HESS CORP
Form 10-K
February 26, 2010

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

Form 10-K

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

For the fiscal year ended December 31, 2009

or

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

For the transition period from to

Commission File Number 1-1204

Hess Corporation
(Exact name of Registrant as specified in its charter)

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered

Common Stock (par value $1.00)	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant submitted electronically and posted on its Corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of voting stock held by non-affiliates of the Registrant amounted to $17,579,000,000 computed using the outstanding common shares and closing market price on June 30, 2009.

At December 31, 2009, there were 327,229,488 shares of Common Stock outstanding.

Part III is incorporated by reference from the Proxy Statement for the annual meeting of stockholders to be held on May 5, 2010.

HESS CORPORATION

Form 10-K

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PART I

Items 1 and 2. ***Business and Properties***

Hess Corporation (the Registrant) is a Delaware corporation, incorporated in 1920. The Registrant and its subsidiaries (collectively referred to as the Corporation or Hess) is a global integrated energy company that operates in two segments, Exploration and Production (E&P) and Marketing and Refining (M&R). The E&P segment explores for, develops, produces, purchases, transports and sells crude oil and natural gas. These exploration and production activities take place principally in Algeria, Australia, Azerbaijan, Brazil, Colombia, Denmark, Egypt, Equatorial Guinea, Gabon, Ghana, Indonesia, Libya, Malaysia, Norway, Peru, Russia, Thailand, the United Kingdom and the United States. The M&R segment manufactures refined petroleum products and purchases, markets and trades, refined petroleum products, natural gas and electricity. The Corporation owns 50% of a refinery joint venture in the United States Virgin Islands. An additional refining facility, terminals and retail gasoline stations, most of which include convenience stores, are located on the East Coast of the United States.

Exploration and Production

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

	Crude Oil and Natural Gas Liquids		Natural Gas		Total Barrels of Oil Equivalent (BOE)*	
	2009	2008	2009	2008	2009	2008
	(Millions of barrels)		(Millions of mcf)		(Millions of barrels)	
Developed						
United States	**154**	119	**205**	202	**188**	153
Europe	**171**	192	**417**	502	**241**	276
Africa	**241**	237	**59**	60	**251**	247
Asia and other	**27**	23	**864**	667	**170**	134
	593	571	**1,545**	1,431	**850**	810
Undeveloped						
United States	**95**	108	**101**	74	**112**	120
Europe	**159**	140	**225**	137	**197**	162
Africa	**73**	87	**12**	9	**75**	89
Asia and other	**47**	64	**938**	1,122	**203**	251
	374	399	**1,276**	1,342	**587**	622
Total						
United States	**249**	227	**306**	276	**300**	273
Europe	**330**	332	**642**	639	**438**	438

Africa	**314**	324	**71**	69	**326**	336
Asia and other	**74**	87	**1,802**	1,789	**373**	385
	967	970	**2,821**	2,773	**1,437**	1,432

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

On a barrel of oil equivalent (boe) basis, 41% of the Corporation s worldwide proved reserves are undeveloped at December 31, 2009 (43% at December 31, 2008). Proved reserves held under production sharing contracts at December 31, 2009 totaled 24% of crude oil and natural gas liquids and 57% of natural gas reserves (28% and 58% respectively, at December 31, 2008).

The Securities and Exchange Commission (SEC) revised its oil and gas reserve estimation and disclosure standards effective December 31, 2009. See the Supplementary Oil and Gas Data on pages 77 through 84 in the accompanying financial statements for additional information on the Corporation s oil and gas reserves.

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

	2009	2008	2007
Crude oil (thousands of barrels per day)			
United States			
Onshore	**21**	17	15
Offshore	**39**	15	16
	60	32	31
Europe			
United Kingdom	**21**	29	38
Norway	**13**	16	19
Denmark	**12**	11	12
Russia	**37**	27	24
	83	83	93
Africa			
Equatorial Guinea	**70**	72	56
Algeria	**14**	15	22
Gabon	**14**	14	14
Libya	**22**	23	23
	120	124	115
Asia and other			
Azerbaijan	**8**	7	16
Other	**8**	6	5
	16	13	21
Total	**279**	252	260
Natural gas liquids (thousands of barrels per day)			
United States			
Onshore	**7**	7	7
Offshore	**4**	3	3
	11	10	10
Europe			
United Kingdom	**2**	3	4
Norway	**1**	1	1
	3	4	5

Total	**14**	14	15
Natural gas (thousands of mcf per day)			
United States			
Onshore	**38**	41	42
Offshore	**55**	37	46
	93	78	88
Europe			
United Kingdom	**118**	223	231
Norway	**21**	22	18
Denmark	**12**	10	10
	151	255	259

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	2009	2008	2007
Asia and other			
Joint Development Area of Malaysia/Thailand (JDA)	**294**	185	115
Thailand	**85**	87	90
Indonesia	**65**	82	59
Other	**2**	2	2
	446	356	266
Total	**690**	689	613
Barrels of oil equivalent*	**408**	381	377

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

A description of our significant E&P operations follows:

United States

At December 31, 2009, 21% of the Corporation s total proved reserves were located in the United States. During 2009, 24% of the Corporation s crude oil and natural gas liquids production and 13% of its natural gas production were from United States operations. The Corporation s production in the United States was principally from properties offshore in the Gulf of Mexico, which include the Shenzi (Hess 28%), Llano (Hess 50%), Conger (Hess 38%), Baldpate (Hess 50%), Hack Wilson (Hess 25%) and Penn State (Hess 50%) fields, as well as onshore properties in the Williston Basin of North Dakota and in the Permian Basin of Texas.

In the deepwater Gulf of Mexico, production commenced at the Shenzi Field in March 2009. Net production from Shenzi averaged approximately 25,000 barrels of oil equivalent per day (boepd) in 2009. The operator plans on drilling additional production wells at Shenzi in 2010.

In North Dakota, the Corporation holds a net acreage position in the Bakken shale play of approximately 510,000 acres. In 2009, the Corporation sanctioned a development program for the Bakken. The Corporation plans to expand production facilities and increase the rig count to 10 from 3 over the next 18 months, and invest about $1 billion per year over the next five years. As a result, the Corporation projects an increase in net production from approximately 10,000 boepd in 2009 to approximately 80,000 boepd in 2015.

The Corporation is developing a residual oil zone at the Seminole-San Andres Unit (Hess 34%) in Texas where carbon dioxide gas supplied from its interests in the West Bravo Dome and Bravo Dome fields in New Mexico is being injected to enhance recovery of crude oil.

At the Pony prospect on Green Canyon Block 468 (Hess 100%) in the deepwater Gulf of Mexico, engineering and design work for field development progressed during 2009. The Corporation plans to drill an appraisal well on Green Canyon Block 469 in 2010.

In 2009 the Corporation acquired rights to explore a total of more than 80,000 net acres in the Marcellus gas shale formation in Pennsylvania. The Corporation is operator and holds a 100% interest on approximately 50,000 acres and holds a 50% non-operated interest in the remaining acreage. Exploration drilling activity is expected to commence in 2010.

At December 31, 2009, the Corporation had interests in 331 total blocks in the Gulf of Mexico, of which 292 were exploration blocks comprising 1.1 million net undeveloped acres and the remainder were held for production and development operations.

Europe

At December 31, 2009, 30% of the Corporation s total proved reserves were located in Europe (United Kingdom 8%, Norway 13%, Denmark 3% and Russia 6%). During 2009, 29% of the Corporation s crude oil and natural gas liquids production and 22% of its natural gas production were from European operations.

United Kingdom: Production of crude oil and natural gas liquids from the United Kingdom North Sea was principally from the Corporation s non-operated interests in the Nevis (Hess 39%), Schiehallion (Hess 16%), Clair (Hess 9%), Bittern (Hess 28%) and Beryl (Hess 22%) fields. Natural gas production from the United Kingdom was primarily from the Easington Catchment Area (Hess 32%), Bacton area (Hess 22%), Beryl (Hess 22%), Everest (Hess 19%), Lomond (Hess 17%), Nevis (Hess 39%), Atlantic (Hess 25%) and Cromarty (Hess 90%) fields. The operator plans to drill additional production wells at Beryl in 2010.

Norway: Substantially all of the 2009 and 2008 Norwegian production was from the Corporation s interest in the Valhall Field (Hess 28%). A field redevelopment for Valhall commenced in 2007 and is expected to be completed in 2011. In 2010, the operator plans on drilling additional production and injection wells at Valhall. Additionally in 2010, the operator will continue to work on the Valhall Flank Gas Lift project, which was sanctioned in 2009 and is expected to be completed in 2011. The Corporation also holds an interest in the Snohvit (Hess 3%), Snorre (Hess 1%) and Hod (Hess 25%) fields. All four of the Corporation s Norwegian field interests are located offshore.

In December 2009, the Corporation agreed to a strategic exchange of all of its interests in Gabon and the Clair Field in the United Kingdom for an additional 28% interest in Valhall and 25% interest in Hod. The transaction, which has an effective date of January 1, 2010, is subject to various regulatory and other approvals. In addition, the partners are in discussions regarding the applicability of pre-emption to this transaction.

Denmark: Crude oil and natural gas production comes from the Corporation s interest in the South Arne Field (Hess 58%). In 2010, the Corporation plans a two well production drilling program.

Russia: The Corporation s activities in the Russian Federation are conducted through its 80% interest in a subsidiary operating in the Volga-Urals region of Russia. As of December 31, 2009, this subsidiary had exploration and production rights in 13 license areas in the Samara Oblast. In December 2009 this subsidiary also secured rights in the Novomaliklinsky license area, which lies in the Ulyanovsk Oblast. Production currently comes from ten license areas, but exploration and development investment is planned in all 14 license areas.

Africa

At December 31, 2009, 23% of the Corporation s total proved reserves were located in Africa (Equatorial Guinea 8%, Algeria 2%, Libya 11% and Gabon 2%). During 2009, 41% of the Corporation s crude oil and natural gas liquids production was from African operations.

Equatorial Guinea: The Corporation is the operator and owns an interest in Block G (Hess 85%) which contains the Ceiba Field and Okume Complex. The Corporation plans to drill additional production wells at Okume in 2010.

Algeria: The Corporation has a 49% interest in a venture with the Algerian national oil company, that redeveloped three oil fields.

Libya: The Corporation, in conjunction with its Oasis Group partners, has oil and gas production operations in the Waha concessions in Libya (Hess 8%). The Corporation also owns a 100% interest in offshore exploration Area 54 in the Mediterranean Sea, where a successful exploration well was drilled in 2008. In 2009, the Corporation successfully flow tested the first exploration well and subsequently drilled and successfully flow tested a down-dip appraisal well. In 2010, the Corporation plans to reprocess 3D seismic, integrating acquired well information, and will continue technical and commercial evaluation of the block.

Gabon: The Corporation s activities in Gabon are conducted through its wholly-owned Gabonese subsidiary, where the Corporation has interests in the Rabi Kounga, Toucan and Atora fields. In the fourth quarter of 2009, the

Corporation agreed to a strategic exchange of all of its interests in Gabon for additional interests in the Valhall and Hod fields offshore Norway.

Egypt: The Corporation has an interest in the West Mediterranean Block 1 concession (West Med Block) (Hess 55%), which contains natural gas discoveries and additional exploration opportunities. The Corporation is currently evaluating technical and commercial options for this block and further exploratory drilling is planned. The Corporation also owns a 100% interest in Block 1 offshore Egypt in the Red Sea. During 2009 the Corporation acquired and completed the reprocessing of seismic data for this block.

Ghana: The Corporation holds a 100% interest in the Deepwater Tano Cape Three Points License. The Corporation is evaluating 3D seismic in anticipation of drilling the second exploration well on this prospect in late 2010 or early 2011.

Asia and Other

At December 31, 2009, 26% of the Corporation s total proved reserves were located in the Asia and other region (JDA 11%, Indonesia 9%, Thailand 3%, Azerbaijan 2% and Malaysia 1%). During 2009, 6% of the Corporation s crude oil and natural gas liquids production and 65% of its natural gas production were from Asia and other operations.

Joint Development Area of Malaysia/Thailand (JDA): The Corporation owns an interest in Block A-18 of the JDA (Hess 50%) in the Gulf of Thailand. Phase 2 gas sales commenced in November of 2008. In 2009, the Corporation acquired a 50% interest in Blocks PM301 and PM302 in Malaysia, which are adjacent to Block A-18 of the JDA.

Indonesia: The Corporation s natural gas production in Indonesia primarily comes from its interests offshore in the Ujung Pangkah project (Hess 75%), which commenced production in 2007, and the Natuna A Field (Hess 23%). Additional production from a Phase 2 oil project at Ujung Pangkah commenced in 2009. The Corporation also owned an interest in the onshore Jambi Merang natural gas development project (Hess 25%), which was sold in January 2010. In May 2009, the Corporation obtained a 100% working interest in the offshore South Sesulu Block, where the Corporation is planning to acquire and process seismic in 2010. The Corporation also holds a 100% working interest in the offshore Semai V Block, where the Corporation is evaluating seismic and plans to drill an exploration well in late 2010 or early 2011.

Thailand: The Corporation s natural gas production in Thailand primarily comes from the offshore Pailin Field (Hess 15%) and the onshore Sinphuhorm Block (Hess 35%).

Azerbaijan: The Corporation has an interest in the Azeri-Chriag-Gunashli (ACG) fields (Hess 3%) in the Caspian Sea. In 2010, production drilling will continue and the operator will seek sanction to install an additional production and drilling platform, which will include processing facilities and related infrastructure.

Australia: The Corporation holds a 100% interest in an exploration license covering 780,000 acres in the Carnarvon basin offshore Western Australia (WA-390-P Block). Through December 31, 2009, the Corporation has drilled 11 of the 16 commitment wells on the block, nine of which were natural gas discoveries. The Corporation plans to drill the remaining five commitment wells on the block in 2010. The Corporation also holds a 50% interest in WA-404-P Block located offshore Western Australia, which covers a total area of 680,000 acres. The operator completed a successful exploration well on this block in 2009 and plans to drill the remaining eight commitment wells on this block in 2010. In January 2010, the operator announced that the first well of the 2010 program discovered natural gas.

Brazil: The Corporation has interests in two blocks located offshore Brazil, BM-S-22 (Hess 40%) and BM-ES-30 (Hess 30%). In 2009, two exploration wells were completed on BM-S-22. A notice of discovery was filed for the first well and the second well was expensed. In 2010, the operator of BM-S-22 plans to commence drilling of a third exploration well in the second half of the year. In 2009, the Corporation also drilled an exploration well on BM-ES-30, which was expensed.

Peru: The Corporation has an interest in Block 64 in Peru (Hess 50%). At the end of 2009, the Corporation was drilling a sidetrack to an exploration well on this block. Further evaluation work is planned for 2010.

Colombia: The Corporation has interests in offshore Blocks RC 6 and RC 7 (Hess 30%). During 2009 the Corporation acquired 3D seismic for those blocks. Additional 3D seismic will be acquired and processed in 2010.

Oil and Gas Reserves

The Corporation s net proved oil and gas reserves at the end of 2009, 2008 and 2007 are presented under the Supplementary Oil and Gas Data on pages 77 through 84 in the accompanying financial statements.

During 2009, the Corporation provided oil and gas reserve estimates for 2008 to the United States Department of Energy. Such estimates are consistent with the information furnished to the SEC on Form 10-K for the year ended

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December 31, 2008, although not necessarily directly comparable due to the requirements of the individual requests. There were no differences in excess of 5%.

Sales commitments: The Corporation has no contracts or agreements to sell fixed quantities of its crude oil production. In the United States, natural gas is marketed by the M&R segment on a spot basis and under contracts for varying periods of time to local distribution companies, and commercial, industrial and other purchasers. The Corporation s United States natural gas production is expected to approximate 30% of its 2010 sales commitments under long-term contracts. The Corporation attempts to minimize supply risks associated with its United States natural gas supply commitments by entering into purchase contracts with third parties having reliable sources of supply and by leasing storage facilities.

Outside of the United States and the United Kingdom, the Corporation generally sells its natural gas production under long-term sales contracts at prices that are periodically adjusted due to changes in commodity prices or other indices.

Average selling prices and average production costs

	2009	2008	2007
Average selling prices*			
Crude oil (per barrel)			
United States	**$ 60.67**	$ 96.82	$ 69.23
Europe	**47.02**	78.75	60.99
Africa	**48.91**	78.72	62.04
Asia and other	**63.01**	97.07	72.17
Worldwide	**51.62**	82.04	63.44
Natural gas liquids (per barrel)			
United States	**$ 36.57**	$ 64.98	$ 51.89
Europe	**43.23**	74.63	57.20
Worldwide	**38.47**	67.61	53.72
Natural gas (per mcf)			
United States	**$ 3.36**	$ 8.61	$ 6.67
Europe	**5.15**	9.44	6.13
Asia and other	**5.06**	5.24	4.71
Worldwide	**4.85**	7.17	5.60
Average production (lifting) costs per barrel of oil equivalent produced**			
United States	**$ 13.72**	$ 18.46	$ 13.56
Europe	**15.77**	17.12	14.06
Africa	**10.93**	10.22	9.09
Asia and other	**7.65**	8.48	8.41
Worldwide	**12.12**	13.43	11.50

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

** *Production (lifting) costs consist of amounts incurred to operate and maintain the Corporation s producing oil and gas wells, related equipment and facilities, transportation costs and production and severance taxes. The*

average production costs per barrel of oil equivalent reflect the crude oil equivalent of natural gas production converted on the basis of relative energy content (six mcf equals one barrel).

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

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Gross and net undeveloped acreage at December 31, 2009

	Undeveloped Acreage*	
	Gross	Net
	(In thousands)	
United States	2,993	1,969
Europe	2,274	760
Africa	9,937	6,440
Asia and other	9,546	5,099
Total**	24,750	14,268

* *Includes acreage held under production sharing contracts.*

** *Licenses covering approximately 30% of the Corporation s net undeveloped acreage held at December 31, 2009 are scheduled to expire during the next three years pending the results of exploration activities. These scheduled expirations are largely in Africa and the United States.*

Gross and net developed acreage and productive wells at December 31, 2009

	Developed Acreage Applicable to Productive Wells		Productive Wells*			
			Oil		Gas	
	Gross	Net	Gross	Net	Gross	Net
	(In thousands)					
United States	542	466	901	487	60	45
Europe	1,379	771	287	122	150	31
Africa	9,938	970	1,021	164		
Asia and other	2,190	625	69	7	349	78
Total	14,049	2,832	2,278	780	559	154

* *Includes multiple completion wells (wells producing from different formations in the same bore hole) totaling 20 gross wells and 15 net wells.*

Number of net exploratory and development wells drilled

	Net Exploratory	Net Development

		Wells			Wells	
	2009	**2008**	**2007**	**2009**	**2008**	**2007**
Productive wells						
United States		2	1	**44**	50	54
Europe	**7**	11	3	**12**	11	14
Africa	**1**	1	1	**23**	23	23
Asia and other	**8**	5	3	**12**	25	15
	16	19	8	**91**	109	106
Dry holes						
United States	**4**		1		1	
Europe		3	1			
Africa		2	1			
Asia and other	**2**	1				
	6	6	3		1	
Total	**22**	25	11	**91**	110	106

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Number of wells in process of drilling at December 31, 2009:

	Gross Wells	Net Wells
United States	11	4
Europe	2	1
Africa	9	1
Asia and other	8	2
Total	30	8

Number of net waterfloods and pressure maintenance projects in process of installation at December 31, 2009 1

Marketing and Refining

Refining

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

HOVENSA: Refining operations at HOVENSA consist of crude units, a fluid catalytic cracking unit (FCC) and a delayed coker unit.

The following table summarizes capacity and utilization rates for HOVENSA:

	Refinery Capacity (Thousands of barrels per day)	**Refinery Utilization**		
		2009	**2008**	**2007**
Crude	500	**80.3%**	88.2%	90.8%
Fluid catalytic cracker	150	**70.2%**	72.7%	87.1%
Coker	58	**81.6%**	92.4%	83.4%

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

to third parties, the Corporation purchases 50% of HOVENSA s remaining production at market prices.

Gross crude runs at HOVENSA averaged 402,000 barrels per day in 2009 compared with 441,000 barrels per day in 2008 and 454,000 barrels per day in 2007. The 2009 and 2008 utilization rates for HOVENSA reflect weaker refining margins and planned and unplanned maintenance. The 2008 utilization rates also reflect a refinery wide shut down for Hurricane Omar. In January 2010, HOVENSA commenced a turnaround of its FCC unit which is expected to take approximately 40 days.

Port Reading Facility: The Corporation owns and operates a fluid catalytic cracking facility in Port Reading, New Jersey, with a capacity of 70,000 barrels per day. This facility, which processes residual fuel oil and vacuum gas oil, operated at a rate of approximately 63,000 barrels per day in 2009 compared with 64,000 barrels per day in 2008 and 61,000 barrels per day in 2007. Substantially all of Port Reading s production is gasoline and heating oil. The Corporation is planning a turnaround for the Port Reading refining facility in the second quarter of 2010, which is expected to take approximately 35 days.

Marketing

The Corporation markets refined petroleum products, natural gas and electricity on the East Coast of the United States to the motoring public, wholesale distributors, industrial and commercial users, other petroleum companies, governmental agencies and public utilities.

The Corporation had 1,357 HESS® gasoline stations at December 31, 2009, including stations owned by its WilcoHess joint venture (Hess 44%). Approximately 92% of the gasoline stations are operated by the Corporation or WilcoHess. Of the operated stations, 94% have convenience stores on the sites. Most of the Corporation s gasoline stations are in New York, New Jersey, Pennsylvania, Florida, Massachusetts, North Carolina and South Carolina.

The table below summarizes marketing sales volumes:

	2009*	**2008***	**2007***
Refined Product sales (thousands of barrels per day)			
Gasoline	**236**	234	210
Distillates	**134**	143	147
Residuals	**67**	56	62
Other	**36**	39	32
Total refined product sales	**473**	472	451
Natural gas (thousands of mcf per day)	**2,010**	1,955	1,890
Electricity (megawatts round the clock)	**4,306**	3,152	2,821

* *Of total refined products sold in 2009 approximately 45% was obtained from HOVENSA and Port Reading and in 2008 and 2007 approximately 50% was obtained from HOVENSA and Port Reading. The Corporation purchased the balance from third parties under short-term supply contracts and spot purchases.*

The Corporation owns 20 terminals with an aggregate storage capacity of 22 million barrels in its East Coast marketing areas. The Corporation also owns a terminal in St. Lucia with a storage capacity of 9 million barrels, which is operated for third party storage.

The Corporation has a 50% interest in Bayonne Energy Center, LLC, a joint venture that plans to build a natural gas fired electric generating station on property owned by Hess in Bayonne, New Jersey. The joint venture will sell electricity into the New York City market by a direct connection with the Con Edison Gowanus substation. Construction of the facility is scheduled to begin in mid-2010 and operations are to commence in late 2011.

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

Majority-owned subsidiaries of the Corporation are pursuing investments in liquified natural gas regasification terminals and related supply, trading and marketing opportunities. Necessary regulatory approvals are being pursued for terminal projects on owned properties located in Fall River, Massachusetts, and Shannon, Ireland. In 2009 the Corporation leased property, with an option to purchase, in Logan Township, New Jersey for potential regasification facilities. In addition, a subsidiary of the Corporation is exploring the development of fuel cell technology.

For additional financial information by segment see Note 16, Segment Information in the notes to the financial statements.

Competition and Market Conditions

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

Other Items

Compliance with various existing environmental and pollution control regulations imposed by federal, state, local and foreign governments is not expected to have a material adverse effect on the Corporation s financial condition or

results of operations. The Corporation anticipates capital expenditures for facilities, primarily to comply with federal, state and local environmental standards, of approximately $50 million in 2010. For further discussion of environmental matters see the Environment, Health and Safety section of Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations.*

The number of persons employed by the Corporation at year end was approximately 13,300 in 2009 and 13,500 in 2008.

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

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

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

Commodity Price Risk: Our estimated proved reserves, revenue, operating cash flows, operating margins, future earnings and trading operations are highly dependent on the prices of crude oil, natural gas and refined petroleum products, which are influenced by numerous factors beyond our control. Historically these prices have been very volatile and most recently have been affected by changes in demand associated with the global economic downturn. The major foreign oil producing countries, including members of the Organization of Petroleum Exporting Countries (OPEC), exert considerable influence over the supply and price of crude oil and refined petroleum products. Their ability or inability to agree on a common policy on rates of production and other matters has a significant impact on the oil markets. The commodities trading markets may also influence the selling prices of crude oil, natural gas and refined petroleum products. To the extent that we engage in hedging activities to mitigate commodity price volatility, we may not realize the benefit of price increases above the hedged price. Changes in commodity prices can also have a material impact on collateral and margin requirements under our derivative contracts. In addition, we utilize significant bank credit facilities to support these collateral and margin requirements. An inability to renew or replace such credit facilities as they mature would negatively impact our liquidity.

Technical Risk: We own or have access to a finite amount of oil and gas reserves which will be depleted over time. Replacement of oil and gas reserves is subject to successful exploration drilling, development activities, and enhanced recovery programs. Therefore, future oil and gas production is dependent on technical success in finding and developing additional hydrocarbon reserves. Exploration activity involves the interpretation of seismic and other geological and geophysical data, which does not always successfully predict the presence of commercial quantities of hydrocarbons. Drilling risks include unexpected adverse conditions, irregularities in pressure or formations, equipment failure, blowouts and weather interruptions. Future developments may be affected by unforeseen reservoir conditions which negatively affect recovery factors or flow rates. The costs of drilling and development activities have

increased in recent years which could negatively affect expected economic returns. Reserve replacement can also be achieved through acquisition. Although due diligence is used in evaluating acquired oil and gas properties, similar risks may be encountered in the production of oil and gas on properties acquired from others.

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

Political Risk: Federal, state, local, territorial and foreign laws and regulations relating to tax increases and retroactive tax claims, expropriation or nationalization of property, mandatory government participation, cancellation or amendment of contract rights, and changes in import regulations, limitations on access to exploration and development opportunities, as well as other political developments may affect our operations. Some of the international areas in which we operate and the partners with whom we operate, are politically less stable than other areas and partners. The threat of terrorism around the world also poses additional risks to the operations of the oil and gas industry. We market motor fuels through lessee-dealers and wholesalers in certain states where legislation prohibits producers or refiners of crude oil from directly engaging in retail marketing of motor fuels. Similar legislation has been periodically proposed in various other states.

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

Climate Change Risk: We recognize that climate change is a global environmental concern. Continuing political and social attention to the issue of climate change has resulted in both existing and pending international agreements and national, regional or local legislation and regulatory measures to limit greenhouse gas emissions. These agreements and measures may require significant equipment modifications, operational changes, taxes, or purchase of emission credits to reduce emission of greenhouse gases from our operations, as a result of which we may incur substantial capital expenditures and compliance, operating, maintenance and remediation costs. In addition, we manufacture petroleum fuels, which through normal customer use result in the emission of greenhouse gases. Regulatory initiatives to reduce the use of these fuels may reduce our sales of, and revenues from, these products. Finally, to the extent that climate change may result in more extreme weather related events, we could experience increased costs related to prevention, maintenance and remediation of affected operations in addition to costs and lost revenues related to delays and shutdowns.

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

Catastrophic Risk: Although we maintain a level of insurance coverage consistent with industry practices against property and casualty losses, our oil and gas operations are subject to unforeseen occurrences which may damage or destroy assets or interrupt operations. Examples of catastrophic risks include hurricanes, fires, explosions and blowouts. These occurrences have affected us from time to time.

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Item 3. ***Legal Proceedings***

The Corporation, along with many other companies engaged in refining and marketing of gasoline, has been a party to lawsuits and claims related to the use of methyl tertiary butyl ether (MTBE) in gasoline. A series of similar lawsuits, many involving water utilities or governmental entities, were filed in jurisdictions across the United States against producers of MTBE and petroleum refiners who produced gasoline containing MTBE, including the Corporation. The principal allegation in all cases is that gasoline containing MTBE is a defective product and that these parties are strictly liable in proportion to their share of the gasoline market for damage to groundwater resources and are required to take remedial action to ameliorate the alleged effects on the environment of releases of MTBE. In 2008, the majority of the cases against the Corporation were settled. In February 2010, the Corporation reached an agreement in principle to settle all but three of the remaining cases. The three unresolved cases consist of two cases that have been consolidated for pre-trial purposes in the Southern District of New York as part of a multi-district litigation proceeding and an action brought in state court by the State of New Hampshire. In 2007, a pre-tax charge of $40 million was recorded to cover all of the known MTBE cases against the Corporation.

Over the last several years, many refiners have entered into consent agreements to resolve the United States Environmental Protection Agency s (EPA) assertions that refining facilities were modified or expanded without complying with New Source Review regulations that require permits and new emission controls in certain circumstances and other regulations that impose emissions control requirements. These consent agreements, which arise out of an EPA enforcement initiative focusing on petroleum refiners and utilities, have typically imposed substantial civil fines and penalties and required (i) significant capital expenditures to install emissions control equipment over a three to eight year time period and (ii) changes to operations which resulted in increased operating costs. The capital expenditures, penalties and supplemental environmental projects for individual refineries covered by the settlements can vary significantly, depending on the size and configuration of the refinery, the circumstances of the alleged modifications and whether the refinery has previously installed more advanced pollution controls. The EPA initially contacted the Corporation and HOVENSA regarding the Petroleum Refinery Initiative in August 2003. Negotiations with the EPA and the relevant states and the Virgin Islands are continuing and substantial progress has been made toward resolving this matter for both the Corporation and HOVENSA. While the effect on the Corporation of the Petroleum Refining Initiative cannot be estimated until a final settlement is reached and entered by a court, additional significant future capital expenditures and operating expenses will likely be incurred by HOVENSA over a number of years. The amount of penalties, if any, is not expected to be material.

On September 13, 2007, HOVENSA received a Notice Of Violation (NOV) pursuant to section 113(a)(i) of the Clean Air Act (Act) from the EPA finding that HOVENSA failed to obtain proper permitting for the construction and operation of its delayed coking unit in accordance with applicable law and regulations. HOVENSA believes it properly obtained all necessary permits for this project. The NOV states that the EPA has authority to issue an administrative order assessing penalties for violation of the Act. HOVENSA has entered into discussions with the EPA to reach resolution of this matter. The Corporation does not believe that this matter will result in material liability to HOVENSA or the Corporation.

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

The Corporation received a directive from the New Jersey Department of Environmental Protection (NJDEP) to remediate contamination in the sediments of the lower Passaic River and NJDEP is also seeking natural resource damages. The directive, insofar as it affects the Corporation, relates to alleged releases from a petroleum bulk storage terminal in Newark, New Jersey now owned by the Corporation. The Corporation and over 70 companies entered into an Administrative Order on Consent with the EPA to study the same contamination. NJDEP has also sued several other companies linked to a facility considered by the State to be the largest contributor to river

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contamination. In January 2009, these companies added third party defendants, including the Corporation, to that case. In June 2007, the EPA issued a draft study which evaluated six alternatives for early action, with costs ranging from $900 million to $2.3 billion. Based on adverse comments from the Corporation and others, the EPA is reevaluating its alternatives. In addition, the federal trustees for natural resources have begun a separate assessment of damages to natural resources in the Passaic River. Given the ongoing studies, remedial costs cannot be reliably estimated at this time. Based on currently known facts and circumstances, the Corporation does not believe that this matter will result in material liability because its terminal could not have contributed contamination along most of the river s length and did not store or use contaminants which are of the greatest concern in the river sediments, and because there are numerous other parties who will likely share in the cost of remediation and damages.

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

The Securities and Exchange Commission (SEC) notified the Corporation that on July 21, 2005 it commenced a private investigation into payments made to the government of Equatorial Guinea or to officials and persons affiliated with officials of the government of Equatorial Guinea. In 2009, the SEC advised that it had completed its investigation and did not intend to recommend enforcement action against the Corporation.

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

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

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

During the fourth quarter of 2009, no matter was submitted to a vote of security holders through the solicitation of proxies or otherwise.

Executive Officers of the Registrant

The following table presents information as of February 1, 2010 regarding executive officers of the Registrant:

Name	Age	Office Held*	Year Individual Became an Executive Officer
John B. Hess	55	Chairman of the Board, Chief Executive Officer and Director	1983
Gregory P. Hill	48	Executive Vice President and President of Worldwide Exploration and Production and Director	2009
F. Borden Walker	56	Executive Vice President and President of Marketing and Refining and Director	1996
Timothy B. Goodell	52	Senior Vice President and General Counsel	2009
Lawrence H. Ornstein	58	Senior Vice President	1995
John P. Rielly	47	Senior Vice President and Chief Financial Officer	2002
John J. Scelfo	52	Senior Vice President	2004
Mykel J. Ziolo	57	Senior Vice President	2009
Sachin J. Mehra	39	Vice President and Treasurer	2008

* *All officers referred to herein hold office in accordance with the By-Laws until the first meeting of the Directors following the annual meeting of stockholders of the Registrant and until their successors shall have been duly chosen and qualified. Each of said officers was elected to the office opposite his name on May 6, 2009, except for Mr. Ziolo, who was elected effective November 4, 2009. The first meeting of Directors following the next annual meeting of stockholders of the Registrant is scheduled to be held May 5, 2010.*

Except for Messrs. Hill, Goodell, and Mehra, each of the above officers has been employed by the Registrant or its subsidiaries in various managerial and executive capacities for more than five years. Prior to joining the Corporation, Mr. Hill served in senior executive positions in exploration and production operations at Royal Dutch Shell and its subsidiaries, where he was employed for 25 years. Before joining the Corporation in 2009, Mr. Goodell was a partner in the law firm of White & Case LLP. Mr. Mehra was employed in treasury and financial functions at General Motors before joining the Corporation in 2007.

PART II

Item 5. ***Market for the Registrant s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Stock Market Information

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

	2009		**2008**	
Quarter Ended	**High**	**Low**	**High**	**Low**
March 31	**$ 66.84**	**$ 49.28**	$ 101.65	$ 76.67
June 30	**69.74**	**49.72**	137.00	88.20
September 30	**57.83**	**46.33**	129.00	71.16
December 31	**62.18**	**51.41**	82.03	35.50

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Performance Graph

Set forth below is a line graph comparing the Corporation s cumulative total shareholder return for five years, assuming reinvestment of dividends on common stock, with the cumulative total return of:

Standard & Poor s 500 Stock Index, which includes the Corporation, and

AMEX Oil Index, which is comprised of companies involved in various phases of the oil industry including the Corporation.

Comparison of Five-Year Shareholder Returns
Years Ended December 31,

Holders

At December 31, 2009, there were 5,926 stockholders (based on number of holders of record) who owned a total of 327,229,488 shares of common stock.

Dividends

Cash dividends on common stock totaled $0.40 per share ($0.10 per quarter) during 2009, 2008 and 2007.

Equity Compensation Plans

Following is information on the Registrant s equity compensation plans at December 31, 2009:

Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)**	**Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)**
Equity compensation plans approved by security holders	12,102,000	$ 53.83	7,733,000*
Equity compensation plans not approved by security holders**			

* *These securities may be awarded as stock options, restricted stock or other awards permitted under the Registrant s equity compensation plan.*

** *The Corporation has a Stock Award Program pursuant to which each non-employee director receives approximately $150,000 in value of the Corporation s common stock each year. These awards are made from shares purchased by the Corporation in the open market.*

See Note 8, Share-Based Compensation, in the notes to the financial statements for further discussion of the Corporation s equity compensation plans.

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Item 6. ***Selected Financial Data***

A five-year summary of selected financial data follows*:

	2009	2008	2007	2006	2005
	(Millions of dollars, except per share amounts)				
Sales and other operating revenues					
Crude oil and natural gas liquids	**$ 5,665**	$ 7,764	$ 6,303	$ 5,307	$ 3,219
Natural gas (including sales of purchased gas)	**5,894**	8,800	6,877	6,826	6,423
Refined petroleum products	**12,931**	19,765	14,741	13,339	11,317
Electricity	**3,408**	3,451	2,322	1,072	373
Convenience store sales and other operating revenues	**1,716**	1,354	1,484	1,632	1,499
Total	**$ 29,614**	$ 41,134	$ 31,727	$ 28,176	$ 22,831
Net income attributable to Hess Corporation	**$ 740(a)**	$ 2,360(b)	$ 1,832(c)	$ 1,920(d)	$ 1,226(e)
Less: preferred stock dividends				44	48
Net income applicable to Hess Corporation common shareholders	**$ 740**	$ 2,360	$ 1,832	$ 1,876	$ 1,178
Earnings per share**					
Basic	**$ 2.28**	$ 7.35	$ 5.86	$ 6.75	$ 4.32
Diluted	**$ 2.27**	$ 7.24	$ 5.74	$ 6.08	$ 3.93
Total assets	**$ 29,465**	$ 28,589	$ 26,131	$ 22,442	$ 19,158
Total debt	**4,467**	3,955	3,980	3,772	3,785
Total equity	**13,528**	12,391	10,000	8,376	6,469
Dividends per share of common stock**	**$ .40**	$ .40	$ .40	$ .40	$ .40

* *Reflects the retrospective adoption of a new accounting standard for noncontrolling interests in consolidated subsidiaries.*

** *Per share amounts in all periods reflect the 3-for-1 stock split on May 31, 2006.*

(a) Includes after-tax expenses totaling $104 million relating to bond repurchases, retirement benefits, employee severance costs and asset impairments, partially offset by after-tax income totaling $101 million principally relating to resolution of a United States royalty dispute.

(b) Includes net after-tax expenses of $26 million primarily relating to asset impairments and hurricanes in the Gulf of Mexico.

(c) Includes after-tax expenses of $75 million primarily relating to asset impairments, estimated production imbalance settlements and a charge for MTBE litigation, partially offset by income from LIFO inventory liquidations and gains from asset sales.

(d) Includes net after-tax income of $173 million primarily from sales of assets, partially offset by income tax adjustments and accrued leased office closing costs.

(e) Includes net after-tax expenses of $37 million primarily relating to income taxes on repatriated earnings, premiums on bond repurchases and hurricane related expenses, partially offset by gains from asset sales and a LIFO inventory liquidation.

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

Overview

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

Net income in 2009 was $740 million compared with $2,360 million in 2008 and $1,832 million in 2007. Diluted earnings per share were $2.27 in 2009 compared with $7.24 in 2008 and $5.74 in 2007. A table of items affecting comparability between periods is shown on page 20.

Exploration and Production

The Corporation s strategy for the E&P segment is to profitably grow reserves and production in a sustainable and financially disciplined manner. The Corporation s total proved reserves were 1,437 million barrels of oil equivalent (boe) at December 31, 2009 compared with 1,432 million boe at December 31, 2008 and 1,330 million boe at December 31, 2007. Total proved reserves additions for 2009 were 157 million boe. These additions replaced approximately 103% of the Corporation s 2009 production.

E&P net income was $1,042 million in 2009, $2,423 million in 2008 and $1,842 million in 2007. Average realized crude oil selling prices were $51.62 per barrel in 2009, $82.04 in 2008, and $63.44 in 2007, including the impact of hedging. The variance in E&P earnings between years was primarily driven by the fluctuations in average realized crude oil selling prices.

Production averaged 408,000 barrels of oil equivalent per day (boepd) in 2009 compared with 381,000 boepd in 2008 and 377,000 boepd in 2007. Production in 2009 increased 27,000 boepd or 7% from 2008. In 2010, the Corporation currently estimates total worldwide production will average between 400,000 and 410,000 boepd.

The following is an update of significant E&P activities during 2009:

- In March, production commenced at the Shenzi Field (Hess 28%) in the deepwater Gulf of Mexico. Net production from Shenzi averaged approximately 25,000 boepd for 2009.

- The Corporation sanctioned the Bakken shale play development in the Williston Basin of North Dakota. The Corporation plans to expand production facilities and increase the rig count to 10 from 3 over the next 18 months, and invest about $1 billion per year over the next five years. As a result, the Corporation projects an increase in net production from approximately 10,000 boepd in 2009 to approximately 80,000 boepd in 2015.

- In December 2009, the Corporation agreed to a strategic exchange of all of its interests in Gabon and the Clair Field (Hess 9%) in the United Kingdom for an additional 28% interest in the Valhall Field (currently Hess 28%) and an additional 25% interest in the Hod Field (currently Hess 25%), which are both offshore Norway. The transaction which has an effective date of January 1, 2010, is subject to various regulatory and other approvals. In addition, the partners are in discussions regarding the applicability of pre-emption to this transaction.

In the Carnarvon basin offshore Western Australia, the Corporation drilled seven exploration wells in 2009 on WA-390-P Block (Hess 100%), six of which were natural gas discoveries. Through December 31, 2009, the Corporation has drilled 11 of the 16 commitment wells on the block, nine of which were natural gas discoveries. The Corporation plans to drill the remaining five commitment wells on the block in 2010. On WA-404-P Block (Hess 50%), the operator completed a successful exploration well in 2009 and plans to drill the remaining eight commitment wells in 2010. In January 2010, the operator announced that the first well of the 2010 program discovered natural gas.

At the Pony prospect on Green Canyon Block 468 (Hess 100%) in the deepwater Gulf of Mexico, engineering and design work for field development progressed during 2009. The Corporation plans to drill an appraisal well on Green Canyon Block 469 in 2010.

Two exploration wells were completed on Block BM-S-22 (Hess 40%) offshore Brazil. A notice of discovery was filed for the first well and the second well was expensed. In 2010, the operator of BM-S-22

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plans to commence drilling of a third exploration well in the second half of the year. In 2009, the Corporation also drilled an exploration well on BM-ES-30, which was expensed.

The Corporation successfully flow tested the discovery well in exploration Area 54 (Hess 100%) offshore Libya and subsequently drilled and successfully flow tested a down-dip appraisal well on the block. In 2010, the Corporation plans to reprocess 3D seismic, integrating acquired well information and will continue technical and commercial evaluation of the block.

The Corporation acquired rights to explore a total of more than 80,000 net acres in the Marcellus gas shale formation in Pennsylvania. The Corporation is operator and holds a 100% interest on approximately 50,000 acres and holds a 50% non-operated interest in the remaining acreage. Exploration drilling activity is expected to commence in 2010.

Marketing and Refining

The Corporation s strategy for the M&R segment is to deliver consistent operating performance and generate free cash flow. M&R net income was $127 million in 2009, $277 million in 2008 and $300 million in 2007. The declining earnings were due to lower average margins, which include the effect of the global economic downturn that began in 2008 and continued into 2009. Refining operations contributed net income (loss) of $(87) million in 2009, $73 million in 2008 and $193 million in 2007. Marketing earnings were $168 million in 2009, $240 million in 2008 and $83 million in 2007.

Liquidity and Capital and Exploratory Expenditures

Net cash provided by operating activities was $3,046 million in 2009, $4,688 million in 2008 and $3,627 million in 2007, principally reflecting fluctuations in earnings. At December 31, 2009, cash and cash equivalents totaled $1,362 million compared with $908 million at December 31, 2008. Total debt was $4,467 million at December 31, 2009 compared with $3,955 million at December 31, 2008. In February 2009, the Corporation issued $250 million of 5 year senior unsecured notes with a coupon of 7% and $1 billion of 10 year senior unsecured notes with a coupon of 8.125%. The majority of the proceeds were used to repay debt under the revolving credit facility and outstanding borrowings on other credit facilities. In December 2009, the Corporation issued $750 million of 30 year bonds at a coupon of 6% and tendered for $662 million of bonds due in August 2011. The Corporation completed the repurchase of $546 million of the 2011 bonds in December 2009 and repurchased the remaining $116 million of these bonds in January 2010. The Corporation s debt to capitalization ratio at December 31, 2009 was 24.8% compared with 24.2% at the end of 2008.

Capital and exploratory expenditures were as follows for the years ended December 31:

	2009	2008
	(Millions of dollars)	
Exploration and Production		
United States	**$ 1,200**	$ 2,164
International	**1,927**	2,477
Total Exploration and Production	**3,127**	4,641
Marketing, Refining and Corporate	**118**	187

Total Capital and Exploratory Expenditures	**$ 3,245**	$ 4,828
Exploration expenses charged to income included above:		
United States	**$ 144**	$ 211
International	**183**	179
Total exploration expenses charged to income included above	**$ 327**	$ 390

The Corporation anticipates investing $4.1 billion in capital and exploratory expenditures in 2010, substantially all of which relates to E&P operations.

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Consolidated Results of Operations

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

	2009	2008	2007
	(Millions of dollars, except per share data)		
Exploration and Production	**$ 1,042**	$ 2,423	$ 1,842
Marketing and Refining	**127**	277	300
Corporate	**(205)**	(173)	(150)
Interest expense	**(224)**	(167)	(160)
Net income attributable to Hess Corporation	**$ 740**	$ 2,360	$ 1,832
Net income per share diluted	**$ 2.27**	$ 7.24	$ 5.74

The following table summarizes, on an after-tax basis, items of income (expense) that are included in net income and affect comparability between periods. The items in the table below are explained on pages 23 through 25.

	2009	2008	2007
	(Millions of dollars)		
Exploration and Production	**$ 45**	$ (26)	$ (74)
Marketing and Refining	**12**		24
Corporate	**(60)**		(25)
	$ (3)	$ (26)	$ (75)