HESS CORPORATION

Second Quarter 2020 Conference Call Remarks

Jay Wilson – Vice President, Investor Relations

Good morning, everyone, and thank you for participating in our second quarter earnings conference call. Our earnings release was issued this morning and appears on our website, www.hess.com.

Today's conference call contains projections and other forward-looking statements within the meaning of the Federal Securities laws. These statements are subject to known and unknown risks and uncertainties that may cause actual results to differ from those expressed or implied in such statements. These risks include those set forth in the Risk Factors section of Hess' annual and quarterly reports filed with the SEC.

Also, on today's conference call, we may discuss certain non-GAAP financial measures. A reconciliation of the differences between these non-GAAP financial measures and the most directly comparable GAAP financial measures can be found in the supplemental information provided on our website.

On the line with me today are John Hess, Chief Executive Officer; Greg Hill, Chief Operating Officer; and John Rielly, Chief Financial Officer. In case there are audio issues, we will be posting transcripts of each speakers prepared remarks on www.hess.com following the presentation. I'll now turn the call over to John Hess.

John Hess – Chief Executive Officer

Thank you Jay. Welcome to our second quarter conference call. I will discuss the steps we are taking to manage through a sustained period of low oil prices. Then Greg Hill will discuss our operations, and John Rielly will review our financial results.

In response to the pandemic's severe impact on oil prices, our priorities are to preserve cash, preserve capability and preserve the long term value of our assets.

In terms of preserving cash, we came into 2020 with approximately 80 percent of our oil production hedged with put options for 130,000 barrels per day at $55 per barrel West Texas Intermediate and 20,000 barrels per day at $60 per barrel Brent. To maximize the value of our production, in March and April – when U.S. oil storage was at tank tops – we used our marketing capabilities, Hess Midstream infrastructure, and firm transportation arrangements to the U.S. Gulf Coast to charter three very large crude carriers or VLCCs to store 2 million barrels each of May, June and July Bakken crude oil production. The first VLCC cargo of 2 million barrels has been sold at a premium to Brent for delivery in China in September. The other two VLCC cargos are expected to be sold in Asia in the fourth quarter.

We further strengthened the company's cash position and liquidity through a $1 billion three year term loan underwritten by JP Morgan Chase. This loan was successfully syndicated during the second quarter.

At the end of June, we had $1.6 billion of cash, a $3.5 billion undrawn revolving credit facility and no debt maturities until the term loan comes due in 2023. We made major reductions in our capital and exploratory budget for 2020, reducing it 37 percent from our original budget of $3 billion down to $1.9 billion. The majority of this reduction comes from dropping from a six rig program to one rig in the Bakken, which we completed in May.

We also made significant cuts in our 2020 companywide cash costs. On our first quarter call, we announced a reduction of $225 million. During the second quarter we identified an additional $40 million with further reductions anticipated.

A key for us to preserve capability is continuing to operate one rig in the Bakken. Greg Hill and our Bakken team have made tremendous progress over the years in Lean manufacturing, which has delivered significant cost efficiencies and productivity improvements that we want to preserve for the future.

In terms of preserving the long term value of our assets, our top priority is Guyana, an extraordinary, world class asset. On the Stabroek Block, where Hess has a 30 percent interest and ExxonMobil is operator, we have made 16 significant discoveries on the block since 2015. The current estimate of gross discovered recoverable resources for the block stands at more than 8 billion barrels of oil equivalent, with multi billion barrels of exploration potential remaining. In June we resumed a four rig drilling operation, with two of the rigs focused on development wells and two on exploration and appraisal activities.

The Liza Phase 1 development, which has an estimated breakeven price of $35 per barrel Brent, achieved first production in December and is now expected to reach its full capacity of 120 thousand gross barrels of oil per day in August.

The Liza Phase 2 development, with an estimated breakeven price of $25 per barrel Brent and production capacity of 220 thousand gross barrels of oil per day, remains on track for an early 2022 startup.

The development of the Payara field, with a production capacity of 220 thousand gross barrels of oil per day has potentially been deferred 6-12 months pending government approval to proceed. Planning for the fourth and fifth FPSOs is underway, which will be further optimized by this year's exploration and appraisal drilling results.

Our strategy is guided by our company's longstanding commitment to sustainability, which creates value for all our stakeholders. Earlier this month, we announced publication of our 23rd annual sustainability report, which details our environmental, social and governance – or ESG – strategy and performance. In terms of safety, since 2014, we have reduced our severe safety incident rate by 36% and achieved a 67% reduction in process safety incidents. In the critical area of climate change, we have reduced Scope 1 and 2 equity greenhouse gas emissions by approximately 60% over the past 12 years. We also are contributing to groundbreaking work by the Salk Institute to develop plants with larger root systems that are capable of absorbing and storing potentially billions of tons of carbon per year from the atmosphere. We continue to be recognized as an industry leader for the quality of our ESG performance and disclosure, and in May were named to the 100 Best Corporate Citizens list for the 12th consecutive year, earning the No. 1 ranking for an oil and gas company and ranking No. 9 on the list overall.

In summary, our long term strategy has enabled us to build a high quality and diversified portfolio that is resilient in a low price environment and puts us in a strong position to prosper when oil prices recover. Our portfolio provides long term resource growth with multiple phases of low cost Guyana oil developments that are expected to drive industry leading cash flow growth over the course of the decade. As our portfolio generates increasing free cash flow, we will prioritize debt reduction and increasing cash returns to shareholders.

Finally, we want to thank our employees for their continued commitment to operating safely and reliably during this pandemic. The safety of our workforce and the communities where we operate will remain our top priority.

I will now turn the call over to Greg Hill for an operational update.

Greg Hill – Chief Operating Officer

Thanks, John. In the second quarter, we continued to deliver strong operational performance across our portfolio. Companywide net production averaged 334 thousand barrels of oil equivalent per day, excluding Libya, which was above the top end of our guidance of 310 thousand to 315 thousand barrels of oil equivalent per day. This was driven both by strong results in the Bakken, where our advantaged infrastructure position enabled us to avoid shutting-in production, and by higher nominations in Southeast Asia where demand is increasing as the economy recovers.

In the third quarter, we expect companywide net production to be in the range of 320 thousand to 325 thousand barrels of oil equivalent per day, excluding Libya. This reduction from the second quarter reflects planned downtime in the Gulf of Mexico. Our production guidance for full year 2020 is now approximately 330 thousand net barrels of oil equivalent per day, excluding Libya, up from our previous guidance of approximately 320 thousand barrels of oil equivalent per day.

In the Bakken, we have been operating one rig since May, down from six rigs earlier in the year. Operating one rig allows us to maintain key operating capabilities that we have worked hard to build over the years, both within Hess and among our primary drilling and completion contractors.

In the second quarter, our Bakken team once again delivered strong results, capitalizing on the success of our plug and perf completion design and mild weather conditions. Second quarter Bakken net production averaged 194 thousand barrels of oil equivalent per day, an increase of 39 percent from the year ago quarter and above our guidance of approximately 185 thousand barrels of oil equivalent per day.

Following our successful transition to plug and perf completions, further efficiency gains, combined with cost reductions across our supply chain, allowed us to achieve an average drilling and completion cost per well of approximately $6.0 million in the second quarter. We believe that through the application of technology and Lean manufacturing techniques, we can continue to push our D&C costs even lower.

For the third quarter, our guidance for Bakken net production is an average of approximately 185 thousand barrels of oil equivalent per day. As announced by Hess Midstream earlier this month, the planned maintenance turnaround at the Tioga Gas Plant, originally scheduled for the third quarter of 2020 will now be deferred until 2021 to ensure safe and timely execution in light of the COVID-19 pandemic. The Tioga Gas Plant expansion project is well advanced and is expected to be completed by the end of 2020. The resulting incremental gas processing capacity will be available in 2021 upon completion of the turnaround.

For the full year 2020, our guidance for Bakken net production is an average of approximately 185 thousand barrels of oil equivalent per day, up from our previous guidance of 175 thousand barrels of oil equivalent per day.

Moving to the offshore. In the deepwater Gulf of Mexico, second quarter net production averaged 68 thousand barrels of oil equivalent per day. The Esox-1 well, which came online in February, is expected to reach its gross peak rate of approximately 17 thousand barrels of oil equivalent per day, or 9 thousand barrels of oil equivalent per day net to Hess in the third quarter, and to average approximately 5 thousand barrels of oil equivalent per day net to Hess in 2020. No other production wells are planned to be drilled in 2020 in the Gulf of Mexico, however we are participating in the BP-operated Galapagos Deep exploration well, with a 25 percent working interest in this hub-class, Cretaceous-aged opportunity in the Mississippi Canyon area. The well spud in May and is still drilling.
In the third quarter, our guidance for Gulf of Mexico net production is an average of between 50 thousand and 55 thousand barrels of oil equivalent per day, reflecting planned maintenance of third party operated facilities that will shut in Conger and Llano for approximately 40 days beginning August 1st, as well as a planned 9 day maintenance shut down at the Shenzi Field.

For the full year 2020, our guidance for Gulf of Mexico net production is an average of approximately 65 thousand barrels of oil equivalent per day.

In the Gulf of Thailand, production in the second quarter was 44 thousand barrels of oil equivalent per day, above our guidance of approximately 35 thousand barrels of oil equivalent per day. During April, natural gas nominations reflected slower economic activity associated with COVID-19, but nominations began to rebound in the second half of the quarter as restrictions on movement were lifted and the economy began to recover. Our guidance for our third quarter and full year 2020 net production is an average of between 50 thousand and 55 thousand barrels of oil equivalent per day.

Now turning to Guyana. Production from Liza Phase 1 commenced in December 2019 and in the second quarter averaged 86 thousand gross barrels of oil per day – or 22 thousand barrels of oil per day, net to Hess. Further work to commission water injection and increase gas injection is underway – that should enable the Liza Destiny FPSO to reach its full capacity of 120 thousand gross barrels of oil per day in August.

The Liza Phase 2 development will utilize the Liza Unity FPSO, with a capacity to produce 220 thousand gross barrels of oil per day. The project is progressing to plan – with approximately 75 percent of the overall work completed – and first oil remains on track for early 2022.
As previously announced, some activities for the planned Payara development have been deferred pending government approval, creating a potential delay in production startup of 6 to 12 months.

The Stena Carron and the Noble Tom Madden drillships resumed work in late May and early June, respectively. The Stena Carron rig recently completed appraisal drilling at Yellowtail-2, located 1 mile southeast of Yellowtail-1. The well identified two additional high quality reservoirs, one adjacent to, and the other below the Yellowtail field, further demonstrating the world class quality of this basin. This additional resource is currently being evaluated and will help form the basis for a potential future development.

The Stena Carron will next move to the Kaieteur Block, in which Hess holds a 15% working interest, to spud the Tanager 1 well, which is located 46 miles northwest of Liza. The Noble Don Taylor spudded the Redtail exploration well, located approximately a mile and a quarter northwest of Yellowtail 1, on July

13th. The well will target similar stratigraphic intervals as Yellowtail and will consist of an original hole and sidetrack and will include an option to conduct a drill stem test in the future. Results of Redtail-1 and Yellowtail-2 will be incorporated into our evaluation of the Yellowtail area.

In closing, we continue to focus on strong execution across our portfolio while ensuring the safety of our workforce and the communities where we operate in the midst of the COVID-19 pandemic. We have taken significant steps in response to the low oil price environment that position us to successfully navigate these challenging times and to prosper when oil prices recover.

I will now turn the call over to John Rielly.

John Rielly – Chief Financial Officer

Thanks Greg. In my remarks today, I will compare results from the second quarter of 2020 to the first quarter of 2020.

Consolidated Results of Operations
We incurred a net loss of $320 million in the second quarter of 2020, compared to an adjusted net loss of $182 million in the first quarter of 2020.

Exploration and Production
E&P incurred a net loss of $249 million in the second quarter of 2020 compared to an adjusted net loss of $120 million in the previous quarter.

The changes in the after-tax components of adjusted E&P results between the second quarter of 2020 and the first quarter of 2020 were as follows:

	Increase (Decrease) In Results	
Lower realized selling prices reduced results by	$	(115)
Lower sales volumes reduced results by		(128)
Lower DD&A expense improved results by		53
Lower cash costs improved results by		38
Lower midstream tariffs improved results by		16
All other items improved results by		7
For an overall decrease in second quarter results of	$	(129)

For the second quarter, sales volumes were underlifted compared with production by approximately 3.9 million barrels of oil, of which 3.7 million barrels of oil was associated with our previously announced VLCC strategy, which was implemented to enhance 2020 cash flow and the value of our Bakken production. As part of this strategy, an additional 2.3 million barrels of Bakken crude will be loaded on VLCC tankers in the third quarter. At June 30th, the VLCC volumes had total costs of $113 million included in Inventory on the balance sheet and a corresponding reduction to Marketing expenses on the income statement. In addition, at June 30, 2020, we deferred $85 million of realized gains on derivative contracts associated with these volumes. The first VLCC cargo of approximately 2 million barrels of oil has been sold for delivery in China in September at a premium to Brent prices. As a result, income from the sale will be reflected in the third quarter and cash proceeds will be received in the fourth quarter. The remaining two VLCC cargos containing approximately 4 million barrels of oil are expected to be sold in Asia in the fourth quarter.

Midstream Activities

The Midstream segment had net income of $51 million in the second quarter of 2020 compared to $61 million in the previous quarter reflecting lower throughput volumes. Midstream EBITDA, on an adjusted basis and before noncontrolling interests, amounted to $172 million in the second quarter of 2020 compared to $193 million in the previous quarter.

Corporate and Interest

After-tax Corporate and Interest expenses were $122 million in the second quarter of 2020 compared to $123 million in the previous quarter.

Financial Position – Cash and Liquidity

At quarter end, excluding Midstream, cash and cash equivalents were $1.64 billion and our total liquidity was $5.3 billion including available committed credit facilities, while debt and finance lease obligations totaled $6.6 billion. Our fully undrawn $3.5 billion revolving credit facility is committed through May 2023. During the second quarter, we successfully syndicated our $1.0 billion term loan with a maturity date in March 2023. We have no near-term debt maturities aside from the new term loan.
We have hedged over 80% of our remaining crude oil production for 2020. At June 30, 2020, the fair value of open hedge contracts was approximately $450 million while realized settlements on closed contracts during the first six months of the year were approximately $500 million.

Third Quarter and Full Year Guidance

<u>Exploration and Production</u>
Our E&P cash costs were $8.81 per barrel of oil equivalent, including Libya and $8.64 per barrel of oil equivalent, excluding Libya in the second quarter. We project E&P cash costs, excluding Libya, to be in the range of $10.00 to $10.50 per barrel of oil equivalent for the third quarter, which reflects the impact of planned maintenance shutdowns in the Gulf of Mexico and higher production taxes in North Dakota on increasing oil prices. Full year guidance is expected to be in the range of $9.50 to $10.00 per barrel of oil equivalent, which is down from previous guidance of $10.00 to $10.50 per barrel of oil equivalent reflecting the increased production guidance and further reductions to costs. This brings total cost savings to approximately $265 million for 2020 and we continue to look for further cost reduction opportunities. DD&A expense was $15.45 per barrel of oil equivalent including and excluding Libya, in the second quarter. DD&A expense, excluding Libya, is forecast to be in the range of $16.00 to $17.00 per barrel of oil equivalent for the third quarter due to a combination of planned maintenance shutdowns in the Gulf of Mexico, higher third quarter production from North Malay Basin, and additional Bakken production related to the deferral of the turnaround at the Tioga Gas Plant to next year. For the full year, DD&A expense is expected to be in the range of $16.00 to $17.00 per barrel of oil equivalent, which is up from prior full year guidance of $15.00 to $16.00 per barrel of oil equivalent. This results in projected total E&P unit operating costs, excluding Libya, to be in the range of $26.00 to $27.50 per barrel of oil equivalent for the third quarter and $25.50 to $27.00 per barrel of oil equivalent for the full year.

Exploration expenses, excluding dry hole costs, are expected to be in the range of $35 million to $40 million in the third quarter and $140 million to $150 million for the full year, which is down from previous guidance of $145 million to $155 million. The midstream tariff is projected to be in the range of $220 million to $230 million in the third quarter and $905 million to $930 million for the full year, which is unchanged from previous guidance.

E&P income tax expense, excluding Libya, is expected to be in the range of $10 million to $15 million for the third quarter and $20 million to $30 million for the full year, which is unchanged from previous guidance.

Our crude oil hedge positions remain unchanged. We expect option premium amortization will be approximately $70 million for the third quarter and approximately $280 million for the full year, which is unchanged from previous guidance.

Midstream

We anticipate net income attributable to Hess from the Midstream segment to be in the range of $40 million to $50 million in the third quarter and $195 million to $205 million for the full year, which is up from previous guidance of $185 million to $195 million due to the deferral of the planned third quarter maintenance turnaround at the Tioga Gas Plant to 2021.

Corporate and Interest

Corporate expenses are estimated to be in the range of $25 million to $30 million for the third quarter and unchanged for the full year in the range of $115 million to $125 million. Interest expense is estimated to be in the range of $95 million to $100 million for the third quarter and $375 million to $380 million for the full year, which is at the lower end of our previous guidance of $375 million to $385 million.

This concludes my remarks. We will be happy to answer any questions. I will now turn the call over to the operator.

Forward-looking Statements

This script and accompanying release contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Words such as "anticipate," "estimate," "expect," "forecast," "guidance," "could," "may," "should," "would," "believe," "intend," "project," "plan," "predict," "will," "target" and similar expressions identify forward-looking statements, which are not historical in nature. Our forward-looking statements may include, without limitation: our future financial and operational results; our business strategy; estimates of our crude oil and natural gas reserves and levels of production; benchmark prices of crude oil, natural gas liquids and natural gas and our associated realized price differentials; our projected budget and capital and exploratory expenditures; expected timing and completion of our development projects; and future economic and market conditions in the oil and gas industry.

Forward-looking statements are based on our current understanding, assessments, estimates and projections of relevant factors and reasonable assumptions about the future. Forward-looking statements are subject to certain known and unknown risks and uncertainties that could cause actual results to differ materially from our historical experience and our current projections or expectations of future results expressed or implied by these forward-looking statements. The following important factors could cause actual results to differ materially from those in our forward-looking statements: fluctuations in market prices of crude oil, natural gas liquids and natural gas and competition in the oil and gas exploration and production industry, including as a result of the global COVID-19 pandemic; potential disruption or interruption of our operations due to catastrophic events, such as accidents, severe weather, geological events, shortages of skilled labor, cyber-attacks or health measures related to COVID-19; reduced demand for our products, including due to the global COVID-19 pandemic or the outbreak of any other public health threat or due to the impact of competing or alternative energy products and political conditions and events, such as instability, changes in governments, armed conflict, and economic sanctions; potential failures or delays in increasing oil and gas reserves, including as a result of unsuccessful exploration activity, drilling risks and unforeseen reservoir conditions; potential failures or delays in achieving expected production levels given inherent uncertainties in estimating quantities of proved reserves; changes in tax, property, contract and other laws, regulations and governmental actions applicable to our business, including legislative and regulatory initiatives regarding environmental concerns, such as measures to limit greenhouse gas emissions and well fracking bans; the ability of our contractual counterparties to satisfy their obligations to us, including the operation of joint ventures under which we may not control; unexpected changes in technical requirements for constructing, modifying or operating exploration and production facilities and/or the inability to timely obtain or maintain necessary permits; availability and costs of employees and other personnel, drilling rigs, equipment, supplies and other required services; any limitations on our access to capital or increase in our cost of capital as a result of weakness in the oil and gas industry or negative outcomes within commodity and financial markets; liability resulting from litigation, including heightened risks associated with being a general partner of Hess Midstream LP; and other factors described in Item 1A—Risk Factors in our Annual Report on Form 10-K and any additional risks described in our other filings with the Securities and Exchange Commission (SEC).

As and when made, we believe that our forward-looking statements are reasonable. However, given these risks and uncertainties, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made and there can be no assurance that such forward-looking statements will occur and actual results may differ materially from those contained in any forward-looking statement we make. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events or otherwise.

Non-GAAP financial measures

The Corporation has used non-GAAP financial measures in this script and accompanying release. "Adjusted net income (loss)" presented in this script and accompanying release is defined as reported net income (loss) attributable to Hess Corporation excluding items identified as affecting comparability of earnings between periods. "Net cash provided by (used in) operating activities before changes in operating assets and liabilities" presented in this script and accompanying is defined as Net cash provided by (used in) operating activities excluding changes in operating assets and liabilities. Management uses adjusted net income (loss) to evaluate the Corporation's operating performance and believes that investors' understanding of our performance is enhanced by disclosing this measure, which excludes certain items that management believes are not directly related to ongoing operations and are not indicative of future business trends and operations. Management believes that net cash provided by (used in) operating activities before changes in operating assets and liabilities demonstrates the Corporation's ability to internally fund capital expenditures, pay dividends and service debt. These measures are not, and should not be viewed as, a substitute for U.S. GAAP net income (loss) or net cash provided by (used in) operating activities. A reconciliation of reported net income (loss) attributable to Hess Corporation (U.S. GAAP) to adjusted net income (loss), and a reconciliation of net cash provided by (used in) operating activities (U.S. GAAP) to net cash provided by (used in) operating activities before changes in operating assets and liabilities are provided in the accompanying release.

Cautionary Note to Investors

We use certain terms in this script and accompanying release relating to resources other than proved reserves, such as unproved reserves or resources. Investors are urged to consider closely the oil and gas disclosures in Hess Corporation's 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 this form from the SEC on the EDGAR system.