**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

# Form 10-Q

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

**For the quarter ended September 30, 2005**

**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**

# AMERADA HESS CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

**13-4921002**
(I.R.S. employer identification number)

**1185 AVENUE OF THE AMERICAS, NEW YORK, N.Y.**
(Address of principal executive offices)
**10036**
(Zip Code)

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

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 preceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☑ Noo

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

At September 30, 2005, 93,034,819 shares of Common Stock were outstanding.

## PART I — FINANCIAL INFORMATION

**Item 1. Financial Statements.**

**AMERADA HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES**
**STATEMENT OF CONSOLIDATED INCOME (UNAUDITED)**
(in millions, except per share data)

| | Three Months ended September 30 | | Nine Months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **REVENUES AND NON-OPERATING INCOME** | | | | |
| Sales (excluding excise taxes) and other operating revenues | $ 5,769 | $ 3,830 | $ 15,688 | $ 12,120 |
| Non-operating income | | | | |
| Equity in income of HOVENSA L.L.C. | 151 | 75 | 309 | 223 |
| Gain on asset sales | — | — | 18 | 23 |
| Other | 36 | 25 | 93 | 63 |
| Total revenues and non-operating income | 5,956 | 3,930 | 16,108 | 12,429 |
| **COSTS AND EXPENSES** | | | | |
| Cost of products sold | 4,424 | 2,742 | 11,674 | 8,650 |
| Production expenses | 256 | 202 | 722 | 586 |
| Marketing expenses | 202 | 186 | 604 | 537 |
| Exploration expenses, including dry holes and lease impairment | 91 | 64 | 310 | 204 |
| Other operating expenses | 31 | 52 | 100 | 147 |
| General and administrative expenses | 83 | 81 | 254 | 253 |
| Interest expense | 54 | 62 | 169 | 179 |
| Depreciation, depletion and amortization | 251 | 230 | 767 | 695 |
| Total costs and expenses | 5,392 | 3,619 | 14,600 | 11,251 |
| Income from continuing operations before income taxes | 564 | 311 | 1,508 | 1,178 |
| Provision for income taxes | 292 | 133 | 718 | 437 |
| Income from continuing operations | 272 | 178 | 790 | 741 |
| Discontinued operations | — | — | — | 7 |
| **NET INCOME** | $ 272 | $ 178 | $ 790 | $ 748 |
| Preferred stock dividends | 12 | 12 | 36 | 36 |
| **NET INCOME APPLICABLE TO COMMON STOCKHOLDERS** | $ 260 | $ 166 | $ 754 | $ 712 |
| **BASIC EARNINGS PER SHARE** | | | | |
| Continuing operations | $ 2.85 | $ 1.85 | $ 8.31 | $ 7.89 |
| Net income | 2.85 | 1.85 | 8.31 | 7.98 |
| **DILUTED EARNINGS PER SHARE** | | | | |
| Continuing operations | $ 2.60 | $ 1.74 | $ 7.61 | $ 7.27 |
| Net income | 2.60 | 1.74 | 7.61 | 7.34 |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (DILUTED)** | 104.4 | 102.4 | 103.8 | 101.8 |
| **COMMON STOCK DIVIDENDS PER SHARE** | $ .30 | $ .30 | $ .90 | $ .90 |

See accompanying notes to consolidated financial statements.

## AMERADA HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES
## CONSOLIDATED BALANCE SHEET
(in millions of dollars, thousands of shares)

| | September 30, 2005 (Unaudited) | December 31, 2004 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 759 | $ 877 |
| Accounts receivable | 3,082 | 2,367 |
| Inventories | 918 | 596 |
| Other current assets | 704 | 495 |
| Total current assets | 5,463 | 4,335 |
| **INVESTMENTS AND ADVANCES** | | |
| HOVENSA L.L.C. | 1,150 | 1,116 |
| Other | 153 | 138 |
| Total investments and advances | 1,303 | 1,254 |
| **PROPERTY, PLANT AND EQUIPMENT** | | |
| Total — at cost | 18,890 | 17,632 |
| Less reserves for depreciation, depletion, amortization and lease impairment | 9,747 | 9,127 |
| Property, plant and equipment — net | 9,143 | 8,505 |
| **NOTE RECEIVABLE** | 152 | 212 |
| **GOODWILL** | 977 | 977 |
| **DEFERRED INCOME TAXES** | 1,568 | 834 |
| **OTHER ASSETS** | 249 | 195 |
| **TOTAL ASSETS** | $ 18,855 | $ 16,312 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 5,760 | $ 3,280 |
| Accrued liabilities | 849 | 920 |
| Taxes payable | 483 | 447 |
| Current maturities of long-term debt | 78 | 50 |
| Total current liabilities | 7,170 | 4,697 |
| **LONG-TERM DEBT** | 3,709 | 3,785 |
| **DEFERRED LIABILITIES AND CREDITS** | | |
| Deferred income taxes | 1,338 | 1,184 |
| Asset retirement obligations | 564 | 511 |
| Other | 550 | 538 |
| Total deferred liabilities and credits | 2,452 | 2,233 |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred stock, par value $1.00, 20,000 shares authorized | | |
| 7% cumulative mandatory convertible series | | |
| Authorized - 13,500 shares | | |
| Issued - 13,500 shares ($675 million liquidation preference) | 14 | 14 |
| 3% cumulative convertible series | | |
| Authorized - 330 shares | | |
| Issued - 324 shares at September 30, 2005 ($16 million liquidation preference) | — | — |
| Common stock, par value $1.00 | | |
| Authorized - 200,000 shares | | |
| Issued - 93,035 shares at September 30, 2005; | | |
| 91,715 shares at December 31, 2004 | 93 | 92 |
| Capital in excess of par value | 1,830 | 1,727 |
| Retained earnings | 5,502 | 4,831 |
| Accumulated other comprehensive income (loss) | (1,861) | (1,024) |
| Deferred compensation | (54) | (43) |
| Total stockholders' equity | 5,524 | 5,597 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 18,855 | $ 16,312 |

See accompanying notes to consolidated financial statements.

PART I — FINANCIAL INFORMATION (CONT'D.)

**AMERADA HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES**
**STATEMENT OF CONSOLIDATED CASH FLOWS (UNAUDITED)**
**Nine Months ended September 30**
(in millions)

| | 2005 | 2004 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ 790 | $ 748 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation, depletion and amortization | 767 | 695 |
| Exploratory dry hole costs | 161 | 65 |
| Lease impairment | 57 | 59 |
| Pre-tax gain on asset sales | (18) | (23) |
| Benefit for deferred income taxes | (127) | (130) |
| Undistributed earnings of HOVENSA L.L.C. | (34) | (135) |
| Non-cash effect of discontinued operations | — | (7) |
| Changes in operating assets and liabilities | (45) | 377 |
| Net cash provided by operating activities | 1,551 | 1,649 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Capital expenditures | (1,616) | (1,092) |
| Payment received on notes receivable | 60 | 90 |
| Increase in short-term investments | — | (119) |
| Proceeds from asset sales and other | 21 | 57 |
| Net cash used in investing activities | (1,535) | (1,064) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Debt with maturities of greater than 90 days | | |
| Borrowings | 104 | 25 |
| Repayments | (152) | (131) |
| Cash dividends paid | (147) | (145) |
| Stock options exercised | 61 | 85 |
| Net cash used in financing activities | (134) | (166) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (118) | 419 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 877 | 518 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | $ 759 | $ 937 |

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - 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 September 30, 2005 and December 31, 2004, the consolidated results of operations for the three- and nine-month periods ended September 30, 2005 and 2004 and the consolidated cash flows for the nine-month periods ended September 30, 2005 and 2004. The unaudited results of operations for the interim periods reported are not necessarily indicative of results to be expected for the full year.

Certain notes and other information 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 Form 10-K for the year ended December 31, 2004.

In March 2005, the FASB issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*, which clarifies the term "conditional asset retirement obligation", as used in FASB Statement 143. FIN 47 requires recognition of a liability for legally required asset retirement obligations, when the timing or method of settlement is conditional on a future event, if the liability can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. The Corporation is assessing the effect of FIN 47, but does not expect it to have a material effect on its financial position or results of operations.

In September 2005, the Emerging Issues Task Force reached a consensus on EITF Issue No. 04-13 (EITF 04-13), *Accounting for Purchases and Sales of Inventory With the Same Counterparty*. EITF 04-13 prescribes the income statement presentation of inventory purchase and sale transactions with the same counterparty that are entered into in contemplation of one another. EITF 04-13 is effective for interim reporting periods beginning after March 15, 2006. The Corporation is assessing the effect of EITF 04-13, but does not expect it to have a material effect on its results of operations or classification of revenues or expenses.

Note 2 - Inventories consist of the following (in millions):

| | At September 30, 2005 | At December 31, 2004 |
|---|---|---|
| Crude oil and other charge stocks | $ 255 | $ 174 |
| Refined and other finished products | 1,271 | 700 |
| Less LIFO adjustment | (819) | (446) |
| | 707 | 428 |
| Merchandise, materials and supplies | 211 | 168 |
| Total inventories | $ 918 | $ 596 |

During the first quarter of 2005, the Corporation permanently reduced LIFO inventories, which were carried at a lower cost than the inventory cost at the time of the decrement. The effect of the LIFO inventory liquidation, before income taxes, was to decrease cost of products sold by approximately $11 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - The Corporation accounts for its investment in HOVENSA L.L.C. using the equity method. Summarized financial information for HOVENSA follows (in millions):

| | At September 30, 2005 | At December 31, 2004 |
|---|---|---|
| Summarized balance sheet | | |
| Cash and short-term investments | $ 578 | $ 557 |
| Other current assets | 806 | 636 |
| Net fixed assets | 1,903 | 1,843 |
| Other assets | 35 | 36 |
| Current liabilities | (720) | (606) |
| Long-term debt | (252) | (252) |
| Deferred liabilities and credits | (112) | (48) |
| Partners' equity | $ 2,238 | $ 2,166 |

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Summarized income statement | | | | |
| Total revenues | $ 2,806 | $ 2,154 | $ 7,622 | $ 5,729 |
| Costs and expenses | (2,502) | (2,003) | (7,000) | (5,279) |
| Net income | $ 304 | $ 151 | $ 622 | $ 450 |
| Amerada Hess Corporation's share, before income taxes | $ 151 | $ 75 | $ 309 | $ 223 |

During the first nine months of 2005, the Corporation received cash distributions of $275 million from HOVENSA. Cash distributed to the Corporation by HOVENSA in the first nine months of 2004 was $88 million.

Note 4 - FASB Staff Position No. FAS 19-1, Accounting for Suspended Well Costs, was issued in April 2005 and is effective in the third quarter. This FASB Staff Position (FSP) addresses circumstances that permit the continued capitalization of exploratory well costs beyond one year. The FSP did not have a material effect on the Corporation's financial position or results of operations.

The following table discloses the amount of capitalized exploratory well costs pending determination of proved reserves at September 30, 2005 and December 31, 2004 and the changes therein (dollars in millions):

| | Nine months ended September 30, 2005 | Year ended December 31, 2004 |
|---|---|---|
| Balance at January 1 | $ 220 | $ 225 |
| Additions to capitalized exploratory well costs pending the determination of proved reserves | 29 | 150 |
| Reclassifications to wells, facilities, and equipment based on the determination of proved reserves | (14) | (149) |
| Capitalized exploratory well costs charged to expense | (58) | (6) |
| Balance at end of period | $ 177 | $ 220 |
| Number of wells at end of period | 14 | 15 |

The preceding table excludes exploratory dry hole costs of $103 million in the first nine months of 2005 and $75 million in the year 2004 relating to wells that were drilled and expensed within the same period. Capitalized well costs of $58 million were expensed in the first nine months of 2005, principally relating to deepwater Gulf of Mexico wells in the process of drilling at December 31, 2004. The period end capitalized costs reflected above relate to wells in process of drilling and capitalized successful wells primarily in the Gulf of Mexico. At September 30, 2005, $116 million of capitalized costs are associated with wells that are one to three years old. These wells related to three projects which are progressing towards development.

Note 5 - During the three- and nine-month periods ended September 30, 2005, the Corporation capitalized interest of $22 million and $57 million on development projects ($12 million and $41 million during the corresponding periods of 2004).

Note 6 - Pre-tax foreign currency gains (losses) from continuing operations amounted to the following (in millions):

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Foreign currency gains (losses) | $ 5 | $ 9 | $ (1) | $ 6 |

Note 7 - Components of pension expense consisted of the following (in millions):

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Service cost | $ 9 | $ 7 | $ 23 | $ 19 |
| Interest cost | 15 | 14 | 43 | 39 |
| Expected return on plan assets | (16) | (18) | (43) | (40) |
| Amortization of prior service cost | 1 | 1 | 2 | 2 |
| Amortization of net loss | 6 | 4 | 18 | 13 |
| Settlement cost | — | 5 | — | 5 |
| Pension expense | $ 15 | $ 13 | $ 43 | $ 38 |

In 2005, the Corporation expects to contribute $46 million to its funded pension plans and $12 million to the trust established for its unfunded pension plan. During the first nine months of 2005, the Corporation contributed $25 million to its funded pension plans and $12 million to the trust for its unfunded pension plan.

Note 8 - The provision for income taxes from continuing operations consisted of the following (in millions):

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Current | $ 302 | $ 149 | $ 845 | $ 567 |
| Deferred | (10) | (16) | (122) | (130) |
| Adjustment of deferred tax liability for foreign income tax rate change | — | — | (5) | — |
| Total | $ 292 | $ 133 | $ 718 | $ 437 |

The third quarter and first nine months of 2005 include income tax provisions of $31 million and $72 million, respectively, related to the repatriation of foreign earnings under the American Jobs Creation Act of 2004.

Note 9 - The weighted average number of common shares used in the basic and diluted earnings per share computations are as follows (in thousands):

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Common shares – basic | 91,192 | 89,813 | 90,750 | 89,220 |
| Effect of dilutive securities (equivalent shares) | | | | |
| Convertible preferred stock | 11,416 | 11,416 | 11,416 | 11,731 |
| Nonvested common stock | 950 | 650 | 861 | 569 |
| Stock options | 853 | 522 | 762 | 291 |
| Common shares – diluted | 104,411 | 102,401 | 103,789 | 101,811 |

Earnings per share are as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Basic | | | | |
| Continuing operations | $ 2.85 | $ 1.85 | $ 8.31 | $ 7.89 |
| Discontinued operations | — | — | — | .09 |
| Net income | $ 2.85 | $ 1.85 | $ 8.31 | $ 7.98 |
| Diluted | | | | |
| Continuing operations | $ 2.60 | $ 1.74 | $ 7.61 | $ 7.27 |
| Discontinued operations | — | — | — | .07 |
| Net income | $ 2.60 | $ 1.74 | $ 7.61 | $ 7.34 |

Note 10 - The Corporation records compensation expense for restricted common stock ratably over the vesting period, which is generally three to five years. The Corporation uses the intrinsic value method to account for employee stock options. Because the exercise prices of employee stock options equal or exceed the market price of the stock on the date of grant, the Corporation does not recognize compensation expense.

The Corporation uses the Black-Scholes model to estimate the fair value of employee stock options for pro forma disclosure. Using the fair value method, stock option expense would be recognized over the one- to three-year vesting periods. The following pro forma financial information presents the effect on net income and earnings per share as if the Corporation used the fair value method (in millions, except per share data):

**PART I - FINANCIAL INFORMATION (CONT'D.)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Net income | $ 272 | $ 178 | $ 790 | $ 748 |
| Add stock-based employee compensation expense included in net income, net of taxes | 5 | 3 | 13 | 8 |
| Less total stock-based employee compensation expense, net of taxes (*) | (9) | (6) | (27) | (12) |
| Pro forma net income | $ 268 | $ 175 | $ 776 | $ 744 |
| Net income per share as reported | | | | |
| Basic | $ 2.85 | $ 1.85 | $ 8.31 | $ 7.98 |
| Diluted | $ 2.60 | $ 1.74 | $ 7.61 | $ 7.34 |
| Pro forma net income per share | | | | |
| Basic | $ 2.80 | $ 1.82 | $ 8.15 | $ 7.93 |
| Diluted | $ 2.56 | $ 1.71 | $ 7.47 | $ 7.31 |

(*) Includes restricted common stock and stock option expense determined using the fair value method.

In 2004, the Financial Accounting Standards Board issued Statement No. 123R, *Share-Based Payment* (FAS 123R). This standard requires that compensation expense for all stock-based payments to employees, including grants of employee stock options, be recognized in the income statement based on fair values. The Corporation must adopt FAS 123R no later than January 1, 2006. The Corporation is evaluating the requirements of FAS 123R and believes that if it adopted the standard in the periods shown above, the impact would not have differed materially from the additional compensation expense disclosed in the above table.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 11 - Comprehensive income (loss) was as follows (in millions):

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Net income | $ 272 | $ 178 | $ 790 | $ 748 |
| Deferred gains (losses) on cash flow hedges, after tax | | | | |
| Effect of hedge losses recognized in income | 282 | 166 | 699 | 326 |
| Net change in fair value of cash flow hedges | (276) | (675) | (1,513) | (1,147) |
| Change in foreign currency translation adjustment | (1) | 24 | (24) | 10 |
| Comprehensive income (loss) | $ 277 | $ (307) | $ (48) | $ (63) |

At September 30, 2005, accumulated other comprehensive income (loss) included after-tax deferred losses of $1,713 million ($45 million of realized losses and $1,668 million of unrealized losses) related to crude oil contracts used as hedges of future exploration and production sales. Realized losses in accumulated other comprehensive income represent losses on closed contracts that are deferred until the underlying barrels are sold. After-tax realized losses will reduce fourth quarter 2005 income by $45 million. The pre-tax amount of deferred hedge losses is reflected in accounts payable and the related income tax benefits are recorded as deferred tax assets on the balance sheet.

In its energy marketing business, the Corporation has entered into cash flow hedges to fix the purchase prices of natural gas, heating oil, residual fuel oil and electricity related to contracted future sales. At September 30, 2005, the net after-tax deferred gain in accumulated other comprehensive income from these hedge contracts was $31 million.

Note 12 - The Corporation's results by operating segment were as follows (in millions):

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Operating revenues | | | | |
| Exploration and production (*) | $ 1,077 | $ 836 | $ 3,236 | $ 2,612 |
| Refining and marketing | 4,774 | 3,071 | 12,703 | 9,723 |
| Total | $ 5,851 | $ 3,907 | $15,939 | $12,335 |
| Net income | | | | |
| Exploration and production | $ 235 | $ 155 | $ 760 | $ 544 |
| Refining and marketing | 125 | 85 | 286 | 358 |
| Corporate, including interest | (88) | (62) | (256) | (161) |
| Income from continuing operations | 272 | 178 | 790 | 741 |
| Discontinued operations | — | — | — | 7 |
| Total | $ 272 | $ 178 | $ 790 | $ 748 |

(*) Includes transfers to affiliates of $82 million and $251 million during the three- and nine-months ended September 30, 2005, and $77 million and $215 million for the corresponding periods of 2004.

Identifiable assets by operating segment were as follows (in millions):

| | At September 30, 2005 | At December 31, 2004 |
|---|---|---|
| Identifiable assets | | |
| Exploration and production | $ 10,594 | $ 10,407 |
| Refining and marketing | 6,058 | 4,850 |
| Corporate | 2,203 | 1,055 |
| Total | $ 18,855 | $ 16,312 |

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

### Overview

The Corporation is a global integrated energy company that operates in two segments, exploration and production (E&P) and refining and marketing (R&M). The E&P segment explores for, produces and sells crude oil and natural gas. The R&M segment manufactures, purchases, trades and markets refined petroleum products and other energy products. Net income was $790 million for the first nine months of 2005, including $760 million from E&P activities and $286 million from R&M operations.

*Exploration and Production:* Worldwide oil and gas production averaged 312,000 barrels of oil equivalent per day during the third quarter of 2005, a decrease of 3% from the third quarter of 2004. Hurricane-related downtime in the Gulf of Mexico and temporary interruptions at several non-operated fields in the North Sea resulted in this decline. It is anticipated that 85% of Gulf of Mexico production impacted by hurricane activity will be restored in November and over 90% will be restored in December. As a result of the hurricanes and temporary interruptions at production facilities, fourth quarter production is estimated to be in the range of 320,000 to 330,000 barrels of oil equivalent per day.

The Corporation recently announced an agreement with another oil company to acquire its 55% working interest in the deepwater section of the West Mediterranean Block 1 Concession in Egypt for $413 million. In a separate transaction, the same company will acquire the Corporation's interests in eight fields located in the Permian Basin in West Texas and New Mexico for $404 million. The West Mediterranean transaction is subject to Egyptian Government and other regulatory approvals and the Permian Basin transaction is subject to the exercise of preferential rights. Completion of these transactions is expected in the first quarter of 2006.

In early 2005, the Corporation announced the acquisition of a controlling interest in Samara-Nafta, a company operating in the Volga-Urals region of Russia. Through the end of October 2005, Samara-Nafta has acquired five additional licenses, increasing our total investment to approximately $230 million. Production from our Russian subsidiary averaged 8,000 barrels per day in the third quarter.

*Refining and Marketing:* The HOVENSA refinery benefited from a strong margin environment, but operated at somewhat reduced throughput as a result of a scheduled turnaround of a crude unit. Marketing results were negatively impacted by lower margins, reflecting the higher cost of post-hurricane product supply.

## Results of Operations

Net income for the third quarter of 2005 amounted to $272 million compared with $178 million in the third quarter of 2004. Net income for the first nine months of 2005 was $790 million compared with $748 million in the first nine months of 2004. See the table below for a summary of items affecting the comparability of earnings between periods. The after-tax results by major operating activity for the three- and nine-month periods ended September 30, 2005 and 2004 were as follows (in millions, except per share data):

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Exploration and production | $ 235 | $ 155 | $ 760 | $ 544 |
| Refining and marketing | 125 | 85 | 286 | 358 |
| Corporate | (54) | (23) | (151) | (49) |
| Interest expense | (34) | (39) | (105) | (112) |
| Income from continuing operations | 272 | 178 | 790 | 741 |
| Discontinued operations | — | — | — | 7 |
| Net income | $ 272 | $ 178 | $ 790 | $ 748 |
| Income per share from continuing operations (diluted) | $ 2.60 | $ 1.74 | $ 7.61 | $ 7.27 |
| Net income per share (diluted) | $ 2.60 | $ 1.74 | $ 7.61 | $ 7.34 |

In the discussion that follows, 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 appropriate income tax rate in each tax jurisdiction to pre-tax amounts.

The following items, on an after-tax basis, are included in net income for the three- and nine-month periods ended September 30, 2005 and 2004 (in millions):

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Exploration and production | | | | |
| Hurricane related costs | $ (14) | $ — | $ (14) | $ — |
| Income tax adjustments | — | — | 11 | — |
| Gains from asset sales | — | — | 11 | 34 |
| Legal settlement | — | — | 11 | — |
| Corporate | | | | |
| Premiums on bond repurchases | — | — | (7) | — |
| Income tax adjustments | (31) | — | (72) | 13 |
| | $ (45) | $ — | $ (60) | $ 47 |

## Results of Operations (Continued)

Earnings in the third quarter of 2005 include a charge of $14 million ($22 million before income taxes) resulting from incremental hurricane related expenses. Substantially all of the pre-tax costs were recorded in production expenses. The Corporate tax charges of $31 million in the third quarter and $72 million in the first nine months of 2005 represent income tax provisions relating to the repatriation of foreign earnings under the American Jobs Creation Act of 2004.

Earnings in the first nine months of 2005 include income tax benefits of $11 million, reflecting the effect on deferred income taxes of a reduction in the income tax rate in Denmark and a tax settlement in the United Kingdom. Year-to-date results also include a net gain of $11 million ($18 million before income taxes) on the disposition of a mature North Sea asset. In addition, a net gain of $11 million ($19 million before income taxes) was recorded on a legal settlement reflecting the favorable resolution of contingencies on a prior year asset sale. Results for the first nine months of 2005 also include a charge of $7 million ($10 million before income taxes) for premiums on bond repurchases.

## Comparison of Results

### *Exploration and Production*

Following is a summarized income statement of the Corporation's exploration and production operations for the three- and nine-month periods ended September 30, 2005 and 2004 (in millions):

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Sales and other operating revenues | $ 1,042 | $ 787 | $ 3,110 | $ 2,487 |
| Non-operating income | 16 | 11 | 63 | 42 |
| Total revenues | 1,058 | 798 | 3,173 | 2,529 |
| Costs and expenses | | | | |
| Production expenses, including related taxes | 256 | 202 | 722 | 586 |
| Exploration expenses, including dry holes and lease impairment | 91 | 64 | 310 | 204 |
| General, administrative and other expenses | 32 | 30 | 100 | 113 |
| Depreciation, depletion and amortization | 236 | 217 | 724 | 656 |
| Total costs and expenses | 615 | 513 | 1,856 | 1,559 |
| Results of operations from continuing operations before income taxes | 443 | 285 | 1,317 | 970 |
| Provision for income taxes | 208 | 130 | 557 | 426 |
| Results from continuing operations | 235 | 155 | 760 | 544 |
| Discontinued operations | — | — | — | 7 |
| Results of operations | $ 235 | $ 155 | $ 760 | $ 551 |

**Results of Operations (Continued)**

After considering the items affecting exploration and production results described above, the remaining changes in exploration and production earnings are primarily attributable to changes in selling prices, sales volumes and operating costs and exploration expenses, as discussed below.

***Selling prices:*** Higher average selling prices of crude oil and natural gas increased exploration and production revenues by $253 million in the third quarter and $605 million in the first nine months of 2005 compared with the corresponding periods of 2004. The Corporation's average selling prices were as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| Average selling prices (including hedging) | 2005 | 2004 | 2005 | 2004 |
| Crude oil (per barrel) | | | | |
| United States | $34.86 | $28.26 | $33.10 | $26.41 |
| Europe | 34.59 | 26.07 | 33.00 | 26.24 |
| Africa, Asia and other | 37.75 | 26.69 | 33.35 | 26.91 |
| Natural gas liquids (per barrel) | | | | |
| United States | $40.90 | $31.73 | $35.98 | $28.03 |
| Europe | 36.77 | 24.17 | 34.40 | 24.08 |
| Natural gas (per Mcf) | | | | |
| United States | $ 8.53 | $ 4.40 | $ 6.94 | $ 4.95 |
| Europe | 4.12 | 3.58 | 4.79 | 3.80 |
| Africa, Asia and other | 4.12 | 3.86 | 4.01 | 3.81 |
| Average selling prices (excluding hedging) | | | | |
| Crude oil (per barrel) | | | | |
| United States | $58.32 | $40.53 | $50.16 | $36.68 |
| Europe | 59.47 | 42.09 | 51.93 | 36.01 |
| Africa, Asia and other | 59.56 | 39.50 | 50.87 | 35.56 |
| Natural gas liquids (per barrel) | | | | |
| United States | $40.90 | $31.73 | $35.98 | $28.03 |
| Europe | 36.77 | 24.17 | 34.40 | 24.08 |
| Natural gas (per Mcf) | | | | |
| United States | $ 8.53 | $ 5.13 | $ 6.94 | $ 5.35 |
| Europe | 4.12 | 3.58 | 4.79 | 3.80 |
| Africa, Asia and other | 4.12 | 3.86 | 4.01 | 3.81 |

Crude oil hedges reduced exploration and production earnings by $294 million and $720 million in the third quarter and first nine months of 2005 ($479 million and $1,150 million before income taxes). Hedging decreased exploration and production results by $184 million ($294 million before income taxes) in the third quarter of 2004 and $383 million ($613 million before income taxes) in the first nine months of 2004.

**Results of Operations (Continued)**

The Corporation has after-tax, deferred hedge losses of $1,713 million recorded in accumulated other comprehensive income (loss) at September 30, 2005 related to crude oil hedges. Of this amount, $1,668 million is unrealized and relates to open hedge positions and the remaining $45 million is realized. The realized loss of $45 million will reduce earnings during the fourth quarter of 2005 as the related barrels are sold. See Market Risk Disclosure for a summary of the Corporation's open hedge positions.

***Sales and production volumes:*** The Corporation's oil and gas production, on a barrel of oil equivalent basis was 312,000 barrels per day in the third quarter of 2005 compared with 323,000 barrels per day in the same period of 2004. Production in the first nine months of 2005 was 341,000 barrels per day compared with 340,000 barrels per day in the first nine months of 2004. The Corporation anticipates that its average production for the fourth quarter of 2005 will be approximately 320,000 to 330,000 barrels per day. The Corporation's net daily worldwide production was as follows (in thousands):

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Crude oil (barrels per day) | | | | |
| United States | 42 | 44 | 46 | 41 |
| Europe | 102 | 109 | 113 | 122 |
| Africa, Asia and other | 74 | 66 | 73 | 64 |
| Total | 218 | 219 | 232 | 227 |
| Natural gas liquids (barrels per day) | | | | |
| United States | 11 | 12 | 12 | 12 |
| Europe | 2 | 6 | 5 | 6 |
| Total | 13 | 18 | 17 | 18 |
| Natural gas (Mcf per day) | | | | |
| United States | 125 | 164 | 146 | 169 |
| Europe | 218 | 270 | 281 | 321 |
| Africa, Asia and other | 141 | 82 | 127 | 85 |
| Total | 484 | 516 | 554 | 575 |
| Barrels of oil equivalent (barrels per day)(*) | 312 | 323 | 341 | 340 |

(*) Reflects natural gas production converted based on relative energy content (six Mcf equals one barrel).

United States crude oil and natural gas production in the third quarter of 2005 was lower than in the corresponding period of 2004 due to interruptions from hurricane activity in the Gulf of Mexico. Crude oil and natural gas production in Europe was lower in the third quarter and first nine months of 2005 compared with 2004, primarily reflecting natural decline and maintenance. These decreases were partially offset by new production in 2005 from Block A-18 in the joint development area of Malaysia and Thailand, Samara-Nafta, our Russian subsidiary and the Central Azeri Field in Azerbaijan. In addition, during 2005 there was increased crude oil production from the Llano Field in the Gulf of Mexico and Ceiba Field in Equatorial Guinea. Crude oil and

**Results of Operations (Continued)**

natural gas sales volumes were comparable in the third quarter of 2005 and 2004. Higher sales volumes increased revenues by $19 million in the first nine months of 2005 compared with 2004.

***Operating costs and exploration expenses:*** Production expenses were higher in the third quarter and first nine months of 2005 compared with 2004 principally reflecting higher maintenance expenses and increased production taxes. Exploration expenses increased in the third quarter and first nine months of 2005, reflecting increased drilling and seismic activity compared with 2004. Depreciation, depletion and amortization charges were also higher in 2005 principally due to higher depreciation rates. General and administrative expenses were comparable in the third quarters of 2005 and 2004, but lower in the first nine months of 2005, due to charges for vacated office space in London during 2004.

***Other:*** After-tax foreign currency gains relating to exploration and production activities amounted to $2 million in the third quarter and $17 million in the first nine months of 2005 compared with gains of $4 million and $12 million in the corresponding periods of 2004. The pre-tax amounts were gains of $5 million and losses of $.3 million in the third quarter and first nine months of 2005 compared with a gain of $9 million in the third quarter and $11 million in the first nine months of 2004. Pre-tax amounts are recorded in non-operating income (expense).

The effective income tax rate for exploration and production operations in the first nine months of 2005 was 43% compared with 46% in the first nine months of 2004.

The Corporation's future exploration and production earnings may be impacted by volatility in the selling prices of crude oil and natural gas, reserve and production changes, industry cost inflation, exploration expenses and changes in tax rates.

***Refining and Marketing***

Earnings from refining and marketing activities amounted to $125 million in the third quarter of 2005 compared with $85 million in the corresponding period of 2004. For the first nine months of 2005, refining and marketing operations earned $286 million compared with $358 million in 2004. The Corporation's downstream operations include HOVENSA L.L.C. (HOVENSA), a 50% owned refining joint venture with a subsidiary of Petroleos de Venezuela S.A. (PDVSA) accounted for on the equity method. Additional refining and marketing activities include a fluid catalytic cracking facility in Port Reading, New Jersey, as well as retail gasoline stations, energy marketing and trading operations.

***Refining:*** Refining earnings, which consist of the Corporation's share of HOVENSA's results, Port Reading earnings, interest income on the note receivable from PDVSA and other miscellaneous items, were $144 million in the third quarter and $263 million in the first nine months of 2005 compared with $68 million in the third quarter and $265 million in the first nine months of 2004.

**Results of Operations (Continued)**

The Corporation's share of HOVENSA's income before income taxes was $151 million ($93 million after income taxes) in the third quarter of 2005 compared with income of $75 million ($58 million after income taxes) in the third quarter of 2004. For the first nine months of 2005, the Corporation's share of HOVENSA's income was $309 million ($190 million after income taxes) compared with $223 million ($189 million after income taxes) in the first nine months of 2004. The increased earnings in the third quarter and first nine months of 2005 were due to higher refined product margins. In 2005, the Corporation provided income taxes at the Virgin Islands statutory rate of 38.5% on HOVENSA's income and the interest income on the PDVSA note. In the first nine months of 2004, income taxes on HOVENSA's earnings were partially offset by available loss carryforwards. A crude unit at HOVENSA was shutdown for 30 days of planned maintenance in the third quarter of 2005 and the fluid catalytic cracking unit was shutdown for 30 days of maintenance in the first quarter.

Pre-tax interest on the PDVSA note amounted to $5 million in the third quarter and $15 million in the first nine months of 2005 compared with $6 million and $19 million in the corresponding periods of 2004.

Port Reading earnings were $48 million in the third quarter and $62 million in the first nine months of 2005 compared with $4 million and $49 million in the corresponding periods of 2004, reflecting higher margins. The Port Reading facility was shutdown for 36 days of planned maintenance in the first quarter of 2005. In the third quarter of 2004, the Port Reading facility had a storm-related shutdown for 25 days.

The following table summarizes refinery utilization rates for the third quarter and first nine months of 2005 and 2004:

| | Refinery capacity (thousands of barrels per day) | Refinery utilization | | | |
|---|---|---|---|---|---|
| | | Three months ended September 30 | | Nine months ended September 30 | |
| | | 2005 | 2004 | 2005 | 2004 |
| HOVENSA | | | | | |
| Crude | 500 | 82.5%* | 95.9% | 90.8%* | 97.5% |
| Fluid catalytic cracker | 150 | 89.7% | 93.9% | 80.2%* | 95.2% |
| Coker | 58 | 92.4% | 94.1% | 95.4% | 98.0% |
| Port Reading | 65 | 95.5% | 64.2%** | 80.4%* | 81.5%** |

* Reflects reduced utilization from scheduled maintenance.

** Represents a storm-related interruption.

***Marketing:*** Marketing operations, which consist principally of retail gasoline and energy marketing activities, generated a loss of $22 million in the third quarter of 2005 and income of $5 million in the first nine months of 2005 compared with income of $6 million and $49 million in the same periods of 2004. The decreases reflected lower margins, primarily due to the higher cost of post-hurricane product supply. Marketing expenses were higher in the third quarter and first nine months of 2005 compared with 2004 primarily reflecting additional retail sites. Total refined product sales volumes were 435,000 barrels per day in the first nine months of 2005 and 427,000 barrels per day in the first nine months of 2004.

## Results of Operations (Continued)

The Corporation has a 50% voting interest in a consolidated partnership that trades energy commodities and energy derivatives. The Corporation also takes trading positions for its own account. The Corporation's after-tax results from trading activities, including its share of the earnings of the trading partnership, amounted to income of $3 million ($6 million before income taxes) in the third quarter and $18 million ($34 million before income taxes) in the first nine months of 2005. Trading activities resulted in income of $11 million ($18 million before income taxes) in the third quarter and $44 million ($75 million before income taxes) in the first nine months of 2004.

Refining and marketing earnings will likely continue to be volatile reflecting competitive industry conditions and supply and demand factors, including the effects of weather.

### *Corporate*

After-tax corporate expenses amounted to $54 million in the third quarter and $151 million in the first nine months of 2005 compared with $23 million and $49 million in the same periods of 2004. The third quarter and first nine months of 2005 include income tax provisions of $31 million and $72 million, respectively, for the repatriation of foreign earnings to the United States under the American Jobs Creation Act of 2004. Net Corporate expenses in the first nine months of 2005 also include net expenses of $7 million ($10 million before income taxes) for premiums on bond repurchases. The results for the first nine months of 2004 include a non-cash income tax benefit of $13 million resulting from the completion of a prior year United States income tax audit. Excluding these items, corporate expenses were comparable in the third quarters of 2005 and 2004 and higher in the first nine months of 2005 reflecting severance and other benefit costs.

### *Interest*

Interest expense in the third quarter and first nine months of 2005 and 2004 was as follows (in millions):

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Total interest incurred | $ 76 | $ 74 | $ 226 | $ 220 |
| Less capitalized interest | 22 | 12 | 57 | 41 |
| Interest expense before income taxes | 54 | 62 | 169 | 179 |
| Less income taxes | 20 | 23 | 64 | 67 |
| After-tax interest expense | $ 34 | $ 39 | $ 105 | $ 112 |

After-tax interest expense for the full year of 2005 is anticipated to be lower than the 2004 amount, primarily due to increased capitalized interest.

## Results of Operations (Continued)

### *Sales and Other Operating Revenues*

Sales and other operating revenues increased by 51% in the third quarter and 29% in the first nine months of 2005 compared with the corresponding periods of 2004. This increase reflects higher selling prices of crude oil, natural gas and refined products. The increase in cost of goods sold also reflects the increased costs of refined products purchased.

### *Discontinued Operations*

Income from discontinued operations of $7 million in the first nine months of 2004 reflects the settlement of a previously accrued contingency relating to a foreign exploration and production operation that was disposed of in 2003.

## Liquidity and Capital Resources

***Overview:*** Cash and cash equivalents at September 30, 2005 totaled $759 million, a decrease of $118 million from year-end. The Corporation's debt to capitalization ratio was 40.7% the same as at December 31, 2004. Total debt was $3,787 million at September 30, 2005 and $3,835 million at December 31, 2004. The Corporation has debt maturities of $1 million during the remainder of 2005 and $78 million in 2006.

***Cash Flows from Operating Activities:*** Net cash provided by operating activities including changes in operating assets and liabilities totaled $1,551 million in the first nine months of 2005 compared with $1,649 million in the same period of 2004. In the first nine months of 2004, changes in operating assets and liabilities increased net cash provided by $377 million. In the first nine months of 2005, the Corporation received cash distributions of $275 million from HOVENSA, compared with $88 million in the first nine months of 2004.

***Cash Flows from Investing Activities:*** The following table summarizes the Corporation's capital expenditures (in millions):

| | Nine months ended September 30 | |
|---|---|---|
| | 2005 | 2004 |
| Exploration and production | | |
| Exploration | $ 150 | $ 99 |
| Production and development | 1,195 | 894 |
| Asset acquisitions, including undeveloped lease costs | 198 | 54 |
| | 1,543 | 1,047 |
| Refining and marketing | 73 | 45 |
| Total | $ 1,616 | $ 1,092 |

## Liquidity and Capital Resources (Continued)

***Cash Flows from Financing Activities:*** The Corporation reduced debt by $48 million during the first nine months of 2005 and $106 million in the first nine months of 2004. Dividends paid were $147 million and $145 million in the first nine months of 2005 and 2004, respectively. The Corporation received proceeds from the exercise of stock options of $61 million in the first nine months of 2005 and $85 million in the corresponding period of 2004.

***Future Capital Requirements and Resources:*** Capital and exploratory expenditures for 2005 are currently estimated to be approximately $2.4 to $2.6 billion. The Corporation anticipates that available cash and cash flow from operations will fund these expenditures; however, revolving credit facilities are available, if necessary.

With higher crude oil prices, the Corporation's collateral requirements under certain contracts with hedging and trading counterparties have increased. Outstanding letters of credit were $3,048 million at September 30, 2005, including $344 million drawn against the Corporation's revolving credit facility, $1,625 million under committed short-term letter of credit facilities entered into in the first nine months of 2005, and the remainder under uncommitted lines. Outstanding letters of credit were $1,487 million at December 31, 2004. At September 30, 2005, the Corporation has $2,052 million available under its $2.5 billion syndicated revolving credit agreement and has additional unused lines of credit of $289 million, primarily for letters of credit, under uncommitted arrangements with banks. The Corporation also has a shelf registration under which it may issue $825 million of additional debt securities, warrants, common stock or preferred stock.

Loan agreement covenants allow the Corporation to borrow an additional $5.4 billion for the construction or acquisition of assets at September 30, 2005. The maximum amount of dividends that can be paid from borrowings under the loan agreements is $2 billion at September 30, 2005.

In October 2005, the Corporation announced that it had reached an agreement to acquire a 55% working interest in the deepwater section of a concession with natural gas discoveries offshore Egypt for approximately $413 million. A 25 year development lease for the deepwater section of the block has been signed and a gas sales agreement is in place for sales to the Egyptian market. Commencement of production is planned for 2009. The Corporation also announced the sale to the same company of certain producing properties located in the Permian Basin in West Texas and New Mexico for approximately $404 million. The transactions are subject to government and other regulatory approvals and are expected to close in the first quarter of 2006.

***Libya:*** Prior to June 30, 1986, the Corporation had extensive exploration and production operations in Libya; however, U.S. Government sanctions required suspension of participation in these operations. The Corporation wrote off the book value of its Libyan assets in connection with the cessation of operations. During 2004, the Corporation received U.S. Government authorization to negotiate and execute an agreement with the government of Libya that would define the terms for resuming active participation in the Libyan properties. The U.S. Government has lifted most of the sanctions imposed on Libya and has rescinded the Libya portions of the Iran-Libya Sanction Act of 1976. As a result, the Corporation and its partners will be able to resume

## Liquidity and Capital Resources (Continued)

operations in Libya if they are able to reach a successful conclusion to commercial negotiations. If these negotiations are successful, management anticipates capital expenditures will increase over the current plan.

***Repatriation Provisions of the American Jobs Creation Act of 2004:*** The American Jobs Creation Act (the Act) provides for a one-time reduction in the income tax rate to 5.25% on eligible dividends from foreign subsidiaries to a U.S. parent. During 2005, the Corporation's Board of Directors approved plans to repatriate $1.9 billion of unremitted foreign earnings. As a result, the Corporation recorded a tax provision of $72 million, including $31 million in the third quarter. The Corporation's Board of Directors has now approved repatriation plans at the maximum level permitted under the Act.

***Credit Ratings:*** Two credit rating agencies have rated the Corporation's debt as investment grade; one agency's rating is below investment grade. If another rating agency were to reduce its credit rating below investment grade, the Corporation would have to comply with a more stringent financial covenant contained in its revolving credit facility. In addition, margin requirements with hedging and trading counterparties at September 30, 2005 would increase by approximately $15 million.

***Other:*** In connection with the sale of six vessels in 2002, the Corporation agreed to support the buyer's charter rate on these vessels for up to five years. The support agreement requires that if the actual contracted rate for the charter of a vessel is less than the stipulated support rate in the agreement, the Corporation will pay to the buyer the difference between the contracted rate and the stipulated rate. The balance in the charter support reserve at January 1 was approximately $10 million and at September 30 was $9 million.

At January 1, 2005, the Corporation had an accrual of $39 million for vacated office costs in London. During the first nine months of 2005, $5 million of payments were made reducing the accrual to $34 million at September 30, 2005. Additional accruals totaling approximately $25 to $30 million, before income taxes, are anticipated in the first half of 2006 for office space to be vacated.

***Off-Balance Sheet Arrangements:*** The Corporation has leveraged leases not included in its balance sheet, primarily related to retail gasoline stations that the Corporation operates. The net present value of these leases is $480 million at September 30, 2005. The Corporation's September 30, 2005 debt to capitalization ratio would increase from 40.7% to 43.6% if the leases were included as debt.

The Corporation guarantees the payment of up to 50% of HOVENSA's crude oil purchases from suppliers other than PDVSA. At September 30, 2005, the guarantee amounted to $173 million. This amount fluctuates based on the volume of crude oil purchased and related crude oil prices. In addition, the Corporation has agreed to provide funding up to a maximum of $40 million to the extent HOVENSA does not have funds to meet its senior debt obligations. The Corporation also has a loan guarantee of $57 million relating to a foreign crude oil pipeline in which it has a 2.36% interest.

## Market Risk Disclosure

In the normal course of its business, the Corporation is exposed to commodity risks related to changes in the price of crude oil, natural gas, refined products and electricity, as well as to changes in interest rates and foreign currency values. In the disclosures that follow, these operations are referred to as non-trading activities. The Corporation also has trading operations, principally through a 50% voting interest in a trading partnership. These activities are also exposed to commodity risks primarily related to the prices of crude oil, natural gas and refined products.

***Instruments:*** The Corporation primarily uses forward commodity contracts, foreign exchange forward contracts, futures, swaps, options and energy commodity linked securities in its non-trading and trading activities. These contracts are widely traded instruments mainly with standardized terms. In some cases, physical purchase and sale contracts are used as trading instruments and are included in the trading results.

***Quantitative Measures:*** The Corporation uses value-at-risk to monitor and control commodity risk within its trading 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. The potential change in fair value based on commodity price risk is presented in the non-trading and trading sections below.

***Non-Trading:*** The Corporation's exploration and production segment uses futures and swaps to fix the selling prices of a portion of its future production and the related gains or losses are an integral part of its selling prices. As of September 30, the Corporation has not hedged any of its future natural gas production. Following is a summary of the crude oil hedges as of September 30, 2005:

| | West Texas Intermediate | | Brent | |
|---|---|---|---|---|
| Maturities | Average Selling Price | Thousands of Barrels per Day | Average Selling Price | Thousands of Barrels per Day |
| 2005 | | | | |
| Fourth quarter | $32.16 | 28 | $30.37 | 118 |
| 2006 | — | — | 28.10 | 30 |
| 2007 | — | — | 25.85 | 24 |
| 2008 | — | — | 25.56 | 24 |
| 2009 | — | — | 25.54 | 24 |
| 2010 | — | — | 25.78 | 24 |
| 2011 | — | — | 26.37 | 24 |
| 2012 | — | — | 26.90 | 24 |

Because the selling price of crude oil has increased significantly since the hedges were acquired, accumulated other comprehensive income (loss) at September 30, 2005 includes after-tax deferred losses of $1,713 million related to crude oil contracts used as hedges of future exploration and production sales. As market conditions change, the Corporation may adjust its hedge percentages.

**Market Risk Disclosure (Continued)**

The Corporation also markets energy commodities including refined petroleum products, natural gas and electricity. The Corporation uses futures and swaps to fix the purchase prices of commodities to be sold under fixed-price sales contracts.

The Corporation estimates that at September 30, 2005, the value-at-risk for commodity related derivatives that are settled in cash and used in non-trading activities was $104 million ($108 million at December 31, 2004). The results may vary from time to time as hedge levels change.

***Trading:*** The trading partnership in which the Corporation has a 50% voting interest trades energy commodities and derivatives. The accounts of the partnership are consolidated with those of the Corporation. The Corporation also takes trading positions for its own account. These strategies include proprietary position management and trading to enhance the potential return on assets. The information that follows represents 100% of the trading partnership and the Corporation's proprietary trading accounts.

The following table provides an assessment of the factors affecting the changes in fair value of trading contracts, including cash premiums paid or received (in millions):

| | 2005 | 2004 |
|---|---|---|
| Fair value of contracts outstanding at January 1 | $ 184 | $ 67 |
| Change in fair value of contracts outstanding at the beginning of the year and still outstanding at September 30 | 64 | 76 |
| Contracts realized or otherwise settled during the period | 90 | (15) |
| Fair value of contracts entered into during the period and still outstanding | 435 | 65 |
| Fair value of contracts outstanding at September 30 | $ 773 | $ 193 |

Gains or losses from sales of physical products are recorded at the time of sale. Derivative trading transactions are marked-to-market and are reflected in income currently. Total realized losses for the first nine months of 2005 amounted to $194 million ($112 million of realized gains for the first nine months of 2004).

The Corporation uses observable market values for determining the fair value of its trading instruments. In cases where actively quoted prices are not available, other external sources are used which incorporate information about commodity prices in actively quoted markets, quoted prices in less active markets and other market fundamental analysis. Internal estimates are based on internal models incorporating underlying market information such as commodity volatilities and correlations. The Corporation's risk management department regularly compares valuations to independent sources and models. The following table summarizes the sources of fair values of derivatives used in the Corporation's trading activities at September 30, 2005 (in millions):

**Market Risk Disclosure (Continued)**

| | | Instruments Maturing | | | | |
|---|---|---|---|---|---|---|
| Source of Fair Value | Total | 2005 | 2006 | 2007 | 2008 | 2009 and beyond |
| Prices actively quoted | $ 656 | $ 230 | $ 201 | $ 87 | $ 80 | $ 58 |
| Other external sources | 131 | 37 | 44 | 12 | 7 | 31 |
| Internal estimates | (14) | (7) | (7) | — | — | — |
| Total | $ 773 | $ 260 | $ 238 | $ 99 | $ 87 | $ 89 |

The Corporation estimates that at September 30, 2005, the value-at-risk for trading activities, including commodities, was $10 million ($17 million at December 31, 2004). The results may change from time to time as strategies change to capture potential market rate movements.

The following table summarizes the fair values of net receivables relating to the Corporation's trading activities and the credit ratings of counterparties at September 30, 2005 (in millions):

| | |
|---|---|
| Investment grade determined by outside sources | $ 385 |
| Investment grade determined internally (*) | 68 |
| Less than investment grade | 49 |
| Fair value of net receivables outstanding at end of period | $ 502 |

(*) Based on information provided by counterparties and other available sources.

**Forward-Looking Information**

Certain sections of Management's Discussion and Analysis of Results of Operations and Financial Condition, including references to the Corporation's future results of operations and financial position, liquidity and capital resources, capital expenditures, oil and gas production, tax rates, debt repayment, hedging, derivative and market risk disclosures and off-balance sheet arrangements include forward-looking information. 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.

## 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 Results of Operations and Financial Condition — Market Risk Disclosure."

**Item 4. Controls and Procedures**

Based upon their evaluation of the Corporation's disclosure controls and procedures (as defined in Exchange Act Rules 13a — 14(c) and 15d — 14(c)) as of September 30, 2005, John B. Hess, Chief Executive Officer, and John P. Rielly, Chief Financial Officer, concluded that these disclosure controls and procedures were effective as of September 30, 2005.

There were no significant changes in the Corporation's internal controls or in other factors that have materially affected, or are reasonably likely to materially affect, internal controls during the quarter ended September 30, 2005.

## PART II- OTHER INFORMATION

**Item 6. Exhibits and Reports on Form 8-K**

a. Exhibits

| | |
|---|---|
| 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) |

b. Reports on Form 8-K

During the quarter ended September 30, 2005, Registrant filed one report on Form 8-K:

(i) Filing dated July 27, 2005 reporting under Items 2.02 and 9.01 a news release dated July 27, 2005 reporting results for the second quarter of 2005 and under Items 7 and 9 the prepared remarks of John B. Hess, Chairman of the Board of Directors and Chief Executive Officer of Amerada Hess Corporation, and John J. O’Connor, Executive Vice President and President, Worldwide Exploration and Production at a public conference call held on July 27, 2005.

## 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.

AMERADA HESS CORPORATION
(REGISTRANT)

By /s/ John B. Hess
JOHN B. HESS
CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER

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

Date: November 7, 2005

**Exhibit 31(1)**

**CERTIFICATIONS**

I, John B. Hess, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Amerada Hess Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and the internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

By /s/ John B. Hess

JOHN B. HESS
CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER

Date: November 7, 2005

**Exhibit 31(2)**

I, John P. Rielly, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Amerada Hess Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and the internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

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

Date: November 7, 2005

**Exhibit 32(1)**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Amerada Hess Corporation (the "Corporation") on Form 10-Q for the period ending September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John B. Hess, Chairman of the Board and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By /s/ John B. Hess
JOHN B. HESS
CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER
Date: November 7, 2005

A signed original of this written statement required by Section 906 has been provided to Amerada Hess Corporation and will be retained by Amerada Hess Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32(2)**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Amerada Hess Corporation (the “Corporation”) on Form 10-Q for the period ending September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John P. Rielly, Senior Vice President and Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By /s/ John P. Rielly
JOHN P. RIELLY
SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
Date: November 7, 2005

A signed original of this written statement required by Section 906 has been provided to Amerada Hess Corporation and will be retained by Amerada Hess Corporation and furnished to the Securities and Exchange Commission or its staff upon request.