion to dismiss these actions. While the damages claimed in these actions are substantial, only limited information is available to evaluate the factual and legal merits of those claims. The Corporation also believes that significant legal uncertainty remains regarding the validity of causes of action asserted and availability of the relief sought by plaintiffs. Accordingly, based on the information currently available, there is insufficient information on which to evaluate the Corporation s exposure in these cases.

Over the last several years, many refiners have entered into consent agreements to resolve the EPA s assertions that refining facilities were modified or expanded without complying with New Source Review regulations that require permits and new emission controls in certain circumstances and other regulations that impose emissions control requirements. These consent agreements, which arise out of an EPA enforcement initiative focusing on petroleum refiners and utilities, have typically imposed substantial civil fines and penalties and required (i) significant capital expenditures to install emissions control equipment over a three to eight year time period and (ii) changes to operations which resulted in increased operating costs. Settlements under Petroleum Refining Initiative consent agreements to date have averaged $335 per barrel per day of refining capacity. However the capital expenditures, penalties and supplemental environmental projects for individual refineries covered by the settlements can vary significantly, depending on the size and configuration of the refinery, the circumstances of the alleged modifications

and whether the refinery has previously installed more advanced pollution controls. EPA initially contacted Registrant and HOVENSA L.L.C. (HOVENSA), its 50% owned joint venture with Petroleos de Venezuela, regarding the Petroleum Refinery Initiative in August 2003 and discussions resumed in August 2005. The Registrant and HOVENSA have had and expect to have further discussions with the EPA regarding the Petroleum Refining Initiative, although both the Registrant and HOVENSA have already installed many of the pollution controls required of other refiners under the consent agreements and the EPA has not made any specific

assertions that either Registrant or HOVENSA violated either New Source Review or other regulations which would require additional controls. While the effect on the Corporation of the Petroleum Refining Initiative cannot be estimated at this time, additional future capital expenditures and operating expenses may be incurred. The amount of penalties, if any, is not expected to be material to the Corporation.

In December 2006, HOVENSA received a Notice of Violation (NOV) from the EPA alleging non-compliance with emissions limits in a permit issued by the Virgin Islands Department of Planning and Natural Resources (DPNR) for the two process heaters in the delayed coking unit. The NOV was issued in response to a voluntary investigation and submission by HOVENSA regarding potential non-compliance with the permit emissions limits for two pollutants. Any exceedances were minor from the perspective of the amount of pollutants emitted in excess of the limits. HOVENSA intends to work with the appropriate governmental agency to reach resolution of this matter and does not believe that it will result in material liability.

Registrant is one of over 60 companies that have received a directive from the New Jersey Department of Environmental Protection (NJDEP) to remediate contamination in the sediments of the lower Passaic River and NJDEP is also seeking natural resource damages. The directive, insofar as it affects Registrant, relates to alleged releases from a petroleum bulk storage terminal in Newark, New Jersey now owned by the Registrant. EPA has also issued an Administrative Order on Consent relating to the same contamination. While NJDEP has suggested a remedial cost of over $900 million, the costs of remediation of the Passaic River sediments are the subject of a remedial investigation and feasibility study currently being conducted on a portion of the river by the EPA under an agreement with Registrant and over 40 other companies. Thus, remedial costs cannot be reliably estimated at this time. Based on currently known facts and circumstances, the Registrant does not believe that this matter will result in material liability because its terminal could not have contributed contamination along most of the river s length and did not store or use contaminants which are of the greatest concern in the river sediments, and because there are numerous other parties who will likely share in the cost of remediation and damages.

On or about July 15, 2004, Hess Oil Virgin Islands Corp. (HOVIC), a wholly owned subsidiary of the Registrant, and HOVENSA, in which Registrant owns a 50% interest, each received a letter from the Commissioner of the Virgin Islands Department of Planning and Natural Resources and Natural Resources Trustees, advising of the Trustee s intention to bring suit against HOVIC and HOVENSA under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The letter alleges that HOVIC and HOVENSA are potentially responsible for damages to natural resources arising from releases of hazardous substances from the HOVENSA Oil Refinery. HOVENSA currently owns and operates a petroleum refinery on the south shore of St. Croix, United States Virgin Islands, which had been operated by HOVIC until October 1998. An action was filed on May 5, 2005 in the District Court of the Virgin Islands against HOVENSA, HOVIC and other companies that operated industrial facilities on the south shore of St. Croix asserting that the defendants are liable under CERCLA and territorial statutory and common law for damages to natural resources. HOVIC and HOVENSA do not believe that this matter will result in a material liability as they believe that they have strong defenses to this complaint, and they intend to vigorously defend this matter.

The Securities and Exchange Commission (SEC) has notified the Registrant that on July 21, 2005, it commenced a private investigation into payments made to the government of Equatorial Guinea or to officials and persons affiliated with officials of the government of Equatorial Guinea. The staff of the SEC has requested documents and information from the Registrant and other oil and gas companies that have operations or interests in Equatorial Guinea. The staff of the SEC had previously been conducting an informal inquiry into such matters. The Registrant has been cooperating and continues to cooperate with the SEC investigation.

Registrant has been served with a complaint from the New York State Department of Environmental Conservation (DEC) relating to alleged violations at its petroleum terminal in Brooklyn, New York. The complaint, which seeks an

order to shut down the terminal and penalties in unspecified amounts, alleges violations involving the structural integrity of certain tanks, the erosion of shorelines and bulkheads, petroleum discharges and improper certification of tank repairs. DEC is also seeking relief relating to remediation of certain gasoline stations in the New York metropolitan area. Registrant believes that many of the allegations are factually inaccurate or based on an incorrect interpretation of applicable law. Registrant has already addressed the primary conditions discussed in the

Table of Contents

complaint. Registrant intends to vigorously contest the complaint, but is involved in settlement discussions with DEC. Any settlement is not expected to be material to the Corporation.

The Registrant periodically receives notices from EPA that it is a potential responsible party under the Superfund legislation with respect to various waste disposal sites. Under this legislation, all potentially responsible parties are jointly and severally liable. For certain sites, EPA s claims or assertions of liability against the Corporation relating to these sites have not been fully developed. With respect to the remaining sites, EPA s claims have been settled, or a proposed settlement is under consideration, in all cases for amounts that are not material. The ultimate impact of these proceedings, and of any related proceedings by private parties, on the business or accounts of the Corporation cannot be predicted at this time due to the large number of other potentially responsible parties and the speculative nature of clean-up cost estimates, but is not expected to be material.

The Corporation is from time to time involved in other judicial and administrative proceedings, including proceedings relating to other environmental matters. Although the ultimate outcome of these proceedings cannot be ascertained at this time and some of them may be resolved adversely to the Corporation, no such proceeding is required to be disclosed under applicable rules of the Securities and Exchange Commission. In management s opinion, based upon currently known facts and circumstances, such proceedings in the aggregate will not have a material adverse effect on the financial condition of the Corporation.

Item 4. ***Submission of Matters to a Vote of Security Holders***

During the fourth quarter of 2006, no matter was submitted to a vote of security holders through the solicitation of proxies or otherwise.

Executive Officers of the Registrant

The following table presents information as of February 1, 2007 regarding executive officers of the Registrant:

Name	Age	Office Held*	Year Individual Became an Executive Officer
John B. Hess	52	Chairman of the Board, Chief Executive Officer and Director	1983
J. Barclay Collins II	62	Executive Vice President, General Counsel and Director	1986
John J. O Connor	60	Executive Vice President, President of Worldwide Exploration and Production and Director	2001
F. Borden Walker	53	Executive Vice President and President of Marketing and Refining and Director	1996
Brian J. Bohling	46	Senior Vice President	2004
E. Clyde Crouch	58	Senior Vice President	2003
John A. Gartman	59	Senior Vice President	1997
Scott Heck	49	Senior Vice President	2005
Lawrence H. Ornstein	55	Senior Vice President	1995
Howard Paver	56	Senior Vice President	2002
John P. Rielly	44	Senior Vice President and Chief Financial Officer	2002
George F. Sandison	50	Senior Vice President	2003
John J. Scelfo	49	Senior Vice President	2004
Robert P. Strode	50	Senior Vice President	2000
Robert J. Vogel	47	Vice President & Treasurer	2004

* *All officers referred to herein hold office in accordance with the By-Laws until the first meeting of the Directors following the annual meeting of stockholders of the Registrant and until their successors shall have been duly chosen and qualified. Each of said officers was elected to the office set forth opposite his name on May 3, 2006. The first meeting of Directors following the next annual meeting of stockholders of the Registrant is scheduled to be held May 2, 2007.*

Except for Messrs. Bohling, Sandison and Scelfo, each of the above officers has been employed by the Registrant or its subsidiaries in various managerial and executive capacities for more than five years. Mr. Bohling was employed in senior human resource positions with American Standard Corporation and CDI Corporation before joining the

Registrant in 2004. Mr. Scelfo was chief financial officer of Sirius Satellite Radio and a division of Dell Computer before his employment by the Registrant in 2003. Mr. Sandison served in senior executive positions in the area of global drilling with Texaco, Inc. before he was employed by the Registrant in 2003.

Table of Contents

PART II

Item 5. *Market for the Registrant s Common Stock and Related Stockholder Matters*

Stock Market Information

The common stock of Hess Corporation is traded principally on the New York Stock Exchange (ticker symbol: HES). High and low sales prices were as follows:

	2006		2005	
Quarter Ended*	**High**	**Low**	**High**	**Low**
March 31	**$ 52.00**	**$ 42.83**	$ 34.65	$ 25.94
June 30	**53.46**	**43.23**	37.39	28.75
September 30	**56.45**	**38.30**	47.50	35.53
December 31	**52.70**	**37.62**	46.33	36.67

* *Prices for all periods reflect the impact of a 3-for-1 stock split on May 31, 2006.*

The high and low sales prices of the Corporation s 7% cumulative mandatory convertible preferred stock (traded on the New York Stock Exchange, ticker symbol: HESPR) were as follows**:

		2006	2005
Quarter Ended	&nb		