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COMPENSATION PARTNERS

Trends in Energy Industry Board of Director Compensation

December 2008

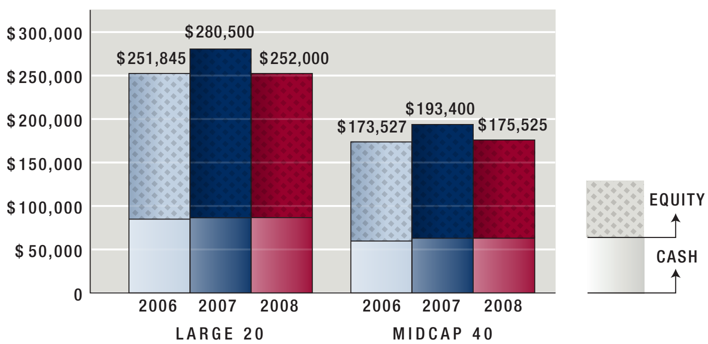
The role of independent director is becoming increasingly complex, time-consuming and risky. Since 2001, director compensation has been increasing steadily to reflect the extra time, risk and qualifications required of independent directors. The recent financial crisis and collapse of large financial institutions has increased the spotlight on independent directors. While energy companies are not the center of the recent crisis, they are a target for critics in the broader economic crisis.

Our Firm, Cogent Compensation Partners, originally set out to analyze the changes in director compensation from 2006 to 2007 for a sample of US publicly traded energy companies. As we neared completion of our study, the market was hit by the recent financial downturn. Similar to other industries, energy stocks fell significantly. Since many director compensation programs include annual equity grants based on a fixed number of shares, we determined it would be useful to analyze the effects of the declining stock price on the compensation values.

We analyzed the levels of and changes from 2006 to 2007 in director compensation at 60 US public energy companies that operate in one or more fields of exploration and production, drilling, and oilfield services. We further evaluated 2007 compensation by substituting stock price data as of October 2008 to value the equity component. The 60 companies were separated into two groups by size, the Large 20 with a median revenue of $10.2 billion and Midcap 40 with a median revenue of $1.3 billion. The following summary describes the results of our study, along with observations.

Total Compensation

MEDIAN TOTAL DIRECTOR COMPENSATION

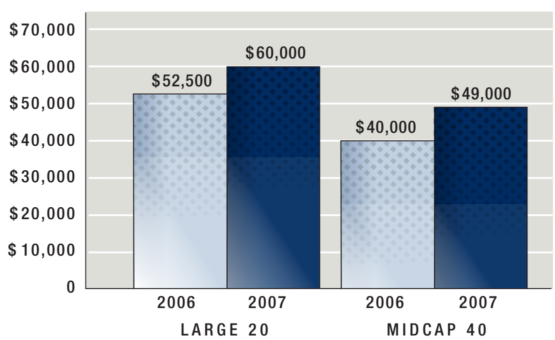


Total director compensation increased 11% at the median between 2006 and 2007 for both the Large 20 and Midcap 40. However, when October 2008 stock prices are used to value the equity component in the 2007 arrangements, total compensation is similar to 2006 levels.

Note: 2008 compensation is based on the 2007 program, with equity valued using October 2008 stock prices.

Board Service Cash Compensation

MEDIAN ANNUAL RETAINERS



Annual Retainers

All 60 companies pay directors an annual retainer for their board service. This retainer is generally paid in cash, but some companies offer directors the opportunity to take the retainer in company stock.

The median annual retainer for the Large 20 increased 14%, while the median for the Midcap 40 increased 23%. The higher change in annual retainer for the Midcap 40 is likely influenced by expansion and acquisitions of those companies in the growth mode. This would warrant increases in director pay for the increase in role complexity and the larger operations scope of these companies.

Board Meeting Fees

2007 BOARD MEETING FEES

	Large 20	Midcap 40
Prevalence	60%	68%
Median Meeting Fee	$2,000	$1,500

Although still the most prevalent approach, the broader market has seen a slow move away from paying meeting fees to directors. The energy industry has been slower in following this trend, particularly the smaller, higher growth companies. Companies that do eliminate some or all meeting fees typically increase the annual cash retainer to compensate for board service rather than have a portion of pay based on the number of meetings attended. The prevalence and median meeting fee amounts are shown.

Committee Service Cash Compensation

Member Retainers and Meeting Fees

A majority of companies continue to compensate for committee service. Committee compensation is delivered via fixed retainers (sometimes differentiated by committee) or meeting fees. A majority of companies in both groups continue to pay meeting fees, with the prevalence and amount remaining virtually flat between 2006 and 2007.

Only a quarter of companies in our study pay committee member retainers and half of those that pay a committee retainer do not pay either board or committee meeting fees.

2007 COMMITTEE MEETING FEES

	Large 20	Midcap 40
Prevalence	55%	68%
Median Meeting Fee	$2,000	$1,500

Chair Retainers

About 85% of companies in both groups pay committee chair retainers. These retainers are typically differentiated by committee in order to compensate appropriately for the time commitment, expertise and risk associated with chairing a particular committee. The median retainers for 2006 and 2007 by group and committee type are shown.

2007 MEDIAN COMMITTEE CHAIR RETAINERS

	Large 20	Midcap 40
Audit	$20,000	$15,000
Compensation	$10,000	$10,000
Other	$10,000	$8,000

Equity Compensation

Fixed Share versus Value-Based Awards

Historically, director equity compensation was delivered in the form of annual grants of stock options or restricted shares, for which the number of shares was “fixed” from year to year. Although still the most prevalent approach, the broader market has seen some shift away from this practice, but the energy industry has been slower to follow. Sixty-percent of companies in the Large 20 and 58% in the Midcap 40 grant equity using a fixed number approach.

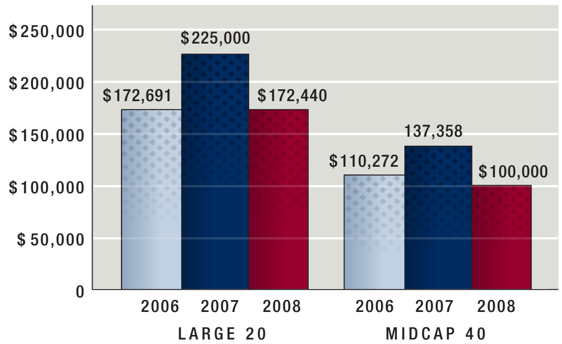
Restricted Stock versus Stock Options

The market has also seen a move away from stock options to more full value awards. The prevalence of equity awards by type of vehicle is shown.

2007 PREVALENCE OF EQUITY AWARDS BY VEHICLE

	Large 20	Midcap 40
Restricted Stock Only	65%	70%
Both Restricted Stock & Stock Options	30%	15%
Stock Options Only	0%	13%
None	5%	2%

MEDIAN TOTAL EQUITY COMPENSATION



Equity Value

Since more than half of the companies in the study continue to award equity on a fixed number basis, equity compensation can swing significantly from year to year, especially when stock price is volatile. From 2006 to 2007, the median equity value for the Large 20 increased 30% and the median for the Midcap 40 increased 25%. In order to capture the effects of the recent economic downturn, we valued the 2007 equity awards using October 2008 stock prices. This resulted in equity values similar to those in 2006.

Note: 2008 equity values are based on the 2007 program, but valued using October 2008 stock prices.

What's Next for Director Compensation?

In the near term (2009) we do not expect significant increases in director compensation due to the downward influence of the economic climate. Thereafter, as the market improves, we believe directors' compensation will increase to reflect the time requirement and complexity of the role. Specifically, compensation committee chair retainers may begin to rival those of audit committees. Also, more energy companies will likely move to fixed value basis eqity awards.

About Cogent Compensation Partners

Cogent Compensation Partners is a leading provider of objective and expert advice on the subject of executive compensation, corporate governance and the linkage between company performance and executive pay.

Our executive compensation consultants assist in driving together the various interests involved in the executive pay debate: employees, shareholders, institutions, and other stakeholders. Our services include compensation committee advisory, incentive plan design, compensation strategy development, board of director compensation analysis, executive compensation related shareholder proposal assistance and stock ownership guidelines development.

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