



**HESS TO FIRST
QUARTILE**



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We aspire to be the leading global
independent energy company

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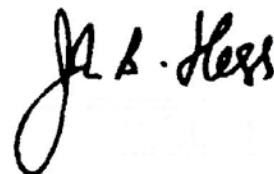
A MESSAGE FROM THE CHAIRMAN

I want to congratulate everyone in E&P for making outstanding progress on the journey to operate as a first-quartile performer. We have come a long way in a relatively short period of time. As we achieve each milestone, we get closer to realizing our vision of being the *leading global independent energy company*.

E&P is the company's engine for growth. We are confident that we have the right strategy, a leadership team that is among the best in the industry, and a highly skilled and capable workforce. We continue to make significant investments to grow our reserves on a sustainable basis. We have built a strong portfolio of field developments and an exciting exploration program.

This report tells the story of our progress – and the challenges we face in the years ahead – in clear and simple terms. We encourage you to read it thoroughly.

Keep up the great work. I look forward to seeing you in the coming year and thank you for your contribution to our success and for being on our team.



HESS TO **FIRST**
QUARTILE

A MESSAGE FROM JOHN O'CONNOR

Three years ago, we conducted a critical analysis of our company and its future prospects. Needless to say, we didn't like what we saw. By nearly every measure, we ranked at or near the bottom when compared to our peers.

For us to become *the leading global independent energy company*, we would have to transform the business. We identified important changes to make in three main areas: People, Portfolio, and Performance.

Mature assets were traded in favor of those with greater future promise and longer lives.

Key leadership changes were made and we began operating more as a single, global E&P organization. We stressed performance "contracts" and development plans, moved people to challenging new assignments, and introduced talented new professionals with unique skills and experience.

Performance scorecards were created and our expectations were ratcheted-up.

Along the way, **To First Quartile** or "21Q" became our mantra. This special report outlines the progress we've made on our journey. As you will see, while there is still considerable work to do, we have clearly turned the corner.

Thanks for your efforts to move the performance of Hess E&P **To First Quartile!**



HESS TO FIRST QUARTILE

E&P GOALS & STRATEGY

Three years ago, we established a set of over-arching goals and a clear strategy to achieve them. They have not changed since.

- 1 Grow the reserve base by 5% to 8% per year
 - ▶ Through the drill bit (exploration)
 - ▶ Selective acquisitions and trades
- 2 Extend the life of the portfolio
 - ▶ Grow production by 3% to 5% per year
 - ▶ Achieve a Reserves to Production (R:P) ratio of 10 by 2009

E&P VALUE CHAIN



Earlier this year, we realigned our business structure to more closely align with the E&P value chain. We have purposely evolved into a single, global organization so that we optimize E&P overall.

Increasingly, our processes are becoming more global, and collaboration and teamwork between groups and across geographies is becoming more prevalent. We recently formed four global networks that will soon become effective virtual teams, sharing, planning, and standardizing naturally in the course of conducting business.

The new structure reinforces these behaviors in all that we do.

E&P VALUE CHAIN

We have distilled down to a few words the essence of each work group's contribution to the success of overall E&P.

New Business Development & Portfolio Management

Acquire resources that add net 400 million barrels of oil equivalent of proved reserves in the next few years, and increase the Reserves to Production Ratio to 10 over time.

Exploration & New Ventures

Find high-impact prospects in the best plays, in the best basins around the world.

Major Project Development

Create, win agreement for, and execute development plans that optimize each unique asset.

Production Operations

Operate each day at optimal performance to get the most from our assets, safely and in an environmentally sound manner.

Global Engineering Services

Promote the innovative and practical application of engineering technology, and provide an independent viewpoint on reserves, production forecasts and major capex decisions.

Business Partners

Enable us to achieve our business goals by leveraging relevant expertise: EHS&S, Finance, Human Resources, IS, Legal, and Supply Chain.

OUR PEOPLE

We have worked diligently over the last several years to create a culture in which our people are empowered and equipped to deliver a challenging E&P strategy.

Every major work group is striving to operate at first quartile in their area of expertise.

THE E&P LEADERSHIP TEAM (EPLT)

John Scelfo is a member of the Hess Leadership Team (HLT) and oversees the company's Treasury activities. He also leads E&P's business planning and strategy initiatives, and oversees its procurement function. Prior to joining Hess in 2003, John spent 20 years with Mobil where he was CFO of various businesses and led integration teams as part of the merger with Exxon. He was also Executive Vice President for Sirius Satellite Radio where he led a major restructuring of the company, and regional CFO in Singapore for Dell Computer. John holds a bachelor's degree in Industrial and Labor Relations, and an MBA, both from Cornell University.

Clyde Crouch has more than 30 years of industry experience in the U.S. with Tenneco and Amerada Hess. He has served in a number of production and operations leadership roles since joining the company in 1989, and was appointed to his current position as head of the division's Engineering Services group two years ago. Clyde holds bachelor's and master's degrees in Petroleum Engineering from Marietta College and Louisiana State University, respectively.

Howard Paver leads E&P's New Business Development and Portfolio Management. He has 30 years of industry experience and has lived and worked in the UK, US, France, Austria, Africa and the Middle East. Before joining Hess in 2000, he spent most of his career with Mobil and BHP in a variety of engineering, production operations, exploration and business development roles. Howard holds a Chemical Engineering degree from Cambridge University and a master's degree in Petroleum Engineering from Imperial College in London.

Bob Strode leads Exploration & New Ventures for E&P. He joined Hess in 2000 to lead U.S. Exploration and Production, and later became head of Production and Development in the Americas and West Africa. Previously, he spent 20 years with ARCO and its various subsidiaries, where he led exploration efforts in the Gulf of Mexico, Alaska, North Africa and N.W. Europe. Bob holds a bachelor's degree in Geophysical Engineering from the Colorado School of Mines.

(l to r) Mykel Ziolo, VP, Human Resources; John Scelfo, SVP, Corporate Planning; Clyde Crouch, SVP, Global Engineering Services; Keith Hunter, SVP, Major Project Development; George Sandison, SVP, Production; Bob Strode, SVP, Exploration & New Ventures; John O'Connor, President; Scott Heck, SVP, Production; and Howard Paver, SVP, Business Development and Portfolio Management (seated).



OUR PEOPLE

THE E&P LEADERSHIP TEAM (EPLT)

In addition to his leadership of Amerada Hess Worldwide E&P, **John O'Connor** serves as an Executive Vice President, a member of the Hess Leadership Team (HLT), and a member of the company's Board of Directors. Prior to joining Hess in 2001, he was President of Worldwide E&P for Texaco and before that CEO of BHP Petroleum in Melbourne, Australia. Earlier in his 35-year plus career in the industry, he held numerous positions of increasing responsibility with Mobil and eventually led part of its worldwide E&P business. John graduated from University College in Dublin, Ireland, with bachelor's and master's degrees in mechanical engineering.

Scott Heck co-leads Production Operations for E&P from a base in Houston. His focus is on assets in the Americas and West Africa. He has more than 25 years of industry experience, beginning his career with Tenneco as a production/reservoir engineer, and later joining ARCO as a senior O/A engineer. Scott has been with Hess for 16 years in reservoir engineering and production in the Gulf of Mexico and West Africa. He holds a bachelor's degree in Petroleum Engineering from Marietta College.

Mykel Ziolo leads Human Resources (HR) and administration of major offices. He has more than 20 years of experience leading HR functions in the natural resources sector. He was Global Head of HR for Intergen and spent 15 years with BHP. Mykel has lived and worked in Europe, S. America, W. Africa, Asia, Australia and the U.S. He holds a bachelor's degree in Electronics from Melbourne University and post-graduate degrees in Education from Monash University and Business (Organization Development) from Sturt University.

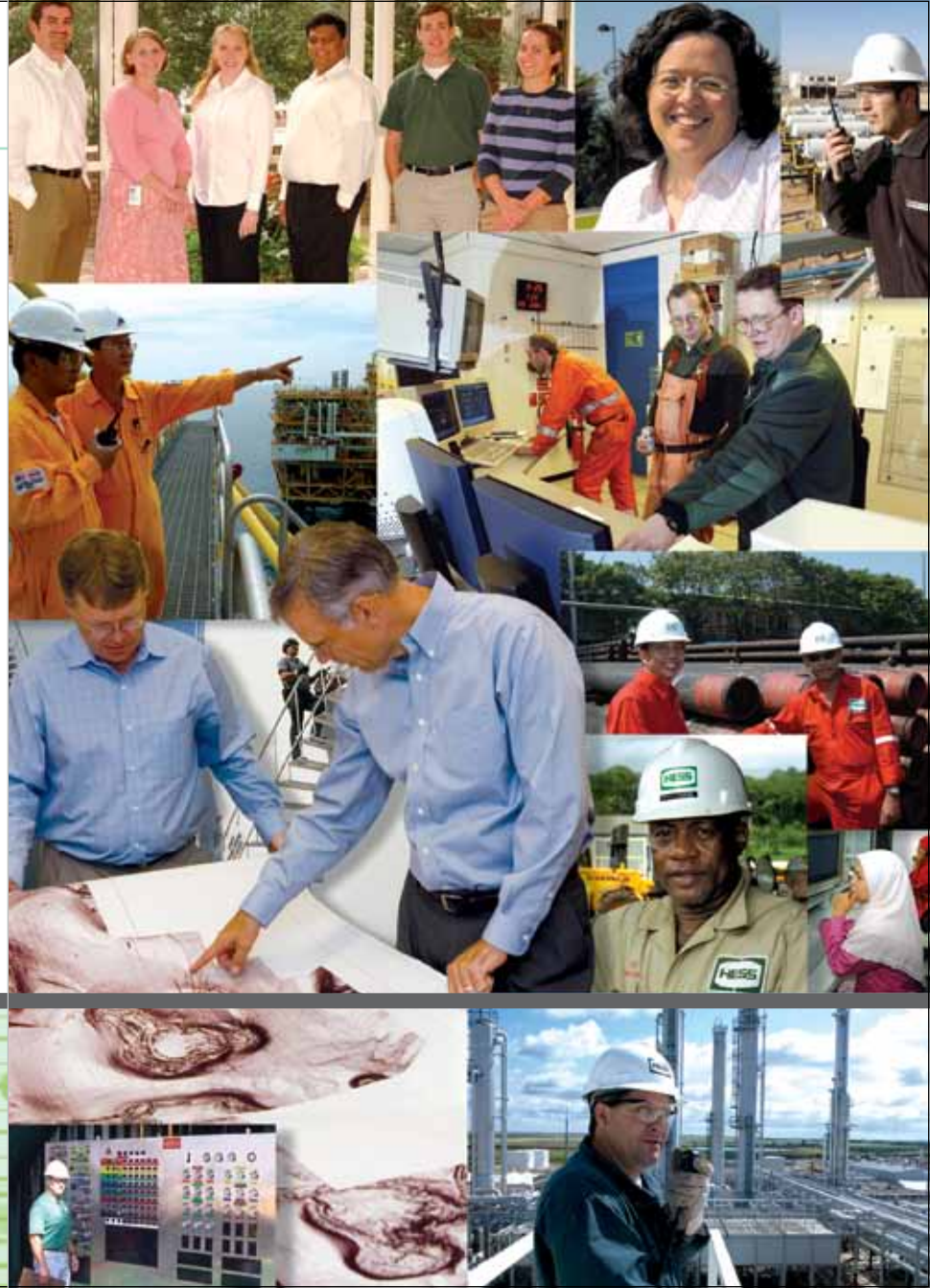
George Sandison co-leads Production Operations for E&P from a base in London. His focus is on assets in Europe, Eurasia, North Africa, and S.E. Asia. He has more than 27 years of industry experience, beginning his career as a petroleum engineer in the North Sea for Texaco. He went on to work with Texaco in a variety of management positions in Morgan City, New Orleans, New York, Kuwait and Houston. George joined Hess in 2003 and has led the Drilling, Procurement and Houston-based Production Operations organizations. He holds a Civil Engineering degree from Aberdeen University.

Keith Hunter leads E&P's Major Project Development group. He is a 30-year veteran of the oil and gas industry, having managed large capital projects, run production operations, led a technology practice, and served on executive committees. He joined Hess in 2003 from BHP where he led project development and operations in Algeria, Trinidad and deepwater Gulf of Mexico. Previous work experience with BHP, Britoil and Total Oil Marine saw him in project engineer, start-up and commissioning superintendent, and project manager roles in Scotland, Australia, Singapore, Japan and Korea. Keith earned a Mechanical Engineering degree from Glasgow University in Scotland and a master's degree in Engineering from the University of Birmingham in England.

OUR PEOPLE

We have also taken a number of actions to enhance the workplace, including making work hours more flexible and instituting business casual dress. Performance reviews and personal development plans are now expected of everyone. Communications are more free-flowing and vital. And our total compensation and benefits package remains among the very best in the industry.

We have created unprecedented opportunity for personal and career development. More than 120 employees have been promoted and/or transferred to new jobs over the last year alone, a significant number to different locations or countries. Many others have been asked to take on short-term assignments that are deepening their knowledge and building new skills. This trend will continue, as will the hiring of professionals from outside the company who have complementary skills, experience and perspective we need to bring a number of promising developments on stream in the years ahead.



OUR PORTFOLIO

We took tough, yet necessary action to infuse our portfolio with longer-lived assets in promising regions of the world, and to decrease our

reliance on more mature areas like the North Sea and shallow water Gulf of Mexico.

The lists below show our portfolio of major assets in 2002 and today. We completely divested some and swapped interests in others to either increase or decrease our stake.

MAJOR ASSETS 2002

ECA/Juno (N. Sea)	Everest-Lomond (N. Sea)	→
Gulf Coast—Shelf	Jambi Merang (S.E. Asia)	
FFF/Angus (N. Sea)	Halley (N. Sea)	
Gulf of Mexico—Coast	Maclure (N. Sea)	→
Ceiba (Equatorial Guinea)	Schiehallion (N. Sea)	
Arbroath Montrose (N. Sea)	N. Dakota	→
Natuna (S.E. Asia)	Pailin (S.E. Asia)	
ACG (Azerbaijan)	Gulf of Mexico—Deepwater	
IVRR (N. Sea)	S. Arne (N. Sea)	→
Scott (N. Sea)	Gabon	
GEA (Algeria)	Valhall (Norway)	
Colombia	Bacton (N. Sea)	
Jabung (S.E. Asia)	Bittern (N. Sea)	
Beryl (N. Sea)	Snohvit (Norway)	
Snorre (Norway)		
Hudson (N. Sea)		
Permian (W. Texas)		

Name *Asset sold or traded* **Name** *New Asset*
 ▼ *Decreased interest in asset*
 ▲ *Increased interest in asset*

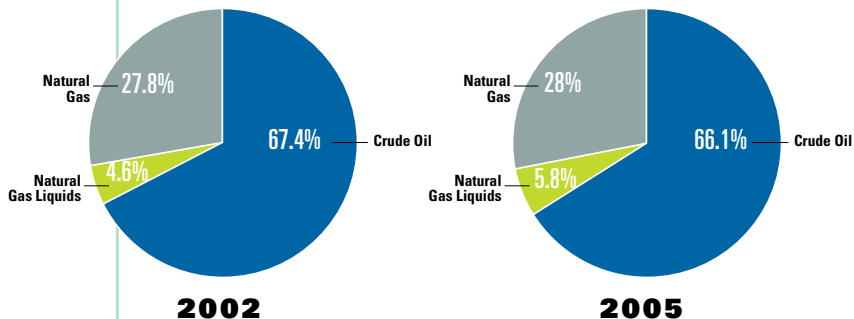
MAJOR ASSETS 2005

ECA/Juno (N. Sea)	Everest-Lomond (N. Sea)	JDA (Malaysia-Thailand)
Gulf Coast—Shelf	Jambi Merang (S.E. Asia) ▲	Clair (N. Sea)
FFF/Angus (N. Sea)	Halley (N. Sea)	Llano (GoM-Deepwater)
Gulf of Mexico—Coast	Maclure (N. Sea)	Atlantic-Cromarty (N. Sea)
Ceiba (Equatorial Guinea)	Schiehallion (N. Sea)	Samara-Nafta (Russia)
Arbroath Montrose (N. Sea)	N. Dakota	Okume (Equatorial Guinea)
Natuna (S.E. Asia)	Pailin (S.E. Asia)	Phu Horm (Thailand)
ACG (Azerbaijan)	Gulf of Mexico—Deepwater	Pangkajene (Indonesia)
IVRR (N. Sea)	S. Arne (N. Sea)	West Med (Egypt)
Scott (N. Sea) ▼	Gabon	
GEA (Algeria)	Valhall (Norway)	
Colombia	Bacton (N. Sea)	
Jabung (S.E. Asia)	Bittern (N. Sea)	
Beryl (N. Sea)	Snohvit (Norway)	
Snorre (Norway)		
Hudson (N. Sea)		
Permian (W. Texas) ▼		

OUR PORTFOLIO

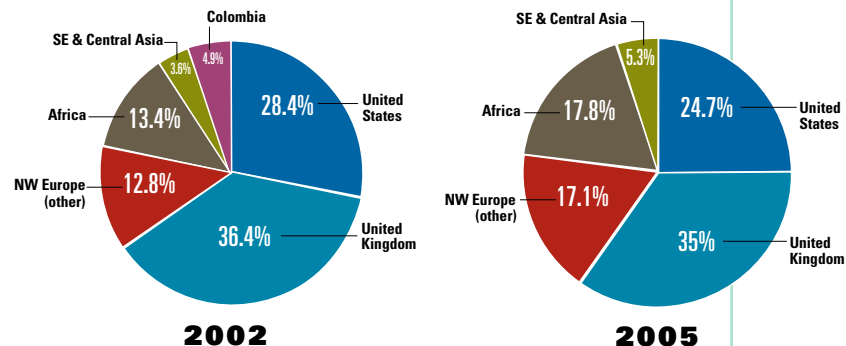
We have maintained a good balance between oil and natural gas to take advantage of these expanding markets. We are growing rapidly in Algeria, Equatorial

PRODUCTION MIX (MBOE)



Guinea, Norway, Denmark, Indonesia and Thailand, and relying less on traditional areas like the U.S. and the U.K.

GEOGRAPHIC SPREAD (MBOE)



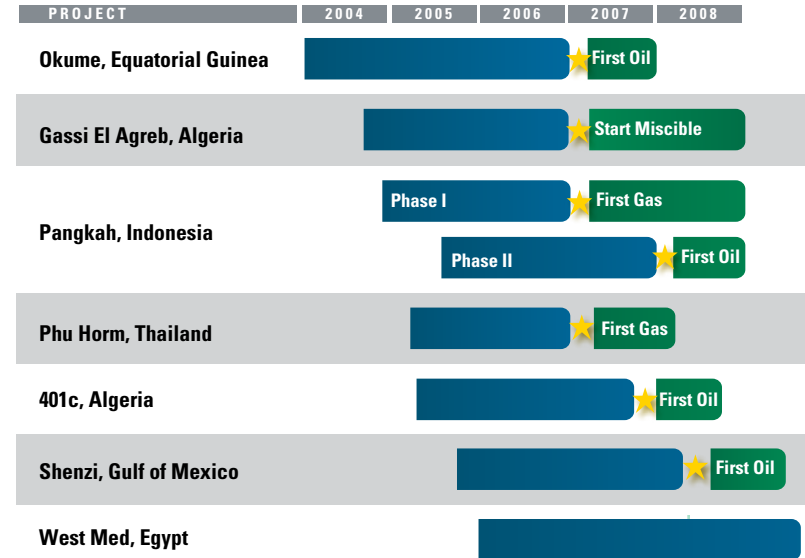
OUR PIPELINE

Our pipeline has perhaps never been so strong with seven major projects due to come onstream over the next three years.

Four key regions are represented: West Africa, North Africa, S.E. Asia, and deepwater Gulf of Mexico. Both oil and gas will be produced.

Our Major Project Development group has been instrumental in securing the necessary equipment and expertise to keep these projects on budget and on schedule. This is being done despite operating in an environment where virtually every piece of equipment has been locked-up for long periods of time and at a steep premium.

MAJOR PROJECTS



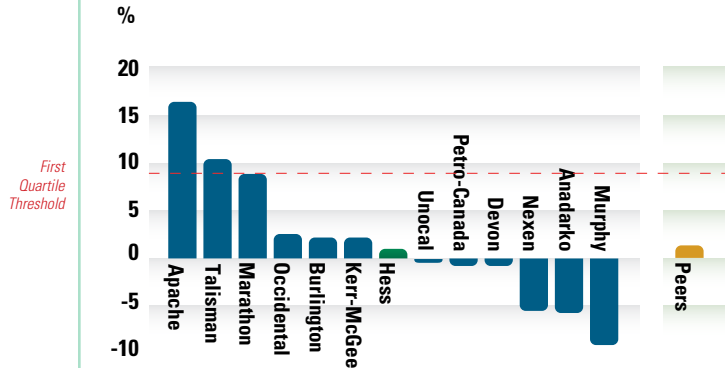
OUR PERFORMANCE

Several measures can be used to assess our progress to becoming a first-quartile performer. The most appropriate are displayed here using data from publicly

available sources like company annual reports and 10k filings. Overall, Hess has moved up to the third quartile, although individual metrics fall into all four quadrants.

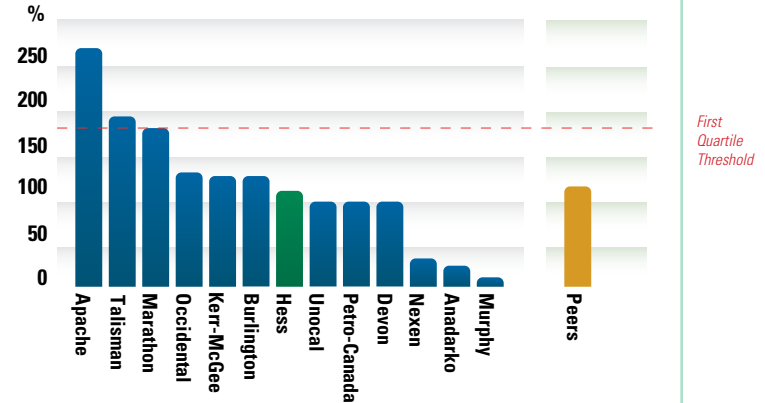
2003-04 RESERVE GROWTH

The change in Proven Reserves from 2003 to 2004. The E&P strategy establishes a target of growing reserves 5-8% per year, on average.



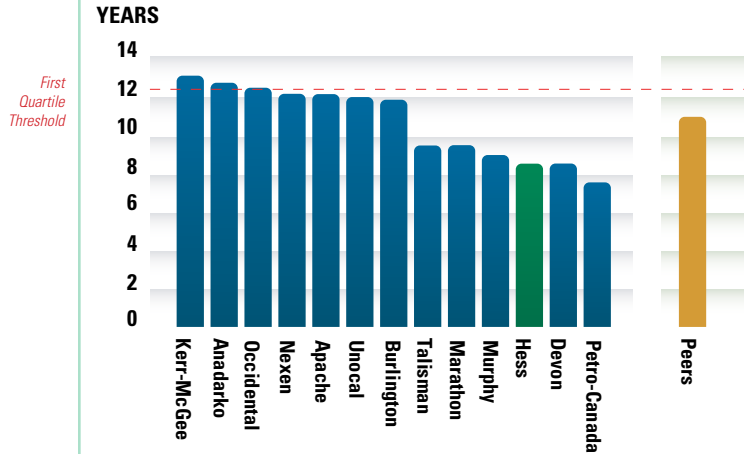
2004 RESERVE REPLACEMENT

The net increase in Proved Reserves (Extensions & Discoveries, Revisions, Acquisitions, and Improved Recovery, minus price impact on entitlement reserve in PSC), divided by total barrels produced. 100% Reserve Replacement means that hydrocarbons produced during the year have been replaced, but the overall reserve base has not grown. To grow reserves, Reserve Replacement must be greater than 100%.



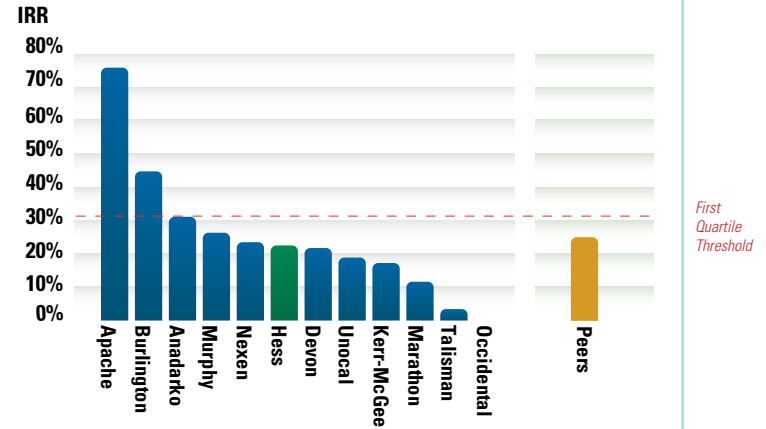
2004 RESERVE TO PRODUCTION RATIO (R:P)

This metric is usually calculated at year-end, and equals the total Proven Reserves divided by the volume produced during the year. It reflects the projected life of the portfolio based on the production rate achieved during the year. E&P has a target to achieve an R:P of 10 by year-end 2009.



2002-04 EXPLORATION INVESTMENT RETURNS

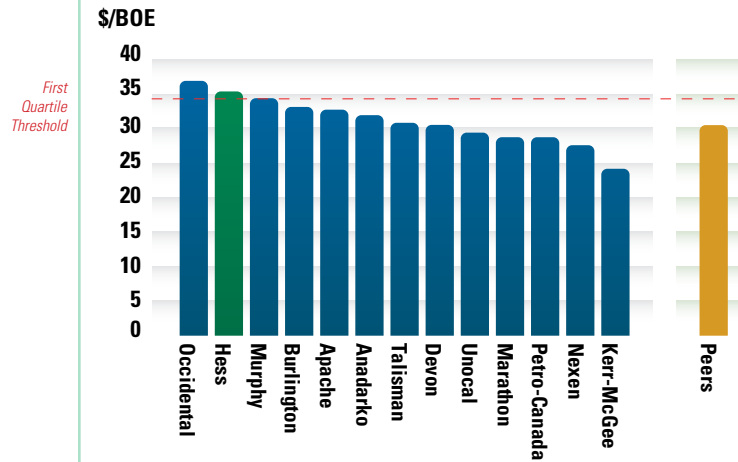
This is the Internal Rate of Return (IRR) on investment in exploration activity. The higher the number, the better.



Source: Wood-Mackenzie study of Exploration performance in 70 countries/regions

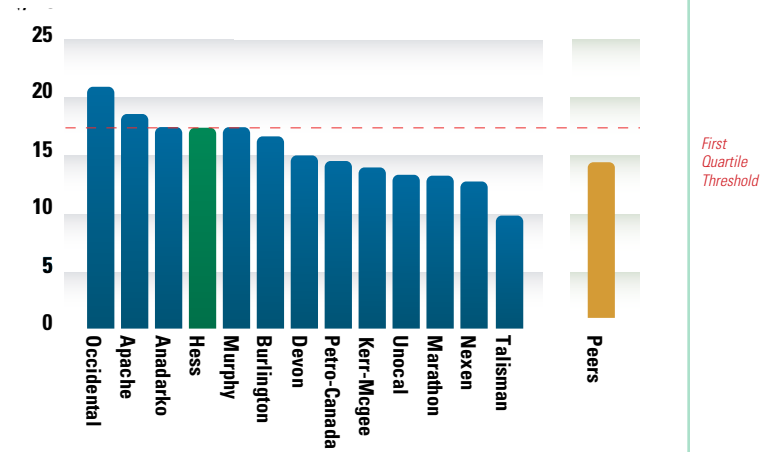
2004 REVENUE

Total E&P Revenue divided by total production volume. (These results do not reflect the impact of hedging.) A high number reflects higher value barrels.



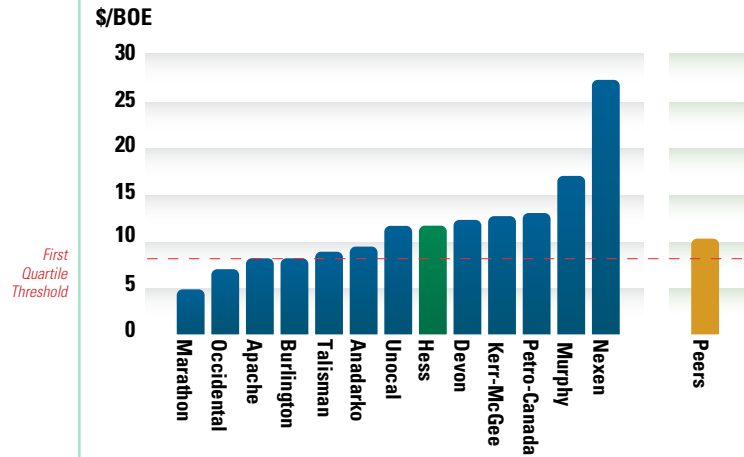
2004 PRE-TAX MARGINS

Profit margin before income taxes (after DD&A, exploration, G&A, production costs) divided by volume produced. This is a measure of the overall profitability of the E&P business on a unit of production basis. (Does not include the impact of hedging.) A higher value is better.



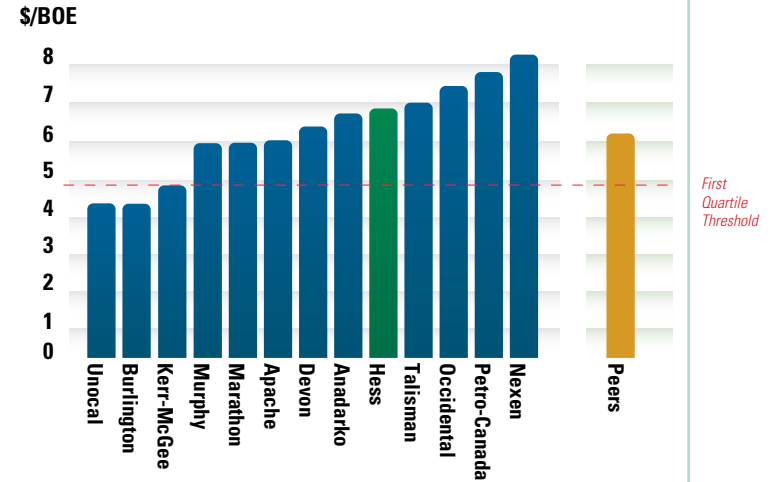
2004 REPLACEMENT COSTS

The costs incurred in property acquisition and exploration, plus costs incurred in development activities, divided by proved reserves additions. This is a measure of the cost of securing reserves through exploration, exploitation and acquisition. A lower value is better.



2004 PRODUCTION COSTS

The costs incurred to produce hydrocarbons (not capital, not tax) divided by volume produced. This is a measure of the efficiency of production operations on a unit of production basis. A lower number is better.

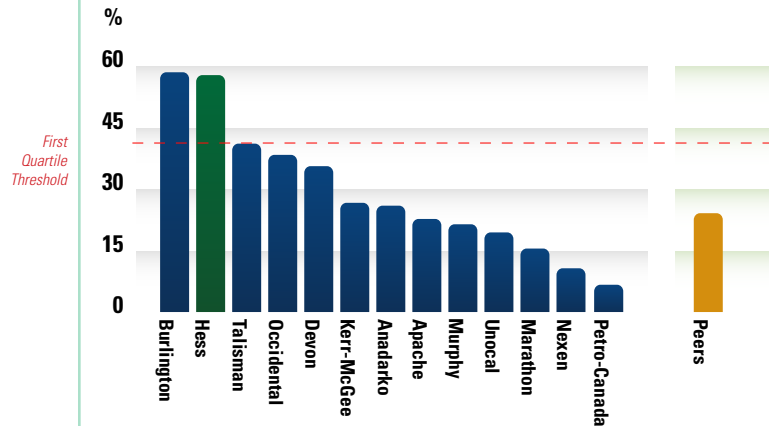


RELATIVE PRICE/EARNINGS (PE) RATIO

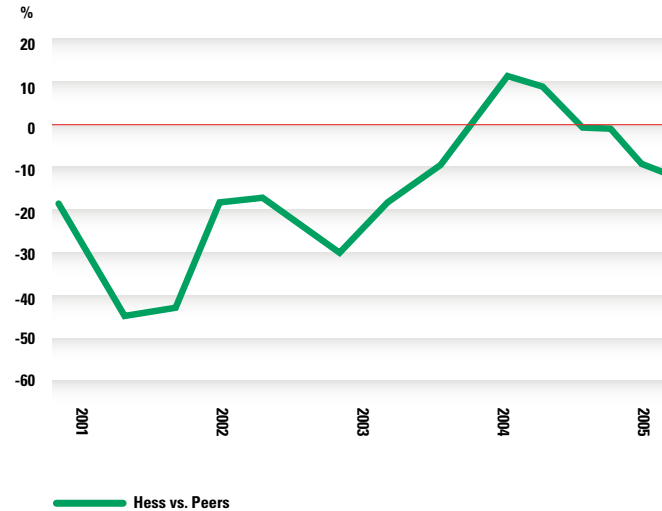
The previous metrics paint a picture of E&P's operating performance by industry standards. The next few charts highlight the ultimate measure of our performance – the value we create for shareholders.

2004 TOTAL SHAREHOLDER RETURNS

This reflects the returns realized by shareholders during the calendar year 2004. It includes the change in stock price, plus the impact of reinvested dividends. The higher the number, the greater the return realized by holders of Hess stock.



Shows how Hess's Price/Earnings Ratio (a measure of stock valuation) relates to the average P/E of our peer group. A relative P/E Ratio measure of 0% means that Hess's valuation is equal to the average of our Peers, on a P/E basis. A relative P/E Ratio measure greater than 0% means that Hess is valued at a premium, and less than 0% reflects a discount in valuation versus the peer average.



2003-05 STOCK PERFORMANCE

This chart shows the closing price of Hess stock through October 2005. Our stock is traded under the ticker symbol "AHC" on the New York Stock Exchange.

