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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2009**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File Number 1-1204**

# Hess Corporation

*(Exact name of Registrant as specified in its charter)*

| | |
|---|---|
| **DELAWARE** | **13-4921002** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification Number)* |
| **1185 AVENUE OF THE AMERICAS, NEW YORK, N.Y.** | **10036** |
| *(Address of principal executive offices)* | *(Zip Code)* |

**(Registrant's telephone number, including area code, is (212) 997-8500)**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock (par value $1.00) | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☑

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant submitted electronically and posted on its Corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer ☑ | Accelerated filer ☐ | Non-accelerated filer ☐<br>(Do not check if a smaller reporting company) | Smaller reporting company ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of voting stock held by non-affiliates of the Registrant amounted to $17,579,000,000 computed using the outstanding common shares and closing market price on June 30, 2009.

At December 31, 2009, there were 327,229,488 shares of Common Stock outstanding.

Part III is incorporated by reference from the Proxy Statement for the annual meeting of stockholders to be held on May 5, 2010.

**HESS CORPORATION**

**Form 10-K**

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# PART I

## Items 1 and 2. *Business and Properties*

Hess Corporation (the Registrant) is a Delaware corporation, incorporated in 1920. The Registrant and its subsidiaries (collectively referred to as the Corporation or Hess) is a global integrated energy company that operates in two segments, Exploration and Production (E&P) and Marketing and Refining (M&R). The E&P segment explores for, develops, produces, purchases, transports and sells crude oil and natural gas. These exploration and production activities take place principally in Algeria, Australia, Azerbaijan, Brazil, Colombia, Denmark, Egypt, Equatorial Guinea, Gabon, Ghana, Indonesia, Libya, Malaysia, Norway, Peru, Russia, Thailand, the United Kingdom and the United States. The M&R segment manufactures refined petroleum products and purchases, markets and trades, refined petroleum products, natural gas and electricity. The Corporation owns 50% of a refinery joint venture in the United States Virgin Islands. An additional refining facility, terminals and retail gasoline stations, most of which include convenience stores, are located on the East Coast of the United States.

### Exploration and Production

The Corporation's total proved developed and undeveloped reserves at December 31 were as follows:

| | Crude Oil and Natural Gas Liquids | | Natural Gas | | Total Barrels of Oil Equivalent (BOE)* | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | (Millions of barrels) | | (Millions of mcf) | | (Millions of barrels) | |
| **Developed** | | | | | | |
| United States | **154** | 119 | **205** | 202 | **188** | 153 |
| Europe | **171** | 192 | **417** | 502 | **241** | 276 |
| Africa | **241** | 237 | **59** | 60 | **251** | 247 |
| Asia and other | **27** | 23 | **864** | 667 | **170** | 134 |
| | **593** | 571 | **1,545** | 1,431 | **850** | 810 |
| **Undeveloped** | | | | | | |
| United States | **95** | 108 | **101** | 74 | **112** | 120 |
| Europe | **159** | 140 | **225** | 137 | **197** | 162 |
| Africa | **73** | 87 | **12** | 9 | **75** | 89 |
| Asia and other | **47** | 64 | **938** | 1,122 | **203** | 251 |
| | **374** | 399 | **1,276** | 1,342 | **587** | 622 |
| **Total** | | | | | | |
| United States | **249** | 227 | **306** | 276 | **300** | 273 |
| Europe | **330** | 332 | **642** | 639 | **438** | 438 |
| Africa | **314** | 324 | **71** | 69 | **326** | 336 |
| Asia and other | **74** | 87 | **1,802** | 1,789 | **373** | 385 |
| | **967** | 970 | **2,821** | 2,773 | **1,437** | 1,432 |

* *Reflects natural gas reserves converted on the basis of relative energy content (six mcf equals one barrel).*

On a barrel of oil equivalent (boe) basis, 41% of the Corporation's worldwide proved reserves are undeveloped at December 31, 2009 (43% at December 31, 2008). Proved reserves held under production sharing contracts at December 31, 2009 totaled 24% of crude oil and natural gas liquids and 57% of natural gas reserves (28% and 58% respectively, at December 31, 2008).

The Securities and Exchange Commission (SEC) revised its oil and gas reserve estimation and disclosure standards effective December 31, 2009. See the Supplementary Oil and Gas Data on pages 77 through 84 in the accompanying financial statements for additional information on the Corporation's oil and gas reserves.

Worldwide crude oil, natural gas liquids and natural gas production was as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Crude oil (thousands of barrels per day)** | | | |
| United States | | | |
| Onshore | **21** | 17 | 15 |
| Offshore | **39** | 15 | 16 |
| | **60** | 32 | 31 |
| Europe | | | |
| United Kingdom | **21** | 29 | 38 |
| Norway | **13** | 16 | 19 |
| Denmark | **12** | 11 | 12 |
| Russia | **37** | 27 | 24 |
| | **83** | 83 | 93 |
| Africa | | | |
| Equatorial Guinea | **70** | 72 | 56 |
| Algeria | **14** | 15 | 22 |
| Gabon | **14** | 14 | 14 |
| Libya | **22** | 23 | 23 |
| | **120** | 124 | 115 |
| Asia and other | | | |
| Azerbaijan | **8** | 7 | 16 |
| Other | **8** | 6 | 5 |
| | **16** | 13 | 21 |
| Total | **279** | 252 | 260 |
| **Natural gas liquids (thousands of barrels per day)** | | | |
| United States | | | |
| Onshore | **7** | 7 | 7 |
| Offshore | **4** | 3 | 3 |
| | **11** | 10 | 10 |
| Europe | | | |
| United Kingdom | **2** | 3 | 4 |
| Norway | **1** | 1 | 1 |
| | **3** | 4 | 5 |
| Total | **14** | 14 | 15 |
| **Natural gas (thousands of mcf per day)** | | | |
| United States | | | |
| Onshore | **38** | 41 | 42 |
| Offshore | **55** | 37 | 46 |
| | **93** | 78 | 88 |
| Europe | | | |
| United Kingdom | **118** | 223 | 231 |
| Norway | **21** | 22 | 18 |
| Denmark | **12** | 10 | 10 |
| | **151** | 255 | 259 |

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Asia and other | | | |
| Joint Development Area of Malaysia/Thailand (JDA) | **294** | 185 | 115 |
| Thailand | **85** | 87 | 90 |
| Indonesia | **65** | 82 | 59 |
| Other | **2** | 2 | 2 |
| | **446** | 356 | 266 |
| Total | **690** | 689 | 613 |
| **Barrels of oil equivalent*** | **408** | 381 | 377 |

* *Reflects natural gas production converted on the basis of relative energy content (six mcf equals one barrel).*

A description of our significant E&P operations follows:

### United States

At December 31, 2009, 21% of the Corporation's total proved reserves were located in the United States. During 2009, 24% of the Corporation's crude oil and natural gas liquids production and 13% of its natural gas production were from United States operations. The Corporation's production in the United States was principally from properties offshore in the Gulf of Mexico, which include the Shenzi (Hess 28%), Llano (Hess 50%), Conger (Hess 38%), Baldpate (Hess 50%), Hack Wilson (Hess 25%) and Penn State (Hess 50%) fields, as well as onshore properties in the Williston Basin of North Dakota and in the Permian Basin of Texas.

In the deepwater Gulf of Mexico, production commenced at the Shenzi Field in March 2009. Net production from Shenzi averaged approximately 25,000 barrels of oil equivalent per day (boepd) in 2009. The operator plans on drilling additional production wells at Shenzi in 2010.

In North Dakota, the Corporation holds a net acreage position in the Bakken shale play of approximately 510,000 acres. In 2009, the Corporation sanctioned a development program for the Bakken. The Corporation plans to expand production facilities and increase the rig count to 10 from 3 over the next 18 months, and invest about $1 billion per year over the next five years. As a result, the Corporation projects an increase in net production from approximately 10,000 boepd in 2009 to approximately 80,000 boepd in 2015.

The Corporation is developing a residual oil zone at the Seminole-San Andres Unit (Hess 34%) in Texas where carbon dioxide gas supplied from its interests in the West Bravo Dome and Bravo Dome fields in New Mexico is being injected to enhance recovery of crude oil.

At the Pony prospect on Green Canyon Block 468 (Hess 100%) in the deepwater Gulf of Mexico, engineering and design work for field development progressed during 2009. The Corporation plans to drill an appraisal well on Green Canyon Block 469 in 2010.

In 2009 the Corporation acquired rights to explore a total of more than 80,000 net acres in the Marcellus gas shale formation in Pennsylvania. The Corporation is operator and holds a 100% interest on approximately 50,000 acres and holds a 50% non-operated interest in the remaining acreage. Exploration drilling activity is expected to commence in 2010.

At December 31, 2009, the Corporation had interests in 331 total blocks in the Gulf of Mexico, of which 292 were exploration blocks comprising 1.1 million net undeveloped acres and the remainder were held for production and development operations.

### Europe

At December 31, 2009, 30% of the Corporation's total proved reserves were located in Europe (United Kingdom 8%, Norway 13%, Denmark 3% and Russia 6%). During 2009, 29% of the Corporation's crude oil and natural gas liquids production and 22% of its natural gas production were from European operations.

***United Kingdom:*** Production of crude oil and natural gas liquids from the United Kingdom North Sea was principally from the Corporation's non-operated interests in the Nevis (Hess 39%), Schiehallion (Hess 16%), Clair (Hess 9%), Bittern (Hess 28%) and Beryl (Hess 22%) fields. Natural gas production from the United Kingdom was primarily from the Easington Catchment Area (Hess 32%), Bacton area (Hess 22%), Beryl (Hess 22%), Everest (Hess 19%), Lomond (Hess 17%), Nevis (Hess 39%), Atlantic (Hess 25%) and Cromarty (Hess 90%) fields. The operator plans to drill additional production wells at Beryl in 2010.

***Norway:*** Substantially all of the 2009 and 2008 Norwegian production was from the Corporation's interest in the Valhall Field (Hess 28%). A field redevelopment for Valhall commenced in 2007 and is expected to be completed in 2011. In 2010, the operator plans on drilling additional production and injection wells at Valhall. Additionally in 2010, the operator will continue to work on the Valhall Flank Gas Lift project, which was sanctioned in 2009 and is expected to be completed in 2011. The Corporation also holds an interest in the Snohvit (Hess 3%), Snorre (Hess 1%) and Hod (Hess 25%) fields. All four of the Corporation's Norwegian field interests are located offshore.

In December 2009, the Corporation agreed to a strategic exchange of all of its interests in Gabon and the Clair Field in the United Kingdom for an additional 28% interest in Valhall and 25% interest in Hod. The transaction, which has an effective date of January 1, 2010, is subject to various regulatory and other approvals. In addition, the partners are in discussions regarding the applicability of pre-emption to this transaction.

***Denmark:*** Crude oil and natural gas production comes from the Corporation's interest in the South Arne Field (Hess 58%). In 2010, the Corporation plans a two well production drilling program.

***Russia:*** The Corporation's activities in the Russian Federation are conducted through its 80% interest in a subsidiary operating in the Volga-Urals region of Russia. As of December 31, 2009, this subsidiary had exploration and production rights in 13 license areas in the Samara Oblast. In December 2009 this subsidiary also secured rights in the Novomaliklinsky license area, which lies in the Ulyanovsk Oblast. Production currently comes from ten license areas, but exploration and development investment is planned in all 14 license areas.

**Africa**

At December 31, 2009, 23% of the Corporation's total proved reserves were located in Africa (Equatorial Guinea 8%, Algeria 2%, Libya 11% and Gabon 2%). During 2009, 41% of the Corporation's crude oil and natural gas liquids production was from African operations.

***Equatorial Guinea:*** The Corporation is the operator and owns an interest in Block G (Hess 85%) which contains the Ceiba Field and Okume Complex. The Corporation plans to drill additional production wells at Okume in 2010.

***Algeria:*** The Corporation has a 49% interest in a venture with the Algerian national oil company, that redeveloped three oil fields.

***Libya:*** The Corporation, in conjunction with its Oasis Group partners, has oil and gas production operations in the Waha concessions in Libya (Hess 8%). The Corporation also owns a 100% interest in offshore exploration Area 54 in the Mediterranean Sea, where a successful exploration well was drilled in 2008. In 2009, the Corporation successfully flow tested the first exploration well and subsequently drilled and successfully flow tested a down-dip appraisal well. In 2010, the Corporation plans to reprocess 3D seismic, integrating acquired well information, and will continue technical and commercial evaluation of the block.

***Gabon:*** The Corporation's activities in Gabon are conducted through its wholly-owned Gabonese subsidiary, where the Corporation has interests in the Rabi Kounga, Toucan and Atora fields. In the fourth quarter of 2009, the Corporation agreed to a strategic exchange of all of its interests in Gabon for additional interests in the Valhall and Hod fields offshore Norway.

***Egypt:*** The Corporation has an interest in the West Mediterranean Block 1 concession (West Med Block) (Hess 55%), which contains natural gas discoveries and additional exploration opportunities. The Corporation is currently evaluating technical and commercial options for this block and further exploratory drilling is planned. The Corporation also owns a 100% interest in Block 1 offshore Egypt in the Red Sea. During 2009 the Corporation acquired and completed the reprocessing of seismic data for this block.

***Ghana:*** The Corporation holds a 100% interest in the Deepwater Tano Cape Three Points License. The Corporation is evaluating 3D seismic in anticipation of drilling the second exploration well on this prospect in late 2010 or early 2011.

### Asia and Other

At December 31, 2009, 26% of the Corporation's total proved reserves were located in the Asia and other region (JDA 11%, Indonesia 9%, Thailand 3%, Azerbaijan 2% and Malaysia 1%). During 2009, 6% of the Corporation's crude oil and natural gas liquids production and 65% of its natural gas production were from Asia and other operations.

***Joint Development Area of Malaysia/Thailand (JDA):*** The Corporation owns an interest in Block A-18 of the JDA (Hess 50%) in the Gulf of Thailand. Phase 2 gas sales commenced in November of 2008. In 2009, the Corporation acquired a 50% interest in Blocks PM301 and PM302 in Malaysia, which are adjacent to Block A-18 of the JDA.

***Indonesia:*** The Corporation's natural gas production in Indonesia primarily comes from its interests offshore in the Ujung Pangkah project (Hess 75%), which commenced production in 2007, and the Natuna A Field (Hess 23%). Additional production from a Phase 2 oil project at Ujung Pangkah commenced in 2009. The Corporation also owned an interest in the onshore Jambi Merang natural gas development project (Hess 25%), which was sold in January 2010. In May 2009, the Corporation obtained a 100% working interest in the offshore South Sesulu Block, where the Corporation is planning to acquire and process seismic in 2010. The Corporation also holds a 100% working interest in the offshore Semai V Block, where the Corporation is evaluating seismic and plans to drill an exploration well in late 2010 or early 2011.

***Thailand:*** The Corporation's natural gas production in Thailand primarily comes from the offshore Pailin Field (Hess 15%) and the onshore Sinphuhorm Block (Hess 35%).

***Azerbaijan:*** The Corporation has an interest in the Azeri-Chriag-Gunashli (ACG) fields (Hess 3%) in the Caspian Sea. In 2010, production drilling will continue and the operator will seek sanction to install an additional production and drilling platform, which will include processing facilities and related infrastructure.

***Australia:*** The Corporation holds a 100% interest in an exploration license covering 780,000 acres in the Carnarvon basin offshore Western Australia (WA-390-PBlock). Through December 31, 2009, the Corporation has drilled 11 of the 16 commitment wells on the block, nine of which were natural gas discoveries. The Corporation plans to drill the remaining five commitment wells on the block in 2010. The Corporation also holds a 50% interest in WA-404-P Block located offshore Western Australia, which covers a total area of 680,000 acres. The operator completed a successful exploration well on this block in 2009 and plans to drill the remaining eight commitment wells on this block in 2010. In January 2010, the operator announced that the first well of the 2010 program discovered natural gas.

***Brazil:*** The Corporation has interests in two blocks located offshore Brazil, BM-S-22 (Hess 40%) and BM-ES-30 (Hess 30%). In 2009, two exploration wells were completed on BM-S-22. A notice of discovery was filed for the first well and the second well was expensed. In 2010, the operator of BM-S-22 plans to commence drilling of a third exploration well in the second half of the year. In 2009, the Corporation also drilled an exploration well on BM-ES-30, which was expensed.

***Peru:*** The Corporation has an interest in Block 64 in Peru (Hess 50%). At the end of 2009, the Corporation was drilling a sidetrack to an exploration well on this block. Further evaluation work is planned for 2010.

***Colombia:*** The Corporation has interests in offshore Blocks RC 6 and RC 7 (Hess 30%). During 2009 the Corporation acquired 3D seismic for those blocks. Additional 3D seismic will be acquired and processed in 2010.

### Oil and Gas Reserves

The Corporation's net proved oil and gas reserves at the end of 2009, 2008 and 2007 are presented under the Supplementary Oil and Gas Data on pages 77 through 84 in the accompanying financial statements.

During 2009, the Corporation provided oil and gas reserve estimates for 2008 to the United States Department of Energy. Such estimates are consistent with the information furnished to the SEC on Form 10-K for the year ended

December 31, 2008, although not necessarily directly comparable due to the requirements of the individual requests. There were no differences in excess of 5%.

***Sales commitments:*** The Corporation has no contracts or agreements to sell fixed quantities of its crude oil production. In the United States, natural gas is marketed by the M&R segment on a spot basis and under contracts for varying periods of time to local distribution companies, and commercial, industrial and other purchasers. The Corporation's United States natural gas production is expected to approximate 30% of its 2010 sales commitments under long-term contracts. The Corporation attempts to minimize supply risks associated with its United States natural gas supply commitments by entering into purchase contracts with third parties having reliable sources of supply and by leasing storage facilities.

Outside of the United States and the United Kingdom, the Corporation generally sells its natural gas production under long-term sales contracts at prices that are periodically adjusted due to changes in commodity prices or other indices.

**Average selling prices and average production costs**

| | **2009** | **2008** | **2007** |
|---|---|---|---|
| Average selling prices* | | | |
| Crude oil (per barrel) | | | |
| United States | **$ 60.67** | $96.82 | $ 69.23 |
| Europe | **47.02** | 78.75 | 60.99 |
| Africa | **48.91** | 78.72 | 62.04 |
| Asia and other | **63.01** | 97.07 | 72.17 |
| Worldwide | **51.62** | 82.04 | 63.44 |
| Natural gas liquids (per barrel) | | | |
| United States | **$ 36.57** | $ 64.98 | $51.89 |
| Europe | **43.23** | 74.63 | 57.20 |
| Worldwide | **38.47** | 67.61 | 53.72 |
| Natural gas (per mcf) | | | |
| United States | **$ 3.36** | $ 8.61 | $ 6.67 |
| Europe | **5.15** | 9.44 | 6.13 |
| Asia and other | **5.06** | 5.24 | 4.71 |
| Worldwide | **4.85** | 7.17 | 5.60 |
| Average production (lifting) costs per barrel of oil equivalent produced** | | | |
| United States | **$13.72** | $ 18.46 | $ 13.56 |
| Europe | **15.77** | 17.12 | 14.06 |
| Africa | **10.93** | 10.22 | 9.09 |
| Asia and other | **7.65** | 8.48 | 8.41 |
| Worldwide | **12.12** | 13.43 | 11.50 |

* *Includes inter-company transfers valued at approximate market prices and the effect of the Corporation's hedging activities.*

** *Production (lifting) costs consist of amounts incurred to operate and maintain the Corporation's producing oil and gas wells, related equipment and facilities, transportation costs and production and severance taxes. The average production costs per barrel of oil equivalent reflect the crude oil equivalent of natural gas production converted on the basis of relative energy content (six mcf equals one barrel).*

The table above does not include costs of finding and developing proved oil and gas reserves, or the costs of related general and administrative expenses, interest expense and income taxes.

### Gross and net undeveloped acreage at December 31, 2009

| | Undeveloped Acreage* | |
|---|---|---|
| | Gross | Net |
| | (In thousands) | |
| United States | 2,993 | 1,969 |
| Europe | 2,274 | 760 |
| Africa | 9,937 | 6,440 |
| Asia and other | 9,546 | 5,099 |
| Total** | 24,750 | 14,268 |

* *Includes acreage held under production sharing contracts.*

** *Licenses covering approximately 30% of the Corporation's net undeveloped acreage held at December 31, 2009 are scheduled to expire during the next three years pending the results of exploration activities. These scheduled expirations are largely in Africa and the United States.*

### Gross and net developed acreage and productive wells at December 31, 2009

| | Developed Acreage Applicable to Productive Wells | | Productive Wells* | | | |
|---|---|---|---|---|---|---|
| | | | Oil | | Gas | |
| | Gross | Net | Gross | Net | Gross | Net |
| | (In thousands) | | | | | |
| United States | 542 | 466 | 901 | 487 | 60 | 45 |
| Europe | 1,379 | 771 | 287 | 122 | 150 | 31 |
| Africa | 9,938 | 970 | 1,021 | 164 | — | — |
| Asia and other | 2,190 | 625 | 69 | 7 | 349 | 78 |
| Total | 14,049 | 2,832 | 2,278 | 780 | 559 | 154 |

* *Includes multiple completion wells (wells producing from different formations in the same bore hole) totaling 20 gross wells and 15 net wells.*

### Number of net exploratory and development wells drilled

| | Net Exploratory Wells | | | Net Development Wells | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Productive wells | | | | | | |
| United States | — | 2 | 1 | **44** | 50 | 54 |
| Europe | **7** | 11 | 3 | **12** | 11 | 14 |
| Africa | **1** | 1 | 1 | **23** | 23 | 23 |
| Asia and other | **8** | 5 | 3 | **12** | 25 | 15 |
| | **16** | 19 | 8 | **91** | 109 | 106 |
| Dry holes | | | | | | |
| United States | **4** | — | 1 | — | 1 | — |
| Europe | — | 3 | 1 | — | — | — |
| Africa | — | 2 | 1 | — | — | — |
| Asia and other | **2** | 1 | — | — | — | — |
| | **6** | 6 | 3 | — | 1 | — |
| Total | **22** | 25 | 11 | **91** | 110 | 106 |

**Number of wells in process of drilling at December 31, 2009:**

| | Gross Wells | Net Wells |
|---|---|---|
| United States | 11 | 4 |
| Europe | 2 | 1 |
| Africa | 9 | 1 |
| Asia and other | 8 | 2 |
| Total | 30 | 8 |

Number of net waterfloods and pressure maintenance projects in process of installation at December 31, 2009 — 1

**Marketing and Refining**

***Refining***

The Corporation owns a 50% interest in HOVENSA L.L.C. (HOVENSA), a refining joint venture in the United States Virgin Islands with a subsidiary of Petroleos de Venezuela S.A. (PDVSA). In addition, it owns and operates a refining facility in Port Reading, New Jersey.

***HOVENSA:*** Refining operations at HOVENSA consist of crude units, a fluid catalytic cracking unit (FCC) and a delayed coker unit.

The following table summarizes capacity and utilization rates for HOVENSA:

| | Refinery Capacity (Thousands of barrels per day) | Refinery Utilization | | |
|---|---|---|---|---|
| | | 2009 | 2008 | 2007 |
| Crude | 500 | **80.3%** | 88.2% | 90.8% |
| Fluid catalytic cracker | 150 | **70.2%** | 72.7% | 87.1% |
| Coker | 58 | **81.6%** | 92.4% | 83.4% |

The delayed coker unit permits HOVENSA to run lower-cost heavy crude oil. HOVENSA has a long-term supply contract with PDVSA to purchase 115,000 barrels per day of Venezuelan Merey heavy crude oil. PDVSA also supplies 155,000 barrels per day of Venezuelan Mesa medium gravity crude oil to HOVENSA under a long-term crude oil supply contract. The remaining crude oil requirements are purchased mainly under contracts of one year or less from third parties and through spot purchases on the open market. After sales of refined products by HOVENSA to third parties, the Corporation purchases 50% of HOVENSA's remaining production at market prices.

Gross crude runs at HOVENSA averaged 402,000 barrels per day in 2009 compared with 441,000 barrels per day in 2008 and 454,000 barrels per day in 2007. The 2009 and 2008 utilization rates for HOVENSA reflect weaker refining margins and planned and unplanned maintenance. The 2008 utilization rates also reflect a refinery wide shut down for Hurricane Omar. In January 2010, HOVENSA commenced a turnaround of its FCC unit which is expected to take approximately 40 days.

***Port Reading Facility:*** The Corporation owns and operates a fluid catalytic cracking facility in Port Reading, New Jersey, with a capacity of 70,000 barrels per day. This facility, which processes residual fuel oil and vacuum gas oil, operated at a rate of approximately 63,000 barrels per day in 2009 compared with 64,000 barrels per day in 2008 and 61,000 barrels per day in 2007. Substantially all of Port Reading's production is gasoline and heating oil. The Corporation is planning a turnaround for the Port Reading refining facility in the second quarter of 2010, which is expected to take approximately 35 days.

***Marketing***

The Corporation markets refined petroleum products, natural gas and electricity on the East Coast of the United States to the motoring public, wholesale distributors, industrial and commercial users, other petroleum companies, governmental agencies and public utilities.

The Corporation had 1,357 HESS® gasoline stations at December 31, 2009, including stations owned by its WilcoHess joint venture (Hess 44%). Approximately 92% of the gasoline stations are operated by the Corporation or WilcoHess. Of the operated stations, 94% have convenience stores on the sites. Most of the Corporation's gasoline stations are in New York, New Jersey, Pennsylvania, Florida, Massachusetts, North Carolina and South Carolina.

The table below summarizes marketing sales volumes:

| | 2009* | 2008* | 2007* |
|---|---|---|---|
| Refined Product sales (thousands of barrels per day) | | | |
| Gasoline | **236** | 234 | 210 |
| Distillates | **134** | 143 | 147 |
| Residuals | **67** | 56 | 62 |
| Other | **36** | 39 | 32 |
| Total refined product sales | **473** | 472 | 451 |
| Natural gas (thousands of mcf per day) | **2,010** | 1,955 | 1,890 |
| Electricity (megawatts round the clock) | **4,306** | 3,152 | 2,821 |

* *Of total refined products sold in 2009 approximately 45% was obtained from HOVENSA and Port Reading and in 2008 and 2007 approximately 50% was obtained from HOVENSA and Port Reading. The Corporation purchased the balance from third parties under short-term supply contracts and spot purchases.*

The Corporation owns 20 terminals with an aggregate storage capacity of 22 million barrels in its East Coast marketing areas. The Corporation also owns a terminal in St. Lucia with a storage capacity of 9 million barrels, which is operated for third party storage.

The Corporation has a 50% interest in Bayonne Energy Center, LLC, a joint venture that plans to build a natural gas fired electric generating station on property owned by Hess in Bayonne, New Jersey. The joint venture will sell electricity into the New York City market by a direct connection with the Con Edison Gowanus substation. Construction of the facility is scheduled to begin in mid-2010 and operations are to commence in late 2011.

The Corporation has a 50% voting interest in a consolidated partnership that trades energy commodities and derivatives. The Corporation also takes energy commodity and derivative trading positions for its own account.

Majority-owned subsidiaries of the Corporation are pursuing investments in liquified natural gas regasification terminals and related supply, trading and marketing opportunities. Necessary regulatory approvals are being pursued for terminal projects on owned properties located in Fall River, Massachusetts, and Shannon, Ireland. In 2009 the Corporation leased property, with an option to purchase, in Logan Township, New Jersey for potential regasification facilities. In addition, a subsidiary of the Corporation is exploring the development of fuel cell technology.

For additional financial information by segment see Note 16, Segment Information in the notes to the financial statements.

**Competition and Market Conditions**

See Item 1A, *Risk Factors Related to Our Business and Operations,* for a discussion of competition and market conditions.

**Other Items**

Compliance with various existing environmental and pollution control regulations imposed by federal, state, local and foreign governments is not expected to have a material adverse effect on the Corporation's financial condition or results of operations. The Corporation anticipates capital expenditures for facilities, primarily to comply with federal, state and local environmental standards, of approximately $50 million in 2010. For further discussion of environmental matters see the Environment, Health and Safety section of Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

The number of persons employed by the Corporation at year end was approximately 13,300 in 2009 and 13,500 in 2008.

The Corporation's Internet address is www.hess.com. On its website, the Corporation makes available free of charge its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Corporation electronically files with or furnishes such material to the Securities and Exchange Commission. Copies of the Corporation's Code of Business Conduct and Ethics, its Corporate Governance Guidelines and the charters of the Audit Committee, the Compensation and Management Development Committee and the Corporate Governance and Nominating Committee of the Board of Directors are available on the Corporation's website and are also available free of charge upon request to the Secretary of the Corporation at its principal executive offices. The Corporation has also filed with the New York Stock Exchange (NYSE) its annual certification that the Corporation's chief executive officer is unaware of any violation of the NYSE's corporate governance standards.

## Item 1A. *Risk Factors Related to Our Business and Operations*

Our business activities and the value of our securities are subject to significant risk factors, including those described below. The risk factors described below could negatively affect our operations, financial condition, liquidity and results of operations, and as a result, holders and purchasers of our securities could lose part or all of their investments. It is possible additional risks relating to our securities may be described in a prospectus supplement if we issue securities in the future.

**Commodity Price Risk:** Our estimated proved reserves, revenue, operating cash flows, operating margins, future earnings and trading operations are highly dependent on the prices of crude oil, natural gas and refined petroleum products, which are influenced by numerous factors beyond our control. Historically these prices have been very volatile and most recently have been affected by changes in demand associated with the global economic downturn. The major foreign oil producing countries, including members of the Organization of Petroleum Exporting Countries (OPEC), exert considerable influence over the supply and price of crude oil and refined petroleum products. Their ability or inability to agree on a common policy on rates of production and other matters has a significant impact on the oil markets. The commodities trading markets may also influence the selling prices of crude oil, natural gas and refined petroleum products. To the extent that we engage in hedging activities to mitigate commodity price volatility, we may not realize the benefit of price increases above the hedged price. Changes in commodity prices can also have a material impact on collateral and margin requirements under our derivative contracts. In addition, we utilize significant bank credit facilities to support these collateral and margin requirements. An inability to renew or replace such credit facilities as they mature would negatively impact our liquidity.

**Technical Risk:** We own or have access to a finite amount of oil and gas reserves which will be depleted over time. Replacement of oil and gas reserves is subject to successful exploration drilling, development activities, and enhanced recovery programs. Therefore, future oil and gas production is dependent on technical success in finding and developing additional hydrocarbon reserves. Exploration activity involves the interpretation of seismic and other geological and geophysical data, which does not always successfully predict the presence of commercial quantities of hydrocarbons. Drilling risks include unexpected adverse conditions, irregularities in pressure or formations, equipment failure, blowouts and weather interruptions. Future developments may be affected by unforeseen reservoir conditions which negatively affect recovery factors or flow rates. The costs of drilling and development activities have increased in recent years which could negatively affect expected economic returns. Reserve replacement can also be achieved through acquisition. Although due diligence is used in evaluating acquired oil and gas properties, similar risks may be encountered in the production of oil and gas on properties acquired from others.

**Oil and Gas Reserves and Discounted Future Net Cash Flow Risks:** Numerous uncertainties exist in estimating quantities of proved reserves and future net revenues from those reserves. Actual future production, oil and gas prices, revenues, taxes, capital expenditures, operating expenses, and quantities of recoverable oil and gas reserves may vary substantially from those assumed in the estimates and could materially affect the estimated quantities and future net revenues of our proved reserves. In addition, reserve estimates may be subject to downward or upward revisions based on production performance, purchases or sales of properties, results of future development, prevailing oil and gas prices, production sharing contracts, which may decrease reserves as crude oil and natural gas prices increase, and other factors.

**Political Risk:** Federal, state, local, territorial and foreign laws and regulations relating to tax increases and retroactive tax claims, expropriation or nationalization of property, mandatory government participation, cancellation or amendment of contract rights, and changes in import regulations, limitations on access to exploration and development opportunities, as well as other political developments may affect our operations. Some of the international areas in which we operate and the partners with whom we operate, are politically less stable than other areas and partners. The threat of terrorism around the world also poses additional risks to the operations of the oil and gas industry. We market motor fuels through lessee-dealers and wholesalers in certain states where legislation prohibits producers or refiners of crude oil from directly engaging in retail marketing of motor fuels. Similar legislation has been periodically proposed in various other states.

**Environmental Risk:** Our oil and gas operations, like those of the industry, are subject to environmental risk such as oil spills, produced water spills, gas leaks and ruptures and discharges of substances or gases that could expose us to substantial liability for pollution or other environmental damage. Our operations are also subject to numerous United States federal, state, local and foreign environmental laws and regulations. Non-compliance with these laws and regulations may subject us to administrative, civil or criminal penalties, remedial clean-ups and natural resource damages or other liabilities. In addition, increasingly stringent environmental regulations, particularly relating to the production of motor and other fuels have resulted and will likely continue to result in higher capital expenditures and operating expenses for us and the oil and gas industry in general.

**Climate Change Risk:** We recognize that climate change is a global environmental concern. Continuing political and social attention to the issue of climate change has resulted in both existing and pending international agreements and national, regional or local legislation and regulatory measures to limit greenhouse gas emissions. These agreements and measures may require significant equipment modifications, operational changes, taxes, or purchase of emission credits to reduce emission of greenhouse gases from our operations, as a result of which we may incur substantial capital expenditures and compliance, operating, maintenance and remediation costs. In addition, we manufacture petroleum fuels, which through normal customer use result in the emission of greenhouse gases. Regulatory initiatives to reduce the use of these fuels may reduce our sales of, and revenues from, these products. Finally, to the extent that climate change may result in more extreme weather related events, we could experience increased costs related to prevention, maintenance and remediation of affected operations in addition to costs and lost revenues related to delays and shutdowns.

**Competitive Risk:** The petroleum industry is highly competitive and very capital intensive. We encounter competition from numerous companies in each of our activities, including acquiring rights to explore for crude oil and natural gas, and in purchasing and marketing of refined products, natural gas and electricity. Many competitors, including national oil companies, are larger and have substantially greater resources. We are also in competition with producers and marketers of other forms of energy. Increased competition for worldwide oil and gas assets has significantly increased the cost of acquisitions. In addition, competition for drilling services, technical expertise and equipment has, in the recent past, affected the availability of technical personnel and drilling rigs and has therefore increased capital and operating costs.

**Catastrophic Risk:** Although we maintain a level of insurance coverage consistent with industry practices against property and casualty losses, our oil and gas operations are subject to unforeseen occurrences which may damage or destroy assets or interrupt operations. Examples of catastrophic risks include hurricanes, fires, explosions and blowouts. These occurrences have affected us from time to time.

### Item 3. *Legal Proceedings*

The Corporation, along with many other companies engaged in refining and marketing of gasoline, has been a party to lawsuits and claims related to the use of methyl tertiary butyl ether (MTBE) in gasoline. A series of similar lawsuits, many involving water utilities or governmental entities, were filed in jurisdictions across the United States against producers of MTBE and petroleum refiners who produced gasoline containing MTBE, including the Corporation. The principal allegation in all cases is that gasoline containing MTBE is a defective product and that these parties are strictly liable in proportion to their share of the gasoline market for damage to groundwater resources and are required to take remedial action to ameliorate the alleged effects on the environment of releases of MTBE. In 2008, the majority of the cases against the Corporation were settled. In February 2010, the Corporation reached an agreement in principle to settle all but three of the remaining cases. The three unresolved cases consist of two cases that have been consolidated for pre-trial purposes in the Southern District of New York as part of a multi-district litigation proceeding and an action brought in state court by the State of New Hampshire. In 2007, a pre-tax charge of $40 million was recorded to cover all of the known MTBE cases against the Corporation.

Over the last several years, many refiners have entered into consent agreements to resolve the United States Environmental Protection Agency's (EPA) assertions that refining facilities were modified or expanded without complying with New Source Review regulations that require permits and new emission controls in certain circumstances and other regulations that impose emissions control requirements. These consent agreements, which arise out of an EPA enforcement initiative focusing on petroleum refiners and utilities, have typically imposed substantial civil fines and penalties and required (i) significant capital expenditures to install emissions control equipment over a three to eight year time period and (ii) changes to operations which resulted in increased operating costs. The capital expenditures, penalties and supplemental environmental projects for individual refineries covered by the settlements can vary significantly, depending on the size and configuration of the refinery, the circumstances of the alleged modifications and whether the refinery has previously installed more advanced pollution controls. The EPA initially contacted the Corporation and HOVENSA regarding the Petroleum Refinery Initiative in August 2003. Negotiations with the EPA and the relevant states and the Virgin Islands are continuing and substantial progress has been made toward resolving this matter for both the Corporation and HOVENSA. While the effect on the Corporation of the Petroleum Refining Initiative cannot be estimated until a final settlement is reached and entered by a court, additional significant future capital expenditures and operating expenses will likely be incurred by HOVENSA over a number of years. The amount of penalties, if any, is not expected to be material.

On September 13, 2007, HOVENSA received a Notice Of Violation (NOV) pursuant to section 113(a)(i) of the Clean Air Act (Act) from the EPA finding that HOVENSA failed to obtain proper permitting for the construction and operation of its delayed coking unit in accordance with applicable law and regulations. HOVENSA believes it properly obtained all necessary permits for this project. The NOV states that the EPA has authority to issue an administrative order assessing penalties for violation of the Act. HOVENSA has entered into discussions with the EPA to reach resolution of this matter. The Corporation does not believe that this matter will result in material liability to HOVENSA or the Corporation.

In December 2006, HOVENSA received a NOV from the EPA alleging non-compliance with emissions limits in a permit issued by the Virgin Islands Department of Planning and Natural Resources (DPNR) for the two process heaters in the delayed coking unit. The NOV was issued in response to a voluntary investigation and submission by HOVENSA regarding potential non-compliance with the permit emissions limits for two pollutants. Any exceedances were minor from the perspective of the amount of pollutants emitted in excess of the limits. HOVENSA has entered into discussions with the appropriate governmental agencies to reach resolution of this matter and does not believe that it will result in material liability to HOVENSA or the Corporation.

The Corporation received a directive from the New Jersey Department of Environmental Protection (NJDEP) to remediate contamination in the sediments of the lower Passaic River and NJDEP is also seeking natural resource damages. The directive, insofar as it affects the Corporation, relates to alleged releases from a petroleum bulk storage terminal in Newark, New Jersey now owned by the Corporation. The Corporation and over 70 companies entered into an Administrative Order on Consent with the EPA to study the same contamination. NJDEP has also sued several other companies linked to a facility considered by the State to be the largest contributor to river contamination. In January 2009, these companies added third party defendants, including the Corporation, to that case. In June 2007, the EPA issued a draft study which evaluated six alternatives for early action, with costs ranging from $900 million to $2.3 billion. Based on adverse comments from the Corporation and others, the EPA is reevaluating its alternatives. In addition, the federal trustees for natural resources have begun a separate assessment of damages to natural resources in the Passaic River. Given the ongoing studies, remedial costs cannot be reliably estimated at this time. Based on currently known facts and circumstances, the Corporation does not believe that this matter will result in material liability because its terminal could not have contributed contamination along most of the river's length and did not store or use contaminants which are of the greatest concern in the river sediments, and because there are numerous other parties who will likely share in the cost of remediation and damages.

In July 2004, Hess Oil Virgin Islands Corp. (HOVIC), a wholly owned subsidiary of the Corporation, and HOVENSA, each received a letter from the Commissioner of the Virgin Islands Department of Planning and Natural Resources and Natural Resources Trustees, advising of the Trustee's intention to bring suit against HOVIC and HOVENSA under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The letter alleges that HOVIC and HOVENSA are potentially responsible for damages to natural resources arising from releases of hazardous substances from the "HOVENSA Oil Refinery." HOVENSA currently owns and operates a petroleum refinery on the south shore of St. Croix, United States Virgin Islands, which had been operated by HOVIC until October 1998. An action was filed on May 5, 2005 in the District Court of the Virgin Islands against HOVENSA, HOVIC and other companies that operated industrial facilities on the south shore of St. Croix asserting that the defendants are liable under CERCLA and territorial statutory and common law for damages to natural resources. HOVIC and HOVENSA do not believe that this matter will result in a material liability as they believe that they have strong defenses to this complaint, and they intend to vigorously defend this matter.

The Securities and Exchange Commission (SEC) notified the Corporation that on July 21, 2005 it commenced a private investigation into payments made to the government of Equatorial Guinea or to officials and persons affiliated with officials of the government of Equatorial Guinea. In 2009, the SEC advised that it had completed its investigation and did not intend to recommend enforcement action against the Corporation.

The Corporation periodically receives notices from EPA that it is a "potential responsible party" under the Superfund legislation with respect to various waste disposal sites. Under this legislation, all potentially responsible parties are jointly and severally liable. For certain sites, EPA'sclaims or assertions of liability against the Corporation relating to these sites have not been fully developed. With respect to the remaining sites, EPA's claims have been settled, or a proposed settlement is under consideration, in all cases for amounts that are not material. The ultimate impact of these proceedings, and of any related proceedings by private parties, on the business or accounts of the Corporation cannot be predicted at this time due to the large number of other potentially responsible parties and the speculative nature of clean-up cost estimates, but is not expected to be material.

The Corporation is from time to time involved in other judicial and administrative proceedings, including proceedings relating to other environmental matters. Although the ultimate outcome of these proceedings cannot be ascertained at this time and some of them may be resolved adversely to the Corporation, no such proceeding is required to be disclosed under applicable rules of the SEC. In management's opinion, based upon currently known facts and circumstances, such proceedings in the aggregate will not have a material adverse effect on the financial condition of the Corporation.

**Item 4.** ***Submission of Matters to a Vote of Security Holders***

During the fourth quarter of 2009, no matter was submitted to a vote of security holders through the solicitation of proxies or otherwise.

***Executive Officers of the Registrant***

The following table presents information as of February 1, 2010 regarding executive officers of the Registrant:

| Name | Age | Office Held* | Year Individual Became an Executive Officer |
|---|---|---|---|
| John B. Hess | 55 | Chairman of the Board, Chief Executive Officer and Director | 1983 |
| Gregory P. Hill | 48 | Executive Vice President and President of Worldwide Exploration and Production and Director | 2009 |
| F. Borden Walker | 56 | Executive Vice President and President of Marketing and Refining and Director | 1996 |
| Timothy B. Goodell | 52 | Senior Vice President and General Counsel | 2009 |
| Lawrence H. Ornstein | 58 | Senior Vice President | 1995 |
| John P. Rielly | 47 | Senior Vice President and Chief Financial Officer | 2002 |
| John J. Scelfo | 52 | Senior Vice President | 2004 |
| Mykel J. Ziolo | 57 | Senior Vice President | 2009 |
| Sachin J. Mehra | 39 | Vice President and Treasurer | 2008 |

* *All officers referred to herein hold office in accordance with the By-Laws until the first meeting of the Directors following the annual meeting of stockholders of the Registrant and until their successors shall have been duly chosen and qualified. Each of said officers was elected to the office opposite his name on May 6, 2009, except for Mr. Ziolo, who was elected effective November 4, 2009. The first meeting of Directors following the next annual meeting of stockholders of the Registrant is scheduled to be held May 5, 2010.*

Except for Messrs. Hill, Goodell, and Mehra, each of the above officers has been employed by the Registrant or its subsidiaries in various managerial and executive capacities for more than five years. Prior to joining the Corporation, Mr. Hill served in senior executive positions in exploration and production operations at Royal Dutch Shell and its subsidiaries, where he was employed for 25 years. Before joining the Corporation in 2009, Mr. Goodell was a partner in the law firm of White & Case LLP. Mr. Mehra was employed in treasury and financial functions at General Motors before joining the Corporation in 2007.

**PART II**

**Item 5.** ***Market for the Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities***

***Stock Market Information***

The common stock of Hess Corporation is traded principally on the New York Stock Exchange (ticker symbol: HES). High and low sales prices were as follows:

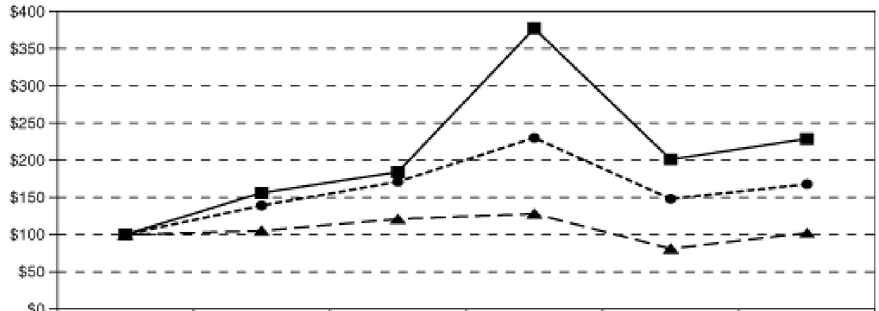
| | 2009 | | 2008 | |
|---|---|---|---|---|
| Quarter Ended | High | Low | High | Low |
| March 31 | **$ 66.84** | **$ 49.28** | $ 101.65 | $ 76.67 |
| June 30 | **69.74** | **49.72** | 137.00 | 88.20 |
| September 30 | **57.83** | **46.33** | 129.00 | 71.16 |
| December 31 | **62.18** | **51.41** | 82.03 | 35.50 |

### *Performance Graph*

Set forth below is a line graph comparing the Corporation's cumulative total shareholder return for five years, assuming reinvestment of dividends on common stock, with the cumulative total return of:

- Standard & Poor's 500 Stock Index, which includes the Corporation, and
- AMEX Oil Index, which is comprised of companies involved in various phases of the oil industry including the Corporation.

Comparison of Five-Year Shareholder Returns
Years Ended December 31,




| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Hess Corporation | 100.00 | 156.00 | 184.00 | 377.00 | 201.00 | 228.65 |
| S & P 500 | 100.00 | 105.00 | 121.00 | 128.00 | 81.00 | 102.10 |
| Amex Oil Index | 100.00 | 139.00 | 171.00 | 230.00 | 148.00 | 167.68 |

### *Holders*

At December 31, 2009, there were 5,926 stockholders (based on number of holders of record) who owned a total of 327,229,488 shares of common stock.

### *Dividends*

Cash dividends on common stock totaled $0.40 per share ($0.10 per quarter) during 2009, 2008 and 2007.

### *Equity Compensation Plans*

Following is information on the Registrant's equity compensation plans at December 31, 2009:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 12,102,000 | $ 53.83 | 7,733,000* |
| Equity compensation plans not approved by security holders** | — | — | — |

* *These securities may be awarded as stock options, restricted stock or other awards permitted under the Registrant's equity compensation plan.*

** *The Corporation has a Stock Award Program pursuant to which each non-employee director receives approximately $150,000 in value of the Corporation's common stock each year. These awards are made from shares purchased by the Corporation in the open market.*

See Note 8, Share-Based Compensation, in the notes to the financial statements for further discussion of the Corporation's equity compensation plans.

## Item 6. *Selected Financial Data*

A five-year summary of selected financial data follows*:

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| | | (Millions of dollars, except per share amounts) | | | |
| Sales and other operating revenues | | | | | |
| Crude oil and natural gas liquids | **$ 5,665** | $ 7,764 | $ 6,303 | $ 5,307 | $ 3,219 |
| Natural gas (including sales of purchased gas) | **5,894** | 8,800 | 6,877 | 6,826 | 6,423 |
| Refined petroleum products | **12,931** | 19,765 | 14,741 | 13,339 | 11,317 |
| Electricity | **3,408** | 3,451 | 2,322 | 1,072 | 373 |
| Convenience store sales and other operating revenues | **1,716** | 1,354 | 1,484 | 1,632 | 1,499 |
| Total | **$ 29,614** | $ 41,134 | $ 31,727 | $ 28,176 | $ 22,831 |
| Net income attributable to Hess Corporation | **$ 740(a)** | $ 2,360(b) | $ 1,832(c) | $ 1,920(d) | $ 1,226(e) |
| Less: preferred stock dividends | **—** | — | — | 44 | 48 |
| Net income applicable to Hess Corporation common shareholders | **$ 740** | $ 2,360 | $ 1,832 | $ 1,876 | $ 1,178 |
| Earnings per share** | | | | | |
| Basic | **$ 2.28** | $ 7.35 | $ 5.86 | $ 6.75 | $ 4.32 |
| Diluted | **$ 2.27** | $ 7.24 | $ 5.74 | $ 6.08 | $ 3.93 |
| Total assets | **$ 29,465** | $ 28,589 | $ 26,131 | $ 22,442 | $ 19,158 |
| Total debt | **4,467** | 3,955 | 3,980 | 3,772 | 3,785 |
| Total equity | **13,528** | 12,391 | 10,000 | 8,376 | 6,469 |
| Dividends per share of common stock** | **$ .40** | $ .40 | $ .40 | $ .40 | $ .40 |

* *Reflects the retrospective adoption of a new accounting standard for noncontrolling interests in consolidated subsidiaries.*

** *Per share amounts in all periods reflect the 3-for-1 stock split on May 31, 2006.*

(a) *Includes after-tax expenses totaling $104 million relating to bond repurchases, retirement benefits, employee severance costs and asset impairments, partially offset by after-tax income totaling $101 million principally relating to resolution of a United States royalty dispute.*

(b) *Includes net after-tax expenses of $26 million primarily relating to asset impairments and hurricanes in the Gulf of Mexico.*

(c) *Includes after-tax expenses of $75 million primarily relating to asset impairments, estimated production imbalance settlements and a charge for MTBE litigation, partially offset by income from LIFO inventory liquidations and gains from asset sales.*

(d) *Includes net after-tax income of $173 million primarily from sales of assets, partially offset by income tax adjustments and accrued leased office closing costs.*

(e) *Includes net after-tax expenses of $37 million primarily relating to income taxes on repatriated earnings, premiums on bond repurchases and hurricane related expenses, partially offset by gains from asset sales and a LIFO inventory liquidation.*

## Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

### Overview

The Corporation is a global integrated energy company that operates in two segments, Exploration and Production (E&P) and Marketing and Refining (M&R). The E&P segment explores for, develops, produces, purchases, transports and sells crude oil and natural gas. The M&R segment manufactures refined petroleum products and purchases, markets and trades, refined petroleum products, natural gas and electricity.

Net income in 2009 was $740 million compared with $2,360 million in 2008 and $1,832 million in 2007. Diluted earnings per share were $2.27 in 2009 compared with $7.24 in 2008 and $5.74 in 2007. A table of items affecting comparability between periods is shown on page 20.

#### *Exploration and Production*

The Corporation's strategy for the E&P segment is to profitably grow reserves and production in a sustainable and financially disciplined manner. The Corporation's total proved reserves were 1,437 million barrels of oil equivalent (boe) at December 31, 2009 compared with 1,432 million boe at December 31, 2008 and 1,330 million boe at December 31, 2007. Total proved reserves additions for 2009 were 157 million boe. These additions replaced approximately 103% of the Corporation's 2009 production.

E&P net income was $1,042 million in 2009, $2,423 million in 2008 and $1,842 million in 2007. Average realized crude oil selling prices were $51.62 per barrel in 2009, $82.04 in 2008, and $63.44 in 2007, including the impact of hedging. The variance in E&P earnings between years was primarily driven by the fluctuations in average realized crude oil selling prices.

Production averaged 408,000 barrels of oil equivalent per day (boepd) in 2009 compared with 381,000 boepd in 2008 and 377,000 boepd in 2007. Production in 2009 increased 27,000 boepd or 7% from 2008. In 2010, the Corporation currently estimates total worldwide production will average between 400,000 and 410,000 boepd.

The following is an update of significant E&P activities during 2009:

- In March, production commenced at the Shenzi Field (Hess 28%) in the deepwater Gulf of Mexico. Net production from Shenzi averaged approximately 25,000 boepd for 2009.
- The Corporation sanctioned the Bakken shale play development in the Williston Basin of North Dakota. The Corporation plans to expand production facilities and increase the rig count to 10 from 3 over the next 18 months, and invest about $1 billion per year over the next five years. As a result, the Corporation projects an increase in net production from approximately 10,000 boepd in 2009 to approximately 80,000 boepd in 2015.
- In December 2009, the Corporation agreed to a strategic exchange of all of its interests in Gabon and the Clair Field (Hess 9%) in the United Kingdom for an additional 28% interest in the Valhall Field (currently Hess 28%) and an additional 25% interest in the Hod Field (currently Hess 25%), which are both offshore Norway. The transaction which has an effective date of January 1, 2010, is subject to various regulatory and other approvals. In addition, the partners are in discussions regarding the applicability of pre-emption to this transaction.
- In the Carnarvon basin offshore Western Australia, the Corporation drilled seven exploration wells in 2009 on WA-390-P Block (Hess 100%), six of which were natural gas discoveries. Through December 31, 2009, the Corporation has drilled 11 of the 16 commitment wells on the block, nine of which were natural gas discoveries. The Corporation plans to drill the remaining five commitment wells on the block in 2010. On WA-404-P Block (Hess 50%), the operator completed a successful exploration well in 2009 and plans to drill the remaining eight commitment wells in 2010. In January 2010, the operator announced that the first well of the 2010 program discovered natural gas.
- At the Pony prospect on Green Canyon Block 468 (Hess 100%) in the deepwater Gulf of Mexico, engineering and design work for field development progressed during 2009. The Corporation plans to drill an appraisal well on Green Canyon Block 469 in 2010.
- Two exploration wells were completed on Block BM-S-22 (Hess 40%) offshore Brazil. A notice of discovery was filed for the first well and the second well was expensed. In 2010, the operator of BM-S-22

plans to commence drilling of a third exploration well in the second half of the year. In 2009, the Corporation also drilled an exploration well on BM-ES-30, which was expensed.

- The Corporation successfully flow tested the discovery well in exploration Area 54 (Hess 100%) offshore Libya and subsequently drilled and successfully flow tested a down-dip appraisal well on the block. In 2010, the Corporation plans to reprocess 3D seismic, integrating acquired well information and will continue technical and commercial evaluation of the block.
- The Corporation acquired rights to explore a total of more than 80,000 net acres in the Marcellus gas shale formation in Pennsylvania. The Corporation is operator and holds a 100% interest on approximately 50,000 acres and holds a 50% non-operated interest in the remaining acreage. Exploration drilling activity is expected to commence in 2010.

***Marketing and Refining***

The Corporation's strategy for the M&R segment is to deliver consistent operating performance and generate free cash flow. M&R net income was $127 million in 2009, $277 million in 2008 and $300 million in 2007. The declining earnings were due to lower average margins, which include the effect of the global economic downturn that began in 2008 and continued into 2009. Refining operations contributed net income (loss) of $(87) million in 2009, $73 million in 2008 and $193 million in 2007. Marketing earnings were $168 million in 2009, $240 million in 2008 and $83 million in 2007.

***Liquidity and Capital and Exploratory Expenditures***

Net cash provided by operating activities was $3,046 million in 2009, $4,688 million in 2008 and $3,627 million in 2007, principally reflecting fluctuations in earnings. At December 31, 2009, cash and cash equivalents totaled $1,362 million compared with $908 million at December 31, 2008. Total debt was $4,467 million at December 31, 2009 compared with $3,955 million at December 31, 2008. In February 2009, the Corporation issued $250 million of 5 year senior unsecured notes with a coupon of 7% and $1 billion of 10 year senior unsecured notes with a coupon of 8.125%. The majority of the proceeds were used to repay debt under the revolving credit facility and outstanding borrowings on other credit facilities. In December 2009, the Corporation issued $750 million of 30 year bonds at a coupon of 6% and tendered for $662 million of bonds due in August 2011. The Corporation completed the repurchase of $546 million of the 2011 bonds in December 2009 and repurchased the remaining $116 million of these bonds in January 2010. The Corporation's debt to capitalization ratio at December 31, 2009 was 24.8% compared with 24.2% at the end of 2008.

Capital and exploratory expenditures were as follows for the years ended December 31:

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Exploration and Production | | |
| United States | **$ 1,200** | $ 2,164 |
| International | **1,927** | 2,477 |
| Total Exploration and Production | **3,127** | 4,641 |
| Marketing, Refining and Corporate | **118** | 187 |
| Total Capital and Exploratory Expenditures | **$ 3,245** | $ 4,828 |
| Exploration expenses charged to income included above: | | |
| United States | **$ 144** | $ 211 |
| International | **183** | 179 |
| Total exploration expenses charged to income included above | **$ 327** | $ 390 |

The Corporation anticipates investing $4.1 billion in capital and exploratory expenditures in 2010, substantially all of which relates to E&P operations.

**Consolidated Results of Operations**

The after-tax results by major operating activity are summarized below:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | (Millions of dollars, except per share data) | | |
| Exploration and Production | **$1,042** | $ 2,423 | $ 1,842 |
| Marketing and Refining | **127** | 277 | 300 |
| Corporate | **(205)** | (173) | (150) |
| Interest expense | **(224)** | (167) | (160) |
| Net income attributable to Hess Corporation | **$ 740** | $2,360 | $1,832 |
| Net income per share — diluted | **$ 2.27** | $ 7.24 | $ 5.74 |

The following table summarizes, on an after-tax basis, items of income (expense) that are included in net income and affect comparability between periods. The items in the table below are explained on pages 23 through 25.

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | (Millions of dollars) | | |
| Exploration and Production | **$ 45** | $(26) | $ (74) |
| Marketing and Refining | **12** | — | 24 |
| Corporate | **(60)** | — | (25) |
| | **$ (3)** | $(26) | $(75) |

In the discussion that follows, the financial effects of certain transactions are disclosed on an after-tax basis. Management reviews segment earnings on an after-tax basis and uses after-tax amounts in its review of variances in segment earnings. Management believes that after-tax amounts are a preferable method of explaining variances in earnings, since they show the entire effect of a transaction rather than only the pre-tax amount. After-tax amounts are determined by applying the income tax rate in each tax jurisdiction to pre-tax amounts.

**Comparison of Results**

***Exploration and Production***

Following is a summarized income statement of the Corporation's E&P operations:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | (Millions of dollars) | | |
| Sales and other operating revenues* | **$ 6,835** | $ 9,806 | $ 7,498 |
| Other, net | **207** | (167) | 65 |
| Total revenues and non operating income | **7,042** | 9,639 | 7,563 |
| Costs and expenses | | | |
| Production expenses, including related taxes | **1,805** | 1,872 | 1,581 |
| Exploration expenses, including dry holes and lease impairment | **829** | 725 | 515 |
| General, administrative and other expenses | **255** | 302 | 257 |
| Depreciation, depletion and amortization | **2,167** | 1,952 | 1,503 |
| Total costs and expenses | **5,056** | 4,851 | 3,856 |
| Results of operations before income taxes | **1,986** | 4,788 | 3,707 |
| Provision for income taxes | **944** | 2,365 | 1,865 |
| Results of operations attributable to Hess Corporation | **$1,042** | $ 2,423 | $ 1,842 |

* *Amounts differ from E&P operating revenues in Note 16, Segment Information, primarily due to the exclusion of sales of hydrocarbons purchased from third parties.*

After considering the E&P items in the table on page 23, the remaining changes in E&P earnings are primarily attributable to changes in selling prices, production volumes, operating costs, exploration expenses, foreign exchange, and income taxes, as discussed below.

***Selling prices:*** Lower average selling prices reduced E&P revenues by approximately $4,000 million in 2009 compared with 2008. Higher average selling prices increased E&P revenues by approximately $2,100 million in 2008 compared with 2007.

The Corporation's average selling prices were as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Crude oil-per barrel (including hedging) | | | |
| United States | **$ 60.67** | $96.82 | $ 69.23 |
| Europe | **47.02** | 78.75 | 60.99 |
| Africa | **48.91** | 78.72 | 62.04 |
| Asia and other | **63.01** | 97.07 | 72.17 |
| Worldwide | **51.62** | 82.04 | 63.44 |
| Crude oil-per barrel (excluding hedging) | | | |
| United States | **$ 60.67** | $96.82 | $ 69.23 |
| Europe | **47.02** | 78.75 | 60.99 |
| Africa | **60.79** | 93.57 | 71.71 |
| Asia and other | **63.01** | 97.07 | 72.17 |
| Worldwide | **56.74** | 89.23 | 67.79 |
| Natural gas liquids-per barrel | | | |
| United States | **$36.57** | $ 64.98 | $51.89 |
| Europe | **43.23** | 74.63 | 57.20 |
| Worldwide | **38.47** | 67.61 | 53.72 |
| Natural gas-per mcf (including hedging) | | | |
| United States | **$ 3.36** | $ 8.61 | $ 6.67 |
| Europe | **5.15** | 9.44 | 6.13 |
| Asia and other | **5.06** | 5.24 | 4.71 |
| Worldwide | **4.85** | 7.17 | 5.60 |
| Natural gas-per mcf (excluding hedging) | | | |
| United States | **$ 3.36** | $ 8.61 | $ 6.67 |
| Europe | **5.15** | 9.79 | 6.13 |
| Asia and other | **5.06** | 5.24 | 4.71 |
| Worldwide | **4.85** | 7.30 | 5.60 |

In October 2008, the Corporation closed its Brent crude oil hedges, covering 24,000 barrels per day from 2009 though 2012, by entering into offsetting contracts with the same counterparty. The deferred after-tax loss as of the date the hedge positions were closed will be recorded in earnings as the contracts mature. The estimated annual after-tax loss from the closed positions will be approximately $335 million from 2010 through 2012. Crude oil hedges reduced E&P earnings by $337 million ($533 million before income taxes) in 2009. Crude oil and natural gas hedges reduced E&P earnings by $423 million ($685 million before income taxes) in 2008 and $244 million ($399 million before income taxes) in 2007.

***Production and sales volumes:*** The Corporation's crude oil and natural gas production was 408,000 boepd in 2009 compared with 381,000 boepd in 2008 and 377,000 boepd in 2007. The Corporation currently estimates that its 2010 production will average between 400,000 and 410,000 boepd.

The Corporation's net daily worldwide production was as follows (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Crude oil (barrels per day) | | | |
| United States | **60** | 32 | 31 |
| Europe | **83** | 83 | 93 |
| Africa | **120** | 124 | 115 |
| Asia and other | **16** | 13 | 21 |
| Total | **279** | 252 | 260 |
| Natural gas liquids (barrels per day) | | | |
| United States | **11** | 10 | 10 |
| Europe | **3** | 4 | 5 |
| Total | **14** | 14 | 15 |
| Natural gas (mcf per day) | | | |
| United States | **93** | 78 | 88 |
| Europe | **151** | 255 | 259 |
| Asia and other | **446** | 356 | 266 |
| Total | **690** | 689 | 613 |
| Barrels of oil equivalent* (barrels per day) | **408** | 381 | 377 |

* *Reflects natural gas production converted on the basis of relative energy content (six mcf equals one barrel).*

***United States:*** Crude oil and natural gas production in the United States was higher in 2009 compared with 2008, primarily due to new production from the Shenzi Field and production resuming after the 2008 hurricanes. Crude oil production was slightly higher in 2008 compared with 2007, principally due to production from new wells in North Dakota and the deepwater Gulf of Mexico, largely offset by the impact of hurricanes in the Gulf of Mexico. Natural gas production was lower in 2008 compared to 2007, primarily reflecting hurricane downtime and natural decline. Hurricane impacts reduced full year 2008 production by an estimated 7,000 boepd.

***Europe:*** Crude oil production was comparable in 2009 and 2008, as higher production in Russia offset lower production in the United Kingdom North Sea. Crude oil production in 2008 was lower than in 2007, due to temporary shut-ins at three North Sea fields, the cessation of production at the Fife, Fergus, Flora and Angus fields, and natural decline. These decreases were partially offset by increased production in Russia. Natural gas production was lower in 2009 compared with 2008, primarily due to decline at the Atlantic and Cromarty fields.

***Africa:*** Crude oil production decreased in 2009 compared with 2008 primarily due to lower production from the Ceiba Field. Crude oil production increased in 2008 compared with 2007, primarily due to higher production at the Okume Complex, partially offset by a lower entitlement to Algerian production.

***Asia and other:*** Natural gas production in 2009 was higher than in 2008, primarily due to a full year of Phase 2 gas sales from the Joint Development Area of Malaysia/Thailand (JDA). Natural gas production increased in 2008 compared with 2007 due to increased production from Block A-18 in the JDA and a full year of production from the Ujung Pangkah Field in Indonesia. The decrease in crude oil production in 2008 from 2007 principally reflects changes to the Corporation's entitlement to production in Azerbaijan.

***Sales volumes:*** Higher sales volumes and other operating revenues increased revenue by approximately $1,030 million in 2009 compared with 2008 and $200 million in 2008 compared with 2007.

***Operating costs and depreciation, depletion and amortization:*** Excluding the impact of items affecting comparability explained on page 23, cash operating costs, consisting of production expenses and general and administrative expenses, decreased by $119 million in 2009 and increased by $321 million in 2008 compared with the corresponding amounts in the prior years. The decrease in 2009 compared with 2008 was primarily due to lower production taxes (due to lower realized selling prices), the cessation of production at several North Sea fields, the favorable impact of foreign exchange rates and cost savings initiatives, partially offset by the impact of higher production volumes. The increase in costs in 2008 compared to 2007 was primarily due to increased production taxes (due to higher realized selling prices), increased cost of services and materials and higher employee costs.

Excluding the impact of items affecting comparability, depreciation, depletion and amortization charges increased by $192 million in 2009 and $531 million in 2008, compared with the corresponding amounts in the prior years. The increases in 2009 and 2008 were primarily due to higher production volumes and per barrel costs, reflecting higher finding and development costs.

Excluding items affecting comparability between periods, unit costs were as follows. Cash operating costs per barrel of oil equivalent were $13.70 in 2009, $15.49 in 2008 and $13.36 in 2007. Cash operating costs in 2010 are estimated to be in the range of $15 to $16 per barrel of oil equivalent. Depreciation, depletion and amortization costs per barrel of oil equivalent were $14.19 in 2009, $13.79 in 2008 and $10.11 in 2007. Depreciation, depletion and amortization costs for 2010 are estimated to be in the range of $14.50 to $15.50 per barrel of oil equivalent.

***Exploration expenses:*** Exploration expenses increased in 2009 from 2008, primarily due to higher dry hole costs and lease amortization, partially offset by lower geological and seismic expense. Exploration expenses increased in 2008 compared to 2007, mainly due to higher dry hole costs.

***Income taxes:*** Excluding the impact of items affecting comparability, the effective income tax rates for E&P operations were 48% in 2009, 49% in 2008 and 50% in 2007. The effective income tax rate for E&P operations in 2010 is estimated to be in the range of 47% to 51%.

***Foreign Exchange:*** The after-tax foreign currency losses were $10 million in 2009, $80 million in 2008 and $7 million in 2007. The foreign currency loss in 2008 reflects the net effect of significant exchange rate movements in the fourth quarter of 2008 on the remeasurement of assets, liabilities and foreign currency forward contracts by certain foreign businesses.

Reported E&P earnings include the following items affecting comparability of income (expense) before and after income taxes:

| | Before Income Taxes | | | After Income Taxes | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | | | (Millions of dollars) | | | |
| Royalty dispute resolution | **$143** | $ — | $ — | **$ 89** | $ — | $ — |
| Gains from asset sales | — | — | 21 | — | — | 15 |
| Reductions in carrying values of assets | **(77)** | (30) | (112) | **(44)** | (17) | (56) |
| Hurricane related costs | — | (15) | — | — | (9) | — |
| Estimated production imbalance settlements | — | — | (64) | — | — | (33) |
| | **$ 66** | $ (45) | $(155) | **$ 45** | $(26) | $ (74) |

*2009:* In October 2009, the U.S. Supreme Court decided it would not review the decision of the 5th Circuit Court of Appeals against the U.S. Minerals Management Service relating to royalty relief under the Deep Water Royalty Relief Act of 1995. As a result, the Corporation recognized an after-tax gain of $89 million to reverse all previously recorded royalties covering the periods from 2003 to 2009. The pre-tax gain of $143 million is reported in Other, net within the Statement of Consolidated Income.

After-tax charges of $44 million ($77 million before income taxes) were recorded to impair the carrying values of production equipment and two short-lived fields in the United Kingdom North Sea, and to write down materials inventories in Equatorial Guinea and the United States. The pre-tax amount of the impairment charges totaling $52 million were reported in Depreciation, depletion and amortization and the majority of the $25 million in inventory write downs was reported in Production expenses in the Statement of Consolidated Income.

*2008:* The charge for asset impairments relates to mature fields in the United States and the United Kingdom North Sea. The hurricane costs relate to expenses associated with Hurricanes Gustav and Ike in the Gulf of Mexico and are recorded in Production expenses.

*2007:* The gain from asset sales relates to the sale of the Corporation's interests in the Scott and Telford fields in the United Kingdom North Sea. The charge for asset impairments relates to two mature fields also in the United Kingdom North Sea. The estimated production imbalance settlements represent a charge for adjustments to prior meter readings at two offshore fields, which are recorded as a reduction of Sales and other operating revenues.

The Corporation's future E&P earnings may be impacted by external factors, such as volatility in the selling prices of crude oil and natural gas, reserve and production changes, political risk, industry costs, exploration expenses, the effects of weather and changes in foreign exchange and income tax rates.

### *Marketing and Refining*

Earnings from M&R activities amounted to $127 million in 2009, $277 million in 2008 and $300 million in 2007. Excluding the items affecting comparability reflected in the table on page 20 and discussed below, the earnings were $115 million, $277 million and $276 million, respectively.

***Refining:*** Refining earnings (losses), which consist of the Corporation's share of HOVENSA's results, Port Reading earnings, interest income on a note receivable from PDVSA and results of other miscellaneous operating activities, were $(87) million in 2009 (including a benefit of $12 million due to an income tax adjustment), $73 million in 2008, and $193 million in 2007.

The Corporation's share of HOVENSA's results was a loss of $141 million ($229 million before income taxes) in 2009, and income of $27 million ($44 million before income taxes) in 2008 and $108 million ($176 million before income taxes) in 2007. The declining earnings were principally due to lower refining margins. The 2009 and 2008 utilization rates for HOVENSA reflect weaker refining margins and planned and unplanned maintenance. The 2008 utilization rates also reflect a refinery wide shut down for Hurricane Omar. In 2007, the coker unit at HOVENSA was shutdown for approximately 30 days for a scheduled turnaround. Certain related processing units were also included in this turnaround. In January 2010, HOVENSA commenced a turnaround of its FCC unit which is expected to take approximately 40 days. The Corporation's estimated share of HOVENSA's turnaround expenses after income taxes is expected to be approximately $20 million.

Cash distributions received by the Corporation from HOVENSA were $50 million in 2008 and $300 million in 2007. In 2009, the remaining balance on the note issued by PDVSA at inception of the joint venture was fully repaid.

Other after-tax refining earnings, principally from Port Reading operations, were $43 million in both 2009 and 2008 and $79 million in 2007, reflecting lower margins. The Corporation is planning a turnaround for the Port Reading refining facility in the second quarter of 2010, which is expected to take approximately 35 days. The estimated after-tax expenses for the Port Reading turnaround are approximately $25 million.

The following table summarizes refinery utilization rates:

| | Refinery Capacity (Thousands of barrels per day) | Refinery Utilization | | |
|---|---|---|---|---|
| | | **2009** | **2008** | **2007** |
| HOVENSA | | | | |
| Crude | 500 | **80.3%** | 88.2% | 90.8% |
| Fluid catalytic cracker | 150 | **70.2%** | 72.7% | 87.1% |
| Coker | 58 | **81.6%** | 92.4% | 83.4% |
| Port Reading | 70 | **90.2%** | 90.7% | 93.2% |

***Marketing:*** Marketing operations, which consist principally of retail gasoline and energy marketing activities, generated income of $168 million in 2009, $240 million in 2008 and $83 million in 2007, including income from the liquidation of LIFO inventories in 2007 totaling $24 million ($38 million before income taxes).

The decrease in earnings in 2009 compared with 2008 reflects lower margins in a weak economic environment. The increase in 2008 compared with 2007 primarily reflects higher margins on refined product sales, including sales of retail gasoline operations.

The table below summarizes marketing sales volumes:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Refined product sales (thousands of barrels per day) | **473** | 472 | 451 |
| Natural gas (thousands of mcf per day) | **2,010** | 1,955 | 1,890 |
| Electricity (megawatts round the clock) | **4,306** | 3,152 | 2,821 |

The Corporation has a 50% voting interest in a consolidated partnership that trades energy commodities and energy derivatives. The Corporation also takes trading positions for its own account. The Corporation's after-tax results from trading activities, including its share of the results of the trading partnership, amounted to earnings of $46 million in 2009, a loss of $36 million in 2008 and earnings of $24 million in 2007.

Marketing expenses decreased in 2009 as compared with 2008, principally reflecting lower retail credit card fees. Marketing expenses increased in 2008 compared with 2007, due to growth in energy marketing activities, higher retail credit card fees, and increased transportation costs.

The Corporation's future M&R earnings may be impacted by external factors, such as volatility in margins, competitive industry conditions, government regulations, credit risk, and supply and demand factors, including the effects of weather.

***Corporate***

The following table summarizes corporate expenses:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | (Millions of dollars) | | |
| Corporate expenses | **$227** | $260 | $ 187 |
| Income taxes (benefits) | **(82)** | (87) | (62) |
| After-tax corporate expenses | **145** | 173 | 125 |
| Items affecting comparability between periods, after tax | **60** | — | 25 |
| Net corporate expenses | **$ 205** | $ 173 | $ 150 |

Excluding items affecting comparability between periods, the decrease in corporate expenses in 2009 compared with 2008 primarily reflects gains on supplemental pension related investments, together with lower employee and professional costs, partly offset by higher bank facility fees. The increase in corporate expenses in 2008 compared with 2007 primarily reflects losses on supplemental pension related investments and higher employee and professional costs. After-tax corporate expenses in 2010 are estimated to be in the range of $160 to $170 million.

In 2009, the Corporation recorded after-tax charges of $34 million ($54 million before income taxes) related to the repurchase of $546 million in notes that were scheduled to mature in 2011 and $26 million ($42 million before income taxes) relating to retirement benefits and employee severance costs. The pre-tax charge in connection with the debt repurchase was recorded in Other, net, and the pre-tax amount of the retirement benefits and severance costs was recorded in General and administrative expenses within the Statement of Consolidated Income. In 2007, Corporate expenses included a charge of $25 million ($40 million before income taxes) related to MTBE litigation. The pre-tax amount of this charge was recorded in General and administrative expenses.

### *Interest*

Interest expense was as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | (Millions of dollars) | | |
| Total interest incurred | **$366** | $ 274 | $ 306 |
| Less capitalized interest | **6** | 7 | 50 |
| Interest expense before income taxes | **360** | 267 | 256 |
| Less income taxes | **136** | 100 | 96 |
| After-tax interest expense | **$224** | $167 | $ 160 |

The increase in interest expense primarily reflects higher debt and fees for letters of credit. The decrease in capitalized interest in 2009 and 2008 compared to 2007 reflects the completion of several development projects in 2007. After-tax interest expense in 2010 is expected to be in the range of $220 to $230 million.

### *Sales and Other Operating Revenues*

Sales and other operating revenues totaled $29,614 million in 2009, a decrease of 28% compared with 2008. In 2008, sales and other operating revenues totaled $41,134 million, an increase of 30% compared with 2007. The fluctuations in each year primarily reflect changes in crude oil and refined product selling prices.

The change in cost of goods sold in each year principally reflects the change in sales volumes and prices of refined products and purchased natural gas and electricity.

## Liquidity and Capital Resources

The following table sets forth certain relevant measures of the Corporation's liquidity and capital resources as of December 31:

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Cash and cash equivalents | **$ 1,362** | $ 908 |
| Current portion of long-term debt | **$ 148** | $ 143 |
| Total debt | **$ 4,467** | $ 3,955 |
| Total equity | **$13,528** | $12,391 |
| Debt to capitalization ratio* | **24.8%** | 24.2% |

* *Total debt as a percentage of the sum of total debt plus equity.*

### *Cash Flows*

The following table sets forth a summary of the Corporation's cash flows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (Millions of dollars) | |
| Net cash provided by (used in): | | | |
| Operating activities | **$ 3,046** | $ 4,688 | $ 3,627 |
| Investing activities | **(2,924)** | (4,444) | (3,474) |
| Financing activities | **332** | 57 | 71 |
| Net increase in cash and cash equivalents | **$ 454** | $ 301 | $ 224 |

***Operating Activities:*** Net cash provided by operating activities, including changes in operating assets and liabilities, was $3,046 million in 2009 compared with $4,688 million in 2008, reflecting lower earnings. Operating cash flow increased to $4,688 million in 2008 from $3,627 million in 2007, primarily reflecting increased earnings. The Corporation received cash distributions from HOVENSA of $50 million in 2008 and $300 million in 2007.

***Investing Activities:*** The following table summarizes the Corporation's capital expenditures:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (Millions of dollars) | |
| Exploration and Production | | | |
| Exploration | **$ 611** | $ 744 | $ 371 |
| Production and development | **1,927** | 2,523 | 2,605 |
| Acquisitions (including leaseholds) | **262** | 984 | 462 |
| | **2,800** | 4,251 | 3,438 |
| Marketing, Refining and Corporate | **118** | 187 | 140 |
| Total | **$2,918** | $ 4,438 | $ 3,578 |

Capital expenditures in 2009 include acquisitions of $188 million for unproved leaseholds and $74 million for a 50% interest in blocks PM301 and PM302 in Malaysia, which are adjacent to Block A-18 of the JDA. Capital expenditures in 2008 include $600 million for leasehold acquisitions in the United States and $210 million for the acquisition of the remaining 22.5% interest in the Corporation's Gabonese subsidiary. In 2008, the Corporation also selectively expanded its energy marketing business by acquiring fuel oil, natural gas, and electricity customer accounts, and a terminal and related assets, for an aggregate of approximately $100 million. In 2007, capital expenditures include the acquisition of a 28% interest in the Genghis Khan Field in the deepwater Gulf of Mexico for $371 million.

In 2007, the Corporation received proceeds of $93 million for the sale of its interests in the Scott and Telford fields located in the United Kingdom.

***Financing Activities:*** During 2009, net proceeds from borrowings were $447 million. In February 2009, the Corporation issued $250 million of 5 year senior unsecured notes with a coupon of 7% and $1 billion of 10 year senior unsecured notes with a coupon of 8.125%. The majority of the proceeds were used to repay debt under the revolving credit facility and outstanding borrowings on other credit facilities. In December 2009, the Corporation issued $750 million of 30 year bonds with a coupon of 6% and tendered for the $662 million of bonds due in August 2011. The Corporation completed the repurchase of $546 million of the 2011 bonds in December 2009. The remaining $116 million of 2011 bonds, classified as Current maturities of long term debt at December 31, 2009, was redeemed in January 2010, resulting in a charge of approximately $11 million ($7 million after income taxes). During 2008, net repayments of debt were $32 million, compared with net borrowings of $208 million in 2007.

Total common stock dividends paid were $131 million, $130 million and $127 million in 2009, 2008 and 2007, respectively. The Corporation received net proceeds from the exercise of stock options, including related income tax benefits, of $18 million, $340 million and $111 million in 2009, 2008 and 2007, respectively.

***Future Capital Requirements and Resources***

The Corporation anticipates investing a total of approximately $4.1 billion in capital and exploratory expenditures during 2010, substantially all of which is targeted for E&P operations. In the Corporation's M&R operations, refining margins are currently weak, which have adversely affected HOVENSA's liquidity position. The Corporation intends to provide its share of any necessary financial support for HOVENSA. The Corporation expects to fund its 2010 operations, including capital expenditures, dividends, pension contributions and required debt repayments and any necessary financial support for HOVENSA, with existing cash on-hand, cash flow from operations and its available credit facilities. Crude oil prices, natural gas prices and refining margins are volatile and difficult to predict. In addition, unplanned increases in the Corporation's capital expenditure program could occur. If conditions were to change, such as a significant decrease in commodity prices or an unexpected increase in capital expenditures, the Corporation would take steps to protect its financial flexibility and may pursue other sources of liquidity, including the issuance of debt securities, the issuance of equity securities, and/or asset sales.

The table below summarizes the capacity, usage, and available capacity of the Corporation's borrowing and letter of credit facilities at December 31, 2009 (in millions):

| | Expiration Date | Capacity | Borrowings | Letters of Credit Issued | Total Used | Available Capacity |
|---|---|---|---|---|---|---|
| Revolving credit facility | May 2012(a) | $ 3,000 | $ — | $ — | $ — | $ 3,000 |
| Asset backed credit facility | July 2010(b) | 741 | — | 500 | 500 | 241 |
| Committed lines | Various(c) | 2,115 | — | 1,155 | 1,155 | 960 |
| Uncommitted lines | Various(c) | 1,192 | — | 1,192 | 1,192 | — |
| Total | | $ 7,048 | $ — | $ 2,847 | $ 2,847 | $ 4,201 |

*(a) $75 million expires in May 2011.*

*(b) Total capacity of $1.0 billion subject to the amount of eligible receivables posted as collateral.*

*(c) Committed and uncommitted lines have expiration dates primarily through 2010.*

The Corporation maintains a $3.0 billion syndicated, revolving credit facility (the facility), of which $2,925 million is committed through May 2012. The facility can be used for borrowings and letters of credit. At December 31, 2009, available capacity under the facility was $3.0 billion. The Corporation has a 364 day asset-backed credit facility securitized by certain accounts receivable from its M&R operations. At December 31, 2009, under the terms of this financing arrangement, the Corporation has the ability to borrow or issue letters of credit of up to $1.0 billion, subject to the availability of sufficient levels of eligible receivables. At December 31, 2009, outstanding letters of credit under this facility were collateralized by a total of $1,326 million of accounts receivable, which are held by a wholly owned subsidiary. These receivables are only available to pay the general obligations of the Corporation after satisfaction of the outstanding obligations under the asset backed facility.

The Corporation also has a shelf registration under which it may issue additional debt securities, warrants, common stock or preferred stock.

A loan agreement covenant based on the Corporation's debt to capitalization ratio allows the Corporation to borrow up to an additional $18.1 billion for the construction or acquisition of assets at December 31, 2009. The Corporation has the ability to borrow up to an additional $3.7 billion of secured debt at December 31, 2009 under the loan agreement covenants.

The Corporation's $2,847 million in letters of credit outstanding at December 31, 2009 were primarily issued to satisfy margin requirements. See also Note 14, Risk Management and Trading Activities.

***Credit Ratings***

There are three major credit rating agencies that rate the Corporation's debt. All three agencies have currently assigned an investment grade rating to the Corporation's debt. The interest rates and facility fees charged on some of the Corporation's credit facilities, as well as margin requirements from risk management and trading counterparties, are subject to adjustment if the Corporation's credit rating changes.

### *Contractual Obligations and Contingencies*

Following is a table showing aggregated information about certain contractual obligations at December 31, 2009:

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| | Total | 2010 | 2011 and 2012 | 2013 and 2014 | Thereafter |
| | | | (Millions of dollars) | | |
| Long-term debt* | $ 4,467 | $ 148 | $ 66 | $ 370 | $ 3,883 |
| Operating leases | 3,282 | 482 | 695 | 677 | 1,428 |
| Purchase obligations | | | | | |
| Supply commitments** | 37,870 | 13,158 | 12,546 | 12,118 | 48 |
| Capital expenditures | 939 | 745 | 191 | 2 | 1 |
| Operating expenses | 937 | 457 | 276 | 70 | 134 |
| Other long-term liabilities | 2,095 | 145 | 366 | 199 | 1,385 |

* *At December 31, 2009, the Corporation's debt bears interest at a weighted average rate of 7.3%.*

** *The Corporation intends to continue purchasing refined product supply from HOVENSA. Estimated future purchases amount to approximately $6.0 billion annually using year-end 2009 prices, which have been included in the table through 2014.*

In the preceding table, the Corporation's supply commitments include its estimated purchases of 50% of HOVENSA's production of refined products, after anticipated sales by HOVENSA to unaffiliated parties. The value of future supply commitments will fluctuate based on prevailing market prices at the time of purchase, the actual output from HOVENSA, and the level of sales to unaffiliated parties. Also included are term purchase agreements at market prices for additional gasoline necessary to supply the Corporation's retail marketing system and feedstocks for the Port Reading refining facility. In addition, the Corporation has commitments to purchase refined products, natural gas and electricity to supply contracted customers in its energy marketing business. These commitments were computed based predominately on year-end market prices.

The table also reflects future capital expenditures, including the portion of the Corporation's planned $4.1 billion capital investment program for 2010 that is contractually committed at December 31, 2009. Obligations for operating expenses include commitments for transportation, seismic purchases, oil and gas production expenses and other normal business expenses. Other long-term liabilities reflect contractually committed obligations on the balance sheet at December 31, 2009, including asset retirement obligations, pension plan liabilities and anticipated obligations for uncertain income tax positions.

The Corporation and certain of its subsidiaries lease gasoline stations, drilling rigs, tankers, office space and other assets for varying periods under leases accounted for as operating leases. The Corporation entered into a lease agreement for a new drillship and related support services for use in its global deepwater exploration and development activities. The total payments under this five year contract are expected to be approximately $950 million. The Corporation took delivery of the drillship in the fourth quarter of 2009.

The Corporation has a contingent purchase obligation, expiring in April 2012, to acquire the remaining interest in WilcoHess, a retail gasoline station joint venture, for approximately $184 million as of December 31, 2009.

The Corporation guarantees the payment of up to 50% of HOVENSA's crude oil purchases from certain suppliers other than PDVSA. The amount of the Corporation's guarantee fluctuates based on the volume of crude oil purchased and related prices and at December 31, 2009 it amounted to $121 million. In addition, the Corporation has agreed to provide funding up to a maximum of $15 million to the extent HOVENSA does not have funds to meet its senior debt obligations.

The Corporation is contingently liable under letters of credit and under guarantees of the debt of other entities directly related to its business at December 31, 2009 as shown below:

| | | Total (Millions of dollars) |
|---|---|---|
| Letters of credit | $ | 100 |
| Guarantees | | 136 |
| | $ | 236 |

***Off-Balance Sheet Arrangements***

The Corporation has leveraged leases not included in its balance sheet, primarily related to retail gasoline stations that the Corporation operates. The net present value of these leases is $412 million at December 31, 2009 compared with $491 million at December 31, 2008. The Corporation's December 31, 2009 debt to capitalization ratio would increase from 24.8% to 26.5% if these leases were included as debt.

See also Note 4, Refining Joint Venture, and Note 15, Guarantees and Contingencies, in the notes to the financial statements.

**Foreign Operations**

The Corporation conducts exploration and production activities outside the United States, principally in Algeria, Australia, Azerbaijan, Brazil, Colombia, Denmark, Egypt, Equatorial Guinea, Gabon, Ghana, Indonesia, Libya, Malaysia, Norway, Peru, Russia, Thailand, and the United Kingdom. Therefore, the Corporation is subject to the risks associated with foreign operations, including political risk, tax law changes, and currency risk.

See also Item 1A. *Risk Factors Related to Our Business and Operations.*

**Accounting Policies**

***Critical Accounting Policies and Estimates***

Accounting policies and estimates affect the recognition of assets and liabilities on the Corporation's balance sheet and revenues and expenses on the income statement. The accounting methods used can affect net income, equity and various financial statement ratios. However, the Corporation's accounting policies generally do not change cash flows or liquidity.

***Accounting for Exploration and Development Costs:*** Exploration and production activities are accounted for using the successful efforts method. Costs of acquiring unproved and proved oil and gas leasehold acreage, including lease bonuses, brokers' fees and other related costs, are capitalized. Annual lease rentals, exploration expenses and exploratory dry hole costs are expensed as incurred. Costs of drilling and equipping productive wells, including development dry holes, and related production facilities are capitalized.

The costs of exploratory wells that find oil and gas reserves are capitalized pending determination of whether proved reserves have been found. Exploratory drilling costs remain capitalized after drilling is completed if (1) the well has found a sufficient quantity of reserves to justify completion as a producing well and (2) sufficient progress is being made in assessing the reserves and the economic and operating viability of the project. If either of those criteria is not met, or if there is substantial doubt about the economic or operational viability of the project, the capitalized well costs are charged to expense. Indicators of sufficient progress in assessing reserves and the economic and operating viability of a project include: commitment of project personnel, active negotiations for sales contracts with customers, negotiations with governments, operators and contractors and firm plans for additional drilling and other factors.

***Crude Oil and Natural Gas Reserves:*** The SEC revised its oil and gas reserve estimation and disclosure requirements effective for year-end 2009 reporting. In addition, the Financial Accounting Standards Board (FASB) revised its accounting standard on oil and gas reserve estimation and disclosures. The determination of estimated proved reserves is a significant element in arriving at the results of operations of exploration and production activities. The estimates of proved reserves affect well capitalizations, the unit of production depreciation rates of proved properties and wells and equipment, as well as impairment testing of oil and gas assets and goodwill.

For reserves to be booked as proved they must be determined with reasonable certainty to be economically producible from known reservoirs under existing economic conditions, operating methods and government regulations. In addition, government and project operator approvals must be obtained and, depending on the amount of the project cost, senior management or the board of directors must commit to fund the project. The Corporation maintains its own internal reserve estimates that are calculated by technical staff that work directly with the oil and gas properties. The Corporation's technical staff updates reserve estimates throughout the year based on evaluations of new wells, performance reviews, new technical data and other studies. To provide consistency throughout the Corporation, standard reserve estimation guidelines, definitions, reporting reviews and approval practices are used. The internal reserve estimates are subject to internal technical audits and senior management review. The Corporation also engaged an independent third party consulting firm to audit approximately 80% of the Corporation's total proved reserves.

***Impairment of Long-Lived Assets and Goodwill:*** As explained below there are significant differences in the way long-lived assets and goodwill are evaluated and measured for impairment testing. The Corporation reviews long-lived assets, including oil and gas fields, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recovered. Long-lived assets are tested based on identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. If the carrying amounts of the long-lived assets are not expected to be recovered by undiscounted future net cash flow estimates, the assets are impaired and an impairment loss is recorded. The amount of impairment is based on the estimated fair value of the assets generally determined by discounting anticipated future net cash flows.

In the case of oil and gas fields, the present value of future net cash flows is based on management's best estimate of future prices, which is determined with reference to recent historical prices and published forward prices, applied to projected production volumes and discounted at a risk-adjusted rate. The projected production volumes represent reserves, including probable reserves, expected to be produced based on a stipulated amount of capital expenditures. The production volumes, prices and timing of production are consistent with internal projections and other externally reported information. Oil and gas prices used for determining asset impairments will generally differ from those used in the standardized measure of discounted future net cash flows, since the standardized measure requires the use of historical twelve month average prices.

The Corporation's impairment tests of long-lived E&P producing assets are based on its best estimates of future production volumes (including recovery factors), selling prices, operating and capital costs, the timing of future production and other factors, which are updated each time an impairment test is performed. The Corporation could have impairments if the projected production volumes from oil and gas fields decrease, crude oil and natural gas selling prices decline significantly for an extended period or future estimated capital and operating costs increase significantly.

The Corporation's goodwill is tested for impairment at a reporting unit level, which is an operating segment or one level below an operating segment. The impairment test is conducted annually in the fourth quarter or when events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. The reporting unit or units used to evaluate and measure goodwill for impairment are determined primarily from the manner in which the business is managed. The Corporation's goodwill is assigned to the E&P operating segment and it expects that the benefits of goodwill will be recovered through the operation of that segment.

The Corporation's fair value estimate of the E&P segment is the sum of: (1) the discounted anticipated cash flows of producing assets and known developments, (2) the estimated risk adjusted present value of exploration assets, and (3) an estimated market premium to reflect the market price an acquirer would pay for potential synergies including cost savings, access to new business opportunities, enterprise control, improved processes and increased market share. The Corporation also considers the relative market valuation of similar Exploration and Production companies.

The determination of the fair value of the E&P segment depends on estimates about oil and gas reserves, future prices, timing of future net cash flows and market premiums. Significant extended declines in crude oil and natural gas prices or reduced reserve estimates could lead to a decrease in the fair value of the E&P segment that could result in an impairment of goodwill.

As there are significant differences in the way long-lived assets and goodwill are evaluated and measured for impairment testing, there may be impairments of individual assets that would not cause an impairment of the goodwill assigned to the E&P segment.

***Income Taxes:*** Judgments are required in the determination and recognition of income tax assets and liabilities in the financial statements. These judgments include the requirement to only recognize the financial statement effect of a tax position when management believes that it is more likely than not, that based on the technical merits, the position will be sustained upon examination.

The Corporation has net operating loss carryforwards or credit carryforwards in several jurisdictions, including the United States, and has recorded deferred tax assets for those losses and credits. Additionally, the Corporation has deferred tax assets due to temporary differences between the book basis and tax basis of certain assets and liabilities. Regular assessments are made as to the likelihood of those deferred tax assets being realized. If it is more likely than not that some or all of the deferred tax assets will not be realized, a valuation allowance is recorded to reduce the deferred tax assets to the amount that is expected to be realized. In evaluating realizability of deferred tax assets, the Corporation refers to the reversal periods for temporary differences, available carryforward periods for net operating losses and credit carryforwards, estimates of future taxable income, the availability of tax planning strategies, the existence of appreciated assets and other factors. Estimates of future taxable income are based on assumptions of oil and gas reserves and selling prices that are consistent with the Corporation’s internal business forecasts. Additionally, the Corporation has income taxes which have been deferred on intercompany transactions eliminated in consolidation related to transfers of property, plant and equipment remaining within the consolidated group. The amortization of these income taxes deferred on intercompany transactions will occur ratably with the recovery through depletion and depreciation of the carrying value of these assets. The Corporation does not provide for deferred U.S. income taxes for that portion of undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations.

***Fair Value Measurements:*** The Corporation’s derivative instruments and supplemental pension plan investments are recorded at fair value, with changes in fair value recognized in earnings or other comprehensive income each period. The Corporation uses various valuation approaches in determining fair value, including the market and income approaches. The Corporation’s fair value measurements also include non-performance risk and time value of money considerations. Counterparty credit is considered for receivable balances, and the Corporation’s credit is considered for accrued liabilities.

The Corporation determines fair value in accordance with the FASB fair value measurements accounting standard which established a hierarchy that categorizes the sources of inputs, which generally range from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value, however, the level of fair value is based on the lowest significant input level within this fair value hierarchy. Inputs include discounted cash flow calculations and other unobservable data.

The Corporation also records certain nonfinancial assets and liabilities at fair value. These fair value measurements include assets and liabilities recorded in connection with business combinations, the initial recognition of asset retirement obligations and long-lived assets and goodwill measured at fair value in an impairment assessment.

Details on the methods and assumptions used to determine the fair values are as follows:

***Fair value measurements based on Level 1 inputs:*** Measurements that are most observable are based on quoted prices of identical instruments obtained from the principal markets in which they are traded. Closing prices are both readily available and representative of fair value. Market transactions occur with sufficient frequency and volume to assure liquidity. The fair value of certain of the Corporation’s exchange traded futures and options are considered Level 1.

***Fair value measurements based on Level 2 inputs:*** Measurements derived indirectly from observable inputs or from quoted prices from markets that are less liquid are considered Level 2. Measurements based on Level 2 inputs include over-the-counter derivative instruments that are priced on an exchange traded curve but have contractual terms that are not identical to exchange traded contracts. The Corporation utilizes fair value measurements based on Level 2 inputs for certain forwards, swaps and options. The liability related to the Corporation's crude oil hedges is classified as Level 2.

***Fair value measurements based on Level 3 inputs:*** Measurements that are least observable are estimated from related market data determined from sources with little or no market activity for comparable contracts or are positions with longer durations. For example, in its energy marketing business, the Corporation sells natural gas and electricity to customers and offsets the price exposure by purchasing forward contracts. The fair value of these sales and purchases may be based on specific prices at less liquid delivered locations, which are classified as Level 3. Fair values determined using discounted cash flows are also classified as Level 3.

***Derivatives:*** The Corporation utilizes derivative instruments for both risk management and trading activities. In risk management activities, the Corporation uses futures, forwards, options and swaps, individually or in combination to mitigate its exposure to fluctuations in the prices of crude oil, natural gas, refined products and electricity, as well as changes in interest and foreign currency exchange rates. In trading activities, the Corporation, principally through a consolidated partnership, trades energy commodities and derivatives, including futures, forwards, options and swaps, based on expectations of future market conditions.

All derivative instruments are recorded at fair value in the Corporation's balance sheet. The Corporation's policy for recognizing the changes in fair value of derivatives varies based on the designation of the derivative. The changes in fair value of derivatives that are not designated as hedges are recognized currently in earnings. Derivatives may be designated as hedges of expected future cash flows or forecasted transactions (cash flow hedges) or hedges of firm commitments (fair value hedges). The effective portion of changes in fair value of derivatives that are designated as cash flow hedges is recorded as a component of other comprehensive income (loss). Amounts included in accumulated other comprehensive income (loss) for cash flow hedges are reclassified into earnings in the same period that the hedged item is recognized in earnings. The ineffective portion of changes in fair value of derivatives designated as cash flow hedges is recorded currently in earnings. Changes in fair value of derivatives designated as fair value hedges are recognized currently in earnings. The change in fair value of the related hedged commitment is recorded as an adjustment to its carrying amount and recognized currently in earnings.

Derivatives that are designated as either cash flow or fair value hedges are tested for effectiveness prospectively before they are executed and both prospectively and retrospectively on an on-going basis to determine whether they continue to qualify for hedge accounting. The prospective and retrospective effectiveness calculations are performed using either historical simulation or other statistical models, which utilize historical observable market data consisting of futures curves and spot prices.

***Retirement Plans:*** The Corporation has funded non-contributory defined benefit pension plans and an unfunded supplemental pension plan. The Corporation recognizes on the balance sheet the net change in the funded status of the projected benefit obligation for these plans.

The determination of the obligations and expenses related to these plans are based on several actuarial assumptions, the most significant of which relate to the discount rate for measuring the present value of future plan obligations; expected long-term rates of return on plan assets; and rate of future increases in compensation levels. These assumptions represent estimates made by the Corporation, some of which can be affected by external factors. For example, the discount rate used to estimate the Corporation's projected benefit obligation is based on a portfolio of high-quality, fixed-income debt instruments with maturities that approximate the expected payment of plan obligations, while the expected return on plan assets is developed from the expected future returns for each asset category, weighted by the target allocation of pension assets to that asset category. Changes in these assumptions can have a material impact on the amounts reported in the Corporation's financial statements.

***Asset Retirement Obligations:*** The Corporation has material legal obligations to remove and dismantle long lived assets and to restore land or seabed at certain exploration and production locations. In accordance with generally accepted accounting principles, the Corporation recognizes a liability for the fair value of required asset retirement obligations. In addition, the fair value of any legally required conditional asset retirement obligations is recorded if the liability can be reasonably estimated. The Corporation capitalizes such costs as a component of the carrying amount of the underlying assets in the period in which the liability is incurred. In order to measure these obligations, the Corporation estimates the fair value of the obligations by discounting the future payments that will be required to satisfy the obligations. In determining these estimates, the Corporation is required to make several assumptions and judgments related to the scope of dismantlement, timing of settlement, interpretation of legal requirements, inflationary factors and discount rate. In addition, there are other external factors which could significantly affect the ultimate settlement costs for these obligations including: changes in environmental regulations and other statutory requirements, fluctuations in industry costs and foreign currency exchange rates, and advances in technology. As a result, the Corporation's estimates of asset retirement obligations are subject to revision due to the factors described above. Changes in estimates prior to settlement result in adjustments to both the liability and related asset values.

***Changes in Accounting Policies***

The FASB Accounting Standards Codification (ASC) became effective on July 1, 2009. The ASC combined multiple sources of authoritative accounting literature into a single source of authoritative GAAP organized by accounting topic. Since the ASC was not intended to change existing GAAP, the only impact on the Corporation's financial statements was that specific references to accounting principles have been changed to refer to the ASC.

Effective January 1, 2009, the Corporation adopted the FASB accounting standard for the accounting for and reporting of noncontrolling interests in a consolidated subsidiary (ASC 810 — Consolidation, originally issued as FAS 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*). As required, the Corporation retrospectively applied the presentation and disclosure requirements of this standard. At December 31, 2009 and December 31, 2008 noncontrolling interests of $144 million and $84 million, respectively, have been classified as a component of equity. Prior to adoption, noncontrolling interests were classified in Other liabilities. Net income (loss) attributable to the noncontrolling interests must also be separately reported in the Statement of Consolidated Income. Certain other amounts in the consolidated financial statements and footnotes have been reclassified to conform with the presentation requirements of this standard.

Effective January 1, 2009, the Corporation adopted the FASB accounting standard that expanded the qualitative, quantitative and credit risk disclosure requirements related to an entity's use of derivative instruments (ASC 815 — Derivatives and Hedging, originally issued as FAS 161, *Disclosures about Derivative Instruments and Hedging Activities*). See Note 14, Risk Management and Trading Activities, for these disclosures.

Effective January 1, 2009, the Corporation also adopted the FASB staff position that requires the application of the fair value measurement and disclosure provisions to nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis (ASC 820 — Fair Value Measurements and Disclosures, originally issued as FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*). Such fair value measurements are determined based on the same fair value hierarchy of inputs required to measure the fair value of financial assets and liabilities. The impact of this accounting standard was not material to the Corporation's consolidated financial statements.

Effective June 30, 2009, the Corporation adopted the FASB accounting standard which provides guidance on the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued (ASC 855 — Subsequent Events, originally issued as FAS 165, *Subsequent Events*). The adoption of this standard did not impact the Corporation's existing practice of evaluating subsequent events through the date the financial statements are issued.

In January 2010, the FASB adopted an accounting standards update (ASU) Extractive Activities — Oil and Gas (ASC 932 — Oil and Gas Reserve Estimation and Disclosures) which is effective for financial statements for the year ended December 31, 2009 and amends the requirements for oil and gas reserve estimation and disclosures. The objective of the ASU was to align accounting standards with the previously issued SEC requirements on oil and gas reserve estimation and disclosure. The main provisions of the ASU are to expand the definition of oil and gas producing activities to include the extraction of resources which are saleable as synthetic oil or gas, to change the price assumption used for reserve estimation and future cash flows to a twelve month average from the year-end price and to amend the geographic disclosure requirements for reporting reserves and other supplementary oil and gas data. See the Supplementary Oil and Gas Data for these disclosures.

### *Recently Issued Accounting Standards*

In June 2009, the FASB amended existing accounting standards to eliminate the concept of a qualifying special-purpose entity (ASC 860 — Transfers and Servicing, originally issued as FAS 166, *Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140*), which did not require consolidation under existing GAAP. The FASB also amended existing accounting standards to limit the circumstances in which transferred financial assets should be derecognized (ASC 810 — Consolidation, originally issued as FAS 167, *Amendments to FASB Interpretation No. FIN 46(R)*). The amended standards require additional analysis of variable interest entities to determine if consolidation is necessary. The adoption of these standards will not have a material impact on the Corporation's financial statements. As required, the Corporation will adopt the provisions of these standards effective January 1, 2010.

## Environment, Health and Safety

The Corporation has a values-based, socially-responsible strategy focused on improving environment, health and safety performance and making a positive impact on communities where it does business. The strategy is reflected in the Corporation's environment, health, safety and social responsibility (EHS & SR) policies and by environment and safety management systems that help protect the Corporation's workforce, customers and local communities. The Corporation's management systems are designed to uphold or exceed international standards and are intended to promote internal consistency, adherence to policy objectives and continual improvement in EHS & SR performance. Improved performance may, in the short-term, increase the Corporation's operating costs and could also require increased capital expenditures to reduce potential risks to assets, reputation and license to operate. In addition to enhanced EHS & SR performance, improved productivity and operational efficiencies may be realized as collateral benefits from investments in EHS & SR. The Corporation has programs in place to evaluate regulatory compliance, audit facilities, train employees, prevent and manage risks and emergencies and to generally meet corporate EHS & SR goals.

The Corporation and HOVENSA produce and the Corporation distributes fuel oils in the United States. Proposals by state regulatory agencies and legislatures have been made that would require a lower sulfur content of fuel oils. If adopted, these proposals could require capital expenditures by the Corporation and HOVENSA to meet the required sulfur content standards.

As described in Item 3, Legal Proceedings, in 2003 the Corporation and HOVENSA began discussions with the U.S. EPA regarding the EPA's Petroleum Refining Initiative (PRI). The PRI is an ongoing program that is designed to reduce certain air emissions at all U.S. refineries. Since 2000, the EPA has entered into settlements addressing these emissions with petroleum refining companies that control over 90% of the domestic refining capacity. Negotiations with the EPA are continuing and substantial progress has been made toward resolving this matter for both the Corporation and HOVENSA. While the effect on the Corporation of the Petroleum Refining Initiative cannot be estimated until a final settlement is reached and entered by a court, additional significant future capital expenditures and operating expenses will likely be incurred by HOVENSA over a number of years. The amount of penalties, if any, is not expected to be material.

The Corporation has undertaken a program to assess, monitor and reduce the emission of greenhouse gases, including carbon dioxide and methane. The Corporation recognizes that climate change is a global environmental concern. The Corporation is committed to the responsible management of greenhouse gas emissions from our existing assets and future developments and is implementing a strategy to control our carbon emissions.

The Corporation will have continuing expenditures for environmental assessment and remediation. Sites where corrective action may be necessary include gasoline stations, terminals, onshore exploration and production facilities, refineries (including solid waste management units under permits issued pursuant to the Resource Conservation and Recovery Act) and, although not currently significant, "Superfund" sites where the Corporation has been named a potentially responsible party.

The Corporation accrues for environmental assessment and remediation expenditures for known sites when the future costs are probable and reasonably estimable. At year-end 2009, the Corporation's reserve for estimated environmental liabilities was approximately $55 million. The Corporation's environmental assessment and remediation expenditures were approximately $11 million in each of the years 2009, 2008 and 2007. The Corporation expects that existing reserves for environmental liabilities are sufficient for costs to assess and remediate known sites. The Corporation anticipates capital expenditures for facilities, primarily to comply with federal, state and local environmental standards, of approximately $50 million in 2010.

**Forward-Looking Information**

Certain sections of Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk, including references to the Corporation's future results of operations and financial position, liquidity and capital resources, capital expenditures, oil and gas production, tax rates, debt repayment, hedging, derivative, market risk and environmental disclosures, off-balance sheet arrangements and contractual obligations and contingencies include forward-looking information. Forward-looking disclosures are based on the Corporation's current understanding and assessment of these activities and reasonable assumptions about the future. Actual results may differ from these disclosures because of changes in market conditions, government actions and other factors.

## Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

In the normal course of its business, the Corporation is exposed to commodity risks related to changes in the price of crude oil, natural gas, refined products and electricity, as well as to changes in interest rates and foreign currency values. The Corporation also has trading operations, principally through a 50% voting interest in a consolidated partnership that trades energy commodities and energy derivatives. These activities are also exposed to commodity risks primarily related to the prices of crude oil, natural gas and refined products. The following describes how these risks are controlled and managed.

***Controls:*** The Corporation maintains a control environment under the direction of its chief risk officer and through its corporate risk policy, which the Corporation's senior management has approved. Controls include volumetric, term and value-at-risk limits. The chief risk officer must approve the use of new instruments or commodities. Risk limits are monitored and reported on daily to business units and to senior management. The Corporation's risk management department also performs independent verifications of sources of fair values and validations of valuation models. These controls apply to all of the Corporation's risk management and trading activities, including the consolidated trading partnership. The Corporation's treasury department is responsible for administering foreign exchange rate and interest rate hedging programs.

The Corporation uses value-at-risk to monitor and control commodity risk within its trading and risk management activities. The value-at-risk model uses historical simulation and the results represent the potential loss in fair value over one day at a 95% confidence level. The model captures both first and second order sensitivities for options. Results may vary from time to time as strategies change in trading activities or hedging levels change in risk management activities.

***Instruments:*** The Corporation primarily uses forward commodity contracts, foreign exchange forward contracts, futures, swaps, options and energy commodity based securities in its risk management and trading activities. These contracts are generally widely traded instruments with standardized terms. The following describes these instruments and how the Corporation uses them:

- *Forward Commodity Contracts:* The Corporation enters into contracts for the forward purchase and sale of commodities. At settlement date, the notional value of the contract is exchanged for physical delivery of the commodity. Forward contracts that are deemed normal purchase and sale contracts are excluded from the quantitative market risk disclosures.
- *Forward Foreign Exchange Contracts:* The Corporation enters into forward contracts primarily for the British pound, the Euro, and the Thai Baht, which commit the Corporation to buy or sell a fixed amount of these currencies at a predetermined exchange rate on a future date.

- *Exchange Traded Contracts:* The Corporation uses exchange traded contracts, including futures, on a number of different underlying energy commodities. These contracts are settled daily with the relevant exchange and may be subject to exchange position limits.
- *Swaps:* The Corporation uses financially settled swap contracts with third parties as part of its hedging and trading activities. Cash flows from swap contracts are determined based on underlying commodity prices and are typically settled over the life of the contract.
- *Options:* Options on various underlying energy commodities include exchange traded and third party contracts and have various exercise periods. As a seller of options, the Corporation receives a premium at the outset and bears the risk of unfavorable changes in the price of the commodity underlying the option. As a purchaser of options, the Corporation pays a premium at the outset and has the right to participate in the favorable price movements in the underlying commodities. These premiums are a component of the fair value of the options.
- *Energy Securities:* Energy securities include energy related equity or debt securities issued by a company or government or related derivatives on these securities.

**Risk Management Activities**

***Energy marketing activities:*** In its energy marketing activities, the Corporation sells refined petroleum products, natural gas and electricity principally to commercial and industrial businesses at fixed and floating prices for varying periods of time. Commodity contracts such as futures, forwards, swaps and options together with physical assets, such as storage, are used to obtain supply and reduce margin volatility or lower costs related to sales contracts with customers.

***Corporate risk management:*** Corporate risk management activities include transactions designed to reduce risk in the selling prices of crude oil or natural gas produced by the Corporation or to reduce exposure to foreign currency or interest rate movements. Generally, futures, swaps or option strategies may be used to reduce risk in the selling price of a portion of the Corporation's crude oil or natural gas production. Forward contracts may also be used to purchase certain currencies in which the Corporation does business with the intent of reducing exposure to foreign currency fluctuations. Interest rate swaps may also be used, generally to convert fixed rate interest payments to floating.

The Corporation uses foreign exchange contracts to reduce its exposure to fluctuating foreign exchange rates by entering into formal contracts for various currencies including the British pound, the Euro and the Thai baht. At December 31, 2009 the Corporation had a payable of $16 million related to foreign exchange contracts maturing in 2010. The fair value of the foreign exchange contracts was also a payable of $16 million at December 31, 2009. The change in fair value of the foreign exchange contracts from a 20% strengthening of the US dollar exchange rate is estimated to be approximately $172 million at December 31, 2009.

The Corporation's debt of $4,467 million has a fair value of $5,073 million at December 31, 2009. A 15% decrease in the rate of interest would increase the fair value of debt by approximately $120 million at December 31, 2009.

***Value at risk***

Following is the value at risk for the Corporation's energy marketing and risk management activities:

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| At December 31 | **$ 8** | $ 13 |
| Average | **10** | 90 |
| High | **13** | 140 |
| Low | **8** | 13 |

**Trading Activities**

Trading activities are conducted principally through a trading partnership in which the Corporation has a 50% voting interest. This consolidated entity intends to generate earnings through various strategies primarily using energy commodities, securities and derivatives. The Corporation also takes trading positions for its own account.

Following is the value at risk for the Corporation's trading activities:

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| At December 31 | **$ 9** | $17 |
| Average | **12** | 13 |
| High | **15** | 17 |
| Low | **9** | 11 |

Derivative trading transactions are marked-to-market and unrealized gains or losses are reflected in income currently. Gains or losses from sales of physical products are recorded at the time of sale. Total realized gains (losses) on trading activities amounted to $642 million in 2009 and $(317) million in 2008. The following table provides an assessment of the factors affecting the changes in fair value of trading activities and represents 100% of the trading partnership and other trading activities.

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Fair value of contracts outstanding at the beginning of the year | **$ 864** | $ 154 |
| Change in fair value of contracts outstanding at the beginning of the year and still outstanding at the end of the year | **(6)** | (257) |
| Reversal of fair value for contracts closed during the year | **(534)** | 42 |
| Fair value of contracts entered into during the year and still outstanding | **(214)** | 925 |
| Fair value of contracts outstanding at the end of the year | **$ 110** | $ 864 |

The following table summarizes the sources of fair values of derivatives used in the Corporation's trading activities at December 31, 2009:

| | Total | 2010 | 2011 | 2012 | 2013 and Beyond |
|---|---|---|---|---|---|
| | | | (Millions of dollars) | | |
| Source of fair value | | | | | |
| Level 1 | $ (86) | $(97) | $ 7 | $ 2 | $ 2 |
| Level 2 | 147 | 103 | 59 | (13) | (2) |
| Level 3 | 49 | 35 | 17 | 8 | (11) |
| Total | $110 | $ 41 | $ 83 | $ (3) | $ (11) |

The following table summarizes the receivables net of cash margin and letters of credit relating to the Corporation's trading activities and the credit ratings of counterparties at December 31:

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Investment grade determined by outside sources | **$232** | $263 |
| Investment grade determined internally* | **120** | 133 |
| Less than investment grade | **61** | 58 |
| Fair value of net receivables outstanding at the end of the year | **$413** | $454 |

* *Based on information provided by counterparties and other available sources.*

**Item 8.** ***Financial Statements and Supplementary Data***

**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES**
**INDEX TO FINANCIAL STATEMENTS AND SCHEDULE**



* *Schedules other than Schedule II have been omitted because of the absence of the conditions under which they are required or because the required information is presented in the financial statements or the notes thereto.*

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2009.

The Corporation's independent registered public accounting firm, Ernst & Young LLP, has audited the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2009, as stated in their report, which is included herein.

By /s/ John P. Rielly
John P. Rielly
Senior Vice President and
Chief Financial Officer

By /s/ John B. Hess
John B. Hess
Chairman of the Board and
Chief Executive Officer

February 26, 2010

## Report of Independent Registered Public Accounting Firm

**The Board of Directors and Stockholders**
**Hess Corporation**

We have audited Hess Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hess Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hess Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Hess Corporation and consolidated subsidiaries as of December 31, 2009 and 2008, and the related statements of consolidated income, cash flows, and equity and comprehensive income of Hess Corporation and consolidated subsidiaries for each of the three years in the period ended December 31, 2009, and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young, LLP

February 26, 2010
New York, New York

## Report of Independent Registered Public Accounting Firm

**The Board of Directors and Stockholders**
**Hess Corporation**

We have audited the accompanying consolidated balance sheet of Hess Corporation and consolidated subsidiaries (the "Corporation") as of December 31, 2009 and 2008, and the related statements of consolidated income, cash flows, and equity and comprehensive income for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and schedule are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hess Corporation and consolidated subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Corporation adopted new oil and gas reserve estimation and disclosure requirements effective December 31, 2009. Also, as discussed in Note 1 to the consolidated financial statements, the Corporation adopted the guidance originally issued in Financial Accounting Standards Board ("FASB") Financial Accounting Standard 160, *Noncontrolling Interests in Consolidated Financial Statements* (codified in FASB Accounting Standards Codification Topic 810, *Consolidation*), effective January 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hess Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young, LLP

February 26, 2010
New York, New York

## HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| | (Millions of dollars; thousands of shares) | |
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | **$ 1,362** | $ 908 |
| Accounts receivable | | |
| Trade | **3,650** | 4,059 |
| Other | **274** | 238 |
| Inventories | **1,438** | 1,308 |
| Other current assets | **1,263** | 819 |
| Total current assets | **7,987** | 7,332 |
| **INVESTMENTS IN AFFILIATES** | | |
| HOVENSA L.L.C. | **681** | 919 |
| Other | **232** | 208 |
| Total investments in affiliates | **913** | 1,127 |
| **PROPERTY, PLANT AND EQUIPMENT** | | |
| Total — at cost | **29,871** | 27,437 |
| Less reserves for depreciation, depletion, amortization and lease impairment | **13,244** | 11,166 |
| Property, plant and equipment — net | **16,627** | 16,271 |
| **GOODWILL** | **1,225** | 1,225 |
| **DEFERRED INCOME TAXES** | **2,409** | 2,292 |
| **OTHER ASSETS** | **304** | 342 |
| **TOTAL ASSETS** | **$ 29,465** | $28,589 |
| **LIABILITIES AND EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | **$ 4,223** | $ 5,045 |
| Accrued liabilities | **1,954** | 1,905 |
| Taxes payable | **525** | 637 |
| Current maturities of long-term debt | **148** | 143 |
| Total current liabilities | **6,850** | 7,730 |
| **LONG-TERM DEBT** | **4,319** | 3,812 |
| **DEFERRED INCOME TAXES** | **2,222** | 2,241 |
| **ASSET RETIREMENT OBLIGATIONS** | **1,234** | 1,164 |
| **OTHER LIABILITIES AND DEFERRED CREDITS** | **1,312** | 1,251 |
| Total liabilities | **15,937** | 16,198 |
| **EQUITY** | | |
| Common stock, par value $1.00 | | |
| Authorized: 600,000 shares | | |
| Issued: 2009 — 327,229 shares; 2008 — 326,133 shares | **327** | 326 |
| Capital in excess of par value | **2,481** | 2,347 |
| Retained earnings | **12,251** | 11,642 |
| Accumulated other comprehensive income (loss) | **(1,675)** | (2,008) |
| Total Hess Corporation stockholders' equity | **13,384** | 12,307 |
| Noncontrolling interests | **144** | 84 |
| Total equity | **13,528** | 12,391 |
| **TOTAL LIABILITIES AND EQUITY** | **$ 29,465** | $28,589 |

The consolidated financial statements reflect the successful efforts method of accounting for oil and gas exploration and production activities.

See accompanying notes to consolidated financial statements.

## HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

## STATEMENT OF CONSOLIDATED INCOME

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | Years Ended December 31, (Millions of dollars, except per share data) | | |
| **REVENUES AND NON-OPERATING INCOME** | | | |
| Sales (excluding excise taxes) and other operating revenues | **$ 29,614** | $ 41,134 | $ 31,727 |
| Equity in income (loss) of HOVENSA L.L.C. | **(229)** | 44 | 176 |
| Gain on asset sales | — | — | 21 |
| Other, net | **184** | (115) | 80 |
| Total revenues and non-operating income | **29,569** | 41,063 | 32,004 |
| **COSTS AND EXPENSES** | | | |
| Cost of products sold (excluding items shown separately below) | **20,961** | 29,567 | 22,532 |
| Production expenses | **1,805** | 1,872 | 1,581 |
| Marketing expenses | **1,008** | 1,025 | 944 |
| Exploration expenses, including dry holes and lease impairment | **829** | 725 | 515 |
| Other operating expenses | **183** | 209 | 161 |
| General and administrative expenses | **647** | 672 | 614 |
| Interest expense | **360** | 267 | 256 |
| Depreciation, depletion and amortization | **2,254** | 2,029 | 1,576 |
| Total costs and expenses | **28,047** | 36,366 | 28,179 |
| **INCOME BEFORE INCOME TAXES** | **1,522** | 4,697 | 3,825 |
| Provision for income taxes | **715** | 2,340 | 1,872 |
| **NET INCOME** | **$ 807** | $ 2,357 | $ 1,953 |
| Less: Net income (loss) attributable to noncontrolling interests | **67** | (3) | 121 |
| **NET INCOME ATTRIBUTABLE TO HESS CORPORATION** | **$ 740** | $ 2,360 | $ 1,832 |
| **BASIC NET INCOME PER SHARE** | **$ 2.28** | $ 7.35 | $ 5.86 |
| **DILUTED NET INCOME PER SHARE** | **$ 2.27** | $ 7.24 | $ 5.74 |
| **WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (DILUTED)** | **326.0** | 325.8 | 319.3 |

See accompanying notes to consolidated financial statements.

**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**STATEMENT OF CONSOLIDATED CASH FLOWS**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (Millions of dollars) | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income | **$ 807** | $ 2,357 | $ 1,953 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation, depletion and amortization | **2,254** | 2,029 | 1,576 |
| Exploratory dry hole costs | **267** | 210 | 65 |
| Lease impairment | **231** | 125 | 102 |
| Pre-tax gain on asset sales | **—** | — | (21) |
| Benefit for deferred income taxes | **(438)** | (57) | (33) |
| Distributed earnings of HOVENSA L.L.C., net | **229** | 6 | 124 |
| Stock compensation expense | **128** | 119 | 87 |
| Changes in other operating assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | **320** | 357 | (783) |
| Increase in inventories | **(137)** | (56) | (254) |
| Increase (decrease) in accounts payable and accrued liabilities | **(542)** | (252) | 597 |
| Increase (decrease) in taxes payable | **(81)** | 61 | 134 |
| Changes in other assets and liabilities | **8** | (211) | 80 |
| Net cash provided by operating activities | **3,046** | 4,688 | 3,627 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Capital expenditures | **(2,918)** | (4,438) | (3,578) |
| Proceeds from asset sales | **—** | — | 93 |
| Payments received on notes receivable | **15** | 61 | 61 |
| Other, net | **(21)** | (67) | (50) |
| Net cash used in investing activities | **(2,924)** | (4,444) | (3,474) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net (repayments) borrowings of debt with maturities of 90 days or less | **(850)** | 30 | 202 |
| Debt with maturities of greater than 90 days | | | |
| Borrowings | **1,991** | — | 32 |
| Repayments | **(694)** | (62) | (26) |
| Cash dividends paid | **(131)** | (130) | (127) |
| Payments to noncontrolling interests, net | **(2)** | (121) | (121) |
| Employee stock options exercised, including income tax benefits | **18** | 340 | 111 |
| Net cash provided by (used in) financing activities | **332** | 57 | 71 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **454** | 301 | 224 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **908** | 607 | 383 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **$ 1,362** | $ 908 | $ 607 |

See accompanying notes to consolidated financial statements.

## HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

## STATEMENT OF CONSOLIDATED EQUITY AND COMPREHENSIVE INCOME

| | Common Stock | Capital in Excess of Par | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Hess Stockholders' Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|
| | | | | (Millions of dollars) | | | |
| Balance at January 1, 2007 | $ 315 | $ 1,689 | $ 7,707 | $ (1,564) | $ 8,147 | $ 229 | $ 8,376 |
| Net Income | | | 1,832 | | 1,832 | 121 | 1,953 |
| Deferred gains (losses) on cash flow hedges, after tax | | | | | | | |
| Effect of hedge losses recognized in income | | | | 325 | 325 | — | 325 |
| Net change in fair value of cash flow hedges | | | | (659) | (659) | — | (659) |
| Change in post retirement plan liabilities, after tax | | | | 17 | 17 | — | 17 |
| Change in foreign currency translation adjustment and other | | | | 40 | 40 | (3) | 37 |
| Total Comprehensive Income | | | | | 1,555 | 118 | 1,673 |
| Activity related to restricted common stock awards, net | 1 | 50 | — | — | 51 | — | 51 |
| Employee stock options, including income tax benefits | 5 | 143 | — | — | 148 | — | 148 |
| Cash dividends declared | — | — | (127) | — | (127) | — | (127) |
| Payments to noncontrolling interests, net | — | — | — | — | — | (121) | (121) |
| Balance at December 31, 2007 | 321 | 1,882 | 9,412 | (1,841) | 9,774 | 226 | 10,000 |
| Net Income | | | 2,360 | | 2,360 | (3) | 2,357 |
| Deferred gain (losses) on cash flow hedges, after tax | | | | | | | |
| Effect of hedge losses recognized in income | | | | 311 | 311 | — | 311 |
| Net change in fair value of cash flow hedges | | | | (310) | (310) | — | (310) |
| Effect of adoption of fair value measurements accounting standards | | | | 193 | 193 | — | 193 |
| Change in post retirement plan liabilities, after tax | | | | (241) | (241) | — | (241) |
| Change in foreign currency translation adjustment and other | | | | (120) | (120) | (18) | (138) |
| Total Comprehensive Income | | | | | 2,193 | (21) | 2,172 |
| Activity related to restricted common stock awards, net | 1 | 145 | — | — | 146 | — | 146 |
| Employee stock options, including income tax benefits | 4 | 320 | — | — | 324 | — | 324 |
| Cash dividends declared | — | — | (130) | — | (130) | — | (130) |
| Payments to noncontrolling interests, net | — | — | — | — | — | (121) | (121) |
| Balance at December 31, 2008 | 326 | 2,347 | 11,642 | (2,008) | 12,307 | 84 | 12,391 |
| Net Income | | | **740** | | **740** | **67** | **807** |
| Deferred gains (losses) on cash flow hedges, after tax | | | | | | | |
| Effect of hedge losses recognized in income | | | | **963** | **963** | — | **963** |
| Net change in fair value of cash flow hedges | | | | **(729)** | **(729)** | — | **(729)** |
| Change in post retirement plan liabilities, after tax | | | | **(6)** | **(6)** | — | **(6)** |
| Change in foreign currency translation adjustment and other | | | | **105** | **105** | **(5)** | **100** |
| Total Comprehensive Income | | | | | **1,073** | **62** | **1,135** |
| Activity related to restricted common stock awards, net | **1** | **61** | — | — | **62** | — | **62** |
| Employee stock options, including income tax benefits | — | **73** | — | — | **73** | — | **73** |
| Cash dividends declared | — | — | **(131)** | — | **(131)** | — | **(131)** |
| Payments to noncontrolling interests, net | — | — | — | — | — | **(2)** | **(2)** |
| Balance at December 31, 2009 | **$ 327** | **$ 2,481** | **$ 12,251** | **$ (1,675)** | **$ 13,384** | **$ 144** | **$ 13,528** |

See accompanying notes to consolidated financial statements.

**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. Summary of Significant Accounting Policies

***Nature of Business:*** Hess Corporation and its subsidiaries (the Corporation) engage in the exploration for and the development, production, purchase, transportation and sale of crude oil and natural gas. These activities are conducted principally in Algeria, Australia, Azerbaijan, Brazil, Colombia, Denmark, Egypt, Equatorial Guinea, Gabon, Ghana, Indonesia, Libya, Malaysia, Norway, Peru, Russia, Thailand, the United Kingdom and the United States. In addition, the Corporation manufactures, purchases, transports, markets and trades, refined petroleum and other energy products. The Corporation owns 50% of HOVENSA L.L.C. (HOVENSA), a refinery joint venture in the United States Virgin Islands. An additional refining facility, terminals and retail gasoline stations, most of which include convenience stores, are located on the East Coast of the United States.

In preparing financial statements in conformity with U.S. generally accepted accounting principles (GAAP), management makes estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet and revenues and expenses in the income statement. Actual results could differ from those estimates. Among the estimates made by management are oil and gas reserves, asset valuations, depreciable lives, pension liabilities, legal and environmental obligations, asset retirement obligations and income taxes. In the preparation of these financial statements, the Corporation has evaluated subsequent events through the date the financial statements are issued.

***Principles of Consolidation:*** The consolidated financial statements include the accounts of Hess Corporation and entities in which the Corporation owns more than a 50% voting interest or entities that the Corporation controls. The Corporation's undivided interests in unincorporated oil and gas exploration and production ventures are proportionately consolidated.

Investments in affiliated companies, 20% to 50% owned, including HOVENSA, are stated at cost of acquisition plus the Corporation's equity in undistributed net income since acquisition. The Corporation consolidates the trading partnership in which it owns a 50% voting interest and over which it exercises control.

Intercompany transactions and accounts are eliminated in consolidation.

***Revenue Recognition:*** The Corporation recognizes revenues from the sale of crude oil, natural gas, petroleum products and other merchandise when title passes to the customer. Sales are reported net of excise and similar taxes in the Statement of Consolidated Income. The Corporation recognizes revenues from the production of natural gas properties based on sales to customers. Differences between E&P natural gas volumes sold and the Corporation's share of natural gas production are not material. Revenues from natural gas and electricity sales by the Corporation's marketing operations are recognized based on meter readings and estimated deliveries to customers since the last meter reading.

In its exploration and production activities, the Corporation enters into crude oil purchase and sale transactions with the same counterparty that are entered into in contemplation of one another for the primary purpose of changing location or quality. Similarly, in its marketing activities, the Corporation enters into refined product purchase and sale transactions with the same counterparty. These arrangements are reported net in Sales and other operating revenues in the Statement of Consolidated Income.

***Derivatives:*** The Corporation utilizes derivative instruments for both risk management and trading activities. In risk management activities, the Corporation uses futures, forwards, options and swaps, individually or in combination, to mitigate its exposure to fluctuations in prices of crude oil, natural gas, refined products and electricity, as well as changes in interest and foreign currency exchange rates. In trading activities, the Corporation, principally through a consolidated partnership, trades energy commodities derivatives, including futures, forwards, options and swaps based on expectations of future market conditions.

All derivative instruments are recorded at fair value in the Corporation's balance sheet. The Corporation's policy for recognizing the changes in fair value of derivatives varies based on the designation of the derivative. The changes in fair value of derivatives that are not designated as hedges are recognized currently in earnings.

Derivatives may be designated as hedges of expected future cash flows or forecasted transactions (cash flow hedges) or hedges of firm commitments (fair value hedges). The effective portion of changes in fair value of derivatives that are designated as cash flow hedges is recorded as a component of other comprehensive income (loss). Amounts included in Accumulated other comprehensive income (loss) for cash flow hedges are reclassified into earnings in the same period that the hedged item is recognized in earnings. The ineffective portion of changes in fair value of derivatives designated as cash flow hedges is recorded currently in earnings. Changes in fair value of derivatives designated as fair value hedges are recognized currently in earnings. The change in fair value of the related hedged commitment is recorded as an adjustment to its carrying amount and recognized currently in earnings.

***Cash and Cash Equivalents:*** Cash equivalents consist of highly liquid investments, which are readily convertible into cash and have maturities of three months or less when acquired.

***Inventories:*** Inventories are valued at the lower of cost or market. For refined product inventories valued at cost, the Corporation uses principally the last-in, first-out (LIFO) inventory method. For the remaining inventories, cost is generally determined using average actual costs.

***Exploration and Development Costs:*** Exploration and production activities are accounted for using the successful efforts method. Costs of acquiring unproved and proved oil and gas leasehold acreage, including lease bonuses, brokers' fees and other related costs, are capitalized. Annual lease rentals, exploration expenses and exploratory dry hole costs are expensed as incurred. Costs of drilling and equipping productive wells, including development dry holes, and related production facilities are capitalized.

The costs of exploratory wells that find oil and gas reserves are capitalized pending determination of whether proved reserves have been found. Exploratory drilling costs remain capitalized after drilling is completed if (1) the well has found a sufficient quantity of reserves to justify completion as a producing well and (2) sufficient progress is being made in assessing the reserves and the economic and operating viability of the project. If either of those criteria is not met, or if there is substantial doubt about the economic or operational viability of a project, the capitalized well costs are charged to expense. Indicators of sufficient progress in assessing reserves and the economic and operating viability of a project include commitment of project personnel, active negotiations for sales contracts with customers, negotiations with governments, operators and contractors, firm plans for additional drilling and other factors.

***Depreciation, Depletion and Amortization:*** The Corporation records depletion expense for acquisition costs of proved properties using the units of production method over proved oil and gas reserves. Depreciation and depletion expense for oil and gas production equipment and wells is calculated using the units of production method over proved developed oil and gas reserves. Provisions for impairment of undeveloped oil and gas leases are based on periodic evaluations and other factors. Depreciation of all other plant and equipment is determined on the straight-line method based on estimated useful lives. Retail gas stations and equipment related to a leased property, are depreciated over the estimated useful lives not to exceed the remaining lease period. The Corporation records the cost of acquired customers in its energy marketing activities as intangible assets and amortizes these costs on the straight-line method over the expected renewal period based on historical experience.

***Capitalized Interest:*** Interest from external borrowings is capitalized on material projects using the weighted average cost of outstanding borrowings until the project is substantially complete and ready for its intended use, which for oil and gas assets is at first production from the field. Capitalized interest is depreciated over the useful lives of the assets in the same manner as the depreciation of the underlying assets.

***Asset Retirement Obligations:*** The Corporation has material legal obligations to remove and dismantle long-lived assets and to restore land or seabed at certain exploration and production locations. The Corporation recognizes a liability for the fair value of legally required asset retirement obligations associated with long-lived assets in the period in which the retirement obligations are incurred. In addition, the fair value of any legally required conditional asset retirement obligations is recorded if the liability can be reasonably estimated. The Corporation capitalizes the associated asset retirement costs as part of the carrying amount of the long-lived assets.

***Impairment of Long-Lived Assets:*** The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recovered. If the carrying amounts are not expected to be recovered by undiscounted future cash flows, the assets are impaired and an impairment loss is recorded. The amount of impairment is based on the estimated fair value of the assets generally determined by discounting anticipated future net cash flows. In the case of oil and gas fields, the net present value of future cash flows is based on management's best estimate of future prices, which is determined with reference to recent historical prices and published forward prices, applied to projected production volumes and discounted at a risk-adjusted rate. The projected production volumes represent reserves, including probable reserves, expected to be produced based on a stipulated amount of capital expenditures. The production volumes, prices and timing of production are consistent with internal projections and other externally reported information. Oil and gas prices used for determining asset impairments will generally differ from the average prices used in the standardized measure of discounted future net cash flows.

***Impairment of Equity Investees:*** The Corporation reviews equity method investments for impairment whenever events or changes in circumstances indicate that an other than temporary decline in value has occurred. The amount of the impairment is based on quoted market prices, where available, or other valuation techniques.

***Impairment of Goodwill:*** Goodwill is tested for impairment annually in the fourth quarter or when events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. This impairment test is calculated at the reporting unit level, which for the Corporation's goodwill is the Exploration and Production operating segment. The Corporation identifies potential impairments by comparing the fair value of the reporting unit to its book value, including goodwill. If the fair value of the reporting unit exceeds the carrying amount, goodwill is not impaired. If the carrying value exceeds the fair value, the Corporation calculates the possible impairment loss by comparing the implied fair value of goodwill with the carrying amount. If the implied fair value of goodwill is less than the carrying amount, an impairment would be recorded.

***Income Taxes:*** Deferred income taxes are determined using the liability method. The Corporation regularly assesses the realizability of deferred tax assets, based on estimates of future taxable income, the availability of tax planning strategies, the existence of appreciated assets, the available carryforward periods for net operating losses and other factors. If it is more likely than not that some or all of the deferred tax assets will not be realized, a valuation allowance is recorded to reduce the deferred tax assets to the amount expected to be realized. In addition, the Corporation recognizes the financial statement effect of a tax position only when management believes that it is more likely than not, that based on the technical merits, the position will be sustained upon examination. Additionally, the Corporation has income taxes which have been deferred on intercompany transactions eliminated in consolidation related to transfers of property, plant and equipment remaining within the consolidated group. The amortization of these income taxes deferred on intercompany transactions will occur ratably with the recovery through depletion and depreciation of the carrying value of these assets. The Corporation does not provide for deferred U.S. income taxes for that portion of undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. The Corporation classifies interest and penalties associated with uncertain tax positions as income tax expense.

***Fair Value Measurements:*** The Corporation adopted a new accounting standard for fair value measurements, effective January 1, 2008 (ASC 820 — Fair Value Measurements and Disclosures, originally issued as FAS 157, *Fair Value Measurements*). The standard establishes a hierarchy for the inputs used to measure fair value based on the source of the input, which generally range from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value, however, the level of fair value for each financial asset or liability is based on the lowest significant input level within this fair value hierarchy.

***Fair value measurements based on Level 1 inputs:*** Measurements that are most observable are based on quoted prices of identical instruments obtained from the principal markets in which they are traded. Closing prices are both readily available and representative of fair value. Market transactions occur with sufficient frequency and volume to assure liquidity. The fair value of certain of the Corporation's exchange traded futures and options are considered Level 1.

***Fair value measurements based on Level 2 inputs:*** Measurements derived indirectly from observable inputs or from quoted prices from markets that are less liquid are considered Level 2. Measurements based on Level 2 inputs include over-the-counter derivative instruments that are priced on an exchange traded curve, but have contractual terms that are not identical to exchange traded contracts. The Corporation utilizes fair value measurements based on Level 2 inputs for certain forwards, swaps and options. The liability related to the Corporation's crude oil hedges is classified as Level 2.

***Fair value measurements based on Level 3 inputs:*** Measurements that are least observable are estimated from related market data, determined from sources with little or no market activity for comparable contracts or are positions with longer durations. For example, in its energy marketing business, the Corporation sells natural gas and electricity to customers and offsets the price exposure by purchasing forward contracts. The fair value of these sales and purchases may be based on specific prices at less liquid delivered locations, which are classified as Level 3. There may be offsets to these positions that are priced based on more liquid markets, which are, therefore, classified as Level 1 or Level 2.

The impact of adopting the fair value measurements standard was not material to the Corporation's results of operations. Upon adoption in 2008, the Corporation recorded a reduction in the net deferred hedge losses reflected in Accumulated other comprehensive income, which increased equity by $193 million, after income taxes.

Effective December 31, 2008, the Corporation applied the provisions of a new accounting standard for the accounting for liabilities measured at fair value with a third-party credit enhancement (ASC 820 — Fair Value Measurements and Disclosures, originally issued as Emerging Issues Task Force 08-5, *Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement*). Upon adoption, the Corporation revalued certain derivative liabilities collateralized by letters of credit to reflect the Corporation's credit rating rather than the credit rating of the issuing bank. The adoption resulted in an increase in Sales and other operating revenues of approximately $13 million and an increase in Accumulated other comprehensive income of approximately $78 million, with a corresponding decrease in derivative liabilities recorded within Accounts payable.

***Retirement Plans:*** The Corporation recognizes the underfunded status of defined benefit postretirement plans on the balance sheet. For the Corporation's pension plans, the underfunded status is measured as the difference between the fair value of plan assets and the projected benefit obligation. The Corporation recognizes the net changes in the funded status of these plans in the year in which such changes occur.

***Share-Based Compensation:*** The fair value of all share-based compensation is expensed and recognized on a straight-line basis over the vesting period of the awards.

***Foreign Currency Translation:*** The U.S. dollar is the functional currency (primary currency in which business is conducted) for most foreign operations. Adjustments resulting from translating monetary assets and liabilities that are denominated in a non-functional currency into the functional currency are recorded in Other, net within Sales and other operating revenues in the Statement of Consolidated Income. For operations that do not use the U.S. dollar as the functional currency, adjustments resulting from translating foreign currency assets and liabilities into U.S. dollars are recorded in a separate component of equity titled Accumulated other comprehensive income (loss).

***Maintenance and Repairs:*** Maintenance and repairs are expensed as incurred, including costs of refinery turnarounds. Capital improvements are recorded as additions in Property, plant and equipment.

***Environmental Expenditures:*** The Corporation accrues and expenses environmental costs to remediate existing conditions related to past operations when the future costs are probable and reasonably estimable. The

Corporation capitalizes environmental expenditures that increase the life or efficiency of property or that reduce or prevent future adverse impacts to the environment.

***Changes in Accounting Policies:*** The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. The ASC combined multiple sources of authoritative accounting literature into a single source of authoritative GAAP organized by accounting topic. Since the ASC was not intended to change existing GAAP, the only impact on the Corporation's financial statements was that specific references to accounting principles have been changed to refer to the ASC.

Effective January 1, 2009, the Corporation adopted the FASB accounting standard for the accounting for and reporting of noncontrolling interests in a consolidated subsidiary (ASC 810 — Consolidation, originally issued as FAS 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*). As required, the Corporation retrospectively applied the presentation and disclosure requirements of this standard. At December 31, 2009 and December 31, 2008, noncontrolling interests of $144 million and $84 million, respectively, have been classified as a component of equity. Prior to adoption, noncontrolling interests were classified in Other liabilities. Net income (loss) attributable to the noncontrolling interests must also be separately reported in the Statement of Consolidated Income. Certain other amounts in the consolidated financial statements and footnotes have been reclassified to conform with the presentation requirements of this standard.

Effective January 1, 2009, the Corporation adopted the FASB accounting standard that expanded the qualitative, quantitative and credit risk disclosure requirements related to an entity's use of derivative instruments (ASC 815 — Derivatives and Hedging, originally issued as FAS 161, *Disclosures about Derivative Instruments and Hedging Activities*). See Note 14, Risk Management and Trading Activities, for these disclosures.

Effective January 1, 2009, the Corporation also adopted the FASB staff position that requires the application of the fair value measurement and disclosure provisions to nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis (ASC 820 — Fair Value Measurements and Disclosures, originally issued as FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*). Such fair value measurements are determined based on the same fair value hierarchy of inputs required to measure the fair value of financial assets and liabilities. The impact of this accounting standard was not material to the Corporation's consolidated financial statements.

Effective June 30, 2009, the Corporation adopted the FASB accounting standard which provides guidance on the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued (ASC 855 — Subsequent Events, originally issued as FAS 165, *Subsequent Events*). The adoption of this standard did not impact the Corporation's existing practice of evaluating subsequent events through the date the financial statements are issued.

In January 2010, the FASB adopted an accounting standards update (ASU) Extractive Activities — Oil and Gas (ASC 932) Oil and Gas Reserve Estimation and Disclosures, which is effective for year-end 2009 reporting and amends the requirements for oil and gas reserve estimation and disclosures. The objective of the ASU was to align accounting standards with the previously issued Securities and Exchange Commission (SEC) requirements on oil and gas reserve estimation and disclosure. The main provisions of the ASU are to expand the definition of oil and gas producing activities to include the extraction of resources which are saleable as synthetic oil or gas, to change the price assumption used for reserve estimation and future cash flows to a twelve month average from the year-end price and to amend the geographic disclosure requirements for reporting reserves and other supplementary oil and gas data. See the Supplementary Oil and Gas Data for these disclosures.

***Recently Issued Accounting Standards:*** In June 2009, the FASB amended existing accounting standards to eliminate the concept of a qualifying special-purpose entity (ASC 860 — Transfers and Servicing, originally issued as FAS 166, *Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140*), which did not require consolidation under existing GAAP. The FASB also amended existing standards to limit the circumstances in which transferred financial assets should be derecognized (and ASC 810 — Consolidation, originally issued as FAS 167, *Amendments to FASB Interpretation No. FIN 46(R)).* The amended standards require additional analysis of variable interest entities to determine if consolidation is necessary. The adoption of these standards will not have a material impact on the Corporation's financial statements. As required, the Corporation will adopt the provisions of these standards effective January 1, 2010.

## 2. Acquisitions and Divestitures

***2009:*** The Corporation acquired for $74 million a 50% interest in Blocks PM301 and PM302 in Malaysia, which are adjacent to Block A-18 of the Joint Development Area of Malaysia/Thailand (JDA) and contain an extension of the Bumi Field. The Corporation also acquired 37 previously leased retail gasoline stations, primarily through the assumption of $65 million of fixed rate notes.

***2008:*** The Corporation acquired the remaining 22.5% interest in its Gabonese subsidiary for $285 million, of which $210 million was allocated to proved properties. The Corporation expanded its energy marketing business by acquiring fuel oil, natural gas, and electricity customer accounts, and a terminal and related assets, for an aggregate of approximately $100 million.

***2007:*** The Corporation completed the acquisition of a 28% interest in the Genghis Khan oil and gas development located in the deepwater Gulf of Mexico on Green Canyon Blocks 652 and 608 for $371 million, of which $342 million was allocated to proved and unproved properties and the remainder to wells and equipment. This transaction was accounted for as an asset acquisition. Genghis Khan has been unitized with the Shenzi development.

The Corporation completed the sale of its interests in the Scott and Telford fields located in the United Kingdom North Sea for $93 million and recorded a gain of $21 million ($15 million after income taxes) that is included in Other, net in the Statement of Consolidated Income.

## 3. Inventories

Inventories at December 31 are as follows:

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Crude oil and other charge stocks | **$ 424** | $ 383 |
| Refined products and natural gas | **1,429** | 988 |
| Less: LIFO adjustment | **(815)** | (500) |
| | **1,038** | 871 |
| Merchandise, materials and supplies | **400** | 437 |
| Total | **$1,438** | $1,308 |

The percentage of LIFO inventory to total crude oil, refined products and natural gas inventories was 64% and 60% at December 31, 2009 and 2008, respectively. In 2009, the Corporation recorded a pre-tax charge of $25 million ($18 million after income taxes) to write down materials inventories in Equatorial Guinea and the United States, the majority of which was recorded in Production expenses. During 2007, the Corporation reduced LIFO inventories, which are carried at lower costs than current inventory costs. The effect of the LIFO inventory liquidation was to decrease Cost of products sold by approximately $38 million ($24 million after income taxes).

**4. Refining Joint Venture**

The Corporation has an investment in HOVENSA L.L.C., a 50% joint venture with Petroleos de Venezuela, S.A. (PDVSA), which is accounted for using the equity method. HOVENSA owns and operates a refinery in the U.S. Virgin Islands. Summarized financial information for HOVENSA as of December 31 and for the years then ended follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (Millions of dollars) | |
| Summarized Balance Sheet, at December 31 | | | |
| Cash and cash equivalents | **$ 78** | $ 75 | $ 279 |
| Other current assets | **580** | 664 | 1,183 |
| Net fixed assets | **2,080** | 2,136 | 2,181 |
| Other assets | **33** | 58 | 62 |
| Current liabilities | **(953)** | (679) | (1,459) |
| Long-term debt | **(356)** | (356) | (356) |
| Deferred liabilities and credits | **(137)** | (104) | (75) |
| Members' equity | **$ 1,325** | $ 1,794 | $ 1,815 |
| Summarized Income Statement, for the years ended December 31 | | | |
| Total revenues | **$ 10,085** | $ 17,518 | $ 13,439 |
| Costs and expenses | **(10,536)** | (17,423) | (13,082) |
| Net income (loss) | **$ (451)** | $ 95 | $ 357 |
| Hess Corporation's share* | **$ (229)** | $ 44 | $ 176 |
| Summarized Cash Flow Statement, for the years ended December 31 | | | |
| Net cash provided by (used in): | | | |
| Operating activities | **$ 87** | $ (20) | $ 654 |
| Investing activities | **(84)** | (85) | (165) |
| Financing activities | **—** | (99) | (500) |
| Net increase (decrease) in cash and cash equivalents | **$ 3** | $ (204) | $ (11) |

* *Before Virgin Islands income taxes, which were recorded in the Corporation's income tax provision.*

The Corporation received cash distributions from HOVENSA of $50 million in 2008 and $300 million during 2007.

The Corporation guarantees the payment of up to 50% of the value of HOVENSA's crude oil purchases from certain suppliers other than PDVSA. The guarantee amounted to $121 million at December 31, 2009. This amount fluctuates based on the volume of crude oil purchased and the related crude oil prices. In addition, the Corporation has agreed to provide funding up to $15 million to the extent HOVENSA does not have funds to meet its senior debt obligations.

## 5. Property, Plant and Equipment

Property, plant and equipment at December 31 consists of the following:

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Exploration and Production | | |
| Unproved properties | **$ 2,347** | $ 2,265 |
| Proved properties | **3,121** | 3,009 |
| Wells, equipment and related facilities | **22,118** | 20,058 |
| | **27,586** | 25,332 |
| Marketing, Refining and Corporate | **2,285** | 2,105 |
| Total — at cost | **29,871** | 27,437 |
| Less: reserves for depreciation, depletion, amortization and lease impairment | **13,244** | 11,166 |
| Property, plant and equipment — net | **$16,627** | $ 16,271 |

In December 2009, the Corporation agreed to a strategic exchange of all of its interests in Gabon and the Clair Field in the United Kingdom for additional interests in the Valhall and Hod fields offshore Norway. The transaction, which has an effective date of January 1, 2010, is subject to various regulatory and other approvals. In addition, the partners are in discussions regarding the applicability of pre-emption to this transaction. In January 2010, the Corporation completed the sale of its interest in the Jambi Merang Field in Indonesia. The Corporation has classified its interests in Gabon, the Clair Field and Jambi Merang Field as assets held for sale. At December 31, 2009, the carrying amount of these assets totaling $717 million were reported in Other current assets, and asset retirement obligations and deferred income taxes totaling $254 million were reported in Accrued liabilities.

The Corporation recorded asset impairments totaling $52 million ($26 million after income taxes) in 2009, $30 million ($17 million after income taxes) in 2008, and $112 million ($56 million after income taxes) in 2007. These impairments are reflected in Depreciation, depletion and amortization.

The following table discloses the amount of capitalized exploratory well costs pending determination of proved reserves at December 31, and the changes therein during the respective years:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (Millions of dollars) | |
| Beginning balance at January 1 | **$ 1,094** | $ 608 | $399 |
| Additions to capitalized exploratory well costs pending the determination of proved reserves | **433** | 560 | 229 |
| Reclassifications to wells, facilities, and equipment based on the determination of proved reserves | **(16)** | (67) | (20) |
| Capitalized exploratory well costs charged to expense | **(74)** | (7) | — |
| Ending balance at December 31 | **$1,437** | $ 1,094 | $ 608 |
| Number of wells at end of year | **53** | 45 | 30 |

The preceding table excludes exploratory dry hole costs of $193 million, $203 million and $65 million in 2009, 2008 and 2007, respectively, which were incurred and subsequently expensed in the same year.

At December 31, 2009, exploratory drilling costs capitalized in excess of one year past completion of drilling were as follows (in millions):

| | |
|---|---|
| 2008 | $ 468 |
| 2007 | 109 |
| 2006 | 215 |
| 2003 to 2005 | 56 |
| | $ 848 |

The capitalized well costs in excess of one year relate to 15 projects. Approximately 72% of the capitalized well costs in excess of one year relate to the Pony and Tubular Bells projects in the deepwater Gulf of Mexico where development planning is underway. In addition, the Corporation plans to drill another appraisal well at Pony in 2010. Approximately 12% of the costs in excess of one year relate to Western Australia (WA-390-P) where further drilling is planned in 2010. The remainder of the costs relate to projects where further drilling is planned or development planning and other assessment activities are ongoing to determine the economic and operating viability of the projects.

## 6. Asset Retirement Obligations

The following table describes changes to the Corporation's asset retirement obligations:

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Asset retirement obligations at January 1 | **$1,214** | $1,055 |
| Liabilities incurred | **14** | 35 |
| Liabilities settled or disposed of | **(58)** | (56) |
| Accretion expense | **72** | 67 |
| Revisions | **(23)** | 309 |
| Foreign currency translation | **78** | (196) |
| Asset retirement obligations at December 31 | **1,297** | 1,214 |
| Less: current obligations | **63** | 50 |
| Long-term obligations at December 31 | **$1,234** | $ 1,164 |

Revisions are primarily attributable to changes in service and equipment costs in the oil and gas industry.

## 7. Long-Term Debt

Long-term debt at December 31 consists of the following:

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Revolving credit facility | $ — | $ 350 |
| Asset-backed credit facility | — | 500 |
| Fixed rate debentures: | | |
| 7.4% due 2009 | — | 104 |
| 6.7% due 2011 | **116** | 662 |
| 7.0% due 2014 | **250** | — |
| 8.1% due 2019 | **997** | — |
| 7.9% due 2029 | **694** | 694 |
| 7.3% due 2031 | **746** | 745 |
| 7.1% due 2033 | **598** | 598 |
| 6.0% due 2040 | **744** | — |
| Total fixed rate debentures | **4,145** | 2,803 |
| Fixed rate notes, weighted average rate 8.5%, due through 2023 | **154** | 108 |
| Project lease financing, weighted average rate 5.1%, due through 2014 | **113** | 132 |
| Pollution control revenue bonds, weighted average rate 5.9%, due through 2034 | **53** | 53 |
| Other loans, weighted average rate 9.0%, due through 2019 | **2** | 9 |
| | **4,467** | 3,955 |
| Less: amount included in current maturities | **148** | 143 |
| Total | **$4,319** | $ 3,812 |

In February 2009, the Corporation issued $250 million of 5 year senior unsecured notes with a coupon of 7% and $1 billion of 10 year senior unsecured notes with a coupon of 8.125%. The majority of the proceeds were used to repay debt under the revolving credit facility and outstanding borrowings on other credit facilities. In December 2009, the Corporation issued $750 million of 30 year bonds with a coupon of 6% and tendered for the $662 million of bonds due in August 2011. The Corporation completed the purchase of $546 million of the 2011 bonds in December 2009. The Corporation recorded a charge of $54 million related to the repurchase in Other, net within the Statement of Consolidated Income ($34 million after income taxes). The remaining $116 million of the 2011 bonds, classified as Current maturities of long term debt at December 31, 2009, was redeemed in January 2010, resulting in a charge of approximately $11 million ($7 million after income taxes).

The aggregate long-term debt maturing during the next five years is as follows (in millions): 2010 — $148 (included in current liabilities); 2011 — $32; 2012 — $34; 2013 — $37 and 2014 — $333.

At December 31, 2009, the Corporation's fixed rate debentures have a principal amount of $4,166 million ($4,145 million net of unamortized discount). Interest rates on the outstanding fixed rate debentures have a weighted average rate of 7.3%.

The Corporation has a $3.0 billion syndicated revolving credit facility (the facility), which can be used for borrowings and letters of credit, substantially all of which is committed through May 2012. At December 31, 2009, the Corporation has available capacity on the facility of $3.0 billion. Current borrowings under the facility bear interest at 0.4% above the London Interbank Offered Rate and a facility fee of 0.1% per annum is payable on the amount of the facility. The interest rate and facility fee are subject to adjustment if the Corporation's credit rating changes.

The Corporation has a 364 day asset-backed credit facility securitized by certain accounts receivable from its Marketing and Refining operations. Under the terms of this financing arrangement, the Corporation has the ability to borrow or issue letters of credit of up to $1.0 billion at December 31, 2009, subject to the availability of sufficient levels of eligible receivables. At December 31, 2009, outstanding letters of credit under this facility were collateralized by a total of $1,326 million of accounts receivable, which are held by a wholly-owned subsidiary. These receivables are only available to pay the general obligations of the Corporation after satisfaction of the outstanding obligations under the asset backed facility.

In 2009, the Corporation assumed an additional $65 million in fixed rate notes in connection with the acquisition of 37 previously leased retail gasoline stations.

The Corporation's long-term debt agreements contain a financial covenant that restricts the amount of total borrowings and secured debt. At December 31, 2009, the Corporation is permitted to borrow up to an additional $18.1 billion for the construction or acquisition of assets. The Corporation has the ability to borrow up to an additional $3.7 billion of secured debt at December 31, 2009.

Outstanding letters of credit at December 31 were as follows:

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Revolving credit facility | **$ —** | $ 176 |
| Asset-backed credit facility | **500** | — |
| Committed lines* | **1,155** | 1,973 |
| Uncommitted short-term lines* | **1,192** | 1,686 |
| Total | **$2,847** | $ 3,835 |

* *Committed and uncommitted lines have expiration dates primarily through 2010.*

Of the total letters of credit outstanding at December 31, 2009, $100 million relates to contingent liabilities and the remaining $2,747 million primarily relates to liabilities recorded on the balance sheet.

The total amount of interest paid (net of amounts capitalized) was $335 million, $266 million and $257 million in 2009, 2008 and 2007, respectively. The Corporation capitalized interest of $6 million, $7 million and $50 million in 2009, 2008, and 2007, respectively.

## 8. Share-Based Compensation

The Corporation awards restricted common stock and stock options under its 2008 Long-Term Incentive Plan. Generally, stock options vest in one to three years from the date of grant, have a 10-year option life, and the exercise price equals or exceeds the market price on the date of grant. Outstanding restricted common stock generally vests in three years from the date of grant.

Share-based compensation expense consists of the following:

| | Before Income Taxes | | | After Income Taxes | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | (Millions of dollars) | | | | | |
| Stock options | **$ 58** | $ 51 | $ 36 | **$36** | $31 | $ 23 |
| Restricted stock | **70** | 68 | 51 | **44** | 43 | 31 |
| Total | **$128** | $119 | $ 87 | **$80** | $74 | $54 |

Based on restricted stock and stock option awards outstanding at December 31, 2009, unearned compensation expense, before income taxes, will be recognized in future years as follows (in millions): 2010 — $88, 2011 — $42 and 2012 — $4.

The Corporation's stock option and restricted stock activity consisted of the following:

| | Stock Options | | Restricted Stock | |
|---|---|---|---|---|
| | Options (Thousands) | Weighted-Average Exercise Price per Share | Shares of Restricted Common Stock (Thousands) | Weighted-Average Price on Date of Grant |
| Outstanding at January 1, 2007 | 12,923 | $ 29.68 | 5,044 | $ 27.68 |
| Granted | 3,066 | 53.82 | 1,032 | 53.92 |
| Exercised | (4,566) | 24.07 | — | — |
| Vested | — | — | (1,184) | 24.53 |
| Forfeited | (131) | 46.41 | (91) | 36.40 |
| Outstanding at December 31, 2007 | 11,292 | 38.31 | 4,801 | 33.93 |
| Granted | 2,473 | 82.55 | 1,289 | 85.22 |
| Exercised | (3,852) | 29.17 | — | — |
| Vested | — | — | (2,787) | 21.40 |
| Forfeited | (213) | 60.61 | (142) | 58.60 |
| Outstanding at December 31, 2008 | **9,700** | **52.73** | **3,161** | **64.78** |
| Granted | **3,135** | **56.44** | **1,056** | **56.27** |
| Exercised | **(416)** | **38.85** | **—** | **—** |
| Vested | **—** | **—** | **(893)** | **50.13** |
| Forfeited | **(317)** | **65.68** | **(376)** | **66.11** |
| Outstanding at December 31, 2009 | **12,102** | **53.83** | **2,948** | **66.00** |
| Exercisable at December 31, 2007 | 5,408 | $ 27.34 | | |
| Exercisable at December 31, 2008 | 4,522 | 36.95 | | |
| Exercisable at December 31, 2009 | **6,636** | **46.11** | | |

The table below summarizes information regarding the outstanding and exercisable stock options as of December 31, 2009:

| | Outstanding Options | | | Exercisable Options | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Options (Thousands) | Weighted-Average Remaining Contractual Life (Years) | Weighted-Average Exercise Price per Share | Options (Thousands) | Weighted-Average Exercise Price per Share |
| $10.00 – $40.00 | 2,321 | 4 | $ 26.04 | 2,321 | $ 26.04 |
| $40.01 – $50.00 | 1,943 | 6 | 49.15 | 1,937 | 49.17 |
| $50.01 – $55.00 | 2,325 | 7 | 53.19 | 1,479 | 53.20 |
| $55.01 – $60.00 | 3,097 | 9 | 56.48 | 42 | 57.69 |
| $60.01 – $120.00 | 2,416 | 8 | 81.50 | 857 | 80.78 |
| | 12,102 | 7 | 53.83 | 6,636 | 46.11 |

The intrinsic value (or the amount by which the market price of the Corporation's Common Stock exceeds the exercise price of an option) for outstanding options and exercisable options at December 31, 2009 was $132 million and $113 million, respectively. At December 31, 2009, assuming forfeitures of 2% per year, 11,900,000 outstanding options are expected to vest at a weighted average exercise price of $53.70 per share. At December 31, 2009, the weighted average remaining term of exercisable options was 6 years.

The Corporation uses the Black-Scholes model to estimate the fair value of employee stock options. The following weighted average assumptions were utilized for stock options awarded:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Risk free interest rate | **1.80%** | 2.70% | 4.70% |
| Stock price volatility | **.390** | .294 | .316 |
| Dividend yield | **.70%** | .50% | .75% |
| Expected term in years | **4.5** | 5.0 | 5.0 |
| Weighted average fair value per option granted | **$18.47** | $24.09 | $18.07 |

The assumption above for the risk free interest rate is based on the expected terms of the options and is obtained from published sources. The stock price volatility is determined from historical experience using the same period as the expected terms of the options. The expected stock option term is based on historical exercise patterns and the expected future holding period.

In May 2008, shareholders approved the 2008 Long-Term Incentive Plan. The Corporation also has stock options outstanding under a former plan. At December 31, 2009, the number of common shares reserved for issuance under the 2008 Long-Term Incentive Plan is as follows (in thousands):

| | |
|---|---|
| Total common shares reserved for issuance | 10,844 |
| Less: stock options outstanding | 3,111 |
| Available for future awards of restricted stock and stock options | 7,733 |

## 9. Foreign Currency Translation

Foreign currency gains (losses) before income taxes amounted to $20 million in 2009, $(212) million in 2008 and $17 million in 2007. The foreign currency loss in 2008 reflects the net effect of significant exchange rate movements in the fourth quarter of 2008 on the remeasurement of assets, liabilities and foreign currency forward contracts by certain foreign businesses. The balances in accumulated other comprehensive income (loss) related to foreign currency translation were reductions in stockholders' equity of $18 million at December 31, 2009 and $123 million at December 31, 2008.

## 10. Retirement Plans

The Corporation has funded noncontributory defined benefit pension plans for a significant portion of its employees. In addition, the Corporation has an unfunded supplemental pension plan covering certain employees. The unfunded supplemental pension plan provides for incremental pension payments from the Corporation so that total pension payments equal amounts that would have been payable from the Corporation's principal pension plans, were it not for limitations imposed by income tax regulations. The plans provide defined benefits based on years of service and final average salary. Additionally, the Corporation maintains an unfunded postretirement medical plan that provides health benefits to certain qualified retirees from ages 55 through 65. The measurement date for all retirement plans is December 31.

The following table summarizes the Corporation's benefit obligations and the fair value of plan assets and shows the funded status of the pension and postretirement medical plans:

| | Funded Pension Plans | | Unfunded Pension Plan | | Postretirement Medical Plan | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | | | (Millions of dollars) | | | |
| Change in benefit obligation | | | | | | |
| Balance at January 1 | **$1,125** | $1,136 | **$165** | $147 | **$77** | $86 |
| Service cost | **34** | 36 | **6** | 6 | **3** | 3 |
| Interest cost | **72** | 71 | **11** | 9 | **4** | 4 |
| Actuarial (gain) loss | **139** | 19 | **43** | 11 | **3** | (13) |
| Benefit payments | **(43)** | (42) | **(2)** | (8) | **(3)** | (3) |
| Plan settlement* | **—** | — | **(35)** | — | **—** | — |
| Foreign currency exchange rate changes | **32** | (95) | **—** | — | **—** | — |
| Balance at December 31 | **1,359** | 1,125 | **188** | 165 | **84** | 77 |
| Change in fair value of plan assets | | | | | | |
| Balance at January 1 | **745** | 1,075 | **—** | — | **—** | — |
| Actual return on plan assets | **161** | (280) | **—** | — | **—** | — |
| Employer contributions | **183** | 70 | **37** | 8 | **3** | 3 |
| Benefit payments | **(43)** | (42) | **(37)** | (8) | **(3)** | (3) |
| Foreign currency exchange rate changes | **26** | (78) | **—** | — | **—** | — |
| Balance at December 31 | **1,072** | 745 | **—** | — | **—** | — |
| Funded status (plan assets less than benefit obligations) at December 31 | **(287)** | (380) | **(188)**** | (165)** | **(84)** | (77) |
| Unrecognized net actuarial losses | **495** | 513 | **92** | 78 | **16** | 13 |
| Net amount recognized | **$ 208** | $ 133 | **$ (96)** | $ (87) | **$(68)** | $ (64) |

* *The plan settlement relates to employee retirements during 2009. As a result, the Corporation recorded a charge of $17 million ($10 million after income taxes) for the impact of this settlement.*

** *The trust established by the Corporation for the supplemental plan held assets valued at $40 million at December 31, 2009 and $65 million at December 31, 2008.*

Amounts recognized in the consolidated balance sheet at December 31 consist of the following:

| | Funded Pension Plans | | Unfunded Pension Plan | | Postretirement Medical Plan | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | | | (Millions of dollars) | | | |
| Accrued benefit liability | **$(287)** | $(380) | **$(188)** | $(165) | **$(84)** | $ (77) |
| Accumulated other comprehensive loss* | **495** | 513 | **92** | 78 | **16** | 13 |
| Net amount recognized | **$ 208** | $ 133 | **$ (96)** | $ (87) | **$(68)** | $ (64) |

* *The after-tax reduction to equity recorded in Accumulated other comprehensive income (loss) was $413 million at December 31, 2009 and $407 million at December 31, 2008.*

The accumulated benefit obligation for the funded defined benefit pension plans was $1,229 million at December 31, 2009 and $1,032 million at December 31, 2008. The accumulated benefit obligation for the unfunded defined benefit pension plan was $172 million at December 31, 2009 and $149 million at December 31, 2008.

Components of net periodic benefit cost for funded and unfunded pension plans and the postretirement medical plan consisted of the following:

| | Pension Plans | | | Postretirement Medical Plan | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | (Millions of dollars) | | | | | |
| Service cost | **$ 40** | $ 42 | $ 41 | **$ 3** | $ 3 | $ 3 |
| Interest cost | **83** | 80 | 73 | **4** | 4 | 4 |
| Expected return on plan assets | **(59)** | (80) | (74) | — | — | — |
| Amortization of unrecognized net actuarial loss | **65** | 19 | 23 | — | — | (1) |
| Settlement loss | **17** | — | — | — | — | 2 |
| Net periodic benefit cost | **$146** | $ 61 | $ 63 | **$ 7** | $ 7 | $ 8 |

Prior service costs and actuarial gains and losses in excess of 10% of the greater of the benefit obligation or the market value of assets are amortized over the average remaining service period of active employees.

The Corporation's 2010 pension and postretirement medical expense is estimated to be approximately $110 million, of which approximately $50 million relates to the amortization of unrecognized net actuarial losses.

The weighted-average actuarial assumptions used by the Corporation's funded and unfunded pension plans were as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Weighted-average assumptions used to determine benefit obligations at December 31 | | | |
| Discount rate | **5.8%** | 6.3% | 6.3% |
| Rate of compensation increase | **4.3** | 4.4 | 4.4 |
| Weighted-average assumptions used to determine net benefit cost for years ended December 31 | | | |
| Discount rate | **6.3** | 6.3 | 5.8 |
| Expected return on plan assets | **7.5** | 7.5 | 7.5 |
| Rate of compensation increase | **4.4** | 4.4 | 4.4 |

The actuarial assumptions used by the Corporation's postretirement medical plan were as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Assumptions used to determine benefit obligations at December 31 | | | |
| Discount rate | **5.4%** | 6.3% | 6.3% |
| Initial health care trend rate | **8.0%** | 9.0% | 9.0% |
| Ultimate trend rate | **4.5%** | 4.5% | 4.5% |
| Year in which ultimate trend rate is reached | **2013** | 2013 | 2013 |

The assumptions used to determine net periodic benefit cost for each year were established at the end of each previous year while the assumptions used to determine benefit obligations were established at each year-end. The net periodic benefit cost and the actuarial present value of benefit obligations are based on actuarial assumptions that are reviewed on an annual basis. The discount rate is developed based on a portfolio of high-quality, fixed-income debt instruments with maturities that approximate the expected payment of plan obligations. The overall expected return on plan assets is developed from the expected future returns for each asset category, weighted by the target allocation of pension assets to that asset category.

The Corporation's investment strategy is to maximize long-term returns at an acceptable level of risk through broad diversification of plan assets in a variety of asset classes. Asset classes and target allocations are determined by the Corporation's investment committee and include domestic and foreign equities, fixed income, and other investments, including hedge funds, real estate and private equity. Investment managers are prohibited from investing in securities issued by the Corporation unless indirectly held as part of an index strategy. The majority of plan assets are highly liquid, providing ample liquidity for benefit payment requirements. The current target allocations for plan assets are 50% equity securities, 25% fixed income securities (including cash and short-term investment funds) and 25% to all other types of investments. Asset allocations are rebalanced on a periodic basis throughout the year to bring assets to within an acceptable range of target levels.

The following table provides the fair value of the Plan's financial assets as of December 31, 2009 in accordance with the fair value measurement hierarchy described in Note 1, Summary of Significant Accounting Policies (in millions):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and short-term investment funds | $ 5 | $ 39 | $ — | $ 44 |
| Equities: | | | | |
| U.S. equities (domestic) | 318 | — | — | 318 |
| International equities (non-U.S.) | 34 | 93 | — | 127 |
| Global equities (domestic and non-U.S.) | 19 | 117 | — | 136 |
| Fixed income: | | | | |
| Treasury and government issued(a) | — | 74 | 3 | 77 |
| Government related(b) | — | 24 | 2 | 26 |
| Mortgage backed securities(c) | — | 60 | 1 | 61 |
| Corporate | — | 78 | 2 | 80 |
| Other: | | | | |
| Hedge funds | — | — | 143 | 143 |
| Private equity funds | — | — | 29 | 29 |
| Real estate funds | 6 | — | 14 | 20 |
| Diversified commodities funds | — | 11 | — | 11 |
| | $ 382 | $ 496 | $ 194 | $1,072 |

*(a) Includes securities issued and guaranteed by U.S. and non-U.S. governments.*

*(b) Primarily consists of securities issued by governmental agencies and municipalities.*

*(c) Comprised of U.S. residential and commercial mortgage backed securities.*

Cash and short-term investment funds consist of cash on hand and short-term investment funds. The short-term investment funds provide for daily investments and redemptions and are valued and carried at a $1 net asset value (NAV) per fund share.

Equities consist of equity securities issued by U.S. and non-U.S. corporations as well as commingled investment funds that invest in equity securities. Individually held equity securities are traded actively on exchanges and price quotes for these shares are readily available. Individual equity securities are classified as Level 1. Commingled investment funds are investment vehicles that are not publicly traded, but whose underlying assets are publicly traded with price quotes readily available. Commingled fund values reflect the NAV per fund share, derived from the quoted prices in active markets of the underlying securities. Equity commingled funds are classified as Level 2.

Fixed income investments consist of securities issued by the U.S. government, non-U.S. governments, governmental agencies, municipalities and corporations, and agency and non-agency mortgage backed securities. This investment category also includes commingled investment funds that invest in fixed income securities. Individual fixed income securities are generally priced on the basis of evaluated prices from independent pricing services. Such prices are monitored and provided by an independent, third-party custodial firm safekeeping plan assets. Individual fixed income securities are classified as Level 2 or 3. Commingled fund values reflect the NAV per fund share, derived indirectly from observable inputs or from quoted prices in less liquid markets of the underlying securities. Fixed income commingled funds are classified as Level 2.

Other investments consist of exchange-traded real estate investment trust securities as well as commingled fund and limited partnership investments in hedge funds, private equity, real estate and diversified commodities. Exchange-traded securities are classified as Level 1. Commingled fund values reflect the NAV per fund share and are classified as Level 2 or 3. Private equity and real estate limited partnership values reflect information reported by the fund managers, which include inputs such as cost, operating results, discounted future cash flows, market based comparable data and independent appraisals from third-party sources with professional qualifications. Hedge funds, private equity and non-exchange-traded real estate investments are classified as Level 3.

The following table provides changes in financial assets that are measured at fair value based on Level 3 inputs that are held by institutional funds classified as (in millions):

| | Fixed Income* | Hedge Funds | Private Equity Funds | Real Estate Funds | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2009 | $ 12 | $ 127 | $ 25 | $ 20 | $ 184 |
| Actual return on plan assets: | | | | | |
| Related to assets held at December 31, 2009 | 4 | 15 | (4) | (7) | 8 |
| Related to assets sold during 2009 | (1) | 1 | — | — | — |
| Purchases, sales or other settlements | (2) | — | 8 | 1 | 7 |
| Net transfers in and/or out of Level 3 | (5) | — | — | — | (5) |
| Balance at December 31, 2009 | $ 8 | $ 143 | $ 29 | $ 14 | $ 194 |

* *Fixed Income includes treasury and government issued, government related, mortgage backed and corporate securities.*

The Corporation has budgeted contributions of approximately $145 million to its funded pension plans in 2010. The Corporation has not budgeted any contributions to the trust established for the unfunded plan.

Estimated future benefit payments for the funded and unfunded pension plans and the postretirement medical plan, which reflect expected future service, are as follows (in millions):

| | |
|---|---|
| 2010 | $ 78 |
| 2011 | 100 |
| 2012 | 77 |
| 2013 | 87 |
| 2014 | 90 |
| Years 2015 to 2019 | 568 |

The Corporation also contributes to several defined contribution plans for eligible employees. Employees may contribute a portion of their compensation to the plans and the Corporation matches a portion of the employee contributions. The Corporation recorded expense of $24 million in 2009, $22 million in 2008, and $19 million in 2007 for contributions to these plans.

## 11. Income Taxes

The provision for (benefit from) income taxes consisted of:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (Millions of dollars) | |
| Federal | | | |
| Current | **$ 39** | $ 10 | $ 2 |
| Deferred | **(284)** | (140) | 62 |
| State | **(15)** | 10 | (149) |
| | **(260)** | (120) | (85)* |
| Foreign | | | |
| Current | **1,143** | 2,377 | 1,898 |
| Deferred | **(168)** | 87 | 64 |
| | **975** | 2,464 | 1,962 |
| Adjustment of deferred tax liability for foreign income tax rate change | **—** | (4) | (5) |
| Total provision for income taxes | **$ 715** | $ 2,340 | $ 1,872 |

* *Includes a provision for an increase in the valuation allowance for foreign tax credit carryforwards of $81 million and a benefit from a decrease in the valuation allowance for state net operating loss carryforwards of $96 million.*

Income (loss) before income taxes consisted of the following:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (Millions of dollars) | |
| United States* | **$ (711)** | $ (349) | $ (147) |
| Foreign** | **2,233** | 5,046 | 3,972 |
| Total income before income taxes | **$1,522** | $4,697 | $3,825 |

* *Includes substantially all of the Corporation's interest expense and the results of hedging activities.*

** *Foreign income includes the Corporation's Virgin Islands and other operations located outside of the United States.*

A summary of the components of deferred tax liabilities, deferred tax assets and taxes deferred at December 31 follows:

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Deferred tax liabilities | | |
| Property, plant and equipment and investments | **$3,021** | $2,918 |
| Deferred taxes on undistributed earnings of foreign subsidiaries | **174** | — |
| Other | **13** | 114 |
| Total deferred tax liabilities | **3,208** | 3,032 |
| Deferred tax assets | | |
| Net operating loss carryforwards | **529** | 1,832 |
| Tax credit carryforwards | **860** | 458 |
| Property, plant and equipment | **1,575** | — |
| Accrued liabilities | **459** | 415 |
| Asset retirement obligations | **484** | 406 |
| Other | **339** | 227 |
| Total deferred tax assets | **4,246** | 3,338 |
| Valuation allowance | **(500)** | (266) |
| Total deferred tax assets, net | **3,746** | 3,072 |
| Net deferred tax assets | **$ 538** | $ 40 |

Net deferred tax assets in the foregoing table include the deferral of the tax consequences of the utilization of approximately $4 billion of net operating loss carryforwards in the United States during 2009 resulting from intercompany transactions eliminated in consolidation related to transfers of property, plant and equipment remaining within the consolidated group. At December 31, 2009, the Corporation has remaining federal net operating loss carryforwards in the United States of approximately $49 million which will expire in 2029. The remaining net operating loss carryforwards relate primarily to foreign operations and expire in years after 2028. At December 31, 2009, the Corporation has alternative minimum tax credit carryforwards of approximately $192 million, which can be carried forward indefinitely. Foreign tax credit carryforwards, which expire in 2010 to 2019 total $623 million. The Corporation also has approximately $45 million of general business credits, substantially all of which expire between 2012 and 2025.

In the consolidated balance sheet at December 31, deferred tax assets and liabilities from the preceding table are netted by taxing jurisdiction, combined with taxes deferred on intercompany transactions, and are recorded in the following captions:

| | 2009 | 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Other current assets | **$ 372** | $ 188 |
| Deferred income taxes (long-term asset) | **2,409** | 2,292 |
| Accrued liabilities | **(21)** | (199) |
| Deferred income taxes (long-term liability) | **(2,222)** | (2,241) |
| Net deferred tax assets | **$ 538** | $ 40 |

The difference between the Corporation's effective income tax rate and the United States statutory rate is reconciled below:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| United States statutory rate | **35.0%** | 35.0% | 35.0% |
| Effect of foreign operations | **15.2** | 12.7 | 14.8 |
| State income taxes, net of Federal income tax | **(1.2)** | 0.1 | (2.5) |
| Other | **(2.0)** | 2.0 | 1.6 |
| Total | **47.0%** | 49.8% | 48.9% |

Below is a reconciliation of the beginning and ending amount of unrecognized tax benefits (millions of dollars):

| | 2009 | 2008 |
|---|---|---|
| Balance at January 1 | **$175** | $165 |
| Additions based on tax positions taken in the current year | **106** | 16 |
| Additions based on tax positions of prior years | **25** | 11 |
| Reductions based on tax positions of prior years | **(3)** | (15) |
| Reductions due to settlements with taxing authorities | **(20)** | (2) |
| Reductions due to lapse of statutes of limitation | **(12)** | — |
| Balance at December 31 | **$271** | $175 |

At December 31, 2009, the unrecognized tax benefits include $197 million, which if recognized, would affect the Corporation's effective income tax rate. Over the next 12 months, it is reasonably possible that the total amount of unrecognized tax benefits could decrease by up to $25 million due to settlements with taxing authorities.

The Corporation has not recognized deferred income taxes for that portion of undistributed earnings of foreign subsidiaries expected to be indefinitely reinvested in foreign operations. The Corporation had undistributed earnings from foreign subsidiaries expected to be indefinitely reinvested in foreign operations of approximately $3.4 billion at December 31, 2009. If these earnings were not indefinitely reinvested, a deferred tax liability of approximately $1.2 billion would be recognized, not accounting for the potential utilization of foreign tax credits in the United States.

The Corporation and its subsidiaries file income tax returns in the United States and various foreign jurisdictions. The Corporation is no longer subject to examinations by income tax authorities in most jurisdictions for years prior to 2003.

Income taxes paid (net of refunds) in 2009, 2008, and 2007 amounted to $1,177 million, $2,420 million and $1,826 million, respectively. The Corporation had accrued interest and penalties of approximately $17 million as of December 31, 2009 and approximately $6 million as of December 31, 2008.

## 12. Outstanding and Weighted Average Common Shares

The following table provides the changes in the Corporation's outstanding common shares:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (Thousands of shares) | |
| Balance at January 1 | **326,133** | 320,600 | 315,018 |
| Activity related to restricted common stock awards, net | **680** | 1,148 | 941 |
| Employee stock options | **416** | 3,852 | 4,566 |
| Conversion of preferred stock | **—** | 533 | 75 |
| Balance at December 31 | **327,229** | 326,133 | 320,600 |

During 2008, the Corporation's remaining 284,139 outstanding shares of 3% cumulative convertible preferred shares were converted into common stock at a conversion rate of 1.8783 shares of common stock for each preferred share. The Corporation issued 533,697 shares of common stock for the conversion of these preferred shares and fractional shares were settled by cash payments.

The weighted average number of common shares used in the basic and diluted earnings per share computations for each year is summarized below:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (Thousands of shares) | |
| Common shares — basic | **323,890** | 320,803 | 312,736 |
| Effect of dilutive securities | | | |
| Stock options | **836** | 2,870 | 2,925 |
| Restricted common stock | **1,239** | 1,815 | 3,066 |
| Convertible preferred stock | **—** | 359 | 585 |
| Common shares — diluted | **325,965** | 325,847 | 319,312 |

The calculation of weighted average common shares excludes the effect of 4,050,000, 425,000 and 715,000 out-of-the-money options for 2009, 2008 and 2007, respectively. Cash dividends on common stock totaled $0.40 per share ($0.10 per quarter) during 2009, 2008 and 2007.

## 13. Leased Assets

The Corporation and certain of its subsidiaries lease gasoline stations, drilling rigs, tankers, office space and other assets for varying periods under contractual obligations accounted for as operating leases. Certain operating leases provide an option to purchase the related property at fixed prices. At December 31, 2009, future minimum rental payments applicable to non-cancelable operating leases with remaining terms of one year or more (other than oil and gas property leases) are as follows (in millions):

| | |
|---|---|
| 2010 | $ 482 |
| 2011 | 341 |
| 2012 | 354 |
| 2013 | 357 |
| 2014 | 320 |
| Remaining years | 1,428 |
| Total minimum lease payments | 3,282 |
| Less: income from subleases | 144 |
| Net minimum lease payments | $ 3,138 |

Operating lease expenses for drilling rigs used to drill development wells and successful exploration wells are capitalized.

Rental expense was as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | (Millions of dollars) | | |
| Total rental expense | **$266** | $ 270 | $266 |
| Less: income from subleases | **11** | 12 | 13 |
| Net rental expense | **$255** | $258 | $ 253 |

## 14. Risk Management and Trading Activities

In the normal course of its business, the Corporation is exposed to commodity risks related to changes in the prices of crude oil, natural gas, refined products and electricity, as well as to changes in interest rates and foreign currency values. The Corporation also has trading operations, principally through a 50% voting interest in a consolidated partnership, that are exposed to commodity price risks primarily related to the prices of crude oil, natural gas and refined products.

The Corporation maintains a control environment under the direction of its chief risk officer and through its corporate risk policy, which the Corporation's senior management has approved. Controls include volumetric, term and value-at-risk limits. The chief risk officer must approve the use of new instruments or commodities. Risk limits are monitored and reported on daily to business units and to senior management. The Corporation's risk management department also performs independent verifications of sources of fair values and validations of valuation models. These controls apply to all of the Corporation's risk management and trading activities, including the consolidated trading partnership. The Corporation's treasury department is responsible for administering foreign exchange and interest rate hedging programs.

Following is a description of the Corporation's activities that use derivatives as part of their operations and strategies. Derivatives include both financial instruments and forward purchase and sale contracts. Gross notional amounts of both long and short positions are presented in the volume tables below. These amounts include long and short positions that offset in a closed position and have not reached contractual maturity. Gross notional amounts do not quantify risk or represent assets or liabilities of the Corporation, but are used in the calculation of cash settlements under the contracts.

***Energy Marketing Activities:*** In its energy marketing activities the Corporation sells refined petroleum products, natural gas and electricity principally to commercial and industrial businesses at fixed and floating prices for varying periods of time. Commodity contracts such as futures, forwards, swaps and options, together with physical assets such as storage, are used to obtain supply and reduce margin volatility or lower costs related to sales contracts with customers.

The table below shows the gross volume of the Corporation's energy marketing commodity contracts outstanding at December 31, 2009:

| | |
|---|---|
| Commodity Contracts | |
| Crude oil and refined products (millions of barrels) | 34 |
| Natural gas (millions of mcf) | 1,876 |
| Electricity (millions of megawatt hours) | 166 |

At December 31, 2009, a portion of energy marketing commodity contracts are designated as cash flow hedges to hedge variability of expected future cash flows of forecasted supply transactions. The length of time over which the Corporation hedges exposure to variability in future cash flows is predominantly two years or less. For contracts outstanding at December 31, 2009, the maximum duration was five years. The Corporation records the effective portion of changes in the fair value of cash flow hedges as a component of other comprehensive income. Amounts recorded in Accumulated other comprehensive income are reclassified into Cost of products sold in the same period that the hedged item is recognized in earnings. The ineffective portion of changes in fair value of cash flow hedges is recognized immediately in Cost of products sold.

At December 31, 2009, the after-tax deferred losses relating to energy marketing activities recorded in Accumulated other comprehensive income were $303 million ($335 million at December 31, 2008). The Corporation estimates that approximately $224 million of this amount will be reclassified into earnings over the next twelve months. During 2009, 2008 and 2007, the Corporation reclassified after-tax income (losses) from Accumulated other comprehensive income of $(596) million, $112 million and $(81) million, respectively. The amount of gain (loss) from hedge ineffectiveness reflected in earnings in 2009, 2008 and 2007 was $(2) million in 2009, less than $1 million in 2008 and $(5) million in 2007. The change in the fair value of energy marketing cash flow hedges was $(564) million in 2009, $(255) million in 2008 and $(3) million in 2007.

The change in fair value of other energy marketing commodity contracts that are not designated as hedges are recognized currently in earnings. Revenues from the sales contracts are recognized in Sales and other operating revenues, supply contract purchases are recognized in Cost of products sold and net settlements from financial derivatives are recognized in Cost of products sold. Net realized and unrealized pre-tax gains on derivative contracts not designated as hedges amounted to $102 million in 2009.

***Corporate Risk Management:*** Corporate risk management activities include transactions designed to reduce risk in the selling prices of crude oil or natural gas produced by the Corporation or to reduce exposure to foreign currency movements. Generally, futures, swaps or option strategies may be used to fix the forward selling price of a portion of the Corporation's crude oil or natural gas production. Forward contracts may also be used to purchase certain currencies in which the Corporation does business with the intent of reducing exposure to foreign currency fluctuations.

The table below shows the gross volume of Corporate risk management derivative instruments outstanding at December 31, 2009:

| | |
|---|---|
| Commodity contracts, primarily crude oil (millions of barrels)* | 54 |
| Foreign exchange contracts (millions of U.S. dollars) | 872 |

* *Includes gross volumes associated with the offsetting crude oil hedge positions.*

During 2008, the Corporation closed Brent crude oil cash flow hedges covering 24,000 barrels per day through 2012 by entering into offsetting contracts with the same counterparty. As a result, the valuation of those contracts is no longer subject to change due to price fluctuations. There were no other open hedges of crude oil or natural gas production at December 31, 2009. Hedging activities decreased Exploration and Production earnings by $337 million in 2009, $423 million in 2008 and $244 million in 2007. The pre-tax amount of these hedge losses is reflected in Sales and other operating revenue. The gain (loss) from hedge ineffectiveness reflected in revenue was less than $1 million in 2009, $(13) million in 2008 and $6 million in 2007.

At December 31, 2009, the after-tax deferred losses in Accumulated other comprehensive income relating to Corporate risk management cash flow hedges were $941 million ($1,143 million at December 31, 2008). These deferred losses result from the Brent crude oil hedges referred to above that cover ongoing production of 24,000 barrels per day from 2010 through 2012. The Corporation estimates that approximately $335 million of this amount will be reclassified into earnings over the next twelve months. The pre-tax amount of deferred hedge losses is reflected in Accounts payable and the related income tax benefits are recorded as Deferred income tax assets on the balance sheet.

The change in fair value of foreign exchange contracts are not designated as hedges. Gains or losses in foreign exchange contracts, maturing through 2010, are recognized immediately in Other, net in revenues and non-operating income.

For the year ended December 31, 2009, net pre-tax gains on derivative contracts used for Corporate risk management and not designated as hedges amounted to the following (in millions):

| | |
|---|---|
| Commodity | $ 9 |
| Foreign exchange | 86 |
| Total | $95 |

***Trading Activities:*** Trading activities are conducted principally through a trading partnership in which the Corporation has a 50% voting interest. This consolidated entity intends to generate earnings through various strategies primarily using energy commodities, securities and derivatives. The Corporation also takes trading positions for its own account.

The table below shows the gross volume of the Corporation's trading derivative instruments outstanding at December 31, 2009:

| | |
|---|---|
| Commodity Contracts | |
| Crude oil and refined products (millions of barrels) | 2,251 |
| Natural gas (millions of mcf) | 6,927 |
| Electricity (millions of megawatt hours) | 6 |
| Other Contracts (millions of U.S. dollars) | |
| Interest rate | 495 |
| Foreign exchange | 335 |

For the year ended December 31, 2009, pre-tax gains recorded in Sales and other operating revenues from trading activities amounted to the following (in millions):

| | |
|---|---|
| Commodity | $196 |
| Foreign exchange | 23 |
| Interest rate and other | 17 |
| Total | $ 236 |

***Fair Value Measurements:*** The Corporation determines fair value in accordance with the fair value measurements accounting standard (ASC 820 — Fair Value Measurements and Disclosures), which established a hierarchy that categorizes the sources of inputs, which generally range from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value, however, the level of fair value for each financial asset or liability presented below is based on the lowest significant input level within this fair value hierarchy. The following table provides the fair value of the Corporation's financial assets and (liabilities) based on this hierarchy:

| | Level 1 | Level 2 | Level 3 | Collateral and counterparty netting | December 31, |
|---|---|---|---|---|---|
| | | | (Millions of dollars) | | |
| **2009** | | | | | |
| Derivative contracts | | | | | |
| Assets | **$ 46** | **$ 1,139** | **$ 119** | **$ (366)** | **$ 938** |
| Liabilities | **(151)** | **(2,910)** | **(36)** | **320** | **(2,777)** |
| Other assets and liabilities measured at fair value on a recurring basis | | | | | |
| Assets | **37** | **21** | **5** | **—** | **63** |
| Liabilities | **—** | **(66)** | **(4)** | **—** | **(70)** |
| **2008** | | | | | |
| Derivative contracts | | | | | |
| Assets | $ 449 | $ 1,795 | $ 695 | $ (1,023) | $ 1,916 |
| Liabilities | (397) | (3,395) | (556) | 712 | (3,636) |
| Other assets and liabilities measured at fair value on a recurring basis | | | | | |
| Assets | 55 | — | 10 | — | 65 |
| Liabilities | — | (17) | — | — | (17) |

The following table provides changes in financial assets and liabilities that are measured at fair value based on Level 3 inputs:

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Balance at January 1 | **$ 149** | $ (4) |
| Unrealized gains (losses) | | |
| Included in earnings | **103** | 634 |
| Included in other comprehensive income | **15** | (351) |
| Purchases, sales or other settlements during the period | **(144)** | (37) |
| Net transfers in to (out of) Level 3 | **(39)** | (93) |
| Balance at December 31 | **$ 84** | $ 149 |

The table below reflects the gross and net fair values of the Corporation's derivative instruments as of December 31, 2009:

| | Accounts Receivable | Accounts Payable |
|---|---|---|
| | (Millions of dollars) | |
| Derivative contracts designated as hedging instruments | | |
| Commodity | $ 748 | $ (1,166) |
| Derivative contracts not designated as hedging instruments* | | |
| Commodity | 9,145 | (10,493) |
| Foreign exchange | 3 | (26) |
| Other | 12 | (14) |
| Total derivative contracts not designated as hedging instruments | 9,160 | (10,533) |
| Gross fair value of derivative contracts | 9,908 | (11,699) |
| Master netting arrangements | (8,653) | 8,653 |
| Cash collateral (received) posted | (317) | 269 |
| Net fair value of derivative contracts | $ 938 | $ (2,777) |

* *Includes trading derivatives and derivatives used for risk management.*

The Corporation generally enters into master netting arrangements to mitigate counterparty credit risk. Master netting arrangements are standardized contracts that govern all specified transactions with the same counterparty and allow the Corporation to terminate all contracts upon occurrence of certain events, such as a counterparty's default or bankruptcy. Where these arrangements provide the right of offset and the Corporation's intent and practice is to offset amounts in the case of contract terminations, the Corporation records fair value on a net basis.

The carrying amounts of the Corporation's financial instruments and derivatives are recorded at their fair values at December 31, 2009 and 2008, while fixed rate long-term debt is recorded at a carrying value of $4,467 million (fair value of $5,073 million) at December 31, 2009 and a carrying value of $3,103 million (fair value of $3,031 million) at December 31, 2008.

***Credit Risk:*** The Corporation is exposed to credit risks that may at times be concentrated with certain counterparties or groups of counterparties. Accounts receivable are generated from a diverse domestic and international customer base. The Corporation's net receivables at December 31, 2009 are concentrated with counterparties as follows: oil and gas companies — 14%, US government entities — 13%, manufacturers — 12% and domestic and foreign trading companies — 11%. The Corporation reduces its risk related to certain counterparties by using master netting arrangements and requiring collateral, generally cash or letters of credit. The Corporation records the cash collateral received or posted as an offset of the fair value of derivatives executed with the same counterparty. At December 31, 2009 and 2008, the Corporation is holding cash from counterparties of approximately $317 million and $705 million, respectively. The Corporation has posted cash to counterparties at December 31, 2009 and 2008 of approximately $269 million and $394 million, respectively.

At December 31, 2009, the Corporation had a total of $2,847 million of outstanding letters of credit, primarily issued to satisfy margin requirements. Certain of the Corporation's agreements also contain contingent collateral provisions that could require the Corporation to post additional collateral if the Corporation's credit rating declines. As of December 31, 2009, the net liability related to derivatives with contingent collateral provisions was approximately $2,120 million before cash collateral posted of approximately $260 million. At December 31, 2009, all three major credit rating agencies that rate the Corporation's debt had assigned an investment grade rating. If two of the three agencies were to downgrade the Corporation's rating to below investment grade, as of December 31, 2009, the Corporation would be required to post additional collateral of approximately $281 million.

## 15. Guarantees and Contingencies

At December 31, 2009, the Corporation's guarantees include $121 million of HOVENSA's crude oil purchases and $15 million of HOVENSA's senior debt obligations. In addition, the Corporation has $100 million in letters of credit for which it is contingently liable. As a result, the maximum potential amount of future payments that the Corporation could be required to make under its guarantees is $236 million at December 31, 2009 ($219 million at December 31, 2008). The Corporation also has a contingent purchase obligation expiring in April 2012, to acquire the remaining interest in WilcoHess, a retail gasoline station joint venture. As of December 31, 2009, the estimated value of the purchase obligation is approximately $184 million.

The Corporation is subject to loss contingencies with respect to various lawsuits, claims and other proceedings, including environmental matters. A liability is recognized in the Corporation's consolidated financial statements when it is probable a loss has been incurred and the amount can be reasonably estimated. If the risk of loss is probable, but the amount cannot be reasonably estimated or the risk of loss is only reasonably possible, a liability is not accrued; however, the Corporation discloses the nature of those contingencies.

The Corporation, along with many other companies engaged in refining and marketing of gasoline, has been a party to lawsuits and claims related to the use of methyl tertiary butyl ether (MTBE) in gasoline. A series of similar lawsuits, many involving water utilities or governmental entities, were filed in jurisdictions across the United States against producers of MTBE and petroleum refiners who produced gasoline containing MTBE, including the Corporation. The principal allegation in all cases is that gasoline containing MTBE is a defective product and that these parties are strictly liable in proportion to their share of the gasoline market for damage to groundwater resources and are required to take remedial action to ameliorate the alleged effects on the environment of releases of MTBE. In 2008, the majority of the cases against the Corporation were settled. In February 2010, the Corporation reached an agreement in principle to settle all but three of the remaining cases. The three unresolved cases consist of two cases that have been consolidated for pre-trial purposes in the Southern District of New York as part of a multi-district litigation proceeding and an action brought in state court by the State of New Hampshire. In 2007, a pre-tax charge of $40 million was recorded to cover all of the known MTBE cases against the Corporation.

Over the last several years, many refiners have entered into consent agreements to resolve the United States Environmental Protection Agency's (EPA) assertions that refining facilities were modified or expanded without complying with New Source Review regulations that require permits and new emission controls in certain circumstances and other regulations that impose emissions control requirements. These consent agreements, which arise out of an EPA enforcement initiative focusing on petroleum refiners and utilities, have typically imposed substantial civil fines and penalties and required (i) significant capital expenditures to install emissions control equipment over a three to eight year time period and (ii) changes to operations which resulted in increased operating costs. The capital expenditures, penalties and supplemental environmental projects for individual refineries covered by the settlements can vary significantly, depending on the size and configuration of the refinery, the circumstances of the alleged modifications and whether the refinery has previously installed more advanced pollution controls. The EPA initially contacted the Corporation and HOVENSA regarding the Petroleum Refinery Initiative in August 2003. Negotiations with the EPA and the relevant states and the Virgin Islands are continuing and substantial progress has been made toward resolving this matter for both the Corporation and HOVENSA. While the effect on the Corporation of the Petroleum Refining Initiative cannot be estimated until a final settlement is reached and entered by a court, additional significant future capital expenditures and operating expenses will likely be incurred by HOVENSA over a number of years. The amount of penalties, if any, is not expected to be material.

The United States Deep Water Royalty Relief Act of 1995 (the Act) implemented a royalty relief program that relieves eligible leases issued between November 28, 1995 and November 28, 2000 from paying royalties on deepwater production in Federal Outer Continental Shelf lands. The Act does not impose any price thresholds in order to qualify for the royalty relief. The U.S. Minerals Management Service (MMS) created regulations that included pricing requirements to qualify for the royalty relief provided in the Act. During the period from 2003 to

2009, the Corporation accrued the royalties imposed by the MMS regulations. The legality of the thresholds imposed by the MMS was challenged in the federal courts and, in October 2009, the U.S. Supreme Court decided not to review the appellate court's decision against the MMS. As a result, the Corporation recognized a pre-tax gain of $143 million ($89 million after income taxes) in 2009 to reverse all previously recorded royalties. The pre-tax gain is reported in Other, net within the Statement of Consolidated Income.

The Corporation is also currently subject to certain other existing claims, lawsuits and proceedings, which it considers routine and incidental to its business. The Corporation believes that there is only a remote likelihood that future costs related to any of these other known contingent liability exposures would have a material adverse impact on its financial position or results of operations.

## 16. Segment Information

The Corporation has two operating segments that comprise the structure used by senior management to make key operating decisions and assess performance. These are (1) Exploration and Production and (2) Marketing and Refining. The Exploration and Production segment explores for, develops, produces, purchases, transports and sells crude oil and natural gas. The Marketing and Refining segment manufactures refined petroleum products and purchases, trades and markets refined petroleum products, natural gas and electricity.

The following table presents financial data by operating segment for each of the three years ended December 31, 2009:

| | Exploration and Production | Marketing and Refining | Corporate and Interest | Consolidated(a) |
|---|---|---|---|---|
| | | (Millions of dollars) | | |
| **2009** | | | | |
| Operating revenues | | | | |
| Total operating revenues(b) | $ 7,259 | $ 22,464 | $ 1 | |
| Less: Transfers between affiliates | 110 | — | — | |
| Operating revenues from unaffiliated customers | $ 7,149 | $ 22,464 | $ 1 | $ 29,614 |
| Net income (loss) attributable to Hess Corporation | $ 1,042 | $ 127 | $ (429) | $ 740 |
| Equity in income (loss) of HOVENSA L.L.C. | $ — | $ (229) | $ — | $ (229) |
| Interest expense | — | — | 360 | 360 |
| Depreciation, depletion and amortization | 2,167 | 79 | 8 | 2,254 |
| Provision (benefit) for income taxes | 944 | 24 | (253) | 715 |
| Investments in affiliates | 57 | 856 | — | 913 |
| Identifiable assets | 21,810 | 6,388 | 1,267 | 29,465 |
| Capital employed(c) | 14,163 | 2,979 | 853 | 17,995 |
| Capital expenditures | 2,800 | 83 | 35 | 2,918 |

**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

| | Exploration and Production | Marketing and Refining | Corporate and Interest | Consolidated(a) |
|---|---|---|---|---|
| | (Millions of dollars) | | | |
| 2008 | | | | |
| Operating revenues | | | | |
| Total operating revenues(b) | $ 10,095 | $ 31,273 | $ 3 | |
| Less: Transfers between affiliates | 237 | — | — | |
| Operating revenues from unaffiliated customers | $ 9,858 | $ 31,273 | $ 3 | $ 41,134 |
| Net income (loss) attributable to Hess Corporation | $ 2,423 | $ 277 | $ (340) | $ 2,360 |
| Equity in income of HOVENSA L.L.C. | $ — | $ 44 | $ — | $ 44 |
| Interest expense | — | — | 267 | 267 |
| Depreciation, depletion and amortization | 1,952 | 74 | 3 | 2,029 |
| Provision (benefit) for income taxes | 2,365 | 162 | (187) | 2,340 |
| Investments in affiliates | 57 | 1,070 | — | 1,127 |
| Identifiable assets | 19,506 | 6,680 | 2,403 | 28,589 |
| Capital employed(c) | 12,945 | 3,178 | 223 | 16,346 |
| Capital expenditures | 4,251 | 149 | 38 | 4,438 |
| 2007 | | | | |
| Operating revenues | | | | |
| Total operating revenues(b) | $ 7,933 | $ 23,993 | $ 2 | |
| Less: Transfers between affiliates | 201 | — | — | |
| Operating revenues from unaffiliated customers | $ 7,732 | $ 23,993 | $ 2 | $ 31,727 |
| Net income (loss) attributable to Hess Corporation | $ 1,842 | $ 300 | $ (310) | $ 1,832 |
| Equity in income of HOVENSA L.L.C. | $ — | $ 176 | $ — | $ 176 |
| Interest expense | — | — | 256 | 256 |
| Depreciation, depletion and amortization | 1,503 | 68 | 5 | 1,576 |
| Provision (benefit) for income taxes | 1,865 | 181 | (174) | 1,872 |
| Investments in affiliates | 57 | 1,060 | — | 1,117 |
| Identifiable assets | 17,008 | 6,667 | 2,456 | 26,131 |
| Capital employed(c) | 11,349 | 3,130 | (499) | 13,980 |
| Capital expenditures | 3,438 | 118 | 22 | 3,578 |

(a) *After elimination of transactions between affiliates, which are valued at approximate market prices.*

(b) *Sales and operating revenues are reported net of excise and similar taxes in the consolidated statement of income, which amounted to approximately $2,100 million, $2,200 million and $2,000 million in 2009, 2008 and 2007, respectively.*

(c) *Calculated as equity plus debt.*

Financial information by major geographic area for each of the three years ended December 31, 2009:

| | United States | Europe | Africa | Asia and Other | Consolidated |
|---|---|---|---|---|---|
| | | | (Millions of dollars) | | |
| **2009** | | | | | |
| Operating revenues | **$ 24,611** | **$1,771** | **$ 1,898** | **$ 1,334** | **$ 29,614** |
| Property, plant and equipment (net) | **5,792** | **3,930** | **3,617** | **3,288** | **16,627** |
| 2008 | | | | | |
| Operating revenues | $ 33,202 | $ 3,488 | $ 3,173 | $ 1,271 | $ 41,134 |
| Property, plant and equipment (net) | 5,319 | 3,674 | 4,139 | 3,139 | 16,271 |
| 2007 | | | | | |
| Operating revenues | $ 25,530 | $2,647 | $ 2,443 | $ 1,107 | $ 31,727 |
| Property, plant and equipment (net) | 3,611 | 3,749 | 4,599 | 2,675 | 14,634 |

## 17. Related Party Transactions

The following table presents related party transactions for the year-ended December 31:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (Millions of dollars) | |
| Purchases of petroleum products: | | | |
| HOVENSA* | **$3,659** | $6,589 | $5,238 |
| Sales of petroleum products and crude oil: | | | |
| WilcoHess | **1,634** | 2,590 | 2,014 |
| HOVENSA | **530** | 701 | 213 |

* *The Corporation has agreed to purchase 50% of HOVENSA's production of refined products at market prices, after sales by HOVENSA to unaffiliated parties.*

## HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

## SUPPLEMENTARY OIL AND GAS DATA
**(Unaudited)**

The Supplementary Oil and Gas Data that follows is presented in accordance with ASC 932, *Disclosures about Oil and Gas Producing Activities,* and includes (1) costs incurred, capitalized costs and results of operations relating to oil and gas producing activities, (2) net proved oil and gas reserves, and (3) a standardized measure of discounted future net cash flows relating to proved oil and gas reserves, including a reconciliation of changes therein.

The Corporation produces crude oil, natural gas liquids and/or natural gas principally in Algeria, Azerbaijan, Denmark, Equatorial Guinea, Gabon, Indonesia, Libya, Malaysia, Norway, Russia, Thailand, the United Kingdom and the United States. Exploration activities are also conducted, or are planned, in additional countries.

### Costs Incurred in Oil and Gas Producing Activities

| For the Years Ended December 31 | Total | United States | Europe | Africa | Asia and Other |
|---|---|---|---|---|---|
| | | (Millions of dollars) | | | |
| **2009** | | | | | |
| Property acquisitions | | | | | |
| Unproved | **$ 188** | **$ 184** | **$ 2** | $ — | **$ 2** |
| Proved* | **74** | — | — | — | **74** |
| Exploration | **938** | **206** | **69** | **225** | **438** |
| Production and development capital expenditures** | **1,918** | **807** | **513** | **255** | **343** |
| 2008 | | | | | |
| Property acquisitions | | | | | |
| Unproved | $ 684 | $ 642 | $ — | $ — | $ 42 |
| Proved* | 300 | 87 | — | 210 | 3 |
| Exploration | 1,134 | 408 | 121 | 275 | 330 |
| Production and development capital expenditures** | 2,867 | 1,042 | 881 | 451 | 493 |
| 2007 | | | | | |
| Property acquisitions | | | | | |
| Unproved | $ 325 | $ 316 | $ — | $ 1 | $ 8 |
| Proved* | 137 | 137 | — | — | — |
| Exploration | 719 | 421 | 65 | 77 | 156 |
| Production and development capital expenditures** | 2,751 | 690 | 764 | 698 | 599 |

* *Includes wells, equipment and facilities acquired with proved reserves.*

** *Also includes $(9) million, $344 million and $146 million in 2009, 2008 and 2007, respectively, related to the accruals and revisions for asset retirement obligations.*

### Capitalized Costs Relating to Oil and Gas Producing Activities

| | At December 31 2009 | At December 31 2008 |
|---|---|---|
| | (Millions of dollars) | |
| Unproved properties | **$ 2,347** | $ 2,265 |
| Proved properties | **3,121** | 3,009 |
| Wells, equipment and related facilities | **22,118** | 20,058 |
| Total costs | **27,586** | 25,332 |
| Less: reserve for depreciation, depletion, amortization and lease impairment | **12,273** | 10,269 |
| Net capitalized costs | **$15,313** | $ 15,063 |

### Results of Operations for Oil and Gas Producing Activities

The results of operations shown below exclude non-oil and gas producing activities, primarily gains on sales of oil and gas properties, interest expense, gains and losses resulting from foreign exchange transactions and other non-operating income. Therefore, these results are on a different basis than the net income from Exploration and Production operations reported in management's discussion and analysis of results of operations and in Note 16, Segment Information, in the notes to the financial statements.

| For the Years Ended December 31 | Total | United States | Europe | Africa | Asia and Other |
|---|---|---|---|---|---|
| | | | (Millions of dollars) | | |
| **2009** | | | | | |
| Sales and other operating revenues | | | | | |
| Unaffiliated customers | **$ 6,725** | **$ 1,501** | **$ 1,827** | **$ 2,193** | **$ 1,204** |
| Inter-company | **110** | **110** | **—** | **—** | **—** |
| Total revenues | **6,835** | **1,611** | **1,827** | **2,193** | **1,204** |
| Costs and expenses | | | | | |
| Production expenses, including related taxes(a) | **1,805** | **431** | **642** | **480** | **252** |
| Exploration expenses, including dry holes and lease impairment | **829** | **383** | **75** | **159** | **212** |
| General, administrative and other expenses | **255** | **130** | **45** | **22** | **58** |
| Depreciation, depletion and amortization(b) | **2,167** | **503** | **473** | **821** | **370** |
| Total costs and expenses | **5,056** | **1,447** | **1,235** | **1,482** | **892** |
| Results of operations before income taxes | **1,779** | **164** | **592** | **711** | **312** |
| Provision for income taxes | **904** | **64** | **185** | **514** | **141** |
| Results of operations | **$ 875** | **$ 100** | **$ 407** | **$ 197** | **$ 171** |
| 2008 | | | | | |
| Sales and other operating revenues | | | | | |
| Unaffiliated customers | $9,569 | $ 1,415 | $ 3,435 | $ 3,580 | $1,139 |
| Inter-company | 237 | 237 | — | — | — |
| Total revenues | 9,806 | 1,652 | 3,435 | 3,580 | 1,139 |
| Costs and expenses | | | | | |
| Production expenses, including related taxes(c) | 1,872 | 373 | 811 | 465 | 223 |
| Exploration expenses, including dry holes and lease impairment | 725 | 305 | 45 | 186 | 189 |
| General, administrative and other expenses | 302 | 159 | 86 | 19 | 38 |
| Depreciation, depletion and amortization(d) | 1,952 | 238 | 591 | 888 | 235 |
| Total costs and expenses | 4,851 | 1,075 | 1,533 | 1,558 | 685 |
| Results of operations before income taxes | 4,955 | 577 | 1,902 | 2,022 | 454 |
| Provision for income taxes | 2,490 | 223 | 920 | 1,181 | 166 |
| Results of operations | $ 2,465 | $ 354 | $ 982 | $ 841 | $ 288 |

| For the Years Ended December 31 | Total | United States | Europe | Africa | Asia and Other |
|---|---|---|---|---|---|
| | | | (Millions of dollars) | | |
| 2007 | | | | | |
| Sales and other operating revenues | | | | | |
| Unaffiliated customers | $7,297 | $ 1,010 | $2,670 | $2,609 | $ 1,008 |
| Inter-company | 201 | 201 | — | — | — |
| Total revenues | 7,498 | 1,211 | 2,670 | 2,609 | 1,008 |
| Costs and expenses | | | | | |
| Production expenses, including related taxes | 1,581 | 280 | 723 | 381 | 197 |
| Exploration expenses, including dry holes and lease impairment | 515 | 302 | 43 | 90 | 80 |
| General, administrative and other expenses | 257 | 130 | 73 | 17 | 37 |
| Depreciation, depletion and amortization(e) | 1,503 | 187 | 548 | 593 | 175 |
| Total costs and expenses | 3,856 | 899 | 1,387 | 1,081 | 489 |
| Results of operations before income taxes | 3,642 | 312 | 1,283 | 1,528 | 519 |
| Provision for income taxes | 1,817 | 121 | 661 | 911 | 124 |
| Results of operations | $1,825 | $ 191 | $ 622 | $ 617 | $ 395 |

(a) *Includes $20 million ($15 million after income taxes) for reductions in carrying value of materials inventory in Equatorial Guinea.*

(b) *Includes $52 million ($26 million after income taxes) for reductions in carrying value of two short lived fields and production equipment in the U.K. North Sea.*

(c) *Includes $15 million ($9 million after income taxes) of Gulf of Mexico hurricane related costs.*

(d) *Includes asset impairment charges of $30 million ($17 million after income taxes).*

(e) *Includes asset impairment charges of $112 million ($56 million after income taxes).*

## Oil and Gas Reserves

The Corporation's proved oil and gas reserves are calculated in accordance with SEC regulations and the requirements of the FASB. Proved oil and gas reserves are quantities, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from known reservoirs under existing economic conditions, operating methods and government regulations. The Corporation's estimation of net recoverable quantities of liquid hydrocarbons and natural gas is a highly technical process performed by internal teams of geoscience professionals and reservoir engineers. Estimates of reserves were prepared by the use of standard engineering and geoscience methods generally accepted in the petroleum industry. The method or combination of methods used in the analysis of each reservoir is based on the maturity of the reservoir, the completeness of the subsurface data available at the time of the estimate, the stage of reservoir development and the production history. Where applicable, reliable technologies may be used in reserve estimation, as defined in the SEC regulations. These technologies, including computational methods, must have been field tested and demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

Commencing in 2009, the product prices used in the estimation of oil and gas reserves were the average oil and gas selling prices during the twelve month period prior to the reporting date determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, except for prices set in contractual arrangements. In order for reserves to be classified as proved, any required government approvals must be obtained and depending on the cost of the project, either senior management or the board of directors must commit to fund the development.

The Corporation's proved reserves are subject to certain risks and uncertainties. These risks include commodity price risk, technical risk and political risk. Reference is made to Item 1A, *Risk Factors Related to Our Business and Operations* on page 11 of this Form 10-K.

*Internal Controls*

The Corporation maintains internal controls over its oil and gas reserve estimation process which are administered by the Corporation's Senior Vice President of E&P Technology and its Chief Financial Officer. Estimates of reserves are prepared by technical staff that work directly with the oil and gas properties using standard reserve estimation guidelines, definitions and methodologies. Each year, reserve estimates for a selection of the Corporation's assets are subject to internal technical audits and reviews. In addition, an independent third party reserve engineer reviews and audits a significant portion of the Corporation's reported reserves (see below). Reserve estimates are reviewed by senior management and the Board of Directors.

*Qualifications*

The person primarily responsible for overseeing the preparation of the Corporation's oil and gas reserves is Mr. Scott Heck, Senior Vice President of E&P Technology. Mr. Heck is a member of the Society of Petroleum Engineers with 30 years of industry experience in oil and gas reservoir management and reserve estimation.

*Reserves Audit*

The Corporation engaged the consulting firm of DeGolyer and MacNaughton (D&M) to perform an audit of the internally prepared reserve estimates on certain fields aggregating approximately 80% of 2009 year-end reported reserve quantities on a barrel of oil equivalent basis. The purpose of the report dated January 15, 2010 was to provide additional assurance on the reasonableness of internally prepared reserve estimates and compliance with SEC regulations. The D&M letter report on the Corporation's estimated oil and gas reserves was prepared using standard geological and engineering methods generally accepted in the petroleum industry. D&M is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world for over 70 years. The D&M letter report on the Corporation's December 31, 2009 oil and gas reserves is included as an exhibit to this Form 10-K. While the D&M report should be read in its entirety, the report concludes that for the properties reviewed by D&M, the total net proved reserve estimates prepared by Hess and audited by D&M, in the aggregate, did not differ materially. The report also includes among other information, the qualifications of the technical person primarily responsible for overseeing such reserve audit.

*Effect of adopting new SEC requirements*

The SEC issued a final rule on oil and gas reserve estimation and disclosure effective for year-end 2009 reporting. The SEC's final rule was designed to modernize and update the oil and gas reserve disclosure requirements to align them with current industry practices and changes in technology. In January 2010, the FASB issued its final accounting standards update, Extractive Industries — Oil and Gas (ASC 932), which principally conformed existing FASB standards to the new SEC guidelines. Since it was not practical to calculate reserve estimates under both the old and new reserve estimation standards as of year end, it is not possible to precisely measure the effect of adopting the new SEC requirements on total proved reserves at December 31, 2009. However, the Corporation estimates that the effect of initially applying the new rules, primarily due to application of the new reserve definitions and the consideration of permitted technology, was to increase year end 2009 total proved reserves by approximately 2%. The change in reserve estimates resulting from applying the new rules is included in the table below as 2009 revisions and additions to proved reserves. The Corporation estimates that the effect of adopting the new rules on its net income in 2010 will be an increase of approximately $80 million, after tax, due to lower depreciation, depletion and amortization costs, assuming 2010 budgeted production levels for the affected fields occur as forecasted.

*Proved undeveloped reserves*

The December 31, 2009 oil and gas reserve estimates disclosed below include 374 million barrels of liquid hydrocarbons and 1,276 million mcf of natural gas classified as proved undeveloped reserves. Proved undeveloped liquid reserves decreased in 2009, primarily due to the commencement of production from the Shenzi Field in the deepwater Gulf of Mexico. Proved undeveloped natural gas reserves also decreased in 2009 due to the continuation of development activities in Block A-18 in the JDA. In addition, as part of its normal production operations, the

Corporation's drilling programs on existing fields resulted in the reclassification of proved undeveloped reserves to developed. In 2009, these changes occurred primarily at certain fields in the United States, Equatorial Guinea, Azerbaijan and Russia. For the year ended December 31, 2009, the Corporation estimates that capital expenditures of approximately $450 million were incurred to convert proved undeveloped reserves to proved developed reserves. The Corporation is involved in multiple long term projects that have staged developments. Certain of these projects have proved reserves, which have been classified as undeveloped for a period in excess of five years, totaling approximately 145 million barrels of oil equivalent, or 10% of year end 2009 total proved reserves. The proved undeveloped reserves in excess of five years are related to gas projects in Block A-18 in the JDA, Indonesia, and Norway that are being developed in phases to satisfy long-term gas sales contracts and an oil project in Azerbaijan that is still under development.

Following are the Corporation's proved reserves for the three years ended December 31, 2009:

| | Crude Oil, Condensate and Natural Gas Liquids (Millions of barrels) | | | | | Natural Gas (Millions of mcf) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | United States | Europe | Africa | Asia and Other | Total | United States | Europe | Africa, Asia and Other | Total |
| Net Proved Developed and Undeveloped Reserves | | | | | | | | | |
| At January 1, 2007 | 138 | 340 | 304 | 50 | 832 | 236 | 677 | 1,553 | 2,466 |
| Revisions of previous estimates(b) | 37 | 17 | 17 | 1 | 72 | 32 | 73 | 143 | 248 |
| Extensions, discoveries and other additions | 17 | 14 | 6 | 23 | 60 | 26 | 11 | 148 | 185 |
| Improved recovery | 22 | — | — | — | 22 | 13 | — | — | 13 |
| Purchases of minerals in place | 5 | — | — | — | 5 | 1 | — | — | 1 |
| Sales of minerals in place | — | (6) | — | — | (6) | — | (4) | — | (4) |
| Production | (15) | (36) | (42) | (7) | (100) | (38) | (101) | (102) | (241) |
| At December 31, 2007(a) | 204 | 329 | 285 | 67 | 885(c) | 270 | 656 | 1,742 | 2,668 |
| Revisions of previous estimates(b) | 9 | 30 | 83 | 25 | 147 | 22 | 84 | 188 | 294 |
| Extensions, discoveries and other additions | 26 | 5 | 1 | — | 32 | 18 | — | 65 | 83 |
| Improved recovery | 1 | — | — | — | 1 | — | — | — | — |
| Purchases of minerals in place | 2 | — | — | — | 2 | — | — | — | — |
| Sales of minerals in place | — | — | — | — | — | — | — | — | — |
| Production | (15) | (32) | (45) | (5) | (97) | (34) | (101) | (137) | (272) |
| At December 31, 2008(a) | **227** | **332** | **324** | **87** | **970(c)** | **276** | **639** | **1,858** | **2,773** |
| Revisions of previous estimates(b) | **22** | **28** | **34** | **(7)** | **77** | **46** | **66** | **83** | **195** |
| Extensions, discoveries and other additions | **26** | **1** | — | — | **27** | **23** | — | — | **23** |
| Improved recovery | — | — | — | — | — | — | — | — | — |
| Purchases of minerals in place | — | — | — | — | — | — | — | **101** | **101** |
| Sales of minerals in place | — | — | — | — | — | — | **(1)** | — | **(1)** |
| Production | **(26)** | **(31)** | **(44)** | **(6)** | **(107)** | **(39)** | **(62)** | **(169)** | **(270)** |
| At December 31, 2009 | **249** | **330** | **314** | **74** | **967(c)** | **306(d)** | **642** | **1,873** | **2,821** |
| Net Proved Developed Reserves | | | | | | | | | |
| At January 1, 2007 | 90 | 223 | 194 | 19 | 526 | 195 | 517 | 585 | 1,297 |
| At December 31, 2007 | 101 | 201 | 201 | 15 | 518 | 199 | 519 | 654 | 1,372 |
| At December 31, 2008 | 119 | 192 | 237 | 23 | 571 | 202 | 502 | 727 | 1,431 |
| At December 31, 2009 | **154** | **171** | **241** | **27** | **593** | **205** | **417** | **923** | **1,545** |

| | Crude Oil, Condensate and Natural Gas Liquids | | | | | Natural Gas | | | |
|---|---|---|---|---|---|---|---|---|---|
| | United States | Europe | Africa | Asia and Other | Total | United States | Europe | Africa, Asia and Other | Total |
| | (Millions of barrels) | | | | | (Millions of mcf) | | | |
| Net Proved Undeveloped Reserves | | | | | | | | | |
| At January 1, 2007 | 48 | 117 | 110 | 31 | 306 | 41 | 160 | 968 | 1,169 |
| At December 31, 2007 | 103 | 128 | 84 | 52 | 367 | 71 | 137 | 1,088 | 1,296 |
| At December 31, 2008 | 108 | 140 | 87 | 64 | 399 | 74 | 137 | 1,131 | 1,342 |
| At December 31, 2009 | **95** | **159** | **73** | **47** | **374** | **101** | **225** | **950** | **1,276** |

(a) *Proved reserves in 2008 and 2007 were determined by D&M, an independent petroleum engineering consulting firm.*

(b) *Includes the impact of changes in selling prices on the reserve estimates for each year for production sharing contracts with cost recovery provisions. In 2009, revisions included reductions of approximately 18 million barrels of crude oil and 102 million mcf of natural gas relating to higher selling prices. In 2008, revisions included increases of approximately 59 million barrels of crude oil and 104 million mcf of natural gas relating to lower selling prices. In 2007 revisions included reductions of approximately 29 million barrels of crude oil and 104 million mcf of natural gas relating to higher selling prices.*

(c) *Includes 17 million barrels in 2009, 16 million barrels in 2008 and 20 million barrels in 2007 of crude oil reserves relating to noncontrolling interest owners of corporate joint ventures.*

(d) *Excludes approximately 480 million mcf of carbon dioxide gas for sale or use in company operations.*

*Production sharing contracts*

The Corporation's proved reserves include crude oil and natural gas reserves relating to long-term supply agreements with governments or authorities in which the Corporation has the legal right to produce or has a revenue interest in the production. Proved reserves from these production sharing contracts for each of the three years ended December 31, 2009 are presented separately below, as well as volumes produced and received during 2009, 2008 and 2007 from these production sharing contracts.

| | Crude Oil, Condensate and Natural Gas Liquids | | | | | Natural Gas | | | |
|---|---|---|---|---|---|---|---|---|---|
| | United States | Europe | Africa | Asia and Other | Total | United States | Europe | Africa, Asia and Other | Total |
| | (Millions of barrels) | | | | | (Millions of mcf) | | | |
| Production Sharing Contracts | | | | | | | | | |
| Proved Reserves | | | | | | | | | |
| At December 31, 2007 | — | — | 154 | 63 | 217 | — | — | 1,519 | 1,519 |
| At December 31, 2008 | — | — | 188 | 82 | 270 | — | — | 1,604 | 1,604 |
| At December 31, 2009 | **—** | **—** | **161** | **68** | **229** | **—** | **—** | **1,599** | **1,599** |
| Production | | | | | | | | | |
| 2007 | — | — | 33 | 7 | 40 | — | — | 67 | 67 |
| 2008 | — | — | 37 | 4 | 41 | — | — | 103 | 103 |
| 2009 | **—** | **—** | **36** | **5** | **41** | **—** | **—** | **136** | **136** |

**Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves**

Future net cash flows are calculated by applying prescribed oil and gas selling prices used in determining year-end reserve estimates (adjusted for price changes provided by contractual arrangements) to estimated future production of proved oil and gas reserves, less estimated future development and production costs, which are based on year-end costs and existing economic assumptions. Future income tax expenses are computed by applying the appropriate year-end statutory tax rates to the pre-tax net cash flows relating to the Corporation's proved oil and gas reserves. Future net cash flows are discounted at the prescribed rate of 10%. The discounted future net cash flow estimates do not include exploration expenses, interest expense or corporate general and administrative expenses. The selling prices of crude oil and natural gas are highly volatile. The prices which are required to be used for the discounted future net cash flows do not include the effects of hedges and may not be representative of future selling prices. The future net cash flow estimates could be materially different if other assumptions were used.

| At December 31 | Total | United States | Europe | Africa | Asia and Other |
|---|---|---|---|---|---|
| | | | (Millions of dollars) | | |
| **2009** | | | | | |
| Future revenues | **$ 65,275** | **$ 14,047** | **$ 20,298** | **$ 18,615** | **$12,315** |
| Less: | | | | | |
| Future production costs | **18,336** | **4,037** | **7,289** | **4,154** | **2,856** |
| Future development costs | **11,041** | **2,532** | **3,829** | **1,798** | **2,882** |
| Future income tax expenses | **17,976** | **2,744** | **5,114** | **8,601** | **1,517** |
| | **47,353** | **9,313** | **16,232** | **14,553** | **7,255** |
| Future net cash flows | **17,922** | **4,734** | **4,066** | **4,062** | **5,060** |
| Less: discount at 10% annual rate | **6,521** | **2,106** | **1,653** | **841** | **1,921** |
| Standardized measure of discounted future net cash flows | **$ 11,401** | **$ 2,628** | **$ 2,413** | **$ 3,221** | **$ 3,139** |
| 2008 | | | | | |
| Future revenues | $ 46,846 | $ 9,801 | $15,757 | $ 12,332 | $8,956 |
| Less: | | | | | |
| Future production costs | 15,884 | 3,422 | 5,998 | 3,763 | 2,701 |
| Future development costs | 10,649 | 1,983 | 4,014 | 1,781 | 2,871 |
| Future income tax expenses | 9,299 | 1,467 | 2,741 | 4,440 | 651 |
| | 35,832 | 6,872 | 12,753 | 9,984 | 6,223 |
| Future net cash flows | 11,014 | 2,929 | 3,004 | 2,348 | 2,733 |
| Less: discount at 10% annual rate | 4,050 | 1,602 | 984 | 493 | 971 |
| Standardized measure of discounted future net cash flows | $ 6,964 | $ 1,327 | $ 2,020 | $ 1,855 | $ 1,762 |
| 2007 | | | | | |
| Future revenues | $94,955 | $18,876 | $ 32,778 | $28,960 | $ 14,341 |
| Less: | | | | | |
| Future production costs | 17,862 | 2,733 | 7,569 | 4,770 | 2,790 |
| Future development costs | 10,118 | 1,472 | 4,329 | 1,640 | 2,677 |
| Future income tax expenses | 33,833 | 5,291 | 12,083 | 14,309 | 2,150 |
| | 61,813 | 9,496 | 23,981 | 20,719 | 7,617 |
| Future net cash flows | 33,142 | 9,380 | 8,797 | 8,241 | 6,724 |
| Less: discount at 10% annual rate | 11,237 | 3,792 | 2,826 | 2,155 | 2,464 |
| Standardized measure of discounted future net cash flows | $ 21,905 | $ 5,588 | $ 5,971 | $ 6,086 | $ 4,260 |

**Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves**

| For the Years Ended December 31 | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (Millions of dollars) | |
| Standardized measure of discounted future net cash flows at beginning of year | **$ 6,964** | $ 21,905 | $ 12,361 |
| Changes during the year | | | |
| Sales and transfers of oil and gas produced during year, net of production costs | **(5,030)** | (7,934) | (5,917) |
| Development costs incurred during year | **1,927** | 2,523 | 2,605 |
| Net changes in prices and production costs applicable to future production | **7,484** | (28,627) | 18,646 |
| Net change in estimated future development costs | **(227)** | (1,056) | (2,554) |
| Extensions and discoveries (including improved recovery) of oil and gas reserves, less related costs | **426** | 334 | 3,173 |
| Revisions of previous oil and gas reserve estimates | **1,855** | 1,730 | 4,036 |
| Net purchases (sales) of minerals in place, before income taxes | **165** | 18 | (50) |
| Accretion of discount | **1,235** | 4,109 | 2,233 |
| Net change in income taxes | **(4,061)** | 13,859 | (9,259) |
| Revision in rate or timing of future production and other changes | **663** | 103 | (3,369) |
| Total | **4,437** | (14,941) | 9,544 |
| Standardized measure of discounted future net cash flows at end of year | **$11,401** | $ 6,964 | $21,905 |

## HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

## QUARTERLY FINANCIAL DATA
**(Unaudited)**

Quarterly results of operations for the years ended December 31:

| | Sales and Other Operating Revenues | Gross Profit(a) | Net Income (Loss) Attributable to Hess Corporation | Diluted Net Income (Loss) per Share |
|---|---|---|---|---|
| | (Million of dollars, except per share data) | | | |
| **2009** | | | | |
| First | **$ 6,915** | **$ 533** | **$ (59)(b)** | **$ (.18)** |
| Second | **6,751** | **756** | **100 (c)** | **.31** |
| Third | **7,270** | **832** | **341 (d)** | **1.05** |
| Fourth | **8,678** | **1,282** | **358 (e)** | **1.10** |
| 2008 | | | | |
| First | $ 10,647 | $ 1,788 | $ 759 | $ 2.34 |
| Second | 11,711 | 2,084 | 900 | 2.76 |
| Third | 11,396 | 1,904 | 775 | 2.37 |
| Fourth | 7,380 | 656 | (74)(f) | (.23) |

*(a) Gross profit represents sales and other operating revenues, less cost of products sold, production expenses, marketing expenses, other operating expenses and depreciation, depletion and amortization.*

*(b) Includes after-tax charges of $13 million related to asset impairments in the United Kingdom North Sea and $16 million for retirement benefits and employee severance costs.*

*(c) Includes after-tax charges of $31 million to reduce the carrying value of production equipment in the United Kingdom North Sea and materials inventory in Equatorial Guinea and the United States.*

*(d) Includes after-tax gains of $101 million primarily relating to the resolution of a royalty dispute.*

*(e) Includes after- tax charges of $34 million for the repurchase of bonds and $10 million for pension plan settlements related to employee retirements.*

*(f) Includes after-tax charges of $17 million related to asset impairments in the United States and United Kingdom North Sea and $9 million associated with Hurricanes Gustav and Ike in the Gulf of Mexico.*

The results of operations for the periods reported herein should not be considered as indicative of future operating results.

**Item 9.** ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

**Item 9A.** ***Controls and Procedures***

Based upon their evaluation of the Corporation's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2009, John B. Hess, Chief Executive Officer, and John P. Rielly, Chief Financial Officer, concluded that these disclosure controls and procedures were effective as of December 31, 2009.

There was no change in internal controls over financial reporting identified in the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 in the quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, internal controls over financial reporting.

Management's report on internal control over financial reporting and the attestation report on the Corporation's internal controls over financial reporting are included in Item 8 of this annual report on Form 10-K.

**Item 9B.** ***Other Information***

None.

## PART III

**Item 10.** ***Directors, Executive Officers and Corporate Governance***

Information relating to Directors is incorporated herein by reference to "Election of Directors" from the Registrant's definitive proxy statement for the annual meeting of stockholders to be held on May 5, 2010.

Information regarding executive officers is included in Part I hereof.

The Corporation has adopted a Code of Business Conduct and Ethics applicable to the Corporation's directors, officers (including the Corporation's principal executive officer and principal financial officer) and employees. The Code of Business Conduct and Ethics is available on the Corporation's website. In the event that we amend or waive any of the provisions of the Code of Business Conduct and Ethics that relate to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K, we intend to disclose the same on the Corporation's website at www.hess.com.

Information relating to the audit committee is incorporated herein by reference to "Election of Directors" from the registrant's definitive proxy statement for the annual meeting of stockholders to be held on May 5, 2010.

**Item 11.** ***Executive Compensation***

Information relating to executive compensation is incorporated herein by reference to "Election of Directors — Executive Compensation and Other Information," from the Registrant's definitive proxy statement for the annual meeting of stockholders to be held on May 5, 2010.

**Item 12.** ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Information pertaining to security ownership of certain beneficial owners and management is incorporated herein by reference to "Election of Directors — Ownership of Voting Securities by Certain Beneficial Owners" and "Election of Directors — Ownership of Equity Securities by Management" from the Registrant's definitive proxy statement for the annual meeting of stockholders to be held on May 5, 2010.

See Equity Compensation Plans in Item 5 for information pertaining to securities authorized for issuance under equity compensation plans.

### Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Information relating to this item is incorporated herein by reference to “Election of Directors” from the Registrant’s definitive proxy statement for the annual meeting of stockholders to be held on May 5, 2010.

### Item 14. *Principal Accounting Fees and Services*

Information relating to this item is incorporated by reference to “Ratification of Selection of Independent Auditors” from the Registrant’s definitive proxy statement for the annual meeting of stockholders to be held on May 5, 2010.

## PART IV

### Item 15. *Exhibits, Financial Statement Schedules*

**(a) 1. and 2. Financial statements and financial statement schedules**

The financial statements filed as part of this Annual Report on Form 10-K are listed in the accompanying index to financial statements and schedules in Item 8, Financial Statements and Supplementary Data.

**3. Exhibits**

| | |
|---|---|
| 3(1) | Restated Certificate of Incorporation of Registrant, including amendment thereto dated May 3, 2006 incorporated by reference to Exhibit 3 of Registrant’s Form 10-Q for the three months ended June 30, 2006. |
| 3(2) | By-Laws of Registrant incorporated by reference to Exhibit 3 of Form 10-Q of Registrant for the three months ended June 30, 2002. |
| 4(1) | Five-Year Credit Agreement dated as of December 10, 2004, as amended and restated as of May 12, 2006, among Registrant, certain subsidiaries of Registrant, J.P. Morgan Chase Bank, N.A. as lender and administrative agent, and the other lenders party thereto, incorporated by reference to Exhibit(4) of Form 10-Q of Registrant for the three months ended June 30, 2006. |
| 4(2) | Indenture dated as of October 1, 1999 between Registrant and The Chase Manhattan Bank, as Trustee, incorporated by reference to Exhibit 4(1) of Form 10-Q of Registrant for the three months ended September 30, 1999. |
| 4(3) | First Supplemental Indenture dated as of October 1, 1999 between Registrant and The Chase Manhattan Bank, as Trustee, relating to Registrant’s 73/8% Notes due 2009 and 77/8% Notes due 2029, incorporated by reference to Exhibit 4(2) to Form 10-Q of Registrant for the three months ended September 30, 1999. |
| 4(4) | Prospectus Supplement dated August 8, 2001 to Prospectus dated July 27, 2001 relating to Registrant’s 5.30% Notes due 2004, 5.90% Notes due 2006, 6.65% Notes due 2011 and 7.30% Notes due 2031, incorporated by reference to Registrant’s prospectus filed pursuant to Rule 424(b)(2) under the Securities Act of 1933 on August 9, 2001. |
| 4(5) | Prospectus Supplement dated February 28, 2002 to Prospectus dated July 27, 2001 relating to Registrant’s 7.125% Notes due 2033, incorporated by reference to Registrant’s prospectus filed pursuant to Rule 424(b)(2) under the Securities Act of 1933 on February 28, 2002. |
| 4(6) | Indenture dated as of March 1, 2006 between Registrant and The Bank of New York Mellon as successor to JP Morgan Chase, as Trustee, including form of Note. Incorporated by reference to Exhibit 4 to Registrant’s Form S-3ASR filed with the Securities and Exchange Commission on March 1, 2006. |
| 4(7) | Form of 2014 Note issued pursuant to Indenture, dated as of March 1, 2006, among Registrant and The Bank of New York Mellon, as successor to JP Morgan Chase as Trustee. Incorporated by reference to Exhibit 4.1 to Registrant’s Form 8-K filed with the Securities and Exchange Commission on February 4, 2009. |
| 4(8) | Form of 2019 Note issued pursuant to Indenture, dated as of March 1, 2006, among Registrant and The Bank of New York Mellon, as successor to JP Morgan Chase, as Trustee. Incorporated by reference to Exhibit 4.2 to Registrant’s Form 8-K filed with the Securities and Exchange Commission on February 4, 2009. |

| | |
|---|---|
| 4(9) | Form of 6.00% Note, incorporated by reference to Exhibit 4.1 to the Form 8-K filed on December 15, 2009. Other instruments defining the rights of holders of long-term debt of Registrant and its consolidated subsidiaries are not being filed since the total amount of securities authorized under each such instrument does not exceed 10 percent of the total assets of Registrant and its subsidiaries on a consolidated basis. Registrant agrees to furnish to the Commission a copy of any instruments defining the rights of holders of long-term debt of Registrant and its subsidiaries upon request. |
| 10(1) | Extension and Amendment Agreement between the Government of the Virgin Islands and Hess Oil Virgin Islands Corp. incorporated by reference to Exhibit 10(4) of Form 10-Q of Registrant for the three months ended June 30, 1981. |
| 10(2) | Restated Second Extension and Amendment Agreement dated July 27, 1990 between Hess Oil Virgin Islands Corp. and the Government of the Virgin Islands incorporated by reference to Exhibit 19 of Form 10-Q of Registrant for the three months ended September 30, 1990. |
| 10(3) | Technical Clarifying Amendment dated as of November 17, 1993 to Restated Second Extension and Amendment Agreement between the Government of the Virgin Islands and Hess Oil Virgin Islands Corp. incorporated by reference to Exhibit 10(3) of Form 10-K of Registrant for the fiscal year ended December 31, 1993. |
| 10(4) | Third Extension and Amendment Agreement dated April 15, 1998 and effective October 30, 1998 among Hess Oil Virgin Islands Corp., PDVSA V.I., Inc., HOVENSA L.L.C. and the Government of the Virgin Islands incorporated by reference to Exhibit 10(4) of Form 10-K of Registrant for the fiscal year ended December 31, 1998. |
| 10(5)* | Incentive Cash Bonus Plan description incorporated by reference to Item 5.02 of Form 8-K of Registrant filed on February 10, 2009. |
| 10(6)* | Financial Counseling Program description incorporated by reference to Exhibit 10(6) of Form 10-K of Registrant for fiscal year ended December 31, 2004. |
| 10(7)* | Hess Corporation Savings and Stock Bonus Plan incorporated by reference to Exhibit 10(7) of Form 10-K of Registrant for fiscal year ended December 31, 2006. |
| 10(8)* | Performance Incentive Plan for Senior Officers, incorporated by reference to Exhibit (10) of Form 10-Q of Registrant for the three months ended June 30, 2006. |
| 10(9)* | Hess Corporation Pension Restoration Plan dated January 19, 1990 incorporated by reference to Exhibit 10(9) of Form 10-K of Registrant for the fiscal year ended December 31, 1989. |
| 10(10)* | Amendment dated December 31, 2006 to Hess Corporation Pension Restoration Plan incorporated by reference to Exhibit 10(10) of Form 10-K of Registrant for fiscal year ended December 31, 2006. |
| 10(11)* | Letter Agreement dated May 17, 2001 between Registrant and John P. Rielly relating to Mr. Rielly's participation in the Hess Corporation Pension Restoration Plan, incorporated by reference to Exhibit 10(18) of Form 10-K of Registrant for the fiscal year ended December 31, 2002. |
| 10(12)* | Second Amended and Restated 1995 Long-Term Incentive Plan, including forms of awards thereunder incorporated by reference to Exhibit 10(11) of Form 10-K of Registrant for fiscal year ended December 31, 2004. |
| 10(13)* | 2008 Long Term Incentive Plan, incorporated by reference to Annex B to Registrant's definitive proxy statement filed on March 27, 2008. |
| 10(14)* | Forms of Awards under Registrant's 2008 Long Term Incentive Plan. |
| 10(15)* | Compensation program description for non-employee directors, incorporated by reference to Item 1.01 of Form 8-K of Registrant dated January 1, 2007. |
| 10(16)* | Amended and Restated Change of Control Termination Benefits Agreement dated as of May 29, 2009 between Registrant and F. Borden Walker, incorporated by reference to Exhibit 10(1) of Form 10-Q of Registrant for the three months ended June 30, 2009. A substantially identical agreement (differing only in the signatories thereto) was entered into between Registrant and John B. Hess. |
| 10(17)* | Change of Control Termination Benefits Agreement dated as of May 29, 2009 between Registrant and John P. Rielly. Substantially identical agreements (differing only in the signatories thereto) were entered into between Registrant and other executive officers (including the named executive officers, other than those referred to in Exhibit 10(15)). |

| | |
|---|---|
| 10(18)* | Letter Agreement dated March 18, 2002 between Registrant and F. Borden Walker relating to Mr. Walker's participation in the Hess Corporation Pension Restoration Plan incorporated by reference to Exhibit 10(16) of Form 10-K of Registrant for the fiscal year ended December 31, 2001. |
| 10(19)* | Agreement between Registrant and Gregory P. Hill relating to his compensation and other terms of employment, incorporated by reference to Form 8-K of Registrant filed January 7, 2009. |
| 10(20)* | Agreement between Registrant and Timothy B. Goodell relating to his compensation and other terms of employment. |
| 10(21)* | Deferred Compensation Plan of Registrant dated December 1, 1999 incorporated by reference to Exhibit 10(16) of Form 10-K of Registrant for the fiscal year ended December 31, 1999. |
| 10(22) | Asset Purchase and Contribution Agreement dated as of October 26, 1998, among PDVSA V.I., Inc., Hess Oil Virgin Islands Corp. and HOVENSA L.L.C. (including Glossary of definitions) incorporated by reference to Exhibit 2.1 of Form 8-K of Registrant dated October 30, 1998. |
| 10(23) | Amended and Restated Limited Liability Company Agreement of HOVENSA L.L.C. dated as of October 30, 1998 incorporated by reference to Exhibit 10.1 of Form 8-K of Registrant dated October 30, 1998. |
| 21 | Subsidiaries of Registrant. |
| 23(1) | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm, dated February 26, 2010. |
| 23(2) | Consent of DeGolyer and MacNaughton dated February 26, 2010. |
| 31(1) | Certification required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)). |
| 31(2) | Certification required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)). |
| 32(1) | Certification required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350). |
| 32(2) | Certification required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350). |
| 99(1) | Letter report of DeGolyer and MacNaughton, Independent Petroleum Engineering Consulting Firm, dated January 15, 2010, on proved reserves audit as of December 31, 2009 of certain properties attributable to Registrant. |
| 101(INS) | XBRL Instance Document |
| 101(SCH) | XBRL Schema Document |
| 101(CAL) | XBRL Calculation Linkbase Document |
| 101(LAB) | XBRL Label Linkbase Document |
| 101 (PRE) | XBRL Presentation Linkbase Document |
| 101(DEF) | XBRL Definition Linkbase Document |

* *These exhibits relate to executive compensation plans and arrangements.*

**(b) Reports on Form 8-K**

During the three months ended December 31, 2009, Registrant filed or furnished the following report on Form 8-K:

1. Filing dated October 29, 2009 reporting under Items 2.02 and 9.01, a news release dated October 29, 2009 reporting results for the third quarter of 2009.

## SIGNATURES

**Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 26th day of February 2010.**

HESS CORPORATION
**(Registrant)**

By /s/ John P. Rielly

**(John P. Rielly)**
**Senior Vice President and**
**Chief Financial Officer**

**Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.**

| Signature | | Date |
|---|---|---|
| /s/ John B. Hess<br>**John B. Hess** | Director, Chairman of the Board and Chief Executive Officer<br>(Principal Executive Officer) | February 26, 2010 |
| /s/ Samuel W. Bodman<br>**Samuel W. Bodman** | Director | February 26, 2010 |
| /s/ Nicholas F. Brady<br>**Nicholas F. Brady** | Director | February 26, 2010 |
| /s/ Gregory P. Hill<br>**Gregory P. Hill** | Director | February 26, 2010 |
| /s/ Edith E. Holiday<br>**Edith E. Holiday** | Director | February 26, 2010 |
| /s/ Thomas H. Kean<br>**Thomas H. Kean** | Director | February 26, 2010 |
| /s/ Risa Lavizzo-Mourey<br>**Risa Lavizzo-Mourey** | Director | February 26, 2010 |
| /s/ Craig G. Matthews<br>**Craig G. Matthews** | Director | February 26, 2010 |
| /s/ John H. Mullin<br>**John H. Mullin** | Director | February 26, 2010 |
| /s/ Frank A. Olson<br>**Frank A. Olson** | Director | February 26, 2010 |
| /s/ John P. Rielly<br>**John P. Rielly** | Senior Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) | February 26, 2010 |
| /s/ Ernst H. von Metzsch<br>**Ernst H. von Metzsch** | Director | February 26, 2010 |
| /s/ F. Borden Walker<br>**F. Borden Walker** | Director | February 26, 2010 |
| /s/ Robert N. Wilson<br>**Robert N. Wilson** | Director | February 26, 2010 |

Schedule II

**HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**VALUATION AND QUALIFYING ACCOUNTS**

**For the Years Ended December 31, 2009, 2008 and 2007**

| | | Additions | | | |
|---|---|---|---|---|---|
| Description | Balance January 1 | Charged to Costs and Expenses | Charged to Other Accounts | Deductions from Reserves | Balance December 31 |
| | | | (In millions) | | |
| **2009** | | | | | |
| Losses on receivables | **$ 46** | **$ 13** | **$ —** | **$ 5** | **$ 54** |
| 2008 | | | | | |
| Losses on receivables | $ 41 | $ 9 | $ — | $ 4 | $ 46 |
| 2007 | | | | | |
| Losses on receivables | $ 39 | $ 5 | $ — | $ 3 | $ 41 |

**EXHIBIT INDEX**

| | |
|---|---|
| 3(1) | Restated Certificate of Incorporation of Registrant, including amendment thereto dated May 3, 2006 incorporated by reference to Exhibit(3) of Registrant's Form 10-Q for the three months ended June 30, 2006. |
| 3(2) | By-Laws of Registrant incorporated by reference to Exhibit 3 of Form 10-Q of Registrant for the three months ended June 30, 2002. |
| 4(1) | Five-Year Credit Agreement dated as of December 10, 2004, as amended and restated as of May 12, 2006, among Registrant, certain subsidiaries of Registrant, J.P. Morgan Chase Bank, N.A. as lender and administrative agent, and the other lenders party thereto, incorporated by reference to Exhibit(4) of Form 10-Q of Registrant for the three months ended June 30, 2006. |
| 4(2) | Indenture dated as of October 1, 1999 between Registrant and The Chase Manhattan Bank, as Trustee, incorporated by reference to Exhibit 4(1) of Form 10-Q of Registrant for the three months ended September 30, 1999. |
| 4(3) | First Supplemental Indenture dated as of October 1, 1999 between Registrant and The Chase Manhattan Bank, as Trustee, relating to Registrant's 7$^{3}/_{8}$% Notes due 2009 and 7$^{7}/_{8}$% Notes due 2029, incorporated by reference to Exhibit 4(2) to Form 10-Q of Registrant for the three months ended September 30, 1999. |
| 4(4) | Prospectus Supplement dated August 8, 2001 to Prospectus dated July 27, 2001 relating to Registrant's 5.30% Notes due 2004, 5.90% Notes due 2006, 6.65% Notes due 2011 and 7.30% Notes due 2031, incorporated by reference to Registrant's prospectus filed pursuant to Rule 424(b)(2) under the Securities Act of 1933 on August 9, 2001. |
| 4(5) | Prospectus Supplement dated February 28, 2002 to Prospectus dated July 27, 2001 relating to Registrant's 7.125% Notes due 2033, incorporated by reference to Registrant's prospectus filed pursuant to Rule 424(b)(2) under the Securities Act of 1933 on February 28, 2002. |
| 4(6) | Indenture dated as of March 1, 2006 between Registrant and The Bank of New York Mellon as successor to JP Morgan Chase, as Trustee, including form of Note. Incorporated by reference to Exhibit 4 to Registrant's Form S-3ASR filed with the Securities and Exchange Commission on March 1, 2006. |
| 4(7) | Form of 2014 Note issued pursuant to Indenture, dated as of March 1, 2006, among Registrant and The Bank of New York Mellon, as successor to JP Morgan Chase as Trustee. Incorporated by reference to Exhibit 4.1 to Registrant's Form 8-K filed with the Securities and Exchange Commission on February 4, 2009. |
| 4(8) | Form of 2019 Note issued pursuant to Indenture, dated as of March 1, 2006, among Registrant and The Bank of New York Mellon, as successor to JP Morgan Chase, as Trustee. Incorporated by reference to Exhibit 4.2 to Registrant's Form 8-K filed with the Securities and Exchange Commission on February 4, 2009. |
| 4(9) | Form of 6.00% Note, incorporated by reference to Exhibit 4.1 to the Form 8-K filed on December 15, 2009. Other instruments defining the rights of holders of long-term debt of Registrant and its consolidated subsidiaries are not being filed since the total amount of securities authorized under each such instrument does not exceed 10 percent of the total assets of Registrant and its subsidiaries on a consolidated basis. Registrant agrees to furnish to the Commission a copy of any instruments defining the rights of holders of long-term debt of Registrant and its subsidiaries upon request. |
| 10(1) | Extension and Amendment Agreement between the Government of the Virgin Islands and Hess Oil Virgin Islands Corp. incorporated by reference to Exhibit 10(4) of Form 10-Q of Registrant for the three months ended June 30, 1981. |
| 10(2) | Restated Second Extension and Amendment Agreement dated July 27, 1990 between Hess Oil Virgin Islands Corp. and the Government of the Virgin Islands incorporated by reference to Exhibit 19 of Form 10-Q of Registrant for the three months ended September 30, 1990. |
| 10(3) | Technical Clarifying Amendment dated as of November 17, 1993 to Restated Second Extension and Amendment Agreement between the Government of the Virgin Islands and Hess Oil Virgin Islands Corp. incorporated by reference to Exhibit 10(3) of Form 10-K of Registrant for the fiscal year ended December 31, 1993. |
| 10(4) | Third Extension and Amendment Agreement dated April 15, 1998 and effective October 30, 1998 among Hess Oil Virgin Islands Corp., PDVSA V.I., Inc., HOVENSA L.L.C. and the Government of the Virgin Islands incorporated by reference to Exhibit 10(4) of Form 10-K of Registrant for the fiscal year ended December 31, 1998. |

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| 10(5)* | Incentive Cash Bonus Plan description incorporated by reference to Item 5.02 of Form 8-K of Registrant filed on February 10, 2009. |
| 10(6)* | Financial Counseling Program description incorporated by reference to Exhibit 10(6) of Form 10-K of Registrant for fiscal year ended December 31, 2004. |
| 10(7)* | Hess Corporation Savings and Stock Bonus Plan incorporated by reference to Exhibit 10(7) of Form 10-K of Registrant for fiscal year ended December 31, 2006. |
| 10(8)* | Performance Incentive Plan for Senior Officers, incorporated by reference to Exhibit (10) of Form 10-Q of Registrant for the three months ended June 30, 2006. |
| 10(9)* | Hess Corporation Pension Restoration Plan dated January 19, 1990 incorporated by reference to Exhibit 10(9) of Form 10-K of Registrant for the fiscal year ended December 31, 1989. |
| 10(10)* | Amendment dated December 31, 2006 to Hess Corporation Pension Restoration Plan incorporated by reference to Exhibit 10(10) of Form 10-K of Registrant for fiscal year ended December 31, 2006. |
| 10(11)* | Letter Agreement dated May 17, 2001 between Registrant and John P. Rielly relating to Mr. Rielly's participation in the Hess Corporation Pension Restoration Plan, incorporated by reference to Exhibit 10(18) of Form 10-K of Registrant for the fiscal year ended December 31, 2002. |
| 10(12)* | Second Amended and Restated 1995 Long-Term Incentive Plan, including forms of awards thereunder incorporated by reference to Exhibit 10(11) of Form 10-K of Registrant for fiscal year ended December 31, 2004. |
| 10(13)* | 2008 Long Term Incentive Plan, incorporated by reference to Annex B to Registrant's definitive proxy statement filed on March 27, 2008. |
| 10(14)* | Forms of Awards under Registrant's 2008 Long Term Incentive Plan. |
| 10(15)* | Compensation program description for non-employee directors, incorporated by reference to Item 1.01 of Form 8-K of Registrant dated January 1, 2007. |
| 10(16)* | Amended and Restated Change of Control Termination Benefits Agreement dated as of May 29, 2009 between Registrant and F. Borden Walker, incorporated by reference to Exhibit 10(1) of Form 10-Q of Registrant for the three months ended June 30, 2009. A substantially identical agreement (differing only in the signatories thereto) was entered into between Registrant and John B. Hess. |
| 10(17)* | Change of Control Termination Benefits Agreement dated as of May 29, 2009 between Registrant and John P. Rielly. Substantially identical agreements (differing only in the signatories thereto) were entered into between Registrant and other executive officers (including the named executive officers, other than those referred to in Exhibit 10(15)). |
| 10(18)* | Letter Agreement dated March 18, 2002 between Registrant and F. Borden Walker relating to Mr. Walker's participation in the Hess Corporation Pension Restoration Plan incorporated by reference to Exhibit 10(16) of Form 10-K of Registrant for the fiscal year ended December 31, 2001. |
| 10(19)* | Agreement between Registrant and Gregory P. Hill relating to his compensation and other terms of employment, incorporated by reference to Form 8-K of Registrant filed January 7, 2009. |
| 10(20)* | Agreement between Registrant and Timothy B. Goodell relating to his compensation and other terms of employment. |
| 10(21)* | Deferred Compensation Plan of Registrant dated December 1, 1999 incorporated by reference to Exhibit 10(16) of Form 10-K of Registrant for the fiscal year ended December 31, 1999. |
| 10(22) | Asset Purchase and Contribution Agreement dated as of October 26, 1998, among PDVSA V.I., Inc., Hess Oil Virgin Islands Corp. and HOVENSA L.L.C. (including Glossary of definitions) incorporated by reference to Exhibit 2.1 of Form 8-K of Registrant dated October 30, 1998. |
| 10(23) | Amended and Restated Limited Liability Company Agreement of HOVENSA L.L.C. dated as of October 30, 1998 incorporated by reference to Exhibit 10.1 of Form 8-K of Registrant dated October 30, 1998. |
| 21 | Subsidiaries of Registrant. |
| 23(1) | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm, dated February 26, 2010. |
| 23(2) | Consent of DeGolyer and MacNaughton dated February 26, 2010. |
| 31(1) | Certification required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)). |

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| 31(2) | Certification required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)). |
| 32(1) | Certification required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350). |
| 32(2) | Certification required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350). |
| 99(1) | Letter report of DeGolyer and MacNaughton, Independent Petroleum Engineering Consulting Firm, dated January 15, 2010, on proved reserves audit as of December 31, 2009 of certain properties attributable to Registrant. |
| 101(INS) | XBRL Instance Document |
| 101(SCH) | XBRL Schema Document |
| 101(CAL) | XBRL Calculation Linkbase Document |
| 101(LAB) | XBRL Label Linkbase Document |
| 101 (PRE) | XBRL Presentation Linkbase Document |
| 101(DEF) | XBRL Definition Linkbase Document |

* *These exhibits relate to executive compensation plans and arrangements.*

**RESTRICTED STOCK AWARD AGREEMENT**

**pursuant to the**

**HESS CORPORATION**
**2008 LONG-TERM INCENTIVE PLAN**

* * * * *

| | |
|---|---|
| **Awardee:** | FIRST NAME — LAST NAME |
| **Grant Date:** | DATE |
| **Number of Shares of Common Stock Subject to such Award:** | # OF RESTRICTED SHARES |

* * * * *

THIS RESTRICTED STOCK AWARD AGREEMENT (this "Agreement"), dated as of the Grant Date specified above, is entered into by and between Hess Corporation, a Delaware corporation (the "Corporation"), and the Awardee specified above, pursuant to the Hess Corporation 2008 Long-Term Incentive Plan, as in effect and as amended from time to time (the "Plan"); and

WHEREAS, it has been determined under the Plan that it would be in the best interests of the Corporation to grant the restricted stock award provided for herein to the Awardee as an inducement to remain in the employment of the Corporation (and/or any Subsidiary), and as an incentive for increased effort during such employment;

NOW, THEREFORE, in consideration of the mutual covenants and premises hereinafter set forth and for other good and valuable consideration, the parties hereto hereby mutually covenant and agree as follows:

The Compensation and Management Development Committee (the "Committee") of the Board of Directors (the "Board") of Hess Corporation has granted to you restricted shares of the Common Stock of the Corporation in accordance with the terms and provisions of the Plan and this agreement (the "Restricted Shares"). The Restricted Shares are restricted for a period commencing on the date of grant and ending on the third anniversary of the Grant Date and are otherwise subject to the terms and conditions set forth herein. If the conditions set forth in the Plan and this agreement are not satisfied, this agreement and the Restricted Shares awarded together with all rights and interests relating thereto, shall be void and of no force or effect.

**1. Incorporation By Reference; Document Receipt.** This agreement is subject in all respects to the terms and provisions of the Plan (including, without limitation, any amendments thereto adopted at any time and from time to time unless such amendments are expressly not intended to apply to the grant of Restricted Shares hereunder), all of which terms and provisions are made a part of and incorporated in this agreement as if each were expressly set forth mutatis mutandis herein. Any capitalized term not defined in this agreement will have the same meaning as is ascribed thereto under the Plan. You hereby acknowledge receipt of a prospectus describing the Plan and the Awards thereunder and that you have read it carefully and fully understand its content. In the event of any conflict between the terms of this agreement and the terms of the Plan, the terms of the Plan will control.

**2. Restricted Stock**. Restricted Shares will be issued in book-entry form in your name and deposited with The Bank of New York or other agent designated by the Committee, as escrow agent (the "Escrow Agent"). Prior to the issuance and deposit of the Restricted Shares with the Escrow Agent, you will have no rights of a shareholder, and you will not be entitled to vote the Restricted Shares or receive any dividends or other distributions, in respect of the Restricted Shares. The Restricted Shares will be held by the Escrow Agent pursuant to an agreement (the "Escrow Agreement") between the Escrow Agent and the Corporation. You authorize the Escrow Agreement to transfer shares and otherwise act in accordance with instructions of the Corporation. You will furnish the Escrow Agent with stock transfer powers or authorizations from time to time, if requested. Except to the extent otherwise provided in the Plan or this agreement, if you remain continuously employed by the Corporation or any Subsidiary until the third anniversary of the Grant Date, the Escrow Agent will, except as provided below, deliver to you shortly thereafter a new share certificate in your name representing the Restricted Shares; *provided*, *however*, that Restricted Shares may nevertheless be evidenced on a noncertificated basis, to the extent not prohibited by applicable law or the rules of any stock exchange. For as long as an account is maintained in your name with a broker, custodian, or other institution retained by the Corporation to assist in the administration of the Plan (the "Administrator"), such Restricted Shares will be deposited into such account.

**3. Rights as a Stockholder.** While the Restricted Shares are held by the Escrow Agent, you will be the record owner and will have all the rights of a stockholder with respect to the Restricted Shares, including (without limitation) the right to vote, subject to the restrictions provided for in the Plan, the Escrow Agreement and this agreement. From and after the date on which the Restricted Shares are issued in your name and deposited with the Escrow Agent, cash dividends and other distributions made or paid with respect to the Restricted Shares will be held by the Escrow Agent and may (but need not be) reinvested as determined by the Committee, and such dividends and distributions will be paid to you (or your account at the Administrator referred to in Section 2), together with interest or other earnings thereon (if any), at the time and to the extent pro tanto that the Restricted Shares become non-forfeitable and are delivered to you by the Escrow Agent. Any new, additional or different securities that you may become entitled to receive with respect to the Restricted Shares under the Plan by virtue of any reinvestment of any cash dividends paid on the Common Stock or any stock dividend, stock split, recapitalization, reorganization, merger, consolidation, split-up, or any similar change affecting the Common Stock, will be delivered to the Escrow Agent subject to the same restrictions, terms and conditions as apply to the related Restricted Shares.

**4. Termination and Forfeiture.**

**4.1** If your employment with the Corporation or any Subsidiary terminates prior to the third anniversary of the Grant Date by reason of your death, disability or normal retirement under the Corporation's Employees' Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which you participate, the Escrow Agent will, as promptly as practicable, deliver to you, or your account at the Administrator referred to in Section 2 (in the case of disability or your normal retirement), or your beneficiary(ies) (in the case of your death) a certificate representing all of the Restricted Shares awarded to you hereunder and all accumulated dividends on the Restricted Shares, together with interest or other earnings thereon (if any). The existence and date of disability will be determined by the Committee and its determination shall be final and conclusive.

**4.2** If your employment with the Corporation or any Subsidiary terminates prior to the third anniversary of the Grant Date for any reason other than your death, disability or normal retirement under the Corporation's Employees' Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which you participate, all of the Restricted Shares, and any rights thereto, awarded to you hereunder, all accumulated dividends in respect thereof and interest thereon (if any) will be forfeited by you and returned by the Escrow Agent to the Corporation and you will have no further rights with respect thereto.

**4.3** Notwithstanding Section 4.2 above, if your employment with the Corporation or any Subsidiary terminates prior to the third anniversary of the Grant Date by reason of your early retirement under the Corporation's Employees' Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which you participate, the Committee, in its sole discretion, may (but is not obligated to) determine that it will deliver to you, or your account at the Administrator referred to in Section 2, on a specified date a certificate representing a proportionate number of the Restricted Shares awarded to you hereunder based on the number of calendar days elapsed (as of the date of such early retirement) in the vesting period ending on the third anniversary of the Grant Date, together with a proportionate amount of the accumulated dividends in respect thereof also based on the number of calendar days elapsed (as of the date of such early retirement) in the vesting period ending on the third anniversary of the Grant Date, and any interest or other earnings on such proportionate amount (if any).

**5. Change of Control.** The Restricted Shares awarded to you hereunder are subject to acceleration of vesting and "cash-out" at the discretion of the Committee upon the occurrence of a Change of Control, all as provided in and subject to Section 9 of the Plan.

**6. Beneficiary.** You may designate the beneficiary or beneficiaries to receive any Restricted Shares or other amounts which may be delivered in respect of this Award after your death. Such designation may be made by you on the enclosed beneficiary designation form and (unless you have waived such right) may be changed by you from time to time by filing a new beneficiary designation form with the Committee. If you do not designate a beneficiary or if no designated beneficiary(ies) survives you, your beneficiary will be the legal representative of your estate.

**7. Tax Withholding.** No delivery of vested Restricted Shares or payment of any accumulated cash dividends in respect thereof or other amount in respect of this Award will be made unless and until you (or your beneficiary or legal representative) have made appropriate arrangements for the payment of any amounts required to be withheld with respect thereto under all present or future federal, state and local tax laws and regulations and other laws and regulations. Unless you elect otherwise in writing or are prohibited by law, upon expiration of the applicable restriction period such number of Restricted Shares as shall be necessary to pay such withholding amounts shall be sold by the Administrator on your behalf, and the proceeds thereof shall be delivered to the Corporation for remittance to the appropriate governmental authorities, and the remaining Restricted Shares shall be delivered to you, or your account at the Administrator referred to in Section 2.

Notwithstanding the immediately preceding paragraph, if you make an election pursuant to Section 83(b) of the Code, or the value of any Restricted Shares otherwise becomes includible in your gross income for income tax purposes prior to the expiration of the applicable restriction period, you agree to pay to the Corporation in cash (or make other arrangements, in accordance with Section 12.03 of the Plan, for the satisfaction of) any taxes of any kind required by law to be withheld with respect to such Restricted Shares. If you elect immediate Federal income taxation with respect to all or any portion of the Restricted Shares pursuant to Section 83(b) of the

Code, you agree to deliver a copy of such election to the Corporation at the time such election is filed with the Internal Revenue Service.

**8. Limitations; Governing Law.** Nothing herein or in the Plan will be construed as conferring on you or anyone else the right to continue in the employ of the Corporation or any Subsidiary. The rights and obligations under this agreement and the Award are governed by and construed in accordance with the laws of the State of Delaware, without reference to the principles of conflict of laws thereof.

**9. Non-transferability.** The Restricted Shares, and any rights and interests with respect thereto, issued under this agreement and the Plan may not, prior to vesting, be sold, exchanged, transferred, assigned or otherwise disposed of in any way by you (or any of your beneficiary(ies)). The Restricted Shares, and any rights and interests with respect thereto, may not, prior to vesting, be pledged, encumbered or otherwise hypothecated in any way by you (or any of your beneficiary(ies)) and will not, prior to vesting, be subject to execution, attachment or similar legal process. Any attempt to sell, exchange, transfer, assign, pledge, encumber or otherwise dispose of or hypothecate in any way any of the Restricted Shares, or the levy of any execution, attachment or similar legal process upon the Restricted Shares, contrary to the terms and provisions of this agreement and/or the Plan will be null and void ab initio and without legal force or effect. Each certificate evidencing the Restricted Shares will bear a legend to this effect.

**10. Entire Agreement; Amendment.** This agreement (including the Plan which is incorporated herein by reference) contains the entire agreement between the parties hereto with respect to the subject matter contained herein, and supersedes all prior agreements or prior understandings, whether written or oral, between the parties hereto relating to such subject matter. The Board has the right, in its sole discretion, to amend, alter, suspend, discontinue or terminate the Plan, and the Committee has the right, in its sole discretion, to amend, alter, suspend, discontinue or terminate one or more of the Awards of Restricted Stock or this agreement from time to time in accordance with and as provided in the Plan; provided, however, that no such amendment, alteration, suspension, discontinuance or termination after initial shareholder approval of the Plan may materially impair your previously accrued rights under this agreement or the Plan without your consent. The Corporation will give you written notice of any such modification or amendment of this agreement as soon as practicable after the adoption thereof. This agreement may also be modified, amended or terminated by a writing signed by you and the Corporation.

**11. Notices.** Any notice which may be required or permitted under this agreement will be in writing and will be delivered in person, or via facsimile transmission, overnight courier service or certified mail, return receipt requested, postage prepaid, properly addressed as follows:

**11.1** If the notice is to the Corporation, to the attention of the Secretary of Hess Corporation, 1185 Avenue of the Americas, New York, New York 10036, or at such other address as the Corporation by notice to you may designate in writing from time to time.

**11.2** If the notice is to you, at your address as shown on the Corporation's records, or at such other address as you, by notice to the Corporation, may designate in writing from time to time.

**12. Compliance with Laws.** The issuance of the Restricted Shares pursuant to this will be subject to, and will comply with, any applicable requirements of federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, the Exchange Act and the respective rules and regulations promulgated thereunder), any applicable rules of any exchange on which the Common Stock is listed (including, without limitation, the rules and regulations of the New York Stock Exchange), and any other law, rule or regulation applicable thereto. The Corporation will not be obligated to issue any of the Common Stock subject to this agreement if such issuance would violate any such requirements and if issued will be deemed void ab initio.

**13. Binding Agreement; Further Assurances.** This agreement will inure to the benefit of, be binding upon, and be enforceable by the Corporation and its successors and assigns. Each party hereto will do and perform (or will cause to be done and performed) all such further acts and shall execute and deliver all such other agreements, certificates, instruments and documents as any other party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this agreement and the Plan and the consummation of the transactions contemplated thereunder.

**14. Counterparts; Headings.** This agreement may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which will constitute one and the same instrument. The titles and headings of the various sections of this agreement have been inserted for convenience of reference only and will not be deemed to be a part of this agreement.

**15. Severability.** The invalidity or unenforceability of any provisions of this agreement in any jurisdiction will not affect the validity, legality or enforceability of the remainder of this agreement in such jurisdiction or the validity, legality or enforceability of any provision of this agreement in any other jurisdiction, it being intended that all rights and obligations of the parties hereunder will be enforceable to the fullest extent permitted by law.

**16. Terms of Employment.** The Plan is a discretionary plan. You hereby acknowledge that neither the Plan nor this agreement forms part of your terms of employment and nothing in the Plan may be construed as imposing on the Corporation or any Subsidiary a contractual obligation to offer participation in the Plan to any employee of the Corporation or any Subsidiary. The Corporation or any Subsidiary is under no obligation to grant further Restricted Shares to you under the Plan. If you cease to be an employee of the Corporation or any Subsidiary for any reason, you shall not be entitled by way of compensation for loss of office or otherwise howsoever to any sum or other benefit to compensate you for the loss of any rights under this agreement or the Plan.

**17. Data Protection.** By signing this agreement, you consent to the holding and processing of personal data provided by you to the Corporation for all purposes necessary for the operation of the Plan. These include, but are not limited to:

**17.1** Administering and maintaining your records;

**17.2** Providing information to any registrars, brokers or third party administrators of the Plan; and

**17.3** Providing information to future purchasers of the Corporation or the business in which you work.

IN WITNESS WHEREOF, the Corporation has caused this agreement to be executed by its duly authorized officer, and you have also executed this agreement and acknowledged receipt of other related materials including the Plan prospectus, all as of the Grant Date.

Very truly yours,

HESS CORPORATION

/s/ John B. Hess

John B. Hess

Chairman of the Board

**STOCK OPTION AGREEMENT**

**pursuant to the**

**HESS CORPORATION**
**2008 LONG-TERM INCENTIVE PLAN**

* * * * *

| | |
|---|---|
| **Optionee:** | FIRST NAME — LAST NAME |
| **Grant Date:** | DATE |
| **Number of Shares of Common Stock Subject to such Option:** | # OF OPTION SHARES |
| **Per Share Exercise Price of Option:** | $XX.XX |

* * * * *

THIS STOCK OPTION AGREEMENT (this "Agreement"), dated as of the Grant Date specified above, is entered into by and between Hess Corporation, a Delaware corporation (the "Corporation"), and the Optionee specified above, pursuant to the Hess Corporation 2008 Long-Term Incentive Plan, as in effect and as amended from time to time (the "Plan"); and

WHEREAS, it has been determined under the Plan that it would be in the best interests of the Corporation to grant the stock option provided for herein to the Optionee as an inducement to remain in the employment of the Corporation (and/or any Subsidiary), and as an incentive for increased effort during such employment;

NOW, THEREFORE, in consideration of the mutual covenants and premises hereinafter set forth and for other good and valuable consideration, the parties hereto hereby mutually covenant and agree as follows:

1. **Incorporation By Reference; Document Receipt.** This Agreement is subject in all respects to the terms and provisions of the Plan (including, without limitation, any amendments thereto adopted at any time and from time to time unless such amendments are expressly not intended to apply to the grant of the option hereunder), all of which terms and provisions are made a part of and incorporated in this Agreement as if each were expressly set forth mutatis mutandis herein. Any capitalized term not defined in this Agreement will have the same meaning as is ascribed thereto under the Plan. The Optionee hereby acknowledges receipt of a prospectus describing the Plan and the Awards thereunder and that the Optionee has read it carefully and fully understands its content. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan will control.

2. **Grant of Options.** As of the Grant Date specified above, the Corporation hereby grants to the Optionee non-qualified stock options (each, an "Option" and collectively, the "Options") to acquire from the Corporation at the Per Share Exercise Price specified above for

such Option the aggregate number of shares of the Common Stock of the Corporation specified above for such Option (the "Option Shares"). The Options are not to be treated as (and are not intended to qualify as) incentive stock options within the meaning of Section 422 of Code.

**3. <u>No Rights as Stockholder or to Cash Payments Equivalent to Dividends</u>.** Prior to the acquisition of the Option Shares upon the exercise of any Option, neither the Optionee nor any other person will become the beneficial owner of the Option Shares underlying the Option, nor have any rights as a stockholder with respect to any such Option Shares and will not be entitled to receive a cash payment or other distribution with respect to such Option Shares.

**4. <u>Exercise of this Option</u>.**

**4.1** Unless the exercisability of any Option is accelerated under the terms of the Plan or this Agreement, all Options not theretofore terminated will become exercisable as of the first anniversary of the Grant Date.

**4.2** Unless earlier terminated in accordance with the terms of the Plan or this Agreement, all Options will expire and no longer be exercisable upon the tenth anniversary of the Grant Date (the "Expiration Date").

**4.3** In no event will any Option be exercisable for a fractional share of Common Stock.

**4.4** If the Optionee remains employed by the Corporation or any of its Subsidiaries through the Expiration Date, the Options may be exercised to the extent exercisable until the close of trading (generally 4:00 p.m. New York time) on the last trading day falling within the exercise period on the New York Stock Exchange or, if different, the principal stock exchange on which the Common Stock is then listed. Thus if the Expiration Date is not a trading day, then the last day the Stock Options may be exercised is the last trading day preceding the Expiration Date.

**5. <u>Method of Exercise and Payment</u>.** Once exercisable, an Option may be exercised in whole or in part by the Optionee by delivering to the Secretary of the Corporation or his designated agent (who, for so long as the Corporation maintains a "cashless exercise" program and the Optionee exercises and sells Option Shares through such program, shall be the administrator of such program) on any business day (the "Exercise Date") a notice, in such manner and form as may be required by the Corporation, specifying the number of the Option Shares the Optionee then desires to acquire (the "Exercise Notice"). The Exercise Notice will be accompanied by payment of the aggregate Per Share Exercise Price applicable to such Option for such number of the Option Shares to be acquired upon such exercise. Such payment will be made in cash, by personal or certified check, bank draft or money order payable to the order of the Corporation or, if permitted by the Committee (in its sole discretion) and applicable law, rule or regulation, by delivery of, alone or in conjunction with a partial cash or instrument payment, (a) Shares already owned by the Participant for at least six months, or (b) some other form of payment acceptable to the Committee. To the extent permitted by law, the Committee may also allow the Optionee to simultaneously exercise an Option and sell the Shares thereby acquired pursuant to a "cashless exercise" arrangement or program, selected by and approved of in all respects in advance by the Committee. Payment instruments will be received by the Corporation subject to collection. The proceeds received by the Corporation upon the exercise of any Option may be used by the Corporation for general corporate purposes. Any portion of an Option that is exercised may not be exercised again. Upon

exercise in accordance with the terms of the Plan and this Agreement, the Option Shares underlying the exercised portion of the Option will be promptly delivered to the Optionee, except that for so long as the Corporation maintains a “cashless exercise” program and the Optionee exercises and sells Option Shares through such program, delivery of the proceeds of such sale shall be made to a brokerage account maintained in the name of the Optionee with the administrator of such program.

**6. Termination and Forfeiture.**

**6.1** Unless otherwise determined by the Committee, all Options will terminate in accordance with Sections 6.2, 6.3 and 6.4 below, as the case may be. In any event, all Options will terminate upon the tenth anniversary of the Grant Date.

**6.2** Subject to any determination of the Committee pursuant to Section 6.01 of the Plan, if an Optionee’s employment with the Corporation or any Subsidiary terminates for any reason (other than by reason of the Optionee’s death, disability or normal or early retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates) all Options, to the extent not exercisable on the date of any such termination of employment, will be forfeited and cancelled by the Corporation. The Optionee’s rights, if any, to exercise any exercisable portion of any Option will terminate sixty days after the date of any termination of employment (other than by reason of the Optionee’s death, disability, or normal or early retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates), but not beyond the tenth anniversary of the Grant Date, and thereafter all Options will be forfeited and cancelled by the Corporation.

**6.3** If an Optionee’s employment with the Corporation or any Subsidiary terminates by reason of the Optionee’s death, disability, or normal retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates, the Optionee (or, in the event of the Optionee’s death, the Optionee’s estate, designated beneficiary or other legal representative, as the case may be and as determined by the Committee) shall have the right to exercise all Options at any time until the tenth anniversary of the Grant Date. The existence and date of the Optionee’s disability shall be determined by the Committee and any such determination shall be conclusive.

**6.4** (a) Notwithstanding anything to the contrary in Section 6.2 above, if the Optionee’s employment with the Corporation or any Subsidiary terminates by reason of the Optionee’s early retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates, all Options to the extent exercisable on the date of such early retirement shall remain exercisable until the tenth anniversary of the Grant Date.

(b) Notwithstanding anything to the contrary in Section 6.2 above, if the Optionee’s employment with the Corporation or any Subsidiary terminates by reason of the Optionee’s early retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates, the Committee, in its sole discretion, may (but is not obligated to) determine that (i) each Option to the extent not exercisable at the time of any such early retirement will become exercisable as to a proportionate number of underlying Option Shares based on the number of calendar days elapsed (as of the date of such early retirement) in the vesting period of such Option (or portion thereof), and (ii) each such Option shall remain exercisable until the tenth anniversary of the

Grant Date. Except for Options which have become exercisable as described in the prior sentence, any Option to the extent not exercisable at the time of the Optionee's termination of employment by reason of early retirement will be forfeited and cancelled by the Corporation.

**6.5** For the purposes of determining the dates on which Options may be exercised following a termination of employment or death, disability, retirement or early retirement, the Stock Options may be exercised until the close of trading (generally 4:00 p.m. New York time) on the last trading day falling within the exercise period on the New York Stock Exchange or, if different, the principal stock exchange on which the Common Stock is then listed. Thus if the Option would otherwise terminate on a day that is not a trading day, then the last day the Options may be exercised is the last trading day preceding such termination date.

**7. Change of Control.** The Options are subject to acceleration of exercisability and "cash-out" at the discretion of the Committee upon the occurrence of a Change of Control, all as provided in and subject to Section 9 of the Plan.

**8. Non-transferability.** The Options, and any rights or interests therein or under this Agreement, may not be sold, exchanged, transferred, assigned or otherwise disposed of in any way at any time by the Optionee (or any beneficiary(ies) of the Optionee), except to an Immediate Family Member or to a trust, partnership or limited liability corporation all of whose beneficiaries, partners or members, as the case may be, are Immediate Family Members, or by testamentary disposition by the Optionee or the laws of descent and distribution or pursuant to Section 16 of this Agreement; provided, however, that to transfer an Option to an Immediate Family Member or to an entity described above, such Immediate Family Member or entity must agree, in a form acceptable to Committee, to be bound by the terms of the Plan and this Agreement. The Options may not be pledged, encumbered or otherwise hypothecated in any way at any time by the Optionee (or any beneficiary(ies) of the Optionee) and will not be subject to execution, attachment or similar legal process. Any attempt to sell, exchange, pledge, transfer, assign, encumber or otherwise dispose of or hypothecate this Option, or the levy of any execution, attachment or similar legal process upon this Option, contrary to the terms of this Agreement and/or the Plan will be null and void and without legal force or effect. During the Optionee's lifetime, the Options may be exercisable only by the Optionee or the Optionee's legal representative, or if transferred to an Immediate Family Member or an entity comprising Immediate Family Members as described above, by such Immediate Family Member or entity.

**9. Entire Agreement; Amendment.** This Agreement (including the Plan incorporated herein by reference) contains the entire agreement between the parties hereto with respect to the subject matter contained herein, and supersedes all prior agreements or prior understandings, whether written or oral, between the parties relating to such subject matter. The Board has the right, in its sole discretion, to amend, alter, suspend, discontinue or terminate the Plan, and the Committee has the right, in its sole discretion, to amend, alter, suspend, discontinue or terminate any or all of the Options or this Agreement from time to time in accordance with and as provided in the Plan; provided, however, that no such amendment, alteration, suspension, discontinuance or termination after initial shareholder approval of the Plan may materially impair the previously accrued rights of the Optionee under this Option without the consent of the Optionee. The Corporation will give written notice to the Optionee of any such modification or amendment of this Agreement as soon as practicable after the adoption thereof. This Agreement may also be modified, amended or terminated by a writing signed by both the Corporation and the Optionee.

**10. Notices.** Any notice (other than an Exercise Notice) which may be required or permitted under this Agreement will be in writing, and will be delivered in person or via facsimile

transmission, overnight courier service or certified mail, return receipt requested, postage prepaid, properly addressed as follows:

**10.1** If the notice is to the Corporation, to the attention of the Secretary of Hess Corporation, 1185 Avenue of the Americas, New York, New York 10036, or at such other address as the Corporation by notice to the Optionee designates in writing from time to time.

**10.2** If the notice is to the Optionee, at his or her address as shown on the Corporation's records, or at such other address as the Optionee, by notice to the Corporation, designates in writing from time to time.

**11. Limitations; Governing Law.** Nothing herein or in the Plan will be construed as conferring on the Optionee or anyone else the right to continue in the employ of the Corporation or any Subsidiary. This Agreement will be governed by and construed in accordance with the laws of the State of Delaware, without reference to the principles of conflict of laws thereof.

**12. Compliance with Laws.** The issuance of this Option (and the Option Shares upon exercise of this Option) pursuant to this Agreement will be subject to, and will comply with, any applicable requirements of any federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, the Exchange Act and the respective rules and regulations promulgated thereunder), rules of any exchange on which the Common Stock is listed (including, without limitation, the rules and regulations of the New York Stock Exchange), and any other law or regulation applicable thereto. The Corporation will not be obligated to issue this Option or any of the Option Shares pursuant to this Agreement if any such issuance would violate any such requirements, and if issued will be deemed void ab initio.

**13. Binding Agreement; Further Assurances.** This Agreement will inure to the benefit of, be binding upon, and be enforceable by the Corporation and its successors and assigns. Each party hereto will do and perform (or will cause to be done and performed) all such further acts and will execute and deliver all such other agreements, certificates, instruments and documents as any party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this Agreement and the Plan and the consummation of the transactions contemplated thereunder.

**14. Counterparts; Headings.** This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which will constitute one and the same instrument. The titles and headings of the various sections of this Agreement have been inserted for convenience of reference only and will not be deemed to be a part of this Agreement.

**15. Severability.** The invalidity or unenforceability of any provisions of this Agreement in any jurisdiction will not affect the validity, legality or enforceability of the remainder of this Agreement in such jurisdiction or the validity, legality or enforceability of any provision of this Agreement in any other jurisdiction, it being intended that all rights and obligations of the parties hereunder will be enforceable to the fullest extent permitted by law.

**16. Beneficiary.** The Optionee may designate the beneficiary or beneficiaries to exercise this Option (or to receive any Option Shares issuable hereunder) after the death of the Optionee. Such designation may be made by the Optionee on the enclosed beneficiary designation form and (unless the Optionee has waived such right) may be changed by the Optionee from time to time by filing a new beneficiary designation form with the Committee. If

the Optionee does not designate a beneficiary or if no designated beneficiary(ies) survives the Optionee, the Optionee's beneficiary will be the legal representative of the Optionee's estate.

**17. Tax Withholding.** Neither the exercise of any Option under this Agreement, nor the issuance of any Option Shares thereunder, will be permitted or effected unless and until the Optionee (or the Optionee's beneficiary(ies) or legal representative) has made appropriate arrangements for the payment of any amounts required to be withheld with respect thereto under all present or future federal, state and local tax laws and regulations and other laws and regulations. Unless the Optionee otherwise elects or is prohibited by law, if and for so long as the Corporation maintains a cashless exercise program and the Optionee exercises and sells Option Shares through such program, payment of such amounts will be made by deducting such amounts from the proceeds of such sale.

**18. Terms of Employment.** The Plan is a discretionary plan. The Optionee hereby acknowledges that neither the Plan nor this Agreement forms part of his terms of employment and nothing in the Plan may be construed as imposing on the Corporation or any Subsidiary a contractual obligation to offer participation in the Plan to any employee of the Corporation or any Subsidiary. The Corporation or any Subsidiary is under no obligation to grant further Options to the Optionee under the Plan. If the Optionee ceases to be an employee of the Corporation or any Subsidiary for any reason, he shall not be entitled by way of compensation for loss of office or otherwise howsoever to any sum or other benefit to compensate him for the loss of any rights under this Agreement or the Plan.

**19. Data Protection.** By signing this Agreement, the Optionee consents to the holding and processing of personal data provided by the Optionee to the Corporation for all purposes necessary for the operation of the Plan. These include, but are not limited to:

**19.1** Administering and maintaining Optionee records;

**19.2** Providing information to any registrars, brokers or third party administrators of the Plan; and

**19.3** Providing information to future purchasers of the Corporation or the business in which the Optionee works.

IN WITNESS WHEREOF, the Corporation has caused this agreement to be executed by its duly authorized officer, and you have also executed this Agreement and acknowledged receipt of other related materials including the Plan prospectus, all as of the Grant Date.

HESS CORPORATION

/s/ John B. Hess

John B. Hess
Chairman of the Board

**STOCK OPTION AGREEMENT**

**pursuant to the**

**HESS CORPORATION**
**2008 LONG-TERM INCENTIVE PLAN**

* * * * *

| | |
|---|---|
| **Optionee:** | FIRST NAME — LAST NAME |
| **Grant Date:** | DATE |
| **Number of Shares of Common Stock Subject to such Option:** | # OF OPTION SHARES |
| **Per Share Exercise Price of Option:** | $XX.XX |

* * * * *

THIS STOCK OPTION AGREEMENT (this "Agreement"), dated as of the Grant Date specified above, is entered into by and between Hess Corporation, a Delaware corporation (the "Corporation"), and the Optionee specified above, pursuant to the Hess Corporation 2008 Long-Term Incentive Plan, as in effect and as amended from time to time (the "Plan"); and

WHEREAS, it has been determined under the Plan that it would be in the best interests of the Corporation to grant the stock option provided for herein to the Optionee as an inducement to remain in the employment of the Corporation (and/or any Subsidiary), and as an incentive for increased effort during such employment;

NOW, THEREFORE, in consideration of the mutual covenants and premises hereinafter set forth and for other good and valuable consideration, the parties hereto hereby mutually covenant and agree as follows:

**1. Incorporation By Reference; Document Receipt.** This Agreement is subject in all respects to the terms and provisions of the Plan (including, without limitation, any amendments thereto adopted at any time and from time to time unless such amendments are expressly not intended to apply to the grant of the option hereunder), all of which terms and provisions are made a part of and incorporated in this Agreement as if each were expressly set forth mutatis mutandis herein. Any capitalized term not defined in this Agreement will have the same meaning as is ascribed thereto under the Plan. The Optionee hereby acknowledges receipt of a prospectus describing the Plan and the Awards thereunder and that the Optionee has read it carefully and fully understands its content. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan will control.

**2. Grant of Options.** As of the Grant Date specified above, the Corporation hereby grants to the Optionee non-qualified stock options (each, an "Option" and collectively, the "Options") to acquire from the Corporation at the Per Share Exercise Price specified above for such Option the aggregate number of shares of the Common Stock of the Corporation specified above for such Option (the “Option Shares”). The Options are not to be treated as (and are not intended to qualify as) incentive stock options within the meaning of Section 422 of Code.

**3. No Rights as Stockholder or to Cash Payments Equivalent to Dividends .** Prior to the acquisition of the Option Shares upon the exercise of any Option, neither the Optionee nor any other person will become the beneficial owner of the Option Shares underlying the Option, nor have any rights as a stockholder with respect to any such Option Shares and will not be entitled to receive a cash payment or other distribution with respect to such Option Shares.

**4. Exercise of this Option.**

**4.1** Unless the exercisability of any Option is accelerated under the terms of the Plan or this Agreement, all Options not theretofore terminated will become exercisable as of the second anniversary of the Grant Date.

**4.2** Unless earlier terminated in accordance with the terms of the Plan or this Agreement, all Options will expire and no longer be exercisable upon the tenth anniversary of the Grant Date (the “Expiration Date”).

**4.3** In no event will any Option be exercisable for a fractional share of Common Stock.

**4.4** If the Optionee remains employed by the Corporation or any of its Subsidiaries through the Expiration Date, the Options may be exercised to the extent exercisable until the close of trading (generally 4:00 p.m. New York time) on the last trading day falling within the exercise period on the New York Stock Exchange or, if different, the principal stock exchange on which the Common Stock is then listed. Thus if the Expiration Date is not a trading day, then the last day the Stock Options may be exercised is the last trading day preceding the Expiration Date.

**5. Method of Exercise and Payment.** Once exercisable, an Option may be exercised in whole or in part by the Optionee by delivering to the Secretary of the Corporation or his designated agent (who, for so long as the Corporation maintains a “cashless exercise” program and the Optionee exercises and sells Option Shares through such program, shall be the administrator of such program) on any business day (the “Exercise Date”) a notice, in such manner and form as may be required by the Corporation, specifying the number of the Option Shares the Optionee then desires to acquire (the “Exercise Notice”). The Exercise Notice will be accompanied by payment of the aggregate Per Share Exercise Price applicable to such Option for such number of the Option Shares to be acquired upon such exercise. Such payment will be made in cash, by personal or certified check, bank draft or money order payable to the order of the Corporation or, if permitted by the Committee (in its sole discretion) and applicable law, rule or regulation, by delivery of, alone or in conjunction with a partial cash or instrument payment, (a) Shares already owned by the Participant for at least six months, or (b) some other form of payment acceptable to the Committee. To the extent permitted by law, the Committee may also allow the Optionee to simultaneously exercise an Option and sell the Shares thereby acquired pursuant to a “cashless exercise” arrangement or program, selected by and approved of in all respects in advance by the Committee. Payment instruments will be received by the Corporation subject to collection. The proceeds received by the Corporation upon the exercise of any Option may be used by the Corporation for general corporate purposes. Any portion of an Option that is exercised may not be exercised again. Upon

exercise in accordance with the terms of the Plan and this Agreement, the Option Shares underlying the exercised portion of the Option will be promptly delivered to the Optionee, except that for so long as the Corporation maintains a “cashless exercise” program and the Optionee exercises and sells Option Shares through such program, delivery of the proceeds of such sale shall be made to a brokerage account maintained in the name of the Optionee with the administrator of such program.

**6. Termination and Forfeiture.**

**6.1** Unless otherwise determined by the Committee, all Options will terminate in accordance with Sections 6.2, 6.3 and 6.4 below, as the case may be. In any event, all Options will terminate upon the tenth anniversary of the Grant Date.

**6.2** Subject to any determination of the Committee pursuant to Section 6.01 of the Plan, if an Optionee’s employment with the Corporation or any Subsidiary terminates for any reason (other than by reason of the Optionee’s death, disability or normal or early retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates) all Options, to the extent not exercisable on the date of any such termination of employment, will be forfeited and cancelled by the Corporation. The Optionee’s rights, if any, to exercise any exercisable portion of any Option will terminate sixty days after the date of any termination of employment (other than by reason of the Optionee’s death, disability, or normal or early retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates), but not beyond the tenth anniversary of the Grant Date, and thereafter all Options will be forfeited and cancelled by the Corporation.

**6.3** If an Optionee’s employment with the Corporation or any Subsidiary terminates by reason of the Optionee’s death, disability, or normal retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates, the Optionee (or, in the event of the Optionee’s death, the Optionee’s estate, designated beneficiary or other legal representative, as the case may be and as determined by the Committee) shall have the right to exercise all Options at any time until the tenth anniversary of the Grant Date. The existence and date of the Optionee’s disability shall be determined by the Committee and any such determination shall be conclusive.

**6.4** (a) Notwithstanding anything to the contrary in Section 6.2 above, if the Optionee’s employment with the Corporation or any Subsidiary terminates by reason of the Optionee’s early retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates, all Options to the extent exercisable on the date of such early retirement shall remain exercisable until the tenth anniversary of the Grant Date.

(b) Notwithstanding anything to the contrary in Section 6.2 above, if the Optionee’s employment with the Corporation or any Subsidiary terminates by reason of the Optionee’s early retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates, the Committee, in its sole discretion, may (but is not obligated to) determine that (i) each Option to the extent not exercisable at the time of any such early retirement will become exercisable as to a proportionate number of underlying Option Shares based on the number of calendar days elapsed (as of the date of such early retirement) in the vesting period of such Option (or portion thereof), and (ii) each such Option shall remain exercisable until the tenth anniversary of the

Grant Date. Except for Options which have become exercisable as described in the prior sentence, any Option to the extent not exercisable at the time of the Optionee's termination of employment by reason of early retirement will be forfeited and cancelled by the Corporation.

**6.5** For the purposes of determining the dates on which Options may be exercised following a termination of employment or death, disability, retirement or early retirement, the Stock Options may be exercised until the close of trading (generally 4:00 p.m. New York time) on the last trading day falling within the exercise period on the New York Stock Exchange or, if different, the principal stock exchange on which the Common Stock is then listed. Thus if the Option would otherwise terminate on a day that is not a trading day, then the last day the Options may be exercised is the last trading day preceding such termination date.

**7. Change of Control.** The Options are subject to acceleration of exercisability and "cash-out" at the discretion of the Committee upon the occurrence of a Change of Control, all as provided in and subject to Section 9 of the Plan.

**8. Non-transferability.** The Options, and any rights or interests therein or under this Agreement, may not be sold, exchanged, transferred, assigned or otherwise disposed of in any way at any time by the Optionee (or any beneficiary(ies) of the Optionee), except to an Immediate Family Member or to a trust, partnership or limited liability corporation all of whose beneficiaries, partners or members, as the case may be, are Immediate Family Members, or by testamentary disposition by the Optionee or the laws of descent and distribution or pursuant to Section 16 of this Agreement; provided, however, that to transfer an Option to an Immediate Family Member or to an entity described above, such Immediate Family Member or entity must agree, in a form acceptable to Committee, to be bound by the terms of the Plan and this Agreement. The Options may not be pledged, encumbered or otherwise hypothecated in any way at any time by the Optionee (or any beneficiary(ies) of the Optionee) and will not be subject to execution, attachment or similar legal process. Any attempt to sell, exchange, pledge, transfer, assign, encumber or otherwise dispose of or hypothecate this Option, or the levy of any execution, attachment or similar legal process upon this Option, contrary to the terms of this Agreement and/or the Plan will be null and void and without legal force or effect. During the Optionee's lifetime, the Options may be exercisable only by the Optionee or the Optionee's legal representative, or if transferred to an Immediate Family Member or an entity comprising Immediate Family Members as described above, by such Immediate Family Member or entity.

**9. Entire Agreement; Amendment.** This Agreement (including the Plan incorporated herein by reference) contains the entire agreement between the parties hereto with respect to the subject matter contained herein, and supersedes all prior agreements or prior understandings, whether written or oral, between the parties relating to such subject matter. The Board has the right, in its sole discretion, to amend, alter, suspend, discontinue or terminate the Plan, and the Committee has the right, in its sole discretion, to amend, alter, suspend, discontinue or terminate any or all of the Options or this Agreement from time to time in accordance with and as provided in the Plan; provided, however, that no such amendment, alteration, suspension, discontinuance or termination after initial shareholder approval of the Plan may materially impair the previously accrued rights of the Optionee under this Option without the consent of the Optionee. The Corporation will give written notice to the Optionee of any such modification or amendment of this Agreement as soon as practicable after the adoption thereof. This Agreement may also be modified, amended or terminated by a writing signed by both the Corporation and the Optionee.

**10. Notices.** Any notice (other than an Exercise Notice) which may be required or permitted under this Agreement will be in writing, and will be delivered in person or via facsimile

transmission, overnight courier service or certified mail, return receipt requested, postage prepaid, properly addressed as follows:

**10.1** If the notice is to the Corporation, to the attention of the Secretary of Hess Corporation, 1185 Avenue of the Americas, New York, New York 10036, or at such other address as the Corporation by notice to the Optionee designates in writing from time to time.

**10.2** If the notice is to the Optionee, at his or her address as shown on the Corporation's records, or at such other address as the Optionee, by notice to the Corporation, designates in writing from time to time.

**11. Limitations; Governing Law.** Nothing herein or in the Plan will be construed as conferring on the Optionee or anyone else the right to continue in the employ of the Corporation or any Subsidiary. This Agreement will be governed by and construed in accordance with the laws of the State of Delaware, without reference to the principles of conflict of laws thereof.

**12. Compliance with Laws.** The issuance of this Option (and the Option Shares upon exercise of this Option) pursuant to this Agreement will be subject to, and will comply with, any applicable requirements of any federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, the Exchange Act and the respective rules and regulations promulgated thereunder), rules of any exchange on which the Common Stock is listed (including, without limitation, the rules and regulations of the New York Stock Exchange), and any other law or regulation applicable thereto. The Corporation will not be obligated to issue this Option or any of the Option Shares pursuant to this Agreement if any such issuance would violate any such requirements, and if issued will be deemed void ab initio.

**13. Binding Agreement; Further Assurances.** This Agreement will inure to the benefit of, be binding upon, and be enforceable by the Corporation and its successors and assigns. Each party hereto will do and perform (or will cause to be done and performed) all such further acts and will execute and deliver all such other agreements, certificates, instruments and documents as any party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this Agreement and the Plan and the consummation of the transactions contemplated thereunder.

**14. Counterparts; Headings.** This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which will constitute one and the same instrument. The titles and headings of the various sections of this Agreement have been inserted for convenience of reference only and will not be deemed to be a part of this Agreement.

**15. Severability.** The invalidity or unenforceability of any provisions of this Agreement in any jurisdiction will not affect the validity, legality or enforceability of the remainder of this Agreement in such jurisdiction or the validity, legality or enforceability of any provision of this Agreement in any other jurisdiction, it being intended that all rights and obligations of the parties hereunder will be enforceable to the fullest extent permitted by law.

**16. Beneficiary.** The Optionee may designate the beneficiary or beneficiaries to exercise this Option (or to receive any Option Shares issuable hereunder) after the death of the Optionee. Such designation may be made by the Optionee on the enclosed beneficiary designation form and (unless the Optionee has waived such right) may be changed by the Optionee from time to time by filing a new beneficiary designation form with the Committee. If

the Optionee does not designate a beneficiary or if no designated beneficiary(ies) survives the Optionee, the Optionee's beneficiary will be the legal representative of the Optionee's estate.

**17. Tax Withholding.** Neither the exercise of any Option under this Agreement, nor the issuance of any Option Shares thereunder, will be permitted or effected unless and until the Optionee (or the Optionee's beneficiary(ies) or legal representative) has made appropriate arrangements for the payment of any amounts required to be withheld with respect thereto under all present or future federal, state and local tax laws and regulations and other laws and regulations. Unless the Optionee otherwise elects or is prohibited by law, if and for so long as the Corporation maintains a cashless exercise program and the Optionee exercises and sells Option Shares through such program, payment of such amounts will be made by deducting such amounts from the proceeds of such sale.

**18. Terms of Employment.** The Plan is a discretionary plan. The Optionee hereby acknowledges that neither the Plan nor this Agreement forms part of his terms of employment and nothing in the Plan may be construed as imposing on the Corporation or any Subsidiary a contractual obligation to offer participation in the Plan to any employee of the Corporation or any Subsidiary. The Corporation or any Subsidiary is under no obligation to grant further Options to the Optionee under the Plan. If the Optionee ceases to be an employee of the Corporation or any Subsidiary for any reason, he shall not be entitled by way of compensation for loss of office or otherwise howsoever to any sum or other benefit to compensate him for the loss of any rights under this Agreement or the Plan.

**19. Data Protection.** By signing this Agreement, the Optionee consents to the holding and processing of personal data provided by the Optionee to the Corporation for all purposes necessary for the operation of the Plan. These include, but are not limited to:

**19.1** Administering and maintaining Optionee records;

**19.2** Providing information to any registrars, brokers or third party administrators of the Plan; and

**19.3** Providing information to future purchasers of the Corporation or the business in which the Optionee works.

IN WITNESS WHEREOF, the Corporation has caused this agreement to be executed by its duly authorized officer, and you have also executed this Agreement and acknowledged receipt of other related materials including the Plan prospectus, all as of the Grant Date.

HESS CORPORATION

/s/ John B. Hess

John B. Hess

Chairman of the Board

**STOCK OPTION AGREEMENT**

**pursuant to the**

**HESS CORPORATION**
**2008 LONG-TERM INCENTIVE PLAN**

* * * * *

| | |
|---|---|
| **Optionee:** | FIRST NAME — LAST NAME |
| **Grant Date:** | DATE |
| **Number of Shares of Common Stock Subject to such Option:** | # OF OPTION SHARES |
| **Per Share Exercise Price of Option:** | $XX.XX |

* * * * *

THIS STOCK OPTION AGREEMENT (this "Agreement"), dated as of the Grant Date specified above, is entered into by and between Hess Corporation, a Delaware corporation (the "Corporation"), and the Optionee specified above, pursuant to the Hess Corporation 2008 Long-Term Incentive Plan, as in effect and as amended from time to time (the "Plan"); and

WHEREAS, it has been determined under the Plan that it would be in the best interests of the Corporation to grant the stock option provided for herein to the Optionee as an inducement to remain in the employment of the Corporation (and/or any Subsidiary), and as an incentive for increased effort during such employment;

NOW, THEREFORE, in consideration of the mutual covenants and premises hereinafter set forth and for other good and valuable consideration, the parties hereto hereby mutually covenant and agree as follows:

**1. <u>Incorporation By Reference; Document Receipt</u>.** This Agreement is subject in all respects to the terms and provisions of the Plan (including, without limitation, any amendments thereto adopted at any time and from time to time unless such amendments are expressly not intended to apply to the grant of the option hereunder), all of which terms and provisions are made a part of and incorporated in this Agreement as if each were expressly set forth <u>mutatis mutandis</u> herein. Any capitalized term not defined in this Agreement will have the same meaning as is ascribed thereto under the Plan. The Optionee hereby acknowledges receipt of a prospectus describing the Plan and the Awards thereunder and that the Optionee has read it carefully and fully understands its content. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan will control.

**2. <u>Grant of Options</u>.** As of the Grant Date specified above, the Corporation hereby grants to the Optionee non-qualified stock options (each, an "Option" and collectively, the "Options") to acquire from the Corporation at the Per Share Exercise Price specified above for such Option the aggregate number of shares of the Common Stock of the Corporation specified above for such Option (the "Option Shares"). The Options are not to be treated as (and are not intended to qualify as) incentive stock options within the meaning of Section 422 of Code.

**3. <u>No Rights as Stockholder or to Cash Payments Equivalent to Dividends</u>.** Prior to the acquisition of the Option Shares upon the exercise of any Option, neither the Optionee nor any other person will become the beneficial owner of the Option Shares underlying the Option, nor have any rights as a stockholder with respect to any such Option Shares and will not be entitled to receive a cash payment or other distribution with respect to such Option Shares.

**4. <u>Exercise of this Option</u>.**

**4.1** Unless the exercisability of any Option is accelerated under the terms of the Plan or this Agreement, all Options not theretofore terminated will become exercisable as of the third anniversary of the Grant Date.

**4.2** Unless earlier terminated in accordance with the terms of the Plan or this Agreement, all Options will expire and no longer be exercisable upon the tenth anniversary of the Grant Date (the "Expiration Date").

**4.3** In no event will any Option be exercisable for a fractional share of Common Stock.

**4.4** If the Optionee remains employed by the Corporation or any of its Subsidiaries through the Expiration Date, the Options may be exercised to the extent exercisable until the close of trading (generally 4:00 p.m. New York time) on the last trading day falling within the exercise period on the New York Stock Exchange or, if different, the principal stock exchange on which the Common Stock is then listed. Thus if the Expiration Date is not a trading day, then the last day the Stock Options may be exercised is the last trading day preceding the Expiration Date.

**5. <u>Method of Exercise and Payment</u>.** Once exercisable, an Option may be exercised in whole or in part by the Optionee by delivering to the Secretary of the Corporation or his designated agent (who, for so long as the Corporation maintains a "cashless exercise" program and the Optionee exercises and sells Option Shares through such program, shall be the administrator of such program) on any business day (the "Exercise Date") a notice, in such manner and form as may be required by the Corporation, specifying the number of the Option Shares the Optionee then desires to acquire (the "Exercise Notice"). The Exercise Notice will be accompanied by payment of the aggregate Per Share Exercise Price applicable to such Option for such number of the Option Shares to be acquired upon such exercise. Such payment will be made in cash, by personal or certified check, bank draft or money order payable to the order of the Corporation or, if permitted by the Committee (in its sole discretion) and applicable law, rule or regulation, by delivery of, alone or in conjunction with a partial cash or instrument payment, (a) Shares already owned by the Participant for at least six months, or (b) some other form of payment acceptable to the Committee. To the extent permitted by law, the Committee may also allow the Optionee to simultaneously exercise an Option and sell the Shares thereby acquired pursuant to a "cashless exercise" arrangement or program, selected by and approved of in all respects in advance by the Committee. Payment instruments will be received by the Corporation subject to collection. The proceeds received by the Corporation upon the exercise of any Option may be used by the Corporation for general corporate purposes. Any portion of an Option that is exercised may not be exercised again. Upon

exercise in accordance with the terms of the Plan and this Agreement, the Option Shares underlying the exercised portion of the Option will be promptly delivered to the Optionee, except that for so long as the Corporation maintains a “cashless exercise” program and the Optionee exercises and sells Option Shares through such program, delivery of the proceeds of such sale shall be made to a brokerage account maintained in the name of the Optionee with the administrator of such program.

**6. Termination and Forfeiture.**

**6.1** Unless otherwise determined by the Committee, all Options will terminate in accordance with Sections 6.2, 6.3 and 6.4 below, as the case may be. In any event, all Options will terminate upon the tenth anniversary of the Grant Date.

**6.2** Subject to any determination of the Committee pursuant to Section 6.01 of the Plan, if an Optionee’s employment with the Corporation or any Subsidiary terminates for any reason (other than by reason of the Optionee’s death, disability or normal or early retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates) all Options, to the extent not exercisable on the date of any such termination of employment, will be forfeited and cancelled by the Corporation. The Optionee’s rights, if any, to exercise any exercisable portion of any Option will terminate sixty days after the date of any termination of employment (other than by reason of the Optionee’s death, disability, or normal or early retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates), but not beyond the tenth anniversary of the Grant Date, and thereafter all Options will be forfeited and cancelled by the Corporation.

**6.3** If an Optionee’s employment with the Corporation or any Subsidiary terminates by reason of the Optionee’s death, disability, or normal retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates, the Optionee (or, in the event of the Optionee’s death, the Optionee’s estate, designated beneficiary or other legal representative, as the case may be and as determined by the Committee) shall have the right to exercise all Options at any time until the tenth anniversary of the Grant Date. The existence and date of the Optionee’s disability shall be determined by the Committee and any such determination shall be conclusive.

**6.4** (a) Notwithstanding anything to the contrary in Section 6.2 above, if the Optionee’s employment with the Corporation or any Subsidiary terminates by reason of the Optionee’s early retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates, all Options to the extent exercisable on the date of such early retirement shall remain exercisable until the tenth anniversary of the Grant Date.

(b) Notwithstanding anything to the contrary in Section 6.2 above, if the Optionee’s employment with the Corporation or any Subsidiary terminates by reason of the Optionee’s early retirement under the Corporation’s Employees’ Pension Plan or any successor plan thereto or any similar plan maintained by a Subsidiary in which the Optionee participates, the Committee, in its sole discretion, may (but is not obligated to) determine that (i) each Option to the extent not exercisable at the time of any such early retirement will become exercisable as to a proportionate number of underlying Option Shares based on the number of calendar days elapsed (as of the date of such early retirement) in the vesting period of such Option (or portion thereof), and (ii) each such Option shall remain exercisable until the tenth anniversary of the

Grant Date. Except for Options which have become exercisable as described in the prior sentence, any Option to the extent not exercisable at the time of the Optionee's termination of employment by reason of early retirement will be forfeited and cancelled by the Corporation.

**6.5** For the purposes of determining the dates on which Options may be exercised following a termination of employment or death, disability, retirement or early retirement, the Stock Options may be exercised until the close of trading (generally 4:00 p.m. New York time) on the last trading day falling within the exercise period on the New York Stock Exchange or, if different, the principal stock exchange on which the Common Stock is then listed. Thus if the Option would otherwise terminate on a day that is not a trading day, then the last day the Options may be exercised is the last trading day preceding such termination date.

**7. Change of Control.** The Options are subject to acceleration of exercisability and "cash-out" at the discretion of the Committee upon the occurrence of a Change of Control, all as provided in and subject to Section 9 of the Plan.

**8. Non-transferability.** The Options, and any rights or interests therein or under this Agreement, may not be sold, exchanged, transferred, assigned or otherwise disposed of in any way at any time by the Optionee (or any beneficiary(ies) of the Optionee), except to an Immediate Family Member or to a trust, partnership or limited liability corporation all of whose beneficiaries, partners or members, as the case may be, are Immediate Family Members, or by testamentary disposition by the Optionee or the laws of descent and distribution or pursuant to Section 16 of this Agreement; provided, however, that to transfer an Option to an Immediate Family Member or to an entity described above, such Immediate Family Member or entity must agree, in a form acceptable to Committee, to be bound by the terms of the Plan and this Agreement. The Options may not be pledged, encumbered or otherwise hypothecated in any way at any time by the Optionee (or any beneficiary(ies) of the Optionee) and will not be subject to execution, attachment or similar legal process. Any attempt to sell, exchange, pledge, transfer, assign, encumber or otherwise dispose of or hypothecate this Option, or the levy of any execution, attachment or similar legal process upon this Option, contrary to the terms of this Agreement and/or the Plan will be null and void and without legal force or effect. During the Optionee's lifetime, the Options may be exercisable only by the Optionee or the Optionee's legal representative, or if transferred to an Immediate Family Member or an entity comprising Immediate Family Members as described above, by such Immediate Family Member or entity.

**9. Entire Agreement; Amendment.** This Agreement (including the Plan incorporated herein by reference) contains the entire agreement between the parties hereto with respect to the subject matter contained herein, and supersedes all prior agreements or prior understandings, whether written or oral, between the parties relating to such subject matter. The Board has the right, in its sole discretion, to amend, alter, suspend, discontinue or terminate the Plan, and the Committee has the right, in its sole discretion, to amend, alter, suspend, discontinue or terminate any or all of the Options or this Agreement from time to time in accordance with and as provided in the Plan; provided, however, that no such amendment, alteration, suspension, discontinuance or termination after initial shareholder approval of the Plan may materially impair the previously accrued rights of the Optionee under this Option without the consent of the Optionee. The Corporation will give written notice to the Optionee of any such modification or amendment of this Agreement as soon as practicable after the adoption thereof. This Agreement may also be modified, amended or terminated by a writing signed by both the Corporation and the Optionee.

**10. Notices.** Any notice (other than an Exercise Notice) which may be required or permitted under this Agreement will be in writing, and will be delivered in person or via facsimile

transmission, overnight courier service or certified mail, return receipt requested, postage prepaid, properly addressed as follows:

**10.1** If the notice is to the Corporation, to the attention of the Secretary of Hess Corporation, 1185 Avenue of the Americas, New York, New York 10036, or at such other address as the Corporation by notice to the Optionee designates in writing from time to time.

**10.2** If the notice is to the Optionee, at his or her address as shown on the Corporation's records, or at such other address as the Optionee, by notice to the Corporation, designates in writing from time to time.

**11. Limitations; Governing Law.** Nothing herein or in the Plan will be construed as conferring on the Optionee or anyone else the right to continue in the employ of the Corporation or any Subsidiary. This Agreement will be governed by and construed in accordance with the laws of the State of Delaware, without reference to the principles of conflict of laws thereof.

**12. Compliance with Laws.** The issuance of this Option (and the Option Shares upon exercise of this Option) pursuant to this Agreement will be subject to, and will comply with, any applicable requirements of any federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, the Exchange Act and the respective rules and regulations promulgated thereunder), rules of any exchange on which the Common Stock is listed (including, without limitation, the rules and regulations of the New York Stock Exchange), and any other law or regulation applicable thereto. The Corporation will not be obligated to issue this Option or any of the Option Shares pursuant to this Agreement if any such issuance would violate any such requirements, and if issued will be deemed void ab initio.

**13. Binding Agreement; Further Assurances.** This Agreement will inure to the benefit of, be binding upon, and be enforceable by the Corporation and its successors and assigns. Each party hereto will do and perform (or will cause to be done and performed) all such further acts and will execute and deliver all such other agreements, certificates, instruments and documents as any party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this Agreement and the Plan and the consummation of the transactions contemplated thereunder.

**14. Counterparts; Headings.** This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which will constitute one and the same instrument. The titles and headings of the various sections of this Agreement have been inserted for convenience of reference only and will not be deemed to be a part of this Agreement.

**15. Severability.** The invalidity or unenforceability of any provisions of this Agreement in any jurisdiction will not affect the validity, legality or enforceability of the remainder of this Agreement in such jurisdiction or the validity, legality or enforceability of any provision of this Agreement in any other jurisdiction, it being intended that all rights and obligations of the parties hereunder will be enforceable to the fullest extent permitted by law.

**16. Beneficiary.** The Optionee may designate the beneficiary or beneficiaries to exercise this Option (or to receive any Option Shares issuable hereunder) after the death of the Optionee. Such designation may be made by the Optionee on the enclosed beneficiary designation form and (unless the Optionee has waived such right) may be changed by the Optionee from time to time by filing a new beneficiary designation form with the Committee. If

the Optionee does not designate a beneficiary or if no designated beneficiary(ies) survives the Optionee, the Optionee's beneficiary will be the legal representative of the Optionee's estate.

**17. Tax Withholding.** Neither the exercise of any Option under this Agreement, nor the issuance of any Option Shares thereunder, will be permitted or effected unless and until the Optionee (or the Optionee's beneficiary(ies) or legal representative) has made appropriate arrangements for the payment of any amounts required to be withheld with respect thereto under all present or future federal, state and local tax laws and regulations and other laws and regulations. Unless the Optionee otherwise elects or is prohibited by law, if and for so long as the Corporation maintains a cashless exercise program and the Optionee exercises and sells Option Shares through such program, payment of such amounts will be made by deducting such amounts from the proceeds of such sale.

**18. Terms of Employment.** The Plan is a discretionary plan. The Optionee hereby acknowledges that neither the Plan nor this Agreement forms part of his terms of employment and nothing in the Plan may be construed as imposing on the Corporation or any Subsidiary a contractual obligation to offer participation in the Plan to any employee of the Corporation or any Subsidiary. The Corporation or any Subsidiary is under no obligation to grant further Options to the Optionee under the Plan. If the Optionee ceases to be an employee of the Corporation or any Subsidiary for any reason, he shall not be entitled by way of compensation for loss of office or otherwise howsoever to any sum or other benefit to compensate him for the loss of any rights under this Agreement or the Plan.

**19. Data Protection.** By signing this Agreement, the Optionee consents to the holding and processing of personal data provided by the Optionee to the Corporation for all purposes necessary for the operation of the Plan. These include, but are not limited to:

**19.1** Administering and maintaining Optionee records;

**19.2** Providing information to any registrars, brokers or third party administrators of the Plan; and

**19.3** Providing information to future purchasers of the Corporation or the business in which the Optionee works.

IN WITNESS WHEREOF, the Corporation has caused this agreement to be executed by its duly authorized officer, and you have also executed this Agreement and acknowledged receipt of other related materials including the Plan prospectus, all as of the Grant Date.

HESS CORPORATION

/s/ John B. Hess

John B. Hess

Chairman of the Board

Exhibit 10(17)

# AMENDED AND RESTATED CHANGE IN CONTROL TERMINATION BENEFITS AGREEMENT

THIS AMENDED AND RESTATED CHANGE IN CONTROL TERMINATION BENEFITS AGREEMENT (the "Agreement"), dated as of the 29th day of May, 2009, is between **Hess Corporation**, a Delaware corporation (the "Company"), and **John P. Rielly** (the "Executive").

## WITNESSETH:

**WHEREAS**, the Company and the Executive are parties to that certain Change in Control Termination Benefits Agreement, dated as of January 20, 2005 (the "Prior Agreement");

**WHEREAS**, the Company considers it essential to the best interests of the Company and its stockholders that its management be encouraged to remain with the Company and to continue to devote full attention to the Company's business in the event of a transaction or series of transactions that could result in a change in control of the Company through a tender offer or otherwise;

**WHEREAS**, the Company recognizes that the possibility of a change in control and the uncertainty which it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders;

**WHEREAS**, the Executive is a key executive of the Company;

**WHEREAS**, the Company believes the Executive has made valuable contributions to the productivity and profitability of the Company;

**WHEREAS**, should the Company receive a proposal for, or otherwise consider any such transaction, in addition to the Executive's regular duties, the Executive may be called upon to assist in the assessment of such proposals, advise management and the Board of Directors of the Company (the "Board") as to whether a proposed transaction would be in the best interests of the Company and its stockholders, and to take such other actions as the Board might determine to be appropriate;

**WHEREAS**, the Board has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued services of the Executive, notwithstanding the possibility, threat or occurrence of a change in control of the Company and believes that it is imperative to diminish the potential distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened change in control, to assure the Executive's full attention and dedication to the Company in the event of any threatened or pending change in control, and to provide the Executive with appropriate severance arrangements following a change in control;

**WHEREAS**, the Company intends that the Agreement comply with, or not be subject to, section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), and guidance and regulations issued thereunder, so that, notwithstanding any other provision of the Agreement, the Agreement shall be interpreted, operated and administered in a manner consistent with this intention; and

**WHEREAS**, the Company and the Executive mutually desire to make certain revisions to the Prior Agreement consistent with such intention.

**NOW, THEREFORE,** (a) to assure the Company that it will have the continued undivided attention and services of the Executive and the availability of the Executive’s advice and counsel notwithstanding the possibility, threat or occurrence of a change in control of the Company, and to induce the Executive to remain in the employ of the Company and (b) in order that the Agreement comply with, or not be subject to, Section 409A of the Code, and for other good and valuable consideration, the Prior Agreement is hereby amended and restated as of the date first above set forth as follows:

1. Change in Control.

For purposes of the Agreement, a Change in Control shall be deemed to have taken place if any of the following shall occur:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the “Exchange Act”)), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then (i) outstanding shares of Common Stock of the Company (the “Outstanding Company Common Stock”) or (ii) combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Voting Securities”) provided, however, that the following acquisitions shall not constitute a Change in Control: (i) any acquisition by the Company or any of its subsidiaries, (ii) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries, (iii) any acquisition by any company with respect to which, following such acquisition, more than 60% of, respectively, the then outstanding shares of common stock of such company and the combined voting power of the then outstanding voting securities of such company entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Voting Securities immediately prior to such acquisition in substantially the same proportions as their ownership, immediately prior to such acquisition, of the Outstanding Company Common Stock and Outstanding Voting

Securities, as the case may be, or (iv) any acquisition by one or more Hess Entity (for this purpose a “Hess Entity” means (A) Mr. John Hess or any of his children, parents or siblings, (B) any spouse of any person described in Section (A) above, (C) any trust with respect to which any of the persons described in (A) has substantial voting authority (D) any affiliate (as such term is defined in Rule 12b-2 under the Exchange Act) of any person described in (A) above, (E) the Hess Foundation Inc., or (F) any persons comprising a group controlled (as such term is defined in such Rule 12b-2) by one or more of the foregoing persons or entities described in this Section 1(a)(iv)); or

(b) Within any 24 month period, individuals who, immediately prior to the beginning of such period, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director during such period whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened solicitation to which Rule 14a-ll of Regulation 14A promulgated under the Exchange Act applies or other actual or threatened solicitation of proxies or consents; or

(c) Consummation of a reorganization, merger or consolidation, in each case, with respect to which all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Voting Securities immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the company resulting from such reorganization, merger or consolidation in substantially the same proportions as their ownership, immediately prior to such reorganization, merger or consolidation, of the Outstanding Company Common Stock and Outstanding Voting Securities, as the case may be; or

(d) Consummation of (i) a complete liquidation or dissolution of the Company or (ii) the sale or other disposition of all or substantially all of the assets of the Company, other than to a company, with respect to which following such sale or other disposition, more than 60% of, respectively, the then outstanding shares of common stock of such company and the combined voting power of the then outstanding voting securities of such company entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Voting Securities, as the case may be. The term “the sale or other disposition of all or substantially all of the assets of the Company" shall mean a sale or other disposition in a transaction or series of related transactions involving assets of the Company or of any direct or indirect subsidiary of the Company (including the stock of any direct or indirect subsidiary of the Company) in which the value of the assets or stock being sold or otherwise disposed of (as measured by the purchase price being paid therefor or by such other method as the Board determines is appropriate in a case where there is no readily ascertainable purchase price) constitutes more than two-thirds of the fair market value of the Company (as hereinafter defined). The "fair market value of the Company" shall be the aggregate market value of the then Outstanding Company Common Stock (on a fully diluted basis) plus the aggregate market value of the Company's other outstanding equity securities. The aggregate market value of the shares of Outstanding Company Common Stock shall be determined by multiplying the number of shares of such Common Stock (on a fully diluted basis) outstanding on the date of the execution and delivery of a definitive agreement with respect to the transaction or series of related transactions (the "Transaction Date") by the average closing price of the shares of Outstanding Company Common Stock for the ten trading days immediately preceding the Transaction Date. The aggregate market value of any other equity securities of the Company shall be determined in a manner similar to that prescribed in the immediately preceding sentence for determining the aggregate market value of the shares of Outstanding Company Common Stock or by such other method as the Board shall determine is appropriate.

2. Circumstances Triggering Receipt of Termination Benefits.

(a) Subject to Section 2(c), the Company will provide the Executive with the benefits set forth in Section 4 upon the Executive's Separation from Service that is initiated:

(i) by the Company at any time within the first 24 months after a Change in Control;

(ii) by the Executive for "Good Reason" (as defined in Section 2(b) below) at any time within the first 24 months after a Change in Control; or

(iii) by the Company or the Executive pursuant to Section 2(d).

For purposes of this Agreement, the term "Separation from Service" or "Separate(s/d) from Service" means a "separation from service" within the meaning of Code section 409A and Treasury Regulations thereunder.

(b) In the event of a Change in Control, the Executive may Separate from Service for "Good Reason" and receive the payments and benefits set forth in Section 4 upon the occurrence of one or more of the following events (regardless of whether any other reason, other than Cause as provided below, for such Separation from Service exists or has occurred):

(i) Failure to elect or reelect or otherwise to maintain the Executive in the office or the position, or at least a substantially equivalent office or position, of or with the Company (or any successor thereto), which the Executive held immediately prior to a Change in Control, or the removal of the Executive as a director of the Company (or any successor thereto), if the Executive shall have been a director of the Company immediately prior to the Change in Control;

(ii) (A) Any material adverse change in the nature or scope of the Executive's authorities, powers, functions, responsibilities or duties from those in effect immediately prior to the Change in Control, (B) a reduction in the Executive's annual base salary rate, (C) a reduction in the Executive's annual incentive compensation target or any material reduction in the Executive's other bonus opportunities, or (D) the termination or denial of the Executive's ability to participate in Employee Benefits (as defined in Section 4(b)) or retirement benefits (as described in Section 4(c)) or a material reduction in the scope or value thereof, any of which is not remedied by the Company within 10 days after receipt by the Company of written notice from the Executive of such change, reduction or termination, as the case may be;

(iii) The liquidation, dissolution, merger, consolidation or reorganization of the Company or transfer of all or substantially all of its businesses and/or assets, unless the successor or successors (by liquidation, merger, consolidation, reorganization, transfer or otherwise) to which all or substantially all of its businesses and/or assets have been transferred (directly or by operation of law) assumed all duties and obligations of the Company under this Agreement pursuant to Section 9(a);

(iv) The Company requires the Executive to change the Executive's principal location of work to a location that is in excess of 30 miles from the location thereof immediately prior to the Change in Control, or requires the Executive to travel in the course of discharging the Executive's responsibilities or duties at least 20% more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison to any prior year) than was required of the Executive in any of the three full years immediately prior to the Change in Control without, in either case, the Executive's prior written consent;

(v) Without limiting the generality or effect of the foregoing, any material breach of this Agreement by the Company or any successor thereto, which breach is not remedied within 10 days after written notice to the Company from the Executive describing the nature of such breach.

(c) Notwithstanding Sections 2(a) and (b) above, no benefits shall be payable by reason of this Agreement in the event of:

(i) The Executive's Separation from Service by reason of the Executive's death or Disability, unless the Executive has previously given a valid "Notice of Termination" pursuant to Section 3. For purposes hereof, "Disability" shall be defined as the inability of the Executive due to illness, accident or other physical or mental disability to perform the Executive's duties for any period of six consecutive months or for any period of eight months out of any 12-month period, as determined by an independent physician selected by the Executive (or the Executive's legal representative) and reasonably acceptable to the Company, provided that the Executive does not return to work on substantially a full-time basis within 30 days after written notice from the Company, pursuant to Section 3, of the intent to terminate the Executive's employment due to Disability;

(ii) The Executive's retirement on or after Normal Retirement Date pursuant to the Company's Employees' Pension Plan; provided, however, that if the Executive Separates from Service for Good Reason at such time of retirement, the Executive's retirement shall be treated hereunder as a Separation from Service for Good Reason and the Executive shall be entitled to the benefits provided in Section 4 hereof;

(iii) The Executive's Separation from Service for Cause. For the purposes hereof, "Cause" shall be defined as (A) a felony conviction of the Executive or the failure of the Executive to contest prosecution for a felony, (B) the Executive's gross and willful misconduct in connection with the performance of the Executive's duties with the Company and/or its subsidiaries or (C) the willful and continued failure of the Executive to substantially perform the Executive's duties with the Company (or any successor thereto) after a written demand from the Company's internal Executive Committee, any successor or similar internal management committee or, absent any such committee, its Chief Executive Officer (such committee, or the Chief Executive Officer, being the "Notifying Party") for substantial performance which specifically identifies the manner in which the Notifying Party believes that the Executive has not performed the Executive's duties with the Company, any of which is directly and materially harmful to the business or reputation of the Company or any subsidiary or affiliate. Notwithstanding the foregoing, the Executive shall not be deemed to have Separated from Service for "Cause" hereunder unless and until the Executive shall have been afforded, after reasonable notice, an opportunity to appear, together with counsel (if the Executive chooses to have counsel present), before the Notifying Party, if the Notifying Party is a committee, or in the event that the Notifying Party is the Chief Executive Officer, the three most highly compensated senior executive officers of the Company, not including the Chief Executive Officer (such Notifying Party or the three senior executive officers, as the case may be, being the "Hearing Party"), and after such hearing there shall have been delivered to the Executive a written determination by the Hearing Party that, in the good faith opinion of the Hearing Party the Executive shall have been Separated from Service for "Cause" as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or the Executive's beneficiaries to contest the validity or propriety of any such determination. This Section 2(c) shall not preclude the payment of any amounts otherwise payable to the Executive under any of the Company's employee benefit plans, pension plans, stock plans, programs and arrangements.

(d) A Separation from Service initiated by the Company without Cause or by the Executive for an event that would constitute Good Reason following a Change in Control that occurs, in either event, prior to a Change in Control, but occurs (i) not more than 180 days prior to the date on which a Change in Control occurs and (ii) (x) at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control or (y) otherwise arose in connection with, or in anticipation of, a Change in Control, shall be deemed to be a Separation from Service without Cause within the first 24 months after a Change in Control for purposes of this Agreement and the date of such Change in Control shall be deemed to be the date immediately preceding the date the Executive's Separation from Service.

3. Notice of Termination.

Any Separation from Service as contemplated by Section 2 shall be communicated by written "Notice of Separation" to the other party hereto. Any "Notice of Separation" shall (i) indicate the effective date of the Separation from Service, which shall not be less than 30 days or more than 60 days after the date the Notice of Separation is delivered (the "Separation Date"), (ii) cite the specific provision in this Agreement relied upon, and (iii) except for a Separation from Service pursuant to Section 2(d), shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for such Separation from Service including, if applicable, the failure by the Company, after provision of written notice by the Executive, to effect a remedy pursuant to the final clause of Section 2(b)(ii) or 2(b)(v).

4. Benefits upon Separation from Service.

Subject to the conditions set forth in Section 2, the following benefits shall be paid or provided to the Executive:

(a) Compensation.

The Company shall pay to the Executive two times the sum of (i) "Base Pay", which shall be an amount equal to the greater of (A) the Executive's rate of annual base salary (prior to any deferrals) on the date of the Executive's Separation from Service, or (B) the Executive's rate of annual base salary (prior to any deferrals) immediately prior to the Change in Control, plus (ii) "Incentive Pay", which shall be an amount equal to the greater of (X) the target annual bonus payable to the Executive under the Company's incentive compensation plan or any other annual bonus plan for the fiscal year of the Company in which the Change in Control occurred or (Y) the highest annual bonus earned by the Executive under the Company's incentive compensation plan or any other annual bonus plan (whether paid currently or on a deferred basis) during the three fiscal years of the Company immediately preceding the fiscal year of the Company in which the Change in Control occurred. In addition, the Executive shall receive a pro rata portion of the target bonus for the fiscal year in which the Executive's termination of employment occurs.

The amount payable under Section 4(a) shall be paid to the Executive in a lump sum payment by the 60 th day following the date of the Executive's Separation from Service. Notwithstanding the foregoing, payment of such amounts may not be made to a Key Employee (as defined in Section 4(g)) upon a Separation from Service before the date which is six months after the date of the Key Employee's Separation from Service (or, if earlier, the date of death of the Key Employee). Any payments that would otherwise be made during this period of delay shall be accumulated and paid on the first day of the seventh month following the date of the Executive's Separation from Service (or, if earlier, the first day of the month after the Participant's death).

In the event payment of the amount payable under Section 4(a) is delayed for six months pursuant to the immediately preceding paragraph, the Company shall as soon as administratively practicable following the date of the Executive's Separation from Service (i) establish an irrevocable grantor trust of which the Company is the grantor, and a bank or trust company reasonably acceptable to the Executive is the trustee (the "Grantor Trust"), and (ii) contribute to the Grantor Trust the full such amount payable under Section 4(a). The Grantor Trust shall be a "rabbi trust," the assets of which shall be used solely for the purpose of satisfying the Company's obligations under Section 4(a) of this Agreement; *provided*, *however*, that such assets shall be subject to the claims of the Company's general creditors in the event of the Company's bankruptcy (or similar insolvency proceeding), and the Grantor Trust shall not cause any amount payable under this Agreement to be funded for tax purposes.

(b) <u>Welfare Benefits.</u>

For a period of 24 months following the date of the Executive's Separation from Service (the "Continuation Period"), the Company shall arrange to provide the Executive with benefits (the "Employee Benefits"), including travel accident, major medical, dental care and other welfare benefit programs, substantially similar to those in effect immediately prior to the Change in Control, or, if greater, to those that the Executive was receiving or entitled to receive immediately prior to the date of the Executive's Separation from Service (or, if greater, immediately prior to the reduction, termination, or denial described in Section 2(b)(ii)(D)). If and to the extent that any benefit described in this Section 4(b) is not or cannot be paid or provided under any policy, plan, program or arrangement of the Company or any subsidiary, as the case may be, then the Company will itself pay or provide for the payment to the Executive, the Executive's dependents and beneficiaries of such Employee Benefits along with, in the case of any benefit which is subject to tax because it is not or cannot be paid or provided under any such policy, plan, program or arrangement of the Company or any subsidiary, an additional amount such that after payment by the Executive, or the Executive's dependents or beneficiaries, as the case may be, of all taxes so imposed, the recipient retains an amount equal to such taxes. Employee Benefits otherwise receivable by the Executive pursuant to this Section 4(b) will be reduced to the extent comparable welfare benefits are actually received by the Executive from another employer during the Continuation Period, and any such benefits actually received by the Executive shall be reported by the Executive to the Company. In addition, the Executive shall receive additional age and service credit for the Continuation Period for purposes of the Executive's eligibility to receive any retiree medical benefits.

To the extent the continuation of the Employee Benefits under this Section 4(b) is, or ever becomes, taxable to the Executive and to the extent the Employee Benefits that are medical benefits continue beyond the period in which the Executive would be entitled (or would, but for this Agreement, be entitled) to continuation coverage under a group health plan of the Company under Code section 4980B (COBRA) if the Executive elected such coverage and paid the applicable premiums, the Company shall administer such continuation of coverage consistent with the following additional requirements as set forth in Treas. Reg. § 1.409A-3(i)(1)(iv):

(i) The Executive's eligibility for Employee Benefits in one year shall not affect the Executive's eligibility for Employee Benefits in any other year;

(ii) Any reimbursement of eligible expenses will be made on or before the last day of the year following the year in which the expense was incurred; and

(iii) Executive's right to Employee Benefits shall not be subject to liquidation or exchange for another benefit.

In the event the preceding sentence applies and the Executive is a Key Employee (as defined in Section 4(g)), provision of Employee Benefits after the COBRA period shall commence on the first day of the seventh month following the date of the Executive's Separation from Service (or, if earlier, the first day of the month after the Executive's death).

(c) Retirement Benefits.

The Executive shall be deemed to be completely vested in the Executive's currently accrued benefits under the Company's Employees' Pension Plan and the Company's Pension Restoration Plan or other supplemental pension plan ("SERP") in effect as of the date of the Change in Control (collectively, the "Plans"), regardless of the Executive's actual vesting service credit thereunder. In addition, the Executive shall be deemed to earn age and service credit for benefit calculation purposes thereunder for the Continuation Period. The additional retirement benefits to be paid pursuant to the Plans shall be calculated as though the Executive's compensation rate for the years during the

Continuation Period equaled the sum of Base Pay plus Incentive Pay. Any benefits payable pursuant to this Section 4(c) that are not payable out of the Plans for any reason (including but not limited to any applicable benefit limitations under the Employee Retirement Income Security Act of 1974, as amended, or any restrictions relating to the qualification of the Company's Employees' Pension Plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code")) shall be paid directly by the Company out of its general assets at the time and form in which such benefits would have been payable under the applicable Plan.

(d) Stock Based Compensation Plans.

(i) Any issued and outstanding stock options shall vest and become exercisable on the date of the Executive's Separation from Service (to the extent they have not already become vested and exercisable) and any other stock-based awards under any compensation plan or program maintained by the Company (including, without limitation, awards of restricted stock and book value appreciation units) and the Executive's rights thereunder shall vest on the date of the Executive's Separation from Service (to the extent they have not already vested) and any performance criteria under any such compensation plan or program shall be deemed met at target as of the date of the Executive's Separation from Service .

(ii) If and to the extent that any benefit or entitlement (or portion thereof) described in paragraph (i) above is not able to be implemented by the Company under the then applicable terms of any plan, program or award agreement applicable to the Executive, to the extent permitted by Code section 409A, the Company shall pay to the Executive cash and/or other property (including, without limitation, common stock of the Company or any successor thereto) with a value, as determined by the Board, equal to the value of any such option, award or other entitlement (or portion thereof) that the Executive was not able to receive under paragraph (i) above, such payment shall be made upon the date provided in Section 4(a) following the Executive's Separation from Service and such payment shall be in full satisfaction of the option, award or other entitlement (or portion thereof) to which such payment relates.

(e) Defined Contribution Deferred Compensation Plans.

The Company shall pay to the Executive all other amounts of tax-qualified and nonqualified deferred compensation accrued or earned by the Executive through the date of the Executive's Separation from Service, and amounts otherwise owing under the then existing plans and policies of the Company, other than those amounts described in Section 4(c), including but not limited to, all amounts of compensation previously deferred by the Executive (together with any accrued interest or other earnings thereon) and not yet paid by the Company, under the terms and conditions and time and form of payment of the underlying applicable arrangements, plans or policies of the Company.

(f) Outplacement Services.

If so requested by the Executive, reasonable outplacement services shall be provided to the Executive by a professional outplacement firm or provider selected by the Executive that is reasonably acceptable to the Company at a cost to the Company not in excess of $30,000; provided, however, that such reasonable outplacement expenses must be incurred on or before the last day of the second year following, and payment of such expenses is actually made before the last day of the second year following, the year in which the Executive's Separation from Service occurred.

(g) Key Employee.

For purposes of this Section 4, the term "Key Employee" means an employee treated as a "specified employee" as of his Separation from Service under Code section 409A(a)(2)(B)(i), i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof) of the Company or its affiliates if the Company's or its affiliate's stock is publicly traded on an established securities market or otherwise. Key Employees shall be determined in accordance with Code section 409A using a December 31 identification date. A listing of Key Employees as of an identification date shall be effective for the 12-month period beginning on the April 1 following the identification date.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined (as hereafter provided) that any payment (other than the Gross-Up payments provided for in this Section 5) or benefit provided by the Company or any of its subsidiaries to or for the benefit of the Executive, whether paid or payable or provided pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any stock option, stock appreciation right or similar right, restricted stock, deferred stock or the lapse or termination of any restriction on, deferral period for, or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to any such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (collectively, a "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax and any income tax imposed upon the Gross-Up Payment, the Executive retains an amount of Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 5(t), all determinations required to be made under this Section 5, including whether an Excise Tax is payable by the Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required to be paid by the Company to the Executive and the amount of such Gross-Up Payment, if any, shall be made by the Company's outside auditors immediately prior to the Change in Control (the "Accounting Firm"). The Executive shall direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and the Executive within 30 days after the Change in Control Date, the date of the Executive's Separation from Service, if applicable, and any such other time or times as may be requested by the Company or the Executive. If the Accounting Firm determines that any Excise Tax is payable by the Executive, the Company shall pay the required Gross-Up Payment to the Executive within five business days after receipt of such determination and calculations with respect to any Payment to the Executive. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such. determination, furnish the Company and the Executive an opinion that the Executive has substantial authority not to report any Excise Tax on the Executive's federal, state or local income or other tax return. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that a Gross-Up Payment which will not have been made by the Company should have been made (an "Underpayment'), consistent with the calculations required to be made hereunder. In the event that the Company exhausts or fails to pursue its remedies pursuant to Section 5(t) and the Executive thereafter is required to make a payment of any Excise Tax, the Executive shall direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and the Executive as promptly as possible. Any such Underpayment shall be promptly paid by the Company to, or for the benefit of, the Executive within five business days after receipt of such determination and calculations.

(c) The Company and the Executive shall each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or the Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by Section 5(b). Any determination by the Accounting Firm as to the amount of the Gross-Up Payment shall be binding upon the Company and the Executive.

(d) The federal, state and local income or other tax returns filed by the Executive shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by the Executive. The Executive shall make proper payment of the amount of any Excise Tax, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of the Executive's federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of the Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting Firm determines that the amount of the Gross-Up Payment should be reduced, the Executive shall, within five business days, pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 5(b) shall be borne by the Company. If such fees and expenses are initially paid by the Executive, the Company shall reimburse the Executive the full amount of such fees and expenses within five business days after receipt from the Executive of a statement therefor and reasonable evidence of payment thereof.

(f) The Executive shall notify the Company in writing of any claim, by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of a Gross-Up Payment or any additional Gross-Up Payment. Such notification shall be given as promptly as practicable but no later than 10 business days after the Executive actually receives notice of such claim, and the Executive shall further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by the Executive). The Executive shall not pay such claim prior to the earlier of (x) the expiration of the 30-day period following the date on which the Executive gives such notice to the Company and (y) the date that any payment with respect to such claim is due. If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) provide the Company with any written records or documents in the Executive's possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including without limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and shall indemnify and hold harmless the Executive, on an after-tax basis, for and against any Excise Tax or income tax including interest and penalties with respect thereto, imposed as a result of such contest and payment of costs and expenses. Without limiting the foregoing provisions of this Section 5(t), the Company shall control all proceedings taken in connection with the contest of any claim contemplated by this Section 5(t) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided, however, that the Executive may participate therein at the Executive's own cost and expense) and may, at its option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay the tax claimed and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income or other tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(t), the Executive receives any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 5(t)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 5(t), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of any such advance shall offset, to the extent thereof, the amount of any Gross-Up Payment required to be paid by the Company to the Executive pursuant to this Section 5.

(h) Notwithstanding anything in this Section 5 to the contrary, any payment made to or on behalf of the Executive under this Section 5 shall be made in compliance with Code section 409A and by the later of (i) the end of the year following the year that the related taxes are remitted to the applicable taxing authority, (ii) the end of the year following the year in which any taxes that are the subject of an audit or litigation are remitted to the taxing authority, and (iii) where as a result of such audit or litigation no taxes are remitted, the end of the year following the year in which the audit is completed or there is a final and non-appealable settlement or other resolution of the litigation.

6. No Mitigation Obligation; Obligations Absolute .

The payment of the severance compensation by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment or other benefit provided in this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the second to last sentence of Section 4(b). The obligations of the Company to make the payments and provide the benefits provided herein to the Executive are absolute and unconditional and may not be reduced under any circumstances, including without limitation any set-off, counterclaim, recoupment, defense or other right which the Company may have against the Executive or any third party at any time.

7. Legal Fees and Expenses.

It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of the Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if, following a Change in Control, it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive any or all of the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of the Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive's entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship shall exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for all reasonable attorneys' fees and related expenses incurred by the

Executive in good faith in connection with any of the foregoing; provided, however, that the Company shall have no obligation hereunder to pay any attorneys' fees or related expenses with respect to any frivolous claims made by the Executive. Payments by the Company shall be made in accordance with the rules immediately below, upon written request of the Executive which must be accompanied by such evidence of eligible fees and expenses as the Company may reasonably require.

The Company shall administer such reimbursements consistent with the following additional requirements as set forth in Treas. Reg. § 1.409A-3(i)(1)(iv):

(i) The Executive's eligibility for reimbursement of eligible legal fees and expenses in one year shall not affect Executive's eligibility for eligible legal fees in any other year;

(ii) Any reimbursement of eligible legal fees and expenses shall be made on or before the last day of the year following the year in which the expense was incurred; and

(iii) The Executive's right to the reimbursement of eligible legal fees and expenses shall not be subject to liquidation or exchange for another benefit.

8. Continuing Obligations.

The Executive hereby agrees that all documents, records, techniques, business secrets and other information which have come into the Executive's possession from time to time during the Executive's employment with the Company shall be deemed to be confidential and proprietary to the Company and, except for personal documents and records of the Executive, shall be returned to the Company. The Executive further agrees to retain in confidence any confidential information known to him concerning the Company and its subsidiaries and their respective businesses so long as such information is not otherwise publicly disclosed, except that Executive may disclose any such information required to be disclosed in the normal course of the Executive's employment with the Company or pursuant to any court order or other legal process or as necessary to enforce the Executive's rights under this Agreement.

9. Successors.

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance reasonably satisfactory to the Executive to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of such successor entity to enter into such agreement prior to the effective date of any such succession (or, if later, within three business days after first receiving a written request for such agreement) shall constitute a breach of this Agreement and shall entitle the Executive to terminate employment pursuant to Section 2(a) (ii) and to receive the payments and benefits provided under Section 4. As used in this Agreement, "Company" shall mean the Company as herein before defined and any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's designee or, if there is no such designee, to the Executive's estate.

10. Notices.

For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company, with a copy to the General Counsel of the Company) at its principal executive office and to the Executive at the Executive's principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

11. Governing Law.

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

12. Miscellaneous.

No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in a writing signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement (or in any employment or other written agreement relating to the Executive). Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any subsidiary prior to or following any Change in Control. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company is required to withhold pursuant to any law or government regulation or ruling. In the event that the Company refuses or otherwise fails to make a payment when due and it is ultimately decided that the Executive is entitled to such payment, such payment shall be increased to reflect an interest factor, compounded annually, equal to the prime rate in effect as of the date the payment was first due plus two points. For this purpose, the prime rate shall be based on the rate identified by Chase Manhattan Bank as its prime rate.

13. Separability.

The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. Non-assignability.

This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Section 9. Without limiting the foregoing, the Executive's right to receive payments hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, other than a transfer by will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer by the Executive contrary to this Section 14 the Company shall have no liability to pay any amount so attempted to be assigned or transferred to any person other than the Executive or, in the event of death, the Executive's designated beneficiary or, in the absence of an effective beneficiary designation, the Executive's estate.

15. Effectiveness; Term.

This Agreement will be effective and binding as of the date first above written immediately upon its execution and shall continue in effect through the second anniversary of such date; provided, however, that the term of this Agreement shall automatically be extended for an additional day for each day that passes so that there shall at any time be two years remaining in the term unless the Company provides written notice to the Executive that it does not wish the term of this Agreement to continue to be so extended, in which case the Agreement shall terminate on the second anniversary of such notice if there has not been a Change in Control prior to such second anniversary. In the event that a Change in Control has occurred during the term of this Agreement, then this Agreement shall continue to be effective until the second anniversary of such Change in Control. Notwithstanding any other provision of this Agreement, if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company and any subsidiary (other than a termination of employment pursuant to Section 2(d) hereof), thereupon without further action the term of this Agreement shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect. For purposes of this Section 15, the Executive shall not be deemed to have ceased to be an employee of the Company and any subsidiary by reason of the transfer of the Executive's employment between the Company and any subsidiary, or among any subsidiaries. Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Sections 4 through 9 will survive any termination or expiration of this Agreement or the termination of the Executive's employment following a Change in Control for any reason whatsoever.

16. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

17. Prior Agreement. This Agreement supersedes and terminates any and all prior similar agreements by and among Company (and/or a subsidiary) and the Executive, including, without limitation, the Prior Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the day and year first above set forth.

HESS CORPORATION

By: /s/ John B. Hess

Name: John B. Hess

Title: Chairman and CEO

/s/ John P. Rielly
John P. Rielly

Exhibit 10(20)

**J. Barclay Collins**
Executive Vice President, General Counsel
(212) 536-8576

September 19, 2008

Mr. Timothy Goodell
[Address Omitted]

Dear Tim:

I am pleased to confirm Hess Corporation's (the "Company") offer of employment as Senior Vice President, General Counsel, reporting directly to me. You will be based in the Company's New York office.

Your salary will be paid on a bi-weekly basis in an amount equivalent to $650,000 per year. Your first day of employment with the Company will be discussed upon acceptance of this offer. However, based on our previous conversation, I am targeting some time in mid-January, 2009 for your start date.

You will receive a $1,500,000 signing bonus, less applicable deductions, which will be paid to you in the following manner: you will receive $750,000 within 30 days of joining; and you will receive a final payment of $750,000 on the twelve (12) month anniversary date of your employment, unless you have voluntarily elected to terminate your employment prior thereto.

In addition, you will be entitled to participate in the Hess Corporation Cash Bonus Plan ("CBP"). Your target bonus for 2009 will be $650,000. The actual bonus will be based on a combination of corporate, business unit and individual performance. The actual bonus can vary between 0% and 150% of your target bonus. For 2009, you will be guaranteed a bonus of $650,000. Bonuses are paid in the first quarter of the subsequent year. You will only be entitled to the payment of this bonus if you are still employed by the Company on the date the bonus is to be paid.

Additionally, you will be entitled to five (5) weeks vacation annually.

Upon joining Hess, you will be awarded shares of restricted stock and options for the purchase of shares of Hess Corporation stock, the combined value of which is approximately $2,250,000. The exact number of these shares and options, and the option price which will be the closing price on that day, will be determined at the time the award is approved by the Compensation Committee.

Stock options awarded under the Company long-term incentive plan have a three-year graded vesting and ten year term. Shares of restricted stock awarded under the Company's long-term incentive plan have a three-year "cliff" vesting provision. Other provisions of the Company's long-term incentive plan applicable to these awards will be described in the award documents you receive.

You will be eligible for consideration in future years beyond 2008 for long-term incentive plan awards (restricted stock and stock options) which are determined at the discretion of management.

You will also be eligible to receive benefits under the Company's Change in Control Plan and an agreement will be executed upon your hire.

Please note that your base salary and all other compensation information are considered confidential by the Company and should not be discussed.

You may elect Medical Coverage, Dental Coverage, Vision Coverage, Optional Life Insurance, Flexible Spending Accounts (FSA), Long Term Disability Insurance (LTD) and Family Accident Insurance and will receive information under separate cover. The effective date of your elected benefits (Medical, Dental, Vision, Family Accident and LTD) will be your start date should you enroll on or before your start date or the date you enroll if it is after your start date. For all other benefits, coverage will be effective the first of the month after your enroll. Additionally, you will be eligible to enroll in the Company's Savings Plan, a 401(k) program administered by ACS. You will receive details on our benefit plans under separate cover. If you have any further questions on our employee benefit plans, please let us know.

Please understand that as with all other new employees, this offer is contingent on the results of a background check and drug test that Hess will procure on you for employment purposes. **The drug test must be taken within 48 hours from the date you sign the attached Drug Test Consent Form, which is referenced below.** You may visit www.questdiagnostics.com to locate a facility to have your drug test performed. At the time of your appointment, present the enclosed Chain of Custody form to the provider. If you accept this offer, please review and sign the attached Drug Test Consent Form, which will allow Hess to have the drug test performed, and also sign the Authorization and Fair Credit Reporting Act Disclosure Form, which will allow Hess to obtain a background check on you. Please return the signed forms to my attention within 48 hours. **In order to expedite the process, you may fax the signed offer letter and completed authorization forms to [name and telephone number omitted].**

This offer is also contingent upon proof of identity and employment eligibility. The Immigration Reform and Control Act of 1986 requires the Company to verify and record both your identity and right to work in the United States. Accordingly, this offer of employment is also contingent on your being able to satisfy this law within three (3) business days of the date employment begins. Please refer to the enclosed sheet of instructions regarding acceptable documentation.

This letter contains the entire offer of employment and supersedes representations regarding the terms and conditions of employment, if any, that may have been made in prior communications, written or oral, between you and the Company or any of its representatives. As a condition of payment by the Company, you must agree to repay the Company the full $1,500,000 signing bonus if you voluntarily terminate your employment with the Company within two years from the date your employment began. In the event that the Company initiates the termination of your employment, other than for cause, within two years of your employment date, you will be entitled to retain the full $1,500,000 signing bonus.

Your employment with the Company will be “at will.” This means both you and the Company are free to terminate the employment relationship at any time, with or without a reason, and with or without prior notice. Additionally, the Company has the right to alter the terms of your employment at any time, with or without cause.

The terms contained in this letter cannot be modified except in writing, signed by a duly authorized representative of the Company.

Tim, we are extremely pleased about you joining us and are confident that your association with Hess Corporation will be a great experience. We look forward to a long and mutually rewarding relationship. As I have said on many occasions to John in discussing the prospects of your joining Hess, I know of no one I would like better to be my successor! All of us on our leadership team are eager to begin working with you.

In the meantime, if you have any questions, please feel free to call me at (212) 536-8577.

Please acknowledge your acceptance of the above terms by signing and dating in the spaces provided below and returning this letter to me by Tuesday, September 30, 2008.

Regards,

/s/ Barclay

J. Barclay Collins

I accept this offer of employment:

/s/ Timothy B. Goodell                    Date 9/29/08

Timothy Goodell

On or about 1/15/09

Start Date

**EXHIBIT 21**

## HESS CORPORATION AND CONSOLIDATED SUBSIDIARIES

## SUBSIDIARIES OF THE REGISTRANT

| Name of Company | Jurisdiction |
|---|---|
| Hess Energy Exploration Limited | Delaware |
| Hess Limited | United Kingdom |
| Amerada Hess Production Gabon | Gabon |
| Hess (Thailand) Limited | United Kingdom |
| Hess Oil and Gas Holdings Inc. | Cayman Islands |
| Hess Oil Company of Thailand (JDA) Limited | Cayman Islands |
| Hess Equatorial Guinea Inc. | Cayman Islands |
| Hess International Holdings Limited | Cayman Islands |
| Hess International Holdings Corporation | Delaware |
| Hess Libya (Waha) Limited | Cayman Islands |
| Hess (Netherlands) Oil & Gas Holdings C.V. | The Netherlands |
| Hess (Netherlands) Exploration and Production Holding B.V. | The Netherlands |
| Hess (Netherlands) U.S. GOM Ventures B.V. | The Netherlands |
| Hess Capital Services Corporation | Delaware |
| Hess Canada Holdings B.V. | The Netherlands |
| Hess West Africa Holdings Limited | Cayman Islands |

Other subsidiaries (names omitted because such unnamed subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary).

Each of the foregoing subsidiaries conducts business under the name listed, and is 100% owned by the Registrant.

**EXHIBIT 23(1)**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-43569) pertaining to the Hess Corporation Employees' Savings Plan,

(2) Registration Statement (Form S-8 No. 333-94851), pertaining to the Hess Corporation Amended and Restated 1995 Long-Term Incentive Plan

(3) Registration Statement (Form S-8 No. 333-115844) pertaining to the Hess Corporation Second Amended and Restated 1995 Long-Term Incentive Plan, and

(4) Registration Statement (Form S-8 No. 333-150992) pertaining to the Hess Corporation 2008 Long-Term Incentive Plan,

(5) Registration Statement (Form S-3 No. 333-157606) of Hess Corporation;

of our reports dated February 26, 2010, with respect to the consolidated financial statements and schedule of Hess Corporation and consolidated subsidiaries and the effectiveness of internal control over financial reporting of Hess Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2009.

/s/ Ernst & Young, LLP
New York, New York
February 26, 2010

**EXHIBIT 23(2)**

DEGOLYER AND MACNAUGHTON
5001 SPRING VALLEY ROAD
SUITE 800 EAST
DALLAS, TEXAS 75244

February 26, 2010

Hess Corporation
1185 Avenue of the Americas
New York, New York 10036

Ladies and Gentlemen:

We hereby consent to the use of the name DeGolyer and MacNaughton, to references to DeGolyer and MacNaughton as an independent petroleum engineering consulting firm, under the heading “Oil and Gas Reserves-Reserves Audit” and to the inclusion of our third party letter report dated January 15, 2010, containing our opinion on the proved reserves attributable to certain properties owned by Hess Corporation, as of December 31, 2009, (our “Report”) as an exhibit in Hess Corporation’s Annual Report on Form 10-K for the year ended December 31, 2009. We also consent to the incorporation by reference of our Report in the Registration Statements filed by Hess Corporation on Form S-3 (No. 333-157606) and Form S-8 (No. 333-43569, No. 333-94851, No. 333-115844 and No. 333-150992).

Very truly yours,

DEGOLYER AND MACNAUGHTON

**Exhibit 31(1)**

I, John B. Hess, certify that:

1. I have reviewed this annual report on Form 10-K of Hess Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ John B. Hess
John B. Hess
Chairman of the Board and
Chief Executive Officer

Date: February 26, 2010

**Exhibit 31(2)**

I, John P. Rielly, certify that:

1. I have reviewed this annual report on Form 10-K of Hess Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ John P. Rielly

John P. Rielly
Senior Vice President and
Chief Financial Officer

Date: February 26, 2010

**Exhibit 32(1)**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Hess Corporation (the Corporation) on Form 10-K for the period ending December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, John B. Hess, Chairman of the Board and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By /s/ John B. Hess
John B. Hess
Chairman of the Board and
Chief Executive Officer

Date: February 26 , 2010

**Exhibit 32(2)**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Hess Corporation (the Corporation) on Form 10-K for the period ending December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, John P. Rielly, Senior Vice President and Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By /s/ John P. Rielly
John P. Rielly
Senior Vice President and
Chief Financial Officer

Date: February 26 , 2010

**Exhibit 99.1**

**DeGolyer and MacNaughton**
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

# LETTER REPORT
**on**
# PROVED RESERVES AUDIT
**as of**
**DECEMBER 31, 2009**
**of**
**CERTAIN PROPERTIES**
**attributable to**
**HESS CORPORATION**

**DeGolyer and MacNaughton**
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

January 15, 2010

Board of Directors
Hess Corporation
1185 Avenue of the Americas
New York, New York 10036

Gentlemen:

Pursuant to your request, we have conducted a reserves audit of the net proved crude oil, condensate, natural gas liquids (NGL), and natural gas reserves, as of December 31, 2009, of certain selected properties of Hess Corporation (Hess) to determine the reasonableness of Hess estimates. Hess has represented to us that these properties account for 79 percent on a net equivalent barrel basis of Hess' net proved reserves, as of December 31, 2009. We have reviewed information provided to us by Hess that it represents to be Hess' estimates of the net reserves, as of December 31, 2009, for the same properties as those which we evaluated.

Reserves included herein are expressed as net reserves as represented by Hess. Gross reserves are defined as the total estimated petroleum to be produced from these properties after December 31, 2009. Net reserves are defined as that portion of the gross reserves attributable to the interests owned by Hess after deducting all interests owned by others, except in Russia, where Hess owns 80 percent of a consolidated corporate joint venture. As a result, Hess net reserves include 20 percent of the Russian joint venture reserves not owned by Hess.

Certain properties in which Hess has an interest are subject to the terms of various profit sharing agreements. The terms of these agreements generally allow for working interest participants to be reimbursed for portions of capital costs and operating expenses and to share in the profits. The reimbursements and profit proceeds are converted to a barrel of oil equivalent or standard cubic foot of gas equivalent by dividing by product prices to determine the "entitlement reserves." These entitlement reserves are equivalent in principle to net reserves and are used to calculate an equivalent net share, termed an "entitlement interest." In this report, Hess net reserves or interest for certain properties subject to these agreements is the entitlement based on Hess' working interest.

Estimates of oil, condensate, NGL, and natural gas reserves should be regarded only as estimates. Such estimates are based upon information that is currently available and may change as further production history and additional information become available. Such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Data used in this audit were obtained from reviews with Hess personnel, Hess files, from records on file with the appropriate regulatory agencies, and from public sources. Additionally, this information includes data supplied by Petroleum Information/Dwights LLC; Copyright 2009 Petroleum Information/Dwights LLC. In the preparation of this report we have relied, without independent verification, upon such information furnished by Hess with respect to property interests, production from such properties, costs of operation and development, prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. A field examination of the properties was not considered necessary for the purposes of this report. In our opinion, the adequacy and quality of the data provided to us was sufficient for us to conduct this reserves audit.

The Hess net proved reserves attributable to these properties as of December 31, 2009, and which represent approximately 79 percent of total Hess net reserves on a net equivalent barrel basis, are as follows, expressed in millions of barrels (MMbbl), billions of cubic feet (Bcf), and millions of barrels of oil equivalent (MMboe):

| | Estimated by Hess Net Proved Reserves as of December 31, 2009 | | | |
|---|---|---|---|---|
| | **Oil and Condensate (MMbbl)** | **Natural Gas Liquids (MMbbl)** | **Natural Gas (Bcf)** | **Oil Equivalent (MMboe)** |
| United States | 144.7 | 23.4 | 200.6 | 201.5 |
| Europe including Russia | 216.9 | 17.0 | 463.7 | 311.2 |
| Africa | 257.5 | 0.0 | 48.2 | 265.5 |
| Asia and other | 61.1 | 7.7 | 1,724.8 | 356.3 |
| **Total** | **680.2** | **48.1** | **2,437.3** | **1,134.5** |

Note: Gas is converted to oil equivalent using a factor of 6,000 cubic feet of gas per 1 barrel of oil equivalent.

**Opinion**

The assumptions, data, methods and procedures used by DeGolyer and MacNaughton to conduct the reserves audit are appropriate for purposes of this report.

In our opinion, the estimated net proved reserves prepared by Hess as shown in the table above comply with the definitions and disclosure guidelines of Paragraphs 932-235-50-4, 932-235-50-6 through 932-235-50-9 of the Accounting Standards Update 932-235-50, *Extractive Industries — Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures* (January 2010) of the Financial Accounting Standards Board and Rules 4—10(a) (1)—(32) of Regulation S—X and Items 1201, 1202(a)(1), (2), (3), (4) and 1203 of Regulation S-K of the Securities and Exchange Commission (SEC) and the reserves estimation methodologies employed are appropriate.

In comparing the detailed net proved reserves estimates by field prepared by us and by Hess, we have found differences, both positive and negative. It is our opinion that the total net proved reserves estimates prepared by Hess as of December 31, 2009, on the properties reviewed by us and referred to in the table above, when compared on the basis of net equivalent barrels, do not differ materially from those prepared by us.

**Methodology and Procedures**

Estimates of reserves were prepared by the use of standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data, and production history.

When applicable, the volumetric method was used to estimate the original oil in place (OOIP) and the original gas in place (OGIP). Structure and isopach maps were constructed to estimate reservoir volume. Electrical logs, radioactivity logs, core analyses, and other available data were used to prepare these maps as well as to estimate representative values for porosity and water saturation. When adequate data were available and when circumstances justified, material balance and other engineering methods were used to estimate OOIP or OGIP.

Estimates of ultimate recovery were obtained after applying recovery factors to OOIP or OGIP. These recovery factors were based on consideration of the type of energy inherent in the reservoirs, analyses of the fluid properties, the structural positions of the properties, and the production histories. When applicable, material balance and other engineering methods were used to estimate recovery factors. An analysis of reservoir performance, including production rate, reservoir pressure, and gas-oil ratio behavior, was used in the estimation of reserves.

For depletion-type reservoirs or those whose performance disclosed a reliable decline in producing-rate trends or other diagnostic characteristics, reserves were estimated by the application of appropriate decline curves or other performance relationships. In the analyses of production-decline curves, reserves were estimated only to the limits of economic production or to the limit of the production licenses as appropriate.

Petroleum reserves estimated by Hess and by us are classified as proved and are judged to be economically producible in future years from known reservoirs under existing economic and operating conditions and assuming continuation of current regulatory practices using conventional production methods and equipment. Reserves were estimated only to the limit of economic production rates under existing economic and operating conditions using prices and costs consistent with the effective date of this report, including consideration of changes in existing prices provided only by contractual arrangements but not including escalations based upon future conditions.

**Definition of Reserves**

Proved reserves classifications used in this report are in accordance with the reserves definitions of Rules 4—10(a) (1)—(32) of Regulation S—X of the SEC of the United States. The petroleum reserves are classified as follows:

*Proved oil and gas reserves* — Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes: (A) The area identified by drilling and limited by fluid contacts, if any; and, (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and, (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic and operating conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

*Developed oil and gas reserves* — Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

*Undeveloped oil and gas reserves* — Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in Rule 4-10(a)(2) of Regulation S-X, or by other evidence using reliable technology establishing reasonable certainty.

**Primary Economic Assumptions**

The following economic assumptions were used for estimating existing and future prices and costs:

*Oil and Condensate Prices*

Hess has represented that the oil and condensate prices were based on a 12-month average price (reference price), calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual arrangements. Hess supplied appropriate differentials by field to the relevant reference prices and the prices were held constant thereafter.

*NGL Prices*

Hess has represented that the NGL prices were based on a 12-month average price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual arrangements. These prices were held constant over the lives of the properties.

*Natural Gas Prices*

Hess has represented that the natural gas prices were based on a reference price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual arrangements. The gas prices were calculated for each property using differentials furnished by Hess and held constant thereafter.

*Operating Expenses and Capital Costs*

Operating expenses and capital costs, based on information provided by Hess, were used in estimating future costs required to operate the properties. Future costs are typically based on existing costs and where appropriate adjusted to reflect planned changes in operating conditions. These costs were not escalated for inflation.

**Possible Effects of Regulations**

Hess' oil and gas reserves have been estimated assuming the continuation of the current regulatory environment. Foreign oil producing countries, including members of the Organization of Petroleum Exporting Countries (OPEC) may impose production quotas which limit the supply of oil that can be produced. Generally, these production quotas affect the timing of production, rather than the total volume of oil or gas reserves estimated.

Changes in the regulatory environment by host governments may impact the operating environment and oil and gas reserves estimates of industry participants. Such regulatory changes could include increased mandatory government participation in producing contracts, changes in royalty terms, cancellation or amendment of contract rights, or expropriation or nationalization of property. While the oil and gas industry is subject to regulatory changes that could affect an industry participant's ability to recover its oil and gas reserves, neither we nor Hess are aware of any such governmental actions which restrict the recovery of the December 31, 2009, estimated oil and gas volumes.

DeGolyer and MacNaughton

DeGolyer and MacNaughton is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world for over 70 years. DeGolyer and MacNaughton does not have any financial interest, including stock ownership, in Hess. Our fees were not contingent on the results of our evaluation. This letter report has been prepared at the request of Hess and should not be used for purposes other than those for which it is intended. DeGolyer and MacNaughton has used all procedures and methods that it considers necessary to prepare this report.

Submitted,

/s/ DeGolyer and MacNaughton
DeGOLYER and MacNAUGHTON
Texas Registered Engineering Firm F-716

/s/ James W. Hail, Jr, P.E.
James W. Hail, Jr., P.E.
President
DeGolyer and MacNaughton

[SEAL]

**CERTIFICATE of QUALIFICATION**

I, James W. Hail, Jr., Petroleum Engineer with DeGolyer and MacNaughton, 5001 Spring Valley Road, Suite 800 East, Dallas, Texas, 75244 U.S.A., hereby certify:

1. That I am the President of DeGolyer and MacNaughton, which company did prepare the letter report dated January 15, 2010 on the proved reserves audit of certain properties attributable to Hess Corporation, and that I, as President, was responsible for the preparation of this report.

2. That I attended the Texas A&M University, and that I graduated with a Bachelor of Science degree in Chemical Engineering in 1972; that I am a Registered Professional Engineer in the State of Texas; that I am a member of the International Society of Petroleum Engineers; the American Association of Petroleum Geologists; and the Society of Petroleum Evaluation Engineers and that I have in excess of 35 years of experience in oil and gas reservoir studies and reserves evaluations.

/s/ James W. Hail, Jr, P.E.

[SEAL]

James W. Hail, Jr., P.E.
President
DeGolyer and MacNaughton