HESS CORP
Form PRE 14A
March 07, 2008

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 [X]
Filed by a Party other than the Registrant [ ]
Check the appropriate box:
[X] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[ ] Definitive Proxy Statement
[ ] Definitive Additional Materials
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Hess Corporation
(Name of Registrant as Specified in Its Charter)

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

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[X] No fee required.
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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 , 2008

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 7, 2008, 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.

It is important that your shares be represented at the meeting whether or not you are personally able to attend. Accordingly, you are requested to sign, date and return the enclosed proxy card promptly. Many stockholders will also be able to vote their shares by using a toll-free telephone number or over the internet. Please check your proxy card to see which methods are available to you and related instructions. 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 7, 2008, 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 7, 2008, at 2:00 P.M., local time, for the following purposes:

1. To elect five directors for the ensuing three-year term (pages to 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 and);

3. To act on a proposal to amend the Company s restated certificate of incorporation and by-laws to declassify the board of directors (pages to);

4. To approve the company s 2008 long-term incentive plan (pages to);

5. To act upon a stockholder proposal (pages to); and

6. 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 17, 2008 will be entitled to vote at the meeting.

By order of the board of directors,

George C. Barry
Secretary

New York, New York
March , 2008

YOUR VOTE IS IMPORTANT

You are urged to date, sign and promptly return the accompanying form of proxy, or to use the telephone or internet method of voting, so that if you are unable to attend the meeting your shares can be voted.

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 7, 2008, 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 sent to stockholders is March [24], 2008.

Holders of record of common stock of the company at the close of business on March 17, 2008 will be entitled to vote at the annual meeting. Each share of common stock will be entitled to one vote. On March 17, 2008, there were 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.

If you are a registered stockholder, you can simplify your voting by using the internet or calling the toll-free number listed on the enclosed proxy card. Internet and telephone voting information is provided on the proxy card. A control number, located on the instruction sheet attached to the proxy card, 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 enclosed with this proxy statement.

Proxies in the form enclosed will be voted at the annual meeting in accordance with the specifications you make on the proxy. If you sign the proxy card and do not specify how your shares are to be voted, your shares will be voted:

for the election of directors nominated herein,

for the proposal to ratify the selection of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 2008,

for the proposal to amend the Company s Restated Certificate of Incorporation and By-Laws to declassify the Board of Directors,

for the approval of the 2008 long-term incentive plan, and

against the stockholder proposal recommending that the Board adopt a pay for superior performance principle.

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 in a form permitted under Delaware law, 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 February 1, 2008 on the nominees for election as directors of the company and the directors continuing in their respective terms of office:

Nominees for Director

Class II
For the three-year 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	55	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	Chairman, Ridgeway Farm LLC (private company engaged in timber and farming activity) Former Managing Director, Dillon, Read & Co. Inc. (former investment banking firm)	66	2007	Progress Energy, Inc. Sonoco Products Company
John J. O Connor	Executive Vice President; President, Worldwide Exploration and Production	61	2001	
F. Borden Walker	Executive Vice President; President, Marketing and Refining	54	2004	
Robert N. Wilson	Chairman, Still River Systems (medical device company);	67	1996	Charles Schwab Corporation Synta Pharmaceuticals Corp.

Former Vice Chairman of the Board
of Directors, Johnson & Johnson

2

Members of Board of Directors Continuing in Office

Class III

Term expiring in 2009

Name	Principal occupation and business experience	Age	Director since	Other directorships
John B. Hess	Chairman of the Board and Chief Executive Officer	53	1978	The Dow Chemical Company
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)	64	2002	National Fuel Gas Company
Risa Lavizzo-Mourey	President and Chief Executive Officer, The Robert Wood Johnson Foundation	53	2004	Genworth Financial, Inc.
Ernst H. von Metzsch	Managing Member, Cambrian Capital, L.P. (investment firm); Former Senior Vice President and Partner, Wellington Management Company (investment company)	68	2003	

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	77	1994	Franklin Templeton Investment Fund Holowesko Partners Ltd. Weatherford International Ltd.

	investment banking firm)			
J. Barclay Collins II	Executive Vice President and General Counsel	63	1986	
Thomas H. Kean	President, THK Consulting, LLC; Former President, Drew University; Former Governor of the State of New Jersey	72	1990	Franklin Resources, Inc. The Pepsi Bottling Group UnitedHealth Group Incorporated
Frank A. Olson	Former Chairman of the Board and Chief Executive Officer, The Hertz Corporation	75	1998	Director or Trustee of various Franklin Templeton mutual funds

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. Prior to serving as 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. Olson retired as chief executive officer of The Hertz Corporation at the end of 1999 and as chairman in 2003. 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 2007, 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 2007.

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 to attend the annual meeting of stockholders. All directors attended last year s annual meeting.

Director Independence

The board of directors has affirmatively determined that 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 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 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 4.04 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 4.04 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 four times in 2007.

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 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 .

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 2007.

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 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 2008 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 five times in 2007. In addition, the audit committee held four reviews of quarterly financial results with management and independent 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 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 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 the audited financial statements of the company for the year ended December 31, 2007 with management and the independent 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 public accountants. In addition, the committee has received from the independent public accountants the annual independence disclosures required by Independence Standards Board Standard No. 1 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 2007, the audit committee met with management, the internal auditors and the independent public accountants 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 No. 114.

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

In reliance on the reviews and discussions with management and the independent 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, 2007 filed with the Securities and Exchange Commission. The audit committee has also selected Ernst & Young LLP as independent public accountants for 2008. 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

Section 16(a) Beneficial Ownership Reporting Compliance

On December 14, 2007, the company filed a Form 4 on behalf of Mr. Lawrence Ornstein, a senior vice president of the company, reporting his sale of 5,000 shares of the company s common stock on December 4, 2007. This sale should have been reported on Form 4 by December 6, 2007. Mr. Ornstein notified appropriate company personnel of the sale in sufficient time to make a timely filing. However, company personnel inadvertently did not make the filing in a timely manner.

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 value 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 hire, 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 will be implemented and compiled 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

10

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 executives 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 2007, for the named executive officers, comparative data was collected by the compensation consultants from the following group of oil and gas companies:

Anadarko Petroleum Corporation	Marathon Oil Corporation
Apache Corporation	Murphy Oil Corp.
Ashland Inc.	Occidental Petroleum Corporation
BP plc	Shell Oil Corporation
Chevron Corporation	Sunoco, Inc.
Conoco Phillips	Tesoro Petroleum Corporation
Devon Energy Corporation	The Williams Companies, Inc.
ExxonMobil 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 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 currently particularly 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. In the following sections, we further detail each component of total direct compensation. The graphs below illustrate the portions of total direct compensation of each of the named executive officers paid as salary, annual cash incentive and long-term equity incentive compensation for 2007:

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.

In February 2007 the committee approved cash salary increases averaging 6% for our executive officers. The salary increases for each of the named executive officers were as follows: Mr. Hess, 8%; Mr. O Connor, 9%; 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 individual performance in 2006.

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 2007 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 replacement, production growth, and controllable cost. Metrics for marketing and refining executives may include, for example, sales, income and net operating cost. 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 2007, attainment of maximum payout on the business unit metrics for exploration and production and marketing and refining on average was never achieved, and attainment of target payout on business unit metrics for marketing and refining was not achieved in three of those years.

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.

2007 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 2007, the company attained maximum payout on the corporate performance goal. The amount of the corporate goal attained in 2007 was $2,067,000,000, which is determined by adding net income as shown on page 45 of our 2007 annual report on Form 10-K, certain items of income (expense) included in net income as shown in the first table on page 21 of the Form 10-K (expressed as a positive number), and after-tax interest expense as shown in the second table on page 27 of the Form 10-K.

Payouts for the business unit component of the 2007 cash bonus were determined as explained below.

John J. O Connor. Business unit metrics for exploration and production for 2007 included approximately 10 financial and operational metrics. Key metrics that affected exploration and production business unit performance in 2007 were reserve additions, exploration prospect additions, production growth, workplace safety and operating cost and capital expenditure control. We significantly increased our proved reserves, as reflected in our replacing 167% of production in 2007, and added new exploration prospects in Australia, Colombia and the Gulf of Mexico. Performance on these and other metrics resulted in an above-target payout of the business unit component of Mr. O Connor s 2007 bonus.

F. Borden Walker. Business unit metrics for marketing and refining included approximately 20 financial and operating metrics. Key metrics that affected marketing and refining business unit performance in 2007 were earnings, controllable cost improvement, and energy marketing growth. Our energy marketing operations significantly increased sales volumes of electricity and natural gas, with electricity volumes doubling from 2006 to 2007. While controllable cost control initiatives were successful in 2007, overall marketing and refining earnings were adversely affected by lower margins prevailing in both the retail marketing and refining industry environments. As a result of performance on these and other metrics, the business unit component of Mr. Walker s 2007 bonus was below 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 an