

HESS CORP
Form DEF 14A
March 26, 2009

SCHEDULE 14A
(Rule 14a-101)

Information Required in Proxy Statement

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

Hess Corporation
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

**HESS CORPORATION
1185 AVENUE OF THE AMERICAS
NEW YORK, N.Y. 10036**

March 26, 2009

Dear Stockholder:

The annual meeting of stockholders will be held at the Hess Office Building, 1 Hess Plaza, Route 9, Woodbridge, New Jersey, on Wednesday, May 6, 2009, at 2:00 P.M., local time. The formal notice of annual meeting and proxy statement, which are contained in the following pages, outline the action to be taken by the stockholders at the meeting.

You are cordially invited to attend this meeting. The Hess Office Building can be reached, if you travel by car, from Exits 127 (northbound) and 130 (southbound) of the Garden State Parkway or Exit 11 of the New Jersey Turnpike or, if you travel by train, from the Metropark station in Iselin, New Jersey.

This year, we are pleased to furnish our proxy materials to our stockholders over the internet, as permitted by Securities and Exchange Commission rules. We believe this new process will enable us to provide you with a convenient way to access our proxy materials, while reducing the costs and environmental impact of our annual meeting. A paper copy of our proxy materials may be requested through one of the methods described in the Notice of Internet Availability of Proxy Materials.

It is important that your shares be represented at the meeting whether or not you are personally able to attend. Accordingly, after reading the attached Notice of Annual Meeting of Stockholders and Proxy Statement, please promptly submit your proxy by telephone, internet or mail as described in the Notice of Internet Availability of Proxy Materials. If you submit your proxy over the internet, you will have the opportunity to agree to receive future stockholder documents electronically via email, and we encourage you to do so. If you have received a paper copy of the proxy materials and choose to submit your vote by traditional proxy or voting instruction card, please sign, date and mail the card in the enclosed pre-addressed reply envelope. Your cooperation will be appreciated.

Sincerely yours,

*Chairman of the Board
and Chief Executive Officer*

**HESS CORPORATION
1185 AVENUE OF THE AMERICAS
NEW YORK, N.Y. 10036**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
Wednesday, May 6, 2009, at 2:00 P.M.**

To the Stockholders:

The annual meeting of stockholders of Hess Corporation will be held at the Hess Office Building, 1 Hess Plaza, Route 9, Woodbridge, New Jersey, on Wednesday, May 6, 2009, at 2:00 P.M., local time, for the following purposes:

1. To elect five directors for the ensuing three-year term (pages 1 to 39 of proxy statement);
2. To act upon the ratification of the selection by the audit committee of the board of directors of Ernst & Young LLP as independent auditors (pages 39 and 40); and
3. To transact any other business which properly may be brought before the meeting.

All stockholders are cordially invited to attend, although only stockholders of record at the close of business on March 16, 2009 will be entitled to vote at the meeting.

By order of the board of directors,

George C. Barry
Secretary

New York, New York
March 26, 2009

YOUR VOTE IS IMPORTANT

You are urged to date, sign and promptly return the proxy card if you request paper copies of proxy materials, or to use the telephone or internet method of voting described in your proxy card or the Notice of Internet Availability of Proxy Materials, so that if you are unable to attend the meeting your shares can be voted.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on May 6, 2009:

Hess Corporation's proxy statement and 2008 annual report are available at
<http://bnymellon.mobular.net/bnymellon/hes>

HESS CORPORATION

PROXY STATEMENT

The enclosed proxy is solicited by the board of directors of Hess Corporation for use at the annual meeting of stockholders on May 6, 2009, at 2:00 P.M., local time.

The company's principal executive office is located at 1185 Avenue of the Americas, New York, New York 10036. The approximate date on which this proxy statement is first being furnished to stockholders is March 26, 2009.

Holders of record of common stock of the company at the close of business on March 16, 2009 will be entitled to vote at the annual meeting. Each share of common stock will be entitled to one vote. On March 16, 2009, there were 327,232,443 shares of common stock outstanding. There are no other voting securities of the company outstanding. A majority of the outstanding shares of common stock, present in person or represented by proxy, will constitute a quorum at the annual meeting. Abstentions and broker non-votes will be counted for purposes of determining the presence of a quorum for the transaction of business.

In accordance with Securities and Exchange Commission rules, we are making our proxy materials available to stockholders over the internet. On or about March 26, 2009, we mailed a Notice of Internet Availability of Proxy Materials to our stockholders. This Notice contains instructions on how to access this proxy statement and our annual report and submit a proxy over the internet. If you received a Notice by mail, you will not receive a paper copy of the proxy materials unless you request such materials by following the instructions contained on the Notice.

If you are a registered stockholder, you can simplify your voting by using the internet or calling a toll-free telephone number. Internet and telephone voting information is provided on the proxy card or Notice. A control number, located on the instruction sheet attached to the proxy card or Notice, is designated to verify a stockholder's identity and allow the stockholder to vote the shares and confirm that the voting instructions have been recorded properly. If you vote via the internet or by telephone, there is no need to return a signed proxy card. However, you may still vote by proxy by using the proxy card.

Proxies will be voted at the annual meeting in accordance with the specifications you make on the proxy. If you sign the proxy card or submit a proxy by telephone or over the internet and do not specify how your shares are to be voted, your shares will be voted:

for the election of directors nominated herein, and

for the proposal to ratify the selection of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 2009.

You may revoke the proxy at any time prior to its use by delivering a written notice to the secretary of the company, by executing a later-dated proxy, by revoting your shares by telephone or on the internet, or by attending the annual meeting and voting in person.

ELECTION OF DIRECTORS

At the annual meeting, five directors are to be elected to serve for a term of three years and until their successors are elected and qualified. It is intended that proxies will be voted for the nominees set forth herein. Directors are elected by a plurality of the votes cast. Accordingly, abstentions and broker non-votes will not affect tabulation of the vote for directors. It is expected that all candidates will be able to serve. However, if one or more are unable to do so, the proxy holders will vote the proxies for the remaining nominees and for substitute nominees chosen by the board of directors unless it reduces the number of directors to be elected.

The following table presents information as of March 4, 2009 on the nominees for election as directors of the company and the directors continuing in their respective terms of office:

Nominees for Director

Class III

For Three-Year Term expiring in 2012

Name	Principal occupation and business experience	Age	Director since	Other directorships
John B. Hess	Chairman of the Board and Chief Executive Officer	54	1978	The Dow Chemical Company
Samuel W. Bodman	Former Secretary of the United States Department of Energy; Former Deputy Secretary of the United States Department of the Treasury	70		
Risa Lavizzo-Mourey	President and Chief Executive Officer, The Robert Wood Johnson Foundation	54	2004	Genworth Financial, Inc.
Craig G. Matthews	Former Vice Chairman and Chief Operating Officer, KeySpan Corporation (gas distribution, electrical generation and energy services company) Former Chief Executive Officer, President and Director, NUI, Inc. (natural gas distribution company)	65	2002	National Fuel Gas Company
Ernst H. von Metzsch	Managing Member, Cambrian Capital, L.P. (investment firm); Former Senior Vice President and Partner, Wellington Management Company (investment	69	2003	

company)

Members of Board of Directors Continuing in Office

Class I

Term expiring in 2010

Name	Principal occupation and business experience	Age	Director since	Other directorships
Nicholas F. Brady	Chairman, Choptank Partners, Inc. (investment firm); Chairman, Darby Overseas Investments, Ltd. (investment firm); Former Secretary of the United States Department of the Treasury; Former Chairman of the Board, Dillon, Read & Co. Inc. (former investment banking firm)	78	1994	Franklin Templeton Investment Fund Holowesko Partners Ltd. Weatherford International Ltd.
J. Barclay Collins II	Executive Vice President	64	1986	
Gregory P. Hill	Executive Vice President and President, Worldwide Exploration and Production	47	2009	
Thomas H. Kean	President, THK Consulting, LLC (consulting firm); Former President, Drew University; Former Governor of the State of New Jersey	73	1990	Franklin Resources, Inc.
Frank A. Olson	Former Chairman of the Board and Chief Executive Officer, The Hertz Corporation	76	1998	Director or trustee of various Franklin Templeton mutual funds

Class II

Term expiring in 2011

Name	Principal occupation and business experience	Age	Director since	Other directorships
Edith E. Holiday	Corporate Director and Trustee; Former Assistant to the President of the United States and Secretary of the Cabinet; Former General Counsel, United States Department of the Treasury	56	1993	Canadian National Railway Company H.J. Heinz Company RTI International Metals, Inc. White Mountains

				Insurance Group Ltd. Director or trustee of various Franklin Templeton mutual funds
John H. Mullin III	Chairman, Ridgeway Farm LLC (private company engaged in timber and farming activity) Former Managing Director, Dillon, Read & Co. Inc. (former investment banking firm)	67	2007	Progress Energy, Inc. Sonoco Products Company
F. Borden Walker	Executive Vice President and President, Marketing and Refining	55	2004	
Robert N. Wilson	Chairman, Still River Systems (medical device company); Former Vice Chairman of the Board of Directors, Johnson & Johnson	68	1996	Charles Schwab Corporation Synta Pharmaceuticals Corp.

All of the nominees and directors named above have held substantially the positions or former positions indicated for the past five years, except as described below. From 2005 to 2009, Mr. Bodman was Secretary of the United States Department of Energy and in 2004 was Deputy Secretary of the United States Department of the Treasury. Prior to his joining the company in January 2009, Mr. Hill served in senior executive positions in exploration and production operations of Royal Dutch Shell for 25 years. Prior to becoming president of THK Consulting, LLC in 2005, Mr. Kean was president of Drew University for thirteen years. Mr. Matthews served as president and chief executive officer of NUI, Inc. from February 2004 until December 2004. He served as vice chairman and chief operating officer of KeySpan Corporation from March 2001 to March 2002. Mr. Wilson retired as vice chairman of Johnson & Johnson in 2003 and was chairman of Caxton Health Holdings LLC from 2004 to 2007.

John B. Hess, Nicholas F. Brady and Thomas H. Kean may be deemed to be control persons of the company by virtue of their beneficial ownership of common stock as described under Ownership of Voting Securities by Certain Beneficial Owners.

The board of directors met 8 times in 2008, at regularly scheduled meetings. Each director attended at least 75% of the aggregate of all board of directors meetings and all meetings of the committees of the board of directors on which he or she served during 2008.

Non-management directors meet without members of management present generally after each regularly scheduled board meeting. The chairman of the corporate governance and nominating committee, Nicholas F. Brady presides at these meetings.

The company expects all directors and nominees to attend the annual meeting of stockholders. All directors attended last year's annual meeting.

Director and Nominee Independence

The board of directors has affirmatively determined that Mr. Bodman, Mr. Brady, Ms. Holiday, Mr. Kean, Ms. Lavizzo-Mourey, Mr. Mullin, Mr. Matthews, Mr. Olson, Mr. von Metzsch and Mr. Wilson are independent within the meaning of rules and standards of the New York Stock Exchange. The board determined that these directors and nominees not only met all bright-line criteria under these rules, but also that, based on all known relevant facts and circumstances, there did not exist any relationship that would compromise the independence of these directors. In particular, the board affirmatively determined that service by Messrs. Brady and Kean as executors of the estate of Leon Hess and as trustees of certain related trusts does not impair their independence because there are no factors relating to such service that would exert influence on their decisions with respect to matters affecting the company.

Corporate Governance Guidelines

The board has approved a set of corporate governance guidelines in accordance with rules of the New York Stock Exchange. These guidelines set forth the key policies relating to corporate governance, including director qualification standards, director responsibilities and director compensation. The board has also approved a code of business conduct and ethics in accordance with rules of the New York Stock Exchange and the Securities and Exchange

Commission applicable to all directors, officers and employees, including the chief executive officer, senior financial officers and the principal financial and accounting officer. The code is intended to provide guidance to directors and management to assure compliance with law and promote ethical behavior. Copies of the company's corporate governance guidelines and its code of business conduct and ethics may be found on the company's website at www.hess.com and are also available without charge upon request to the company's corporate secretary at its principal executive office set forth on the first page of this proxy statement.

Stockholder and Interested Party Communications

Any stockholder or interested party who wishes to communicate or request a meeting with members of the board of directors or with only non-management directors or any specified individual director may do so by writing to them in care of the Chairperson of the Corporate Governance and Nominating Committee, Hess Corporation, P.O. Box 2694, Easton, Maryland 21601. The stockholders may also communicate directly to the chairperson of this committee by e-mail to directors@hess.com. Communications sent by mail or e-mail will be reviewed by the chairperson of the corporate governance and nominating committee and will be referred for resolution and response as deemed appropriate by the chairperson. If a stockholder requests a meeting, the corporate governance and nominating committee will decide whether the subject matter is a proper one to be addressed by the board and, if so, whether a meeting is warranted. The corporate governance and nominating committee will meet periodically to review all stockholder communications received.

Related Party Transactions

The company expects all directors and executive officers to bring to the company's attention any related party transactions, including transactions which may be required to be disclosed under Item 404 of Regulation S-K promulgated by the Securities and Exchange Commission. The company's code of business conduct and ethics provides that if any company representative, including a director or officer, considers conducting any transaction that reasonably would be expected to give rise to a conflict of interest between the representative and the company, such representative must disclose such transaction in advance to the company's legal department for review. In addition, the company annually sends each director and executive officer a questionnaire requiring such person to describe any transaction contemplated under Item 404 or in the case of independent directors, any transaction that might compromise their independence. The company also annually conducts a review of its accounting records to determine whether any such related transaction occurred in the prior fiscal year. If any proposed or existing related transaction is identified, the transaction is brought to the general counsel for review. If the general counsel determines the transaction poses a conflict of interest, or would compromise the independence of a non-management director, the general counsel will advise the audit committee of the transaction and the audit committee will determine whether the transaction, if proposed, may proceed and if existing, may continue to exist.

Compensation and Management Development Committee

The compensation and management development committee of the board of directors is composed of Thomas H. Kean, Chairman, Nicholas F. Brady, Frank A. Olson, Ernst H. von Metzsch and Robert N. Wilson. The board has determined that each member of this committee is independent within the meaning of applicable rules of the New York Stock Exchange. This committee met six times in 2008.

The board of directors has adopted a written charter for the compensation and management development committee in accordance with applicable rules of the New York Stock Exchange. A current copy of this charter is available on the company's website, www.hess.com, and also available without charge upon request to the company's corporate secretary at the company's principal executive office set forth on the first page of this proxy statement. As stated in the charter, this committee's principal responsibilities are to:

- approve the compensation of the company's chief executive officer,
- monitor the company's compensation and benefit programs,
- administer and make awards of stock-based compensation under the company's long-term incentive plans,
- review management development and succession programs, and
- prepare its annual report on executive compensation for the company's proxy statement.

The committee's processes for determining executive compensation are described in "Compensation Discussion and Analysis" on page 10.

Corporate Governance and Nominating Committee and Consideration of Stockholder Recommended Candidates

The corporate governance and nominating committee is composed of Nicholas F. Brady, Chairman, Edith E. Holiday and Thomas H. Kean. The board of directors has determined that each member of this committee is independent within the meaning of applicable rules of the New York Stock Exchange. The corporate governance and nominating committee met two times in 2008.

The board of directors has adopted a written charter for the corporate governance and nominating committee in accordance with applicable rules of the New York Stock Exchange. A current copy of this charter is available on the company's website, www.hess.com, and is also available without charge upon request to the company's secretary at the company's principal executive office set forth on the first page of this proxy statement. As stated in this charter, this committee's principal responsibilities are to:

- identify and recommend individuals to the board for nomination as members of the board and its committees consistent with criteria approved by the board,

make recommendations to the board relating to board practices and corporate governance, and

develop, recommend to the board and periodically review a set of corporate governance principles applicable to the company.

This committee recommends for election as directors qualified candidates identified through a variety of sources, including stockholder suggestions. Stockholders may suggest candidates by writing to the committee, in care of the secretary of the company at the company's principal executive office set forth on the first page of this proxy statement. Stockholder suggestions should include a summary of the candidate's qualifications, the information required by Securities and Exchange Commission rules for director nominees and contact information for the candidate. In accordance with the company's corporate governance guidelines approved by the board of directors, nominees are reviewed and recommended based on a variety of criteria including:

personal qualities and characteristics, education, background, accomplishments and reputation in the business community;

current knowledge of the energy industry or industries relevant to the company's business and relationships with individuals or organizations affecting the domestic and international areas in which the company does business;

ability and willingness to commit adequate time to board and committee matters;

the fit of the individual's skills and personality with those of other directors and potential directors in building a board that is effective, collegial and responsive to the needs of the company;

diversity of viewpoints, background and experience; and

compatibility with independence and other qualifications established by applicable law and rules.

The committee meets to recommend nominees for election at each annual meeting early in the year, generally at a February meeting. From time to time throughout the year, in advance of that meeting, members of the committee will be furnished appropriate materials regarding any new nominees and may from time to time meet with new potential candidates. Stockholder suggestions should be submitted no later than December 1 for consideration as nominees for election at the next annual meeting and otherwise in accordance with the company's policy and by-laws. The committee follows the same process of identifying and evaluating nominees recommended by stockholders as that for candidates recommended by any other source.

Each of the nominees for election at the 2009 annual meeting was initially recommended either by the non-management directors on the corporate governance and nominating committee (or its predecessor committee) or the chief executive officer. The committee currently does not retain a search firm to identify potential candidates and has not paid fees to any third parties to assist in identifying or evaluating potential nominees.

Audit Committee

The audit committee of the board of directors is composed of Robert N. Wilson, Chairman, Edith E. Holiday, Craig G. Matthews, Risa Lavizzo-Mourey, John H. Mullin and Frank A. Olson. The board has determined that each member of the audit committee is independent within the meaning of applicable rules of the Securities and Exchange Commission and the New York Stock Exchange. The board has also determined that Craig G. Matthews is the audit committee financial expert as this term is defined under applicable rules of the Securities and Exchange Commission. The audit committee met six times in 2008. In addition, the audit committee held four reviews of quarterly financial results with management and independent registered public accountants.

The board of directors has adopted a written charter for the audit committee in accordance with applicable rules of the New York Stock Exchange and the Securities and Exchange Commission. A current copy of the charter is available on the company's website at www.hess.com and without charge upon request to the company's corporate secretary at its principal executive office set forth on the first page of the proxy statement. As stated in the charter, the audit committee's principal responsibility is to provide assistance to the board of directors in fulfilling its oversight responsibility to the shareholders, the investment community and others relating to:

- the company's financial statements,
- the financial reporting practices of the company,
- the systems of internal accounting and financial controls,
- the internal audit function,
- the annual independent audit of the company's financial statements,
- the retention of outside auditors and review of their independence,
- the review of enterprise risk and risk controls, and
- the company's environmental, health, safety and social responsibility programs and compliance.

Report of the Audit Committee

The audit committee of the board of directors oversees the company's financial reporting on behalf of the board. Management is responsible for the system of internal controls and for preparing financial statements. The independent registered public accountants are responsible for expressing an opinion on the fair presentation of the financial statements in conformity with generally accepted accounting principles. The audit committee operates in accordance with a charter approved by the board of directors.

In fulfilling its oversight responsibilities, the audit committee reviewed and discussed the audited financial statements of the company for the year ended December 31, 2008 with management and the independent registered public accountants. Management represented to the committee that these statements were prepared in accordance with generally accepted accounting principles. The audit committee also discussed accounting policies, significant judgements inherent in the financial statements, disclosures and other matters required by

generally accepted auditing standards with management and the independent registered public accountants. In addition, the committee has received from the independent registered public accountants the annual independence disclosures and letter pursuant to Rule 3526 of the Public Company Accounting Oversight Board regarding the independent registered public accountants' communications with the audit committee concerning independence and discussed with them their independence from management and the company. In that connection, the audit committee considered the compatibility of all non-audit services with the auditors' independence.

During 2008, the audit committee met with management, the independent registered public accountants and the internal auditors to discuss:

the annual audit scope and plans for their respective audits,

the adequacy of staffing and related fees,

the results of their examinations,

the adequacy and effectiveness of internal controls over financial reporting and disclosure controls and procedures,

issues raised on the company's hotline reporting system, and

all other applicable matters required to be considered by Statement on Auditing Standards Nos. 112 and 114.

The audit committee also met separately with the independent registered public accountants and the internal auditors without management present.

In reliance on the reviews and discussions with management and the independent registered public accountants, the audit committee recommended to the board of directors, and the board approved, the inclusion of the audited financial statements in the Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission. The audit committee has also selected Ernst & Young LLP as independent registered public accountants for 2009. The board has proposed that the stockholders ratify this selection at the annual meeting.

Robert N. Wilson, Chairman
Edith E. Holiday
Risa Lavizzo-Mourey
Craig G. Matthews
John H. Mullin
Frank A. Olson

Executive Compensation and Other Information

Compensation Discussion and Analysis

Total Compensation Objectives and Policies

The compensation and management development committee of the board of directors approves and oversees our executive compensation programs. The objective of our executive compensation programs is to attract and retain executives and motivate them to achieve our business goals through a combination of cash and stock-based compensation. We attempt to reinforce the link between pay and performance by putting a portion of executive compensation at risk, so that executives are rewarded if corporate, business unit and individual performance goals are achieved. Moreover, the committee believes that a significant portion of compensation should be related to our common stock in order to align senior management interests more closely with those of our stockholders and to provide incentives to work for the long-term profitable growth of the company. The principal elements of an executive's total compensation consist of:

cash salary,

annual cash bonus, and

long-term equity compensation, consisting of stock options and restricted stock awards.

However, we also review other elements of compensation, including retirement benefits, life insurance, savings, health and welfare plans and other benefits offered to employees generally in order to evaluate the entire compensation package offered to executives.

Processes and Procedures for Determining Compensation and Role of Compensation Consultants

The compensation and management development committee has exclusive authority for approving the compensation of the chief executive officer and the other named executive officers. The human resources department, acting under the supervision of the chief executive officer, develops compensation recommendations for all officers and employees, including the named executive officers, in accordance with the compensation objectives and policies more fully described elsewhere in this compensation discussion and analysis.

To assist its review of the compensation recommendations, the committee has engaged the firm of Towers Perrin as compensation consultant. In this capacity, Towers Perrin reports exclusively to the compensation and management development committee, which has sole authority to engage, dismiss and approve the terms of engagement of the consultant. In late 2007, the company engaged International Survey Research, an affiliate of Towers Perrin, to develop a customized worldwide employee survey that was implemented and completed in 2008.

Although the consultant interacts with senior executives in our human resources department and with senior management in developing compensation recommendations, the consultant meets privately with the committee in advising on compensation levels for the chief executive officer and the other named executive officers. Final decisions on compensation for these individuals are made solely by the committee.

The compensation consultant's principal responsibility is to advise the compensation and management development committee on compensation recommendations for the named

executive officers, as well as on general matters relating to executive compensation strategy and programs. The compensation consultant also compiles and assists in analyzing survey data from comparative groups used for analysis of competitive compensation levels.

The compensation recommendations are reviewed annually by the compensation and management development committee, usually at its February meeting. The chief executive officer meets with the compensation and management development committee and the compensation consultant to review compensation recommendations for executive officers directly reporting to him, including the other named executive officers. Thereafter, the compensation and management development committee meets privately with the compensation consultant to review the compensation recommendations. The compensation and management development committee then determines the chief executive officer's and other executive officers' compensation based on the advice of the compensation consultant in accordance with the compensation objectives and policies described below.

In accordance with its charter, the corporate governance and nominating committee periodically reviews and determines appropriate levels of compensation for directors. To assist in conducting this review and making these determinations, this committee has engaged a consultant, Mercer Human Resources Consulting, to compile comparative data and make recommendations. The corporate governance and nominating committee last reviewed director compensation in September 2006.

Total Compensation Methodology and Comparator Group

In order to ensure that our compensation and benefit programs are competitive within our industry, the committee reviews data from a comparative group of companies. In 2008, for the named executive officers, comparative data was collected by the compensation consultant from the following group of oil and gas companies:

Anadarko Petroleum Corporation	Marathon Oil Corporation
Apache Corporation	Murphy Oil Corporation
Ashland Inc.	Occidental Petroleum Corporation
BP plc	Shell Oil Corporation
Chevron Corporation	Sunoco Inc.
ConocoPhillips	Tesoro Petroleum Corporation
Devon Energy Corporation	The Williams Companies, Inc.
Exxon Mobil Corporation	Valero Energy Corporation

Total Direct Compensation

Generally, our objective is to deliver top-tier total direct compensation, consisting of cash salary, cash bonus and long-term equity compensation, if specified corporate and business unit performance metrics and individual performance objectives are met. We consider top-tier total direct compensation to be total direct compensation for an executive officer that is higher than that paid to executive officers performing similar functions at a majority of our peer companies. We choose to pay this level of compensation in order to remain competitive in attracting and retaining talented executives. Many of our competitors are significantly larger and have financial resources greater than our own. The competition for experienced, technically proficient executive talent in the oil and gas industry is acute, as companies seek to

draw from a limited pool of such executives to explore for and develop hydrocarbons that increasingly are in more remote areas and are technologically more difficult to access. We believe that it is necessary to pay at this level to attract talented professionals who might otherwise believe that they are not sufficiently rewarded for the risk of relocating from a larger to a smaller competitor in the oil and gas industry. Variations in total direct compensation among the named executive officers reflect differences in competitive pay for their positions as well as the size and complexity of the business units or functions they oversee, the performance of those business units or functions and individual performance.

We structure total direct compensation to the named executive officers so that most of this compensation is delivered in the form of equity awards in order to provide incentives to work toward long-term profitable growth that will enhance stockholder returns. We also structure their cash compensation so that a significant portion is at risk under the cash bonus plan, payable based on corporate, business unit and individual performance. We believe that the mix and structure of compensation strikes a balance to promote long-term returns without motivating or rewarding excessive risk taking. In the following sections, we further detail each component of total direct compensation.

Cash Compensation Salary

In determining base salary level for executive officers, the committee considers the following qualitative and quantitative factors:

job level and responsibilities,

relevant experience,

individual performance,

recent corporate and business unit performance, and

our objective of paying top-tier total direct compensation if performance metrics are met.

We review base salaries annually, but we do not necessarily award salary increases each year. From time to time base salaries may be adjusted other than as a result of an annual review, in order to address competitive pressures or in connection with a promotion.

2008 Base Salary Increases. In February 2008 the committee approved cash salary increases averaging 5.8% for our executive officers. The salary increases for each of the named executive officers were as follows: Mr. Hess, 11%; Mr. O Connor, 13%; Mr. Walker, 6%; Mr. Collins, 3%; and Mr. Rielly, 6%. These increases were approved in view of the company's improved financial and operational performance and these officers' individual performance in 2007. In response to the decline in crude oil and natural gas prices in late 2008, the committee did not grant salary increases to the named executive officers and other executive officers for 2009.

Cash Compensation Cash Bonus Plan

Elements of Cash Bonus Plan. The annual cash bonus plan for executive officers has both quantitative and qualitative elements. We establish a target bonus for each executive

officer based on his or her job level and responsibility and competitive levels for similar positions. For executive officers, including the named executive officers:

one-third of the target bonus is based on the attainment of a specified target level of a corporate performance measure, which for 2008 was net income before after-tax interest expense and items affecting the comparability of income between periods,

one-third is based on attainment of specified business unit metrics, and

one-third is based on individual performance and other qualitative factors.

We developed these weightings to link two-thirds of the bonus to quantifiable performance measures but also to permit discretion to recognize individual performance. Payouts may range from 0% to 150% for each component of the target bonus, depending upon the percent of attainment of the corporate and business unit performance measures and, with respect to the individual performance component, the committee's determination of an appropriate amount. In determining the individual performance component, the committee may also take into consideration the desired level of total direct compensation for a particular executive officer.

Determination of Metrics. Business unit metrics vary from exploration and production and marketing and refining and also vary among units within each division. Business unit metrics for exploration and production executives may include, for example, reserve additions, production growth, controllable cost and safety. Metrics for marketing and refining executives may include, for example, income, controllable expense, margins and safety. The specific targeted levels of corporate and business unit performance that are to be attained are established with the intention of motivating continued improved performance in an effort to attain first quartile performance compared to our peers. For the years 2004 through 2008, attainment of maximum payout on the business unit metrics for exploration and production and marketing and refining on average was never achieved. Attainment of target payout on business unit metrics for marketing and refining was not achieved in three of those years, and in 2008 payout on exploration and production metrics was at target.

Assessment of Individual Performance. We assess individual performance on a discretionary basis in view of specific performance objectives developed for each executive at the beginning of each year. Each executive's manager, in consultation with the executive, develops a set of strategic, financial and operational objectives that the executive will attempt to achieve during that year. At the end of the year, the manager reviews with the executive the extent to which each of these objectives was attained. The chief executive officer conducts these performance reviews for the other named executive officers and makes compensation recommendations to the committee based on these reviews. The committee then reviews the chief executive officer's attainment of his performance objectives. Attainment of an executive's performance objectives influences not only the individual performance component of his or her annual cash bonus, but also the levels of long-term equity compensation and base salary.

2008 Cash Bonus Plan Payouts. Payouts to the named executive officers for corporate and business unit performance are shown in column (g), and payouts for individual performance are shown in column (d), of the Summary Compensation Table. In 2008, the company

attained maximum payout on the corporate performance goal. The amount of the corporate goal attained in 2008 was \$2,553,000,000, which is determined as follows:

	2008 (Millions of Dollars)	Source
Net Income	\$ 2,360	Page 46 of 2008 Form 10-K
Items of expense affecting comparability between periods	26	Page 21 of 2008 Form 10-K, second table
Plus: After-Tax Interest Expense	167	Page 28 of 2008 Form 10-K, first table
2008 Corporate Performance Goal	\$ 2,553	

Payouts for the business unit component of the 2008 cash bonus were determined as explained below.

John J. O Connor. Business unit metrics for exploration and production for 2008 included approximately 10 financial and operational metrics. Although no single business unit metric was material to Mr. O Connor s 2008 cash bonus, certain metrics that affected exploration and production business unit performance in 2008 were reserve additions, exploration prospectivity additions, production growth, workplace safety and operating cost and capital expenditure control. We significantly increased our proved reserves, as reflected in our replacing 171% of production in 2008, and added new exploration prospects in the Gulf of Mexico and Indonesia. Performance on these and other metrics resulted in payout on the business unit component of Mr. O Connor s 2008 bonus that was at target.

F. Borden Walker. Business unit metrics for marketing and refining included approximately 20 financial and operating metrics. Although no single business unit metric was material to Mr. Walker s 2008 cash bonus, certain metrics that affected marketing and refining business unit performance in 2008 were marketing income, controllable expense, and safety. Record marketing earnings were achieved despite deteriorating economic conditions. However, lower margins continued to prevail in the refining industry. As a result of performance on these and other metrics, payout on the business unit component of Mr. Walker s 2008 bonus was at target.

John B. Hess, J. Barclay Collins and John P. Rielly. The business unit component of the cash bonus for corporate staff, including Messrs. Hess, Collins and Rielly, is determined as a composite of business unit performance across the exploration and production and marketing and refining business units. This resulted in a business unit component payout for these named executive officers that was slightly below target for 2008.

As explained above, we assess individual performance on a discretionary basis in view of performance objectives developed for each named executive officer at the beginning of each year. Certain objectives in 2008 were common to each of these officers, such as developing succession plans for themselves as well as senior staff within their organizations and overseeing performance evaluation and recruiting and talent management and development programs within their organizations. The committee took note of the considerable progress made in 2008 in these areas, reflected in the finding of replacements for certain key management positions, including the head of worldwide exploration and production and the general counsel, and the successful recruitment of about 400 professionals. In addition, in assessing individual performance of the named executive officers, the committee considered

the achievements described below. However, the Committee also considered certain other principally external factors that negatively affected performance, such as lower crude oil and natural gas prices as a result of the global economic downturn, which adversely affected results of operations and shareholder returns in the latter half of 2008, lower than expected refining margins, technical drilling challenges and poorer than expected operational performance by contractors and other third parties in exploration and production. These factors, principally the lower crude oil and natural gas prices currently prevailing in the industry, negatively affected the discretionary component of the 2008 cash bonus plan. This discretionary component, as shown in column (d) of the summary compensation table, was lower for each of the named executive officers in 2008 than that in 2007.

John Hess. Mr. Hess' key objectives for 2008 were to lead the continued execution of the company's strategy for long-term profitable growth to increase shareholder value, to pursue strategic business initiatives that create optionality for future growth, to ensure organizational capability through talent and performance management and management succession processes, and to foster and enhance the company's relationships with its stakeholders, including investors, national oil companies, business partners, employees and countries and communities in which we operate. In 2008, under Mr. Hess' leadership, the company:

achieved record earnings of \$2.36 billion,

furthered its goal of building a global franchise in exploration and production with world class technical expertise and a portfolio of assets that is balanced geographically between the United States, Europe, Africa and Asia,

underscored its commitment to making a long-lasting positive impact on the communities in which it operates by increasing contributions to support health, education and community development from \$16.4 million in 2007 to \$21 million in 2008, including \$3 million for hurricane relief in Houston, and making substantial progress to improve primary education in Equatorial Guinea,

explored initiatives in liquified natural gas and fuel cell technology in an effort to develop alternative energy sources, and

ensured continuity in execution of its strategies by indentifying and hiring two new executives as part of the leadership team, one to head worldwide exploration and production operations and the other to lead the Company's legal functions.

John O Connor. Mr. O Connor's key objectives for 2008 were to lead the execution of the exploration and production business strategy to profitably grow reserves and production on a sustainable basis and promote operational efficiency through continued business process improvements. In 2008 the company:

achieved proved reserve growth of 8%, which marked the sixth consecutive year of increases in the company's reserve life,

achieved production growth of 1%,

advanced four significant field developments that will add to future production growth,

executed a successful exploration program that resulted in discoveries in Australia, Libya and Egypt and acquired attractive exploration acreage in the Gulf of Mexico and Indonesia, and

structured and staffed an exploration and production technology organization with highly talented industry practitioners.

F. Borden Walker. Mr. Walker's key objectives for 2008 were to lead the execution of the marketing and refining business strategy to generate earnings and free cash flow and drive operational improvements. In 2008 the company:

achieved strong volume and gross margin growth in its energy marketing business,

improved fuel margins and made substantial cost reductions in retail marketing,

generated a record \$240 million in marketing earnings despite deteriorating economic conditions,

progressed initiatives to improve reliability and reduce costs in refining,

made significant improvement in marketing and refining's safety record, and

put in place an advanced business leader development program.

John Rielly. Mr. Rielly's key objectives for 2008 were to oversee the company's accounting, financial, tax, risk management and information systems functions to improve the company's financial strength, create greater visibility for senior management to assess financial issues and risks, and to safeguard and enhance the company's system of internal controls. In 2008 the company:

increased its financial strength by reducing its debt to capitalization ratio from 28.9% at year-end 2007 to 24.3% at year-end 2008,

obtained an upgrade to its investment grade rating from a major credit rating agency, and

furthered its tradition of strong internal controls through initial implementation of a tax business process improvement project to standardize and integrate the company's global tax processes.

J. B. Collins. Mr. Collins' key objectives for 2008 were to provide continued leadership of the company's legal and compliance functions and to further the company's environment, health, safety and social responsibility programs. In 2008 the company:

continued its improvement in environmental, health and safety performance, achieving its best performance to date in employee safety,

progressed its program to improve primary education in Equatorial Guinea, with 40 model schools refurbished and equipped and 1,200 teachers having completed their first two years of training, and

increased engagement with government stakeholders through a focused government relations program.

Long-Term Compensation

General Objectives. Long-term compensation is a major portion of an executive officer's total compensation package and is an important incentive and retention tool. The committee has authority to grant a variety of stock-based compensation under the long-term incentive

plan, last approved by stockholders in 2008. Awards to executive officers under the plan have consisted of restricted stock and stock options. We believe the combination of these two types of stock awards gives executives considerable incentive to maximize long-term financial growth for stockholders and helps retain individuals necessary for future growth and profitability.

Timing of Awards. We have adopted a policy generally to make long-term equity compensation awards annually, at the committee's regular February meeting. We believe this is the appropriate time to make awards and set prices for options, because it is soon after the date in late January when we publicly disclose our earnings for the prior fiscal year and other material information. However, the committee retains discretion to vary the timing of awards as it deems appropriate. For example, the committee did not make awards of long-term equity compensation for 2003, following a year in which the company had a net loss, and did not make further awards until June 2004, after stockholders approved an increase in the number of shares authorized for award under the long-term incentive plan. Awards of restricted stock and payout of cash bonuses to the named executive officers are made in early March after our financial statements have been audited by our independent public accountants, as required by our performance incentive plan for senior officers approved by stockholders in 2006 to permit deductibility of these compensation expenses under Section 162(m) of the Internal Revenue Code. Awards of options and restricted stock to newly-hired employees and special merit awards to existing employees are made on the date of the next regularly scheduled board meeting following commencement of employment or the date management recommends a special award. Prior to the adoption of our current policy, awards to newly-hired employees were granted by the committee on the date they commenced employment. Option exercise prices have not been set on any date other than the date of grant. The committee has never opportunistically selected grant dates to achieve more favorable option exercise prices, nor have options ever been repriced to increase the value of an award.

Terms of Awards. Restricted stock awards generally vest in three years from the date of grant and options vest pro-rata over a three-year period and remain exercisable until 10 years after the date of grant. We believe these vesting periods promote retention and are consistent with market practices. The exercise price of an option is set at the closing market price on the date of grant, and the option may not be repriced or adjusted, except to reflect customary anti-dilution adjustments, such as for a stock split or stock dividend.

Shares of restricted stock are issued and outstanding from the date of grant, but are held in escrow until the vesting date. Restricted shares are therefore entitled to dividends if and when paid on shares of common stock generally. Dividends accrued on shares of restricted stock, together with interest on these dividends at short-term market rates, are paid upon vesting. For accounting purposes, in accordance with Statement of Financial Accounting Standards No. 123R, the expense associated with a restricted stock award is the fair value of the award on the date of grant and this expense is amortized over the vesting period. Expense associated with a stock option award is the grant date fair value determined using a Black-Scholes valuation model, and this expense is also amortized over its vesting period, also in accordance with this standard.

Value of Awards. We structure long-term compensation awards to deliver value through a mix of restricted stock and stock options, based on grant date valuations. We believe this approach balances the goals of retention and motivating performance and also reflects our desired level of annual share utilization. Annual grant levels depend on the company's performance as well as comparative market data. As with cash compensation, we aim to provide long-term awards such that together with cash compensation, total direct compensation is generally valued to deliver top-tier compensation if specified performance criteria and individual performance objectives are met. The committee bases individual award levels on comparative market data for the executive's position, award levels of comparably-situated executives, and an assessment of individual potential and performance. In making awards to any individual the committee does not consider his or her gains made, or failure to achieve gains, on prior restricted stock or option awards.

2008 Awards. In February and March 2008, the committee granted stock options and restricted stock in an aggregate amount of approximately 3.6 million shares. Since these awards, including those shown for the named executive officers in the Summary Compensation Table, were made in early 2008, they reflect 2007, not 2008, performance. The restricted stock awards to the named executive officers and other executive officers in 2008 included both an annual grant in an amount consistent with its target for long term compensation and a special one-time grant equal to the portion of the annual grant. The special one-time restricted stock grant has the same terms and conditions as the annual grant. Therefore, the total value of the restricted stock award for each of these officers exceeded the level that the company normally targets to deliver as long-term compensation. However, the committee believed these one time awards were warranted as special recognition for the company's significantly improved financial and operating performance in 2007, noting in particular that in 2007 the company:

outperformed all companies in the AMEX Oil Index in five-year total shareholder return,
achieved earnings of \$1.8 billion, at that time the second highest in the company history,
achieved proved reserve growth and production growth of 7% and 5%, respectively,
completed three new company-operated developments, and
significantly expanded its portfolio of high-impact exploration prospects.

2008 Total Direct Compensation Mix

The mix of compensation for the named executive officers in 2008 was consistent with our goal of structuring total direct compensation so that most is delivered in the form of long term equity awards and so that a significant portion of cash compensation is at risk.

The graphs below illustrate the portions of total direct compensation of each of the named executive officers paid as salary and annual cash incentive for 2008 as shown in the Summary Compensation Table and long-term equity incentive compensation for 2008 as shown in the Grants of Plan-Based Awards Table. The portion of total direct compensation paid as long-term equity compensation in 2008 was higher than that in 2007 principally because of the special grant of restricted stock in March 2008 as discussed above under Long Term Compensation 2008 Awards.

Other Benefits

We have adopted certain broad-based employee benefits plans in which executive officers are permitted to participate on the same terms as other eligible employees of the company, subject to applicable limits imposed on contributions and benefits under applicable law. We believe it is necessary to maintain these plans to remain competitive with the overall compensation packages offered by other companies in the oil and gas industry. Our objective is that the value of these benefits approximates the middle tier of that offered by other oil and gas companies. We consider the value of benefits to an employee of the company to be in the middle tier if the value approximates that of employees in comparable positions at a majority of our peer companies. In addition to group life insurance and health and welfare plans, we have a savings plan under which participants can elect to invest (subject to contribution limits imposed by law) up to 25% of pre-tax salary in a variety of funds, one of which invests in our common stock, and the company provides matching contributions up to 6% of pre-tax salary for each participant, which are invested at the discretion of the participant.

As explained later in this proxy statement, we have a qualified defined benefit pension plan, and a non-qualified supplemental plan that provides only the benefits that would otherwise be paid to participants under the qualified pension plan but for limitations imposed by the Internal Revenue Code. The committee has granted additional years of credited service under our supplemental pension plan (the restoration plan referred to in the Pension Benefits table) to Messrs. O Connor, Walker and Rielly as part of the compensation packages necessary to recruit them. The additional years of service are equal to their service with their prior employers and their supplemental benefits are offset by their pension benefits from their prior employers. Mr. O Connor had 33 years of oil industry experience prior to joining the company, having previously been the head of global exploration and production at Texaco. The committee believed that a seasoned senior executive of Mr. O Connor's stature would not have joined the company without the award of credited service and could have been offered a similar award

by one of the company's competitors. Similarly, Messrs. Walker and Rielly had more than 19 and 16.5 years of experience with Mobil Oil Corporation and Ernst & Young, LLP, respectively. Each of these executives had successful careers at their prior employers and would have continued to accrue years of service under the pension plans of their prior employers. Again, the committee believed that awards of credited service were necessary to compensate these executives for the loss of pension benefits and to induce them to join the company.

The company did not provide perquisites or personal benefits valued at \$10,000 or more to any named executive officers in 2008. We believe the other elements of compensation are sufficient.

Change in Control Agreements

As explained in greater detail later in this proxy statement, we have change in control agreements with certain executives, including the named executive officers, that provide for a lump sum cash payment equal to a multiple of the executive's compensation if (1) there is a change of control, as defined in the agreements, and (2) the executive is actually or constructively terminated within 24 months following a change in control, as well as other benefits. In view of continuing consolidation within the oil and gas industry, we believe these agreements are necessary to remain competitive with the overall compensation packages afforded by other companies in the oil and gas industry. We also believe these agreements work to provide security to executives, many of whom would have key roles in effecting or resisting a potential change in control transaction, and motivate them to act in the best long-term interests of all stockholders.

Termination Arrangements

As explained in greater detail later in this proxy statement, the committee believed that in connection with Mr. O'Connor's retirement from the company on March 31, 2009, it was prudent to enter into an agreement with Mr. O'Connor restricting him from engaging in certain activities that might be harmful to the competitive position of the company. Under the agreement, certain unvested stock options will be permitted to vest on their stated vesting date and together with other outstanding options be permitted to remain exercisable for their stated terms. Also, certain cash payments will be made in 2010 and 2011 to compensate him for unvested shares of restricted stock that will be forfeited upon his termination of employment. In consideration for these arrangements, Mr. O'Connor has agreed not to compete with the company, solicit employees or engage in other activities detrimental to the interests of the company for a period of two years from March 31, 2009 and has further agreed to forfeit or repay any payments by the company under the agreement and gains on exercises of stock options if he violates any of these provisions. Mr. O'Connor also agreed to make himself available from time to time during this two year period to consult with the chief executive officer. Absent this agreement, the committee believes that an executive of Mr. O'Connor's experience and stature within the industry would have been highly sought as an employee or consultant of or investor in an exploration and production business in competition with the company, particularly in areas where the company currently has high impact exploration prospects. Moreover, the committee believes that the forfeiture and recoupment features of the agreement provide a powerful incentive to adhere to the terms of the agreement.

Management Stock Ownership Guidelines and Hedging Policy

In order to further align the interests of management and stockholders, following approval and recommendation by the committee, the board of directors approved management stock ownership guidelines for corporate officers of the company. The guidelines require that each officer attain a specified level of ownership of shares of the company's common stock, as set forth below, equal in value to a multiple of the officer's base salary within five years of the later of the date of adoption of the guidelines and the officer's first election to his or her office:

- chief executive officer five times base salary,
- executive vice presidents four times base salary,
- senior vice presidents three times base salary, and
- vice presidents one times base salary.

The committee has authority to determine the types of stockholdings that will be counted for determining stock ownership and otherwise administer the guidelines. Currently, shares owned outright by an executive and stock held in an executive's savings plan account are counted for purposes of determining stock ownership levels. Stock options and unvested restricted stock, however, are not counted. Each of these officers has attained, or is making progress in attaining, his or her required level of ownership.

We do not permit executive officers to trade in equity derivative instruments in order to hedge the economic risks of holding the company's stock. The purpose of these guidelines is to align the interests, including the economic risk of ownership, of management and stockholders. This intent would be undermined if executives were to insulate themselves from economic loss on their stock.

Deductibility of Compensation Expense for Named Executive Officers

Generally, we deduct compensation expense on our federal corporate income tax return. However, Section 162(m) of the Internal Revenue Code disallows deductions by corporations for certain compensation expense to the chief executive officer and the three other most highly paid executive officers, other than the chief executive officer and chief financial officer in excess of \$1 million in any year. In 2006, stockholders approved a performance incentive plan for senior officers to permit deductibility of compensation expense for restricted stock and cash bonuses. The plan limits awards of incentive cash compensation and restricted and deferred stock granted in any year to each participant to 1%, and to all participants in the aggregate to 5%, of adjusted net cash flow from operations for the prior year minus a specified amount of not less than \$550 million. The plan is not intended to increase award levels beyond those that the committee would otherwise approve consistent with its compensation policies described previously. Participants in the plan include the named executive officers and any other senior officers that the committee may designate. For 2008, the aggregate value of cash bonus and restricted stock awards for each of the named executive officers was substantially less than the maximum amount permitted for each of those individuals. The committee exercised discretion to award aggregate amounts of cash bonus and restricted stock less than that amount for each of the named executive officers consistent with its policies previously explained. The plan does not cover stock options, because they already qualify as

performance-based compensation under this section of the code. Cash salary in excess of \$1 million to any named executive officer in any year is not deductible. We believe it is important for the committee to retain discretion to pay types and amounts of compensation even if it is not deductible, as it deems appropriate.

Recoupment for Financial Restatement

If the company were required to prepare an accounting restatement due to the material noncompliance, as a result of misconduct, with any financial reporting requirement under the securities laws, the chief executive officer and chief financial officer are required by law to reimburse the company for (i) any bonus or other incentive-based or equity-based compensation received by that person from the company during the 12-month period following the first public issuance or filing of the financial document embodying such financial reporting requirement; and (ii) any profits realized from the sale of securities during that 12-month period. In addition, in the event of any such misconduct by an officer or employee that results in material noncompliance with financial reporting requirements, we reserve the right to take all appropriate action to remedy the misconduct, discipline such officer or employee and prevent its recurrence, including (i) termination of employment of such officer or employee and forfeiture of outstanding equity awards, (ii) commencing an action for breach of fiduciary duty, and/or (iii) seeking reimbursement of any compensation paid in excess of that which would have been paid in the absence of such noncompliance, either by legal action or by offsetting other amounts owed by the company to such officer or employee to the extent permissible.

Conclusion

We believe that our compensation philosophy and programs align our executive officers' interests with those of the company and shareholders, link compensation to corporate performance and assist in attracting and retaining talented executives. The committee will continue to monitor our programs to ensure that they are consistent with our compensation objectives and policies.

Compensation Committee Report

The compensation and management development committee of the board of directors of the company has reviewed and discussed the compensation discussion and analysis with management, and based on this review and discussion, the compensation and management development committee recommended to the board of directors that the compensation discussion and analysis be included in this proxy statement and incorporated by reference into the 2008 annual report on Form 10-K.

Thomas H. Kean, Chairman
Nicholas F. Brady
Frank A. Olson
Ernst H. von Metzsch
Robert N. Wilson

Summary of Compensation

The following table sets forth information regarding compensation paid or accrued for the last three fiscal years to the chief executive officer, the chief financial officer and the three other most highly compensated executive officers, for services in all capacities to the company and its subsidiaries.

Summary Compensation Table

Position	Year	Salary \$ (c)	Bonus(1) \$ (d)	Stock Awards(2) \$ (e)	Option Awards(3) \$ (f)	Non-Equity Incentive Plan Compensation(1) \$ (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(4)	All Other Compensation(5) \$ (i)
							\$ (h)	
Chief Executive Officer	2008	1,500,000	968,333	6,609,649	4,541,283	2,531,667	4,987,607	13,800
	2007	1,350,000	1,224,367	5,469,196	4,506,620	2,475,633	3,575,002	13,500
	2006	1,250,000	1,247,978	4,517,693	3,549,560	2,152,022	2,279,680	13,200
Chief Financial Officer	2008	1,350,000	683,333	5,234,143	3,591,948	1,666,667	4,166,806	13,800
	2007	1,200,000	811,517	3,954,964	3,465,778	1,638,483	3,436,718	13,500
	2006	1,100,000	812,969	3,525,403	2,647,020	1,387,031	5,656,082	13,200
Other Most Highly Compensated Executive Officer	2008	900,000	125,000	1,972,789	1,363,211	625,000	1,273,897	13,800
	2007	850,000	233,000	1,809,296	1,426,764	567,000	1,035,745	13,500
	2006	800,000	255,446	1,572,687	1,187,212	469,554	1,198,538	13,200
Other Most Highly Compensated Executive Officer	2008	800,000 ⁽⁶⁾	173,750	2,383,440	1,499,125	551,250	526,192	13,800
	2007	775,000 ⁽⁷⁾	220,117	1,762,998	1,381,142	554,883	381,615	13,500
	2006	750,000 ⁽⁸⁾	251,847	1,511,400	1,126,626	498,153	158,200	13,200
Other Most Highly Compensated Executive Officer	2008	700,000	77,916	1,519,756	1,030,736	347,084	481,761	13,800
	2007	660,000	129,875	1,095,334	995,298	320,125	251,901	13,500
	2006	625,000	140,960	936,132	796,510	259,040	339,781	13,200

(1) The amounts shown in column (d) represent the discretionary component of the cash bonuses, and the amounts shown in column (g) represent the components of the cash bonuses relating to the attainment of corporate and

business unit performance metrics, paid to the named executive officers under our cash bonus plan, as discussed more fully in Compensation Discussion and Analysis.

- (2) Consists of compensation costs recognized in 2008, 2007 and 2006 for restricted stock awards granted in 2008, 2007 and 2006 and prior years in accordance with Statement of Financial Accounting Standards No. 123R. A discussion of the valuation assumptions is in *Note 8, Share-Based Compensation*, to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2008.
- (3) Consists of compensation costs recognized in 2008, 2007 and 2006 for stock options granted in 2008, 2007 and 2006 and prior years in accordance with Statement of Financial Accounting Standards No. 123R. A discussion of the valuation assumptions is in *Note 8, Share-Based Compensation*, to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2008.
- (4) Consists of aggregate change in 2008 in actuarial present value of the accumulated benefits of the named executive officers under the company's pension plans.
- (5) Consists of matching contributions by the company credited to the named executive officers under the company's employees' savings plan.
- (6) Of this amount \$40,000 was deferred under our deferred compensation plan as reported in the Nonqualified Deferred Compensation table on page 28.
- (7) Of this amount \$77,500 was deferred under our deferred compensation plan.
- (8) Of this amount \$72,115 was deferred under our deferred compensation plan.

Grants of Plan-Based Awards

On February 6, 2008, the compensation and management development committee approved awards of non-qualified stock options and established target bonuses and on March 5, 2008 approved awards of restricted stock to the named executive officers. The following table sets forth information concerning possible payouts under the annual cash bonus plan for 2008 and individual grants of stock options and restricted stock made under the incentive plan for the last fiscal year to each of the named executive officers:

Grants of Plan-Based Awards

	Grant Date (b)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			All Other Stock Awards:	All Other Option Awards:	Exercise or Base Price of Option Awards (\$/Sh) (h)	Grant Date Fair Value of Stock and Option Awards \$(2) (i)
		Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Number of Shares of Stock or Units (#) (f)	Number of Securities Underlying Options (#) (g)		
B.	06-Feb-08					186,000	81.85	4,421,220
	05-Mar-08				124,000			11,911,440
	06-Feb-08	1,033,333	2,066,667	3,100,000				
onnor, J.	06-Feb-08					150,000	81.85	3,565,500
	05-Mar-08				100,000			9,606,000
	06-Feb-08	666,667	1,333,333	2,000,000				
ker, F. len	06-Feb-08					54,000	81.85	1,283,580
	05-Mar-08				36,000			3,458,160
	06-Feb-08	250,000	500,000	750,000				
ns, J. lay	06-Feb-08					45,000	81.85	1,069,650
	05-Mar-08				30,000			2,881,800
	06-Feb-08	225,000	450,000	675,000				
y, P.	06-Feb-08					45,000	81.85	1,069,650
	05-Mar-08				30,000			2,881,800
	06-Feb-08	141,667	283,333	425,000				

(1) The amount shown in columns (c), (d) and (e) above represent the threshold, target and maximum payouts for the components of the 2008 cash bonuses relating to the attainment of corporate and business unit performance metrics. The actual amounts paid for 2008 relating to these components is shown in column (g) of the Summary

Compensation Table.

- (2) The grant date fair values for option awards shown in the above table have been determined using the Black-Scholes option pricing model. This model, like all pricing models, requires assumptions, and therefore the amounts shown should not necessarily be considered indicative of the present value of the amounts that may actually be realized. The following assumptions were made for purposes of this valuation: expected holding period of five years for each option; stock price volatility of 29.3%; risk-free interest rate of 2.67%; and dividend yield of 0.49%. The grant date fair value of restricted stock awards is determined by multiplying the number of shares of stock awarded as shown in column (f) by the closing price of the company's common stock on the date of grant.

We have no employment agreements with our named executive officers other than agreements relating to credited service discussed under Pension Benefits and change of control agreements discussed under Potential Payments upon Termination or Change in Control.

The stock options shown in the All Other Option Awards column of the Grants of Plan-Based Awards table vest in three equal installments on the first, second and third anniversaries of the grant date, except that options may become exercisable earlier in full in cases of death, disability, normal retirement or change in control. At the discretion of the compensation and management development committee, upon early retirement of an awardee, options not then exercisable may become exercisable in proportion to the calendar days elapsed in the vesting period up to the early retirement date. The options remain

exercisable until the tenth anniversary of the date of grant, except in cases of termination of employment for reasons other than death, disability or normal retirement, in which case options remain exercisable only for specified periods. If a grantee's employment terminates (other than by reason of death, disability or retirement) before these options become exercisable, they will be forfeited. The shares of restricted stock shown in the All Other Stock Awards column of the Grants of Plan-Based Awards table vest on the third anniversary of the grant date, except that they may vest earlier upon retirement, death, disability or a change in control (with proportional vesting of restricted stock in the case of early retirement at the discretion of the committee) and dividends on the shares are accrued and held in escrow until the vesting date, at which time they are paid with interest at short-term market rates (the dividends are forfeited if the shares of restricted stock are forfeited).

Non-equity incentive plan awards are discussed in the Compensation Discussion and Analysis under the heading Cash Compensation - Cash Bonus Plan.

Outstanding Equity Awards at Fiscal Year-End

The following table shows outstanding equity awards held by the named executive officers at the end of the last fiscal year. The market value of shares of unvested restricted stock shown in column (g) is determined by multiplying the number of shares shown in column (f) by the closing price of the company's common stock at the end of the last fiscal year.

Outstanding Equity Awards at Fiscal Year-End

Name (a)	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price (\$) (d)	Option Expiration Date (e)	Number of Shares or Units of Stock that have not Vested (#) (f)	Market Value of Shares or Units of Stock that have not Vested (\$) (g)
Hess, John B.	342,000		29.96	02-Feb-15	305,000(4)	16,360,200
	192,000	96,000(1)	49.55	01-Feb-16		
	85,000	170,000(2)	53.20	07-Feb-17		
		186,000(3)	81.85	06-Feb-18		
O Connor, John J.	144,000	72,000(1)	49.55	01-Feb-16	242,000(5)	12,980,880
	70,000	140,000(2)	53.20	07-Feb-17		
		150,000(3)	81.85	06-Feb-18		
Walker, F. Borden	75,000		24.14	02-Jun-14	91,000(6)	4,881,240
	112,500		29.96	02-Feb-15		
	60,000	30,000(1)	49.55	01-Feb-16		
	25,000	50,000(2)	53.20	07-Feb-17		
Collins, J. Barclay		54,000(3)	81.85	06-Feb-18	81,000(7)	4,344,840
	205,000		19.43	07-Nov-11		
	135,000		24.14	02-Jun-14		
	108,000		29.96	02-Feb-15		

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	54,000	27,000(1)	49.55	01-Feb-16		
	24,000	48,000(2)	53.20	07-Feb-17		
		45,000(3)	81.85	06-Feb-18		
Rielly, John P.	72,000		29.96	02-Feb-15	70,000(8)	3,754,800
	42,000	21,000(1)	49.55	01-Feb-16		
	19,000	38,000(2)	53.20	07-Feb-17		
		45,000(3)	81.85	06-Feb-18		

- (1) Options become vested and exercisable February 1, 2009.
- (2) Options become vested and exercisable in 2 equal installments on February 7, 2009 and February 7, 2010 if the named executive officer continues to be employed.
- (3) Options become vested and exercisable in 3 equal installments on February 6, 2009, February 6, 2010 and February 6, 2011 if the named executive officer continues to be employed.
- (4) Shares of restricted stock vest provided the named executive officer continues to be employed as follows: 96,000 on February 1, 2009, 85,000 on February 7, 2010 and 124,000 on March 5, 2011.
- (5) Shares of restricted stock vest provided the named executive officer continues to be employed as follows: 72,000 on February 1, 2009, 70,000 on February 7, 2010 and 100,000 on March 5, 2011.
- (6) Shares of restricted stock vest provided the named executive officer continues to be employed as follows: 30,000 on February 1, 2009, 25,000 on February 7, 2010 and 36,000 on March 5, 2011.
- (7) Shares of restricted stock vest provided the named executive officer continues to be employed as follows: 27,000 on February 1, 2009, 24,000 on February 7, 2010 and 30,000 on March 5, 2011.
- (8) Shares of restricted stock vest provided the named executive officer continues to be employed as follows: 21,000 on February 1, 2009, 19,000 on February 7, 2010 and 30,000 on March 5, 2011.

The following table sets forth information as to the named executives regarding the exercise of stock options and the vesting of restricted stock under the incentive plan during the last fiscal year:

Option Exercises and Stock Vested

Name (a)	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise (\$) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting (\$) (e)
Hess, John B.	1,485,000	112,915,553	414,000	36,649,980
O Connor, John J.	252,000	24,555,319	234,000	20,810,880
Walker, F. Borden	250,000	21,087,336	157,500	13,914,225
Collins, J. Barclay	82,500	8,195,499	156,000	13,776,120
Rielly, John P.	60,000	6,070,254	54,000	4,825,080

Pension Benefits

The following table sets forth information as to the named executive officers regarding payments or other benefits at, following or in connection with retirement:

Name (a)	Plan Name (b)	Number of Years Credited Service (#) (c)	Present Value of	
			Accumulated Benefit (\$) (d)	Payments During Last Fiscal Year (\$)
Hess, John B.	Employees Pension Plan	31.58	840,831	
	Restoration Plan	31.58	26,179,374	
O Connor, John J.	Employees Pension Plan	7.25	207,014	
	Restoration Plan	40.25(1)	26,669,544(4)	
Walker, F. Borden	Employees Pension Plan	12.50	332,307	
	Restoration Plan	31.50(2)	7,821,771	
Collins, J. Barclay	Employees Pension Plan	24.67	825,204	
	Restoration Plan	24.67	7,008,666	
Rielly, John P.	Employees Pension Plan	7.75	122,291	
	Restoration Plan	24.25(3)	2,353,959	

- (1) Credited years of service include 33 years for service with prior employers. Benefits shown are net amounts offset by amounts due from previous employers. Additional years of credited service result in an increase of \$21,375,391 under the restoration plan.
- (2) Credited years of service include 19 years for service with a prior employer. Benefits shown are net amounts offset by amounts due from previous employer. Additional years of credited service result in an increase of \$4,723,806 under the restoration plan.
- (3) Credited years of service include 16.5 years for service with a prior employer. Benefits shown are net amounts offset by amounts due from previous employer. Additional years of credited service result in an increase of \$1,675,492 under the restoration plan.
- (4) Mr. O Connor will be retiring from the company on March 31, 2009. The actual lump sum benefit under the restoration plan payable to Mr. O Connor on October 1, 2009 is \$30,716,198. The difference between the restoration plan benefit shown in the above table for Mr. O Connor is due primarily to the difference between (x) the long-term discount rate assumption used for actuarial purposes in the above table as discussed in *Note 10. Retirement Plans* to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and (y) the current actual discount rate.

We maintain an employees' pension plan, a qualified defined benefit plan under the Internal Revenue Code, and a non-qualified supplemental plan, called the pension restoration plan, that provides benefits that would otherwise be payable to participants under the employees' pension plan but for limitations imposed by the Internal Revenue Code, with certain modifications discussed below. Employees participate after one year of service in the employees' pension plan and vest in a retirement benefit after five years of service. Annual retirement benefits for a participant at normal retirement age are determined by multiplying 1.6% of the participant's final average compensation by his or her years of service and are then reduced by an offset for social security benefits. Under the employees' pension plan, final average compensation is the average of any three years of highest annual compensation (consisting of salary and cash bonus as shown in columns (c), (d) and (g) of the Summary Compensation Table) paid to the participant during the 10 years immediately preceding his or her retirement date. Under the restoration plan, final average compensation is the average of any three years of highest annual salary (as shown in column (c) of the Summary Compensation Table) plus the average of any three years of highest cash bonus (as shown

in columns (d) and (g) of the Summary Compensation Table) paid to the participant during the 10 years immediately preceding his or her retirement date.

Normal retirement under the plans means retirement at age 65, but a participant retiring from active service is entitled to an unreduced benefit at age 60. A participant may elect early retirement if the participant is at least 55 years old and has 10 years of service. Messrs. Collins and Walker are the only named executive officers currently eligible for early retirement under the employees' pension plan, and Messrs. Collins, O'Connor and Walker are the only named executive officers eligible for early retirement under the restoration plan. The Company awarded credited service for prior employment under the restoration plan for Messrs. O'Connor, Walker and Rielly for the reasons discussed in

Compensation Discussion and Analysis. Under both plans, retirement benefits paid upon early retirement from active service at the age of 55 are reduced by 25% of the retirement benefit otherwise payable, with proportionately lower reductions for early retirement between ages 55 and 60. Early retirement reductions are greater if employment terminates prior to age 55. Retirement benefits under the employees' pension plan are payable as a straight life annuity or in other forms of annuities actuarially equivalent to a straight life annuity. Retirement benefits under the restoration plan are payable as a lump sum 6 months after retirement. A participant's right to payment under the restoration plan constitutes a general unsecured claim against the company.