

Early exploration success in Australia

Good start to a multi-well WA-390-P drilling program

After the close, HES announced that Glencoe-1, the first of a 16 well program (with four slated for 2008), on the WA-390-P permit (NWS Australia) encountered 92 ft of net gas pay, consistent with the company's pre-drill estimates. Although results are preliminary, we note the following positive takeaways: (1) early news flow - we had not expected an announcement until completion of the entire four well program in September; (2) the well represents a positive first step toward de-risking a wide pre-drill estimates of 2-15tcf (333-2,500mn boe); and (3) exploration-based stocks require exploration successes to maintain credibility and momentum. Moreover, success in the NWS represents diversification of upside potential outside of the BM-S-22 prospect in Brazil.

We estimate WA-390-P has \$12/share of unrisks potential

Using our long term oil/natural gas prices of \$90 WTI/\$9 HH, we estimate the midpoint of an unrisks 2-15tcf discovery (100% WI) could be worth \$12/share to HES (see Table 1 for additional details). Because the recent focus has been on Brazil and Ghana prospects, we think today's announcement will be received favorably. Given that this is the first of 16 wells, caution is clearly required. However, the size of the prospects in WA-390-P (333 to 2,500mn boe with 100% WI) is clearly material for a company with 2007 proven reserves of 1.3bn boe.

Exploration underpins our positive view

We believe the main catalyst over the near term is likely to be news flow from its extensive exploration program. It is drilling potentially game-changing prospects in Brazil, Australia, Ghana, Libya and US GOM. Brazil and Ghana are currently receiving the bulk of market attention, and HES' share price is influenced by news flow and market speculation on non-HES blocks. Our analysis shows that the potential value of these prospects are substantial; however, HES must still deliver exploration success to re-affirm the market's expectations.

Raise PO to \$150/share

We have increased our price objective to \$150/share from \$141 (22% upside potential). The PO is not based on an explicit earnings or cash flow target multiple. Instead, we recognize that the company's existing business is funding an exploration program with multiple potentially game-changing prospects. To illustrate this optionality and the impact on the company's valuation, we estimate the potential value of the top five prospects at \$65/share (unrisks) at the midpoint of the resource range, assuming \$90/bbl WTI long-term (see Table 1).

Without the material exploration prospects, we estimate HES would trade between \$100-\$110/share, benchmarking against US peer OXY. The current share price therefore only incorporates \$10 to \$20/share for above-normal exploration prospects, an attractive risk/reward profile in our view.

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Stock Data

Price	US\$122.94
Price Objective	US\$141.00 to US\$150.00
Date Established	10-Jun-2008
Investment Opinion	B-1-7
Volatility Risk	MEDIUM
ML Symbol / Exchange	HES / NYS
Bloomberg / Reuters	HES US / HES.N



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Refer to important disclosures on page 3 to 4. Analyst Certification on Page 2. Price Objective Basis/Risk on page 2.

Table 1: Exploration program

Exploration Program	WI (%)	Resource Range (mn boe)			NAV (\$/boe)	Unrisked Upside Opportunity (\$mn)				Risked Midpt NPV/Share (\$/share)			
		Low	High	Low		High	Mid	Mid \$/share (\$/share)	Probability of Success				
									20%	40%	60%	80%	
BM-S-22 Brazil	40%	5,000	8,000	3.7	7,310	11,696	9,503	30.1	6.0	12.0	18.0	24.1	
WA-390-P, NWS Australia	100%	333	2,500	2.7	906	6,803	3,854	12.2	2.4	4.9	7.3	9.8	
WA-404-P, NWS Australia	50%	333	2,500	2.5	421	3,164	1,793	5.7	1.1	2.3	3.4	4.5	
Block 54, Libya	100%	500	1,000	2.0	993	1,986	1,489	4.7	0.9	1.9	2.8	3.8	
Cape Three Points South Blk, Ghana	100%	200	500	11.1	2,226	5,566	3,896	12.3	2.5	4.9	7.4	9.9	
Total		6,366	14,500	3.6	11,857	29,214	20,535	65.0	13.0	26.0	39.0	52.0	

Source: Company data, WoodMac, Merrill Lynch estimates. Note: NAVs are based on a long-term oil price of \$90/bbl WTI and natural gas price of \$9/mmBtu Henry Hub. The calculations assume ten years to first oil for Brazil and Australia, and five years for Libya and Ghana.

Price objective basis & risk

Hess (HES)

Our price objective of \$150/share is not based on an explicit earnings or cash flow target multiple. Instead, we recognize that the company's existing business is funding a 2008-09 exploration program with multiple potential game changing prospects. Brazil is top of everyone's list, given recent excitement about PBR's discoveries, but Ghana, Australia, Libya and US GOM could also materially change the company's profile and valuation. To capture this optionality in our valuation, we have estimated the potential value of the top five prospects (BM-S-22 in Brazil, WA-390 and WA-404 in Australia, Block 54 in Libya and Cape Three Points in Ghana) on an unrisked basis, with a valuation range of between \$38 and \$92/share with a \$65 midpoint. Given the materiality of these projects, and the steady stream of news flow anticipated during 2008 we are comfortable with HES trading at 14.0x 2009E earnings at our target price. We also note that it has higher depreciation than the peer group, so the EV/DACF multiple at our \$150 target would be a fairly manageable 7.9x (peer average is about 6x). If HES's exploration portfolio did not have the potentially game changing prospects, we estimate that the stock would trade at \$110-110/share, benchmarking against US peer OXY. The risks to our price objective are (1) the oil and gas price and margin environment and (2) an unsuccessful exploration program.

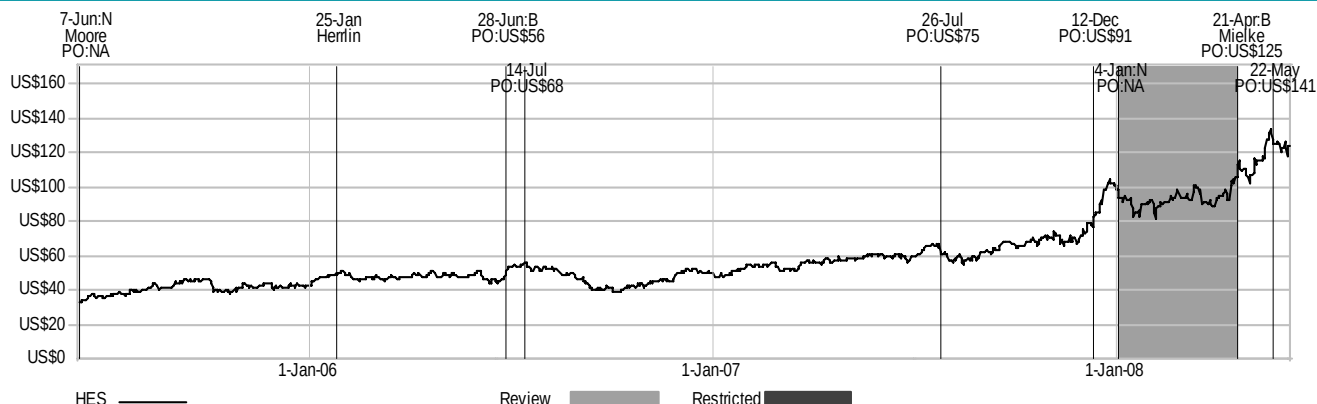
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10 June 2008

Important Disclosures

HES Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of May 31, 2008 or such later date as indicated.

Investment Rating Distribution: Energy Group (as of 01 Apr 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	132	54.77%	Buy	38	33.04%
Neutral	94	39.00%	Neutral	24	31.17%
Sell	15	6.22%	Sell	1	7.14%

Investment Rating Distribution: Global Group (as of 01 Apr 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
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Sell	362	9.90%	Sell	79	23.80%

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