LGI Homes, Inc.
Form DEF 14A
March 21, 2019

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

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant	x
Filed by a Party other than the Registrant	o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under §240.14a-12

LGI HOMES, INC.
(Name of Registrant as Specified In Its Charter)
N/A
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

1450 Lake Robbins Drive, Suite 430
The Woodlands, Texas 77380

NOTICE OF 2019 ANNUAL MEETING OF STOCKHOLDERS
to be held on:
May 2, 2019
4:00 p.m. Central Time

Dear Stockholder:
You are cordially invited to attend our 2019 Annual Meeting of Stockholders, which will be held at 4:00 p.m. (Central Time) on May 2, 2019, at the Company's headquarters at 1450 Lake Robbins Drive, The Woodlands, Texas 77380 in Suite 140.
We are holding the Annual Meeting for the following purposes, which are more fully described in the accompanying proxy statement:

1. To elect the nominees named in the accompanying proxy statement to the Company's Board of Directors;
2. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2019;
3. To conduct an advisory vote to approve the compensation paid to the Company's named executive officers for 2018, as disclosed in this proxy statement; and
4. To transact such other business as may properly come before the Annual Meeting, or any adjournment thereof.

Only stockholders of record as of the close of business on March 8, 2019 are entitled to notice and to vote at the Annual Meeting or any adjournment thereof. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at our headquarters during the 10-day period prior to the Annual Meeting. If you would like to view this stockholder list, please contact Investor Relations at (281) 362-8998.
Each share of Company common stock that you own represents one vote, and your vote as a stockholder of LGI Homes, Inc. is very important. If you are a registered stockholder and have questions regarding your stock ownership, you may contact our transfer agent, Computershare Investor Services, by email through their website at www.computershare.com or by phone at (800) 962-4284 (within the U.S. and Canada) or (781) 575-3120 (outside the U.S. and Canada).

The Company's Board of Directors has approved Proposals 1, 2, and 3 described in the accompanying proxy statement and recommends that you vote:
FOR the election of all nominees for director in Proposal 1;
FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accountants for the fiscal year ending December 31, 2019 in Proposal 2; and
FOR the approval of the compensation paid to the Company's named executive officers for 2018 ("Say-On-Pay") in Proposal 3.

BY ORDER OF THE BOARD OF DIRECTORS

Scott Garber
General Counsel and Corporate Secretary

The Woodlands, Texas
March 21, 2019

YOUR VOTE IS IMPORTANT

Instructions for submitting your proxy are provided in the Notice of Internet Availability of Proxy Materials, the Proxy Statement and your proxy card. It is important that your shares of Company common stock be represented and voted at the Annual Meeting. Please submit your proxy through the Internet, by telephone, or by completing the proxy card. You may revoke your proxy at any time prior to its exercise at the Annual Meeting. Please do not return the proxy card if you are voting through the Internet or by telephone.
Important Notice Regarding the Availability of Proxy Materials for the Annual Stockholder Meeting to be Held on May 2, 2019:
The Company's Proxy Statement and 2018 Annual Report on Form 10-K are available for review online at www.proxydocs.com/LGIH, which can also be accessed using the link at http://investor.lgihomes.com.

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PROXY STATEMENT SUMMARY

This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider and you should read the entire proxy statement carefully before voting.

Voting Matters and Recommendations of the Board of Directors of LGI Homes, Inc. (the “Board”)

Voting Matters	Board Recommendations
Election of Director Nominees (page 6)	FOR Each Director Nominee
Ratification of Independent Public Accounting Firm (page 10)	FOR
Advisory Vote on Executive Compensation (page 12)	FOR

Business Highlights

Due to our culture, customer-centric sales and marketing system, and our systems and processes-oriented business model, LGI Homes, Inc. (“LGI”, the “Company” or “we”) is one of America’s fastest-growing homebuilders. LGI provides move-in-ready homes to primarily entry-level homebuyers and has expanded its footprint from 25 active communities in four states at the time of our initial public offering in November 2013, to 88 active communities in 16 states as of December 31, 2018. Our goal is to provide our stockholders with market leading returns and to leverage our proven business model as we continue to diversify our geographic footprint and our product offerings to additional price points.

During 2018, we realized a 19.6% increase in home sales revenues and 11.4% increase in home closings as compared to 2017, which we believe is a testament to the strength of our systems and process-oriented business model, as well as the commitment of our team to achieve record-breaking results. Our momentum and improved operating leverage over the five years since our initial public offering generated pre-tax income as a percentage of revenues of more than 13% in 2016-2018.

During 2018, we achieved the following results compared to 2017:

- Home sales revenues increased 19.6% to $1.5 billion from $1.3 billion.
- Homes closed increased 11.4% to 6,512 homes from 5,845 homes.
- Average sales price of our homes increased $15,800 to $231,020 from $215,220.
- Gross margin as a percentage of home sales revenues decreased to 25.3% from 25.5%.
- Adjusted gross margin (non-GAAP) as a percentage of home sales revenues increased to 27.0% from 26.9%.
- Net income before income taxes increased 16.2% to $199.1 million from $171.4 million.
- Net income increased 37.1% to $155.3 million from $113.3 million.
- EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 14.9% from 15.1%.
- Adjusted EBITDA (non-GAAP) as a percentage of home sales revenues increased to 15.1% from 15.0%.
- Active communities at the end of 2018 increased to 88 from 78.

(1) Adjusted gross margin, EBITDA, and adjusted EBITDA are non-GAAP financial measures used by management as supplemental measures in evaluating operating performance. Please see “Non-GAAP Measures-Adjusted Gross Margin” and “Non-GAAP Measures - EBITDA and Adjusted EBITDA” included as ANNEX A to this proxy statement for a reconciliation of (a) adjusted gross margin to gross margin and (b) EBITDA and adjusted EBITDA to net income, which are the GAAP financial measures that our management believes to be most directly comparable.

To support our continued growth, we have diversified our lot position while maintaining our underwriting standards. We continually evaluate our lot position to ensure we can sustain our current operations, replace closed communities, expand our market share in current markets and support our geographic and price point expansion initiatives. As of December 31, 2018, our owned and controlled lots position and closings by division were as follows:

Governance Highlights (page 13)

Each of the seats on our Board is subject to annual re-nomination and election by plurality vote. We believe that we have an appropriate process in place to evaluate the performance of each of our directors and to ensure our directors have the necessary complement and diversity of experience and skills to fulfill the Board’s fiduciary responsibility to our stockholders.

The experience and skills of our incumbent directors are summarized below:

The Board's views on numerous topics are summarized in the Corporate Governance Guidelines available under the "Investor Relations" and "Corporate Governance" links on our website at www.lgihomes.com.

Executive Compensation (page 29)
Our executive compensation program is designed to closely link the pay of each of our named executive officers ("NEOs") to our overall annual and long-term performance, aligning their interests with those of our stockholders and encouraging high-performing NEOs to remain with LGI over the course of their careers. We believe that our executive compensation program is effectively retaining executive talent as well as rewarding performance.
The Compensation Committee of our Board of Directors (the "Compensation Committee"), in consultation with management and the Compensation Committee's independent compensation consultant, endeavors to align our executive compensation program with our pay for performance philosophy to enhance stockholder value. Both short-term and long-term incentive compensation opportunities are provided for our NEOs, with an emphasis on incentive compensation versus base salary given the high growth focus of the Company.
The compensation consultant assists the Compensation Committee with benchmarking elements of executive pay against both a peer group of general industry public companies with revenues between $400 million and $1.8 billion (median revenues of $1 billion) compiled by Equilar, Inc. and a homebuilder public company peer group consisting of 13 companies with revenues between $400 million and $7.8 billion. As one of the fastest growing homebuilders in the nation based on home closing growth, the Company was at the low end of the peer group for most measures of size (e.g. revenues, total assets, market capitalization, and enterprise value); however, we were near or above the median for market capitalization and EBITDA and above the 75th percentile for all performance measures including return on equity, return on assets and total shareholder return.

As a result of its review of the market data and other factors, the Compensation Committee approved increases to each of our NEO's target compensation levels to bring them closer to the 50th percentile of the general industry market data and closer to the 25th percentile of the homebuilder peer group, considering our relative size.

Pay Mix (page 33)
Our executive compensation program directly links the majority of executive compensation opportunity to our financial performance through annual and long-term incentives. The charts below describe each of the compensation elements for the CEO and other NEOs for 2018 as a percentage of total target compensation.

- The short-term cash bonus incentive opportunity for each participating NEO was based (i) 75% on the pretax income during 2018 as compared to target and (ii) 25% on the number of home closings during 2018 as compared to the target. The payouts could range from 0% to 200% of the target annual bonus amount.
- The restricted stock unit grant agreements provide for three-year cliff vesting.
- The 2018 performance-based restricted stock unit ("PSU") awards cliff vest on the determination date and provide the opportunity for participants to receive shares of our common stock based on the attainment of pre-established financial performance targets based on our cumulative basic earnings per share amount over the three-year performance period from January 1, 2018 to December 31, 2020. The ultimate number of shares of our common stock to be earned with respect to a participant's PSUs will be determined at the end of the performance period depending on actual results as compared to the target performance metrics and payouts could range from 0% to 200% of the target number of PSUs.

We believe that the amount of compensation for each NEO reflects the depth of their experience, quality of their performance and level of service to LGI and our stockholders. See "Compensation Discussion and Analysis" for a detailed explanation of these programs beginning on page 29.

LGI HOMES, INC.
2019 ANNUAL MEETING OF STOCKHOLDERS

PROXY STATEMENT

INFORMATION CONCERNING VOTING AND SOLICITATION

The accompanying proxy is solicited on behalf of the Board of Directors (the “Board”) of LGI Homes, Inc. (“LGI”, the “Company” or “we”) for use at the Company’s 2019 Annual Meeting of Stockholders (the “Annual Meeting”) to be held at the Company’s headquarters located at 1450 Lake Robbins Drive, The Woodlands, Texas 77380, in Suite 140 on May 2, 2019, at 4:00 p.m. (Central Time), and any adjournment thereof.

On or about March 21, 2019, we will mail to our stockholders of record and beneficial owners a Notice of Internet Availability of Proxy Materials containing instructions on how to access this proxy statement (this “Proxy Statement”) and our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (our “2018 Annual Report”), and how to vote online, via the Internet. The Notice of Internet Availability of Proxy Materials will also contain instructions on how you can receive a paper copy of the proxy materials. Our 2018 Annual Report, Notice of Internet Availability of Proxy Materials and the proxy card are first being made available online on or about March 21, 2019.

QUESTIONS AND ANSWERS ABOUT THE MEETING AND VOTING

What is the purpose of the Annual Meeting?

At the Annual Meeting, our stockholders will act upon the proposals described in this Proxy Statement.

What proposals are scheduled to be voted on at the Annual Meeting?

Stockholders will be asked to vote on the following proposals:

Proposal 1:	To elect Ryan Edone, Duncan Gage, Eric Lipar, Laura Miller, Bryan Sansbury, Steven Smith, and Robert Vahradian to the Board until our next annual meeting of stockholders, until such director’s successor is elected or appointed and qualified, or until such director’s earlier death, resignation or removal (see page 6);
Proposal 2:	To ratify the appointment of Ernst & Young LLP (“Ernst & Young”) as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2019 (see page 10);
Proposal 3:	To conduct a non-binding advisory vote on the compensation paid to our named executive officers (“NEOs”) for 2018, as disclosed in this Proxy Statement (such vote, a “Say-on-Pay vote”) (see page 12); and

To transact such other business as may properly come before the Annual Meeting, or any adjournment thereof.

We are not aware of any other business to be brought before the Annual Meeting. If any additional business is properly brought before the Annual Meeting, proxies will be voted on those matters in accordance with the judgment of the person or persons acting under the proxies.

What is the recommendation of the Board on each of the proposals scheduled to be voted on at the Annual Meeting?
The Board recommends that you vote:

- FOR the election of each of the nominees for director named in Proposal 1;
- FOR the ratification of the appointment of Ernst & Young as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2019 in Proposal 2; and
- FOR the approval of the compensation paid to the NEOs for 2018 in Proposal 3.

Voting of Proxies
When you vote by proxy, you authorize our officers listed on the proxy card to vote your shares of our common stock on your behalf as you direct. In the absence of such direction, your shares will be voted:

- FOR the election of each of the nominees for director named in Proposal 1;
- FOR the ratification of the appointment of Ernst & Young as the Company's independent registered public accountants for the fiscal year ending December 31, 2019 in Proposal 2; and
- FOR the approval of the compensation paid to the NEOs for 2018 in Proposal 3.

Voting and Ownership of Shares
At the close of business on the record date, March 8, 2019, the Company had 22,707,385 shares of common stock outstanding and entitled to vote. Each share of common stock is entitled to one vote on each matter brought before the Annual Meeting. The following votes are required to approve each of the proposals at the meeting.

- Election of Directors. Proposal 1 regarding the election of directors requires the approval of a plurality of the votes cast. This means that the seven nominees receiving the highest number of affirmative FOR votes will be elected as directors.
- Ratification of Appointment of Independent Registered Public Accounting Firm. Proposal 2 regarding the ratification of the appointment of Ernst & Young as the Company's independent registered public accounting firm requires the approval of a majority of the shares of our common stock entitled to vote at the Annual Meeting which are present in person or by proxy at the Annual Meeting.
- Non-binding, Advisory Vote on the Compensation Paid to the NEOs. Generally, the Company's Bylaws (our "Bylaws") provide that approval of any matter presented to our stockholders at a meeting of our stockholders be decided by the vote of the holders of our stock having a majority of the votes which could be cast by the holders of all stock entitled to vote on such question which are present in person or by proxy at the meeting. Thus, approval of the compensation of the NEOs, as described in Proposal 3, requires the approval of a majority of the votes cast at the Annual Meeting. This vote, however, is merely advisory and is not binding on the Company, the Board or its Compensation Committee. Despite the fact that the vote is non-binding, the Board and the Compensation Committee will take the results of the vote under advisement when making future decisions regarding the Company's executive compensation program.

Who can vote at the Annual Meeting?
Stockholders as of the close of business on the record date for the Annual Meeting (March 8, 2019) are entitled to vote at the Annual Meeting. At the close of business on the record date, there were outstanding and entitled to vote 22,707,385 shares of our common stock.
Stockholder of Record: Shares Registered in Your Name
If at the close of business on March 8, 2019, your shares of our common stock were registered directly in your name with our transfer agent, Computershare Investor Services, then you are considered the stockholder of record with respect to those shares.

As a stockholder of record, you may vote at the Annual Meeting or vote by proxy. Whether or not you plan to attend the Annual Meeting, we urge you to vote over the Internet or by telephone, or if you request paper proxy materials, by filling out and returning the proxy card.

Beneficial Owner: Shares Registered in the Name of a Broker or Nominee

If at the close of business on March 8, 2019, your shares of our common stock were held in an account with a brokerage firm, bank or other nominee, then you are the beneficial owner of the shares of our common stock held in street name. As a beneficial owner, you have the right to direct your nominee on how to vote the shares of our common stock held in your account, and your nominee has enclosed or provided voting instructions for you to use in directing it on how to vote your shares of our common stock. However, the organization that holds your shares of our common stock is considered the stockholder of record for purposes of voting at the Annual Meeting. Because you are not the stockholder of record, you may not vote your shares of our common stock at the Annual Meeting unless you request and obtain a valid proxy from the organization that is the record stockholder of your shares of our common stock giving you the right to vote the shares of our common stock at the Annual Meeting.

How do I vote?

If you are a stockholder of record, you may:

- vote in person—we will provide a ballot to stockholders who attend the Annual Meeting and wish to vote in person;
- vote by mail—if you request a paper proxy card, simply complete, sign and date the proxy card, then follow the instructions on the proxy card; or
- vote via the Internet or via telephone—follow the instructions on the Notice of Internet Availability or proxy card and have the Notice of Internet Availability or proxy card available when you access the internet website or place your telephone call.

Votes submitted via the Internet or by telephone must be received by 5:00 p.m., Central Time, on May 1, 2019. Submitting your proxy, whether via the Internet, by telephone or by mail if you requested a paper proxy card, will not affect your right to vote at the Annual Meeting if you were a stockholder of record as of the close of business on March 8, 2019, and should you decide to attend the Annual Meeting and vote your shares of our common stock at the Annual Meeting.

If you are not a stockholder of record, please refer to the voting instructions provided by your nominee to direct it how to vote your shares of our common stock.

Your vote is important. Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy to ensure that your vote is counted. You may still attend the Annual Meeting if you have already voted by proxy.

How do I revoke my proxy?

A stockholder giving a proxy has the power to revoke it at any time before it is voted by providing written notice to the Secretary of the Company, by delivering a later-dated proxy, or by voting in person at the Annual Meeting.

What is the quorum requirement for the Annual Meeting?

A majority of our outstanding shares of common stock as of the record date must be present at the Annual Meeting in order to hold the meeting and conduct business. This presence is called a quorum. Your shares of our common stock are counted as present at the Annual Meeting if you are present and vote in person at the Annual Meeting or if you have properly submitted a proxy.

How are abstentions and broker non-votes treated?

Abstentions (shares of our common stock present at the Annual Meeting and voted “abstain”) are counted for purposes of determining whether a quorum is present at the Annual Meeting, and have no effect on the election of directors (Proposal 1). Abstentions will be counted toward the tabulation of the shares of our common stock

entitled to vote at the Annual Meeting and thus will have the same effect as a negative vote on the ratification of appointment of auditors (Proposal 2) and the compensation paid to the NEOs for 2018 (Proposal 3).

Broker non-votes occur when shares of our common stock held by a broker for a beneficial owner are not voted either because (i) the broker did not receive voting instructions from the beneficial owner, or (ii) the broker lacked discretionary authority to vote the shares. Broker non-votes are counted for purposes of determining whether a quorum is present, and have no effect on the matters voted upon. Note that if you are a beneficial holder and do not provide specific voting instructions to your broker, the broker that holds your shares of our common stock will not be authorized to vote on the election of directors (Proposal 1) or on the compensation paid to the NEOs for 2018 (Proposal 3). Ratification of the appointment of auditors (Proposal 2) is considered to be a routine matter and, accordingly, if you do not instruct your broker, bank or other nominee on how to vote the shares of our common stock in your account for Proposal 2, brokers will be permitted to exercise their discretionary authority to vote for the ratification of the appointment of auditors. Accordingly, we encourage you to provide voting instructions to your broker, whether or not you plan to attend the Annual Meeting.

What if I return a proxy card but do not make specific choices?

All proxies will be voted in accordance with the instructions specified on the proxy card. If you sign a physical proxy card and return it without instructions as to how your shares of our common stock should be voted on a particular proposal at the Annual Meeting, your shares of our common stock will be voted in accordance with the recommendations of our Board of Directors stated above.

If you do not vote and you hold your shares of our common stock in street name, and your broker does not have discretionary power to vote your shares of our common stock, your shares may constitute “broker non-votes” (as described above). Shares that constitute broker non-votes will be counted for the purpose of establishing a quorum for the Annual Meeting. Voting results will be tabulated and certified by the inspector of elections appointed for the Annual Meeting.

Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?

Pursuant to rules adopted by the Securities and Exchange Commission (the “SEC”), the Company uses the Internet as the primary means of furnishing proxy materials to stockholders of record as of the record date for the Annual Meeting. Accordingly, on or about March 21, 2019, the Company will mail a Notice of Internet Availability of Proxy Materials (the “Notice of Internet Availability”) to the Company’s stockholders. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice of Internet Availability or request a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice of Internet Availability and www.proxydocs.com/LGIH. The Notice of Internet Availability of Proxy Materials also contains instructions on how to receive, free of charge, paper copies of the proxy materials. If you received the notice, then you will not receive a paper copy of the proxy materials unless you request one. The Company encourages stockholders to take advantage of the availability of the proxy materials on the Internet to help reduce cost to the Company associated with the physical printing and mailing of proxy materials.

How can I get electronic access to the proxy materials?

The Notice of Internet Availability will provide you with instructions regarding how to use the Internet to:

- View the Company’s proxy materials for the Annual Meeting; and
- Instruct the Company to send future proxy materials to you by email.

The Company’s proxy materials are also available at http://www.investor.lgihomes.com. This website address is included for reference only. The information contained on the Company’s website is not incorporated by reference into this Proxy Statement.

Choosing to receive future proxy materials by email will save the Company the cost of printing and mailing documents to you. If you choose to receive future proxy materials by email, you will receive an email message

next year with instructions containing a link to those materials and a link to the proxy voting website. Your election to receive proxy materials by email will remain in effect until you terminate it.

Who is paying for this proxy solicitation?

The Company is paying the costs of the solicitation of proxies. Proxies may be solicited on behalf of the Company by our directors, officers, employees or agents in person or by telephone, facsimile or other electronic means. We will also reimburse brokerage firms and other custodians, nominees and fiduciaries, upon request, for their reasonable expenses incurred in sending proxies and proxy materials to beneficial owners of our common stock. We have not retained an outside proxy solicitation firm to assist us with the solicitation of proxies.

PROPOSAL 1—ELECTION OF DIRECTORS

Our Board of Directors currently consists of seven members. Our Certificate of Incorporation provides that the authorized number of directors may be changed only by resolution of the Board.

Each nominee presented below, if elected, will serve as a director until the next annual meeting of stockholders and until such director's successor is duly elected or appointed and qualified or, if earlier, such director's death, resignation or removal. All of the nominees listed below have given their consent to be named as nominees for election and have indicated their intention to serve if they are elected. All of the nominees currently serve on the Board. The Board does not anticipate that any of the nominees will be unable to serve as a director, but in the event that any nominee is unable to serve as a director or should otherwise become unavailable, the Board may either propose an alternate nominee, in which case the proxies will be voted for the alternative nominee unless directed to withhold from voting, or the Board may elect to reduce the size of the Board.

Mr. Smith is the uncle of Mr. Eric Lipar, our Chief Executive Officer and Chairman of the Board. There are no other familial relationships among our directors and executive officers.

Director Nominees

Our Board of Directors believes that it is necessary for each of our directors to possess qualities, attributes and skills that contribute to a diversity of views and perspectives among the directors and enhance the overall effectiveness of the Board. As described on page 13 under "Corporate Governance Guidelines - Selection and Evaluation of Director Candidates," our Nominating and Corporate Governance Committee considers all factors it deems relevant when evaluating prospective candidates or current board members for nomination to our Board of Directors, as prescribed in the committee's charter. All of our directors bring to the Board leadership experience derived from past service. They also all bring a diversity of views and perspectives derived from their individual experiences working in a range of industries and occupations, which provide our Board of Directors, as a whole, with the skills and expertise that reflect the needs of the Company.

Certain individual experiences, qualifications, and skills of our directors that contribute to the Board's effectiveness as a whole are described in the table and biographies set forth below.

Directors' Experience and Skills

Directors' Biographies

Ryan Edone Director

Mr. Edone, age 45, has served as a director since November 2014. Mr. Edone is the Chief Financial Officer of Petroleum Wholesale L.P., a distributor of branded and wholesale motor fuel products and operator of retail convenience stores/travel centers across the southwestern United States. Prior to his joining Petroleum Wholesale L.P. in 1999, Mr. Edone was a manager at PricewaterhouseCoopers and a Certified Public Accountant. Mr. Edone is a member of the Board of Directors of Archway Insurance LTD ("Archway"), a captive insurance company. At Archway, Mr. Edone formerly served in roles as the President of the Board and Vice President and Risk Control Chairman of the Board. Mr. Edone is also a member of the ChevronTexaco Petroleum Marketers Association Board. Mr. Edone is chair of our Audit Committee and qualifies as an "audit committee financial expert," as such term is defined in Item 407(d) of Regulation S-K.

Mr. Edone's experience as an executive with a multi-state retail and wholesale distribution company enables him to provide both financial and operational expertise to the Company. In addition, Mr. Edone brings insurance and risk management expertise that is valuable to support the continued growth of our business.

Duncan Gage Director

Mr. Gage, age 69, has served as a director since June 2013. Mr. Gage currently manages his personal investments. Mr. Gage was President and CEO of Giant Cement Holdings, Inc. from 2009 to 2012, a producer of cement, concrete and aggregate for the construction industry. He previously served as President of the Eastern Construction Materials Division of Rinker Materials and President of Rinker's Concrete Pipe Division. Mr. Gage also held a number of senior executive positions with Lafarge Group, including Regional President, Southeast Asia and President, US Cement Operations. He is a former director of Insteel Industries, Inc., where he chaired the Audit Committee and was a member of the Compensation Committee. Mr. Gage is a member of our Audit Committee and our Compensation Committee. Our Board of Directors has determined that Mr. Gage qualifies as an "audit committee financial expert," as such term is defined in Item 407(d) of Regulation S-K.

Mr. Gage's experience as an executive officer of public companies as well as his experience as a former director of Insteel Industries, Inc. (a public manufacturer of steel wire reinforcing products) and chair of its audit committee gives him a unique perspective on business and corporate governance issues as well as supply chain and manufacturing considerations important to a production homebuilder.

Eric Lipar

Taxes payable	313	294
Current maturities of long-term debt	69	68
Total current liabilities	3,493	4,851
LONG-TERM DEBT	5,888	5,919
DEFERRED INCOME TAXES	1,825	2,009
ASSET RETIREMENT OBLIGATIONS	2,011	2,281
OTHER LIABILITIES AND DEFERRED CREDITS	1,238	1,198
Total liabilities	14,455	16,258
EQUITY		
Hess Corporation stockholders' equity		
Common stock, par value $1.00		
Authorized — 600,000,000 shares		
Issued — 287,057,761 shares at June 30, 2015; 285,834,964 shares at December 31, 2014	287	286
Capital in excess of par value	3,329	3,277
Retained earnings	18,923	20,052
Accumulated other comprehensive income (loss)	(1,436)	(1,410)
Total Hess Corporation stockholders' equity	21,103	22,205

Noncontrolling interests	—	115
Total equity	21,103	22,320
TOTAL LIABILITIES AND EQUITY	$35,558	$38,578

See accompanying Notes to Consolidated Financial Statements.

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME (UNAUDITED)

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions, except per share amounts)			
REVENUES AND NON-OPERATING INCOME				
Sales and other operating revenues	$1,953	$2,829	$3,491	$5,502
Gains on asset sales, net	—	779	—	789
Other, net	(18)	(25)	(6)	(116)
Total revenues and non-operating income	1,935	3,583	3,485	6,175
COSTS AND EXPENSES				
Cost of products sold (excluding items shown separately below)	356	421	634	785
Operating costs and expenses	503	545	1,009	1,040
Production and severance taxes	45	78	81	140
Exploration expenses, including dry holes and lease impairment	90	460	359	579
General and administrative expenses	151	143	298	285
Interest expense	86	85	171	166
Depreciation, depletion and amortization	1,028	785	1,984	1,511
Impairment	385	—	385	—
Total costs and expenses	2,644	2,517	4,921	4,506
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(709)	1,066	(1,436)	1,669
Provision (benefit) for income taxes	(156)	92	(507)	331
INCOME (LOSS) FROM CONTINUING OPERATIONS	(553)	974	(929)	1,338
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES	(14)	(44)	(27)	13
NET INCOME (LOSS)	(567)	930	(956)	1,351
Less: Net income (loss) attributable to noncontrolling interests	—	(1)	—	34
NET INCOME (LOSS) ATTRIBUTABLE TO HESS CORPORATION	$(567)	$931	$(956)	$1,317
NET INCOME (LOSS) ATTRIBUTABLE TO HESS CORPORATION PER SHARE				
BASIC:				
Continuing operations	$(1.94)	$3.15	$(3.27)	$4.26

Discontinued operations	(0.05)	(0.14)	(0.10)	(0.07)
NET INCOME (LOSS) PER SHARE	$(1.99)	$3.01	$(3.37)	$4.19
DILUTED:				
Continuing operations	$(1.94)	$3.10	$(3.27)	$4.20
Discontinued operations	(0.05)	(0.14)	(0.10)	(0.07)
NET INCOME (LOSS) PER SHARE	$(1.99)	$2.96	$(3.37)	$4.13
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (DILUTED)	284.3	314.1	283.9	318.7
COMMON STOCK DIVIDENDS PER SHARE	$0.25	$0.25	$0.50	$0.50

See accompanying Notes to Consolidated Financial Statements.

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PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions)			
NET INCOME (LOSS)	$(567)	$930	$(956)	$1,351
OTHER COMPREHENSIVE INCOME (LOSS):				
Derivatives designated as cash flow hedges				
Effect of hedge (gains) losses reclassified to income	—	(5)	—	(10)
Income taxes on effect of hedge (gains) losses reclassified to income	—	2	—	4
Net effect of hedge (gains) losses reclassified to income	—	(3)	—	(6)
Change in fair value of cash flow hedges	(18)	(40)	2	(26)
Income taxes on change in fair value of cash flow hedges	6	15	(1)	10
Net change in fair value of cash flow hedges	(12)	(25)	1	(16)
Change in derivatives designated as cash flow hedges, after taxes	(12)	(28)	1	(22)
Pension and other postretirement plans				
(Increase) reduction in unrecognized actuarial losses	(15)	(4)	(15)	(4)
Income taxes on actuarial changes in plan liabilities	6	2	6	2
(Increase) reduction in unrecognized actuarial losses, net	(9)	(2)	(9)	(2)
Amortization of net actuarial losses	25	15	44	23
Income taxes on amortization of net actuarial losses	(8)	(5)	(14)	(8)
Net effect of amortization of net actuarial losses	17	10	30	15
Change in pension and other postretirement plans, after taxes	8	8	21	13
Foreign currency translation adjustment				
Foreign currency translation adjustment	72	(88)	(48)	(37)
Change in foreign currency translation adjustment	72	(88)	(48)	(37)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	68	(108)	(26)	(46)
COMPREHENSIVE INCOME (LOSS)	(499)	822	(982)	1,305
Less: Comprehensive income (loss) attributable to noncontrolling interests	—	(1)	—	34
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO HESS CORPORATION	$(499)	$823	$(982)	$1,271

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,	
	2015	2014
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$(956)	$1,351
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
(Gains) losses on asset sales, net	—	(789)
Depreciation, depletion and amortization	1,984	1,511
Impairment	385	—
Loss from equity affiliates	—	84
Exploratory dry hole costs	176	286
Exploration lease impairment	78	161
Stock compensation expense	51	40
Provision (benefit) for deferred income taxes	(534)	72
(Income) loss from discontinued operations, net of income taxes	27	(13)
Changes in operating assets and liabilities	(114)	(596)
Cash provided by (used in) operating activities - continuing operations	1,097	2,107
Cash provided by (used in) operating activities - discontinued operations	(21)	(46)
Net cash provided by (used in) operating activities	1,076	2,061
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(2,423)	(2,340)
Proceeds from asset sales	—	2,847
Other, net	(13)	(124)
Cash provided by (used in) investing activities - continuing operations	(2,436)	383
Cash provided by (used in) investing activities - discontinued operations	95	(405)
Net cash provided by (used in) investing activities	(2,341)	(22)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt with maturities of greater than 90 days		
Borrowings	—	598
Repayments	(34)	(500)
Common stock acquired and retired	(78)	(1,735)
Cash dividends paid	(144)	(156)
Employee stock options exercised, including income tax benefits	10	148
Noncontrolling interests, net	—	(1)
Other, net	(2)	—
Cash provided by (used in) financing activities - continuing operations	(248)	(1,646)
Cash provided by (used in) financing activities - discontinued operations	—	(2)

Net cash provided by (used in) financing activities	(248)	(1,648)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,513)	391
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,444	1,814
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$931	$2,205

See accompanying Notes to Consolidated Financial Statements.

PART I - FINANCIAL INFORMATION (CONT'D.)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED EQUITY (UNAUDITED)

	Common Stock	Capital in Excess of Par	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Hess Stockholders Equity	Noncontrolling Interests	Total Equity
	(In millions)						
BALANCE AT JANUARY 1, 2015	$286	$ 3,277	$20,052	$ (1,410)	$ 22,205	$ 115	$22,320
Net income (loss)			(956)		(956)	—	(956)
Other comprehensive income (loss)				(26)	(26)	—	(26)
Comprehensive income (loss)					(982)	—	(982)
Activity related to restricted common stock awards, net	2	34	—	—	36	—	36
Employee stock options, including income tax benefits	—	12	—	—	12	—	12
Performance share units	—	12	—	—	12	—	12
Cash dividends declared	—	—	(144)	—	(144)	—	(144)
Common stock acquired and retired	(1)	(6)	(29)	—	(36)	—	(36)
Noncontrolling interests, net	—	—	—	—	—	(115)	(115)
BALANCE AT JUNE 30, 2015	$287	$ 3,329	$18,923	$ (1,436)	$ 21,103	$ —	$21,103
BALANCE AT JANUARY 1, 2014	$325	$ 3,498	$21,235	$ (338)	$ 24,720	$ 64	$24,784
Net income (loss)			1,317		1,317	34	1,351
Other comprehensive income (loss)				(46)	(46)	—	(46)
Comprehensive income (loss)					1,271	34	1,305
Activity related to restricted common stock awards, net	1	28	—	—	29	—	29
Employee stock options, including income tax benefits	3	147	—	—	150	—	150
Performance share units	—	8	—	—	8	—	8
Cash dividends declared	—	—	(156)	—	(156)	—	(156)
Common stock acquired and retired	(21)	(227)	(1,517)	—	(1,765)	—	(1,765)
Noncontrolling interests, net	—	—	—	—	—	(1)	(1)
BALANCE AT JUNE 30, 2014	$308	$ 3,454	$20,879	$ (384)	$ 24,257	$ 97	$24,354

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 the Corporation's consolidated financial position at June 30, 2015 and December 31, 2014, the consolidated results of operations for the three months and six months ended June 30, 2015 and 2014, and consolidated cash flows for the six months ended June 30, 2015 and 2014. 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 Annual Report on Form 10-K for the year ended December 31, 2014.

The statements of consolidated income for the three months and six months ended June 30, 2014 and consolidated cash flows for the six months ended June 30, 2014, have been recast to reflect the Corporation's energy trading joint venture, HETCO, which was sold in February 2015, as discontinued operations. In Note 12, Segment Information, the Corporation has reported a new operating segment to reflect the establishment of the Bakken Midstream operating segment in the second quarter of 2015 and have presented prior period numbers on a comparable basis. See Note 14, Subsequent Event; in Notes to Consolidated Financial Statements for further information. Certain information in the financial statements and notes has been reclassified to conform to the current period presentation.

New Accounting Pronouncements: In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The ASU amends the criteria for reporting discontinued operations to include only disposals representing a strategic shift in operations. The ASU also requires expanded disclosures regarding the assets, liabilities, income, and expenses of discontinued operations. This ASU became effective for the Corporation in the first quarter of 2015 and did not have a significant impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, as a new Accounting Standards Codification (ASC) Topic ASC 606. This ASU is effective for the Corporation beginning in the first quarter of 2018, with early adoption permitted from the first quarter of 2017. The Corporation is currently assessing the impact of the ASU on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, which makes changes to both the variable interest model and the voting model, affecting all reporting entities involved with limited partnerships or similar entities. This ASU is effective for the Corporation beginning in the first quarter of 2016, with early adoption permitted. The Corporation is currently assessing the impact of the ASU on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. This ASU is effective for the Corporation beginning in the first quarter of 2016, with early adoption permitted. The Corporation does not expect that the ASU will have a material impact to its consolidated financial statements.

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PART I - FINANCIAL INFORMATION (CONT'D)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. Discontinued Operations

The results of operations for the Corporation's divested energy trading joint venture, HETCO, which was sold in February 2015, and other previously divested downstream businesses have been reported as discontinued operations in the Statement of Consolidated Income for all periods presented.

Sales and other operating revenues and Income (loss) from discontinued operations were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions)			
Sales and other operating revenues	$—	$3,083	$14	$6,250
Income (loss) from discontinued operations before income taxes	$(19)	$(67)	$(43)	$6
Current tax provision (benefit)	—	—	—	—
Deferred tax provision (benefit)	(5)	(23)	(16)	(7)
Provision (benefit) for income taxes	(5)	(23)	(16)	(7)
Income (loss) from discontinued operations, net of income taxes	$(14)	$(44)	$(27)	$13
Less: Net income (loss) attributable to noncontrolling interests	—	(1)	—	34
Income (loss) from discontinued operations attributable to Hess Corporation	$(14)	$(43)	$(27)	$(21)

At December 31, 2014, HETCO assets totaling $1,035 million, which consisted of accounts receivable and other long lived assets, were reported in Other current assets, and liabilities totaling $797 million, which consisted primarily of accounts payable, were reported in Accrued liabilities in the Consolidated Balance Sheet.

3. Inventories

Inventories consisted of the following:

	June 30, 2015	December 31, 2014
	(In millions)	
Crude oil and natural gas liquids	$289	$ 246
Materials and supplies	280	281
Total inventories	$569	$ 527

4. 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, 2015 (in millions):

Balance at January 1	$	1,416	
Additions to capitalized exploratory well costs pending the determination of proved reserves		281	
Reclassifications to wells, facilities and equipment based on the determination of proved reserves		(72	)
Capitalized exploratory well costs charged to expense		(120	)
Balance at June 30, 2015	$	1,505	

Capitalized exploratory well costs charged to expense in the preceding table primarily relate to the Dinarta Block in the Kurdistan Region of Iraq following the decision of the Corporation and its partner in March 2015 to cease further drilling activity in the region. In addition, the Corporation expensed $56 million of exploratory well costs incurred during 2015 that are not reflected in the preceding table.

Capitalized exploratory well costs greater than one year old after completion of drilling were $1,247 million at June 30, 2015. Approximately 70% of the capitalized well costs in excess of one year relates to Block WA-390-P, offshore Western Australia, where development planning and commercial activities for the Corporation’s natural gas discoveries are ongoing.

In December 2014, the Corporation executed a non-binding letter of intent with the North West Shelf (NWS), a third party joint venture with existing natural gas processing and liquefaction facilities. Successful execution of binding agreements with NWS is necessary before the Corporation can execute a gas sales agreement and sanction development of the project. Approximately 30% of the capitalized well costs in excess of one year relates to offshore Ghana, where the Corporation has drilled seven successful exploration wells. Appraisal plans for the seven wells on the block were submitted to the Ghanaian government in June 2013 for approval. Four of the plans were approved and discussions continue with the government on the three remaining appraisal plans. In 2014, the Corporation completed a three well appraisal program in Ghana. Well results continue to be evaluated and development planning is progressing.

5. Goodwill

In the second quarter of 2015, the Corporation established a new operating segment, the Bakken Midstream segment which had previously been reported as part of the Onshore reporting unit within the E&P operating segment. As a result, the Corporation has two operating segments, E&P and Bakken Midstream, as of June 30, 2015. The E&P operating segment previously had two reporting units, Offshore which had allocated goodwill of $1,098 million and Onshore which had allocated goodwill of $760 million prior to forming the Bakken Midstream operating segment. Upon formation of the Bakken Midstream operating segment, the Corporation allocated $375 million of goodwill from the Onshore reporting unit to the Bakken Midstream operating segment based on the relative fair values of the Bakken Midstream business and the remainder of the Onshore reporting unit. There has been no change to the composition of the Offshore reporting unit.

In accordance with accounting standards for goodwill, the Corporation performed impairment tests at June 30, 2015 on the Offshore and Onshore reporting units prior to creation of the Bakken Midstream segment. No impairment resulted from this assessment. In addition, accounting standards require that following a reorganization, allocated goodwill should be tested for impairment. The Corporation also performed impairment tests on the allocated goodwill for the Bakken Midstream and the Onshore reporting unit at June 30, 2015. Goodwill allocated to the Bakken Midstream operating segment passed the impairment test but the goodwill allocated to the Onshore reporting unit did not pass the impairment test. As a result, the Corporation recorded a noncash pre-tax charge of $385 million ($385 million after income taxes) in the second quarter of 2015 to reflect the Onshore reporting unit's goodwill at its implied fair value of zero based on a hypothetical purchase price allocation as stipulated in the accounting standards.

Fair value of the Corporation's Onshore reporting unit was determined using multiple valuation techniques, including projected discounted cash flows of producing assets and known development projects. The determination of projected discounted cash flows depends on estimates about oil and gas reserves, future prices, operating costs, capital expenditures, discount rate and timing of future net cash flows. The Corporation also considered the relative market valuation of similar peer companies using market multiples, and other observable market data, in determining fair value of the Onshore reporting unit. The valuation methodologies used represent Level 3 measurements as defined by accounting standards. Fair value of the Bakken Midstream operating segment was based on the value implied in the Corporation's announced sale in June 2015 of a 50% interest in the Bakken Midstream business.

The changes in the carrying amount of goodwill are as follows (in millions):

	Exploration and Production	Bakken Midstream	Total
Beginning balance at January 1	$ 1,858	$ —	$ 1,858
Reclassification	(375)	375	—
Impairment	(385)	—	(385)
Ending balance at June 30, 2015	$ 1,098	$ 375	$ 1,473

6. Debt

In January 2015, the Corporation entered into a $4 billion syndicated revolving credit facility that expires in January 2020. The new facility, which replaced a $4 billion facility that was scheduled to expire in April 2016, can be used for borrowings and letters of credit. Based on the Corporation’s credit rating as of June 30, 2015, borrowings on the facility will generally bear interest at 1.075% above the London Interbank Offered Rate with the facility fee amounting to 0.175% per annum. The

PART I - FINANCIAL INFORMATION (CONT'D)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

interest rate and facility fee are subject to adjustment if the Corporation's credit rating changes. The restrictions on the amount of total borrowings and secured debt are substantially similar to the previous facility. At June 30, 2015, there were no borrowings outstanding or letters of credit issued against the syndicated revolving credit facility.

7. Dispositions

In April 2014, the Corporation completed the sale of its E&P interests in Thailand for cash proceeds of approximately $805 million. This transaction resulted in a pre-tax gain of $706 million ($706 million gain after income taxes). In June 2014, the Corporation completed the sale of its 50% interest in a joint venture constructing an electric generating facility in Newark, New Jersey for cash proceeds of $320 million, resulting in a pre-tax gain of approximately $13 million ($8 million gain after income taxes). Also in June 2014, the Corporation completed the sale of approximately 30,000 net acres of Utica dry gas acreage, including related wells and facilities, for cash proceeds of approximately $485 million and recorded a pre-tax gain of $62 million ($35 million gain after income taxes). The Corporation also sold approximately 47,000 acres of Utica dry gas acreage in March 2014 for proceeds of approximately $590 million. There was no gain or loss realized on the transaction as the carrying value of undeveloped leasehold costs was reduced by the sales proceeds. In the first quarter of 2014, the Corporation completed the sale of its interest in the Pangkah asset, offshore Indonesia for cash proceeds of approximately $650 million. This transaction resulted in a pre-tax gain of $31 million ($10 million loss after income taxes). In addition, the Corporation sold an exploration block in Indonesia for a pre-tax loss of $20 million ($11 million gain after income taxes).

8. Exit and Severance Costs

During the three months and six months ended June 30, 2015, the Corporation recorded exit related costs of $21 million and $27 million, respectively, and recorded exit related costs of $4 million and $24 million for the three and six months ended June 30, 2014, respectively. In addition, the Corporation incurred severance expense totaling $28 million and $61 million during the three months and six months ended June 30, 2014, respectively, primarily related to the Corporation's divestiture program. During the three and six months ended June 30, 2015, payments for accrued severance costs amounted to $9 million and $37 million, respectively.

9. Retirement Plans

Components of net periodic pension cost consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions)			
Service cost	$18	$13	$35	$25
Interest cost	26	24	52	49
Expected return on plan assets	(43)	(40)	(85)	(80)
Amortization of unrecognized net actuarial losses	20	7	39	15

Settlement loss	5	8	5	8
Pension expense	$26	$12	$46	$17

In 2015, the Corporation expects to contribute approximately $55 million to its funded pension plans. Through June 30, 2015, the Corporation contributed approximately $27 million of this amount.

PART I - FINANCIAL INFORMATION (CONT'D)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

10. Weighted Average Common Shares

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions, except per share amounts)			
Net income (loss) from continuing operations attributable to Hess Corporation	$(553)	$974	$(929)	$1,338
Income (loss) from discontinued operations, net of income taxes	(14)	(44)	(27)	13
Less: Net income (loss) attributable to noncontrolling interests	—	(1)	—	34
Net income (loss) from discontinued operations attributable to Hess Corporation	(14)	(43)	(27)	(21)
Net income (loss) attributable to Hess Corporation	$(567)	$931	$(956)	$1,317
Weighted average common shares outstanding:				
Basic	284.3	309.7	283.9	314.2
Effect of dilutive securities				
Restricted common stock	—	1.4	—	1.5
Stock options	—	1.7	—	1.7
Performance share units	—	1.3	—	1.3
Diluted	284.3	314.1	283.9	318.7
Net income (loss) attributable to Hess Corporation per share:				
Basic:				
Continuing operations	$(1.94)	$3.15	$(3.27)	$4.26
Discontinued operations	(0.05)	(0.14)	(0.10)	(0.07)
Net income (loss) per share	$(1.99)	$3.01	$(3.37)	$4.19
Diluted:				
Continuing operations	$(1.94)	$3.10	$(3.27)	$4.20
Discontinued operations	(0.05)	(0.14)	(0.10)	(0.07)
Net income (loss) per share	$(1.99)	$2.96	$(3.37)	$4.13

The Corporation granted 1,122,724 shares of restricted stock, 362,873 performance share units (PSUs) and 521,773 stock options during the six months ended June 30, 2015 and 1,028,883 shares of restricted stock, 298,222 PSUs and 162,911 stock options for the same period in 2014. The Corporation excluded 7,012,818 stock options, 3,027,138 restricted stock awards and 912,383 performance stock units from the computation of diluted shares for the three months ended June 30, 2015, and excluded 6,901,674 stock options, 2,952,012 restricted stock awards and 1,025,826 performance share units from the computation of diluted shares for the six months period ended June 30, 2015 as they are anti-dilutive. The weighted average common shares used in the diluted earnings per share calculations for the

three and six months ended June 30, 2014 excluded stock options amounting to 1,978,777 and 2,577,984, respectively, as they were anti-dilutive.

The Corporation is permitted but not required to repurchase up to $6.5 billion of outstanding common shares under a Board authorized plan. During the second quarter of 2015, the Corporation purchased $20 million of common stock. As of June 30, 2015, total shares repurchased under the plan were 63.2 million shares at a cost of approximately $5.3 billion.

11. Guarantees and Contingencies

The Corporation is subject to loss contingencies with respect to various claims, lawsuits and other proceedings. The Corporation cannot predict with certainty if, how or when such claims, lawsuits and proceedings will be resolved or what the eventual relief, if any, may be. Numerous issues may need to be resolved, including through lengthy discovery, conciliation and/or arbitration proceedings, or litigation before a loss or range of loss can be reasonably estimated. Subject to the foregoing, in management’s opinion, based upon currently known facts and circumstances, the outcome of such lawsuits,

PART I - FINANCIAL INFORMATION (CONT'D)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

claims and proceedings is not expected to have a material adverse effect on the financial condition of the Corporation. However, the Corporation could incur judgments, enter into settlements or revise its opinion regarding the outcome of certain matters, and such developments could have a material adverse effect on its results of operations in the period in which the amounts are accrued and its cash flows in the period in which the amounts are paid.

In July 2004, HOVENSA LLC (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), and HOVIC 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 refinery, 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. In 2014 HOVIC, HOVENSA and the government of the U.S. Virgin Islands entered into a settlement agreement pursuant to which HOVENSA paid $3.5 million and agreed to pay the government of the U.S. Virgin Islands an additional $40 million no later than December 31, 2014. HOVENSA was unable to make this additional payment because the U.S. Virgin Islands legislature did not approve a proposed operating agreement required to complete a proposed sale of HOVENSA, which would have provided funds to make the settlement payment. Under the terms of the settlement agreement, the U.S. Virgin Islands government was granted a first lien on HOVENSA's assets to secure the settlement payment, and in January 2015 the government commenced a foreclosure action to enforce this lien. HOVENSA intends to defend this action and is also actively pursuing a sale of its terminal assets to satisfy its obligations, including its obligations to the government; however, it is possible that any such sale may not be completed before HOVENSA exhausts its available funds and it may be required to commence bankruptcy proceedings. The Registrant does not believe the resolution of the foreclosure proceeding or a HOVENSA bankruptcy will have a material adverse effect on its financial condition.

In February 2015, the Pension Benefit Guaranty Corporation (PBGC) issued a notice of determination to terminate the HOVENSA pension plan. HOVENSA had been in negotiations with the PBGC to make additional contributions to the plan with proceeds from a proposed sale of HOVENSA, which was not completed for the reasons described above. The Registrant does not believe that the resolution of this matter will have a material adverse effect on its financial condition.

The Corporation is from time to time involved in other judicial and administrative proceedings, including proceedings relating to other environmental matters. The Corporation cannot predict with certainty if, how or when such proceedings will be resolved or what the eventual relief, if any, may be, particularly for proceedings that are in their early stages of development or where plaintiffs seek indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters before a loss or range of loss can be reasonably estimated for any proceeding. Subject to the foregoing, in management's opinion, based upon currently known facts and circumstances, the outcome of such proceedings is not expected to have a material adverse effect on the financial condition, results of operations or cash flows of the Corporation.

12. Segment Information

The Corporation has two operating segments, Exploration and Production and Bakken Midstream. The Exploration and Production operating segment explores for, develops, produces, purchases and sells crude oil, natural gas liquids and natural gas with production operations 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 provides services including crude oil and natural gas gathering, processing of natural gas and the fractionation of natural gas liquids, terminaling and loading crude oil and natural gas liquids, transportation of crude oil by rail car and the storage and terminaling of propane, primarily located in the Bakken shale play of North Dakota. All unallocated costs are reflected under Corporate, Interest and Other.

PART I - FINANCIAL INFORMATION (CONT'D)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents operating segment financial data for continuing operations (in millions):

For the Three Months Ended June 30, 2015	Exploration and Production	Bakken Midstream	Corporate, Interest and Other	Eliminations	Total
Operating Revenues - Third parties	$ 1,953	$ —	$ —	$ —	$ 1,953
Intersegment Revenues	—	145	—	(145)	-
Operating Revenues	$ 1,953	$ 145	$ —	$ (145)	$ 1,953
Net income (loss) from continuing operations attributable to Hess Corporation	$ (502)	$ 32	$ (83)	$ —	$ (553)
Depreciation, depletion and amortization	1,004	22	2	—	1,028
Provision (benefit) for income taxes	(120)	19	(55)	—	(156)
Capital Expenditures*	948	65	—	—	1,013

For the Three Months Ended June 30, 2014	Exploration and Production	Bakken Midstream	Corporate, Interest and Other	Eliminations	Total
Operating Revenues - Third parties	$ 2,829	$ —	$ —	$ —	$ 2,829
Intersegment Revenues	-	81	—	(81)	—
Operating Revenues	$ 2,829	$ 81	$ —	$ (81)	$ 2,829
Net income (loss) from continuing operations attributable to Hess Corporation	$ 1,049	$ 7	$ (82)	$ —	$ 974
Depreciation, depletion and amortization	762	20	3	—	785
Provision (benefit) for income taxes	141	4	(53)	—	92
Capital Expenditures*	1,138	48	16	—	1,202

For the Six Months Ended June 30, 2015	Exploration and Production	Bakken Midstream	Corporate, Interest and Other	Eliminations	Total
Operating Revenues - Third parties	$ 3,491	$ —	$ —	$ —	$ 3,491
Intersegment Revenues	-	275	—	(275)	-
Operating Revenues	$ 3,491	$ 275	$ —	$ (275)	$ 3,491
Net income (loss) from continuing operations attributable to Hess Corporation	$ (816)	$ 59	$ (172)	$ —	$ (929)

Depreciation, depletion and amortization	1,936	43	5	—	1,984
Provision (benefit) for income taxes	(431)	35	(111)	—	(507)
Capital Expenditures*	2,145	105	—	—	2,250

For the Six Months Ended June 30, 2014	Exploration and Production	Bakken Midstream	Corporate, Interest and Other	Eliminations	Total
Operating Revenues - Third parties	$ 5,502	$ —	$ —	$ —	$ 5,502
Intersegment Revenues	—	129	—	(129)	-
Operating Revenues	$ 5,502	$ 129	$ —	$ (129)	$ 5,502
Net income (loss) from continuing operations attributable to Hess Corporation	$ 1,570	$ (6)	$ (226)	$ —	$ 1,338
Depreciation, depletion and amortization	1,474	29	8	—	1,511
Provision (benefit) for income taxes	476	(3)	(142)	—	331
Capital Expenditures*	2,195	121	32	—	2,348

* Capital expenditures include accruals.

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, 2015	December 31, 2014
	(In millions)	
Exploration and Production	$31,992	$ 32,742
Bakken Midstream	2,550	2,465
Corporate, Interest and Other	945	2,213
Continuing operations	35,487	37,420
Discontinued operations	71	1,158
Total	$35,558	$ 38,578

13. Financial Risk Management

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 liquids, and natural gas as well as changes in interest rates and foreign currency values. In the disclosures that follow, corporate risk management activities refer to the mitigation of these risks through hedging activities.

Corporate Financial Risk Management Activities: Financial risk management activities include transactions designed to reduce risk in the selling prices of crude oil 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 or reduce volatility in the forward selling price of a portion of the Corporation's crude oil 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, primarily the British Pound and Danish Krone. Interest rate swaps may be used to convert interest payments on certain long-term debt from fixed to floating rates.

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

	June 30, 2015	December 31, 2014
Commodity, primarily crude oil (millions of barrels)	13	—
Foreign exchange (millions of USD)	$947	$ 1,189
Interest rate swaps (millions of USD)	$1,300	$ 1,300

In the first quarter of 2015, the Corporation entered into Brent crude oil collars to hedge 50,000 barrels of oil per day (bopd) from March 2015 to December 2015 at a cost of $38 million. This program was supplemented in the second quarter of 2015 by entering into West Texas Intermediate (WTI) crude oil collars to hedge 20,000 bopd from May 6, 2015 to December 2015 at a cost of $10 million. Under the terms of both programs, the floor price to be received by the Corporation is $60 per barrel and the ceiling price it may receive is $80 per barrel. All crude oil collars have been designated as cash flow hedges.

Realized and unrealized losses from Brent and WTI crude oil collars for the three and six months ended June 30, 2015 decreased Sales and other operating revenues by $35 million and $18 million, respectively, which included pre-tax losses of $35 million and $23 million, respectively, associated with changes in time value of the hedging contracts. Realized and unrealized losses in 2014 amounted to $10 million and $1 million for the three months and six months ended June 30, 2014, respectively. There was no significant hedge ineffectiveness for the three months and six months ended June 30, 2015 and an ineffectiveness loss of approximately $3 million and $4 million for the three months and six months ended June 30, 2014, respectively, under the 2014 hedge program. At June 30, 2015, the after-tax deferred gains in Accumulated other comprehensive income (loss) related to crude oil collars was approximately $1 million, which will be reclassified into earnings during 2015 as the hedged crude oil sales are recognized in earnings.

At June 30, 2015 and December 31, 2014, the Corporation had interest rate swaps with gross notional amounts of $1,300 million. During the first quarter of 2015, the Corporation settled existing interest rate swaps and received cash proceeds of $41 million. Simultaneously, the Corporation entered into new interest rate swap arrangements. All interest rate swaps have been designated as fair value hedges. The Corporation recorded a decrease of approximately $6 million and an increase of approximately $4 million for the three months and six months ended June 30, 2015, respectively, and increases of approximately $4 million and $5 million for the three months and six months ended June 30, 2014, respectively, in the fair

PART I - FINANCIAL INFORMATION (CONT'D)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

value of interest rate swaps (excluding accrued interest). These items, excluding accrued interest, offset changes in the carrying value of the hedged fixed-rate debt.

Total foreign exchange gains and losses are reported in Other, net in Revenues and non-operating income in the Statement of Consolidated Income and amounted to a loss of $7 million and a gain of $8 million in the three months and six months ended June 30, 2015, respectively, compared with a loss of $19 million and $25 million in the three months and six months ended June 30, 2014, respectively. Gains or losses on foreign exchange derivative contracts not designated as hedges, which are a component of total foreign exchange gains and losses, amounted to a loss of $41 million and a gain of $57 million in the three and six months ended June 30, 2015, respectively, and a loss of $13 million in both the three and six months ended June 30, 2014.

Fair Value Measurements: The following table provides information about the effect of netting arrangements on the presentation of the Corporation's physical and financial derivative assets and (liabilities) that are measured at fair value, with the effect of single counterparty multilateral netting being included in column (v):

	Gross Amounts (i)	Gross Amounts Offset in the Consolidated Balance Sheet Physical Derivative and Financial Instruments (ii)	Cash Collateral (iii)	Net Amounts Presented in the Consolidated Balance Sheet (iv)=(i)+(ii)+(iii)	Gross Amounts Not Offset in the Consolidated Balance Sheet (v)	Net Amounts (vi)=(iv)+(v)
	(In millions)					
June 30, 2015						
Assets						
Derivative contracts						
Commodity	$33	$ (8)	$ —	$ 25	$ —	$ 25
Interest rate and other	7	(4)	—	3	—	3
Counterparty netting	—	—	—	—	—	—
Total derivative contracts	$40	$ (12)	$ —	$ 28	$ —	$ 28
Liabilities						
Derivative contracts						
Commodity	$(11)	$ 8	$ —	$ (3)	$ —	$ (3)
Other	(10)	4	—	(6)	—	(6)
Counterparty netting	—	—	—	—	—	—
Total derivative contracts	$(21)	$ 12	$ —	$ (9)	$ —	$ (9)

The net assets and liabilities reflected in column (iv) of the table above were included in Accounts receivable – Trade and Accounts payable, respectively.

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PART I - FINANCIAL INFORMATION (CONT'D)

HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The table below reflects the gross and net fair values of risk management derivative instruments:

	Accounts Receivable	Accounts Payable
	(In millions)	
June 30, 2015		
Derivative contracts designated as hedging instruments		
Commodity	$25	$ —
Interest rate and other	2	—
Total derivative contracts designated as hedging instruments	27	—
Derivative contracts not designated as hedging instruments		
Commodity	8	(11)
Foreign exchange	5	(10)
Total derivative contracts not designated as hedging instruments	13	(21)
Gross fair value of derivative contracts	40	(21)
Master netting arrangements	(12)	12
Net fair value of derivative contracts	$28	$ (9)

At June 30, 2015, Level 1 items comprised $3 million of Derivative liabilities. Level 2 items comprised Derivative liabilities of $6 million and Derivative assets of $28 million, which included commodity contracts of $25 million and interest rate and other items of $3 million. The Corporation did not have Level 3 instruments at June 30, 2015. For all other short-term financial instruments, primarily cash equivalents and accounts receivable and payable, the carrying value approximated the respective fair value at June 30, 2015. Total Long-term debt of $5,957 million at June 30, 2015, had a fair value of $6,642 million based on Level 2 inputs.

Discontinued Operations - Trading Activities: In the first quarter of 2015, the Corporation sold its interest in the energy trading joint venture, HETCO. Pursuant to the terms of the sale, the successor entity is permitted to continue to utilize the Corporation's guarantees issued in favor of counterparties existing as of the sales date until November 12, 2015, provided that new trades are for a period of one year or less, comply with certain credit requirements, and net exposures remain within value at risk limits previously applied by the Corporation. The Corporation has the right to seek reimbursement from the successor entity upon any counterparty draw on the applicable guarantee from the Corporation. The fair value of the guarantee recorded by the Corporation amounted to $11 million.

14. Subsequent Event

On July 1, 2015, the Corporation completed the sale of a 50% interest in its Bakken Midstream business to Global Infrastructure Partners (GIP) for cash consideration of approximately $2.7 billion and formed a joint venture with GIP. Subsequent to closing, the joint venture incurred $600 million of debt through a 5-year Term Loan A facility with proceeds distributed equally to both partners, resulting in total after-tax cash proceeds, net to the Corporation, of approximately $3.0 billion. In addition, the joint venture has independent access to capital via a $400 million 5-year

Senior Revolving Credit Facility, which is fully committed.

PART I - FINANCIAL INFORMATION (CONT'D.)

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

Hess Corporation is a global Exploration and Production (E&P) company that explores for, develops, produces, purchases, and sells crude oil, natural gas liquids, and natural gas with production operations primarily in the United States (U.S.), Denmark, Equatorial Guinea, the Joint Development Area of Malaysia/Thailand (JDA), Malaysia, and Norway. The Corporation's Bakken Midstream operating segment, which was established in the second quarter of 2015, provides 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 and the storage and terminaling of propane, primarily in the Bakken shale play of North Dakota. Certain previously reported amounts have been recast to reflect the separation of Bakken Midstream business from the Exploration and Production operating segment.

Second Quarter Results

The Corporation reported a net loss of $567 million in the second quarter of 2015, compared with net income of $931 million in the second quarter of 2014. Excluding items affecting comparability of earnings between periods on page 19, adjusted net losses were $147 million in the second quarter of 2015 down from adjusted net income of $432 million in the second quarter of 2014. Lower realized selling prices reduced adjusted net income by approximately $740 million after-tax compared with the prior-year quarter. In addition, second quarter 2015 results benefitted from higher production, lower cash operating costs and reduced exploration expenses that were partially offset by higher depreciation, depletion, and amortization expense.

Response to Low Oil Prices

In response to the decline in oil prices that began in late 2014, the Corporation conducted an extensive company-wide review of its cost base and engaged with our suppliers during the first half of 2015 to identify opportunities to reduce costs. As a result of our efforts to date, the Corporation has lowered its full year 2015 guidance for capital and exploratory expenditures by $300 million to $4.4 billion (E&P - $4.1 billion and Bakken Midstream - $0.3 billion), which is an approximate 20 percent reduction from 2014 capital and exploratory expenditures of $5.6 billion. The Corporation also reduced its full year 2015 cash operating costs guidance by approximately $300 million, or $2.50 per barrel of oil equivalent associated with projected savings. In addition, the Corporation significantly reduced share repurchases in the first half of 2015 to $27 million.

Based on current strip crude oil prices, the Corporation forecasts a significant net loss and a net cash flow deficit in 2015, excluding proceeds from asset sales. The Corporation expects to fund its 2015 net cash flow deficit with existing cash on hand, proceeds from the sale of a 50% interest in its Bakken Midstream business in July 2015, which resulted in approximately $3 billion of total after-tax cash proceeds to the Corporation, and, if necessary, borrowings under its long-term syndicated revolving credit facility. The Corporation plans to maintain its financial flexibility and to reduce its cash flow deficit by pursuing further cost reductions and supply chain savings, significantly moderating stock repurchases compared with 2014, and depending on where crude oil prices trend, potentially further reducing its planned capital program. In addition, should needs dictate, the Corporation may also access other sources of liquidity by utilizing existing uncommitted credit facilities, issuing debt and equity securities, and/or pursuing further asset sales.

Exploration and Production

E&P incurred a net loss of $502 million in the second quarter of 2015 compared with net income of $1,049 million in the second quarter of 2014. Excluding items affecting comparability of earning between periods, the adjusted net loss

was $96 million in the second quarter of 2015 compared to adjusted net income of $475 million in 2014. In the second quarter of 2015, the Corporation's average worldwide crude oil selling price, including the effect of hedging, was $55.83 per barrel down from $102.16 per barrel in the second quarter of 2014. The average worldwide natural gas liquids selling price was $11.06 per barrel in the second quarter of 2015, down from $36.59 per barrel in the year-ago quarter while the average worldwide natural gas selling price was $4.49 per thousand cubic feet (mcf) in the second quarter of 2015 compared with $6.35 per mcf in the second quarter a year-ago. Worldwide crude oil and natural gas production was 391,000 barrels of oil equivalent per day (boepd) in the second quarter of 2015, compared with 319,000 boepd in the same period of 2014. Pro forma production, which excludes production from assets sold as well as any contribution from Libya, was 391,000 boepd and 310,000 boepd in the second quarter of 2015 and 2014, respectively.

The Corporation expects production, excluding Libya, to average between 355,000 boepd and 365,000 boepd for the third quarter and to average between 360,000 boepd and 370,000 boepd for the full year of 2015.

PART I - FINANCIAL INFORMATION (CONT'D.)

Overview (continued)

The following is an update of E&P activities:

- In North Dakota, net production from the Bakken oil shale play increased to an average of 119,000 boepd for the second quarter of 2015 compared with 80,000 boepd in the prior-year quarter due to continued drilling activities. The Corporation brought 67 gross operated wells on production in the second quarter of 2015 bringing the year-to-date total to 137 wells, and expects a further 88 wells to be brought on production in the second half of 2015. Drilling and completion costs per operated well averaged $5.6 million, a reduction of 24% from the second quarter of 2014. The Corporation operated an average of 8 rigs in the second quarter of 2015 compared with 17 rigs in the second quarter of 2014. As a result of strong first half performance, the Corporation expects Bakken production to be in the range of 105,000 boepd to 110,000 boepd during 2015, up from previous guidance of 95,000 boepd to 105,000 boepd for 2015.
- In the Utica shale, net production amounted to 22,000 boepd in the second quarter of 2015, compared to 3,000 boepd in the prior year quarter. In addition, ten wells were drilled, fifteen wells were completed and nine wells were brought on production across the Corporation's joint venture acreage in the second quarter of 2015. The Corporation and its joint venture partner released one rig in June 2015 and the joint venture plans to operate a single Hess operated rig for the remainder of 2015. The Corporation expects net production in 2015 to be in the range of 20,000 boepd to 25,000 boepd.
- In the Gulf of Mexico, second quarter net production increased compared to the prior-year quarter due to higher volumes from Tubular Bells, which totaled 23,000 boepd in the second quarter of 2015, partially offset by lower production from the Conger and Llano Fields. Due to a delay in bringing on the fourth well at the Tubular Bells field, coupled with the now-resolved compressor mechanical issues experienced in the first quarter, full year 2015 production for Tubular Bells has been reduced to a range of 25,000 boepd to 30,000 boepd net barrels of oil equivalent per day.
- At the Corporation's non-operated Sicily exploration prospect in the Keathley Canyon area (Hess 25 percent) in the Gulf of Mexico, the operator successfully completed drilling and logging activities in the second quarter. The well was drilled to a depth of 30,214 feet and is being evaluated. The drilling of an appraisal well to further evaluate the discovery is expected late this year or in early 2016.
- At the North Malay Basin in the Gulf of Thailand, the Corporation installed two wellhead platform jackets and commenced construction on wellhead platform topsides, as part of the full-field development project. The Corporation expects net production of approximately 165 mmcf per day in 2017.
- In the Joint Development Area of Malaysia/Thailand, net production increased to 47,000 boepd during the second quarter of 2015 from 36,000 boepd in the year-ago quarter primarily as a result of a planned facility shutdown in the summer of 2014.
- In Guyana, the operator completed drilling of the Liza-1 well in the deepwater Stabroek block (Hess 30 percent) during the second quarter of 2015, and reported a significant oil discovery. The well was drilled to 17,825 feet and encountered more than 295 feet of high-quality oil-bearing sandstone reservoirs. The operator recently commenced the acquisition of 17,000 square kilometers of 3D seismic.
- In Libya, production remained shut-in for the second quarter of 2015 due to continued civil unrest in the country.

PART I - FINANCIAL INFORMATION (CONT'D.)

Results of Operations

The after-tax income (loss) by major operating activity is summarized below:

	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
	(In millions, except per share amounts)			
Net income (loss) attributable to Hess Corporation:				
Exploration and Production	$(502)	$1,049	$(816)	$1,570
Bakken Midstream	32	7	59	(6)
Corporate, Interest and Other	(83)	(82)	(172)	(226)
Income (loss) from continuing operations	(553)	974	(929)	1,338
Discontinued operations	(14)	(43)	(27)	(21)
Total	$(567)	$931	$(956)	$1,317
Net income (loss) attributable to Hess Corporation per share - Diluted:				
Continuing operations	$(1.94)	$3.10	$(3.27)	$4.20
Discontinued operations	(0.05)	(0.14)	(0.10)	(0.07)
Net income (loss) attributable to Hess Corporation per share - Diluted	$(1.99)	$2.96	$(3.37)	$4.13

Items Affecting Comparability of Earnings Between Periods

The following table summarizes, on an after-tax basis, items of income (expense) that are included in net income (loss) and affect comparability of earnings between periods. The items in the table below are explained and the pre-tax amounts are shown on pages 24 to 26.

	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
	(In millions)			
Exploration and Production	$(406)	$574	$(499)	$568
Bakken Midstream	—	—	—	—
Corporate, Interest and Other	—	(9)	(4)	(69)
Discontinued operations	(14)	(66)	(27)	(60)
Total items affecting comparability of earnings between periods	$(420)	$499	$(530)	$439

The following table reconciles reported net income (loss) attributable to Hess Corporation and adjusted net income (loss):

Three Months Ended	Six Months Ended

	June 30,		June 30,	
	2015	2014	2015	2014
	(In millions)			
Net income (loss) attributable to Hess Corporation	$(567)	$931	$(956)	$1,317
Less: Total items affecting comparability of earnings between periods	(420)	499	(530)	439
Adjusted net income (loss) attributable to Hess Corporation	$(147)	$432	$(426)	$878

"Adjusted net income (loss)" presented in this report is defined as reported net income (loss) attributable to Hess Corporation excluding items identified as affecting comparability of earnings between periods. Management uses adjusted net income (loss) to evaluate the Corporation's operating performance and believes that investors' understanding of our performance is enhanced by disclosing this measure, which excludes certain items that management believes are not directly related to ongoing operations and are not indicative of future business trends and operations. This measure is not, and should not be viewed as, a substitute for U.S. GAAP net income (loss).

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 a preferable method of explaining variances in earnings, since they 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,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions)			
Revenues and non-operating Income				
Sales and other operating revenues	$1,953	$2,829	$3,491	$5,502
Gains on asset sales, net	—	$766	—	$776
Other, net	(17)	(28)	(6)	(34)
Total revenues and non-operating income	1,936	3,567	3,485	6,244
Costs and Expenses				
Cost of products sold (excluding items shown separate below)	386	444	692	837
Operating costs and expenses	435	498	878	936
Production and severance taxes	45	78	81	140
Bakken Midstream tariffs	116	58	218	77
Exploration expenses, including dry holes and lease impairment	90	460	359	579
General and administrative expenses	97	77	183	155
Depreciation, depletion and amortization	1,004	762	1,936	1,474
Impairment	385	—	385	—
Total costs and expenses	2,558	2,377	4,732	4,198
Results of operations before income taxes	(622)	1,190	(1,247)	2,046
Provision (benefit) for income taxes	(120)	141	(431)	476
Net income (loss) attributable to Hess Corporation	$(502)	$1,049	$(816)	$1,570

Excluding the E&P items affecting comparability of earnings between periods in the table on page 24, the changes in E&P earnings are primarily attributable to changes in selling prices, production and sales volumes, cash operating costs, depreciation, depletion and amortization, Bakken Midstream tariffs, exploration expenses and income taxes, as well as the impact of asset sales as described below.

PART I - FINANCIAL INFORMATION (CONT'D.)

Results of Operations (continued)

Selling Prices: Average realized crude oil selling prices were 45% and 49% lower in the second quarter and first six months of 2015, respectively, compared to same periods in 2014 primarily due to declines in the benchmark prices for Brent and West Texas Intermediary (WTI) crude oil. In addition, realized selling prices for natural gas liquids declined by approximately 70% and 68% in the second quarter and first six months of 2015, respectively, compared to same periods in 2014.

The Corporation's average selling prices were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Crude oil - per barrel (including hedging)				
United States				
Onshore	$50.33	$93.84	$44.85	$91.67
Offshore	57.82	100.42	52.11	99.89
Total United States	53.25	96.62	47.56	95.19
Europe	60.88	111.03	57.42	110.10
Africa	59.70	108.83	56.54	108.65
Asia	59.37	106.33	56.85	104.66
Worldwide	55.83	102.16	50.99	100.96
Crude oil - per barrel (excluding hedging)				
United States				
Onshore	$50.54	$93.84	$44.97	$91.67
Offshore	57.82	101.09	52.11	100.24
Total United States	53.38	96.90	47.63	95.33
Europe	62.39	111.39	58.18	110.06
Africa	61.00	109.10	57.18	108.62
Asia	59.37	106.33	56.85	104.66
Worldwide	56.40	102.45	51.28	101.03
Natural gas liquids - per barrel				
United States				
Onshore	$9.47	$36.99	$11.58	$40.91
Offshore	15.82	32.21	15.77	33.14
Total United States	10.46	35.39	12.26	37.54
Europe	27.53	55.77	27.56	60.16
Worldwide	11.06	36.59	12.78	39.41
Natural gas - per mcf				
United States				

Onshore	$1.81	$4.36	$1.93	$4.87
Offshore	2.13	4.01	2.20	4.18
Total United States	1.93	4.22	2.03	4.52
Europe	7.35	10.51	7.63	11.01
Asia and other	6.27	7.24	6.11	7.23
Worldwide	4.49	6.35	4.61	6.72

In the first quarter of 2015, the Corporation entered into Brent crude oil collars to hedge 50,000 barrels of oil per day (bopd) from March 2015 to December 2015. This program was supplemented in the second quarter of 2015 by entering into West Texas Intermediate (WTI) crude oil collars to hedge 20,000 bopd from May 6, 2015 to December 2015. Under the terms of both programs, the floor price to be received by the Corporation is $60 per barrel and the ceiling price it may receive is $80 per barrel.

PART I - FINANCIAL INFORMATION (CONT'D.)

Results of Operations (continued)

Realized and unrealized losses from crude oil price collars decreased Sales and other operating revenues by $35 million and $18 million for the three and six months ended June 30, 2015, respectively ($22 million and $11 million after income taxes, respectively). Realized and unrealized losses in 2014 amounted to $10 million and $1 million for the three months and six months ended June 30, 2014, respectively ($6 million and $1 million after income taxes, respectively).

Production Volumes: The Corporation's crude oil and natural gas production increased to 391,000 boepd and 376,000 boepd in the second quarter and first six months of 2015, from 319,000 boepd for the same periods in 2014.

The Corporation's net daily worldwide production by region was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Operating Data				
Net Production Per Day				
Crude oil - barrels				
United States				
Bakken	85	64	82	61
Other Onshore	11	9	11	9
Total Onshore	96	73	93	70
Offshore	61	54	55	53
Total United States	157	127	148	123
Europe	39	36	38	37
Africa	48	51	50	49
Asia	2	2	2	4
Worldwide	246	216	238	213
Natural gas liquids - barrels				
United States				
Bakken	22	8	21	5
Other Onshore	12	5	10	4
Total Onshore	34	13	31	9
Offshore	6	7	6	7
Total United States	40	20	37	16
Europe	2	1	1	1
Worldwide	42	21	38	17
Natural gas - mcf				
United States				

Bakken	71	48	65	31
Other Onshore	95	50	87	38
Total Onshore	166	98	152	69
Offshore	98	83	82	81
Total United States	264	181	234	150
Europe	41	35	39	36
Asia and other	312	275	324	345
Worldwide	617	491	597	531
Barrels of oil equivalent*	391	319	376	319

* Reflects natural gas production converted on the basis of relative energy content (six mcf equals one barrel). 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. In addition, natural gas liquids do not sell at prices equivalent to crude oil. See the average selling prices in the table on page 21.

United States: Onshore crude oil and natural gas liquids production was higher in the second quarter and first six months of 2015, compared to the corresponding period in 2014, primarily due to continued drilling in the Bakken oil shale play while the increase in natural gas production was primarily attributable to the Bakken and the Utica shale. Total Offshore

PART I - FINANCIAL INFORMATION (CONT'D.)

Results of Operations (continued)

production increased in the second quarter of 2015 as production from the Tubular Bells Field, which came online in November 2014, exceeded the decline in production from the Conger and Llano Fields due to maintenance activities. Total Offshore production in the first six months of 2015 was comparable to the year-ago quarter as production from the Tubular Bells Field was offset by lower production from the Conger and Llano Fields.

Europe: Crude oil and natural gas production in the second quarter of 2015 was slightly higher compared with the same period of 2014 due to scheduled maintenance at the Valhall Field, Offshore Norway in the prior year. Crude oil and natural gas production was also slightly higher in the first six months of 2015 compared with 2014 as higher production from the South Arne Field was partially offset by lower production in Norway.

Africa: Crude oil production in Africa was lower in the second quarter of 2015 compared to the corresponding period in 2014, primarily due to lower production in Equatorial Guinea and Algeria. Crude oil production in the six months ended June 30, 2015 was flat compared to the same period in 2014 as higher production from Equatorial Guinea was partly offset by reduced production in Algeria and Libya.

Asia and Other: Natural gas production in the second quarter of 2015 was up from 2014 as higher production at the Joint Development Area of Malaysia/Thailand (JDA), caused by planned downtime in 2014, more than offset the impact of asset sales. Lower natural gas production in the first six months of 2015 relative to 2014, largely results from asset sales in Indonesia and Thailand in 2014 which is partially offset by higher production from the JDA.

Sales Volumes: The impact of higher sales volumes increased after-tax income by approximately $230 million and $310 million in the second quarter and first six months of 2015, compared with the corresponding period in 2014.

The Corporation's worldwide sales volumes were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Crude oil - barrels	22,729	20,193	42,436	37,943
Natural gas liquids - barrels	3,848	1,942	6,967	3,064
Natural gas - mcf	56,179	44,662	107,820	96,019
Barrels of oil equivalent*	35,940	29,578	67,373	57,010
Crude oil - barrels per day	250	222	234	210
Natural gas liquids - barrels per day	42	21	38	17
Natural gas - mcf per day	617	491	596	530
Barrels of oil equivalent per day*	395	325	372	315

* Reflects natural gas production converted on the basis of relative energy content (six mcf equals one barrel). 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. In addition, natural gas liquids do not sell at prices equivalent to crude oil. See the average selling prices in the table on page 21.

Cost of Products Sold: Cost of products sold is mainly comprised of costs relating to purchases of third party crude oil, natural gas liquids and natural gas. The decrease in cost of products sold in the second quarter and first six months of 2015 compared with the same periods in 2014 principally reflect the decline in crude oil prices.

Cash Operating Costs: Cash operating costs, consisting of Operating costs and expenses, Production and severance taxes and E&P General and administrative expenses, were down in the three and six months ended June 30, 2015 compared to the prior year periods due to lower operating costs across the portfolio and lower production taxes in the Bakken, which were partially offset by operating costs at Tubular Bells where production commenced in the fourth quarter of 2014.

Depreciation, Depletion and Amortization: Depreciation, depletion and amortization (DD&A) expenses were higher in the second quarter and first six months of 2015, compared with the prior year periods, primarily reflecting higher production volumes from the Bakken, Tubular Bells and Utica Fields. The Tubular Bells, Utica and Bakken fields each had a higher DD&A rate per barrel than the portfolio average.

Bakken Midstream Tariffs Expense: Tariffs increased during the three and six months ended June 30, 2015 compared with the respective prior year periods primarily due to higher volumes processed through the Tioga Gas Plant.

PART I - FINANCIAL INFORMATION (CONT'D.)

Results of Operations (continued)

Unit Cost Information:

Unit cost per barrel of oil equivalent (boe) information is based on total E&P production volumes and exclude items affecting comparability of earnings as disclosed below. Cash operating costs per boe were $15.65 in the second quarter of 2015 compared with $22.58 in the second quarter of 2014 and DD&A costs per boe were $28.22 in the second quarter of 2015 compared with $26.19 in the second quarter of 2014, resulting in total production unit costs of $43.87 and $48.77 per boe in the second quarter of 2015 and 2014, respectively. Bakken Midstream Tariff expense was $3.26 and $2.00 per boe in the second quarter of 2015 and 2014, respectively. Cash operating costs per boe were $16.17 in the first six months of 2015 compared with $21.33 in the first six months of 2014 and DD&A costs per boe were $28.45 in the first six months of 2015 compared with $25.54 in the first six months of 2014 resulting in total production unit costs of $44.62 and $46.87 per boe in the first six months of 2015 and 2014, respectively. Bakken Midstream Tariff expense was $3.20 and $1.33 per boe in the first six months of 2015 and 2014, respectively.

For the third quarter of 2015, E&P cash operating costs are estimated to be in the range of $16.50 to $17.50 per boe and DD&A expenses are estimated to be in the range of $28.50 to $29.50 per boe resulting in total production unit costs ranging from $45.00 to $47.00 per boe. For the full year 2015, E&P cash operating costs are estimated to be in the range of $16.00 to $17.00 per boe and DD&A expenses are estimated to be in the range of $28.50 to $29.50 per boe resulting in total production unit costs ranging from $44.50 to $46.50 per boe. Bakken Midstream tariff expense is expected to be $3.55 to $3.65 per boe for the third quarter of 2015, and $3.40 to $3.50 per boe for the full year of 2015.

Exploration Expenses: Exploration expenses were lower in the second quarter and first six months of 2015 compared to the same period in 2014, primarily due to lower dry hole and lease impairment charges. Exploration expenses, excluding dry hole expense, are estimated to be in the range of $110 million to $120 million for the third quarter of 2015 and $380 million to $400 million for the full year.

Income Taxes: Excluding items affecting comparability between periods, the effective income tax rate for E&P operations was a benefit of 56% and 51% in the second quarter and first six months of 2015, respectively, compared to a provision of 34% and 37% for the second quarter and the first six months of 2014, respectively. For the full year 2015, the E&P effective income tax rate is expected to be a benefit in the range of 44% to 48% and the third quarter rate is expected to be a benefit in the range of 41% to 45%, assuming no contribution from Libya.

Items Affecting Comparability of Earnings Between Periods: The following table summarizes, on an after-tax basis, income (expense) items that affect comparability of E&P earnings between periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions)		(In millions)	
Impairment	$(385)	$—	$(385)	$—
Terminated international office space	(21)	—	(21)	—
Gain on asset sales, net	—	741	—	741
Dry hole and other expenses	—	(173)	(77)	(173)
Inventory write-off	—	—	(16)	—

Employee severance and exit costs	—	6	—	—
	$(406)	$574	$(499)	$568

Impairment: Second quarter 2015 results include a noncash pre-tax goodwill impairment charge of $385 million ($385 million after income taxes) associated with the Corporation's onshore reporting unit. As a result of establishing the Bakken Midstream business as a separate operating segment in the second quarter of 2015, U.S. GAAP required the reallocation of goodwill to the Bakken Midstream segment and a goodwill impairment test for each of the Corporation's reporting units. See Note 5, Goodwill in Notes to Consolidated Financial Statements for further information.

Terminated international office space: The Corporation recognized pre-tax charges totaling $21 million ($21 million after income taxes) associated with terminated international office space in the second quarter.

Gains on asset sales, net: In June 2014, the Corporation completed the sale of approximately 30,000 net acres, including related wells and facilities in the dry gas area of the Utica shale play, for cash proceeds of approximately $485 million, resulting in a pre-tax gain of $62 million ($35 million after income taxes). In April 2014, the Corporation completed the sale of its Thailand assets for cash proceeds of approximately $805 million. This transaction resulted in a pre-tax gain of $706 million ($706 million after income taxes).

PART I - FINANCIAL INFORMATION (CONT'D.)

Results of Operations (continued)

Dry hole and other expenses: The Corporation incurred a pre-tax charge of $159 million ($67 million after income taxes) to write-off a previously capitalized exploration well and associated leasehold expenses related to the Dinarta Block, in the Kurdistan Region of Iraq following the decision of the Corporation and its partner in March 2015 to abandon the well, relinquish the Dinarta Block, and to exit operations in the region. Exploration expenses in the first quarter of 2015 also included a pre-tax charge of $16 million ($10 million after income taxes) to write down a foreign exploration project to fair value. In the second quarter of 2014, the Corporation recorded a pre-tax charge of $169 million ($105 million after income taxes) to write-off a previously capitalized exploration well in the western half of Block 469 in the Gulf of Mexico. In addition, in the second quarter of 2014 the Corporation recorded charges totaling $135 million pre-tax ($68 million after income taxes) to write-off leasehold acreage in the Paris Basin of France, the Shakrok Block in Kurdistan and the Corporation's interest in a natural gas exploration project, offshore Sabah, Malaysia.

Inventory write-off: During the first quarter of 2015, the Corporation incurred a pre-tax charge of $21 million ($16 million after income taxes) to write off surplus drilling materials in Equatorial Guinea following the decision to suspend the infill drilling program at the Okume Field.

The Corporation's future E&P earnings may be impacted by external factors, such as volatility in the selling prices of crude oil, natural gas liquids, and natural gas, reserve and production changes, exploration expenses, industry cost inflation and/or deflation, changes in foreign exchange rates and income tax rates, the effects of weather, political risk, environmental risk and catastrophic risk. For a more comprehensive description of the risks that may affect the Corporation's E&P business, see Item 1A. Risk Factors Related to Our Business and Operations in the Annual Report on Form 10-K for the year ended December 31, 2014.

Bakken Midstream

Net income (loss) of the Corporation's Bakken Midstream operating segment, which is primarily located in North Dakota, is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions)			
Revenues and Non-operating Income				
Total revenues and non-operating income	$145	$81	$275	$129
Costs and Expenses				
Operating costs and expenses	68	47	131	104
General and administrative expenses	3	2	5	4
Depreciation, depletion and amortization	22	20	43	29
Interest expense	1	1	2	1
Total costs and expenses	94	70	181	138
Results of operations before income taxes	51	11	94	(9)

Provision (benefit) for income taxes	19	4	35	(3)
Net income (loss) attributable to Hess Corporation	$32	$ 7	$59	$(6)

Total revenues and non-operating income for the three and six months ended June 30, 2015 improved from the prior year periods mainly due to higher throughput volumes at the Tioga Gas Plant. In the fourth quarter of 2013, the Tioga Gas Plant was shut down for a large scale expansion, refurbishment and optimization project, during which a new cryogenic processing train was installed and processing capacity was increased to 250 MMcf/d from 120 MMcf/d. The Tioga Gas Plant's expanded operations commenced in late March 2014. Operating costs and expenses were higher in the three and six months ended June 30, 2015 compared to the prior year periods mainly due to an increase in third party operating and maintenance expense. Depreciation, depletion and amortization (DD&A) expenses were higher in the first six months of 2015 compared with 2014, primarily due to the commencement of depreciation of the Tioga Gas Plant expansion expenditures upon restart of operations in late March 2014. Net income attributable to Hess Corporation from the Bakken Midstream segment for each of the third and fourth quarters of 2015 is estimated to be in the range of $15 million to $20 million, after giving effect to the sale of 50% of the Bakken Midstream business.

On July 1, 2015, the Corporation completed the sale of a 50% interest in its Bakken Midstream business to Global Infrastructure Partners (GIP) for cash consideration of approximately $2.7 billion and formed a joint venture with GIP.

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PART I - FINANCIAL INFORMATION (CONT'D.)

Results of Operations (continued)

Subsequent to closing, the joint venture incurred $600 million of debt through a 5-year Term Loan A facility with proceeds distributed equally to both partners, resulting in total after-tax cash proceeds, net to the Corporation, of approximately $3.0 billion. In addition, the joint venture has independent access to capital via a $400 million 5-year Senior Revolving Credit Facility, which is fully committed.

Corporate, Interest and Other

The following table summarizes corporate, interest and other expenses:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions)			
Corporate and other expenses (excluding items affecting comparability)	$53	$36	$108	$92
Interest expense	96	104	190	204
Less: Capitalized interest	(11)	(20)	(21)	(39)
Interest expense, net	85	84	169	165
Corporate, Interest and Other expenses before income taxes	138	120	277	257
Provision (benefit) for income taxes	(55)	(47)	(109)	(100)
Net Corporate, Interest and Other expenses after income taxes	83	73	168	157
Items affecting comparability of earnings between periods, after-tax	—	9	4	69
Total Corporate, Interest and Other expenses after income taxes	$83	$82	$172	$226

Corporate and other expenses for the three and six months ended June 30, 2014 include a pre-tax gain of $13 million ($8 million after income taxes) related to the disposition of the Corporation's 50% interest in a joint venture involved in the construction of an electric generating facility in Newark, New Jersey. The remaining increase in 2015 compared to the year-ago periods is primarily attributable to higher pension expense. Interest expense was lower in the three and six months of 2015 compared to the same periods in 2014 primarily due to lower interest rates in 2015. The reduction in capitalized interest in the three and six months ended June 30, 2015 relative to the same periods in 2014 is associated with the cessation of capitalized interest on the Tubular Bells Field upon first production in the fourth quarter of 2014. Third quarter 2015 Corporate expenses are expected to be in the range of $30 million to $35 million after taxes and interest expense is expected to be in the range of $50 million to $55 million after taxes. Excluding items affecting comparability of earnings, the estimate for corporate expenses for full year 2015 is still expected to be in the range of $120 million to $130 million after taxes and interest expense is still estimated to be in the range of $205 million to $215 million after taxes.

Items Affecting Comparability of Earnings Between Periods:

In the first quarter of 2015, the Corporation incurred exit costs of $6 million ($4 million after income taxes). During the first quarter of 2014, the corporation recorded a charge of $84 million ($52 million after income taxes) to reduce the carrying value of its investment in the Bayonne Energy Center to fair value. In the three and six months ended June 30, 2014 the Corporation recorded severance and other exit costs of $15 million ($9 million after income taxes) and $27 million ($17 million after-tax).

Discontinued Operations

The net loss attributable to Hess Corporation from discontinued operations was $14 million and $43 million for the three months ended June 30, 2015 and 2014, respectively, and $27 million and $21 million during the six months ended June 30, 2015, and 2014, respectively. The loss in the second quarter resulted from a pension settlement charge, employee related costs and other miscellaneous expenses. The Corporation sold its interest in HETCO, its energy trading joint venture, in February 2015 and the retail marketing business in September 2014.

PART I - FINANCIAL INFORMATION (CONT'D.)

Liquidity and Capital Resources

The following table sets forth certain relevant measures of the Corporation's liquidity and capital resources:

	June 30, 2015	December 31, 2014
	(In millions, except ratio)	
Cash and cash equivalents	$931	$ 2,444
Current maturities of long-term debt	69	68
Total debt	5,957	5,987
Total equity	21,103	22,320
Debt to capitalization ratio*	22.0 %	21.2 %

*Total debt as a percentage of the sum of total debt plus equity

In July 2015, the Corporation received after-tax cash proceeds of approximately $3 billion from the Bakken Midstream joint venture transaction. See Note 14, Subsequent Event, in Notes to Consolidated Financial Statements for further information.

Cash Flows

The following table summarizes the Corporation's cash flows:

	Six Months Ended June 30, 2015	2014
	(In millions)	
Cash flows from operating activities:		
Cash provided by (used in) operating activities - continuing operations	$1,097	$2,107
Cash provided by (used in) operating activities - discontinued operations	(21)	(46)
Net cash provided by (used in) operating activities	1,076	2,061
Cash flows from investing activities:		
Additions to property, plant and equipment	(2,423)	(2,340)
Proceeds from asset sales	—	2,847
Other, net	(13)	(124)
Cash provided by (used in) investing activities - continuing operations	(2,436)	383
Cash provided by (used in) investing activities - discontinued operations	95	(405)
Net cash provided by (used in) investing activities	(2,341)	(22)
Cash flows from financing activities:		
Cash provided by (used in) financing activities - continuing operations	(248)	(1,646)
Cash provided by (used in) financing activities - discontinued operations	—	(2)
Net cash provided by (used in) financing activities	(248)	(1,648)

Net increase (decrease) in cash and cash equivalents from continuing operations	(1,587)	844
Net increase (decrease) in cash and cash equivalents from discontinued operations	74	(453)
Net increase (decrease) in cash and cash equivalents	$(1,513)	$391

Operating activities: Net cash provided by operating activities was $1,076 million in the first six months of 2015, compared with $2,061 million in the same period of 2014, primarily reflecting the decline in benchmark crude oil prices.

Investing activities: Additions to property, plant and equipment were higher in the six months of 2015 compared to the same period in 2014 primarily due to a net decrease in the Corporation's capital expenditure accruals of approximately $170 million. During the first half of 2014, the Corporation received proceeds of approximately $805 million from the sale of its assets in Thailand, approximately $650 million from the sale of its interest in the Pangkah Field, offshore Indonesia, approximately $1,075 million from the sale of dry gas acreage in the Utica, including related wells and facilities, and $320 million from the sale of the Corporation 50% interest in the Newark, New Jersey power plant.

In January 2014, the Corporation acquired its partners' 56% interest in WilcoHess, a retail gasoline joint venture, for approximately $290 million which is reported in discontinued operations. In June 2014, the Corporation incurred capital expenditures of $105 million related to the acquisition of previously leased gasoline stations. Both of these transactions were undertaken in connection with the Corporation's divesture of its retail marketing business.

Financing activities: In the first six months of 2015, the Corporation repaid $34 million of debt. The Corporation also purchased $27 million of common shares under its Board authorized $6.5 billion repurchase plan and settled $51 million of

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PART I - FINANCIAL INFORMATION (CONT'D.)

Liquidity and Capital Resources (continued)

common stock purchases from 2014. Common stock purchases were approximately $1,735 million in the first six months of 2014. Dividends paid were $144 million in the first six months of 2015 compared to $156 million in the first six months of 2014 representing a dividend rate of $0.50 per common share in both periods.

Future Capital Requirements and Resources

The Corporation anticipates investing approximately $4.4 billion in capital and exploratory expenditures during 2015 of which $4.1 billion relates to E&P. Based on current strip crude oil prices, the Corporation forecasts in 2015 a significant net loss and a net cash flow deficit, excluding proceeds from asset sales, after funding planned capital expenditures, dismantlement obligations, pension contributions, dividends and share repurchases under its Board authorized plan. The Corporation expects to fund its 2015 net cash flow deficit with existing cash on hand, proceeds from the July 2015 sale of a 50% interest in its Bakken Midstream business, which resulted in approximately $3.0 billion of total after-tax cash proceeds to the Corporation and, if necessary, borrowings under its long-term syndicated revolving credit facility.

Crude oil and natural gas prices are volatile and difficult to predict. In addition, unplanned increases in the Corporation's capital expenditure program could occur. The Corporation plans to maintain its financial flexibility and to reduce its cash flow deficit by pursuing further cost reductions and supply chain savings, significantly moderating stock repurchases compared with 2014, and depending on where crude oil prices trend, potentially further reducing its planned capital program. In addition, should needs dictate, the Corporation may also access other sources of liquidity by utilizing existing uncommitted credit facilities, issuing debt and equity securities, and/or pursuing further asset sales.

The table below summarizes the capacity, usage and available capacity of the Corporation's borrowing and letter of credit facilities at June 30, 2015:

	Expiration Date	Capacity	Borrowings	Letters of Credit Issued	Total Used	Available Capacity
		(In millions)				
Revolving credit facility	January 2020	$4,000	$ —	$ —	$ —	$ 4,000
Committed lines	Various *	800	—	11	11	789
Uncommitted lines	Various *	117	—	117	117	—
Total		$4,917	$ —	$ 128	$ 128	$ 4,789

*Committed and uncommitted lines have expiration dates through 2016.

The Corporation's $128 million in letters of credit outstanding at June 30, 2015 are primarily issued to satisfy performance obligations related to the Corporation's exploration and production activities.

In January 2015, the Corporation entered into a $4 billion syndicated revolving credit facility that expires in January 2020. The new facility, which replaced a $4 billion facility that was scheduled to expire in April 2016, can be used for borrowings and letters of credit. Based on the Corporation's credit rating as of June 30, 2015, borrowings on the facility will generally bear interest at 1.075% above the London Interbank Offered Rate. A fee of 0.175% per annum is also payable on the amount of the facility. The interest rate and facility fee are subject to adjustment if the

Corporation's credit rating changes.

The Corporation's long-term debt agreements, including the revolving credit facility, contain financial covenants that restrict the amount of total borrowings and secured debt. These financial covenants do not currently materially impact the Company's ability to issue indebtedness to fund its future capital requirements.

The Corporation also has a shelf registration under which it may issue additional debt securities, warrants, common stock or preferred stock.

Market Risk Disclosures

The Corporation is exposed in the normal course of business to commodity risks related to changes in the prices of crude oil and natural gas, as well as changes in interest rates and foreign currency values. See Note 13, Financial Risk Management, in the Notes to Consolidated Financial Statements. In the disclosures that follow, risk management activities refer to the mitigation of these risks through hedging activities.

Value at Risk: The Corporation uses value at risk to monitor and control commodity risk within its risk management activities. The value at risk model uses historical simulation and the results represent the potential loss in fair value over one day at a 95% confidence level. The model captures both first and second order sensitivities for options. Results may vary from time to time as hedging levels change in risk management activities. The potential change in fair value based on commodity price risk is presented in the financial risk management activities section below.

Financial Risk Management Activities

In the first quarter of 2015, the Corporation entered into Brent crude oil collars to hedge 50,000 bopd from March 2015 to December 2015. This program was supplemented in the second quarter of 2015 by entering into West Texas Intermediate crude oil collars to hedge 20,000 bopd from May 6, 2015 to December 2015. Under the terms of both programs, the floor price to be received by the Corporation is $60 per barrel and the ceiling price it may receive is $80 per barrel.

The Corporation estimates that the value at risk associated with crude oil collars was $11 million at June 30, 2015. The results may vary from time to time primarily as crude oil prices or hedge levels change.

The Corporation has outstanding foreign exchange contracts used to reduce its exposure to fluctuating foreign exchange rates for various currencies. The change in fair value of foreign exchange contracts from a 10% weakening of the U.S. Dollar exchange rate is estimated to be a loss of approximately $95 million at June 30, 2015.

The Corporation's outstanding long-term debt of $5,957 million, including current maturities, had a fair value of $6,642 million at June 30, 2015. A 15% decrease in the rate of interest would increase the fair value of debt by approximately $480 million at June 30, 2015. A 15% increase in the rate of interest would decrease the fair value of debt by approximately $420 million at June 30, 2015.

Discontinued Operations – Trading Activities

In the first quarter of 2015, the Corporation sold its interest in its energy trading joint venture, HETCO. Pursuant to the terms of the sale, the successor entity is permitted to continue to utilize the Corporation's guarantees issued in favor of counterparties existing as of the sales date until November 12, 2015, provided that new trades are for a period of one year or less, comply with certain credit requirements, and net exposures remain within value at risk limits previously applied by the Corporation. The Corporation has the right to seek reimbursement from the successor entity upon any counterparty drawing on the applicable guarantee from the Corporation. The fair value of the guarantee recorded by the Corporation amounted to $11 million.

Forward-looking Information

Certain sections of Management's Discussion and Analysis of Financial Condition and Results of Operations, including references to the Corporation's future results of operations and financial position, liquidity and capital resources, capital expenditures, asset sales, oil and gas production, costs and expenses, tax rates, debt repayment, hedging, derivative and market risk disclosures include forward-looking information. These sections typically include statements with words such as "anticipate," "estimate," "expect," "forecast," "guidance," "could," "may," "should," "would" o words, indicating that future outcomes are uncertain. Forward-looking disclosures are based on the Corporation's current understanding and assessment of these activities and reasonable assumptions about the future. Actual results may differ from these disclosures because of changes in market conditions, government actions and other factors.

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PART I - FINANCIAL INFORMATION (CONT'D.)

Item 3. Quantitative and Qualitative Disclosures about Market Risk.
The information required by this item is presented under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk Disclosures."

Item 4. Controls and Procedures.
Based upon their evaluation of the Corporation's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2015, John B. Hess, Chief Executive Officer, and John P. Rielly, Chief Financial Officer, concluded that these disclosure controls and procedures were effective as of June 30, 2015.

There was no change in internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 in the quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Information regarding legal proceedings is contained in Note 11, Guarantees and Contingencies in the Notes to Consolidated Financial Statements and is incorporated herein by reference.

Item 2. Share Repurchase Activities.

The Corporation's share repurchase activities for the three months ended June 30, 2015, were as follows:

2015	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (b) (In millions)
April	—	$ —	—	$ 1,225
May	—	—	—	1,225
June	293,005	68.26	293,005	1,205
Total	293,005	$ 68.26	293,005	

(a) Repurchased in open-market transactions. The average price paid per share was inclusive of transaction fees.

(b) In March 2013, the Corporation announced a board authorized plan to repurchase up to $4 billion of outstanding common shares. In May 2014, the Corporation increased the repurchase program to $6.5 billion.

Item 5. Other Information.

On August 3, 2015, the Corporation entered into Change in Control Termination Benefits Agreements (the "CIC Agreements") with Michael R. Turner, the Corporation's Senior Vice President of Onshore, and four other senior officers of the Corporation (each, an "Executive") to align the termination benefits for the Executives with the termination benefits currently in place for the Corporation's other senior officers. The CIC Agreements are "double trigger" and provide for lump sum cash payments equal to two times the Executive's annual compensation if within 24 months following a change in control, the employment of the Executive is terminated by the Executive for good reason or by the Corporation without cause, in each case as defined in the CIC Agreements. For these purposes, annual compensation consists of: (1) the Executive's base pay at the date of his or her termination or immediately before the change in control, whichever is higher, plus (2) the greater of his or her target bonus for the year in which the change in control occurs or the highest bonus earned in the three fiscal years preceding the change in control. In addition, the Executive is entitled to receive a prorated portion of his or her target bonus for the fiscal year in which termination occurs.

The CIC Agreements provide for the continuation of medical, dental and other welfare benefits for 24 months following termination and up to $30,000 of reasonable outplacement assistance through the end of the second year following termination. The Executive's stock options will vest and become fully exercisable, and all other stock-based

awards will vest (with any performance criteria deemed to be met at target), on the date of termination. The CIC Agreements also provide for immediate vesting of retirement benefits upon termination, deemed age and service credit of an additional two years for purposes of determining retirement benefits, and deemed compensation in determining retirement benefits for those two years equal to the annual compensation used to calculate the lump sum severance payment, as described above.

The Executives are not entitled to a "gross-up" payment from the Corporation for any excise tax imposed by the Internal Revenue Code on "excess parachute payments" resulting from a change in control, but payments and benefits under the CIC Agreements may be reduced in order to avoid the application of such excise tax if the reduction would increase the net after-tax amount received by the Executive.

The CIC Agreements have an initial term of two years and are automatically extended so that there will at all times be two years remaining in the term, unless the Corporation elects to end automatic extensions, in which case the term will end two years after the Corporation provides such notice to the Executives. The CIC Agreements will otherwise terminate on the earlier of: (1) two years following a change of control, or (2) if prior to a change of control, the date the Executive's employment with the Corporation is terminated.

The foregoing summary is qualified in its entirety by reference to the full text of the CIC Agreements, a form of which is filed as Exhibit 10.3 hereto and incorporated herein by reference.

PART II - OTHER INFORMATION (CONT'D.)

Item 6. Exhibits and Reports on Form 8 K.

a. Exhibits

10(1) Amended and Restated 2008 Long-Term Incentive Plan., incorporated by reference to Form 8 K of the Registrant filed on May 12, 2015.

10(2) Amendment No 1 to the Credit Agreement, dated as of July 10, 2015 among Hess Corporation, the subsidiaries party thereto, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent.

10(3)* Form of Change in Control Termination Benefits Agreement, dated as of August 3, 2015, between the Company and Michael R. Turner. Substantially identical agreements (differing only in the signatories thereto) were entered into between the Company and four other senior officers.

31(1) Certification required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)).

31(2) Certification required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)).

32(1) Certification required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

32(2) Certification required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

101(INS) XBRL Instance Document

101(SCH) XBRL Schema Document

101(CAL) XBRL Calculation Linkbase Document

101(LAB) XBRL Labels Linkbase Document

101(PRE) XBRL Presentation Linkbase Document

101.DEF (XBRL) Definition Linkbase Document

* These exhibits relate to executive compensation plans and arrangements

b. Reports on Form 8-K

During the quarter ended June 30, 2015, Registrant filed the following reports on Form 8-K:

(i) Filing dated May 12, 2015 reporting under Items 5.02, 5.07 and 9.01 the approval of the Amended and Restated 2008 Long-Term Incentive Plan; the submission of matters to a vote of security holders and exhibits related thereto.

(ii) Filing dated April 29, 2015 reporting under Items 2.02 and 9.01 a news release dated April 29, 2015 reporting results for the first quarter of 2015.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HESS CORPORATION
(REGISTRANT)

By /s/ John B. Hess
JOHN B. HESS
CHIEF EXECUTIVE OFFICER

By /s/ John P. Rielly
JOHN P. RIELLY
SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

Date: August 7, 2015