

Hess Corporation

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1:30 PM ET**

Edward Westlake:

Great. Well, thanks everyone. Next up, we're very happy to have John Hess, the CEO of Hess, and sitting up on the podium, the head of Upstream, Greg Hill, and somewhere in the audience, Jay Wilson. Obviously, you know that there's been a lot of asset sales and that's repaired the balance sheet, and we've got buybacks going on. But one of the things I hope that comes out today is also some of the improving dynamics of the core portfolio, which I think is really going to demonstrate some cash generation and even free cash generation over the next couple of years.

So thanks very much, John.

John Hess:

Thank you. Morning all and again, thank you, Ed, and Credit Suisse for hosting this conference, as well as all of you in the audience that are going to listen to the presentation, for your interest in the company. Before I get started, just talk about this slide number two, which is the information regarding projections and other forward-looking statements used in today's presentation. And we'll get started.

By any measure, 2013 was a remarkable year of progress for our company. As many of you know, we put in a plan in 2010, which we accelerated in 2013 to transform Hess into a pure play E&P company with increased production visibility and lower risk. We have substantially accomplished that goal and look forward to carrying our momentum into 2014.

Our plan, which has the unanimous support of our Board, is first to deliver 5% to 8% production growth to 2017 off of 2012 pro forma, and second, to be free cash flow positive starting in 2015 based upon a \$100 (inaudible). We believe that is a great investment proposition.

We have built a focused, world class portfolio of oil and gas assets, based upon the balanced, three-pronged approach, while managing risk among one, unconventional, two exploitation of discovered resources, and three, a smaller, more focused exploration program. Our high visibility production growth is underpinned in the near term by assets with relatively low execution risk, highest leverage to oil prices in our peer group, and industry leading cash margins. These assets include the Bakken in North Dakota, Tubular Bells in the Deep Water Gulf, and Valhall in Norway. In the outer years, we will benefit from the

North Malay Basin Project in Malaysia and the emerging Utica Shale Play in Ohio.

Our portfolio is focused in five key areas, which I will cover later, representing 80% of our reserves and 87% of our production where we have proven competitive operating capabilities in unconventional and offshore drilling developments and production. In 2013, we took several key steps financially. We generated \$7.8 billion in proceeds from asset sales completed or announced. Initial proceeds were used to strengthen our balance sheet to give us the financial flexibility to fund growth. We paid down \$2.4 billion of short-term debt, funded a cash flow deficit of over \$1 billion in 2013, and added \$1 billion cash cushion to our balance sheet against future commodity price volatility.

Excess proceeds from our assets sales allowed us to provide current returns, cash returns to our shareholders and begin a share repurchase program in August of up to \$4 billion. To date, we have purchased \$2 billion of our stock, our share repurchase program is ongoing, and also in September of 2013, we increased annual dividends by 150% to \$1 per share. We are also committed to creating additional shareholder value through ongoing portfolio optimization, through our recent sale of our dry gas acreage in the Utica, and monetization of our Bakken midstream expected in 2015.

In terms of the Utica sale, while our wells in the dry gas window were highly productive, our forecast returns at current and projected natural gas prices did not justify further capital commitments when compared to other investment opportunities in our liquids rich portfolio. This sale will generate proceeds in excess of those associated with the March 4, 2013 divestiture program and will be used for additional share repurchases. This transaction demonstrates our continuing commitment to allocating capital to the highest returns.

Now, our scorecard. This slide shows that we have made significant progress in a very short period of time, reflects the successful execution of our plan, and that we are doing what we set out to do and more. We divested more than 50% of our E&P assets over four years, bringing focus and balance to our portfolio, while building leadership positions in the Bakken and Utica, as well as attractive offshore assets with long lives, high returns, and strong cash flows. We substantially exited the downstream, closing our refineries and selling our energy marketing and terminals businesses. As said earlier, our asset sales program generated proceeds to provide financial flexibility to fund future growth, and also provide current returns to our shareholders. In sum, we are delivering on our commitments.

Now, let's talk about our divestiture program. This is based upon what we announced last year in 2013 for divestitures where we generated \$7.8 billion in total proceeds from the asset sales completed and announced. With respect to those divestitures still in progress, Asta Hess Retail, we received late last year a private letter ruling from the SEC, enabling us to pursue a tax free spend. And on January 8 of this, filed a Form 10 to do so.

We have also started a parallel third party process to determine which alternative maximizes value. Sale of our Thailand assets are well underway and we expect to be able to make an announcement early this year. Divestment of our 50% interest in our energy trading joint venture, Hetco, is also ongoing, and we anticipate conclusion of this process later in 2014.

We are also working aggressively to structure our Bakken midstream assets in a way to allow monetization without loss of operating control, most likely through an MLP vehicle. We expect this event to occur no later than 2015 and will provide additional cash returns above and what I've talked about to our shareholders.

This slide shows our E&P portfolio, highly focused in five key areas, representing approximately 80% of our reserves and 87% of our production. These geographies are where Hess is competitively advantaged with proven operating capabilities with premier positions in unconventional, the Bakken and Utica shale plays, as well as with long life assets with significant cash generation in the North Sea shallow water chalk reservoirs, Valhall Field in Norway, South Arne in Denmark, and in shallow water Gulf of Thailand with the joint development area, or JDA, and the North Malay Basin as well as with projects with high returns in cash flow generation, offshore Equatorial Guinea and Deep Water Gulf of Mexico. In short, we have built a portfolio of long life, high margin assets with highly visible growth.

Speaking of growth, our plan calls for 5% to 8% compound annual growth rate to 2017 from a pro forma 2012 base. It is a clear line of sight. The opportunities are captured and it is simply an execution story. Underpinned in the near term by the Bakken, Tubular Bells, and Valhall, and in the outer years, we will benefit from the North Malay Basin and emerging Utica Shale Play in Ohio. Exploration does not factor into this forecast but offers optionality and significant upside after 2017, examples being Ghana and potentially Kurdistan, as well as the Deep Water Gulf.

In terms of our portfolio, it's highly leveraged to oil and liquids. Among our peers, we are the highest, 79% on 2012 pro forma reserves. Also, 76% on pro forma 2013 estimated production. Only 7% of our portfolio is exposed to US natural gas. This portfolio gives us a big advantage in terms of cash flow generation and margins, which you can see on slide nine.

These numbers are also industry leading. Our strategic portfolio reshaping has continued to enhance our cash margins, while we do not yet have competitor data for our peers in 2013, our pro forma cash margin increased in 2013 from the prior year to approximately \$56 per barrel of oil equivalent.

On the financial side, we have taken steps to ensure that we have the ability to fund future growth while also increasing cash returns to our shareholders, a unique and compelling value proposition. We expect a combination of increasing cash flow from operations, substantial reductions in capital and exploratory expenditures, and an ongoing cost reduction program to result in positive free cash flow starting in 2015. Along with a strong balance sheet, we are positioned well to fund our future growth opportunities and provide additional cash returns to our shareholders.

Now, let's talk about some of the key assets that will underpin our growth going forward and generating the high returns that we anticipate. Let's turn to the Bakken. Between 2005 and 2010, we tripled down in the Bakken, building a premier leadership acreage position. Hess is one of the two largest oil and gas producers in arguably the best shale oil play in the world. Our wells there are among the lowest cost, and most productive, generating high rates of return.

In 2014, we have increased our rig count to 17 from 14 last year and expect net production from the Bakken to average between 80,000 and 90,000 barrels per day this year. On our recent earnings call, we raised our long-term production guidance to a peak of net 150,000 barrels a day of oil equivalent in 2018 from our prior guidance of net 120,000 barrels a day of oil equivalent in 2016. We have also increased the number of total well locations to 3,100 from 2,500 as well as our estimate of recoverable resources to 1.2 billion barrels of oil equivalent from 1 billion barrels of oil equivalent.

These estimates, and it's important to note this, are based upon spacing per 1,280 acres of five wells per Middle Bakken and four wells per Three Forks, and that five well number is about 250 acre spacing. During 2014, we will also be testing tighter spacing pilots of 7 and [6-7] for the Middle Bakken, 6 for the Three Forks, per 1,280 acres and on that 7, that's about 180 acre spacing, to determine if there is additional upside in our estimate for future production and resources. Put simply, the Bakken has gotten bigger and better.

I want to illustrate on this slide our outstanding drilling and completion performance led by Greg and his team, achieved by our organization up in the Bakken. Spud to spud days and drilling and completion costs were down more than 40% from their peaks. Our guiding philosophy in the Bakken is to drill the highest return wells. While costs are an important part of this equation, so is the well's productivity. In that regard, the 30-day initial production chart on the bottom right shows that we have completed 16 or about one-third of the top 50 Bakken wells since 2012. This combination of a significantly improving Bakken well costs and above average well productivity is expected to achieve top quartile returns on our investment in the Bakken.

Our infrastructure investment in the Bakken also provides a competitive advantage and creates value for our shareholders in terms of flexibility to access the highest value markets for our production and maximizes the value per barrel of oil equivalent. Monetization of our midstream Bakken assets is planned for 2015.

Now, the Utica. Our position there in the wet gas window is one of the premier ones and that's where we will be focusing our efforts going forward. While we recently sold our dry gas acreage for \$924 million to AEP in January, we are planning to drill 32 wells in our wet gas acreage as part of our joint venture with CONSOL. As we said in our conference call, we anticipate returns on our Utica wet gas acreage comparable to those that we see in the Bakken in part due to our acreage having very high net revenue interests.

Moving to the North Sea, the Valhall Field where we have a 64% working interest is long life, material resource that generates free cash flow with untapped potential in terms of unbooked resources and production growth. The redevelopment project completed early last year extended fuel life by 40 years. BP, the operator, plans to bring three new wells online this year. BP has embarked on a multiyear drilling program that should see net production increase from 23,000 barrels a day equivalent in 2013 to a range of 40,000 to 50,000 barrels per day of oil equivalent by 2017. For 2014, we forecast net production to average between 30,000 and 35,000 barrels of oil equivalent per day.

South Arne in the Denmark sector of the North Sea, where we have a 61% interest and are the operator, it's a chalk field there, which generates high margins and cash flow, and it has good exploitation upside. Production is expected to average about 9,000 barrels of oil equivalent per day currently and to increase to between 15,000 and 20,000 barrels of oil equivalent per day in 2017. And the skills and operating capability that we have here in Denmark is transferable to the Norwegian Chalk Field that we have in Valhall, and our people are working closely with BP to share those learnings and hopefully translate to improved performance of the Valhall asset.

Moving to West Africa, Hess operates with an 81% working interest, the Deep Water Sabah, and Okume Field complexes, which are material contributors to production and generate high margins and strong cash flows. 4D seismic has resulted in additional high value drilling opportunities to maintain production in the range of 40,000 to 45,000 net barrels of oil equivalent per day through 2015.

Our natural gas assets in the Gulf of Thailand are long life, low risk, and low cost with oil length processing and exploratory upside, and will be significant cash generators for the next two decades. These are assets that are very unusual to have in an oil and gas portfolio and I think our shareholders are very lucky to have these types of assets going forward.

The joint development area or JDA shown here where we have a 50% working interest, and Petronas is our joint venture partner with the other 50%, has additional exploitation opportunities, which should enable us to maintain net production in the range of net 250 million cubic feet per day for the foreseeable future.

In terms of the North Malay basin, which is directly to the south of the JDA, Hess operates with a 50% working interest, again with Petronas being our partner. This North Malay basin project encompasses low risk development of nine discovered natural gas fields. Early production commenced in the fourth quarter of last year and net production is expected to average 40 million cubic feet a day net to Hess through 2016. Full field development is planned to increase net production to net 165 million cubic feet a day starting in 2017. To put some perspective on this, combining our North Malay basin production with that of the JDA, we anticipated by 2017 that our Gulf of Thailand assets will produce an average of approximately net 70,000 barrels of oil equivalent per day for the next two decades compared to net 46,000 barrels of oil equivalent per day in 2013.

The next slide covers the Deep Water Gulf of Mexico. The Deep Water Gulf is an important part of our portfolio that on average should contribute on the order of 70,000 barrels a day equivalent through 2017 with high margins and strong cash flows. We operate and are currently developing Tubular Bells, and also as operator, are currently in the predevelopment stage for the Stampede Field that used to be known as Pony and Knotty Head, with the sanction of Stampede hopefully targeted later this year.

In addition, we have exploration acreage in both the Miocene and Paleogene Deep Water plays. Our focus in 2014 will be to mature prospects, to seek partners, to share risk and then also fund drilling with exploration drilling planned to resume in 2015.

Now, Tubular Bells itself continues to advance. Hess has a 57% interest and is operator of this project. Chevron is a partner with the remaining 43% interest. Production is on schedule and planned to commence in the third quarter of 2014 with a net rate of 25,000 barrels a day of oil equivalent. Recent drilling results are encouraging and indicate potential upside in both production and reserves.

In terms of our exploration activities, now, let's talk about Ghana in the West Africa Deep Water. Hess is operator and has a 90% working interest in Deep Water Tano Cape Three Points block in Ghana where we have made seven consecutive discoveries. We are currently awaiting final government approvals of our appraisal plan. We'll advance in that regard as well as seeking a partner to share risk and help us meet future funding needs.

In Kurdistan, Hess's operator has a 64% working interest, which is in Kurdistan one of the largest underdeveloped petroleum provinces in the world. We have two exploration blocks there. We are currently drilling our shock rock prospect and plan on production testing at the end of this quarter and we also anticipate spudding our Shireen prospect this quarter as well.

So in summary, I hope what you will find now is that Hess is an exciting investment opportunity. We have built a focused and balanced world class portfolio of oil and gas assets that, one, will deliver 5% to 18% production growth to 2017 and also secondly, be cash flow positive starting in 2015. 2013 was a remarkable year by any standard in executing our plan in terms of assets sales and operating performance. We are doing what we set out to do and more.

We look forward to carrying this momentum in 2014 to drive growth, enhance returns, and create long-term value for our shareholders. Thank you for listening.

Edward Westlake:

Questions? Maybe I'll kick one off maybe for Greg on the Bakken. Sitting here this morning, EOG were talking about the 900 barrel EUR that they got out of this extended lateral and obviously, probably, putting a lot of energy into the reservoirs. What do you think is driving their ability to get higher EURs relative to what you're targeting? And any changes to your -- on how you develop the field?

Greg Hill:

Yes, I think EOG, we participate in a couple of wells with EOG, and what EOG is trying to do is get a shorter frac but a taller frac. And the way you do that is with more frac stages. I think it's still early days to make a determination on whether that's a superior completion technique or not. Why do I say that is, because it's a lot more expensive than a sliding fleet completion. So you have to look, again, you have to look at the combination of productivity and cost to be able to make a determination is that the highest return Bakken completion. To be sure, it's got a higher IP rate and probably higher EUR, but it may not be the highest return. We're focused on what is the highest return technique in the Bakken. So that's where we're focused.

Edward Westlake:

A question for John. You mentioned free cash flow positive, but as I look at the assets, the Bakken is going to be free cash flow positive at some point once you get past production and infrastructure. Valhall is going to be free cash, North Malay is going to be free cash. I mean it feels like the free cash might be a little bit higher than perhaps the market is perhaps thinking today when you look at

the shares. But what are your thoughts about what to do with that free cash flow in terms of returns to shareholders and longer-term growth?

John Hess: First principle we will be guided by is allocating capital to the highest returns. We have a very healthy portfolio of investment opportunities to be able to build upon our 5% to 8% production growth trajectory, and obviously one call on capital will be able to sustain that growth in the future past 2017, among some of the growth options that I even mentioned in this presentation.

But at the same time, we want to balance that topline growth with increasing returns to shareholders as well, and basically, it will be a balanced approach in terms of growing the company but also increasing returns to our shareholders once we get through the Bakken monetization.

Edward Westlake: On the Bakken, switching back, well costs have been coming down for the industry and you showed some good slides just showing how the efficiency has been improving. Are we at the bottom of the well reduction or is there further waste that can be eliminated?

John Hess: Yes, I think the industry has been focused on kind of the low hanging fruit I guess I would say, which we have, which is all around completion design and can you chop out the big waste. Where the industry is moving now is firmly in this continuous improvement loop and there's still a lot of potential. We think we have a unique capability in lead manufacturing because we have a unique set of individuals that came from another company that I used to run. And so now, we're on this lean manufacturing approach, which is a continuous improvement, every day cost coming out. So even though we finished the quarter at 7.6, we're confident we can get those costs lower. But it's going to be more of the continuous improvement. I don't think there's any major breakthroughs in terms of getting that cost substantially lower.

Edward Westlake: Your production guidance is based on 5 and 4, I think, the recent rate in the Bakken. You're testing tighter spacing and maybe even beyond what you've spoken about today. When do you think we'll get to have enough information for you to then recast what you think is going to be the output from your Bakken?

John Hess: Thanks for that, Ed. I think what we're shooting for is by year-end, 2014, to have a definitive determination on what tighter in-field spacing will go to. Importantly, for another reason, not only so we know what the future development is but also because with the MLP, in the Bakken we want to be able to firmly display that growth trajectory to the MLP partners or what we do there.

Edward Westlake: And that is a good segue to the MLP, which is, and obviously, it's still a little early, but do you see that as a growth vehicle or is it just a monetization of your existing assets?

John Hess: It's a growth vehicle for sure. It will most likely get a higher valuation as an MLP than in Hess stock, per se, which is why we think there's a value arbitrage that we can create there for our shareholders. But when we think about the MLP, we want to get a couple of months of EBITDA performance once the Tioga gas plant expansion is on. We also want to see where the 5 and 4 well spacing potentially going to 7 and 6 go. But as you think about growth as an

investment vehicle, there are opportunities in infrastructure just in the Hess assets that maybe would have been more capital deprived if we kept it in Hess. By putting it in the MLP, we can accelerate it. But we also think that MLP, in addition to reflecting Hess's growth in the Bakken, will potentially be one of the leaders in infrastructure that maybe there would be consolidation opportunities for later down the line.

Edward Westlake: And a question on the retail, switching topics. Obviously, soon to be not part of the portfolio, but do you think that could be as viable as a standalone company and do you think it's better to maybe sell the asset or spin it to current shareholders, or -- ?

John Hess: It's all about what maximizes value for shareholders. The Hess retail chain is one of the largest convenience store chains, certainly the largest along the East Coast. So it's certainly viable as an entity. That's why the Form 10 was filed and that opportunity offers a great monetization opportunity, return of capital for our shareholders. At the same time, we're pursuing a dual track where asset buyers can come in and we're going to be guided by what maximizes value for our shareholders. And that should be somewhere I'd say in the second quarter that we can give that definition.

Edward Westlake: Thank you. Well, we're out of time but thank you very much to John and thank you very much, Greg.

John Hess: Thank you very much, Ed. Appreciate it.