

HESS CORP
Form 10-K
February 21, 2018

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, 2017

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, a smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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)		Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Ex-change Act.

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 \$12,290,000,000, computed using the outstanding common shares and closing market price on June 30, 2017, the last business day of the Registrant's most recently completed second fiscal quarter.

At December 31, 2017, there were 315,053,615 shares of Common Stock outstanding.

Part III is incorporated by reference from the Proxy Statement for the 2018 annual meeting of stockholders.

HESS CORPORATION

Form 10-K

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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,” “would,” “believe,” “intend,” “project,” “plan,” “predict,” “estimate,” “expect,” “forecast,” “guidance,” “could,” “may,” “should,” “would,” “believe,” “intend,” “project,” “plan,” “predict,” and similar 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 of relevant factors and reasonable assumptions about the future. Forward-looking statements are subject to certain known and unknown risks and uncertainties that could cause actual results to differ materially from our historical experience and our current projections or expectations of future results expressed or implied by these forward-looking statements. As and when made, we believe that these forward-looking statements are reasonable. However, given these uncertainties, 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 and actual results may differ materially from those contained in any forward-looking statement we make. Except as required by law, we undertake no obligation 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.

Glossary

Throughout this report, the following company or industry specific terms and abbreviations are used:

Appraisal well – An exploration well drilled to confirm the results of a discovery well, or a well used to determine the boundaries of a productive formation.

Bbl – One stock tank barrel, which is 42 United States gallons liquid volume.

Barrel of oil equivalent or Boe – This 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 9.

Boepd – Barrels of oil equivalent per day.

Bopd – Barrels of oil per day.

Condensate – A mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that when produced, is in the liquid phase at surface pressure and temperature.

Development well – A well drilled within the proved area of an oil and/or natural gas reservoir with the intent of producing oil and/or natural gas from that area of the reservoir.

Dry hole or dry well – An exploratory or development well that does not find oil or natural gas in commercial quantities.

Exploratory well – A well drilled to find oil or natural gas in an unproved area or find a new reservoir in a field previously found to be productive by another reservoir.

Fractionation – Fractionation is the process by which the mixture of NGLs that results from natural gas processing is separated into the NGL components, such as ethane, propane, butane, isobutane, and natural gasoline, prior to their sale to various petrochemical and industrial end users. Fractionation is accomplished by controlling the temperature of the stream of mixed liquids in order to take advantage of the difference in boiling points of separate products.

Field – An area consisting of a single reservoir or multiple reservoirs all grouped or related to the same individual geological structural feature and/or stratigraphic condition.

Gross acreage – acreage in which a working interest is held by the Corporation.

Gross well – a well in which a working interest is held by the Corporation.

Mcf – One thousand cubic feet of natural gas.

Mmcfd – One thousand mcf of natural gas per day.

Net acreage or Net wells – The sum of the fractional working interests owned by us in gross acres or gross wells.

NGLs or Natural gas liquids – Naturally occurring substances that are separated and produced by fractionating natural gas, including ethane, butane, isobutane, propane and natural gasoline. Natural gas liquids do not sell at prices

equivalent to crude oil. See the average selling prices in the table on page 9.

Non-operated – Projects in which the Corporation has a working interest but does not perform the role of Operator.

OPEC – Organization of Petroleum Exporting Countries.

Operator – The entity responsible for conducting and managing exploration, development, and/or production operations for an oil or gas project.

Participating interest – Reflects the proportion of exploration and production costs each party will bear or the proportion of production each party will receive, as set out in an operating agreement.

Production entitlement – The share of gross production the Corporation is entitled to receive under the terms of a production sharing contract.

Production sharing contract – An agreement between a host government and the owners (or co-owners) of a well or field regarding the percentage of production each party will receive after the parties have recovered a specified amount of capital and operational expenses.

Productive well – A well that is capable of producing hydrocarbons in sufficient quantities to justify commercial exploitation.

Proved properties – Properties with proved reserves.

Proved reserves – In accordance with Securities and Exchange Commission regulations and practices recognized in the publication of the Society of Petroleum Engineers entitled, “Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information,” those quantities of crude oil and condensate, NGLs and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

Proved developed reserves – Proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or for which the cost of the required equipment is relatively minor compared to the cost of a new well.

Proved undeveloped reserves – Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

Unproved properties – Properties with no proved reserves.

Working interest – An interest in an oil and gas property that provides the owner of the interest the right to drill for and produce oil and gas on the relevant acreage and requires the owner to pay a share of the costs of drilling and production operations.

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, the Malaysia/Thailand Joint Development Area (JDA) and Malaysia. The Corporation conducts exploration activities primarily offshore Guyana, Suriname, Canada and in the Gulf of Mexico, including at the Stabroek Block, offshore Guyana, where we have participated in six significant crude oil discoveries and sanctioned the first phase of a multi-phase development project at the Liza Field. During 2017, we sold our interests in Equatorial Guinea, Norway and our enhanced oil recovery assets in the Permian Basin, onshore U.S. The 2017 asset sales of higher cost, mature assets will provide funds toward our future development projects in the Stabroek Block, offshore Guyana. In the fourth quarter of 2017, we announced that we would commence a process to sell our interests in Denmark in 2018.

The Corporation's Midstream operating segment provides fee-based services, including gathering, compressing and processing natural gas and fractionating natural gas liquids (NGLs); gathering, terminaling, loading and transporting crude oil and NGLs; and storing and terminaling propane, primarily in the Bakken and Three Forks Shale plays in the Williston Basin area of North Dakota. On January 1, 2017, the Corporation's interests in a Permian Basin gas plant in West Texas and related CO₂ assets, and water handling assets in North Dakota were transferred from the E&P segment to the Midstream segment as a result of organizational changes to the management of those assets. In the third quarter of 2017, we completed the sale of our Midstream assets in the Permian Basin.

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, and exclude escalations based on future conditions. Crude oil prices used in the determination of proved reserves at December 31, 2017 were \$51.19 per barrel for WTI (2016: \$42.68) and \$54.87 per barrel for Brent (2016: \$44.45). Our total proved developed and undeveloped reserves at December 31 were as follows:

	Crude Oil & Condensate		Natural Gas Liquids		Natural Gas		Total Barrels of Oil Equivalent (BOE)	
	2017	2016	2017	2016	2017	2016	2017	2016
	(Millions of bbls)		(Millions of bbls)		(Millions of mcf)		(Millions of bbls)	
Developed								
United States	239	245	87	59	526	404	414	371
Europe (a)	45	116	—	3	80	125	58	140
Africa	112	138	—	—	117	132	132	160
Asia and other	5	5	—	—	696	739	121	128
	401	504	87	62	1,419	1,400	725	799
Undeveloped								

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United States	194	110	84	27	354	186	337	168
Europe (a)	4	94	—	5	12	95	6	115
Africa	16	24	—	—	7	11	17	26
Asia and other (b)	44	—	—	—	149	5	69	1
	258	228	84	32	522	297	429	310
Total								
United States	433	355	171	86	880	590	751	539
Europe (a)	49	210	—	8	92	220	64	255
Africa	128	162	—	—	124	143	149	186
Asia and other (b)	49	5	—	—	845	744	190	129
	659	732	171	94	1,941	1,697	1,154	1,109

- (a) At December 31, 2016, proved reserves in Norway, which were sold in 2017, included crude oil and condensate of 165 million barrels (developed - 75 million barrels; undeveloped - 90 million barrels), natural gas liquids of 8 million barrels (developed - 3 million barrels; undeveloped - 5 million barrels), and natural gas of 160 million mcf (developed - 72 million mcf; undeveloped - 88 million mcf).
- (b) Asia and other includes proved undeveloped reserves in Guyana of 45 million boe at December 31, 2017 (2016: 0 million boe).

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Proved undeveloped reserves were 37% of our total proved reserves at December 31, 2017 on a boe basis (2016: 28%). Proved reserves held under production sharing contracts totaled 7% of our crude oil reserves and 44% of our natural gas reserves at December 31, 2017 (2016: 4% and 45%, 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 81 through 91.

Production

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

	2017	2016	2015
	(Thousands of barrels)		
Crude oil			
United States			
Bakken	24,439	24,881	29,579
Other Onshore (a)	2,053	3,209	3,814
Total Onshore	26,492	28,090	33,393
Offshore	14,411	16,649	20,391
Total United States	40,903	44,739	53,784
Europe			
Norway (a)	7,236	8,387	9,985
Denmark	2,988	3,636	3,981
	10,224	12,023	13,966
Africa			
Equatorial Guinea (a)	9,201	11,898	15,881
Libya	3,542	387	20
Algeria	—	—	2,589
	12,743	12,285	18,490
Asia			
JDA	586	616	613
Malaysia	289	152	196
	875	768	809
Total	64,745	69,815	87,049

	2017	2016	2015
	(Thousands of barrels)		
Natural gas liquids			
United States			
Bakken	10,107	9,701	7,438
Other Onshore (a)	2,972	4,205	4,215
Total Onshore	13,079	13,906	11,653
Offshore	1,733	1,724	2,258
Total United States	14,812	15,630	13,911
Europe - Norway (a)	340	408	499
Total	15,152	16,038	14,410

	2017	2016	2015
Natural gas	(Thousands of mcf)		
United States			
Bakken	22,621		