Hess Shareholder Resolution
Report on Carbon Asset Risk

Resolution

Resolved: Shareholders request that by 2018 Hess publish an analysis, at reasonable cost and omitting proprietary information, of long term impacts to the Company's oil and gas reserves and resources under a scenario in which demand reduction for oil and gas results from carbon restrictions or related rules of commitments adopted by governments consistent with the Paris Agreement's 2 degree C global warming target. The reporting should assess the resilience of the company's portfolio of assets through 2040 and the financial risks associated with such a scenario.

Executive Summary

In response to investor concerns, a growing number of oil and gas companies have incorporated scenario analysis into their strategic planning and capital allocation processes and are providing information about this analysis to investors. In addition to increasing investor support for this important disclosure, an industry-led, global task force convened by the Financial Stability Board has also endorsed the use of low-carbon scenario analysis as a critical risk management tool. Failing to adopt this common-sense measure puts Hess at a disadvantage and increases the risk that the company will not adequately adapt to the rapidly changing energy market.

Rationale for supporting the proposal:

1. Hess' current business plans rely on forecasts of demand growth and oil prices that are threatened by technology advances, policies related to carbon restrictions, and shifts in demand.
2. The company's disclosures to date do not adequately inform investors about the financial risks associated with continued investments in high cost and long-lived projects and reserves and the potential for stranded assets under lower demand scenarios. Hess' lack of disclosure makes it a laggard in its industry.
3. Conducting two-degree scenario analysis will provide Hess' management, directors, and investors with critical tools to manage risk and adapt its business strategies and capital expenditures to be resilient under a variety of scenarios.

Analysis of Current Disclosures

1. **HESS' CURRENT BUSINESS PLANS RELY UPON FORECASTS OF DEMAND GROWTH AND OIL PRICES THAT ARE THREATENED BY TECHNOLOGY ADVANCES, POLICIES RELATED TO CARBON RESTRICTIONS, AND SHIFTS IN DEMAND. AT A TIME OF GROWING UNCERTAINTY ABOUT THE FUTURE ENERGY MIX, IT IS SIMPLY PRUDENT RISK MANAGEMENT TO CONSIDER AND PREPARE FOR A WIDE VARIETY OF FUTURE SCENARIOS.**

Hess Corporation is a global exploration and production company and is exposed to global trends, policies, and risks. While many of its peers have shifted their focus to short-cycle shale projects, which provide greater capital flexibility in the face of shifts in the energy landscape, **Hess derives nearly half its**

production from offshore and deepwater assets that have long capital horizons and high costs. Its focus on long-lived projects means that Hess potentially will take longer to adapt to any market changes, including an increasingly decarbonizing energy market; **the Company's need for scenario planning around a low-carbon transition is therefore particularly acute**.

A number of Hess' peers and other industry experts have raised concerns that global demand for oil, after 150 years of growth, could soon peak due to advances in technology, changes in behavior, and regulations on air quality and greenhouse gas emissions. The CEOs of *Shell* and *Statoil*, as well as experts from consultancies *Wood Mackenzie* and *Bloomberg New Energy Finance*, have **predicted a peak in demand sometime in the next decade**, **well within the capital horizon of many of Hess' projects**. The CEOs of *Total* and *BP* have publicly endorsed the idea that some already discovered oil assets will become stranded. *Statoil* recently warned that electric vehicles represent an "existential threat" to the oil industry, while *Fitch Ratings* described electric cars as a "resoundingly negative" threat to the oil industry and urged energy companies to plan for "radical change." The CEO of *Sinopec*, China's largest fuels marketer, has predicted that gasoline and diesel demand in that country—which the oil industry is counting on for long-term demand growth—will peak by 2025. The current oil price downturn, in which a 2% mismatch in supply and demand led to a 60% price drop, provides a vivid demonstration of how **even small changes in the markets can have outsized impacts on price**.

The proponents do not contend that they have a better ability to predict the future than Hess management. We suggest only that, **at a time of growing uncertainty about the future energy mix, it is prudent risk management to consider and prepare for a wide variety of future scenarios.** Given the long lead times inherent in the oil industry's allocation of capital, by the time the long-term energy trajectory becomes clear it will be too late for Hess to change course.

2. **THE COMPANY'S DISCLOSURES TO DATE DO NOT ADEQUATELY INFORM INVESTORS ABOUT THE FINANCIAL RISKS ASSOCIATED WITH CONTINUED INVESTMENTS IN HIGH COST AND LONG-LIVED PROJECTS AND RESERVES AND THE POTENTIAL FOR STRANDED ASSETS UNDER LOWER DEMAND SCENARIOS. HESS' LACK OF DISCLOSURE MAKES IT A LAGGARD IN ITS INDUSTRY.**

Hess has recognized, in its Securities and Exchange Commission filings, that "Climate change initiatives may result in…reduced demand for our products" and that "the imposition and enforcement of stringent greenhouse gas emissions reduction targets could severely and adversely impact the oil and gas industry and significantly reduce the value of our business." **Yet the company has disclosed little about any steps it has taken to manage these risks**, and in fact seems to be pursuing a strategy that increases its risk of asset stranding in the future.

The company's only disclosure on this issue is a short section in its 2015 sustainability report. The company barely updated the language it used in its previous 2014 report, despite the many changes in the energy market that have occurred in the past year including the entry into force of the Paris Climate Agreement and the release of the recommendations of the Task Force on Climate-related Financial Disclosure. The disclosure relies on an IEA world energy outlook that predates the Paris Climate Agreement and is now 18 months out of date, as well as an analysis from an industry consultant that is now three years old.

The company's disclosure consists solely of a misleading attack on the concept of carbon asset risk itself. None of the Company's public disclosures quantify the financial losses it is exposed to, nor assess how low oil demand will harm the company. The company also fails to address the risks associated with worldwide achievement of the 2-degree scenario, which *Barclays* has estimated could place $33 trillion in fossil fuel revenues at risk through 2040.[1]

Instead, in its Sustainability Report, Hess argues that it believes an extended period of low oil demand resulting in stranded assets is unlikely, and that global regulatory action to bring about a 2 degree Celsius limit is unlikely, without meaningfully justifying these positions with data. The company cannot credibly claim that this report has provided the information requested by shareowners. The requested information —an analysis of a range of stranded asset scenarios—is nowhere found in that report.

Hess has not only the capability but an obligation to quantify the financial risks it faces under a low-carbon scenario. Unfortunately, the company's current disclosures make no attempts to quantify the potential magnitude of this risk.

This contrasts poorly with a number of Hess' peers. Companies including *Total*, *Suncor*, *ConocoPhillips*, *BHP* and *Statoil* have publicly acknowledged the risks that a low-carbon transition poses, and have articulated plans to manage those risks.

Immediate Value of Two-Degree Scenario Analysis

3. **CONDUCTING TWO-DEGREE SCENARIO ANALYSIS WILL PROVIDE HESS' MANAGEMENT, DIRECTORS, AND INVESTORS WITH CRITICAL TOOLS TO MANAGE RISK AND ADAPT ITS BUSINESS STRATEGIES AND CAPITAL EXPENDITURES TO BE RESILIENT UNDER A VARIETY OF SCENARIOS.**

Two-degree scenario analysis is now recognized as an important foundation for credible, decision-useful climate disclosures. In December 2015, at the direction of the G20, the Financial Stability Board established a Task Force on Climate Related Financial Disclosures (Task Force). The Task Force was charged with developing recommendations for "consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks."[2] It drew on the experience of its 32 global members from the financial industry and the non-financial industry, including members from the oil and gas industry. In developing its recommendations, the Task Force conducted extensive interviews and provided for comment through a public consultation. 96% of respondents indicated that scenario analysis is a key component of disclosure. The Task Force explicitly recommended that all companies "describe the potential impact of different scenarios, including a two-degree scenario, on the organization's businesses, strategy, and financial planning," but also includes more specific guidance for companies in the oil and gas, coal, and electric utilities sectors due to the unique vulnerabilities of these industries.[3] **Leading asset managers such as *State Street Global Asset Managers* and *BlackRock* have issued statements and reports highlighting the importance of**

[1] Barclays, Equity Research, "Climate Change: Warming up for COP-21," (Nov. 24, 2015) available at https://live.barcap.com/PRC/servlets/dv.search?contentPubID=FC2194025&bcllink=decode
[2] Recommendations of the Task Force on Climate-related Financial Disclosures, iii (Dec. 14, 2016).
[3] Ibid. at 15, 19, 26.

managing climate risk, and Moody's has indicated that it will begin to employ scenario analysis in its credit ratings methodologies.[4]

Adequate publicly available resources and guidance exist to allow Hess to conduct such analysis without incurring undue expense. The Task Force provided a detailed Technical Supplement to guide companies in developing scenario analysis, Ceres commissioned industry expert Amy Myers Jaffe to develop a framework for conducting two-degree scenario analysis,[5] and many industry consultants are familiar with scenario analysis. There is also substantial information available by reviewing the reports of peers and competitors. The number of oil and gas companies conducting two-degree scenario analysis and the quality of those analyses has grown significantly since 2015. **Already *ConocoPhillips*, *Statoil*, *BHP Billito*n, and *Total* have endorsed, conducted, and released some level of detail regarding their two-degree scenario analysis.[6] *Shell* and *BP* have disclosed additional scenarios that are beginning to approach the lower levels of demand consistent with achieving a two-degree scenario,[7] and *Suncor* will release its two-degree scenario analysis later this spring.** Conducting an analysis of the proposed and potential pathways for achieving the two-degree target will provide Hess and its investors with valuable information about the costs and financial risks associated with investing in particular types of reserves and resources.

Conclusion

Leading financial market actors have endorsed the importance of a two-degree scenario analysis. While Hess explicitly acknowledges that multiple energy and climate policies, as well as technological advances and shifts in demand, could have significant adverse impacts on the company, **management does not provide sufficient information for investors to assess these profound risks and Hess' response to them**.

Oil and gas assets often have decades-long lifespans. While shareholders might find Hess' strategy appropriate for current market conditions, prudent investors will also seek to assess the mid to long-term resilience of our company's portfolio and strategic positioning in carbon-constrained markets. Disclosure of scenario analyses that model the potential impact of public policy changes on Hess' assets will assist shareholders in determining if our company is sufficiently prepared and stress testing for a changing future.

Accordingly, investors are encouraged to vote "FOR" this important request for enhanced disclosure.

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[4] Moody's Investor Service, Moody's to Analyse Carbon Transition Risk Based on Emissions Reduction Scenario Consistent with Paris Agreement, (June, 28, 2016).

[5] Amy Myers Jaffe, "A Framework for 2 Degrees Scenario Analysis: A Guide for Oil and Gas Companies and Investors" Ceres (Nov. 2016).

[6] BHP Billiton, Climate Change: Portfolio Analysis (Sept. 2015); Statoil, Energy Perspectives (Jun. 2015); ConocoPhillips, Carbon Asset Risk; Total, Integrating Climate Into Our Strategy, (May 2016); Shell, A Better Life with a Healthy Planet: A Pathway to Net Zero Emissions; BP, SRI Annual Meeting (Nov. 2016).

[7] Id.