

HESS CORP
Form DEFA14A
April 04, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

HESS CORPORATION

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

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DELIVERING SHAREHOLDER VALUE
APRIL 2013

Forward-Looking Statements and Other Information

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This presentation contains projections and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These projections and statements reflect the Company's current views with respect to future events and financial performance. No assurances can be given, however, that these events will occur or that these projections will be achieved, and actual results could differ materially from those projected as a result of certain risk factors. A discussion of these risk factors is included in the Company's periodic reports filed with the Securities and Exchange Commission.

We use certain terms in this presentation relating to reserves other than proved, such as unproved resources. Investors are urged to read carefully the disclosure relating to proved reserves in Hess

Form 10-K, File No.1-1204, available from Hess Corporation, 1185 Avenue of the Americas, New York, New York 10036 c/o Corporate Secretary and on our website at www.hess.com. You can also obtain the information from the SEC on the EDGAR system.

Important
Additional
Information

Hess Corporation, its directors and certain of its executive officers may be deemed to be participants in the solicitation of proxies from our shareholders in connection with the matters to be considered at Hess's 2013 Annual Meeting. Hess has filed a definitive proxy statement in the form of WHITE proxy card with the U.S. Securities and Exchange Commission in connection with the 2013 Annual Meeting.

SHAREHOLDERS ARE STRONGLY ENCOURAGED TO READ THE DEFINITIVE PROXY STATEMENT AND ACCOMPANYING WHITE PROXY CARD.

AS THEY CONTAIN IMPORTANT INFORMATION

Information regarding the identity of potential participants, and their direct or indirect interests, by security holdings or otherwise,

is
set
forth
in
the
proxy
statement
and
other
materials
filed
with
the
SEC.

Shareholders

will be able to obtain any proxy statement, any amendments or supplements to the proxy statement and other documents filed with the SEC for no charge at the SEC's website at www.sec.gov. Copies will also be available at no charge at Hess's website at www.hess.com by writing to Hess Corporation at 1185 Avenue of the Americas, New York, NY 10036, by calling Hess's proxy solicitor, MacKenzie Partners, free at (800) 322-2885 or by email at hess@mackenziepartners.com.

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THE HESS VALUE PROPOSITION

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Culmination of Our Transformation:
A Focused Pure Play E&P Company
Pure Play E&P Company

Focused, higher growth, lower risk portfolio

Divest Indonesia and Thailand

Pursue monetization of Bakken midstream assets (2015)
Exit Downstream

Divest Retail

Divest Energy Marketing

Divest Energy Trading (Hetco)

Return Capital to Shareholders and Retain Financial Flexibility to Fund Growth

Increase annual dividend by 150% to \$1.00 per share, effective in the third quarter of 2013

Authorize share repurchase program of up to \$4.0 billion

Additional share repurchases from the monetization of Bakken midstream assets

The Right Board to Drive Shareholder Value

Six new world class independent Directors with the right mix of corporate leadership, operational and financial expertise, and top level E&P experience

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These actions are the culmination of our transformation into a focused, higher growth, lower risk, pure play E&P company

Culmination of Strategic Transformation

5

Phase I

Phase II

Phase III

5-YEAR TRANSFORMATION

Jan 1, 2010

July 25, 2012

March 4, 2013

Announced three-prong strategy

Reduced spending

Additional asset sales

Indonesia

Thailand

Bakken midstream monetization

Additional reduction in capital
expenditures and exploration spend

Bakken (added 250,000 net acres)

Utica (added 185,000 net acres)

Swapped for and acquired additional

Valhall equity (Norway) for non-core Clair

(UK) & Gabon assets

Asset sales (\$1.7 billion)

Closed HOVENSA joint venture refinery

in St. Croix, U.S. Virgin Islands

Exited refining with closure of Port

Reading refinery

Selling terminal network

Complete exit of downstream

Retail

Energy Marketing

Energy Trading (Hetco)

Management's continued commitment to reshaping HES's portfolio has driven an impressive turnaround.

Capital One, January 29, 2013

Integrated Oil

Company

Pure Play E&P

Company

5-Year 5-8% CAGR

on Production

(2012 Pro Forma -

2017)

Mid-Teens Aggregate

Production Growth

(2012 Pro Forma -

2014)

Jambi Merang

UK Gas Assets

Snorre

Cook and Maclure

Snohvit

Schiehallion

Bittern

Shale

Exploitation

Focused exploration

Beryl

Azerbaijan

Eagle Ford

Russia

Upstream capex down 17% in 2013

Exploration spending down 29% in 2013

Additional asset sales (\$1.5 billion)

Sales in progress

The Market Recognizes That Our Plan is Working

6

Source: Bloomberg

Note: Share price performance from 24-Jul-2012 (business day prior to 25-Jul-2012 strategy articulation) through 25-Jan-2013 (last trading day before the announcement of the planned sale of our terminal network and Elliott's position).

Hess

share price increased 34%, outperforming all proxy peers, from our July 25, 2012 strategy update to the last trading day before the announcement of the planned sale of our terminal network

E&P Proxy Peers

E&P Proxy Peers Median: 12%

Integrated Proxy Peers Median: 9.5%

Integrated Proxy Peers

We believe the companywide transition that began in 2009 is creating a more predictable/profitable growth model. The company is making solid progress in building a focused portfolio of long life, high return assets by leveraging its global scale and capability.

Dahlman Rose, December 11, 2012

HESS:
A PURE PLAY E&P COMPANY
7

Hess:
A Pure Play E&P Company Driving Shareholder Value
Focused Portfolio

78% of reserves and 84% of production in five key areas
Higher Growth, Lower Risk

5-year
5-8%
CAGR
on
production
(2012
pro

forma

2017)

Mid-teens
aggregate
production
growth
(2012
pro
forma

2014)

Growth
driven
by
Bakken,
Valhall,
Tubular
Bells,
and
North
Malay
Basin
Levered to Oil Prices

Highest percentage (79%) of proved reserves that are liquids based among our peers

Estimated 85% of 2013 pro forma crude oil production is Brent linked
Technical Breadth, Cost Efficient, Globally Capable

Among the leaders in drilling and completion costs in the Bakken

Global operator, selected by leading oil & gas companies and host governments on major projects
Returning Capital to Shareholders, Retaining Financial Flexibility, and
Allocating Capital Efficiently

Increasing annual dividend

Share repurchase program funded by asset sales

Financial flexibility to fund lower risk reserve and production growth and drive shareholder value
The Right Board to Drive Shareholder Value

Hess
management and Board of Directors have built the Company's world class asset portfolio and led the strategic
transformation that has been delivering shareholder value

To

lead
the
transformed
Hess
forward
we
are
adding
six
new
world
class
independent
Directors
with
the
right
mix
of
corporate leadership, operational and financial expertise, and top level E&P experience
8
1
2
3
4
5
6

E&P Portfolio Focused on Five Key Areas

9

1

Snohvit field, Schiehallion, Azerbaijan assets, Russia subsidiary (Samara Nafta), Eagle Ford, Bittern, Beryl area, Indonesia and

1

78% of Reserves / 84% of Production

Equatorial

Guinea

17% Prod.

5% Res.

Valhall /

South Arne

8% Prod.

28% Res.

JDA

17% Prod.

11% Res.

Deepwater

Gulf of Mexico

23% Prod.

11% Res.

Bakken

19% Prod.

23% Res.

Pro Forma Metrics¹

2012A Production (MBoe/d)

289

2012A Reserves (MMBoe)

1,310

2013E Production (MBoe/d)

290

305

Utica

Ghana

North Malay

Basin

Near Term Growth Areas

Longer Term Growth Areas

Tubular Bells

A Higher Growth, Lower Risk
Portfolio to Deliver Results

10

2

BAKKEN SHALE

A leading acreage position in the premier United States shale oil play

Estimated

production

of

64

70
MBoe/d
in
2013
(up
15

25%
from
2012)
Goal of net production ~120 MBoe/d by mid-decade

**VALHALL FIELD
(NORWAY)**

Hess
64%
W.I.
with
net
production
24

28
MBoe/d
in
2013
Goal of net production ~75 MBoe/d
Redevelopment
complete

in
Q1
2013
and
multi-year
drilling
program
to
commence
in
2013

**TUBULAR BELLS
(GULF OF MEXICO)**

Hess 57% W.I. and operator with first production targeted in 2014
Anticipated peak annual net production rate of ~25 MBoe/d

NORTH MALAY BASIN

Hess 50% W.I. and operator with first production of ~40 MMcf/d targeted in Q4 2013
Goal of net production ~125 MMcf/d

Gas production linked to fuel oil price in Singapore with PSC through 2033

UTICA SHALE

Attractive position in emerging unconventional play
Focus in 2013 on delineation of our acreage with ~30 wells planned

GHANA

Seven
discoveries

to
date,
including

Pecan

and

Pecan

North

announced

in

Q4

2012

and Q1 2013

Hess 90% W.I. and operator

Company

to

submit

an

appraisal

plan

to

the

Ghanaian

government

for

approval

on

or

before

June

2013.

In

parallel,

Hess

has

begun

pre-development

studies

on

the

block

5-Year

5-8%

CAGR

on

Production

(2012
Pro
Forma

2017)
Pro Forma for Announced Asset Sales Cash Margin Expected to Increase by \$5 per Boe

The Leading Oil-Linked Asset Base

11

Source: SEC filings, company annual reports, and company press releases

Note:

Percentage

of

reserves

that

are

liquids

based

for
peers
calculated
as
per
2012
year-end
SEC
filings.
TLM
is
calculated
as
per
its
2011
annual
report,
pro
forma
for
the
sale
in
2012
of
a
49%
stake
in
its
UK
North
Sea
business.
3

Hess: Driving Performance in the Bakken

12

Reducing Bakken Well Costs

Source: NDIC Database at 1/24/13

While Increasing Bakken Production

Hess Completed 10 of the Top 25 Wells in the Bakken in 2012

4

45

36

34

33

31
32
29
28
2011
Q1
2011
Q2
2011
Q3
2011
Q4
2012
Q1
2012
Q2
2012
Q3
2012
Q4
\$ 5
\$ 5
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\$ 10
\$ 10
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\$ 9
\$ 9
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2012 Drilling & Completion Costs (\$mm)
Drilling Costs
Completion Costs
13
0
200
400
600
800
1000
1200
1400
1600
Hess Wells
Peer Wells
5
6
7
9
9
10
11
12
12
14
16
18
25
25
32
38
42

55

62

64

Net Daily Production (Mboe/d)

Drilling Performance: Spud-to-Spud Days

30-Day Initial Production Rate

Hess Has Reduced Well Costs by 30% in 2012

13

Source:

Bakken

drilling

and

completion

cost

data

for

Hess

represents

actual

Q4
2012
drilling
and
completion
costs
per
well.
Peer
costs
represent
peer
estimated
Q4
2012
pre-drill
costs
provided
to
Hess
for
wells
where
Hess
has
an
ownership
interest
but
is
not
an
operator.
Peer
groups
based
on
a
weighted
average
of
well
costs
based
on
total
number
of
wells
balloted.

Proxy
Peers
include
XOM/XTO,
STL/BEXP,
COP,
OXY,
and
EOG.
Bakken
Pure
Play
Peers
include
CLR,
OAS,
and
KOG.

4

2012 Q4 Bakken Drilling & Completion Costs (\$mm / well)

Hess is increasingly demonstrating it can deliver results that are competitive with other leading Bakken companies.

Goldman Sachs, January 30, 2013

\$ 10.0

\$ 9.4

\$ 9.0

Proxy Peers

Bakken

Pure Play Peers

Hess

2012 Q4

Technical Breadth, Cost Efficient,
and Globally Capable

Chosen by leading international oil companies, national
oil companies, and host governments to operate major
new oil & gas developments

Chevron endorsed Hess as operator of the \$2.3 billion
Tubular Bells offshore deep water Gulf of Mexico development

PETRONAS selected Hess as operator of the \$2.9 billion
North Malay Basin offshore development

Realizing synergies from the transfer of technical skills
and operating capabilities globally

Bakken
hydraulic
fracturing

expertise
utilized
in
Malaysia/Thailand
Joint Development Area

Managed pressure drilling and geo-steering experience in
South Arne (Denmark) utilized in Utica shale play

Gulf
of
Mexico
deep
water
expertise
has
driven
Hess
recent
drilling success in Ghana and Equatorial Guinea

High pressure and high temperature experience in Gulf of Mexico
is being deployed in the North Malay Basin and other international
assets

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4

Returning Capital to Shareholders, Retaining
Financial Flexibility, and Allocating Capital Efficiently
Returning capital to shareholders

Increased common stock dividend 150% to \$1.00 per share annually, effective third quarter of
2013

Authorized share repurchase program of up to \$4.0 billion
Actual amount and timing of share repurchases dependent upon proceeds from divestiture program

We expect to return additional capital to shareholders as a result of monetizing the Bakken
midstream assets, expected 2015
Retaining financial flexibility to fund future growth

Initial portion of the divestiture proceeds will be used to pay down short term debt, provide a cash cushion of an additional \$1.0 billion against future commodity price volatility, and fund the development of our focused growth projects

Allocating capital efficiently

Capital investments focused on higher growth, lower risk assets

Substantial reductions in capital and exploration expenditures

Upstream capital expenditures down 17% in 2013

Exploration spending down 29% in 2013

Further decrease in capital expenditures planned in 2014

Additional cost reduction program underway

15

5

DR.
KEVIN
MEYERS

-

59

Former Senior Vice President of E&P for the Americas, ConocoPhillips
The Right Board to Drive Shareholder Value

We
have
identified
a
team
of

outstanding
and
experienced
leaders
with
substantial
E&P
and business experience to help execute the next phase of our value plan

JOHN
KRENICKI
JR.

-
50
Former Vice Chairman of GE; President and Chief Executive Officer of GE Energy

JAMES
H.
QUIGLEY

-
61
Former Chief Executive Officer, Deloitte

6
16

Mr. Krenicki recently joined private equity firm Clayton, Dubilier & Rice in 2013 after 29 years in senior leadership roles at GE. As a former leader of GE Energy, the unit doubled in size and profitability and became GE's largest business with revenue increasing from \$10 billion in 2012. His responsibilities included oversight of GE's Oil & Gas, Power & Water, and Energy management businesses, serving over 100,000 people in over 165 countries. Mr. Krenicki is one of America's top corporate executives with a strong track record of success in operations, oil and gas, and energy. **His experience leading large scale initiatives and operations across a global energy portfolio provides a unique perspective to the Hess Board as the Company completes its transformation to a pure play E&P company.**

Mr. Quigley led Deloitte, one of the world's largest accounting and consulting firms. During his 38 years at Deloitte, he was responsible for providing leadership and operating matters to senior management teams of multinational companies across industries. As CEO, he was responsible for the tax, audit, and financial advisory practices of Deloitte, and as an advisor and consultant, helped guide major strategic initiatives. Mr. Quigley was named Trustee of the International Financial Reporting Standards (IFRS) Foundation, the oversight body of the International Standards Board (IASB). **He will bring to the Hess Board significant global leadership experience and knowledge of financial matters that are relevant to Hess operations.**

Dr. Meyers ran Exploration and Production in the Americas for ConocoPhillips, where he oversaw 6,000 employees and a \$6 billion portfolio. He was responsible for reorganizing and driving business value in the Americas E&P portfolio. Dr. Meyers drove the reconfiguration of the portfolio in North America, divesting \$6 billion of low growth, low margin assets and focusing capital into emerging shale plays. He led the development of the Eagle Ford, moving it from exploration to a twelve-rig development program in under a year, and increased production in the Bakken Basin and the Bakken. Dr. Meyers has over 30 years of experience in exploration and production, both domestic and international. Dr. Meyers will bring to the Hess Board decades of managing cost-efficient E&P operations in geographies directly relevant to the Hess portfolio.

The Right Board to Drive Shareholder Value

6

We

have

identified

a

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of

outstanding

and

experienced

leaders

with

substantial

E&P

and business experience to help execute the next phase of our value plan

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Former Executive Vice President and Chief Financial Officer, CBS Corporation

Former Chief Operating Officer, TNK-BP Russia

Former Executive Committee Member, Royal Dutch Shell

Dr. Williams worked for over 30 years at Shell, including more than 17 years in Shell's E&P and upstream business, serving on the Executive Committee of Royal Dutch Shell, where he was one of the top three operating executives collectively responsible for operational matters. Most recently, as Downstream Director, Dr. Williams oversaw \$400 billion in revenues and approximately \$5.3 billion in profit annually, and redirected a \$6 billion annual investment into the higher growth markets of China, strengthening Shell's position in key hubs in the U.S. Gulf Coast and Singapore. **His experience as part of an executive group** with strategic responsibilities for the overall direction of one of the world's largest oil & gas companies will add invaluable insight.

FREDRIC

REYNOLDS

-

62

WILLIAM

SCHRADER

-

55

DR.

MARK

WILLIAMS

-

61

Mr. Reynolds was Executive Vice President and Chief Financial Officer of CBS Corporation and its predecessors from January 2009 to August 2009. While at CBS, Mr. Reynolds managed the company's transformation, beginning with the acquisition by Westinghouse followed by the Viacom-CBS merger of 2000 and the subsequent spin-out of MTV Networks, since renamed Viacom. During this period, shareholders experienced substantial share appreciation and return of capital. Mr. Reynolds is also the lead independent director of the Hess Board. Mr. Reynolds will bring to the Hess Board his substantial experience as a CFO with a successful track record of financial oversight, successful transformation, returning capital, and delivering long term returns.

Mr. Schrader was a senior leader of many of BP's most important E&P businesses, including serving as President of BP Azerbaijan, one of BP's most valued assets and most recently served as COO of TNK-BP, which comprised 27% of BP's reserves and 29% of BP's production. As President of BP Azerbaijan, production increased from 240,000 bpd to over 950,000 bpd while operating costs were reduced. He also was responsible for all of BP's E&P business in Indonesia including the Tangguh LNG business. **Mr. Schrader is an** executive responsible for transforming BP's best and most valued E&P assets, and will bring to the Board his experience as an E&P operator with expertise in production sharing structures, government relations, and delivering returns.

Hess Transformed:
A Pure Play E&P Company Driving Shareholder Value
Focused Portfolio
Higher Growth, Lower Risk
Levered to Oil Prices
Technical Breadth, Cost Efficient, and Globally Capable
Returning Capital to Shareholders, Retaining Financial Flexibility,
and Allocating Capital Efficiently
The Right Board to Drive Shareholder Value

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1

2

3
4
5
6

Management is doing all the right things the outlook has never been better.

Bank of America Merrill Lynch, January 31, 2013

Research Analysts Support Hess
Transformation
And Reject Elliott's Plan

Hess Corporation's much anticipated response to Elliott Management deals what we believe will provide a knockout counter-proposal and provides the line of sight on the next leg of the recovery

Bank of America Merrill Lynch, March 5, 2013

We view the company's proactive stance and exceptional clarity with its investor base as a major blow to activist claims. . .

The
accelerated
plan
covers
essentially
all
facets
for
unlocking
value
for
shareholders
with
the
only

exception being the onshore resource spin off, which remains highly controversial and, in our opinion, not likely to double the valuation of HES's Bakken acreage

Capital One, March 6, 2013

Critically, we believe the strategy outlined by management is a superior route to releasing value

Bank of America Merrill Lynch, March 5, 2013

We tend to agree with management's assertion that a breakup into two E&P companies, one domestic and one international, would not be the best way to create shareholder value

Oppenheimer, March 5, 2013

We
applaud
the
changes
HES
announced
today
HES
will
become
a
pure-play
E&P
company
with
a
more

shareholder-friendly approach to returning capital via dividends and share repurchases

Wells Fargo, March 4, 2013

We expect the HES transformational plan to be viewed more favourably by shareholders than the suggestions made by Elliott in late January

UBS, March 4, 2013

We believe the recovery set in place by management well before Elliott entered the fray is compelling. To derail the process at this juncture would be counter-productive

Bank of America Merrill Lynch, March 5, 2013

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Research Analysts Support Hess
Transformation

And Reject Elliott's Plan

None of the Hess directors are tethered to Elliott's unusual
compensation scheme or flawed agenda

distinguished careers, including three with extensive oil industry experience. The new board should help guide
HES with executing its transformation strategy into a pure E&P play

Oppenheimer, March 5, 2013

announced
the
expected
departure
of
six
members
of
its
Board
of
Directors
while
also
putting
forth
six
new
independent
nominees.
In
our
view
. . .this
addresses
Elliott
Associates
prior
concern
over
the
lack
of
independence
at HES s Board

J.P. Morgan, March 4, 2013

has
put
forward
an
equally
attractive
slate
of
candidates
that
in
our

view
will
address
any
and
all
concerns
raised
over
the independence of the board

Bank of America Merrill Lynch, March 5, 2013

has
nominated
six
new
members
to
join
its
board
of
directors.
Four
of
these
members
possess
extensive
energy
experience and three of them have direct experience in oil and gas production

Wells Fargo, March 4, 2013

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HESS
ASSESSMENT OF
ELLIOTT S RECOMMENDATIONS
21

Elliott Management's Recommendations
Are Flawed and Irrelevant

22

We think Elliott's entry into HES is a bit late as HES is already well underway in executing a successful transformation strategy.

Capital One, January 30, 2013

Elliott's Central Thesis

Facts

Immediately break the
Company in two

Deeply
flawed
idea
that
undermines
the
prospect
of
future
value
by
breaking
the
Company
into
two
pieces
with
inadequate capital structures to support future growth
Ignores tax considerations and includes flawed valuation assumptions
Hess

and
a
number
of
sell-side
analysts

believe
that
Elliott's
central
thesis
will
destroy
real
shareholder
value
Elliott's Other
Recommendations
Facts
Focus portfolio
Irrelevant
in
light
of
Hess
strategic
transformation,

including
recent
announcements,
to
focus
its
portfolio
on
higher growth, lower risk assets

Multi-billion dollar non-core E&P asset divestiture program well underway and realizing value, with additional assets to be sold

Hess completely exiting downstream businesses
Instill capital and
operational discipline
Irrelevant
and ignores facts related to cost leadership in Bakken and reductions to capital and exploration spending

Total capital spending has already been reduced
by 17% in 2013 and is continuing to be reduced

Exploration
spending
has
already
been
reduced
by
29%
in
2013

Drilling
and
completion
costs
in
the
Bakken
have
been
reduced
in
excess
of
30%
and
are
continuing

to
be
reduced

We are one of the most efficient operators in the Bakken

Hess
Bakken
wells
had
an
average
85%
participation
rate
in
2012

Elect 5 dissident nominees
to the Hess Board

Hess
management
and
Board
of
Directors
were
responsible
for
building
the
Company's
world
class
asset
portfolio
that

is now delivering value to shareholders

Hess has proposed six new independent Directors with the right mix of corporate leadership, operational and financial expertise, and top level E&P experience
a best-in-class slate of Directors

None of our Directors are tethered to Singer's unusual compensation scheme and flawed agenda

Elliott's Central Thesis Ignores Key Issues and is
Based on Flawed Assumptions

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IGNORES

FINANCING

IMPLICATIONS

Paul

Singer

plans

to

immediately

break
Hess
into
two
pieces,
the
U.S.
unconventional
resource
spin
entity,
ResourceCo,
and
the
remaining
Hess
assets,
InternationalCo,
both
of
which
we
believe would have higher financing costs and limited financial flexibility
Due to the 3-4 year cash flow deficit that Singer s ResourceCo would incur, the spun out entity
would
not
be
able
to
assume
any
of
Hess
existing
debt.
Even
without
any
initial
debt,
Singer s
ResourceCo
would
likely
be
a
sub-investment
grade
credit
with

limited
stand-alone
debt
capacity.

As a result, ResourceCo's ability to fund growth in the Bakken and hence realize future value for Hess shareholders would be harmed

If Singer's ResourceCo were to be spun debt free, Singer's InternationalCo would be forced to assume all of Hess existing debt and therefore restrict InternationalCo's financial flexibility, future growth rate, and ability to return cash to shareholders

IGNORES TAX
CONSEQUENCES

Paul
Singer
ignores
the
tax
consequences
of
separating
Hess
into
Singer's
ResourceCo
and
InternationalCo

Bakken
capital
spending
generates
substantial
excess
tax
deductions
that
are
used
to
offset
taxable income generated by other U.S. assets

Singer's ResourceCo would be generating unused tax deductions and InternationalCo would be paying taxes on otherwise shielded income

Singer's InternationalCo would remain a U.S. domiciled entity with a majority of cash flow generated from foreign assets, reducing the tax efficiency of funding growth and returning cash to shareholders

Energy companies often have unproved resources and assets that haven't yet realized their value, and trying to split up a company like Hess would be a mistake in the long run. It makes no sense. It's cutting your nose

to spite your face. You don't gain anything by doing that.

Fadel
Gheit,
Oppenheimer
Activist
Investor
Elliott
Management
Seeking
to
Remake
Hess ,
Dow
Jones,
January
29,
2013

Elliott's Central Thesis Ignores Key Issues and is
Based on Flawed Assumptions

24

International Remainco
may trade on a low multiple.

Credit Suisse, January 29, 2013

FLAWED VALUATION

ASSUMPTIONS

We

believe

the

Net
Asset
Valuation
assumptions
used

by
Singer
to

justify

a
break-up
are

not
analytically sound. Singer's target price objective of \$126 / share is premised on achieving and sustaining significant multiple expansion for both Singer's ResourceCo and for Singer's InternationalCo

Singer ignores the recent trend in valuation multiples for pure play Bakken companies, which calls into question the ability of Singer's ResourceCo to achieve meaningful multiple expansion

Elliott
assumes
Singer's
InternationalCo
achieves

a
premium
multiple
despite
being

a
more highly
levered, less tax efficient company with slower growth

We believe that the financing implications of separating Hess into Singer's ResourceCo and InternationalCo

could
harm
the
ability
for
both
entities

to
fund
the
growth
required
to
maintain current,

more normalized peer group valuations

We'd note that HES
Bakken assets are partly dependent on other parts of its portfolio to fund its growth
program, while also providing steady, predictable growth to counterbalance the lumpy less predictable growth
associated with its offshore assets.

UBS, January 30, 2013

Elliott Overstates its Valuation Case by Focusing on
Historical Versus Forward-Looking Multiples

25

Source: Bloomberg, IBES. Market data as of 01-Mar-2013.

Note: Elliott's Bakken Peers include: CLR, OAS, and KOG. EV / EBITDA multiples of greater than 25.0x excluded from 20

Elliott's Bakken Peers

Historical 1 yr Forward EV / EBITDA Multiples

Elliott's Bakken Peers

Current Forward EV / EBITDA Multiples

Valuation multiples are typically
inflated at the start of growth cycles

but valuation multiples normalize
as growth cycles mature

Elliott's
Bakken
Valuation
EV / EBITDA
Multiple

In our opinion, the biggest valuation disconnect is the credit Hess receives for the Bakken relative to its peers in the play. We see this valuation gap narrowing as HES executes in the Bakken.

Morgan Stanley, January 30, 2013

Third Parties Agree that Elliott's
Central Thesis Does Not Work

26

As the industry shifted to develop the Bakken in earnest, Hess moved quickly to cement its position.

Using

the

strength

of

cash

flows

from

the

international

business

that

is

the
anchor
of
an
investment

grade credit rating, Hess had the firepower to secure twin acquisition of American Oil and Gas, Tracker resources and Marquette exploration (Utica) that now constitute the core assets in its unconventional portfolio. Without the international business potential for any further acquisitions would have been muted in our view, as it would not have had the firepower to secure the footprint that has anchored our investment case. Put simply the International business enabled what Hess is essentially the core of its investment case today.

Bank of America Merrill Lynch, January 31, 2013

It is also important to point out that there are serious practical consequences for divesting (even in part) the company's fastest-growing asset. The stub (i.e., the remainder of Hess's upstream portfolio) would become a much less appealing business, with a short reserve life, slim visibility on growth (it would be almost entirely exploration-centric), and a very high tax burden due to the overseas overweight.

Raymond James, January 30, 2013

Hess Has Been Aggressively
Focusing its Portfolio Since 2010

27

PHASE I

(2010

JUL 24, 2012)

Asset sales (\$1.7 billion)

Jambi Merang (Indonesia)

Central & Southern North Sea gas
assets, Cook & Maclure, Bittern /
Triton & Schiehallion fields (UK)

Snorre & Snohvit fields (Norway)

PHASE II

(JUL 25, 2012

MAR 3, 2013)

Sales agreements reached /
completed (\$1.5 billion)

Beryl (UK)

ACG/BTC (Azerbaijan)

Eagle Ford (U.S.)

Samara Nafta (Russia)

PHASE III

(MAR 4, 2013

2015)

Further asset sales

Monetize Bakken midstream

Closed HOVENSA joint venture
refinery in St. Croix, U.S. Virgin

Islands

Closed Port Reading refinery in
New Jersey

Sale in progress

Terminal network

Exit Downstream

Retail (1,361 gas stations and
convenience stores)

Energy marketing (incl. power
plants)

Energy trading (Hetco)

UPSTREAM

DOWNSTREAM

Sales in progress

Sinphuhorm field (Thailand)

Pailin field (Thailand)

Natuna field (Indonesia)

Pangkah field (Indonesia)

Hess Has Been Aggressively Cutting Capital
Spending With More to Come in 2014

We are transitioning from a period of intense investment in our high return assets to one of increasing production yield and positive cash generation

We are substantially reducing our capital and exploration spending

2013 upstream capital expenditures reduced by 17%

2013 exploration spending reduced by 29%

Bakken expenditures are expected to be \$2.2 billion in 2013 versus \$3.1 billion in 2012, a 29% decrease
Additional reductions in capital and exploratory expenditures are planned for 2014

Additional cost reduction program underway

28

Peak

Bakken

Capex

¹ Pro forma for all announced asset sales, 2013B upstream capital expenditures expected to be \$6.2 billion.

2

Excludes exploration capital for unconventional assets.

Hess: 17 Year Outperformance vs. S&P 500

Source: Bloomberg as of March 28, 2013

Note:

Integrated

proxy

peers

include

BP,

CVX,

XOM,

RDS,

STL,
and
TOT.
29

Hess is an Efficient Operator and
Partner of Choice in the Bakken

30

Source: Bakken drilling and completion cost data for Hess represents actual Q4 2012 drilling and completion costs per well. Peer costs provided to Hess for wells where Hess has an ownership interest but is not an operator. Peer groups based on a weighted ballot. Proxy Peers include XOM/XTO, STL/BEXP, COP, OXY, and EOG. Bakken Pure Play Peers include CLR, OAS, and Efficient Bakken operator

Our Bakken well drilling and completion costs
are below or in line with our peers

We expect further cost efficiencies to result from
our shift to pad drilling

High peer participation rates in Hess wells

Bakken wells had 85% average participation rate in 2012

Exceptional Bakken well performance

Hess completed 10 of the top 25 highest 30-day initial production rate wells in 2012, including 3 of the top 5 wells

Bakken well costs continue to trend lower and we have greater confidence Hess can hit capex guidance.

Morgan Stanley, January 30, 2013

\$ 10.0

\$ 9.4

\$ 9.0

Proxy Peers

Bakken

Hess

Q4 2012 Bakken

Well Costs (\$mm / Well)

0 %

20 %

40 %

60 %

80 %

100 %

Jan

Feb

Mar

Apr

May

Jun

Jul

Aug

Sep

Oct

Nov

Dec

2012 Well Participation Rates

Average: 85%

Pure Play Peers

The Right Directors and the Right Governance to
Lead the Transformed Hess

Hess

management and Board of Directors have built the Company's world class
asset portfolio and led the strategic transformation that has been delivering
shareholder value

In August of 2012, we met with an independent search firm to help us identify
new candidates in anticipation of upcoming vacancies on our Board

We

have

identified

six

outstanding

new

independent

Directors

who

believe

in

the

value creation opportunities of the transformed Hess

These individuals have held senior leadership positions at some of the world's largest companies including Royal Dutch Shell, BP, ConocoPhillips, GE, CBS / Viacom, and Deloitte

As
a
result
of
the
proposed
changes,
13
of
the
14
Directors
will
be
independent

None of the Hess Directors are tethered to Elliott's unusual compensation scheme and flawed agenda

We also have taken the following actions to enhance our corporate governance

Formally adopting a lead independent director position with enhanced duties

Appointing John H. Mullin III as the new lead independent Director

Adopting a mandatory director retirement policy

Naming new chairpersons for each Board committee

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DELIVERING SHAREHOLDER VALUE
APRIL 2013