

HESS CORP
Form DEF 14A
March 23, 2012

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:

[] Preliminary Proxy Statement

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

[X] 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)

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HESS CORPORATION

1185 AVENUE OF THE AMERICAS

NEW YORK, N.Y. 10036

March 23, 2012

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 2, 2012, 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.

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 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 your proxy card or 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

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HESS CORPORATION

1185 AVENUE OF THE AMERICAS

NEW YORK, N.Y. 10036

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Wednesday, May 2, 2012, 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 2, 2012, 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 46 of proxy statement);
2. To act upon the ratification of the selection by the audit committee of Ernst & Young LLP as independent auditors (pages 47 and 48);
3. To conduct a non-binding advisory vote to approve the compensation of our named executive officers (pages 48 to 50);
4. To approve an amendment to the company's 2008 long term incentive plan (pages 51 to 63);
5. To act upon a stockholder proposal recommending that the board of directors take action to declassify the board if properly introduced at the meeting (pages 64 to 66); 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 16, 2012 will be entitled to vote at the meeting.

By order of the board of directors,

George C. Barry

Secretary

New York, New York

March 23, 2012

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 2, 2012:

Hess Corporation's proxy statement and 2011 annual report are available at <http://www.proxyvoting.com/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 to be held on May 2, 2012, 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 23, 2012.

Holders of record of common stock of the company at the close of business on March 16, 2012 will be entitled to vote at the annual meeting. Each share of common stock will be entitled to one vote. On March 16, 2012, there were 341,565,687 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 as shares present 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 23, 2012, 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 at the close of business on March 16, 2012 your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name and the Notice or proxy materials, as applicable, are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct that organization on how to vote the shares in your account. If that organization is not given specific direction, shares held in the name of that organization may not be voted and will not be considered as present and entitled to vote on any matter to be considered at the annual meeting, except with respect to the ratification of the company's independent auditors. **Brokers are not permitted to vote your shares for the election of directors, for the advisory vote on executive compensation, for the amendment to the 2008 long-term incentive plan or for or against the stockholder proposal without your instructions as to how to vote. Please return your completed proxy card so that your vote can be counted.**

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 your identity and allow you to vote your shares and

confirm that your 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,

for the proposal to ratify the selection of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 2012,

for the advisory approval of the compensation of our named executive officers,

for the approval of the amendment to our 2008 long-term incentive plan described herein, and

neither for nor against the stockholder proposal recommending declassification of the board.

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. In 2011 the board of directors adopted amendments to the company's by-laws to provide for majority voting in uncontested elections of directors (which is the case for the election of directors at the 2012 annual meeting). Accordingly, to be elected as a director of the company at the 2012 annual meeting, nominees must receive a majority of the votes cast. A majority of votes cast means that the number of shares voted for a director's election exceeds 50% of the number of votes cast with respect to that director's election. Abstentions and broker non-votes are not counted as votes cast.

If a director is not elected at the 2012 annual meeting and no successor has been elected at the annual meeting, the director is required to promptly tender his or her resignation to the board of directors. The corporate governance and nominating committee is then required to make a recommendation to the board of directors as to whether to accept or reject the tendered resignation, or whether other action should be taken. The board of directors will act on the tendered resignation and will publicly disclose its decision and rationale within 90 days following certification of the election results. These procedures are described in full in our by-laws, which may be found on the company's website at www.hess.com.

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 7, 2012 on the nominees for election as directors of the company and the directors continuing in their respective terms of office, including the specific experience, qualifications, attributes or skills that led the board to conclude that such person should serve as a director:

Nominees for Director

Class III

For the three year term expiring in 2015

Name	Age	Director since	Principal occupation,
			other directorships and experience
John B. Hess	57	1978	Chairman of the Board and Chief Executive Officer. Director, Dow Chemical Company, KKR Management LLC, General Partner of KKR & Co. L.P. Mr. Hess has 34 years experience with the company and is its longest-serving director. During his career, Mr. Hess has acquired in-depth knowledge of the company's strategy and operations and the history of the company's development, and he and his family have had a long-standing commitment to the company.

Name	Age	Director since	Principal occupation,
			other directorships and experience
Samuel W. Bodman	73	2009	Former Secretary of the United States Department of Energy; Former Deputy Secretary of the United States Department of the Treasury. Director, E.I. duPont de Nemours and Company, AES Corporation, Weatherford International Ltd. Prior to his government service, Mr. Bodman was chairman of the board and chief executive officer of a global specialty chemicals company, which also had activities in liquefied natural gas, and was president and chief operating officer of a large financial services firm. During his career in the public and private sector, Mr. Bodman acquired managerial, financial and technical experience, particularly as they relate to the energy sector.
Risa Lavizzo-Mourey	57	2004	President and Chief Executive Officer, The Robert Wood Johnson Foundation. Director, Genworth Financial, Inc. Former Director, Beckman Coulter Inc. Dr. Lavizzo-Mourey has varied managerial and technical experience in matters relating to charitable organizations and health care.
Craig G. Matthews	68	2002	Former Vice Chairman and Chief Operating Officer, KeySpan Corporation (gas distribution, electricity generation and energy services company). Former Chief Executive Officer and President, NUI, Inc., Director, National Fuel Gas Company, Republic Financial Corp. During his career, Mr. Matthews acquired managerial and financial experience, particularly in applying accounting principles to issues affecting energy companies, relevant to his service as the financial expert on the company's audit committee.
Ernst H. von Metzsch	72	2003	Managing Member, Cambrian Capital, L.P. (investment firm); Former Senior Vice President and Partner, Wellington Management Company (investment company). Mr. von Metzsch specialized in investments in energy companies and currently heads his own investment firm. During his career, Mr. von Metzsch acquired financial experience and knowledge of the energy industry and views of the investment community.

Members of Board of Directors Continuing in Office

Class I

Term expiring in 2013

Name	Age	Director since	Principal occupation,
			other directorships and experience
Nicholas F. Brady	81	1994	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). Director, Franklin Templeton Investment Fund, Holowesko Partners Ltd., Weatherford International Ltd. During his career in public and private sector service, Mr. Brady acquired financial, managerial and investment banking experience, international public policy knowledge, and relationships in business and government.

Name	Age	Director since	Principal occupation,
			other directorships and experience
Gregory P. Hill	51	2009	Executive Vice President and President, Worldwide Exploration and Production. Mr. Hill has over 25 years experience in the oil and gas industry. His in-depth knowledge of exploration and production operations, both as to the industry generally and the company in particular, helps to inform the board on decisions relating to this segment of the company's business.
Thomas H. Kean	76	1990	President, THK Consulting, LLC (consulting firm); Former President, Drew University; Former Governor of the State of New Jersey. Director, Franklin Resources, Inc. Former Director, The CIT Group, Inc., The Pepsi Bottling Group, United Health Group Incorporated. Mr. Kean has varied experience in government, education and the private sector.
Frank A. Olson	79	1998	Former Chairman of the Board and Chief Executive Officer, The Hertz Corporation. Director or trustee of various Franklin Templeton mutual funds. Director, Franklin Resources, Inc. During his career, Mr. Olson acquired managerial, marketing and financial experience. Class II Term expiring in 2014

Name	Age	Director since	Principal occupation,
			other directorships and experience
Edith E. Holiday	60	1993	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. Director, 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. Ms. Holiday has legal and managerial experience in the public and private sectors.
John H. Mullin III	70	2007	Chairman, Ridgeway Farm LLC (private company engaged in timber and farming activity); Former Managing Director, Dillon, Read & Co. Inc. (former investment banking firm). Director, Progress Energy, Inc., Sonoco Products Company. Former Trustee, The Putnam Funds. Mr. Mullin has a financial background and investment banking experience.
F. Borden Walker	58	2004	Executive Vice President and President, Marketing and Refining. Mr. Walker has over 30 years experience in the oil and gas industry. Mr. Walker's in-depth knowledge of marketing and refining operations, both as to the industry generally and the company in particular, helps to inform the board's decisions on matters relating to this segment of the company's business.
Robert N. Wilson	71	1996	Chairman, Mevion Medical Systems (medical device company); Former Vice Chairman of the Board of Directors, Johnson & Johnson. Director, Charles Schwab Corporation, Synta Pharmaceuticals Corp. Former Chairman, Caxton Health Holdings, LLC. During his career, Mr. Wilson acquired managerial, marketing, financial and international experience.

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. Prior to his joining the company in January 2009, Mr. Hill was employed by Royal Dutch Shell plc. and its affiliates for 25 years, having served most recently in senior executive positions in exploration and production operations. Mr. Wilson was chairman of Caxton Health Holdings LLC from 2004 to 2007.

Messrs. Hess, Brady and 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 9 times in 2011, including 8 regularly scheduled meetings and 1 special meeting. 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 2011.

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, Mr. Brady, presides at these meetings.

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

Director and Nominee Independence

The board of directors has affirmatively determined that ten of the thirteen directors on the board, namely, 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 determined that service by Messrs. Brady, Kean and Mullin as executors of the estate of Leon Hess or as trustees of certain related trusts and entities 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, the principal financial and accounting officer and other senior financial officers. 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.

Board Leadership Structure

At present, the board of directors of the company has chosen to combine the positions of chief executive officer and chairman of the board. The board currently believes that the interests of the company and its stockholders are better served with one individual serving in both roles and that the chief executive officer is the individual with the necessary experience, commitment and support of the other board members to also effectively carry out the role of chairman. The board is aware that in the future, there may be circumstances under which an independent chairman is appropriate and believes it is important to retain the organizational flexibility to determine whether the roles of chairman of the board and chief executive officer should be separated or combined in one individual.

The board believes this structure promotes better alignment of strategic development and execution, more effective implementation of strategic initiatives, and clearer accountability for their success or failure. Moreover, the board believes that combining the chairman and chief executive officer positions does not impede independent oversight. Ten of the thirteen members of the board of directors are independent under New York Stock Exchange rules. Mr. Nicholas Brady, chairman of the corporate governance and nominating committee, acts as the lead independent director for the board. The independent directors meet in an executive session after each regular board meeting and Mr. Brady acts as chairman of these sessions, at which the independent directors have the opportunity to frankly discuss management performance.

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 disinterested members of the audit committee will determine whether the transaction serves the best interest of the company and its stockholders and whether if proposed, it may proceed and if existing, it may continue to exist. The general counsel and the disinterested members of the audit committee will determine the appropriate scope of and process for the review of any such transaction based on the then existing facts and circumstances of the transaction in view of applicable listing standards of the New York Stock Exchange.

Compensation and Management Development Committee

The compensation and management development committee of the board of directors is composed of Thomas H. Kean, Chairman, Samuel W. Bodman, 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 2011.

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:

review the performance and approve the compensation of the company's chief executive officer and other named executive officers,

review and 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,

approve the retention and review the performance of independent compensation consultants to the committee, 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 20.

Corporate Governance and Nominating Committee, Board Diversity and Consideration of Stockholder Recommended Candidates

The corporate governance and nominating committee is composed of Nicholas F. Brady, Chairman, Samuel W. Bodman, 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 three times in 2011.

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.

As noted above, among the criteria used to evaluate nominees for the board is diversity of viewpoints, background and experience. The board believes that such diversity provides varied perspectives which promote active and constructive dialogue among board members and between the board and management, resulting in more effective oversight of management's formulation and implementation of strategic initiatives. The board believes this diversity is amply demonstrated in the varied experience, qualifications and skills of the current members of the board. In the board's executive sessions and in annual performance evaluations conducted by the board and its committees, the board from time to time considers whether the members of the board reflect such diversity and whether such diversity contributes to a constructive and collegial environment.

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 2012 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 2011. In addition, the audit committee held four reviews of quarterly financial results with management and the company's 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 stockholders, 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 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, 2011 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 (PCAOB) 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 2011, 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,

matters related to risk and risk controls, and

all communications required by PCAOB Standards.

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, 2011 filed with the Securities and Exchange Commission. The audit committee has also selected Ernst & Young LLP as independent registered public accountants for 2012. 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

Risk Management Oversight

In the normal course of its business, the company is exposed to a variety of risks, including market risks relating to changes in commodity prices, interest rates and currencies, technical risks affecting the company's resource base, political and regulatory risks and credit and investment risk.

The company operates a risk control program under the direction of its chief risk officer and through its corporate risk policy, which senior management has approved. The company is continuing to develop and implement an enterprise risk program across the company to strengthen the consistency of risk consideration in making business decisions. For marketing and trading activities, risk limits are monitored and reported on a daily basis to business units and to senior management. The company has a risk committee, chaired by the chief financial officer, consisting of key finance, legal and risk control executives that meets throughout the year to review risk exposures and controls.

The audit committee of the board of directors has been delegated primary responsibility for oversight of the company's risk management practices. At least annually the chief risk officer presents a comprehensive review of the company's

corporate risk policy to the audit committee, discussing the risk control organization and risk control practices. The audit

committee will also receive updates at other meetings during the year on any particular matters relating to risk controls that management believes needs to be brought to the attention of the committee. In addition, the full board of directors has oversight of the company's risk management policies with an emphasis on understanding the key enterprise risks affecting the company's business and the ways in which the company attempts to prudently mitigate such risks, to the extent reasonably practicable and consistent with the company's long-term strategies. The chief risk officer reviews the enterprise risk program with the board annually.

Executive Compensation and Other Information

Compensation Discussion and Analysis

Executive Summary

2011 Highlights. While 2011 was a challenging year operationally for the company, we continued to make significant progress in increasing our crude oil and natural gas reserves, acquiring strategic acreage and positioning our company for long-term profitable growth. However, in recognition of the operational difficulties and the decline in the company's stock price in 2011, the compensation and management development committee:

Held the chief executive officer's (CEO) salary flat for 2012,

Reduced the CEO's 2011 cash bonus by \$500,000 or 13.3%, and

Made a significant change in our compensation philosophy by restructuring the long-term incentive program for the company's officers, including the named executive officers (NEOs), to eliminate the use of stock option awards and to provide that 50% of the award opportunity is in the form of performance share units that are earned (or forfeited) based on the level of achievement of a new relative total shareholder return (TSR) performance goal measured over a three-year period, with the remaining 50% of the award opportunity in the form of restricted stock. This program will more closely align the interests of our officers and stockholders.

In 2011 the company:

Achieved net income of \$1.7 billion, despite lower oil and gas production volumes and weaker refining results,

Replaced 147% of production and increased reserve life to 11.4 years from 9.9 years at year-end 2010,

Completed several strategic transactions including significant acreage acquisitions in the emerging Utica Shale play in Ohio and in the Kurdistan Region of Iraq,

Sanctioned development of its Tubular Bells prospect in the Gulf of Mexico, and

Received recognition for its sustainable business practices in 2011, being ranked 1st among S&P 500 companies for "clean capitalism" by a Canadian magazine promoting responsible business practices. The company also experienced some disappointments in 2011 including:

An 11% decrease in crude oil and natural gas production due to several external short-term factors, including civil unrest in Libya, weather related delays in the United States, the temporary shut-in of a Gulf of Mexico well and a fire at an outside-operated field in Norway, and

A marketing and refining loss of \$584 million in 2011, including an after tax charge of \$525 million, resulting from the closing of the HOVENSA joint venture refinery in St. Croix, U.S. Virgin Islands.

2011 Pay for Performance. We believe our 2011 compensation reflects the performance challenges that confronted the company during 2011. Our CEO received no salary increase in 2011 from 2010 levels. The cash bonus for the CEO for 2011 was \$3,250,000, a decrease of \$500,000 or 13.3% from the comparable amount for 2010. Moreover, the intrinsic value of the awards of stock options and restricted stock awarded to the CEO in February and March 2011, respectively, which reflected 2010 performance, decreased significantly at year-end 2011, reflecting the Company's lower stock price at December 31, 2011 compared with that at February 2, 2011. The following graph shows the realizable pay of the CEO for each of the three year periods ending December 31, 2009, 2010 and 2011, and the correlation with the indexed TSR of Hess common stock on these dates. For this purpose, realizable pay means the sum of salary, cash bonus, and the intrinsic value of stock options and the market value of restricted stock awarded in each of these three-year periods, with stock options and restricted stock valued at year-end 2009, 2010 and 2011 closing prices of Hess common stock. All of the stock options granted to the CEO in these periods remained unexercised during these periods.

CEO Realizable Pay

Salaries for our other NEOs for 2011 rose only 2.3% on average, and the cash bonuses for the other NEOs decreased by 12.6% on average from the comparable amounts for 2010, more than offsetting their 2011 salary increases. These other NEOs also experienced a similar proportional decrease to that of the CEO in the intrinsic value of their stock options and restricted stock awarded in 2011 during the year.

Compensation Program Highlights. Our compensation program is designed to focus our executive officers on Hess continued success and creating shareholder value. This is done by delivering a significant portion of their compensation in the form of performance-based incentives. In order to earn short-term incentive compensation, management must implement and execute on a strategy that requires achievement of corporate net income goals and certain business unit financial and operating metrics. The long-term components provide executives considerable incentive to maximize the company's long-term financial growth. With a majority of potential compensation at risk, the compensation program effectively aligns the interests of our executive officers with those of our stockholders.

Significant change in Compensation Philosophy Implementation of Performance Share Units Program and Elimination of Stock Option Awards: In 2012 the compensation and management development committee made significant changes to the company's long-term incentive program for the company's officers, including the NEOs, to bolster the link between pay and performance. In March 2012, the committee changed the long-term incentive award program so that 50% of the shares awarded annually will be performance share units and the remaining 50% will be in the form of restricted stock, with stock option awards being eliminated. Payouts on performance share awards will be determined based on the relative performance of the company's TSR over a three-year performance period ending December 31, 2014 compared with that of fifteen peer companies specified in the 2012 Comparator Group on page 21. Payouts of the 2012 performance share awards will range from 0 to 200% of the target award based on the company's