

# AMERADA HESS | 2005 Annual Report



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# Financial and Operating Highlights

Amerada Hess Corporation and Consolidated Subsidiaries

*Dollar amounts in millions, except per share data*

**2005** 2004

## FINANCIAL — FOR THE YEAR

Sales and other operating revenues	<b>\$ 22,747</b>	\$ 16,733
Income from continuing operations	<b>\$ 1,242</b>	\$ 970
Net income	<b>\$ 1,242</b>	\$ 977
Net income per share diluted	<b>\$ 11.94</b>	\$ 9.57
Common stock dividends per share	<b>\$ 1.20</b>	\$ 1.20
Net cash provided by operating activities	<b>\$ 1,840</b>	\$ 1,903
Capital and exploratory expenditures	<b>\$ 2,490</b>	\$ 1,650
Weighted average diluted shares outstanding – in thousands	<b>104,035</b>	102,086

## FINANCIAL — AT YEAR-END

Total assets	<b>\$ 19,115</b>	\$ 16,312
Total debt	<b>\$ 3,785</b>	\$ 3,835
Stockholders' equity	<b>\$ 6,286</b>	\$ 5,597
Debt to capitalization ratio <sup>(a)</sup>	<b>37.6%</b>	40.7%
Common stock price	<b>\$ 126.82</b>	\$ 82.38

## OPERATING — FOR THE YEAR

Production – net		
Crude oil and natural gas liquids – thousands of barrels per day		
United States	<b>56</b>	56
Foreign	<b>188</b>	190
Total	<b>244</b>	246
Natural gas – thousands of Mcf per day		
United States	<b>137</b>	171
Foreign	<b>407</b>	404
Total	<b>544</b>	575
Barrels of oil equivalent – thousands of barrels per day	<b>335</b>	342
Marketing and Refining – thousands of barrels per day		
Refining crude runs – HOVENSA L.L.C. <sup>(b)</sup>	<b>231</b>	242
Refined products sold	<b>456</b>	428

(a) Total debt as a percentage of the sum of total debt and stockholders' equity.

(b) Reflects the Corporation's 50% share of HOVENSA's crude runs.

See Management's Discussion and Analysis of Results of Operations.



**JOHN B. HESS**  
Chairman of the Board and  
Chief Executive Officer

## To Our Stockholders:

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In 2005, we made significant progress in executing our strategy to grow shareholder value over the long term. That strategy is to grow reserves and production in a sustainable and financially disciplined manner and to deliver consistent financial performance from our Marketing and Refining assets for more immediate returns and free cash flow.

Our Corporation delivered another year of strong operating and financial results. Earnings rose to a record \$1.2 billion as the effect of higher crude oil and natural gas prices more than offset the negative impact on production from Hurricanes Katrina and Rita. Our capital and exploratory expenditures in 2005 totaled \$2.5 billion, of which approximately \$2.4 billion was invested in Exploration and Production and about \$100 million in Marketing and Refining. Our Exploration and Production expenditures included more than \$1 billion for field developments.

In Exploration and Production, we made substantial progress in advancing our field developments, building a high-impact exploration program and capturing long-term growth opportunities through several new country entries. Our proved reserves increased to 1.1 billion barrels of oil equivalent at year-end, and we replaced approximately 140% of our production at a finding, development and acquisition cost of about

\$13.60 per barrel. Our reserve life improved to 8.8 years, marking the third consecutive year in which we have lengthened our reserve life. We are building a sustainable and profitable business with excellent visibility of growth in reserves and production.

In Marketing and Refining, we continued to grow our retail and energy marketing businesses and delivered strong operating performance at our refineries. Our tightly focused regional business model and well known brand allow us to be very competitive and generate strong financial performance.

### **EXPLORATION AND PRODUCTION**

In 2005, significant progress was made in our major field developments, including three new field start-ups – Block A-18 in the Joint Development Area between Malaysia and Thailand (JDA), the Clair Field in the United Kingdom, and ACG Phase I in Azerbaijan. In addition, the Phu Horm gas development in Thailand was sanctioned in 2005. Approvals of the Shenzi development in the deepwater Gulf of Mexico and the Ujung Pangkah oil development in Indonesia are expected during 2006. Over the next several years, we will bring on production from major new field developments in the deepwater Gulf of Mexico, the North Sea, West Africa and Southeast Asia. All of our operated development projects continue to be on schedule and on budget.

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With regard to exploration, we added new acreage in Libya, Egypt, Brazil and the deepwater Gulf of Mexico. Our drilling program for 2006 includes approximately seven high-impact wells in the Gulf of Mexico.

As part of our strategy to add profitable, long-lived reserves, we established operations in two new countries, Russia and Egypt, and re-entered our former operations in Libya.

- In early 2005, Amerada Hess acquired a controlling interest in the Samara-Nafta joint venture in the Volga-Urals region of Russia and added additional assets and licenses to the venture during the year. We currently have invested about \$400 million in Russia and have recognized 87 million barrels of proved reserves.
- Amerada Hess acquired a 55% interest in, and the operatorship of, the deepwater portion of the West Med Block in Egypt. The block contains existing natural gas discoveries as well as exploration opportunities.
- After a 19-year absence, we, along with our Oasis Group partners, successfully concluded negotiations to resume operations in Libya where we have an 8% interest in the Waha concessions. We began to recognize production and reserves in 2006.

### MARKETING AND REFINING

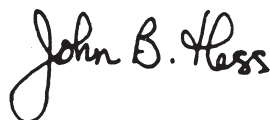
Marketing and Refining had another impressive year of performance in 2005. The HOVENSA and Port Reading refineries both underwent successful turnarounds of their fluid catalytic cracking (FCC) units in the first quarter and benefited from an exceptional year of strong margins. Despite a challenging hurricane season and warmer than normal winter temperatures, our retail and energy marketing businesses also delivered another year of strong operational results. Retail marketing experienced solid growth in 2005, with year-over-year average gasoline volumes per station increasing by 7%, and convenience store revenue rising by 4%.

### FINANCIAL POSITION

In 2005, Amerada Hess Corporation reported record net income of \$1.2 billion, or \$11.94 per share. Exploration and Production earned nearly \$1.1 billion and Marketing and Refining earned \$515 million. As a result of strong operating performance and the favorable pricing environment in 2005, our debt to capitalization ratio improved by three percentage points to 37.6 percent at the end of the year.

In response to the tragic devastation caused by Hurricanes Katrina and Rita, the Corporation and our employees donated \$1.6 million to the American Red Cross to assist in the relief efforts in the Gulf Coast. In addition, the Corporation donated 50,000 of our 2005 Hess Toy Trucks to the United States Marine Corps Reserve Toys for Tots program, which were distributed to children impacted by the storms.

We are pleased with the performance of our assets and our organization in 2005 and remain optimistic that the investments we are making for the future will grow our reserves and production profitably and create sustainable long-term value for our shareholders. We deeply appreciate our employees for their dedication and hard work, our Directors for their guidance and leadership, and our stockholders for their continued interest and support.



**JOHN B. HESS**

Chairman of the Board  
and Chief Executive Officer  
March 1, 2006

# Exploration & Production

## PRODUCTION

The first quarter of 2005 saw the start-up of three field developments: Block A-18 (AHC 50%) in the Joint Development Area between Malaysia and Thailand, the Clair Field (AHC 9%) in the United Kingdom, and ACG Phase I (AHC 3%) in Azerbaijan. In addition, the BTC pipeline (AHC 2%), which will move crude oil from Azerbaijan to the Mediterranean port of Ceyhan in Turkey, commenced line-fill in the second quarter of 2005 and is expected to reach completion in the second quarter of 2006.

In 2005, we acquired a controlling interest in the Samara-Nafta joint venture in the Volga-Urals region of Russia and added additional assets and licenses to the venture during the year. As of the end of the year, we had invested about \$400 million in Russia and had



OPERATIONS IN LIBYA

recognized 87 million barrels of proved reserves. Net production from this region is expected to grow to between 12,000 and 15,000 barrels per day in 2006 from 6,000 barrels per day in 2005.

In North Dakota, Amerada Hess is the leading oil and gas producer in the State. In 2005, the Corporation acquired an additional 64,000 acres in the Williston Basin, making us one of the largest acreage holders in the North Dakota Bakken Shale resource play. Last year we participated in 12 wells in this play with encouraging results and will continue to evaluate this area in 2006.

In 2005, Amerada Hess produced 335,000 barrels of oil equivalent per day, compared to 342,000 barrels per day in 2004. This decline in production resulted primarily from the impact of Hurricanes Katrina and Rita, which reduced full-year production by an average of 7,000 barrels of oil equivalent per day. Although our deepwater production facilities were largely undamaged, we were affected by outages in downstream transportation and processing infrastructure. Also impacting 2005 production was temporary downtime at some non-operated fields in the United Kingdom, which reduced 2005 production by an average of 5,000 barrels of oil equivalent per day. The vast majority of the production impacted by these events was restored by the end of the year.

In 2006, we forecast worldwide oil and gas production to average between 360,000 and 380,000 barrels of oil equivalent per day. The increase in production in 2006 is anticipated from the addition of oil production from the Waha concessions (AHC 8%) in Libya, the start-up of the Atlantic (AHC 25%) and Cromarty (AHC 90%) Fields in the United Kingdom sector of the North Sea, and a full year of production from the Malaysia/Thailand JDA.



TENSION-LEG PLATFORM FOR OKUME COMPLEX UNDER CONSTRUCTION IN KOREA

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## DEVELOPMENT

In Equatorial Guinea, the Okume Complex development (AHC 85%) is on track to commence production in early 2007, with peak net production estimated at 40,000 barrels of oil per day. We are pleased to report that we have been able to keep this project on budget and on schedule in an environment of rapidly increasing costs for materials and services.

The fabrication of the Ujung Pangkah (AHC 75%) gas platform and onshore processing facility began in 2005. The project is on schedule to commence natural gas production by early 2007 at a rate of about



**JOINT DEVELOPMENT AREA, MALAYSIA/THAILAND**

75 million cubic feet per day net to our Corporation. In addition, discussions are underway with Indonesian authorities regarding expanding the project to include development of the oil resources on the block.

In 2005, we signed a gas sales agreement with Thai authorities and reached agreement with our partners to proceed with the development of the Phu Horm gas project (AHC 35%) in Thailand. Production is expected to commence around the end of 2006 and plateau at a net rate of about 35 million cubic feet per day.

Approval of the plan of development for the Shenzi discovery (AHC 28%) in the deepwater Gulf of Mexico is expected in 2006 at which time the Corporation will recognize initial reserves.

The Corporation acquired a 55% working interest in the deepwater section of the West Mediterranean Block 1 Concession, in the Arab Republic of Egypt, for \$413 million. The deepwater portion of the block has four existing gas discoveries which will be developed as well as exploration opportunities.

## EXPLORATION

Our deepwater Gulf of Mexico portfolio is strong and will be the focus of near-term exploration drilling. In 2006, in the deepwater Gulf of Mexico, we intend to participate in approximately seven high-impact wells. Appraisal of the Tubular Bells discovery (AHC 20%) in Mississippi Canyon Block 725 is also expected in 2006. This portfolio of prospects has the potential to add significant reserves and create substantial value for the Corporation.

Our international exploration portfolio is growing. In 2005, we enhanced our prospect portfolio, adding offshore acreage in Libya, Egypt and Brazil. In 2006 we will focus on acquiring, processing and interpreting seismic data in these areas with wildcat drilling occurring in future years. The focus of our appraisal and exploitation drilling program in 2006 will be in Southeast Asia at the Malaysia/Thailand JDA and the delineation of the Belud discovery (AHC 40%) offshore the Malaysian state of Sabah. In addition, we will study the commerciality of a recent discovery on Block 64 in Peru (AHC 25%).



# Exploration & Production: Global Operations



# Marketing & Refining

## REFINING

Solid operating performance and record refining margins resulted in strong earnings for our refining business. During the first quarter of 2005, we successfully completed major turnarounds of the FCC units at HOVENSA and Port Reading and are on schedule to meet clean fuel requirements for ultra-low sulfur gasoline and diesel fuel at both of our refineries.

The HOVENSA refinery in the United States Virgin Islands is jointly owned by the Corporation and Petroleos de Venezuela S.A. (PDVSA) and is one of the largest refineries in the world. The facility is strategically positioned and enjoys significant economies of scale.



HESS EXPRESS RETAIL FACILITY IN MASSACHUSETTS

The refinery has 500,000 barrels per day of crude distillation capacity and a 150,000 barrel per day FCC, which allow it to make a significant volume of high quality gasoline and distillates. In addition, the refinery has a 58,000 barrel per day delayed coking unit, which enables the refinery to process lower cost heavy crude oils. Gross crude runs at the refinery averaged 461,000 barrels per day in 2005. Crude runs were below 2004 levels primarily as a result of the turnaround of the refinery's FCC. After the completion of the turnaround, the refinery ran at higher rates, which allowed HOVENSA to benefit from the strong refining margin environment.

The Corporation also operates an FCC unit located in Port Reading, NJ, which produces clean-burning gasoline and heating oil for markets in the northeast. The facility averaged feedstock runs of about 55,000 barrels per day and benefited from favorable product margins in 2005.

## SUPPLY & TERMINALS

The Corporation operates twenty-two East Coast terminals that provide a competitive advantage in supplying our Retail and Energy Marketing networks. In 2005, the oil industry experienced major supply disruptions as a result of Hurricanes Katrina and Rita. During this challenging period, our Supply and Terminal operations managed to keep our HESS Retail and Energy Marketing customers supplied with refined products.

## ENERGY MARKETING

Our Energy Marketing business is an important supplier of natural gas, fuel oil and electricity to commercial and industrial customers located on the East Coast, as well as a supplier of natural gas to several large utilities in this region. Our acquisitions of the natural gas marketing businesses of First Energy Solutions and EnLine Solutions in 2005 contributed to increasing commercial and industrial natural gas sales volumes. During the year, we maintained our market-leading position in fuel oil sales to commercial and industrial accounts in the northeast.

## RETAIL MARKETING

The HESS retail network continued to expand in 2005, further solidifying our position as the leading independent gasoline convenience store marketer on the East Coast. In June of 2005, our WilcoHess joint venture acquired 101 retail sites in North Carolina through the acquisition of Trade Oil Company. During 2005, the Corporation built eight new retail sites and acquired an additional five locations. We also constructed 17 new convenience stores at existing HESS retail sites. The Corporation plans to continue this opportunistic growth through selective acquisitions and new site development in key East Coast markets.



REFINERY IN ST. CROIX, U.S. VIRGIN ISLANDS

# Corporate and Social Responsibility

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Amerada Hess' Environment, Health, Safety and Social Responsibility program supports the Corporation's overall strategy and values. We remain committed to safeguarding the health and safety of our employees and neighbors, protecting the environment and providing sustainable benefits to the communities where we operate.

In 2005 the Corporation met its targets for safety improvement, achieving its best safety performance ever. This achievement was accomplished while the Corporation was expanding into new and more difficult areas of operation.

We recognize that our operations will impact the environment and we manage those impacts through a disciplined internal control system. We remain committed to compliance with all environmental laws and regulations wherever we operate and often go beyond those requirements when appropriate. We have a well developed and rigorous environment, health and safety audit program that evaluates our performance and ensures that potential concerns are rapidly addressed.

Working with the communities where we operate, the Corporation provided over \$2.5 million of direct benefits in the form of education, health and sanitary improvement projects. These ranged from building and rehabilitating schools in West Africa and Asia to supporting health clinics and emergency health services in North Africa, Asia and the Far East. In the United

States, our operations and employees are providing needed support in both time and money to local community development and civic organizations.

The Corporation's commitment to provide necessary emergency relief to communities and individuals impacted by natural disasters was again demonstrated in 2005. Working with international relief organizations, we provided over \$2 million to address the impacts of the late 2004 tsunami in Asia. In response to the devastation caused by Hurricanes Katrina and Rita in the United States, we and our employees provided \$1.6 million of immediate direct aid. Recognizing that families, especially children, impacted by the hurricanes were struggling to regain a sense of normalcy, we also provided 50,000 Hess Toy Trucks to the United States Marine Corps Reserve Toys for Tots program.

The Corporation works voluntarily with international organizations in support of human rights, environmental protection and good governance. In 2005 we published our eighth annual report on Environment, Health, Safety and Social Responsibility which details our commitment and performance in these areas.



U.S. MARINE CORPS RESERVE TOYS FOR TOTS PROGRAM

# Amerada Hess Corporation

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## BOARD OF DIRECTORS

**John B. Hess**<sup>(1)</sup>  
Chairman of the Board  
and Chief Executive Officer

**Nicholas F. Brady**<sup>(1) (3) (4)</sup>  
Chairman, Choptank  
Partners, Inc.;  
Former Secretary of the  
United States Department  
of the Treasury;  
Former Chairman,  
Dillon, Read & Co., Inc.

**J. Barclay Collins, II**  
Executive Vice President  
and General Counsel

**Edith E. Holiday**<sup>(2) (4)</sup>  
Corporate Director  
and Trustee;  
Former Assistant to  
the President and  
Secretary of the Cabinet;  
Former General Counsel  
United States Department  
of the Treasury

**Thomas H. Kean**<sup>(1) (3) (4)</sup>  
President, THK  
Consulting, LLC;  
Former President,  
Drew University;  
Former Governor,  
State of New Jersey

**Risa Lavizzo-Mourey**<sup>(2)</sup>  
President and Chief  
Executive Officer, The Robert  
Wood Johnson Foundation

**Craig G. Matthews**<sup>(2)</sup>  
Former Vice Chairman and  
Chief Operating Officer,  
KeySpan Corporation;  
Former Chief Executive Officer  
and President, NUI, Inc.

**John J. O'Connor**  
Executive Vice President;  
President, Worldwide  
Exploration & Production

**Frank A. Olson**<sup>(2) (3)</sup>  
Former Chairman of the Board  
and Chief Executive Officer,  
The Hertz Corporation

**Ernst H. von Metzsch**<sup>(3)</sup>  
Managing Member,  
Cambrian Capital, L.P.;  
Former Senior Vice President  
and Partner,  
Wellington Management  
Company

**F. Borden Walker**  
Executive Vice President;  
President, Marketing and  
Refining

**Robert N. Wilson**<sup>(1) (2) (3)</sup>  
Chairman, Caxton Health  
Holdings LLC;  
Former Senior Vice Chairman  
of the Board of Directors,  
Johnson & Johnson

<sup>(1)</sup> Member of Executive Committee

<sup>(2)</sup> Member of Audit Committee

<sup>(3)</sup> Member of Compensation  
and Management  
Development Committee

<sup>(4)</sup> Member of Corporate  
Governance and  
Nominating Committee

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## CORPORATE OFFICERS

**John B. Hess**  
Chairman of the Board  
and Chief Executive Officer

**J. Barclay Collins, II**  
Executive Vice President  
and General Counsel

**John J. O'Connor**  
Executive Vice President;  
President, Worldwide  
Exploration and Production

**F. Borden Walker**  
Executive Vice President;  
President, Marketing and  
Refining

### SENIOR VICE PRESIDENTS

B.J. Bohling  
E.C. Crouch  
J.A. Gartman  
S.M. Heck  
L.H. Ornstein  
H. Paver  
J.P. Rielly  
Chief Financial  
Officer  
G.F. Sandison  
J.J. Scelfo  
R.P. Strobe

### VICE PRESIDENTS

G.C. Barry  
Secretary  
G.I. Bresnick  
D.K. Kirshner  
R.J. Lawlor  
J.J. Lynett  
H.I. Small  
E.S. Smith  
J.C. Stein  
R.J. Vogel  
Treasurer  
P.R. Walton  
K.B. Wilcox  
Controller  
J.R. Wilson

## **COMMON STOCK**

### **Listed**

New York Stock Exchange  
(ticker symbol: AHC)

### **Transfer Agent**

The Bank of New York  
Shareholder Relations  
Department-11E  
P.O. Box 11258  
Church Street Station  
New York, New York 10286  
1-800-524-4458  
e-mail: [shareowner-svcs@bankofny.com](mailto:shareowner-svcs@bankofny.com)

### **Registrar**

The Bank of New York  
Shareholder Relations  
Department-11E  
P.O. Box 11258  
New York, New York 10286  
1-800-524-4458

## **7% MANDATORY CONVERTIBLE PREFERRED STOCK**

### **Listed**

New York Stock Exchange  
(ticker symbol: AHCPR)

## **CORPORATE HEADQUARTERS**

Amerada Hess Corporation  
1185 Avenue of the Americas  
New York, New York 10036  
(212) 997-8500

## **OPERATING OFFICES**

### **Exploration and Production**

Amerada Hess Corporation  
One Allen Center  
500 Dallas Street  
Houston, Texas 77002

Amerada Hess Limited  
33 Grosvenor Place  
London SW1X 7HY  
England

### **Marketing and Refining**

Amerada Hess Corporation  
1 Hess Plaza  
Woodbridge, New Jersey 07095

## **DOCUMENTS AVAILABLE**

Copies of the Corporation's 2005 Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and its annual proxy statement filed with the Securities and Exchange Commission, as well as the Corporation's Code of Business Conduct and Ethics, its Corporate Governance Guidelines, and charters of the Audit Committee, Compensation and Management Development Committee and Corporate Governance and Nominating Committee of the Board of Directors, are available, without charge, on our website listed below or upon written request to the Corporate Secretary, Amerada Hess Corporation, 1185 Avenue of the Americas, New York, New York 10036.  
e-mail: [corporatesecretary@hess.com](mailto:corporatesecretary@hess.com)

The Corporation has also filed with the New York Stock Exchange ("NYSE") its annual certification that the Corporation's chief executive officer is unaware of any violation of the NYSE's corporate governance standards. The Corporation has also filed with the SEC the certifications of its chief executive officer and chief financial officer required under SEC Rule 13a-14(a) as exhibits to its 2005 Form 10-K.

## **ANNUAL MEETING**

The Annual Meeting of Stockholders will be held on Wednesday, May 3, 2006 at 2:00 P.M., 1 Hess Plaza, Woodbridge, New Jersey 07095.

## **DIVIDEND REINVESTMENT PLAN**

Information concerning the Dividend Reinvestment Plan available to holders of Amerada Hess Corporation Common Stock may be obtained by writing to The Bank of New York Dividend Reinvestment Department, P.O. Box 1958, Newark, New Jersey 07101

## **Amerada Hess Website**

[www.hess.com](http://www.hess.com)

**AMERADA HESS CORPORATION**

1185 Avenue of the Americas  
New York, New York 10036

<http://www.hess.com>



