

# HESS CORPORATION



# SCOPE OF REPORT

This report covers the principal facilities and assets operated by Hess Corporation (formerly Amerada Hess Corporation) and its subsidiaries during calendar year 2006.

Emission data and other environmental metrics refer to gross figures from operated facilities. Data and information concerning contracted activities are included where contracts dictate that Hess has overall responsibility for those operations. In order to make representative comparisons year on year we also report emissions as a normalized rate based on operated production and throughput. For copies of the data referred to in this report in tabular format, please visit our web based report .

This report does not include environment, health, safety or social responsibility data on operations in which the company has an equity interest but which are operated by other companies. In addition, it does not include data on those joint venture companies, for example the HOVENSA Refinery in the United States Virgin Islands or the Joint Development Area in Malaysia/Thailand where we have a significant financial interest but not direct operational control (some data pertaining to HOVENSA are available in the tables in our web based report ). Data from our recently acquired assets in Russia are not included in this report.

The format of this report follows the guidelines issued by the Global Reporting Initiative (GRI) and also the framework of the International Petroleum Industry Environmental Conservation Association (IPIECA) and the American Petroleum Institute (API) Oil and Gas Industry Guidance on Sustainability Reporting. Gaps may exist where reporting requirements are not applicable or where Hess does not currently collect data.

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Report Application Levels

|          |           | 2002<br>In Accordance | C | C+                        | B | B+  | A | A+                        |
|----------|-----------|-----------------------|---|---------------------------|---|---|---|---------------------------|
| Optional | Mandatory | Self Declared         |   | Report Externally Assured |   | Report Externally Assured   |   | Report Externally Assured |
|          | Optional  | Third Party Checked   |   | Report Externally Assured |   |  |   | Report Externally Assured |
|          | Optional  | GRI Checked           |   | Report Externally Assured |   | Report Externally Assured   |   | Report Externally Assured |

Note: Following a review by ERM CVS, our external verifier, Hess is self-declaring a GRI Application level of B+ in conformance with the GRI Sustainability Reporting Guidelines.

## MESSAGE FROM THE CHAIRMAN



**JOHN B. HESS**  
Chairman of the Board and  
Chief Executive Officer

In 2006 we continued to make progress in executing our strategy to increase shareholder value on a sustainable basis. Our challenge is to help meet the increasing worldwide demand for energy while managing our operations in a responsible manner that protects the environment, the health and safety of our stakeholders and has a positive impact on the communities where we operate. We are guided by our long established values that provide a framework for responsible policies and practices.

Throughout the year we maintained our strategic focus on growing reserves and production. Our year end proved reserves grew by 14 percent and we replaced 232 percent of production. We brought four new field developments into production, including our company operated Okume Complex in Equatorial Guinea and Phu Horm Project in Thailand and made a significant discovery at our Pony prospect in the deepwater Gulf of Mexico.

In Marketing and Refining we generated solid financial results and continued the selective expansion of our Retail and Energy Marketing businesses. Our refineries continued to operate reliably and we successfully completed low sulfur fuel projects at both Port Reading and our HOVENSA joint venture refinery.

As we continue to make major investments to grow our hydrocarbon reserves, we are also implementing standards and systems that support our goals of improving our

environment, health, safety and social responsibility performance. We have put in place a new process to address and mitigate our greenhouse gas emissions and have developed appropriate reporting tools to measure our performance.

In 2006 we continued to improve our safety performance and achieved a 13 percent reduction in recordable injuries from the previous year. We are especially pleased that 2006 represented the second consecutive year with no work related fatalities. We are committed to further improving our safety performance and are developing new safety initiatives and programs.

We remain committed to having a positive impact on the communities where we operate. In Equatorial Guinea, we joined with the government in a \$40 million program to support education in the country. As part of this program, Hess will contribute \$20 million over the next five years to help strengthen the education system for children from ages 6 to 18.

We have significantly revised this annual report to align with the latest global reporting guidelines and provide a comprehensive overview of our performance and commitment to our stakeholders. We are proud of the progress we have made and remain confident that we are building a sustainable enterprise for future growth.

A handwritten signature in black ink that reads "John B. Hess". The signature is written in a cursive, flowing style.

**JOHN B. HESS**  
Chairman of the Board and  
Chief Executive Officer

## OUR COMPANY

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Hess Corporation, with headquarters in New York, is a global integrated energy company engaged in the exploration for and the development, production, purchase, transportation and sale of crude oil and natural gas. The company also manufactures, purchases, transports, trades and markets refined petroleum and other energy products.

We are committed to meeting the highest standards of corporate citizenship by protecting the health and safety of our employees, safeguarding the environment and creating a long lasting, positive impact on the communities in which we do business.

### EXPLORATION & PRODUCTION

In Exploration and Production, we are making the substantial investments to grow reserves and production on a sustainable basis. Our worldwide oil and gas production averaged 359,000 barrels of oil equivalent (BOE) per day and our proved reserves grew to 1.24 billion BOE with a reserve life of 9.3 years. We have built a strong organization with the technical capabilities that enable us to undertake the world class challenges of developing crude oil and natural gas resources around the globe. Exploration and production activities account for nearly 80% of capital employed and over 95% of annual capital expenditures. The company has operations in the United States, United Kingdom, Norway, Denmark, Russia, Equatorial Guinea, Egypt, Algeria, Gabon, Azerbaijan, Libya, Malaysia, Thailand and Indonesia.



Our company holds one of the largest exploration portfolios in the deepwater Gulf of Mexico with over 400 blocks covering approximately 1.5 million net acres. This area continues to be our most active for exploration. Our international exploration portfolio continued to grow in 2006, with the acquisition of new licenses in Egypt, Ghana, Norway, Ireland, Russia, Brazil and Peru. We also acquired new seismic data in Libya, Egypt, Brazil and Norway.

### MARKETING & REFINING

In Marketing and Refining, we are delivering strong financial performance generating near term earnings and free cash flow. Hess is the leading independent gasoline convenience store marketer on the East Coast with 1,350 Hess branded retail locations. We continue to expand our HESS EXPRESS convenience store network. Our Energy Marketing business achieved increased sales of natural gas and electricity to utilities and other industrial and commercial customers. The company operates a network of 22 terminals strategically located to support our marketing operations and a fluid catalytic cracking (FCC) unit in Port Reading, New Jersey. The company also has a 50 percent interest in the HOVENSA Refinery in the United States Virgin Islands.



## 2006 Highlights



### HESS OPERATED LOCATIONS

#### 1 North Dakota

Largest gas producer and the third largest oil producer in North Dakota.

#### 2 West Texas

Seminole-San Andres Unit, recognized as one of the most successful tertiary recovery projects.

#### 3 Gulf Coast

Sea Robin Gas Plant resumed operation in March 2006 after damage from Hurricane Rita.

#### 4 Gulf of Mexico

We hold one of the largest exploration portfolios in the deepwater Gulf of Mexico covering 1.5 million net acres. Notable exploration successes in 2006, including Pony.

#### 5 Retail Marketing

Convenience store annual revenues, excluding petroleum products, exceeded \$1 billion, for the first time.

#### 6 Energy Marketing

Supplies natural gas, electricity and fuel oil to commercial and industrial customers on the East Coast of the United States.

#### 7 Terminals

Upgraded during 2006 to handle ultra-low sulfur diesel, as well as ethanol blending capability in Northeast markets.

#### 8 Port Reading, New Jersey

Refining Facility operated reliably throughout 2006. Successfully completed low sulfur gasoline project.

#### 9 Equatorial Guinea

The Okume Complex development commenced production in December 2006.

#### 10 UK North Sea

The Atlantic and Cromarty natural gas fields came on stream in 2006.

#### 11 Denmark

The South Arne Facility is the largest single producer of oil and gas in Denmark.

#### 12 Algeria

Gassi El Agreb Fields continued work on the Gas Compression and Reinjection Project.

#### 13 Egypt

Acquired a working interest in the deepwater section of the West Mediterranean Block 1 Concession.

#### 14 Thailand

The Phu Horm Field was completed within 18 months of project sanction and commenced gas production.

#### 15 Indonesia

Development of the Ujung Pangkah Field continued and we expect to commence production of natural gas in 2007.

#### 16 Russia

Oil production in the Samara region of Russia continued to increase during 2006.

### NON-OPERATED & JOINT VENTURE LOCATIONS

#### 17 U.S. Virgin Islands

HOVENSA is one of the world's largest crude oil refineries. Completed low sulfur diesel project in 2006.

#### 18 Norway

The Valhall Field is one of our most significant assets producing approximately 28,000 BOE per day.

#### 19 Libya

We reentered our former oil and gas production operations in the Waha concessions.

#### 20 Gabon

We have interests in three major onshore oil fields.

#### 21 Azerbaijan

The Azeri-Chirag-Gunashli (ACG) Fields in the Caspian Sea and the Baku-Tbilisi-Ceyhan (BTC) Pipeline both commenced operations in 2006.

#### 22 Joint Development Area of Malaysia and Thailand (JDA)

Production from the JDA, the largest gas field in the Gulf of Thailand, ramped up significantly in 2006.

## 2006 AT A GLANCE

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### HEALTH & SAFETY

As the complexity and geographical scope of our company grows, the challenge for safety improvement becomes more significant. With higher activity levels across our operations in 2006, we achieved a 34% reduction in our workforce injury rate. For the second consecutive year, we experienced no employee or contractor fatalities. We are proud of the progress we have made and the contributions of all our employees.

As our global operations expand, our reliance on contracted services will continue to increase. With a less experienced labor pool, improving our safety performance will remain a continuing challenge.

### CLIMATE CHANGE

Greenhouse gas (GHG) emissions from our operated facilities decreased by 4% in 2006. This reduction is largely attributable to a decrease in production associated with asset sales. As part of our GHG program we engaged a third-party verifier, Det Norske Veritas (DNV) to review our protocol and emissions inventory. DNV did not identify any significant omissions.

As we continue to grow our business, our total atmospheric emissions may increase. We will look for opportunities to sustain or reduce our carbon footprint by improving energy efficiency, reducing flaring, and evaluating opportunities for capturing and storing CO<sub>2</sub> emissions.

### ENVIRONMENT

Our overall atmospheric emissions and effluent discharge performance improved in 2006. We reduced the number of oil spills by 57% in 2006 compared to 2005. Unfortunately, failure of a 10" export pipeline at our Algerian operations resulted in a 31,367 barrel spill, the majority of which was subsequently recovered.

We continue to enhance our management systems in order to maintain our goal of continuous performance improvement. Balancing the priorities of sustaining improvements in energy efficiency and GHG emissions versus the regulatory impacts of additional environmental controls on fuel quality, criteria pollutant emissions and water discharges will be a challenge going forward.

### COMMUNITY SUPPORT

We have a long tradition of investing in projects that improve education, health and quality of life in communities where we operate. We work closely with the local communities to help us understand and evaluate specific needs. This collaboration ensures the sustainability of our social responsibility program. In 2006 we invested \$4.5 million in cash donations worldwide, plus an additional \$1 million in disaster relief contributions.

We are refining our social support strategy in order to better focus our efforts on education and health initiatives which are both impactful and sustainable.

### BUSINESS PERFORMANCE

We are making significant progress in executing our strategy to increase shareholder value over the long term. In 2006 we achieved record financial results. Net income was \$1.9 billion or \$6.07 per share. Cash flow from operations was \$3.5 billion. Shareholder value grew by \$1.8 billion. Our debt to capitalization ratio improved from 37.6% a year ago to 31.7% at year end.

Our Exploration and Production (E&P) operations are challenged to gain access to new reserves and grow our technical and organizational capabilities in order to sustain these opportunities. In Marketing and Refining (M&R) our challenge is to maintain our customer focus in a high priced environment.

### VOLUNTARY COMMITMENTS

Hess Corporation has endorsed four international voluntary initiatives designed to protect the environment, promote universal human rights and encourage financial transparency:

- United Nations Universal Declaration of Human Rights
- United Nations Global Compact
- Voluntary Principles on Security and Human Rights
- Extractive Industries Transparency Initiative

Our challenge is to fully integrate these commitments into our day to day operations.

## Performance Data

|   | Units                                   | 2004   | 2005   | 2006   |
|---|---|--------|--------|--------|
| <b>Business Performance</b>                                 |   |        |        |        |
| Gross operated production/throughput (Normalization factor) | '000 BOE/D                              | 1,170  | 1,210  | 1,120  |
| Total net hydrocarbons produced                             | '000 BOE/D                              | 342    | 335    | 359    |
| Net gas production  | % net hydrocarbons                      | 28     | 27     | 28     |
| Natural gas production available for sale                   | MCFD                                    | 575    | 544    | 612    |
| Refined petroleum product sales                             | '000 BOE/D                              | 428    | 456    | 459    |
| Port Reading refinery throughput                            | '000 BOE/D                              | 52     | 55     | 63     |
| Sales and other operating revenue                           | \$ Million                              | 16,733 | 22,747 | 28,067 |
| Net income  | \$ Million                              | 977    | 1,242  | 1,916  |
| Capital and exploratory expenditures                        | \$ Million                              | 1,650  | 2,490  | 4,056  |
| Total assets  | \$ Million                              | 16,312 | 19,115 | 22,404 |
| Total debt  | \$ Million                              | 3,835  | 3,785  | 3,772  |
| Stockholders equity   | \$ Million                              | 5,597  | 6,286  | 8,111  |
| Interest paid to lenders and holders of debt securities     | \$ Million                              | 243    | 245    | 200    |
| Return on average capital employed                          | %                                       | 12     | 14     | 17     |
| Convenience store sales (excluding petroleum products)      | \$ Million                              | 932    | 973    | 1,015  |
| Income tax to governments                                   | \$ Million                              | 632    | 1,139  | 1,799  |
| Royalties and other payments to governments                 | \$ Million                              | NR     | NR     | 580    |
| Cash dividends paid to shareholders                         | \$ Million                              | 157    | 159    | 161    |
| Benefits to employees – salaries, bonuses, pensions         | \$ Million                              | 528    | 564    | 596    |
| Spending with suppliers (U.S. Only)                         | \$ Million                              | 1,475  | 1,715  | 1,929  |
| Spending with minority suppliers (U.S. Only)                | % Spend                                 | 24     | 29     | 37     |
| Community contributions                                     | \$ Million                              | 3      | 8      | 6      |
| <b>Safety Performance</b>                                   |   |        |        |        |
| Fatalities - Employees                                      | #                                       | 1      | 0      | 0      |
| Fatalities - Contractors                                    | #                                       | 1      | 0      | 0      |
| Recordable Incident Rate - Employees                        | per 200,000 hrs worked                  | 2.17   | 1.99   | 1.73   |
| Recordable Incident Rate - Contractors                      | per 200,000 hrs worked                  | NR     | 1.01   | 0.50   |
| Recordable Incident Rate - Workforce                        | per 200,000 hrs worked                  | NR     | 1.57   | 1.04   |
| Lost Time Incident Rate - Employees                         | per 200,000 hrs worked                  | NR     | NR     | 0.80   |
| Lost Time Incident Rate - Contractors                       | per 200,000 hrs worked                  | NR     | NR     | 0.10   |
| Lost Time Incident Rate - Workforce                         | per 200,000 hrs worked                  | NR     | NR     | 0.41   |
| Employee Hours Worked                                       | Million hrs                             | 21.25  | 21.49  | 22.56  |
| Contractor Hours Worked                                     | Million hrs                             | 11.40  | 16.17  | 28.59  |
| <b>Environmental Performance</b>                            |   |        |        |        |
| Number of oil spills  | #                                       | 192    | 270    | 115    |
| Volume of oil spilled                                       | bbls                                    | 313    | 531    | 31,455 |
| Direct Carbon Dioxide                                       | Million Tonnes                          | 4.94   | 4.84   | 4.66   |
| Indirect Carbon Dioxide                                     | Million Tonnes                          | NR     | 0.531  | 0.506  |
| Direct Methane  | Thousand Tonnes                         | 7.98   | 8.04   | 7.06   |
| Direct Greenhouse Gases                                     | CO <sub>2</sub> Equiv. - Million Tonnes | 5.13   | 5.05   | 4.85   |
| Carbon intensity  | Tonnes GHG/1,000 boe                    | 11.98  | 12.63  | 13.11  |
| Flaring   | MSCF                                    | 21,910 | 32,133 | 29,888 |
| Non Hazardous Waste   | Thousand Tons                           | 90.40  | 169.30 | 182.48 |
| Hazardous Waste   | Thousand Tons                           | 0.29   | 0.49   | 0.50   |
| Recycled Waste  | %                                       | 81     | 39     | 48     |
| EHS Fines and Penalties                                     | \$ Thousands                            | 10     | 279    | 188    |
| Environmental Expenditures                                  | \$ Million                              | 1      | 26     | 71     |
| Remediation Expenditure                                     | \$ Million                              | 12     | 15     | 15     |
| Total Energy Use  | Peta Joules                             | NR     | 37.45  | 39.54  |
| Indirect energy consumption                                 | Peta Joules                             | NR     | 9.00   | 8.91   |
| Production energy intensity                                 | Giga Joules/Tonne                       | NR     | 0.73   | 0.81   |
| <b>Global Workforce</b>                                     |   |        |        |        |
| Number of full time equivalent permanent employees          | #                                       | 11,301 | 11,975 | 12,921 |
| Proportion of hourly paid employees                         | %                                       | 69     | 68     | 68     |
| Non U.S. Workforce  | %                                       | 4.9    | 5.2    | 6.1    |
| Females in management                                       | %                                       | 35     | 36     | 36     |
| Female employees  | %                                       | 43     | 45     | 44     |
| People from U.S. racial minorities in management            | %                                       | 24     | 25     | 27     |

NR - Not Reported; More extensive data table provided 

 [www.hess.com](http://www.hess.com)



*Okume Complex Project, Equatorial Guinea.  
Winner of the 2006 Chairman's Award for Safety Excellence*

# HOW WE OPERATE

*We are committed to the highest level of integrity in all of our relationships.*



## OUR VALUES

Our values provide guidance throughout the company on how we conduct our business. All representatives of the company are required to operate in accordance with our values.

- **Integrity:** We are committed to the highest level of integrity in all of our relationships.
- **People:** We are committed to attracting, retaining and energizing the very best people by investing in their professional development and providing them with challenging and rewarding opportunities for personal growth.
- **Performance:** We are committed to a culture of performance that both demands and rewards outstanding results throughout our business.
- **Value Creation:** We are committed to creating shareholder value based on sustained financial performance and long term profitable growth.
- **Social Responsibility:** We are committed to meeting the highest standards of corporate citizenship by protecting the health and safety of our employees, by safeguarding the environment, and by creating a long lasting, positive impact on the communities where we do business.
- **Independent Spirit:** We are committed to preserving the special qualities and unique personality that have made us a successful independent enterprise.

## ENVIRONMENT, HEALTH, SAFETY AND SOCIAL RESPONSIBILITY MANAGEMENT

Hess Corporation has implemented a values based, Environment, Health, Safety and Social Responsibility (EHS & SR) strategy. This strategy is guided by the company's policies and by management systems and programs that work to protect our employees, customers and host communities.

We are committed to continually improving our EHS & SR performance. Since performance must be measured to be meaningful we have well developed performance objectives. Some of these are "end of process" targets, focusing on the results of our actions. Others are "in process" objectives which focus on how well we are performing the actions themselves.

### *EHS & SR Management System*

Our EHS & SR management system ensures that there is a systemic, reliable process for identifying risks and achieving EHS & SR objectives, including continual improvement. Our management system is based on recognized international standards that promote consistency, adherence to policies, and continued improvement in performance. In 2006, 12% of our total oil production (gross operated) and throughput was from ISO14001 certified operations.

EHS & SR is managed as a critical business activity. Each business has primary accountability for performance and results. The business organization is supported by integrating the technical resources it needs at the facility level, with guidance from the corporate organization.

### *Audit*

The role of our corporate audit program is to ensure that our operations consistently adhere to company policy and objectives, comply with regulatory requirements and, as appropriate, implement best in class industry standards.

### *Communication & Collaboration*

The company maintains an intranet web-site for employees that provides updates on regulatory information and issue oriented training programs, ranging from office ergonomics to a general overview of the hazards associated with hydrogen sulfide. Injury and illness statistics tracking and goals are also included.

We have established internal networks to help guide the company on issues such as safety, corporate social responsibility and greenhouse gas emissions. Since much can be learned from industry peers, other companies, and external groups, we also participate in various organizations such as the International Petroleum Industry Environmental Conservation Association, the International Association of Oil and Gas Producers, the National Petrochemicals and Refiners Association and the National Safety Council.

### STAKEHOLDER ENGAGEMENT

We continue to engage in discussions with both internal and external stakeholders to maintain and improve key relationships and reinforce transparency in our industry.

Our key stakeholders include:

- Shareholders
- Customers
- Governments and communities
- Business partners and suppliers
- Employees

We pursue many initiatives to keep shareholders and the investment community informed and to attract new investment. Each quarter, we host a conference call providing further clarity on our earnings press release. The calls are open to the public. Transcripts are made available on our website within 24 hours. All investor presentations are posted on . In addition we participate in communications and surveys with numerous socially responsible investment groups. In 2006 we responded to the Carbon Disclosure Project Survey.

Through industry associations we participate in meetings with various stakeholder groups and non-governmental organizations. In order to better address stakeholder concerns, our businesses implement locally based Social Responsibility programs to identify issues as early as possible in the business process so that they can be addressed and resourced appropriately.

Our EHS & SR policies require that we regularly communicate with the communities where we operate to develop and maintain a mutual understanding of goals and expectations.

We initiate Environmental and Social Impact Assessments (ESIA) in the early stages of projects to evaluate how our business plans may affect a location. Integral to these assessments is dialogue with local, regional and national stakeholders. We work with these representatives on an ongoing basis in order to produce an ESIA, which provides us with a baseline from which to start project development and an assessment of the impacts a project may have.

This program typically begins during the initial project scoping stages to determine the best options for project planning. Consultation allows concerns regarding the potential impacts to be recognized early in the project planning process. In 2006 ESIA were underway for development projects in Algeria, Libya, the United Kingdom and Denmark.

In addition to the ESIA consultations, we have also conducted significant informal engagement to keep local communities fully apprised of our plans as they evolve. Consultation initiated during the formal ESIA process has been maintained through the construction phases of our projects at Phu Horm in Thailand and Ujung Pangkah in Indonesia. This allows feedback into the relevant management programs and facilitates early mitigation of issues.

The company has mechanisms and techniques to raise project awareness that allow for feedback including: establishing information offices in the field, distributing information brochures, conducting meetings with potentially affected communities, conducting study tours with focus groups, distributing posters, broadcasting taped messages, ad hoc meetings, and feedback forms. This information exchange provides us with valuable local knowledge and help in the identification of a community's main concerns.

We also maintain ongoing communication with individuals and relevant representative associations which may be affected by our operation.

### VOLUNTARY COMMITMENTS

Hess Corporation has endorsed four international voluntary initiatives designed to protect the environment, promote universal human rights and encourage financial transparency . Hess is one of only six oil and gas companies worldwide, and the only U.S. energy company, to endorse these four initiatives:



*Ujung Pangkah Field in Indonesia. Community consultations have been maintained throughout the development of this project.*

- **United Nations Universal Declaration of Human Rights** Comprising 30 articles covering fundamental freedoms ranging from the right to nationality to the right to equality before the law, the Universal Declaration of Human Rights was established in 1948 by the United Nations (UN) General Assembly. It serves as the international standard and codification of human rights norms and has been endorsed by 148 countries.
- **United Nations Global Compact** We are proud to be the first U.S. oil and gas signatory to the UN Global Compact, an international voluntary agreement which addresses the private sector’s role in promoting respect for human rights, labor, the environment and financial transparency.
- **Voluntary Principles on Security and Human Rights** We endorse the U.S. State Department’s Voluntary Principles on Security and Human Rights, a voluntary guide for companies to assure the safety and security of their operations while respecting human rights and fundamental freedoms. It covers issues such as the potential for violence, conflict analysis, equipment transfers, security arrangements, responses to human rights abuses, and interactions between companies and private security forces.
- **Extractive Industries Transparency Initiative** This initiative is discussed in the Transparency section of this report.

Looking forward, our objective is to better incorporate these commitments into our work processes and in conjunction with our social responsibility strategy make a sustainable, positive impact wherever we work.

#### **CORPORATE GOVERNANCE**

Our commitment is to conduct business in accordance with the highest ethical standards. We support the goals of the recent Securities and Exchange Commission (SEC) and New York Stock Exchange (NYSE) corporate governance initiatives to achieve greater transparency for investors.

#### *Board of Directors*

Our Board currently consists of thirteen members, nine of whom are independent. There are currently eight regular meetings per year. The Board has three principal committees: the Audit Committee, the Compensation and Management Development Committee, and the Corporate Governance and Nominating Committee. Each of the members of these Committees is independent under NYSE and SEC rules. Each committee has a written charter that sets forth its purpose and responsibilities .

### *Audit Committee*

The Audit Committee's purpose is to fulfill the Board's oversight responsibility relating to the company's financial statements, financial reporting practices, systems of internal accounting and financial and disclosure controls, internal audit function, the retention and oversight of independent auditors and oversight of the company's environment, health, safety and social responsibility programs. The Audit Committee currently consists of five members and usually meets six times per year. The Audit Committee routinely reviews our EHS & SR performance.

### *Hess Leadership Team*

In 2002 the Hess Leadership Team, consisting of the top executive officers of Hess Corporation, was formed to provide strategic business direction and key operational decisions for the company. Several of the objectives established by the Leadership Team are focused on promotion of EHS & SR policies and management systems that protect the company's workforce, customers and local communities. Executive compensation is linked to selective EHS & SR performance metrics.

The Hess Leadership Team is engaged in establishing performance expectations and holding business units accountable for their performance. Our business units and line management are ultimately responsible for incorporating EHS & SR expectations into their business activities and providing adequate resources and mechanisms to meet performance objectives.

### *EHS & SR Organization*

The company has corporate and business unit EHS & SR staff in place to provide technical support and functional guidance to our business units. We have a corporate audit program to ensure that our operations and subsidiaries adhere to company policies and objectives, comply with regulatory requirements and, as appropriate, implement best in class industry standards. Our EHS & SR organization is presented in our web-based report .

### *EHS & SR Reporting*

This report represents one of several key outputs from our EHS & SR reporting systems. Reporting includes centralized incident tracking systems which provide real time access to information on safety and environmental incidents. We use these systems to provide information and monthly reports to our management. We have initiated a greenhouse gas protocol and monitoring system to enable quarterly internal reporting of these emissions together with our overall energy efficiency. Our corporate system is also used for collecting the metrics included in this report. Wherever possible, measurements and reporting are conducted in accordance with the relevant international standards or with reference to applicable legislation and regulations.

### **ETHICAL BUSINESS CONDUCT**

The company has adopted a Code of Business Conduct and Ethics which provides company representatives with guidance and expectations regarding business ethics, citizenship, contracting and labor practices, regulatory compliance, safety and stewardship of the environment. It is applicable to all of the company's directors, officers and employees .

The company monitors compliance with the law and its own policies and has established both telephone and internet email hotline services to facilitate reporting of potential noncompliance. All reports of suspected violations, whether made anonymously or otherwise, are treated confidentially and are investigated promptly, thoroughly and fairly. In 2006 there were 127 calls received on the hotline, 20 of which were substantiated and resulted in follow up action including 13 employee dismissals. Reports are made periodically to the Audit Committee of the Board of Directors.

We conduct regular training and evaluate employees on these ethical guidelines. Training is mandatory. In 2006, all salaried employees completed a computer based Ethics Awareness Training course. No action is taken against

an employee for making a complaint or reporting, in good faith, known or suspected violations of company policy. Intimidation or retaliation against anyone making such reports is not tolerated and any employee, officer or director who retaliates against another employee, officer or director will be in violation of company policy and subject to disciplinary action.

#### *Political Contributions*

It is the company's policy not to make political contributions to any political candidate or political party or to permit the use of Hess facilities or property for campaign activities. Contributions include not only financial support, but also the use of corporate resources and the use of corporate personnel in ways that assist the campaigns of candidates. It is also company policy not to permit management personnel to solicit or coerce political contributions from other employees. The corporation may not directly or indirectly reimburse an employee for a political contribution or channel a contribution through an employee in order to disguise its true origin. Employees, acting in their individual capacities, are encouraged to exercise their rights as citizens.

#### **TRANSPARENCY**

Good governance is a precondition for converting revenues from extractive industries into economic growth and poverty reduction. When transparency and accountability are weak, the extractive industries may instead contribute to poverty, corruption, and conflict. Our commitment to the United Nations Global Compact pledges us to work against all forms of corruption, including extortion and bribery.

In addition, the company has endorsed the Extractive Industries Transparency Initiative (EITI). The EITI supports improved governance in resource rich countries through the verification and publication of company payments and government revenues from oil, gas, and mining. The Initiative works to build multistakeholder partnerships in developing countries in order to increase the accountability of governments. Companies participating in EITI pledge to support the initiative in countries that have adopted it, and to advocate for EITI participation in countries that have not.

Over 40 countries have committed to EITI principles and criteria since the EITI Lancaster House Conference in June 2003. Some countries are only beginning to launch the process, while others have published revenue and payment data. Hess is actively engaged with several countries seeking to comply with the EITI.

#### **Equatorial Guinea**

Hess has led a multiyear effort to encourage the Government of Equatorial Guinea to join EITI. In 2003 Hess facilitated the first ever meeting between the World Bank, U.S. companies operating in Equatorial Guinea and the Equatoguinean government to discuss transparency. Hess leads the Corporate Council on Africa, Equatorial Guinea Group, which has advocated collectively with the Equatoguinean and U.S. governments to encourage EITI implementation in Equatorial Guinea. Hess led a mission to Equatorial Guinea to advocate directly with the government for EITI adoption.

Important steps have also been taken by the Equatoguinean government. In September 2004 the government made a public commitment to implement EITI. In October 2004 a joint World Bank-IMF workshop was held in Washington on fiscal transparency and EITI. Participants included government officials and representatives of the main oil companies operating in Equatorial Guinea. A first Stakeholders' meeting was convened in Malabo in March 2005. The EITI Commission drafted a Memorandum of Understanding (MOU) to define the objective and scope, terms of reference, and an action plan. In December 2005 the government approved a special EITI implementation budget. A World Bank mission took place in January 2006 to assess the challenges confronting EITI implementation and to develop a road map to facilitate EITI implementation. Promulgation of implementation regulation is the next step required to initiate EITI.



*Pony Discovery, Deepwater Gulf of Mexico*

## REVIEW OF OPERATIONS

*We are committed to growing shareholder value on a sustainable basis and delivering long term profitable growth.*



*Phu Horm Gas Plant in Thailand. Production commenced in November 2006. The development was completed within 18 months of project sanction.*

We achieved record financial results in 2006. Net income was \$1.9 billion or \$6.07 per share. Cash flow from operations was a record \$3.5 billion. During the year shareholder value increased by more than \$1.8 billion. As of December 31, 2006 there were 5,572 shareholders who owned a total of 315,017,951 shares of common stock. Over 80% of the common stock was held by institutional investors.

### EXPLORATION & PRODUCTION

#### *Production*

Worldwide crude oil and natural gas liquids production amounted to 257,000 barrels per day in 2006 compared with 244,000 barrels per day in 2005. Worldwide natural gas production was 612 million cubic feet per day in 2006 compared with 544 million cubic feet per day in 2005. On a barrel of oil equivalent basis, production was 359,000 barrels per day in 2006 compared with 335,000 barrels per day in 2005.

#### *Reserves*

In 2006 we added 310 million barrels of oil equivalent of proved reserves, replacing 232% of our production at a finding and development cost of \$12.54 per barrel. This was our fourth consecutive year of growing reserves. At year end, proved reserves totaled 1.2 billion barrels

of oil equivalent bringing our reserve life to 9.3 years. Our resource base reflects significant future value as we complete our major projects, delineate discoveries and sanction new development projects. In 2007 we are planning to invest approximately \$4 billion to further our projects and explore for new growth opportunities.

#### *Exploration*

In 2006 we had a number of successes, particularly in the deepwater Gulf of Mexico:

- An exploration well on the company's Pony prospect on Green Canyon Block 468 in the deepwater Gulf of Mexico encountered 475 feet of oil saturated sandstone in Miocene age reservoirs.
- On the Tubular Bells prospect in the Mississippi Canyon area of the deepwater Gulf of Mexico a successful appraisal well encountered hydrocarbons approximately 5 miles from the initial discovery well.

#### *Development Projects*

In 2006 we continued to make significant capital investments in field development programs. Development projects are typically multiyear projects where early and extensive planning is key to success. Emphasis was given to safely developing these projects on time and on budget.

During 2006 the company commenced production from four new field developments:

- The company operated Okume Complex development in Equatorial Guinea commenced production in December.
- First production from the company operated Phu Horm onshore gas project in Thailand commenced in November.
- In the United Kingdom, the Atlantic and Cromarty natural gas fields came onstream in June 2006 and produced at a combined net rate of approximately 95,000 mcf per day in the second half of the year.
- Phase 2 production from the ACG fields in Azerbaijan also commenced during 2006.

The company has several additional development projects that will also increase production in the future:

- Development of the Shenzi field in the deepwater Gulf of Mexico was sanctioned and first production is anticipated in the second half of 2009. The Genghis Khan field, part of the same geologic structure as Shenzi, was recently acquired.
- The company operated Ujung Pangkah field in Indonesia is scheduled to commence production of natural gas by mid 2007. The company's plans for Ujung Pangkah in 2007 also include drilling additional development wells and the commencement of a crude oil development project.
- Capital investments in the Malaysia/Thailand Joint Development Area (joint venture) will be made during 2007 focused on facilities expansion and development drilling associated with the anticipated commencement of additional gas sales of 400,000 mcf per day (gross) in 2008.
- Development of the residual oil zone at the company operated Seminole - San Andres Unit in the U.S. Permian Basin is expected to commence in 2007 and production is anticipated to begin in 2009.

In addition, during 2006 the company made the following acquisitions and also disposed of several producing properties:

- In January 2006 the company, in conjunction with its Oasis Group (joint venture) partners, re-entered its former oil and gas production operations in the Waha concessions in Libya. The re-entry terms include a 25 year extension of the concessions.
- The company acquired a 55% working interest in the deepwater section of the West Mediterranean Block 1 Concession in Egypt. The company has a 25 year development lease for the West Med Block, which contains four existing natural gas discoveries and additional exploration opportunities.
- During 2006 the company completed the sale of its interests in certain properties in the Permian Basin in Texas and New Mexico and certain U.S. Gulf Coast oil and gas producing assets.

## MARKETING & REFINING

The company manufactures, purchases, transports, trades and markets refined petroleum products, natural gas and electricity. Our customers are the motoring public on the East Coast of the United States, wholesale distributors of oil and natural gas, industrial and commercial users, other petroleum companies, governmental agencies and public utilities.

The company owns and operates a fluid catalytic cracking facility in Port Reading, New Jersey that manufactures gasoline and heating oil. Our Port Reading facility operated reliably throughout 2006 and we successfully completed a low sulfur gasoline project. The company also owns 50 percent of the HOVENSA Refinery in the United States Virgin Islands, one of the world's largest refineries. Our supply operation includes 22 storage terminals with a capacity of 22 million barrels.

The company is a significant retail operator through its network of 1,350 Hess gasoline stations and HESS EXPRESS convenience stores along the United States East Coast from Massachusetts to Florida. Our Retail Marketing business continued to experience consistent growth. For the first time, our 2006 convenience store revenues, excluding petroleum products, exceeded \$1 billion. The company also operates an Energy Marketing business which supplies natural gas, electricity and fuel oil to commercial and industrial customers on the East Coast. Energy Marketing achieved increased sales of natural gas and electricity as a result of both organic growth and selective acquisitions in 2006.



*Our network of 1,350 Hess gasoline stations and HESS EXPRESS convenience stores is strategically located along the United States East Coast.*

Hess Corporation also holds interests as a joint venture partner in other energy related businesses, including a 92.5 percent interest in Hess LNG, which is pursuing investments in liquefied natural gas terminals and related supply, trading and marketing opportunities, a 50 percent voting interest in a consolidated partnership that trades energy commodities and derivatives and an investment in Nuvera Fuel Cells, Inc., which is engaged in the development of fuel cells for automotive use and electric generation.

#### **TAXES & ROYALTIES**

Hess Corporation contributes to the economies of the countries in which we work by providing energy to help economic development and by paying taxes and royalties. We paid a total of \$1.8 billion in income taxes in 2006 and a further \$580 million in other payments to governments which includes royalties, severance, re-entry payments and leasehold arrangements.

#### **SUPPLY CHAIN**

The petroleum industry depends on its suppliers for most materials and services. In 2006 our total U.S. spending with third party suppliers was approximately \$1.9 billion. The oil and gas industry requires safe, high-performance equipment and personnel. We work with our direct suppliers to improve processes and insure adherence to Hess standards. Our long term view is to develop relationships with suppliers who share our values around ethics, integrity, safety, environmental protection and social responsibility. We contractually require our suppliers to comply with all environment, health, safety and labor laws for themselves and their subcontractors. Environment, health and safety criteria and adherence to drug and alcohol policies are also included in our contracts with suppliers.

In 2006 Hess Corporation purchased 37% (\$716 million) of materials and services used in the United States from more than 3,800 minority and women owned businesses. Most of these suppliers are located in the communities where we conduct business such as New Jersey, Texas and North Dakota. Purchasing from these small businesses brings quality and competitive pricing and strengthens communities in which we live and work. Our Supplier Diversity Program ensures that qualified minority owned and women owned suppliers are included in our procurement sourcing process.



*Gassi El Agreb, Algeria.*

*Winner of the 2006 Exploration and Production President's Award for Safety Excellence*

# SAFETY PERFORMANCE

*We are committed to meeting the highest standards of corporate citizenship by protecting the health and safety of our employees.*

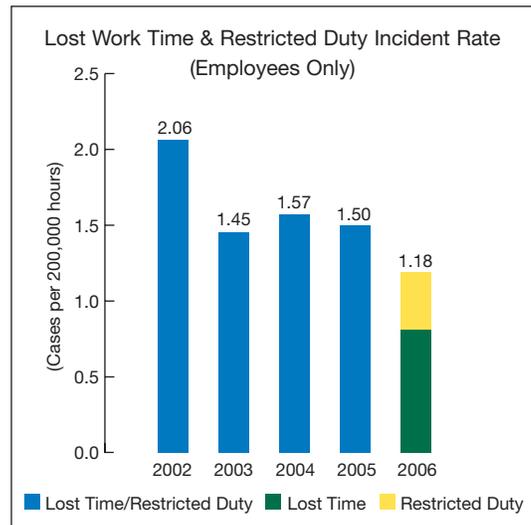
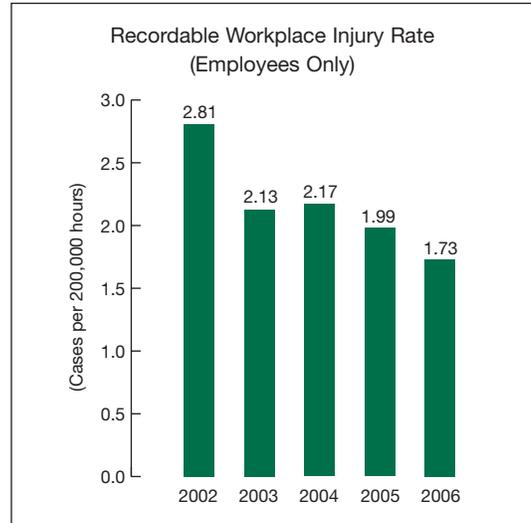
Safety is critical to our corporate values and a key component of operational excellence. An injury free workplace sends our people safely home to their families and friends. We strive to create a working environment where accidents do not occur and in which employees, contractors and the public are not exposed to health and safety hazards. Good safety performance also delivers economic benefits. Our workforce is more productive, with fewer days lost to injury. Fewer injuries also result in lower insurance and workers' compensation premiums. A safe workplace is also more attractive to prospective employees and contractors.

Where we have operational control, we have implemented standards, practices and plans to communicate our safety expectations and guide our activities. We continue to improve our safety processes and procedures, conduct regular inspections of our facilities and have well developed incident reporting and emergency response systems. We emphasize training and competency within our workforce and promote communication through regular safety meetings, work permitting processes and internal reporting.

## EMPLOYEE SAFETY PERFORMANCE

Since 2000 we have made significant improvements in our safety performance, reducing our annual injury rate by over one-half. We had our best safety performance ever recorded in 2006 and for the second consecutive year had no work related fatalities. In 2006 we achieved an overall reduction in our employee recordable incident rate of 13% compared to 2005. We did not achieve our aggressive target for reduction of employee recordable injuries. The year end recordable rate was 1.73 compared to a target rate of 1.60 .

We also reduced our lost work time and restricted duty incident rate by 21% between 2005 and 2006. In 2006 we modified our data management systems to delineate lost time incidents from those resulting in restricted duty. We had a lost time incident rate of 0.80 in 2006.



The majority of our worldwide exploration, production, refinery, terminal and office staff are represented in formal health and safety committees. The nature of our retail operations means that it is difficult to organize and effectively manage such committees. In these instances, we have initiated the role of 'Safety Captain' at each retail facility. This Safety Captain's responsibilities include facilitating safety communications between management and employees.

Hess Corporation faces a number of challenges in attaining our safety objectives:

- Over 60% of our total employees are hourly paid retail employees with notably high turnover rates
- In 2006 for the first time our contractor manhours (28.6 million hrs.) exceeded our employee manhours (22.6 million hrs.)
- Our business is international, in countries where we experience language and cultural barriers
- The increased competition for qualified labor has reduced the experience of the workforce

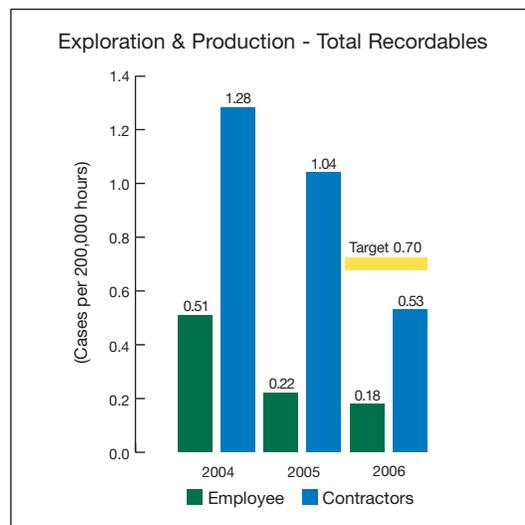
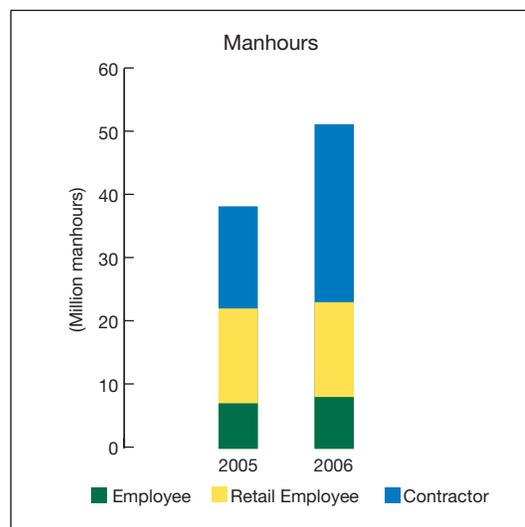
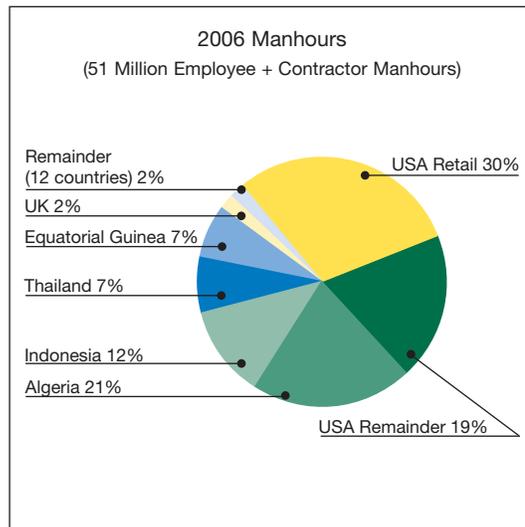
### EMPLOYEE & CONTRACTOR SAFETY PERFORMANCE

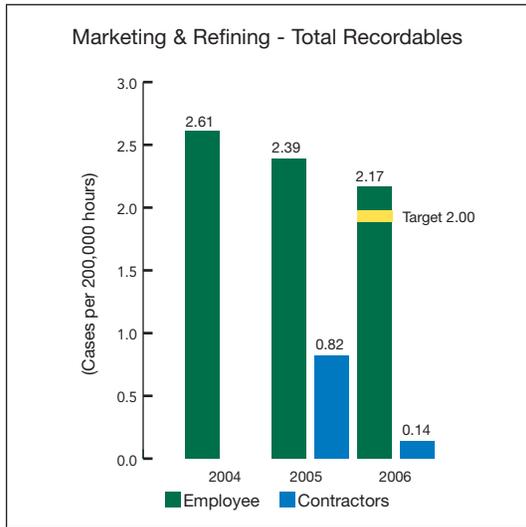
Our safety processes and where appropriate performance targets include both employees and contractors. The majority of contractor manhours are accounted for at our overseas locations, predominantly at our major development projects in Algeria, Indonesia, Thailand and Equatorial Guinea.

These major projects led to a 77% increase in contractor manhours during 2006.

Our Exploration and Production (E&P) organization had an excellent year, achieving an 83% reduction in total recordable incidents and achieving their employee/contractor target. In 2006, 44% of incidents occurred in Production operations, 36% in Major Projects and 20% in Drilling and other operations .

Our Marketing and Refining (M&R) operations, which are composed primarily of Hess employees, continued to make progress in employee safety performance, achieving a 9% reduction in incidents compared to 2005. This improvement follows an 8% improvement between 2004 and 2005. M&R did not, however, meet its targeted reduction in employee recordable incident rate, achieving a year end recordable rate of 2.17, above the target rate of 2.00. Retail, which represents 84% of M&R employee manhours, achieved its target rate in 2006 .





## SAFETY PROCESSES

We implemented several safety process improvements in 2006. Our E&P organization made significant progress in implementing their EHS & SR management systems across all facets of the business. E&P also initiated a fully integrated incident reporting and tracking system throughout our worldwide operations. Incidents are reported in all areas of our business. Investigation results and learnings are captured as a basis for improving our safety management systems and preventing reoccurrences.

The company's annual Chairman's Award for Safety Excellence recognizes one operation or group that has demonstrated an outstanding commitment to workforce safety through systematic processes, exceptional safety performance, and sustainability of safety improvement. In 2006 we received 9 nominations for the award. They were all worthy candidates, demonstrating excellent safety achievements. In addition to the Chairman's Award, President's Awards are also given both in the E&P and M&R areas of our company for excellent safety performance. Nominations for the Annual Chairman's Award for Safety Excellence highlighted a wide range of innovative safety programs across the entire company.

## EXAMPLES OF SAFETY PROGRAMS

### *Okume Complex Project*

The Okume Complex Project was selected as the 2006 recipient of the Chairman's Award for Safety Excellence. The award is in recognition of the Okume Project's outstanding safety performance during design, transport, construction and commercialization of a highly complex production operation involving locations across the world. The Okume Project created and implemented a detailed safety plan, proactively selected contractor groups, identified, communicated and measured individual safety responsibilities and aggressively managed activities to achieve first quartile safety performance compared to industry peers.

### *Algeria*

The Gassi El Agreb Production Operations were the recipient of the E&P President's Award for safety excellence due to their improved safety performance through the theme of "Safety Leadership in Action". The theme categorized and promoted proactive safety activities (Safety Leadership Training, Behavior Based Safety Audit Training, Management Inspections, Job Safety Analysis, Safety Training Observation Program (STOP), Contractor Peer Group Meetings, and Lessons Learned Sharing). Performance improvements were driven by a consistent culture across drilling, production and construction functions.

### *Equatorial Guinea*

The Equatorial Guinea production operations used the theme of "Zero Incidents and Zero Injuries" (ZIZI) to communicate the system concept of Identifying Workplace Hazards, Controlling Workplace Hazards, and Mitigating Behaviors that may lead to risk based actions. This drove safety as a workforce value rather than as just a priority.



*The South Arne Facility in the Danish sector of the North Sea. Platform personnel improved safety performance with emphasis on individual responsibility.*

### *Northwest Europe Production*

The United Kingdom North Sea assets implemented four significant safety initiatives:

- Integrated EH&S Improvement Plan
- STOP - Behavior Based Safety Program
- Unsafe Condition and Near Miss Reporting
- Inspection / Audit Follow-up Activities

These initiatives helped the assets shift to a more proactive safety culture with an emphasis on personal safety responsibility.

The South Arne facility in the Danish sector of the North Sea improved safety performance through a 5 element plan:

- Management Safety Visits
- Contractor Management Safety Visits
- Contractor Safety Induction Workshops
- Individual Responsibility Program
- Incident Investigation Training

### *Retail*

Retail Operations presents a number of workforce safety challenges including high employee turnover and a diverse workforce where English is frequently a second language. To address these challenges, Retail Operations has introduced targeted safety programs which include safety moments at divisional meetings,

designated store safety captains, improved injury case management, quarterly safety awareness days, bilingual safety training and annual safety leadership development. Retail Division 5 in Florida achieved a 30% decrease in recordable injuries.

### *Terminal Operations*

Our Terminal Operations have implemented several safety initiatives to improve their performance:

- Behavior Based Safety Program
- Hazard Warning Signage Installation
- A new Tractor Trailer Safety Orientation
- At Home Safety Initiatives

The Pennsauken Terminal in New Jersey won the M&R President's Award for safety excellence through its implementation of an employee driven safety program to promote employee incident prevention, contractor safety observations, and employee safety leadership through safety committee activities. This systematic approach was showcased and adapted for other Terminals to drive sustainable safety performance improvement across the business.



*Personnel testing product at a Terminal facility. We systematically review the potential hazards and risks associated with our products.*

## HEALTH MANAGEMENT

We encourage our employees to adopt a healthy lifestyle and offer programs and initiatives to support their efforts. Workplace health promotion activities include: influenza vaccination, employee health fairs (blood pressure testing, nutritional advice), local deskdrop initiatives and presentations covering such topics as stress management, office ergonomics and nutrition. We provide comprehensive health, safety and personal security guidance to our employees traveling overseas.

### *Pandemic Influenza Planning*

A companywide Pandemic Influenza Task Force has been developing contingency plans consistent with the World Health Organization planning efforts. The committee is using information from organizations such as the U.S. Centers for Disease Control and Prevention, U.S. Department of Homeland Security and SOS International to anticipate and manage the impacts of a potential pandemic.

## PRODUCT STEWARDSHIP

Our products are used by millions of people every day. We produce quality products that can be used safely by our customers. Our products comply with all relevant legislation and meet health, safety and environmental requirements. In addition, we provide our customers with information and support in relation to the products they purchase from us.

We consistently review the potential hazards and risks associated with our product line to prevent or minimize impacts to human health or the environment. We collaborate with industry partners, government agencies and the scientific community concerning the safe use of our products. Our environment, health and safety professionals provide our businesses and customers with expert advice on the products we sell. We assess our products to identify any environmental, health or safety hazards, and provide Material Safety Data Sheets (MSDS) that are intended to enhance the safe handling, storage and use of our products. MSDSs for all our products are available to the public on our Internet web site .



*Pennsauken Terminal, New Jersey.  
Winner of the Marketing and Refining President's Award for Safety Excellence*

# ENVIRONMENTAL PERFORMANCE

*We are committed to meeting the highest standards of corporate citizenship by safeguarding the environment.*

Hess Corporation recognizes that to grow our business and help meet the increasing global demand for energy we must do so in a manner that protects the world's land, water and air resources. Our goal is to have environmentally sound practices wherever we work.

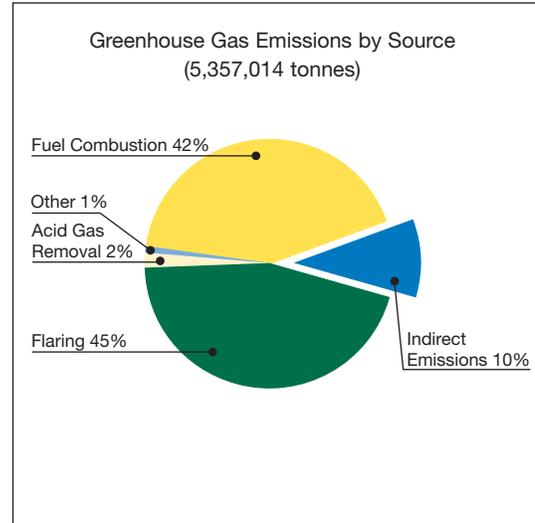
The company's operations are managed to avoid or minimize impacts to the environment. As a global organization we face the challenge of conducting operations in areas with sensitive or unique environmental characteristics. Our systematic approach to environmental management and our commitment to understanding the human and natural ecosystems in which we work provide us with a framework to meet these challenges. This includes environmental baseline surveys and environmental impact assessments prior to the start of our projects, the introduction of appropriate operational controls and on going monitoring during operations.

## GLOBAL CLIMATE CHANGE

Climate change is a global environmental concern with potentially significant consequences for society and the energy industry. Implementation of the Kyoto protocol has effectively placed a monetary value on greenhouse gas (GHG) emissions. Carbon markets are quickly evolving and the cost or value of GHG emissions is likely to have a significant impact upon oil and gas project economics.

The company has two major sources of GHG emissions; combustion of hydrocarbon fuels for power generation and flaring of associated gas . Additional processes, such as acid gas removal can also be a significant source.

The company is committed to the responsible management of GHG emissions from our existing operated and nonoperated assets and future developments. We will also use the emerging carbon market to review our global carbon portfolio and identify capital project opportunities.



Our four element GHG strategy is outlined below:

**Monitor** - To understand the expectations of stakeholders and our capacity to meet these expectations:

- Participate in international industry forums related to climate change policy and research
- Initiate a corporate wide Climate Change Network to advise management

**Measure** - To understand the scope of the issue and to track our success:

- Measure emissions in accordance with recognized standards for the oil and gas industry
- Verify inventory by third party audit
- Publicly report results

**Manage** - As an integral part of good business practice, focus on:

- Flare Elimination or Minimization
- Energy Efficiency
- Enhanced Recovery
- Engineering and Design

**Mitigate** - To reduce our overall carbon footprint, consider mitigation through:

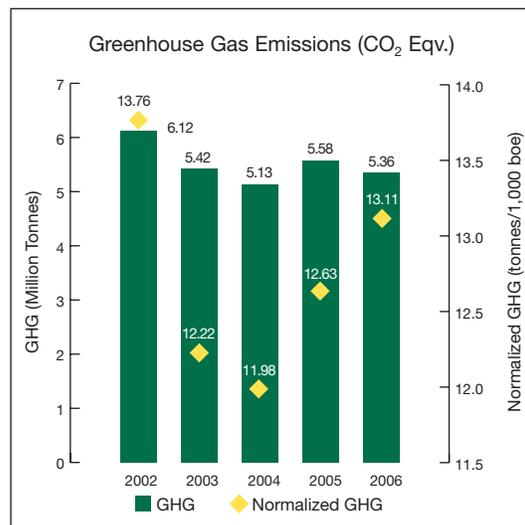
- Carbon Trading
- Carbon Offsets
- Carbon Capture and Storage

The company has undertaken a program to assess, monitor and mitigate GHG emissions, including carbon dioxide and methane. The challenges associated with this program are significant, not only from the standpoint of technical feasibility, but also from the perspective of adequately measuring our entire GHG inventory. We made further progress in developing our standardized reporting methodology in 2006. We undertook a validation of our 2005 emission estimates by comparing calculations made using our original methodologies with those made in accordance with our GHG protocol and an American Petroleum Institute sponsored tool (SANGEA) designed specifically for the oil and gas industry. In late 2006 we engaged Det Norske Veritas (DNV), a leading global independent verification organization, to conduct an independent review of our protocol and our 2005 greenhouse gas inventory. The verifiers visited several of our sites; including our Port Reading Refinery in New Jersey, our Gassi El Agreb operations in Algeria, the Seminole Gas Plant in Texas and our U.K. North Sea operations, in order to determine the accuracy and completeness of our inventory.

The DNV review concluded that our GHG Protocol provides sound guidance for estimating direct GHG emissions from the major emissions sources found at typical reporting sites. DNV did not identify any significant emissions sources missing from our inventory. In addition, the review teams reported sincere commitment to these programs, and excellent internal capabilities that can be utilized to make the necessary improvements.

DNV did identify the following areas requiring improvement:

- The GHG Protocol did not provide a source materiality definition or a list of potential emission sources
- Documented implementation of a tiered system, uncertainty analysis and internal audit had not been undertaken
- Greater use of site specific data was recommended, where such data are available
- There is a need to strengthen the links between the GHG Protocol and the SANGEA monitoring system.



We are addressing these issues through revisions to our Protocol, as well as instructional, definitional and networking improvements in 2007.

Our total GHG emissions decreased by 4%, from 5.58 million tonnes in 2005 to 5.36 million tonnes in 2006. However, our normalized emissions increased by 4%. Increases in normalized emissions are largely attributable to increased energy use in our maturing North Sea and U.S. assets, where more energy is required for injection and compression. We were also forced to switch from gas to temporary fuels such as diesel in our U.S. Gulf Coast operations during the refurbishment of our hurricane damaged facilities. Redevelopment of our Algerian operations has resulted in a 34% decrease in normalized GHG emissions since 2002. Further reductions are anticipated once Phase 2 of our Gas Compression and Reinjection project comes on stream in 2007.

As we continue to expand our operations, our total atmospheric emissions may increase. We will continue to look for opportunities to sustain or reduce our overall carbon footprint. For example, our North Dakota operations are participating in the Plains CO<sub>2</sub> Reduction Partnership, assessing the technical and economic feasibility of capturing and storing CO<sub>2</sub> emissions from stationary sources in the northern Great Plains and adjacent areas. We are also developing an inventory focusing on all of our equity interests to help us better understand our carbon emissions.

## AIR EMISSIONS

As with greenhouse gases the predominant source of sulfur oxides (SOx) and nitrogen oxides (NOx) from our operations are power generation and flaring. Major sources of volatile organic compounds (VOC) are flaring and hydrocarbon loading operations. Our goal, where possible, is to reduce our normalized emissions.

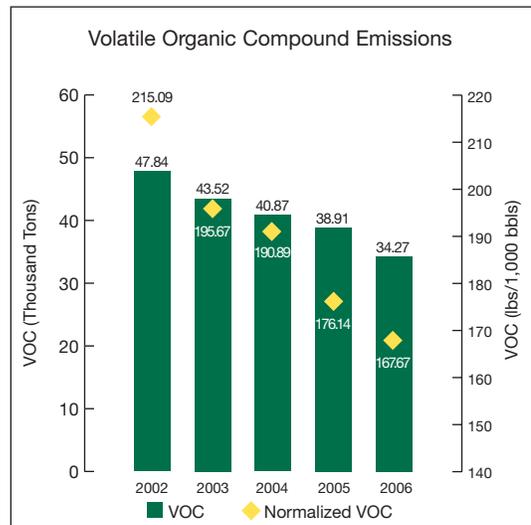
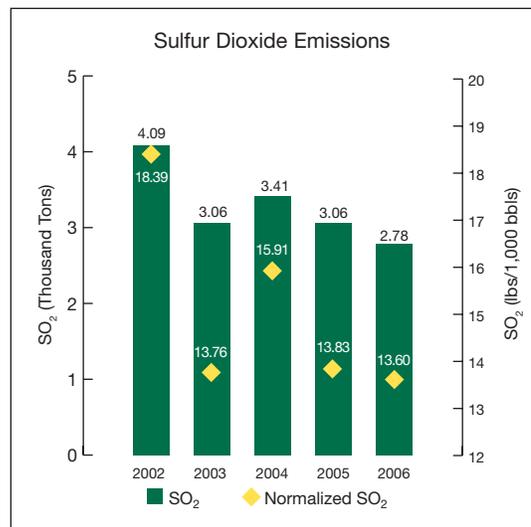
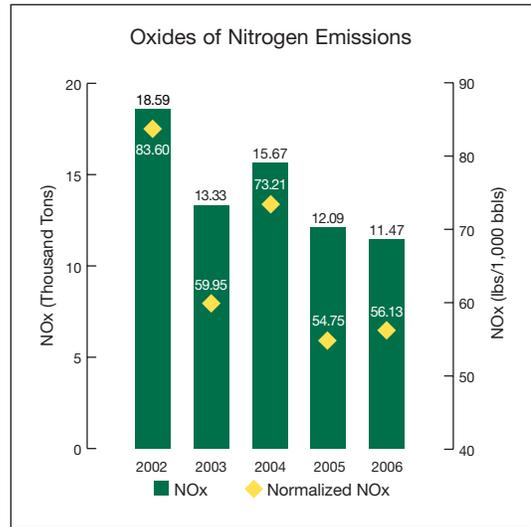
In 2006, we reduced the absolute emissions of NOx, SOx and VOC by 5%, 9% and 12% respectively. When normalized against production, our company wide NOx emissions increased by 3%, due, in part, to temporary power arrangements and startup emissions in the U.S. Gulf Coast following hurricane related shutdowns in 2005.

Normalized SOx emissions decreased by 2% between 2005 and 2006.

Normalized VOC emissions were reduced by 5%. These VOC reductions were due largely to improvements at terminal facilities.

Stage I vapor recovery is the process of recovering hydrocarbons that are emitted during the transfer of gasoline from the delivery truck into the underground storage tank. The vapors are routed through a hose back into the tanker instead of venting directly into the atmosphere. All of our retail stations have Stage I vapor recovery fitted to tanks.

Stage II vapor recovery systems collect gasoline vapors from vehicles' fuel tanks while customers dispense gasoline products into their vehicles. The Stage II system consists of special nozzles and coaxial hoses at each gasoline pump that captures vapors from the vehicle's fuel tank and routes them to the station's storage tanks. Stage II helps to eliminate the escape of gasoline vapors to the atmosphere. In 2006, approximately 49% of Hess owned and operated stations employed Stage II vapor recovery.



## OIL SPILLS AND RELEASES

Our operations have the potential to impact land and water resources. We have established controls to minimize these impacts and metrics to help us monitor and improve our performance.

### Spills

Although our goal is to have no spills, releases do occur accidentally. We track our company wide spills in order to monitor performance, identify root causes and plan mitigation measures.

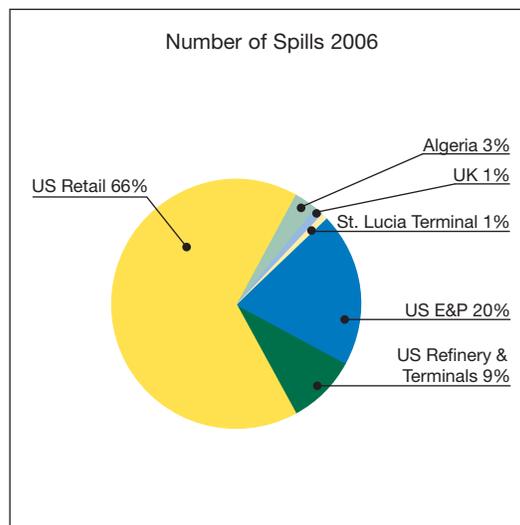
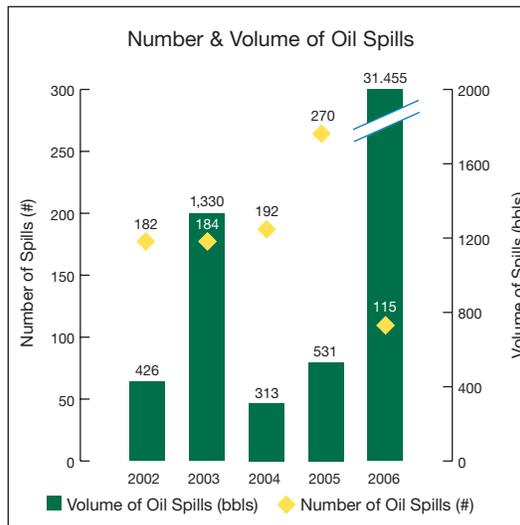
Our oil spill definition is: “Any spill to a waterbody which creates a sheen; or any spill affecting land outside of secondary containment which is more than 1 barrel for the upstream business or five gallons and greater for the downstream business.” Impervious surfaces that are not designed or intended to provide volumetric containment do not meet this definition. (For example, all surface spills onto concrete at Retail stations are considered outside secondary containment.)

Hess operations achieved a significant reduction in the number of oil spills in 2006 compared to 2005. The total number of spills fell by 57%, from 270 in 2005 to 115 in 2006 .

The majority of our reportable spills occur at Retail stations. However, Retail had less than half the number of spills in 2006 than in 2005. Retail’s improved spill performance is attributed primarily to the completion of a spill bucket replacement campaign in late 2005.

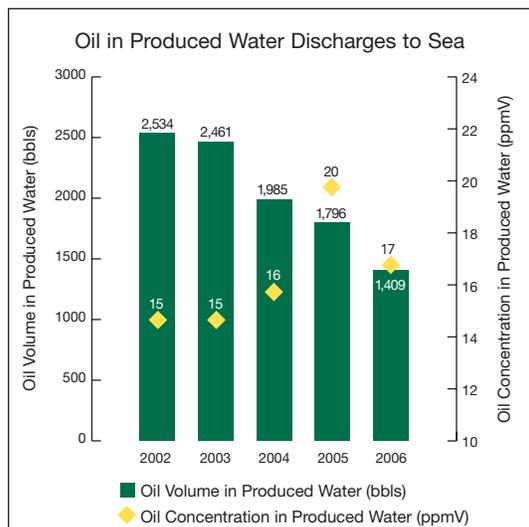
Our Exploration and Production operations had 27 spills in 2006 compared to 93 in 2005. U.S. Production operations accounted for most of the spills with 10 spills in North Dakota, 6 spills in the Permian Basin, and 4 spills in the Gulf Coast.

Failure of a 10 inch export pipeline at the Gassi El Agreb facility in the Algerian Sahara desert resulted in a 31,367 bbl spill in early 2006. This leak occurred in a remote location and was observed from a company aircraft during a routine flight. A repair was made to the pipe and the majority of the oil was recovered. The pipeline was replaced later in 2006.



After factoring out this single event, the remaining spill volumes were significantly lower in 2006 than those in recent years. Excluding the Algeria spill, we spilled 88 bbls in 2006 compared to 531 bbls in 2005. Our Marketing and Refining operations spill volume was reduced from 110 bbls in 2005 to just 29 bbls in 2006.

Over 84% of our spills occurred at onshore locations, where the majority of the oil spilled is recovered and disposed of appropriately. This includes the 31,367 bbls spilled in Algeria. The remaining spills to water amounted to just 3 bbls in 2006.



### Offshore Discharges

At our U.S. Terminals, Refining and E&P facilities, the volume of oil discharged in produced water at offshore facilities decreased from 1,796 bbls in 2005, to 1,409 bbls in 2006. Following an increase in 2005 the oil in water concentration decreased from 20 ppm in 2005 to 17 ppm in 2006. This is well below the generally accepted regulatory limits of 30-40 ppm.

In 2006, the Triton Floating Production Storage and Offloading facility in the U.K. North Sea installed a new separation package which will greatly enhance its produced water discharge performance in the future.

In 2006, our overall volume of drilling mud and cuttings increased due to a larger number of wells drilled. However, the amount of oil discharged with cuttings decreased from 350 tons in 2005 to 308 tons in 2006.

### Onshore Discharges

At our U.S. E&P, Terminals and Refining facilities, we continued our excellent National Pollutant Discharge Elimination System compliance performance, achieving 99.9% compliance in 2006. Port Reading also continued its excellent external waste water performance with all discharges well below permitted limits.

## RESOURCE USE

### Waste

The overall quantity of waste generated increased by 8% from 169,763 tons in 2005 to 182,976 tons in 2006. Approximately one half of the waste generated was

recycled, a 9% improvement on 2005. Approximately 0.30% of waste generated in 2006 was categorized as hazardous. We did not export any waste deemed hazardous under the terms of the Basel Convention in 2006.

### Water

We do not use fresh water from any of our onshore U.S. fields for reservoir pressurization. In 2006 we injected approximately 66 million barrels of produced water into our U.S. onshore oil fields and a further 32 million barrels were injected into disposal wells.

## EXCEEDANCES AND ENFORCEMENT ACTIONS

Corporate policy has long stressed our fundamental commitment to comply with applicable environment, health and safety laws and regulations. Although 100% compliance is our goal, exceedances of permitted levels can occur, as do citations from regulatory authorities. A total of \$187,931 was paid in penalties in 2006.

## LEGAL PROCEEDINGS

Hess Corporation has been a party to multiple lawsuits and claims related to the use of methyl tertiary butyl ether (MTBE) in gasoline. The principal allegation is that gasoline containing MTBE is a defective product and that the parties are liable for damage to groundwater resources. Hess believes that significant uncertainty remains regarding the validity of these suits and that there is insufficient information on which to evaluate our exposure in these cases.

Many refiners have entered into consent agreements to resolve the United States Environmental Protection Agency (EPA) assertions that refining facilities were modified or expanded without complying with New Source Review (NSR) regulations that require permits and new emission controls in certain circumstances. These consent agreements have typically imposed substantial civil fines and penalties, required significant capital expenditures to install emissions control equipment, and resulted in changes to operations which increased operating costs. Hess is engaged in discussions with the EPA regarding the Petroleum Refining Initiative, although we have already installed many of the pollution controls required of other refiners under the consent agreements. While the effect on the company cannot be estimated at this time, additional future capital expenditures and operating expenses may be incurred.

Hess Corporation is among 60 companies that have received a directive from the New Jersey Department of Environmental Protection (NJDEP) to remediate contamination in the sediments of the lower Passaic River. The directive relates to alleged prior releases from a bulk storage terminal in Newark, New Jersey now owned by Hess. A remedial investigation and feasibility study is currently being conducted on a portion of the Passaic River by the EPA under an agreement with Hess and over 40 other companies. Based on currently known facts, we do not believe that this matter will result in material liability to Hess.

The company has been served with a complaint from the New York State Department of Environmental Conservation (DEC) relating to alleged violations at its petroleum terminal in Brooklyn, New York. We believe that many of the allegations are factually inaccurate or based on an incorrect interpretation of applicable law and that we have already addressed the primary conditions discussed in the complaint. We are presently involved in settlement discussions with DEC.

In 2006, Hess was one of several companies to settle with New Jersey regulators for allegedly raising gas prices illegally in September 2005 after Hurricane Katrina. The company agreed to pay \$372,000.

In July 2005, the Securities and Exchange Commission (SEC) 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. Hess has been cooperating and continues to cooperate with the SEC investigation.

#### **ENVIRONMENTAL EXPENDITURES**

Capital expenditures necessary to comply with low sulfur gasoline requirements at Port Reading were \$72 million, of which \$23 million was spent in 2005 and the remainder was spent in 2006. Additional capital expenditures for facilities, to comply with environmental standards, other than for the low sulfur projects were \$22 million in 2006.

The company also accrues for environmental assessment and remediation expenses when the future costs are probable and reasonably estimable. At year end 2006,

the company reserve for its estimated environmental liability was approximately \$75 million. The company expects that existing reserves for environmental liabilities will adequately cover costs to assess and remediate known sites. The company's remediation spending was \$15 million in 2006 .

#### **ENVIRONMENTAL STEWARDSHIP AND BIODIVERSITY**

The company's operations are managed to avoid or minimize impacts on the environment. As a global organization we face the challenge of conducting operations in many geographic areas with sensitive or unique biological characteristics.

Our systematic approach to environmental management and our commitment to understanding the human and natural ecosystems in which we work provide us with a framework to meet these challenges. This includes undertaking environmental baseline surveys and environmental and social impact assessments prior to the start of our operations, the introduction of appropriate operational controls and on going monitoring during operations.

Our commitment to environmental stewardship extends beyond our operations to include decommissioning and remediation activities. Sites where remediation may be necessary include gasoline stations, terminals, onshore exploration and production facilities and refineries.

We do not operate in any areas currently designated as protected areas by the World Conservation Union (IUCN). Our environmental policy clearly states our commitment to recognize the existence of, and to comply with, all legal and regulatory requirements related to any protected area. Further, our commitment to high standards of environmental responsibility in all aspects of our global operations extends to areas where legal and regulatory requirements are less defined. In all areas, both with and without "protected" designations, our processes identify sensitivities and form the basis for practices that protect the environment.



*Inspecting plants used for soil clean up at our Chesapeake Terminal, Virginia. Prior to Hess' ownership the site had been used as a creosote plant.*

Our EHS & SR management system ensures key environmental objectives are integrated into the overall business planning process and identifies appropriate ways to reduce environmental impacts related to current operations and new projects. Our operating units establish and maintain documented environmental objectives, including those addressing biodiversity, and manage progress toward those objectives.

#### *Clean-up of the Elizabeth River in Chesapeake, Virginia*

Hess Corporation's Chesapeake Terminal is located along the Southern Branch of the Elizabeth River. Prior to our ownership the property had been used as a creosote wood treatment plant for more than 75 years, resulting in creosote contamination to the site as well as the adjacent river. To effectively address the historic creosote contamination, we joined the Virginia Department of Environmental Quality Voluntary Remediation Program. Close cooperation with program staff has provided for rapid progress on the project. As part of our contribution to the Program, we completed soil and groundwater evaluations, including drilling and monitoring subsurface wells. Our results indicate that the majority of the contamination is restricted to the area immediately adjacent to and beneath the former creosote treatment areas.

We also work in partnership with other organizations devoted to the Elizabeth River revitalization and remediation. The company is an active member of the Elizabeth River Project, a nonprofit organization, whose mission is to restore the Elizabeth River to the highest practical level of environmental quality. We are also a member of the Money Point Revitalization Task Force. The task force is working to develop a full corridor revitalization plan to remediate the river and prevent further contamination.

The remedial action plan for the Chesapeake Terminal includes stabilization/remediation of near-surface soils, containment, and removal of contaminants. Remedial activities completed or underway include:

- Implementation of a phytoremediation system
- An extraction system which has pumped approximately 25,000 gallons of creosote to date, and
- Removal and disposal of approximately 300 feet of buried piping and associated contaminated soil.

We are a proud participant in multiple partnering efforts intended to restore the Elizabeth River to its former beauty. We continue to facilitate the sharing of best practices and lessons learned across these partnerships to ensure timely success in our joint endeavors.

### *Environmental/Social Impact Assessments*

For major new projects, particularly those in previously undeveloped areas or areas with known sensitivities, additional tools are used to facilitate biodiversity action planning, including ESIA. We employ a risk based approach to ESIA that enables the evaluation of potential impacts and the effectiveness of mitigation measures. Biodiversity considerations are incorporated throughout an ESIA, including consideration of the biological, chemical, and physical characteristics of the area under study. The ESIA examines boundaries, services, continuity, and scale of ecosystems, as well as cross-border and human interactions with ecosystems.

We use the best available guidelines and tools, such as those developed by the Energy and Biodiversity Initiative (EBI), the International Petroleum Industry Environmental Conservation Association (IPIECA), Wildlife Conservation Society (WCS), and IUCN to assess biodiversity sensitivities. Assessments are enhanced through local knowledge, site specific investigations and risk assessments. Typically, ESIA's are conducted by qualified consultants with specific expertise relevant to the natural and socioeconomic setting of the project or activity. These consultants are managed through a process that ensures our environmental expectations and requirements are met.

Our policies and practices reflect the links between human welfare, cultural diversity and environmental conservation. We consider the interactions between ecosystems and the people who depend on them. Community environmental and health expectations are also considered, regardless of regulations. Ongoing and open consultation with concerned communities is a priority. Community input is integrated into key decision making, and information sharing with communities occurs regularly.

### **Restoring Americas Estuaries Conference**

In December 2006, Hess was proud to be a sponsor of the 3rd National Conference on Coastal and Estuarine Habitat Restoration in New Orleans. The 5 day Conference offered over 82 sessions exploring the latest advances in all aspects of habitat restoration, from planning and design to monitoring and evaluation, and from science and practice to partnerships and community involvement. The Conference drew participants from across the United States and the world to learn about the challenges facing our coasts and estuaries. These participants represented all segments of the restoration community, including businesses and corporations, governments at all levels, nonprofit organizations, and scientific and academic professionals.



*Estuaries are a vital resource for both wildlife and communities.*

## FUEL QUALITY

Our refining operation manufactures conventional and reformulated gasolines that meet or exceed all Federal requirements. The production of motor and other fuels in the United States and elsewhere has faced increasing regulatory pressure to reduce sulfur content in recent years. In 2004 new regulations went into effect that significantly reduced gasoline sulfur content. We have made all the necessary investments to comply with these regulations. The company has also reformulated its gasoline pool to allow for the blending of renewable fuels. Approximately 35% of the gasoline we sell to consumers contains 10% ethanol. In addition, we will not require any additional capital investment to meet pending U.S. Mobile Source Toxic regulations starting in 2011.

### Renewable Energy

Through Nuvera Fuel Cells Inc., Hess is diversifying its energy portfolio by investing in new fuel sources and end use technologies. Nuvera is engaged in developing multi-fuel processors and fuel cell stacks for fuel cell vehicles and stationary applications that will provide an important energy alternative with lower greenhouse gas emissions .



Fuel cell powered zero emission vehicle.

## ENERGY USE

Our overall energy consumption, which includes all of the energy we use and purchase plus the energy we are unable to use in the form of flaring, increased by 5% from 37.45 Peta Joules in 2005 to 39.54 Peta Joules in 2006. When normalized against production and throughput our overall energy intensity increased by 11% from 0.73 Giga Joules/tonne in 2005 to 0.81 Giga Joules/tonne in 2006 largely as a result of maturing oil and gas fields in the North Sea and U.S., where more energy is required for injection and compression.

### LIQUEFIED NATURAL GAS

Natural gas, together with energy conservation, efficiency, and renewable energy, can help meet the growing demand for cleaner energy, while helping to reduce emissions of greenhouse gases and air pollutants. The company has a 92.5 percent interest in a joint venture, Hess LNG, which is pursuing investments in liquefied natural gas (LNG) terminals and related supply, trading and marketing opportunities .

LNG is a means to move natural gas from producers to consumers where pipelines are not economically viable due to distance or technical limitations. LNG is produced when natural gas is cooled and condenses to a liquid. Prior to the liquefaction process, oxygen, carbon dioxide, sulfur compounds, water and other impurities are removed from the gas.

Natural gas can help mitigate climate change, as it produces far fewer global warming gases than either traditional coal or oil technologies. Natural gas produces fewer emissions of acid rain and ozone smog precursors, and produces no mercury, as compared to other traditional fossil fuel technologies. LNG could help to repower coal and oil fired electric power plants with a cleaner fuel. Combined cycle natural gas fired turbines generate grid-scale electricity with the lowest emissions and highest efficiency of any fossil fuel.

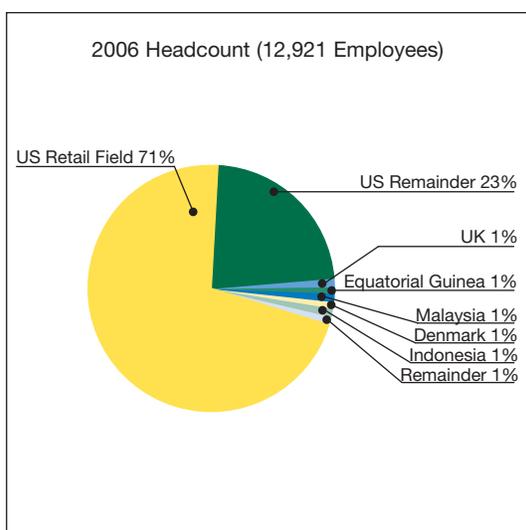


*Personnel on board the Sendje Ceiba FPSO in Equatorial Guinea.*

# GLOBAL WORKFORCE

*We are committed to attracting, retaining and energizing the very best people by investing in their professional development and providing them with challenging and rewarding opportunities for personal growth.*

We are committed to maximizing local employment opportunities where we do business. We added almost 1,000 employees in 2006 compared to 2005. At year end 2006 our worldwide employee headcount was approximately 13,000. Over 94% of our employees are based in the U.S., with more than 70% of employees working in our U.S. Retail network. Non U.S. employees comprise 6% of our overall workforce. These employees are located in the United Kingdom, Norway, Denmark, Russia, Equatorial Guinea, Egypt, Algeria, Gabon, Libya, Indonesia, Thailand, Azerbaijan, and Malaysia.



Hess Corporation paid \$596 million in salary and benefits to worldwide employees in 2006.

The global oil and gas sector has seen increased activity and capital investment in recent years which has increased workforce demand. As would be expected in this environment, employee turnover rates and contractor hiring has increased across the entire oil sector. Given this challenging environment our salaried employee turnover rate was a modest 3.6%.

## TRAINING AND DEVELOPMENT

The company develops employees to maximize their personal and professional potential in order to create a highly functioning organization capable of achieving its business objectives. In 2006 we spent \$8.5 million on technical and personal development training with each salaried employee averaging approximately 25 hours of training.

In 2006, the company made progress in the implementation of its Leadership Development Program and enhanced its performance management program. The “Marketing and Refining University” is a key training resource which facilitates career growth and helps to provide the necessary skill sets to our employees.

## EQUAL EMPLOYMENT OPPORTUNITY

Our commitment to global diversity is essential as we strive for top quartile performance across the company. The company does not tolerate any form of workplace harassment including sexual harassment of an employee or employment candidate.

The company provides equal employment opportunity to all employees and job applicants regardless of race, color, religion, sex, age, sexual orientation, creed, national origin or disability. All terms and conditions of employment, including compensation and opportunities for advancement, are based on qualifications and job performance.

In addition to the requirements of national laws and regulations, the company adheres to fair employment practices because it makes good sense and is the right thing to do. The company's reputation as a fair employer, that recognizes individual rights, not only attracts and retains employees, but is also valuable in vendor and customer relationships.

The company prepares an annual Affirmative Action Program to set specific goal oriented guidelines for the company. The program strives to ensure realization of equal employment opportunity objectives.



*Our company relies on high performing employees and contractors working in a collaborative environment.*

All complaints of harassment are treated seriously and confidentially. Employees are encouraged to report any questionable behavior to their supervisors. If the situation involves the supervisor, the employee contacts the department manager or Human Resources. The company also maintains a global reporting hotline for anonymous reporting of harassment and other perceived violations of the policy.

Black Professionals Magazine has recognized Hess for its commitment to employee and supplier diversity by naming the company one of its "Top 25 Companies for African-Americans." In addition, readers of Woman Engineer Magazine have rated Hess one of the top 50 private sector employers. Subscribers to Careers and the Disabled Magazine recognized us as one of the top 50 employers for people with disabilities, and Diversity Inc. Magazine singled us out as one of 20 Noteworthy Companies.

The company operates in 14 countries with a diverse professional staff of national and expatriate employees. Our "People Value" helps guide our company in attracting and retaining a diverse global workforce. In order to attract skilled national employees in our areas of operation we actively recruit through national professional and trade associations and advertise in local and national publications. To further enhance our diversity and encourage the same in the technical fields in which we

operate, we advertise open positions with organizations such as the National Society of Black Engineers, the Society of Hispanic Professional Engineers and the Society of Women Engineers. We also present information regarding the company and its operations at international professional conferences, such as the Society of Petroleum Engineers, which attracts skilled professionals worldwide. To provide all employees opportunities for development and long term advancement, we provide training and career counseling and list open global positions on an internal website.

The company offers flexible spending accounts with dependent care options and work/life referral services.

As of December 2006, there were two female non executive members of our board and there was no board representation from outside the United States. Worldwide, 36% of managers and 44% of our workforce were women. There are no women or minorities among the Hess Leadership Team.

#### **PROMOTING EMPLOYEE INVOLVEMENT**

Several mechanisms exist for our employees to provide their feedback to the company. Our compliance hotline is a 24 hour resource available to employees to share their concerns or report issues.

To assess our employees' level of engagement, as well as their perspectives of our overall performance, we



*In 2006 we introduced our new career development performance tracking system.*

conduct a periodic global employee survey. Our last survey was in late 2004. The next survey is being designed to focus on employee engagement and is scheduled to take place early in 2008.

Significant improvements over the last two years have been made in linking performance to compensation, differentiating pay among top performers and moving people across organizations. Communication and training for the Total Pay system, which includes a formal performance review for every employee each year and a more proactive approach to career development, have had a significant impact on improving communications with employees. In 2006 we finalized the introduction of a new web based career development performance tracking system. We have received employee feedback that we need to continue to work on improving benefits, workplace stress and our ability to be innovative.

### **SUPPORTING HUMAN RIGHTS**

Hess Corporation's values and policies require that we maintain the highest standards of business and personal integrity. Within these policies we also pledge to respect the law in the countries and communities where we operate and uphold the principles contained in the "United Nations Universal Declaration of Human Rights."

To further demonstrate our commitment to these values, we have pledged our support to the "United Nations

Global Compact," which challenges businesses to endorse and support ten principles in the areas of human rights, labor, the environment and corruption. We also have adopted the joint United States/United Kingdom sponsored "Voluntary Principles on Security and Human Rights" which requires that any security services we employ, whether public or private, conform to the highest standards of professionalism and protect the human rights of all community members.

Training programs on human rights are being developed in support of our commitments for both our general workforce and our security personnel. This training will take place throughout 2007.

**Freedom of association and right to collective bargaining.** We recognize and respect our employees' right to join associations and choose representative organizations for the purpose of engaging in collective bargaining. Approximately 7% of our employees are members of trade unions.

**Elimination of forced or compulsory labor.** We do not use forced or compulsory labor in any of our global operations.

**Elimination of child labor.** We forbid the employment of children in our workforce. All employees are above the legal employment age in the country of employment.



*School children in Thailand. Hess is providing educational support to 36 village schools in the Phu Horm area.*

# COMMUNITY & SOCIAL PERFORMANCE

*We are committed to meeting the highest standards of corporate citizenship by creating a long lasting, positive impact on the communities where we do business.*

## SOCIAL SUPPORT

We have a strong commitment to developing projects that improve education, health and the quality of life in the communities where we live and work. We support charitable and other nonprofit organizations, community projects, scholarships and employee volunteerism.

We work closely with the local communities to help us understand and evaluate specific needs. This collaboration ensures the sustainability of our social responsibility program. In 2006 we invested over \$4.5 million in cash donations worldwide, plus an additional \$1 million in disaster relief contributions.

Our goal is to make a sustainable improvement to the social well being of the communities in which we operate. The key focus for our social support is education and health. In 2006 over 70% of our social spending in communities was on education.

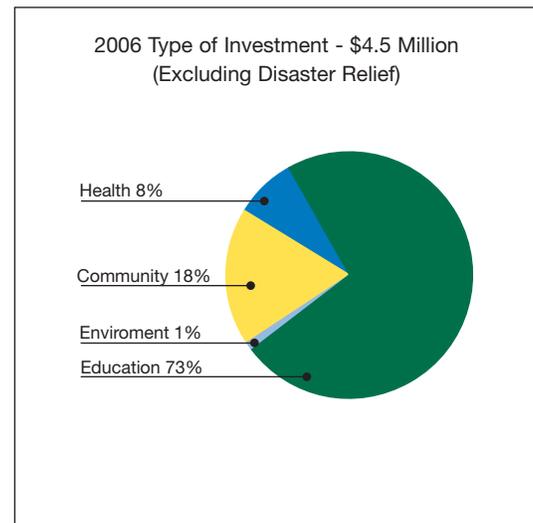
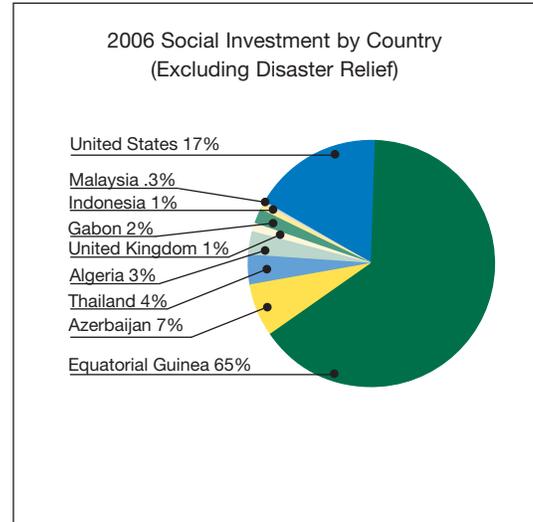
In 2006 the majority of our planned social expenditures were in West Africa, Asia and the United States.

Some highlights include the following:

### *Equatorial Guinea*

In Equatorial Guinea the company developed and initiated a 5 year program, in partnership with the government, to support education in the country. The company has committed \$20 million of the \$40 million program over the next 5 years to strengthen the nationwide educational system focusing on children between ages 6 to 18. The project will focus on improving teacher training, development of learning initiatives and improving school infrastructure.

We began this program in 2005 by working with the Equatorial Guinea Ministry of Mines, Industry and Energy, the Ministry of Education, and the international nonprofit agency, Academy for Education Development, to develop a feasibility study on national education improvement. The results of that study led to the funding commitments by the company and the government. The program represents a model for public/private cooperation and is designed to improve education and provide sustainable benefits for the country.



### *Gabon*

Our Gabon operations sponsor a number of initiatives to improve education and health in the county. For several years we have sponsored a program which teaches school children about environmental issues and encourages them to produce individual artwork on environmental topics. This artwork is compiled into a calendar used throughout the schools and our operations. Schools and students who participate in this initiative receive support in the form of educational materials and general infrastructure upgrading. We also donate library books and computers to rural and village schools to support education in the least developed areas.



*School children in Indonesia. Hess is sponsoring educational improvement projects in the Ujung Pangkah district.*

### *Indonesia*

In Indonesia, where we are developing the Ujung Pangkah Project, the company was proud to receive the government's social investment award for its community investment programs and relationship building with local communities. This included an education improvement project to improve the schools and teaching methods in the Ujung Pangkah district.

In cooperation with the Indonesia Street Children Organization, we are sponsoring 241 marginalized children in Central and North Surabaya. This program is working to prevent these children from becoming street children or child laborers by providing support and access to a better education.

The company has also facilitated community planning activities in the Pangkah and Gresik area. It's main purpose is to build consensus among communities regarding future economic development, such as fishpond management, shrimp processing, livestock farming and crafts.

### *Thailand*

In Thailand, in association with our Phu Horm development, the company is providing education support to 36 village schools located in the project area. We are also providing support to 15 regional healthcare centers and are increasing their capacity to manage long term healthcare issues, particularly diabetes and hypertension.

We are also helping to combat deforestation as a result of agricultural development and are supporting local economic growth by assisting farmers in improving their cattle raising skills and providing training to local residents in marketing their produce.

### *Azerbaijan*

In 2003 Hess began a program to improve emergency medical care in Azerbaijan. Working with our partners, the International Medical Corps and Johns Hopkins University, the company focused on improving emergency care at the First Medical Emergency Hospital No. 3, which serves a population of one million people in northwest Azerbaijan. The key elements of this program were to advance the skill levels of emergency personnel and improve the hospital's infrastructure.

The successful completion of this program in 2005 demonstrated that a second phase, involving the entire country, was possible. Working with the U.S. Agency for International Development, Hess recruited additional partners and expanded the scope to include five hospitals, new national emergency training centers and a new national policy on emergency care. In 2006 significant progress was made including improved ambulance and in hospital treatment, which has resulted in high quality care and an increased survival rate for trauma patients.



*Hess sponsors the Arthur Ashe Kids' Day at the United States Open Tennis Championship.*

### *Algeria*

In Algiers Hess has donated Braille software, computers, printers, tables and chairs to a local blind children's school to create a braille computer science classroom.

### *United Kingdom*

We have provided support for several years to the Restoration of Appearance and Function Trust for medical research and education associated with reconstructive plastic surgery and other treatments for burns, skin cancer and other debilitating conditions. Employees have also raised additional funds for this cause and the company has sponsored various events during the year.

### *United States*

Since 2004 Hess Corporation has been the presenting sponsor of Arthur Ashe Kids' Day, a nationally televised, day long interactive tennis and music festival for children and families. In addition to honoring tennis legend Arthur Ashe, the program uses tennis as a means to instill the values of humanitarianism, leadership, and academic excellence. Arthur Ashe Kids' Day is held annually as the kickoff event for the United States Open Tennis Championship in Queens, New York. Hess support provides many underprivileged children in the New York Metropolitan area the opportunity to participate. Hess works with organizations such as the local Boys and Girls Clubs, the Harlem Children's Zone and area Community

Tennis Centers, providing bus transportation to and from the event, souvenirs, and tickets to the main event. Each year, Hess employees join the volunteer team to spend the day performing various needed services on the grounds and courts.

In Houston, Texas the company and its area employees are supporting the Houston Habitat for Humanity program through donations and volunteer work. Hess employees worked as "house builders" in 2006 to provide homes for families who typically have incomes equal to 25% to 50% of the area's median income.

Hess employees actively participate in the March of Dimes, an organization that raises money to fund research, education, and public awareness programs to reduce premature birth and to develop medical advances that support premature babies. Our employees also contribute generously to other charities, and to numerous clothing, food, toy, and blood drives throughout the year.

### **DISASTER RELIEF**

In 2006, we provided over \$1 million to support the relief efforts following the May earthquake in Java, Indonesia. Through our support of the international relief agencies CARE and the International Medical Corps over 200,000 people were provided with clean drinking water and urgent medical support.

## GLOBAL COMPACT/IPIECA/GRI INDEX

The UN Global Compact (UNGC) is an international initiative that brings together companies, UN agencies, labor organizations and civil society in support of 10 principles covering human rights, labor, the environment and corruption. The 10 principles are based on the Universal Declaration of Human Rights; the International Labour Organization's Declaration of the Fundamental Principles and Rights at Work; and the Rio Declaration on Environment and Development.

As a signatory of the Global Compact, we believe that our business policies are in accordance with the 10 principles. We participate in Global Compact meetings in the U.S..

Here we provide an index to our performance in demonstrating the Global Compact's 10 principles in our work. This index cross-references to relevant IPIECA/API and GRI G3 indicators. Further information is available throughout this report and on our website .

| Global Compact Principles  |   | IPIECA/API Indicators   | GRI Indicators  | Page                                |
|--|---|---|-----------------|-------------------------------------|
| 1. Businesses should support and respect the protection of international proclaimed human rights within their sphere of influence. | Voluntary Commitments<br>Supporting Human Rights  | SOC-1;<br>SOC-4   | HR1; HR2        | 4, 8-9<br>35                        |
| 2. Businesses should make sure that they are not complicit in human rights abuses.   | Voluntary Commitments<br>Supporting Human Rights  |   | HR1, HR2; HR3   | 4, 8-9<br>35                        |
| 3. Businesses should uphold the freedom of association and the effective recognition to the right to collective bargaining.        | Voluntary Commitments<br>Supporting Human Rights  | SOC-7   | HR5             | 4, 8-9<br>35                        |
| 4. Businesses should uphold the elimination of all forms of forced and compulsory labor.   | Voluntary Commitments<br>Supporting Human Rights  | SOC-7   | HR7             | 4, 8-9<br>35                        |
| 5. Businesses should uphold the effective abolition of child labor.  | Voluntary Commitments<br>Supporting Human Rights  | SOC-6   | HR6, LA4, LA5   | 4, 8-9                              |
| 6. Businesses should eliminate discrimination in respect of employment and occupation.   | Voluntary Commitments<br>Equal Employment Opportunity   | SOC-4   | HR4, LA13, LA14 | 4<br>8-9<br>33-34                   |
| 7. Businesses should support a precautionary approach to environmental challenges.   | Environmental Performance<br>Global Climate Change<br>Environmental Stewardship and Biodiversity  |   |                 | 23<br>23-24<br>28-30                |
| 8. Businesses should undertake initiatives to promote greater environmental responsibility.  | Environmental Performance<br>Global Climate Change,<br>Air Emissions, Oil Spills and Releases,<br>Resource Use,<br>Environmental Stewardship and Biodiversity | ENV-1, ENV-2, ENV-3,<br>ENV-5, ENV-9, ENV-A1, ENV-A2,<br>ENV-A3, ENV-A4, ENV-A6, ENV-A7 | EN1-EN30        | 23<br>23-26<br>25-27<br>27<br>28-30 |
| 9. Businesses should encourage the development and diffusion of environmentally friendly technologies.                             | Global Climate Change,<br>Environmental Stewardship and Biodiversity,<br>Renewable Energy,<br>Liquefied Natural Gas   |   | EN6,EN7         | 23-24<br>28-30<br>31<br>31          |
| 10. Businesses should work against all forms of corruption, including extortion and bribery.                                       | Voluntary Commitments<br>Ethical Business Conduct<br>Transparency   | SOC-2   | SO2, SO3, SO4   | 4, 8-9<br>10-11<br>11               |

## GRI AND IPIECA/API INDEX

This index refers to:

- Global Reporting Initiative (GRI) indicators on which we have fully or partially reported.
- International Petroleum Industry Environmental Conservation Association/ American Petroleum Institute (IPIECA/API) sustainability reporting indicators.

Some of the information regarding these indicators appears in the Web version of this report .

| Disclosures and Indicators                            |  | GRI Indicators   | IPIECA/API Indicators  | Page               |
|---|--|--|--|--------------------|
| <b>Strategy and Analysis</b>                          |  |  |  |                    |
|   |  | 1.1, 1.2   |  | 1, 4               |
| <b>Organizational Profile</b>                         |  |  |  |                    |
|   |  | 2.1 – 2.9  |  | 2, 3, 5, 13-15, 33 |
| <b>Report Parameters</b>                              |  |  |  |                    |
| Report Profile  |  | 3.1-3.4  |  | Scope              |
| Report Scope and Boundary                             |  | 3.5-3.11   |  | Scope              |
| GRI Content Index                                     |  | 3.12   |  | 41                 |
| Assurance   |  | 3.13   |  | 42                 |
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|   | Water  | EN8, EN9, EN10   | ENV-A7   | 27                 |
|   | Biodiversity                                   | EN11, EN12, EN13, EN14, EN15                               | ENV-A9   | 28-29              |
|   | Emissions, Effluent and Waste                  | EN16, EN17, EN18, EN19, EN20, EN21, EN22, EN23, EN24, EN25 | ENV-1, ENV-A1, ENV-2, ENV-A2, ENV-3, ENV-A3, ENV-4, ENV-A4, ENV-A5, ENV-A6 | 5<br>23-27         |
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|   | Occupational Health & Safety                   | LA6, LA7, LA8, LA9   | H&S-2, H&S-3, H&S-4  | 5, 17-21           |
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| Human Rights  | Investment & Procurement Practices             | HR1, HR2, HR3  | SOC-1  | 35                 |
|   | Non-discrimination                             | HR4  | SOC-4  | 33-35              |
|   | Freedom of Association & Collective Bargaining | HR5  | SOC-7  | 5, 35              |
|   | Child Labor                                    | HR6  |  | 35                 |
|   | Forced & Compulsory Labor                      | HR7  |  | 35                 |
|   | Security Practices                             | HR8  | SOC-9  | 35                 |
|   | Indigenous Rights                              | HR9  | SOC-A6   |                    |
| Society   | Community                                      | SO1  | SOC-A4, SOC-A5, SOC-A7, SOC-8  | 5, 37-39           |
|   | Corruption                                     | SO2, SO3, SO4  | SOC-2  | 10-11              |
|   | Public Policy                                  | SO5, SO6   | SOC-3, SOC-A1  | 11                 |
|   | Anti-Competitive Behavior                      | SO7  |  |                    |
|   | Compliance                                     | SO8  |  | 5, 27-28           |
| <b>Product Responsibility</b>                         |  |  |  |                    |
| Customer Health & Safety                              | PR1, PR2                                       |  | H&S-5  | 21                 |
| Product & Service Labeling                            | PR3, PR4, PR5                                  |  |  | 21                 |
| Marketing Communications                              | PR6, PR7                                       |  |  |                    |
| Customer Privacy                                      | PR8  |  |  |                    |
| Compliance  | PR9  |  |  | 5, 27-28           |

## VERIFICATION OBJECTIVES AND SCOPE

ERM Certification & Verification Services (ERM CVS) was commissioned by Hess Corporation to undertake verification of its 2006 Corporate Sustainability Report (the Report). This is the fifth year that ERM CVS has been engaged by Hess Corporation in this role. The objective of the verification was to establish that the information presented is a reliable representation of Hess Corporation's performance and programs, and that the data presented conform to the Global Reporting Initiative (GRI) Reporting Framework.

Verification of information pertaining to HOVENSA, a refining joint venture, has not been included in the scope of our activities. Verification of source data associated with social indicators was limited to those from Equatorial Guinea. The Management of Hess Corporation is responsible for the information contained within the Report.

## VERIFICATION APPROACH

ERM CVS verification procedures and methodologies have been developed with due regard to the requirements of international standards governing environmental management systems, and general principles of auditing. Our verification approach involves detailed challenge of the environmental, health and safety data through random chain of custody audits, selected interrogation of both source and consolidated data, and interviews with corporate and operational staff with responsibilities for data management and report content. Substantiation of a sample of statements and claims made in the Report has been undertaken and evidence sought where deemed appropriate.

Our activities included interrogation of source data at the following Hess operations: exploration and production operations in Equatorial Guinea, North Dakota Production and Tioga Gas Plant, the Jacksonville Terminal in Florida and two representative HESS EXPRESS convenience stores, as well as an office visit to Kuala Lumpur, Malaysia to assess data collection and data management associated with Hess activities in South East Asia. The methods and management practices for the consolidation of EHS data practices were reviewed at Hess Corporation's corporate offices, including data associated with retail and marketing activities. Business level and Group level data collection tools and processes were reviewed for reliability, explanation of trends and claims related to the reported data, and a review of internal assurance methods.

## OPINION & RECOMMENDATIONS

Based on the sample of data reviewed, the Report provides a reasonable level of reliability and ERM CVS is not aware of the exclusion of any material issues or misstatements made in relation to the information presented. ERM CVS has also evaluated the Report for conformance to the GRI Sustainability Reporting Guidelines and supports Hess Corporation's assertion that the Report meets the GRI Application Level B+ criteria. In the opinion of ERM CVS, Hess Corporation has introduced significant improvements in the provision of information relating to environmental, health, safety and social performance.

Our key observations build on those provided by ERM CVS previously and the work that Hess Corporation has accomplished this year and is committed to pursuing further. These are to:

- Review the scope and boundaries of reporting to consider wider inclusion in future of information related to indirect impacts;
- Include clear reference to the key sustainability objectives with specific targets that Hess Corporation is pursuing to improve performance (including future goals);
- Develop more consistent methodologies to capture EHS & SR data (i.e., wastes generated, flaring events not currently captured, all spills [e.g., brine, acid], etc.)
- Report more fully on how stakeholder views and interests are collected, considered, and responded to by the Company.

## OUR INDEPENDENCE

ERM CVS is a member of the ERM Group of companies. We provide services to clients solely related to independent assurance activities as well as training programmes related to auditing techniques and approaches. Our management processes are designed to ensure that the work we undertake with clients is wholly free from bias and conflict of interest.

ERM CVS and the staff that have undertaken work on this assurance exercise provide no other consultancy related services to Hess Corporation in any respect.

## FOR MORE INFORMATION

For copies of our Environment, Health and Safety Policy and our Corporate Social Responsibility Policy, or for more information regarding our operations, please visit our website at [www.hess.com](http://www.hess.com).

We invite your questions, comments and suggestions regarding this report. To send us your questions or comments, or request more information or additional copies of this report, please contact:

Vice President,  
Environment, Health and Safety  
Hess Corporation  
1185 Avenue of the Americas  
New York, NY 10036

You can also send us an e-mail at [ehs@hess.com](mailto:ehs@hess.com).

Sandy Alexander Inc., an ISO 14001:2004 certified printer with Forest Stewardship Council (FSC) Chain of Custody and Green-e certifications printed the Hess Annual Corporate Sustainability Report with the use of renewable wind power resulting in nearly zero volatile organic compound (VOC) emissions. This report was printed on FSC-certified Mohawk Options paper, a process-chlorine-free 100 percent post-consumer waste (PCW) paper manufactured entirely with 100 percent Green-e certified wind electricity and containing 100 percent post-consumer recycled fiber.

The savings below are achieved when PC recycled fiber is used in place of virgin fiber.

|                 |   |                                |
|-----------------|---|--------------------------------|
| 70.18 trees     |  | preserved for the future       |
| 202.64 lbs      |  | waterborne waste not created   |
| 29,809 gallons  |  | wastewater flow saved          |
| 3,298 lbs       |  | solid waste not generated      |
| 6,494 lbs       |  | net greenhouse gases prevented |
| 49,708,000 BTUs |  | energy not consumed            |

Savings from the use of emission-free wind-generated electricity:

|           |   |                             |
|-----------|---|-----------------------------|
| 3,374 lbs |  | air emissions not generated |
|-----------|---|-----------------------------|

In other words your savings from the use of wind-generated electricity are equivalent to:

|             |   |             |
|-------------|---|-------------|
| Not driving |  | 3,655 miles |
| Planting    |  | 228 trees   |





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