

We aspire to be the leading global independent energy company.



# 210

TO FIRST  
QUARTILE

2007 REPORT



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A PROGRESS REPORT ON OUR JOURNEY  
TO FIRST QUARTILE PERFORMANCE

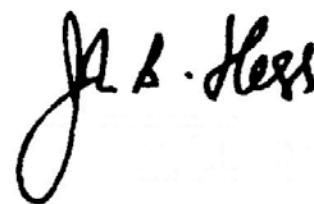
## A MESSAGE FROM JOHN HESS

I want to congratulate everyone in E&P for making excellent progress on the journey **To First Quartile**. You should be proud of what you have accomplished in delivering on your commitments.

We have the opportunity now to break into the first quartile of performance among our peers and build long-term, sustainable growth. I'm confident that we have the leadership team and the workforce to make that aspiration a reality.

I urge you to take full advantage of the many opportunities you have at Hess to learn, develop and grow personally and professionally. If we are to continually improve as a company, it is essential that everyone pursues objectives that align with organizational goals, participates in regular performance reviews, and follows a formal development plan.

Thank you for helping make Hess a special place and for your commitment to ensuring an even brighter future.



We first published this defining booklet two years ago to put the journey **To First Quartile** into perspective. Now is an ideal time to step back and take another snapshot of the progress we are making.

It's important that each of us understands the big picture: our aspirations, our game plan, and how we are faring. Whether you are new to Hess or a veteran of the Hess team, investing a few minutes to read this booklet will be time well spent.

We have again organized the content into three sections – People, Portfolio and Performance – to reflect the keys to success we identified at the start in 2002. Our focus is on presenting you with facts, not commentary.

We have come a long way in a relatively short period of time. My sense is that, overall, we have earned a place in the second quartile and are making outstanding progress on all measures.

The challenge now is to maintain the positive momentum. Let's re-commit to our company's Values and embed the Hess Habits in all that we do. They appropriately set the beliefs and behaviors that will enable us to succeed.

I am proud of what we have achieved and excited about building an even brighter future together. Thanks for helping propel Hess E&P **To First Quartile** performance!



Our overarching goals and strategies have remained unchanged since they were established in 2002.

- 1 Grow the reserve base by 5% to 8% per year
  - ▶ Through the drill bit (exploration)
  - ▶ By making selective acquisitions
- 2 Grow production by 3% to 5% per year
- 3 Achieve a Reserves to Production (R:P) ratio of 10 by 2009

#### TO FIRST QUARTILE

Four years ago, the mantra "To First Quartile," or "21Q" for short, was established both as a rallying cry for transformation and a measure of the progress we were making relative to our peers. The Performance section of this booklet will give you an idea of how we stack up on a number of key metrics.

We have assembled a peer group of 11 companies against which we measure ourselves. These peers are in similar lines of business and range from \$15 billion to \$50 billion in size, although there is no other company that truly matches our business mix and global footprint. Since we first published this report in 2005, three companies - Kerr-McGee, Burlington and Unocal - have been removed from the list because they were acquired and no longer exist as independent enterprises. To be first quartile, or in the top 25%, we must outperform at least nine of our peers.

Today, every segment of the Value Chain, every operating unit, and every function is expected to strive for first-quartile performance.



## OUR PEOPLE

We are assembling a world-class team of professionals in all disciplines within Hess E&P and have made major strides in becoming an “employer of choice.” Our aim is to have the best and brightest join, stay and together build something very special.

The industry’s talent pool has been shrinking for decades with large-scale retirements, a steady decline in the number of U.S.- and U.K.-based university programs, and mid-career changes out of the industry.

As our growth continues to outpace the competition’s, our need for talent is heightened.

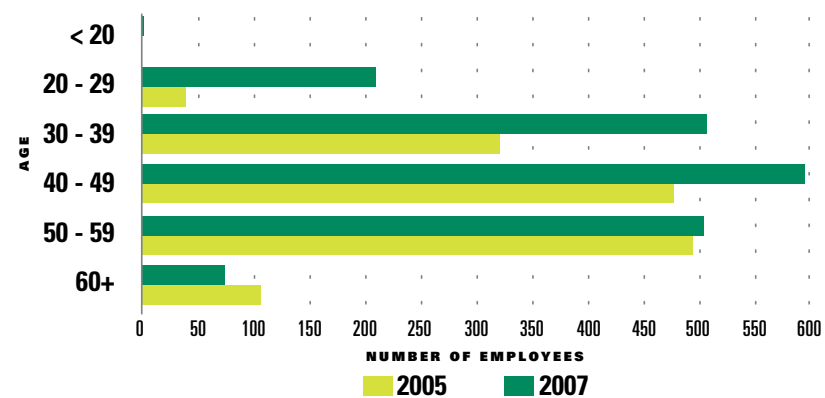
That has spurred us to become aggressive by enticing key knowledge workers to stay on longer and serve as mentors, partnering with the best universities around the world, and winning over mid-career talent from competitors. The approach is working. We have hired several hundred professionals with a broad

range of skills and experiences to enhance our existing capabilities.

Our workforce is getting more diverse - younger, more women, and more local nationals – which bodes well for the future. For example, over the last two years, 28% of all new hires were women. In Southeast Asia, frontline operations at Phu Horm and Pangkah are comprised entirely of Thai and Indonesian staff.

We are also taking action to create a dynamic workplace where our people feel challenged, developed, and rewarded. It’s an important component of what we hope is the most compelling Total Package in the industry.

### CHANGING FACE OF HESS E&P



In the last two years, we created development opportunities (new assignments and roles) for more than 600 existing employees, largely the result of a new Talent Management Process; introduced Hess Habits to set expectations of leaders and guide everyone’s actions; upgraded our Performance Management Process with world-class technology; enhanced our Total Pay system with a new special recognition framework; and increased the frequency and quality of communications.

The next few pages highlight some of the many significant milestones our workforce has achieved since 2005 on the journey **To First Quartile**.





**210**  
TO FIRST  
QUARTILE

**HIGHLIGHTS OF ACHIEVEMENT  
(2005 - 2007)**



**>3 FOR 1 STOCK SPLIT**

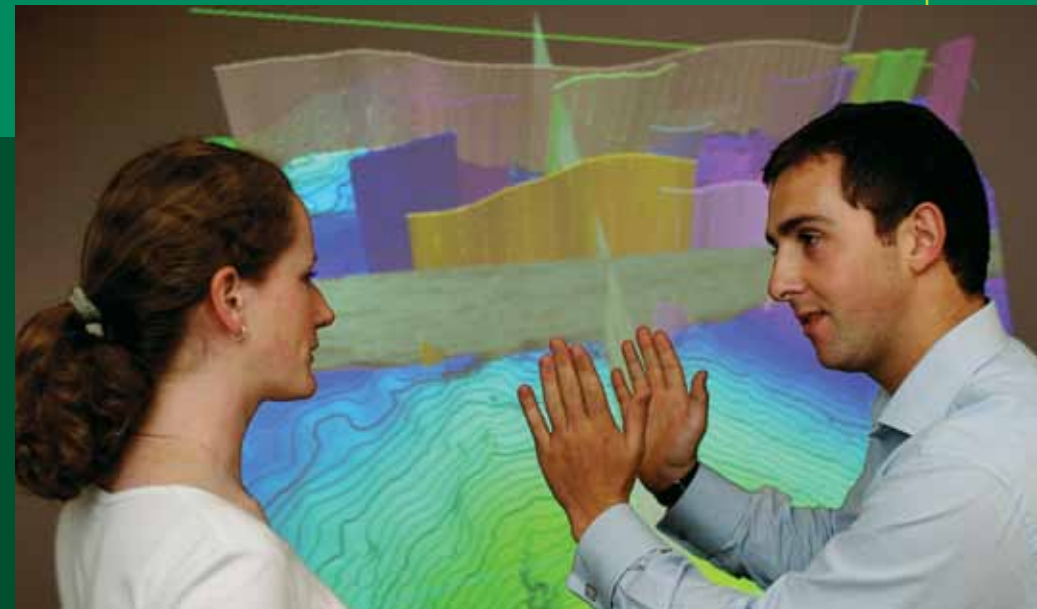
*In July 2006, we changed our name to Hess Corporation and began trading under the ticker symbol HES on the New York Stock Exchange. Employee and external shareholders have enjoyed a 108% appreciation in our stock over the last 28 months.*



**WE OFFER THE  
TOTAL PACKAGE**

**>THE HESS  
TOTAL PACKAGE**

*Several upgrades were recently made to ensure that the Hess experience – work environment, compensation and benefits, learning and development, and leadership – remains the industry's best. A few E&P-wide examples are: renovations at many locations; market-driven compensation adjustments; alignment of personal objectives with business goals; and the introduction of the Hess Habits.*



**>TECHNICAL EXCELLENCE**

*Our functions are now global in scope and newly formed networks facilitate sharing, development, and common standards. And our people are equipped with the best tools and facilities, such as new, state-of-the-art visualization rooms at each major location.*



**>NEW COUNTRY ENTRIES**

*Over the last two years, Hess acquired oil and gas interests in Egypt, Russia, Australia, and Ghana, and re-entered Libya (shown above), making our global footprint even more distinctive from our peers.*



**> DISCOVERIES**

*Pressing the limits of seismic and drilling technology, Pony's wells are the third deepest ever in the Gulf of Mexico.*



**> FIRST OIL & GAS**

*Developments have been consistently converted to producing assets on budget, safely and - in the case of the massive Okume Complex in Equatorial Guinea - ahead of schedule. Phu Horm and Pangkah have helped establish our position as a major gas supplier within Southeast Asia.*



**> SOCIAL RESPONSIBILITY**

*The Houston Employee Activities Club's Habitat For Humanity Weekend is a shining example of how Hess employees make things better in our communities, which includes our \$20 million investment to help the government of Equatorial Guinea revamp the country's secondary school system.*



**> SAFETY EXCELLENCE**

*The personal commitment made by employees like those at South Arne, which recently achieved 500 days without a recordable injury, has made our workplace significantly safer. Okume employees and contractors teamed up to win the 2006 Chairman's Safety Award for Excellence. The focus across E&P is "everyone home safely, every day."*

## OUR PORTFOLIO



**21Q**  
TO FIRST  
QUARTILE

Our producing assets can be found in more than 15 countries, spanning five continents. We produce approximately 370,000 barrels of oil equivalent per day from a portfolio that is increasingly Hess operated.

Within the last year, the Okume Complex (Equatorial Guinea), Phu Horm gas (Thailand), and Pangkah gas (Indonesia) have moved from the development stage into production.





## OUR PORTFOLIO

### DEVELOPMENT PROJECTS

Our pipeline is full of high-impact projects, 10 of which will be brought on stream around the world over the next three years.

PROJECT	2007	2008	2009	2010	2011
Gassi El Agreb Algeria	█				
Snohvit Norway	█				
JDA-Phase 2 Malaysia & Thailand	█				
Pangkajene Indonesia	█				
West Bravo Dome U.S.-Permian	█				
ROZ U.S.-Permian	█				
BMS Algeria	█				
Shenzi U.S. Gulf of Mexico	█				
Jambi Merang Indonesia	█				
Valhall Redevelop UK N. Sea	█				
West Med Egypt	█				
Pony U.S. Gulf of Mexico	█				
Tubular Bells U.S. Gulf of Mexico	█				

ENGINEERING

CONSTRUCTION

Pending Appraisal & Approval

Appraised & Pending Approval

Approved



JDA (Phase 2), Malaysia-Thailand



Jambi Merang, Indonesia



Snohvit, Norway



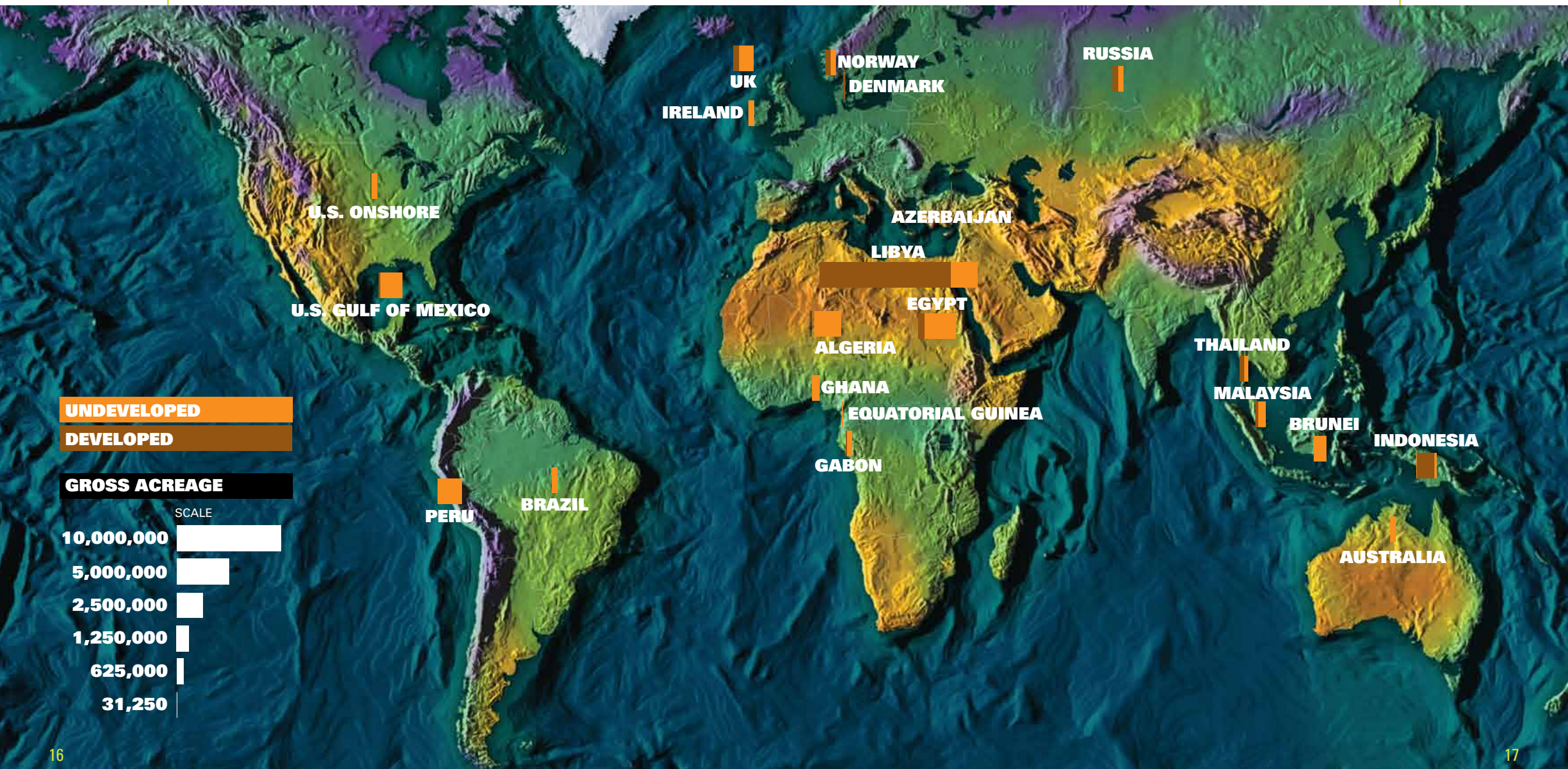
Pony, U.S. Gulf of Mexico

**OUR PORTFOLIO**

**ACREAGE UNDER LICENSE**

Looking even further into the future, Hess has more than 14 million net acres currently under license. Our exploration strategy is to pursue high-impact prospects by focusing on the best plays in the best basins

around the world. We now have rights to explore a diverse portfolio of opportunities.



OUR PERFORMANCE



Several measures can be used to assess our progress to becoming a first-quartile performer. The most appropriate are displayed here using data from publicly available sources such as company annual reports

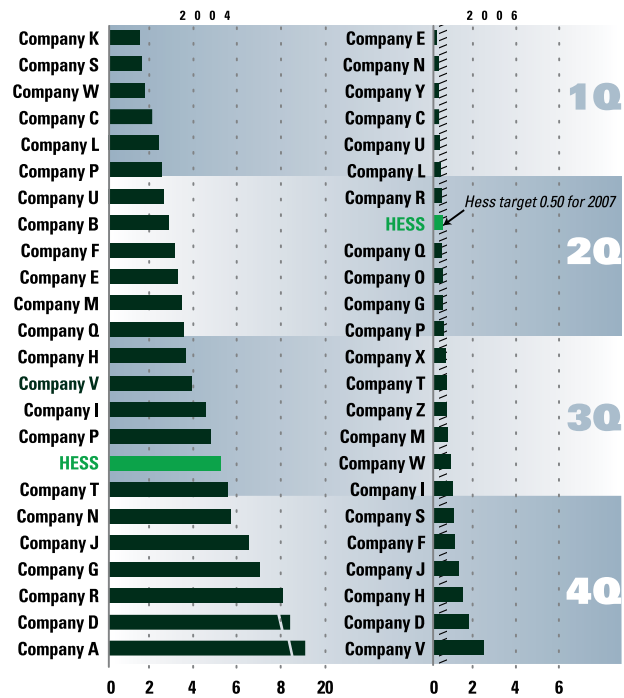
and 10k filings. The first set of charts below highlight how E&P stacks up against peers on safety performance.

**SAFETY**

Every employee is obliged to stop work that is unsafe. Our goal is to have everyone, including our contractor partners, return home safely to family and friends every day. Data are provided anonymously by the International Association of Oil and Gas

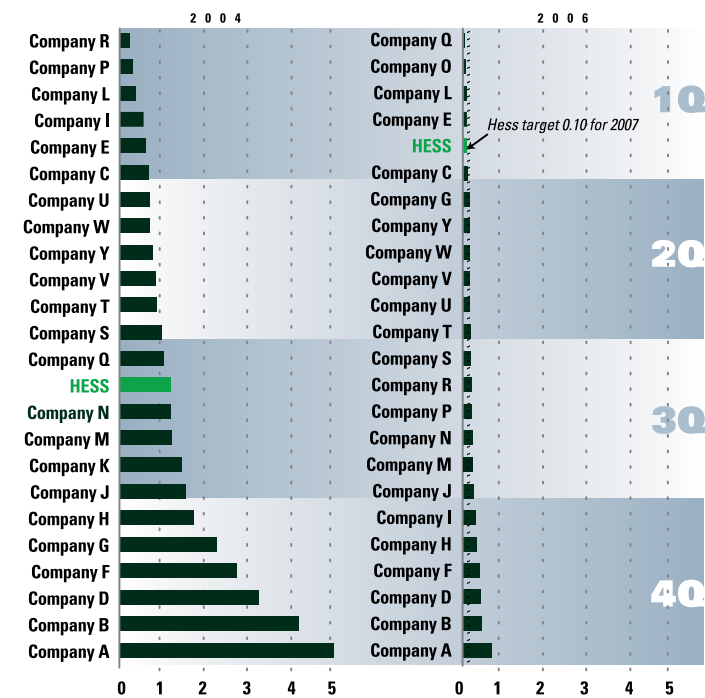
Producers (OGP) for member companies. Hence, the generic "Company A" format. Hess' relative position within the industry is indicated.

**TOTAL RECORDABLE INJURY RATE (TRIR)**



Recordable injuries (i.e., medical, restricted duty, and lost time cases) per 200,000 manhours worked.

**LOST TIME INJURY RATE (LTIR)**



Lost time injuries per 200,000 manhours worked.

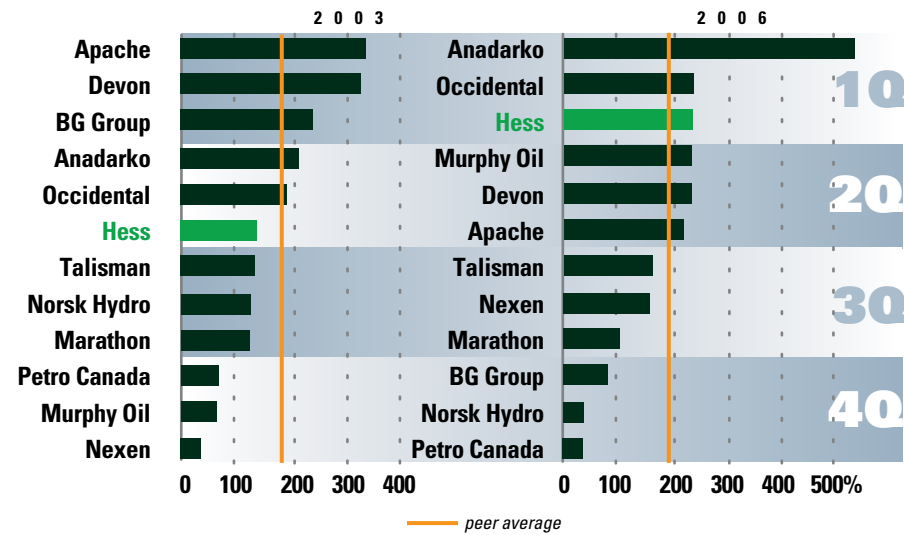
OUR PERFORMANCE



The next several charts highlight E&P's performance versus our peers on key operating metrics. Unless otherwise indicated, each figure includes affiliates and excludes syncrude and hedges.

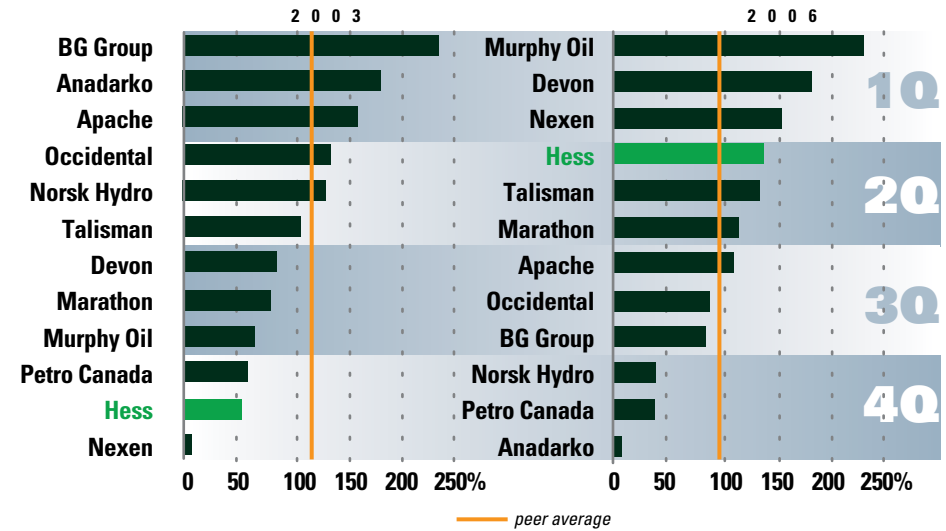
RESERVE REPLACEMENT

The net increase in proved reserves (extensions & discoveries, revisions, acquisitions, and improved recovery, including the price impact on entitlement reserve in PSC), divided by total barrels produced. Full, or 100%, reserve replacement means that hydrocarbons produced during the year have been replaced, but the overall reserves base has not grown. To grow reserves, the figure must be greater than 100%.



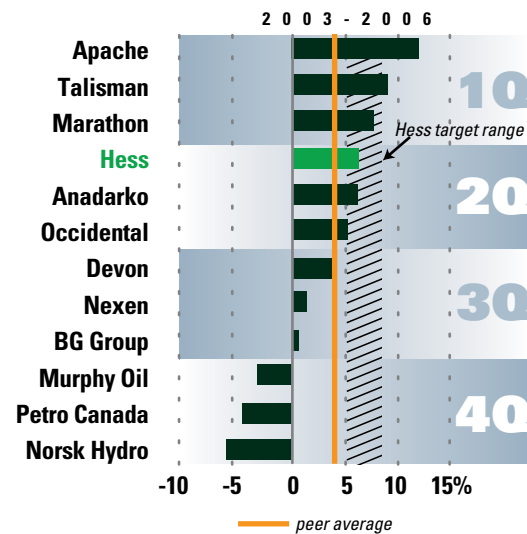
ORGANIC RESERVE REPLACEMENT

The net increase in proved reserves through extensions & discoveries, revisions and improved recovery - not including acquisitions - divided by the total barrels produced. At 100%, all of the company's hydrocarbon reserves were replaced by internal means and not by the acquisition of outside assets.



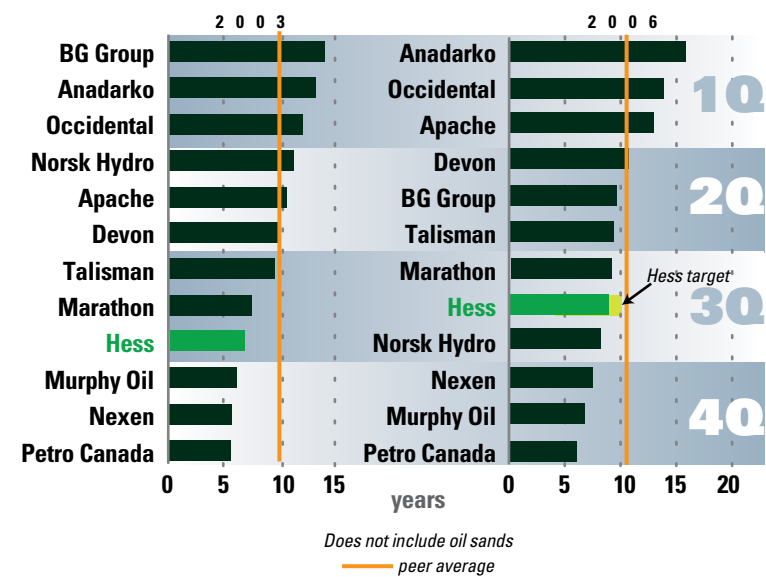
**RESERVE GROWTH (ANNUALIZED)**

The change in proven reserves from 2003 to 2006. To ensure a healthy balance of solid returns today and a steady supply for the future, our strategy establishes a target of growing reserves 5% to 8% per year, on average. Being first quartile is not the priority for us on this metric.



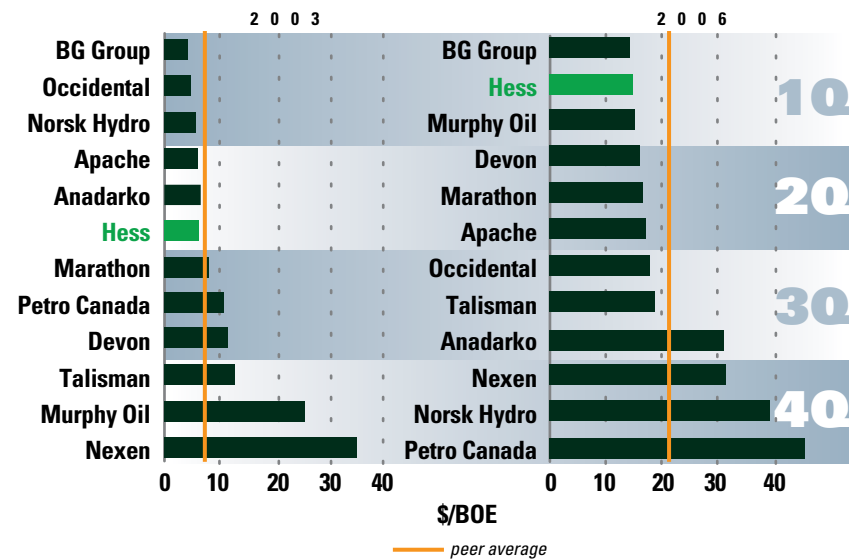
**RESERVE LIFE (RESERVE TO PRODUCTION RATIO)**

This metric is calculated at year-end, and equals the total proven reserves divided by the volume produced during the year. It reflects the projected life of the portfolio based on the production rate achieved during the year. E&P has a target to achieve an R:P of 10 by year-end 2009. Being first-quartile is not the priority for us on this metric. Too high or too low a figure could indicate an ability to deliver returns today or in the future.



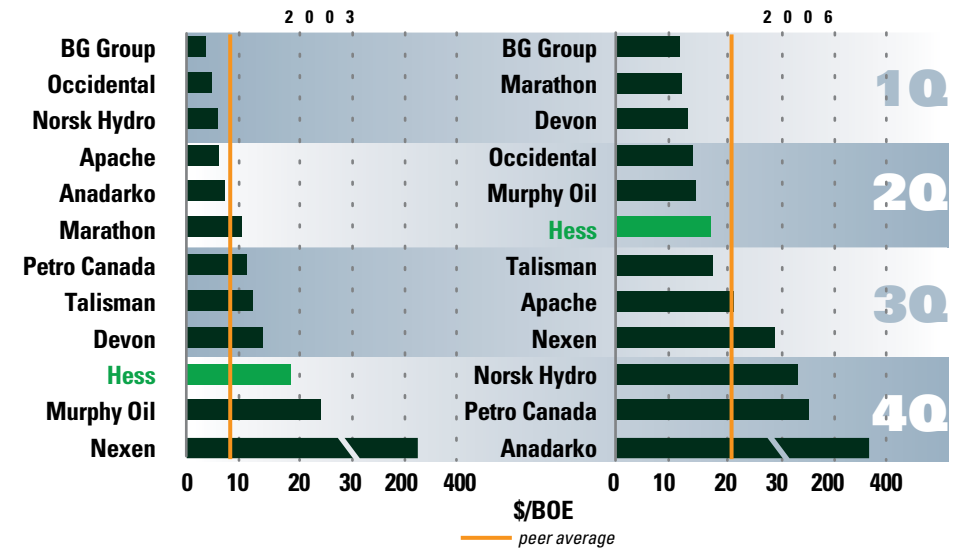
**COST TO REPLACE TOTAL RESERVES (FD&A)**

The costs incurred in property acquisition and exploration, plus costs incurred in development activities, divided by proved reserves additions. This is a measure of the costs of securing reserves through exploration, exploitation and acquisition. A lower number is better.



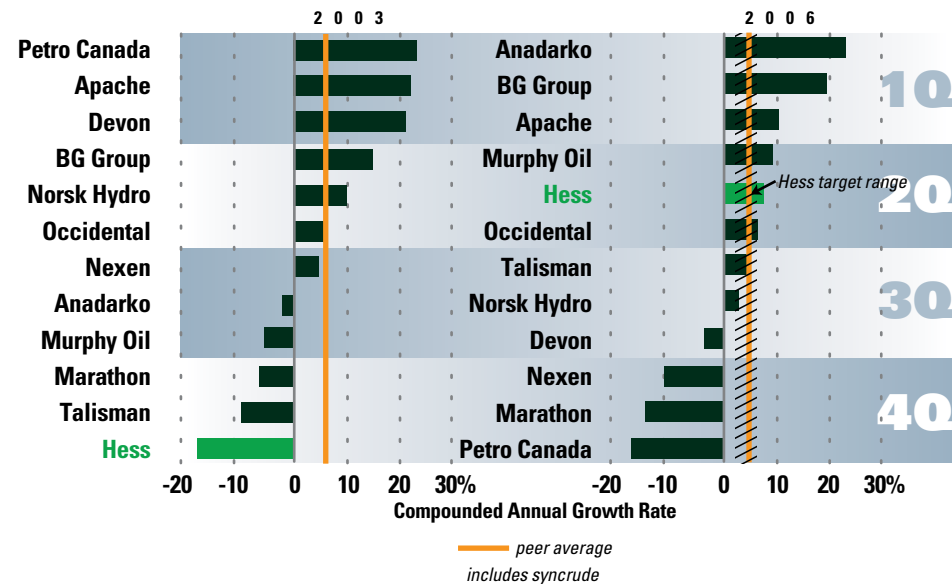
**COST TO REPLACE RESERVES ORGANICALLY (F&D)**

The costs incurred in property acquisition and exploration, plus costs incurred in development activities, divided by proved reserves additions, acquisition costs excluded. This is a measure of the costs of securing reserves through exploration and exploitation. A lower number is better.



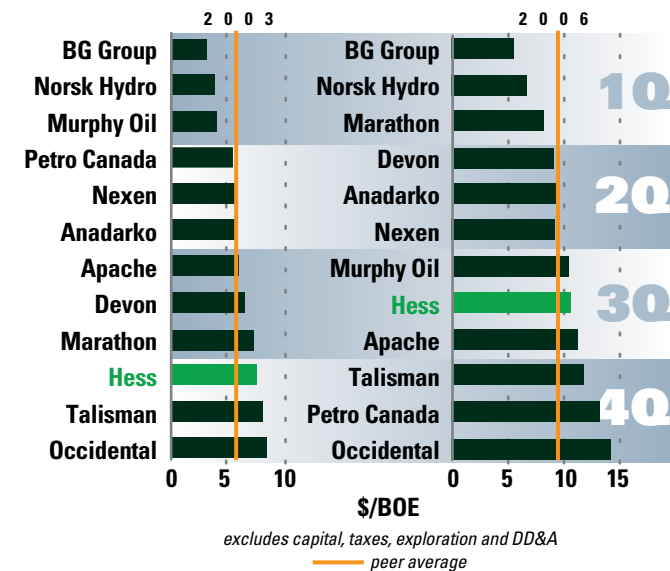
### PRODUCTION GROWTH

The percentage change in production volume from the previous year. In 2003, Hess purposefully cut back production as we continued to shape our portfolio of producing assets to better balance reserves and production and extend reserve life. Our goal is to increase Production by 3% to 5% each year, on average. Being first quartile is not the priority for us on this metric.



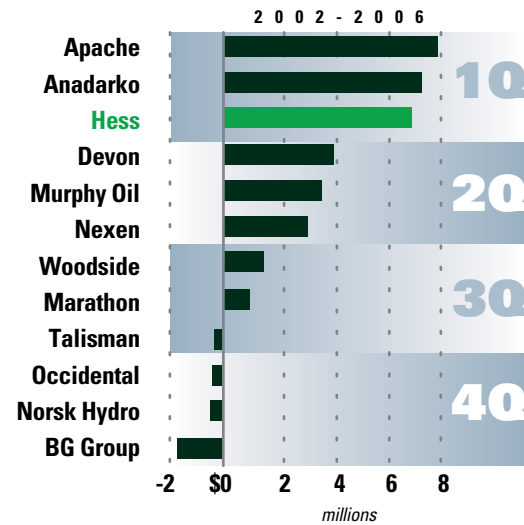
### PRODUCTION COSTS

The cash-based costs incurred to produce hydrocarbons divided by volume produced. This is a measure of the efficiency of production operations on a unit of production basis. A lower number is better.



### VALUE CREATED THROUGH EXPLORATION

This is the value generated through wildcat exploration activity divided by the resources (barrels of oil equivalent) discovered.

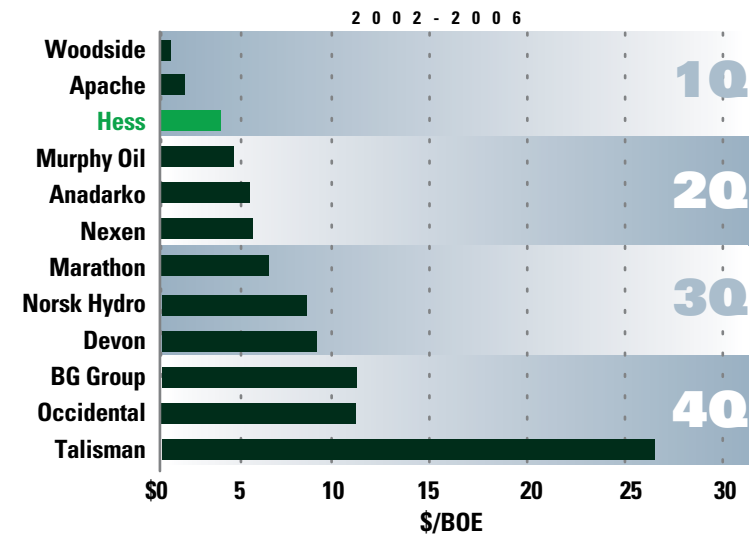


Source: Wood-Mackenzie study of Exploration performance in 70 countries/regions over a 4.5-year period; through first half 2006

Note: Woodside replaces Petro Canada, for which there was no available data.

### FINDING COSTS

This is the cost of wildcat exploration activity divided by the resources (barrels of oil equivalent) discovered. The lower the number the better.



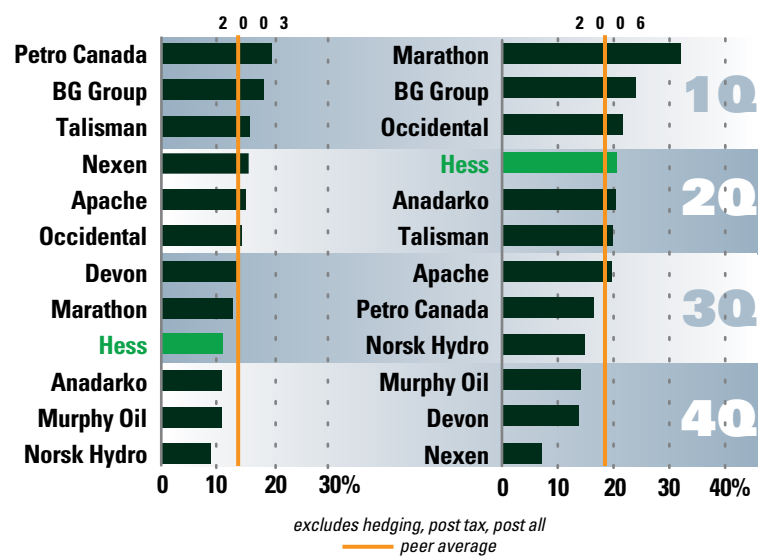
Source: Wood-Mackenzie study of Exploration performance in 70 countries/regions over a 4.5-year period; through first half 2006

Note: Woodside replaces Petro Canada, for which there was no available data.



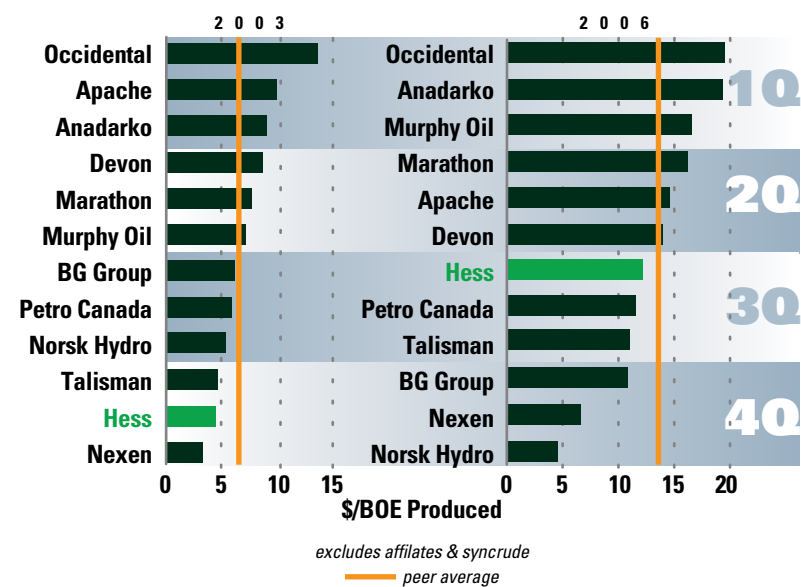
### RETURN ON AVERAGE CAPITAL EMPLOYED (ROACE)

Corporate net income divided by average annual capital employed. This is a measure of how productive our capital investments have been.



### E&P EARNINGS

E&P net income divided by total production volume. (These results reflect the impact of hedging.) A high number reflects higher value barrels.

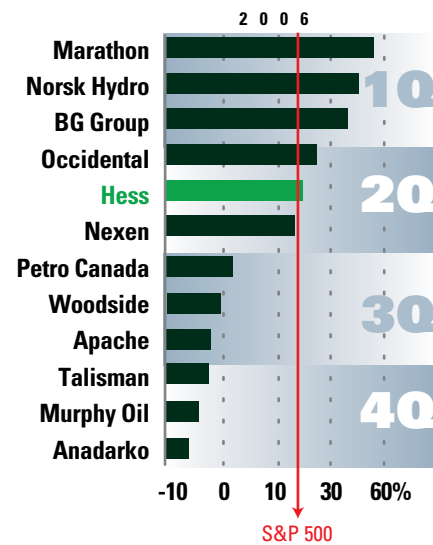


## OUR PERFORMANCE

The charts below indicate how Hess has performed compared to our peers in creating value for shareholders, the ultimate measure for a publicly traded company.

### TOTAL SHAREHOLDER RETURN

This reflects the returns realized by shareholders in 2006. It includes the change in stock price, plus the impact of reinvested dividends. The higher the number, the greater the return realized by holders of Hess stock.



### STOCK PERFORMANCE

This chart shows the appreciation in the price of Hess stock from the beginning of 2004 through the first quarter 2007. Anything less than 100% is a loss, while anything above 100% is a gain. With the name change last year to Hess, our stock is now traded under the ticker symbol "HES" on the New York Stock Exchange.

