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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

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**Form 10-Q**

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- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2003

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

Commission file number: 1-9743

**EOG RESOURCES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**47-0684736**

(I.R.S. Employer  
Identification No.)

**333 Clay Street, Suite 4200, Houston, Texas 77002-7361**

(Address of principal executive offices) (zip code)

**Registrant's telephone number, including area code: 713-651-7000**

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 21, 2003.

<u>Title of each class</u>	<u>Number of shares</u>
Common Stock, \$.01 par value	115,086,149

**EOG RESOURCES, INC.**

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# **PART I. FINANCIAL INFORMATION**

## **ITEM 1. FINANCIAL STATEMENTS** **EOG RESOURCES, INC.** **CONSOLIDATED STATEMENTS OF INCOME** *(In Thousands, Except Per Share Amounts)* *(Unaudited)*

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
<b>NET OPERATING REVENUES</b>				
Natural Gas	\$ 365,064	\$ 224,018	\$1,176,798	\$ 631,874
Crude Oil, Condensate and Natural Gas Liquids	67,664	62,121	204,643	165,531
Gains (Losses) on Mark-to-market Commodity Derivative Contracts	23,628	(7,849)	(37,346)	(41,451)
Other, Net	<u>2,368</u>	<u>1,589</u>	<u>4,052</u>	<u>651</u>
<b>TOTAL</b>	<b><u>458,724</u></b>	<b><u>279,879</u></b>	<b><u>1,348,147</u></b>	<b><u>756,605</u></b>
<b>OPERATING EXPENSES</b>				
Lease and Well	54,431	45,727	156,390	129,956
Exploration Costs	17,812	12,824	57,409	41,514
Dry Hole Costs	8,876	9,094	18,932	32,336
Impairments	26,117	11,802	63,548	34,548
Depreciation, Depletion and Amortization	110,438	100,208	320,578	292,624
General and Administrative	26,379	21,582	71,734	64,283
Taxes Other Than Income	<u>21,359</u>	<u>16,932</u>	<u>63,247</u>	<u>50,980</u>
<b>TOTAL</b>	<b><u>265,412</u></b>	<b><u>218,169</u></b>	<b><u>751,838</u></b>	<b><u>646,241</u></b>
<b>OPERATING INCOME</b>	193,312	61,710	596,309	110,364
<b>OTHER INCOME (EXPENSE), NET</b>	<u>1,924</u>	<u>(74)</u>	<u>4,756</u>	<u>(2,800)</u>
<b>INCOME BEFORE INTEREST EXPENSE AND INCOME TAXES</b>	195,236	61,636	601,065	107,564
<b>INTEREST EXPENSE, NET</b>	<u>15,632</u>	<u>18,770</u>	<u>44,757</u>	<u>45,003</u>
<b>INCOME BEFORE INCOME TAXES</b>	179,604	42,866	556,308	62,561
<b>INCOME TAX PROVISION</b>	<u>62,185</u>	<u>13,979</u>	<u>193,542</u>	<u>19,807</u>
<b>NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>	117,419	28,887	362,766	42,754
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX</b>	<u>-</u>	<u>-</u>	<u>(7,131)</u>	<u>-</u>
<b>NET INCOME</b>	117,419	28,887	355,635	42,754
<b>PREFERRED STOCK DIVIDENDS</b>	<u>2,758</u>	<u>2,758</u>	<u>8,274</u>	<u>8,274</u>
<b>NET INCOME AVAILABLE TO COMMON</b>	<b><u>\$ 114,661</u></b>	<b><u>\$ 26,129</u></b>	<b><u>\$ 347,361</u></b>	<b><u>\$ 34,480</u></b>
<b>NET INCOME PER SHARE AVAILABLE TO COMMON</b>				
Basic				
Net Income Available to Common Before Cumulative				
Effect of Change in Accounting Principle	\$ 1.00	\$ 0.23	\$ 3.09	\$ 0.30
Cumulative Effect of Change in Accounting Principle, net of tax	<u>-</u>	<u>-</u>	<u>(0.06)</u>	<u>-</u>
Net Income Available to Common	<u>\$ 1.00</u>	<u>\$ 0.23</u>	<u>\$ 3.03</u>	<u>\$ 0.30</u>
Diluted				
Net Income Available to Common Before Cumulative				
Effect of Change in Accounting Principle	\$ 0.99	\$ 0.22	\$ 3.05	\$ 0.29
Cumulative Effect of Change in Accounting Principle, net of tax	<u>-</u>	<u>-</u>	<u>(0.06)</u>	<u>-</u>
Net Income Available to Common	<u>\$ 0.99</u>	<u>\$ 0.22</u>	<u>\$ 2.99</u>	<u>\$ 0.29</u>
<b>AVERAGE NUMBER OF COMMON SHARES</b>				
Basic	<u>114,616</u>	<u>115,621</u>	<u>114,489</u>	<u>115,555</u>
Diluted	<u>116,370</u>	<u>117,078</u>	<u>116,284</u>	<u>117,267</u>

The accompanying notes are an integral part of these consolidated financial statements.

**PART I. FINANCIAL INFORMATION – (Continued)**

**ITEM 1. FINANCIAL STATEMENTS – (Continued)**

**EOG RESOURCES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(In Thousands, Except Share Data)*

	<b>September 30, 2003</b>	<b>December 31, 2002</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 184,489	\$ 9,848
Accounts Receivable, Net	274,834	259,308
Inventories	20,788	18,928
Assets from Price Risk Management Activities	7,769	-
Other	<u>70,096</u>	<u>106,708</u>
<b>TOTAL</b>	<b>557,976</b>	<b>394,792</b>
 <b>OIL AND GAS PROPERTIES (SUCCESSFUL EFFORTS METHOD)</b>	 7,495,980	 6,750,095
Less: Accumulated Depreciation, Depletion and Amortization	<u>(3,792,187)</u>	<u>(3,428,547)</u>
Net Oil and Gas Properties	3,703,793	3,321,548
<b>OTHER ASSETS</b>	<u>164,293</u>	<u>97,666</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 4,426,062</u></b>	<b><u>\$ 3,814,006</u></b>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 252,211	\$ 201,931
Accrued Taxes Payable	38,720	23,170
Dividends Payable	6,151	5,007
Liabilities from Price Risk Management Activities	2,031	5,939
Other	<u>54,815</u>	<u>40,304</u>
<b>TOTAL</b>	<b>353,928</b>	<b>276,351</b>
 <b>LONG-TERM DEBT</b>	 1,010,822	 1,145,132
<b>OTHER LIABILITIES</b>	163,855	59,180
<b>DEFERRED INCOME TAXES</b>	797,010	660,948
 <b>SHAREHOLDERS' EQUITY</b>		
Preferred Stock, \$.01 Par, 10,000,000 Shares Authorized:		
Series B, 100,000 Shares Issued, Cumulative, \$100,000,000 Liquidation Preference	98,530	98,352
Series D, 500 Shares Issued, Cumulative, \$50,000,000 Liquidation Preference	49,782	49,647
Common Stock, \$.01 Par, 320,000,000 Shares Authorized and 124,730,000 Shares Issued	201,247	201,247
Additional Paid In Capital	2,801	-
Unearned Compensation	(19,712)	(15,033)
Accumulated Other Comprehensive Income (Loss)	40,481	(49,877)
Retained Earnings	2,055,248	1,723,948
Common Stock Held in Treasury, 9,664,122 shares at September 30, 2003 and 10,009,740 shares at December 31, 2002	<u>(327,930)</u>	<u>(335,889)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>2,100,447</u></b>	<b><u>1,672,395</u></b>
 <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	 <b><u>\$ 4,426,062</u></b>	 <b><u>\$ 3,814,006</u></b>

The accompanying notes are an integral part of these consolidated financial statements.

**PART I. FINANCIAL INFORMATION – (Continued)**

**ITEM 1. FINANCIAL STATEMENTS – (Continued)**  
**EOG RESOURCES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(In Thousands)*  
*(Unaudited)*

	<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Reconciliation of Net Income to Net Operating Cash Inflows:</i>		
Net Income	\$ 355,635	\$ 42,754
Items Not Requiring Cash		
Depreciation, Depletion and Amortization	320,578	292,624
Impairments	63,548	34,548
Deferred Income Taxes	123,431	38,225
Cumulative Effect of Change in Accounting Principle	7,131	-
Other, Net	6,763	16,102
Exploration Costs	57,409	41,514
Dry Hole Costs	18,932	32,336
Mark-to-market Commodity Derivative Contracts		
Total Losses	37,346	41,451
Realized Losses	(47,700)	(11,741)
Collar Premium	(1,365)	-
Tax Benefits from Stock Options Exercised	7,025	4,216
Other, Net	2,894	(1,538)
Changes in Components of Working Capital and Other Liabilities		
Accounts Receivable	(15,905)	902
Inventories	(1,860)	768
Accounts Payable	50,028	(45,292)
Accrued Taxes Payable	46,854	(38,303)
Other Liabilities	1,783	(919)
Other, Net	3,989	(19,662)
Changes in Components of Working Capital Associated with Investing and Financing Activities	<u>(22,064)</u>	<u>35,046</u>
<b>NET OPERATING CASH INFLOWS</b>	1,014,452	463,031
<b>INVESTING CASH FLOWS</b>		
Additions to Oil and Gas Properties	(564,825)	(541,034)
Exploration Costs	(57,409)	(41,514)
Dry Hole Costs	(18,932)	(32,336)
Proceeds from Sales of Assets	12,361	6,334
Changes in Components of Working Capital Associated with Investing Activities	22,223	(35,590)
Other, Net	<u>(70,366)</u>	<u>(14,017)</u>
<b>NET INVESTING CASH OUTFLOWS</b>	(676,948)	(658,157)
<b>FINANCING CASH FLOWS</b>		
Long-Term Debt Borrowings (Repayments)	(134,310)	234,899
Dividends Paid	(22,878)	(21,878)
Treasury Stock Purchased	(21,295)	(24,288)
Proceeds from Stock Options Exercised	17,717	13,831
Other, Net	<u>(2,097)</u>	<u>(2,168)</u>
<b>NET FINANCING CASH INFLOWS (OUTFLOWS)</b>	<u>(162,863)</u>	<u>200,396</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	174,641	5,270
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	9,848	2,512
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u><u>\$ 184,489</u></u>	<u><u>\$ 7,782</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 1. FINANCIAL STATEMENTS (Continued)**

**EOG RESOURCES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

1. The consolidated financial statements of EOG Resources, Inc. and subsidiaries (EOG) included herein have been prepared by management without audit pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the financial results for the interim periods. Certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. However, management believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in EOG's Annual Report on Form 10-K for the year ended December 31, 2002 (EOG's 2002 Annual Report).

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain reclassifications have been made to prior period financial statements to conform with the current presentation.

As more fully discussed in Note 11 to the consolidated financial statements included in EOG's 2002 Annual Report, EOG engages in price risk management activities from time to time. Derivative financial instruments (primarily price swaps and collars) are utilized selectively to hedge the impact of market fluctuations on natural gas and crude oil prices. During the first nine months of 2003 and 2002, EOG elected not to designate any of its derivative financial transactions as accounting hedges, and accordingly, accounted for them using the mark-to-market accounting method. In addition to these financial transactions, EOG is party to various physical commodity contracts for the sale of hydrocarbons that cover varying periods of time and have varying pricing provisions. The financial impact of these various physical commodity contracts is included in revenues, which in turn affects average realized hydrocarbon prices.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143 - "Accounting for Asset Retirement Obligations" effective for fiscal years beginning after June 15, 2002. As more fully discussed in Note 1 to the consolidated financial statements included in EOG's 2002 Annual Report, SFAS No. 143 essentially requires entities to record the fair value of a liability for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. EOG adopted the statement on January 1, 2003. The impact of adopting the statement resulted in an after-tax charge of \$7.1 million (see Note 6).

In December 2002, the FASB issued SFAS No. 148 - "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123." This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation, along with the requirement of disclosure in both annual and interim financial statements about the method used and effect on reported results (see Note 8). Subsequently, at the April 22, 2003 FASB meeting, the FASB decided to require all companies to expense the value of employee stock options. Companies will be required to measure the cost according to the fair value of the options under a method yet to be determined. On October 1, 2003, the FASB set a goal of completing its deliberations and issuing a final statement in the second half of 2004. EOG continues to monitor the developments in this area as details of the implementation of the decision emerge.

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 1. FINANCIAL STATEMENTS (Continued)**

**EOG RESOURCES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

In January 2003, the FASB released its Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46). FIN 46 requires a company to consolidate a variable interest entity if the company has a variable interest (or combination of variable interests) that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. The new interpretation is effective immediately at the time of its release for variable interest entities created after January 31, 2003, and is effective in the first interim or annual period beginning after December 15, 2003, for variable interest entities in which a company holds a variable interest that it acquired before February 1, 2003. While EOG continues to evaluate the impact, if any, FIN 46 may have on its consolidated financial statements, it does not believe that it owns any interest in a variable interest entity.

In April 2003, the FASB issued SFAS No. 149 - "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies SFAS No. 133 as a result of various implementation issues and does not impact the accounting treatment of EOG's derivative financial instruments.

In May 2003, the FASB issued SFAS No. 150 - "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." Currently, EOG does not have any financial instruments in place which fall under the scope of this statement.

Recently, the SEC has made comments to other registrants that oil and gas mineral rights acquired should be classified as an intangible asset pursuant to SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." However, the SEC is not requiring all oil and gas producing companies to apply this classification or the disclosure requirements of intangible assets. Currently, EOG classifies the cost of oil and gas mineral rights as oil and gas properties and believes that this is consistent with oil and gas accounting and industry practice. The FASB has been asked to address this issue. If the SEC prevails on this issue, EOG would reclassify these costs from oil and gas properties to intangible assets on the balance sheet. There would be no effect on the statement of income or cash flows.

2. The following table sets forth the computation of net income per share available to common for the three-month and nine-month periods ended September 30, 2003 and 2002 (in thousands, except per share amounts):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Numerator for basic and diluted earnings per share -				
Net income available to common	<u>\$114,661</u>	<u>\$ 26,129</u>	<u>\$347,361</u>	<u>\$ 34,480</u>
Denominator for basic earnings per share -				
Weighted average shares	114,616	115,621	114,489	115,555
Potential dilutive common shares -				
Stock options	1,476	1,252	1,512	1,474
Restricted stock and units	<u>278</u>	<u>205</u>	<u>283</u>	<u>238</u>
Denominator for diluted earnings per share -				
Adjusted weighted average shares	<u>116,370</u>	<u>117,078</u>	<u>116,284</u>	<u>117,267</u>
Net income per share of common stock				
Basic	<u>\$ 1.00</u>	<u>\$ 0.23</u>	<u>\$ 3.03</u>	<u>\$ 0.30</u>
Diluted	<u>\$ 0.99</u>	<u>\$ 0.22</u>	<u>\$ 2.99</u>	<u>\$ 0.29</u>

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 1. FINANCIAL STATEMENTS (Continued)**  
**EOG RESOURCES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

3. The following table presents the components of EOG's comprehensive income for the three-month and nine-month periods ended September 30, 2003 and 2002 (in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Net Income	\$ 117,419	\$ 28,887	\$ 355,635	\$ 42,754
Other Comprehensive Income (Loss), net of tax				
Foreign Currency Translation Adjustments	2,935	(20,977)	90,358	2,542
Available-for-sale Security Transactions	-	-	-	926
<b>COMPREHENSIVE INCOME</b>	<b><u>\$ 120,354</u></b>	<b><u>\$ 7,910</u></b>	<b><u>\$ 445,993</u></b>	<b><u>\$ 46,222</u></b>

4. Selected financial information about operating segments is reported below for the three-month and nine-month periods ended September 30, 2003 and 2002 (in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
<b>NET OPERATING REVENUES</b>				
United States	\$ 363,783	\$ 219,275	\$ 1,050,805	\$ 588,088
Canada	69,660	37,626	223,265	113,064
Trinidad	25,268	22,966	74,036	55,418
Other	13	12	41	35
<b>TOTAL</b>	<b><u>\$ 458,724</u></b>	<b><u>\$ 279,879</u></b>	<b><u>\$ 1,348,147</u></b>	<b><u>\$ 756,605</u></b>
<b>OPERATING INCOME (LOSS)</b>				
United States	\$ 139,285	\$ 40,044	\$ 427,703	\$ 61,829
Canada	36,773	7,146	128,290	16,892
Trinidad	17,679	14,642	45,386	34,132
Other	(425)	(122)	(5,070)	(2,489)
<b>TOTAL</b>	<b><u>193,312</u></b>	<b><u>61,710</u></b>	<b><u>596,309</u></b>	<b><u>110,364</u></b>
<b>RECONCILING ITEMS</b>				
Other Income (Expense), Net	1,924	(74)	4,756	(2,800)
Interest Expense, Net	15,632	18,770	44,757	45,003
<b>INCOME BEFORE INCOME TAXES</b>	<b><u>\$ 179,604</u></b>	<b><u>\$ 42,866</u></b>	<b><u>\$ 556,308</u></b>	<b><u>\$ 62,561</u></b>

5. EOG and numerous other companies in the natural gas industry are named as defendants in various lawsuits alleging violations of the Civil False Claims Act. These lawsuits have been consolidated for pre-trial proceedings in the United States District Court for the District of Wyoming. The plaintiffs contend that defendants have underpaid royalties on natural gas and natural gas liquids produced on federal and Indian lands through the use of below-market prices, improper deductions, improper measurement techniques and transactions with affiliated companies. Plaintiffs allege that the royalties paid by defendants were lower than the royalties required to be paid under federal regulations and that the forms filed by defendants with the Minerals Management Service reporting these royalty payments were false, thereby violating the Civil False Claims Act. Based on EOG's present understanding of these cases, EOG believes that it has substantial defenses to these claims and intends to vigorously assert these defenses. However, if EOG is found to have violated the Civil False Claims Act, EOG could be subject to a variety of sanctions, including treble damages and substantial monetary fines.

## PART I. FINANCIAL INFORMATION (Continued)

### ITEM 1. FINANCIAL STATEMENTS (Continued)

#### EOG RESOURCES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

There are various other suits and claims against EOG that have arisen in the ordinary course of business. However, management does not believe these suits and claims will individually or in the aggregate have a material adverse effect on the financial condition or results of operations of EOG. EOG has been named as a potentially responsible party in certain Comprehensive Environmental Response, Compensation, and Liability Act proceedings. However, management does not believe that any potential assessments resulting from such proceedings will individually or in the aggregate have a material adverse effect on the financial condition or results of operations of EOG.

6. EOG adopted SFAS No. 143 – "Accounting for Asset Retirement Obligations" on January 1, 2003. The impact of adopting the statement resulted in an after-tax charge of \$7.1 million, which was reported in the first quarter of 2003 as cumulative effect of change in accounting principle. The following table presents the reconciliation of the beginning and ending aggregate carrying amount of short-term and long-term legal obligations associated with the retirement of oil and gas properties pursuant to SFAS No. 143 for the six-month period ended June 30, 2003 and for the three-month period ended September 30, 2003 (in thousands):

	<b>Asset Retirement Obligations</b>		
	<b>Short-Term</b>	<b>Long-Term</b>	<b>Total</b>
<b>Balance at December 31, 2002</b>	\$ -	\$ -	\$ -
Carrying Amount at Adoption	6,384	92,097	98,481
Liabilities Incurred	7	3,021	3,028
Liabilities Settled	(579)	(475)	(1,054)
Accretion	62	2,253	2,315
Foreign Currency Translation	88	1,416	1,504
Balance at June 30, 2003	5,962	98,312	104,274
Liabilities Incurred	-	1,348	1,348
Liabilities Settled	(8)	-	(8)
Accretion	30	1,197	1,227
Foreign Currency Translation	2	39	41
<b>Balance at September 30, 2003</b>	<b>\$ 5,986</b>	<b>\$ 100,896</b>	<b>\$ 106,882</b>

Pro forma net income and earnings per share are not presented for the comparable periods in 2002 because the pro forma application of SFAS No. 143 to the prior period would not result in pro forma net income and earnings per share materially different from the actual amounts reported for the period in the accompanying Consolidated Statements of Income.

7. EOG, through certain wholly owned subsidiaries, owns equity interests in two Trinidadian companies: Caribbean Nitrogen Company Limited ("CNCL") and Nitrogen (2000) Unlimited ("N2000"). During the first quarter of 2003, EOG completed separate share purchase agreements whereby a portion of the EOG subsidiaries' shareholdings in CNCL and N2000 was sold to a third party energy company. The sale left EOG with equity interests of approximately 12% in CNCL and 27% in N2000 and did not result in any gain or loss.
8. EOG has various stock plans ("the Plans") under which employees and non-employee members of the Board of Directors of EOG and its subsidiaries have been or may be granted certain equity compensation.

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 1. FINANCIAL STATEMENTS (Continued)**

**EOG RESOURCES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

*Stock Options.* EOG has in place compensatory stock option plans whereby participants have been or may be granted rights to purchase shares of common stock of EOG at a price not less than the market price of the stock as of the date of grant.

*Employee Stock Purchase Plan.* EOG has in place an employee stock purchase plan, pursuant to Section 423 of the Internal Revenue Code of 1986, as amended, whereby participants are granted rights to purchase shares of common stock of EOG at a price that is 15% less than the market price of the stock on either the first day or the last day of a six-month offering period, whichever is less.

*Restricted Stock and Units.* Under the Plans, employees may be granted restricted stock and/or units without cost to them. Related compensation expense for the three-month periods ended September 30, 2003 and 2002 was \$1.5 million and \$1.3 million, respectively. Related compensation expense for the nine-month periods ended September 30, 2003 and 2002 was \$4.1 million and \$3.6 million, respectively.

EOG's pro forma net income and net income per share of common stock for the three-month and nine-month periods ended September 30, 2003 and 2002, had compensation costs been recorded using the fair value method in accordance with SFAS No. 123 - "Accounting for Stock-Based Compensation," as amended by SFAS No. 148 - "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123," are presented below pursuant to the disclosure requirement of SFAS No. 148 (in thousands, except per share data):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Net Income Available to Common - As Reported	\$114,661	\$ 26,129	\$347,361	\$ 34,480
Deduct: Total Stock-Based Employee Compensation Expense	<u>(5,491)</u>	<u>(5,110)</u>	<u>(11,138)</u>	<u>(11,365)</u>
Net Income Available to Common - Pro Forma	<u>\$109,170</u>	<u>\$ 21,019</u>	<u>\$336,223</u>	<u>\$ 23,115</u>
<b>Net Income per Share Available to Common</b>				
Basic - As Reported	<u>\$ 1.00</u>	<u>\$ 0.23</u>	<u>\$ 3.03</u>	<u>\$ 0.30</u>
Basic - Pro Forma	<u>\$ 0.95</u>	<u>\$ 0.18</u>	<u>\$ 2.94</u>	<u>\$ 0.20</u>
 Diluted - As Reported	<u>\$ 0.99</u>	<u>\$ 0.22</u>	<u>\$ 2.99</u>	<u>\$ 0.29</u>
Diluted - Pro Forma	<u>\$ 0.94</u>	<u>\$ 0.18</u>	<u>\$ 2.89</u>	<u>\$ 0.20</u>

The effects of applying SFAS No. 123, as amended, should not be interpreted as being indicative of future effects. The statement does not apply to awards prior to 1995, and the extent and timing of additional future awards cannot be predicted.

- On July 23, 2003, EOG entered into a new three-year credit facility with domestic and foreign lenders which provides for \$600 million in long-term committed credit, and concurrently cancelled the existing \$300 million 364-day credit facility and \$300 million five-year credit facility scheduled to expire in July 2003 and July 2004, respectively. Advances under the new agreement bear interest, at the option of EOG, based upon a base rate or a Eurodollar rate. The new credit facility also provides for the allocation, at the option of EOG, of up to \$75 million of the \$600 million to its Canadian subsidiary. Advances to the Canadian subsidiary, should they occur, would be guaranteed by EOG and would bear interest at the option of the Canadian subsidiary based upon a Canadian prime rate or a Canadian banker's acceptance rate. EOG also has the option to issue up to \$100 million in letters of credit as part of this new credit facility.

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 1. FINANCIAL STATEMENTS (Concluded)**

**EOG RESOURCES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

10. On October 1, 2003, a Canadian subsidiary of EOG closed the previously announced asset purchase of natural gas properties in the Wintering Hills, Drumheller East and Twining areas of southeast Alberta from a subsidiary of Husky Energy Inc. (Husky) for US \$320 million. These properties are essentially adjacent to existing EOG operations or are properties in which EOG already has a working interest. The transaction value, reserves and working interest in the properties are subject to adjustment if preferential rights on the properties are exercised. The transaction was partially funded by commercial paper borrowings of US \$140.5 million on October 1, 2003. The remainder of the purchase price, US \$179.5 million, was funded by EOG's available cash balance, of which US \$64 million was paid to Husky during the third quarter of 2003 as a deposit, as included under Other Assets in the Consolidated Balance Sheets.

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
EOG RESOURCES, INC.**

The following review of operations for the three-month periods ended September 30, 2003 and 2002 should be read in conjunction with the consolidated financial statements of EOG Resources, Inc. and subsidiaries (EOG) and Notes thereto.

**Results of Operations**

*Three Months Ended September 30, 2003 vs. Three Months Ended September 30, 2002*

**Net Operating Revenues.** During the third quarter of 2003, net operating revenues increased \$179 million to \$459 million. Total wellhead revenues of \$432 million increased by \$164 million, or 61%, as compared to a year ago. Wellhead volume and price statistics for the specified quarters were as follows:

	<b>Three Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>
<b><i>Natural Gas Volumes (MMcf per day)<sup>(1)</sup></i></b>		
United States	644	630
Canada	<u>152</u>	<u>152</u>
North America	796	782
Trinidad	<u>155</u>	<u>164</u>
<b><i>TOTAL</i></b>	<b><u>951</u></b>	<b><u>946</u></b>
<b><i>Average Natural Gas Prices (\$/Mcf)<sup>(2)</sup></i></b>		
United States	\$ 4.78	\$ 2.75
Canada	4.47	2.17
North America Composite	4.72	2.63
Trinidad	1.34	1.09
<b><i>COMPOSITE</i></b>	<b>4.17</b>	<b>2.37</b>
<b><i>Crude Oil/Condensate Volumes (MBbl per day)<sup>(1)</sup></i></b>		
United States	18.0	18.1
Canada	<u>2.3</u>	<u>2.2</u>
North America	20.3	20.3
Trinidad	<u>2.5</u>	<u>2.9</u>
<b><i>TOTAL</i></b>	<b><u>22.8</u></b>	<b><u>23.2</u></b>
<b><i>Average Crude Oil/Condensate Prices (\$/Bbl)<sup>(2)</sup></i></b>		
United States	\$ 29.43	\$ 27.50
Canada	28.11	25.83
North America Composite	29.28	27.33
Trinidad	26.80	24.22
<b><i>COMPOSITE</i></b>	<b>29.01</b>	<b>26.93</b>
<b><i>Natural Gas Liquids Volumes (MBbl per day)<sup>(1)</sup></i></b>		
United States	2.9	2.7
Canada	<u>0.8</u>	<u>0.7</u>
<b><i>TOTAL</i></b>	<b><u>3.7</u></b>	<b><u>3.4</u></b>
<b><i>Average Natural Gas Liquids Prices (\$/Bbl)<sup>(2)</sup></i></b>		
United States	\$ 20.53	\$ 15.92
Canada	18.23	11.23
<b><i>COMPOSITE</i></b>	<b>20.06</b>	<b>14.96</b>
<b><i>Natural Gas Equivalent Volumes (MMcfe per day)<sup>(3)</sup></i></b>		
United States	770	755
Canada	<u>170</u>	<u>169</u>
North America	940	924
Trinidad	<u>170</u>	<u>181</u>
<b><i>TOTAL</i></b>	<b><u>1,110</u></b>	<b><u>1,105</u></b>
<b><i>Total Bcfe<sup>(3)</sup> Deliveries</i></b>	<b>102</b>	<b>102</b>

(1) Million cubic feet per day or thousand barrels per day, as applicable.

(2) Dollars per thousand cubic feet or per barrel, as applicable.

(3) Million cubic feet equivalent per day or billion cubic feet equivalent, as applicable.

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)  
EOG RESOURCES, INC.**

Wellhead natural gas revenues for the third quarter of 2003 increased approximately \$158 million, or 77%, primarily due to an increase in average wellhead natural gas prices. The average wellhead price for natural gas increased 76% to \$4.17 per Mcf for the third quarter of 2003 from \$2.37 per Mcf for the same quarter of 2002.

Natural gas deliveries were 5 MMcf per day higher for the third quarter of 2003 as compared to a year ago. Natural gas deliveries increased 14 MMcf per day, or 2%, in the United States due to higher production. Natural gas deliveries decreased 9 MMcf per day in Trinidad due to lower production as a result of downtime in the third quarter of 2003 related to pipeline maintenance (3 MMcf per day) and a favorable adjustment in the third quarter of 2002 related to the commencement of production from the U(a) Block (6 MMcf per day).

Wellhead crude oil and condensate revenues for the third quarter of 2003 increased approximately \$3 million, or 6% as compared to the prior year period, primarily due to an increase in the average wellhead crude oil and condensate prices, partially offset by lower crude oil and condensate deliveries. The average wellhead price for crude oil and condensate increased 8% to \$29.01 per barrel from \$26.93 per barrel for the same quarter of 2002.

Crude oil and condensate deliveries for the third quarter of 2003 were 0.4 MBbl per day, or 2%, lower as compared to the prior year period.

Natural gas liquids revenues were approximately \$2 million higher than a year ago primarily due to a 34% increase in prices and a 9% increase in deliveries.

Other marketing activities associated with sales and purchases of natural gas increased net operating revenues by \$0.6 million for the third quarter of 2003 compared to an increase of \$18.0 million in the third quarter of 2002.

During the third quarter of 2003, EOG recognized a gain from mark-to-market financial commodity price swap and collar contracts of \$23.6 million compared to a loss of \$7.8 million for the prior year period. During the third quarter of 2003, net cash outflows related to settled natural gas and crude oil financial price swap contracts, settled natural gas financial collar contracts and premium payments associated with certain 2004 natural gas financial collar contracts were \$10.0 million compared to a net cash outflow of \$2.9 million for the period in 2002.

**Operating Expenses.** For the third quarter of 2003, operating expenses of \$265 million were approximately \$47 million higher than the third quarter of 2002.

Impairments increased \$14 million to \$26 million in the third quarter of 2003 compared to a year ago due to higher amortization of unproved leases and impairments to the carrying value of certain long-lived assets as a result of downward revisions in the future cash flow analysis for certain properties. For the three-month periods ended September 30, 2003 and 2002, total impairments under SFAS No. 144 – "Accounting for the Impairment or Disposal of Long-Lived Assets" were \$8 million and \$4 million, respectively.

Depreciation, depletion and amortization ("DD&A") expenses of \$110 million increased \$10 million from the prior year period due primarily to increased DD&A expenses related to more relative production from higher cost properties in the United States (\$5 million), increased production in the United States (\$2 million) and changes in the Canadian exchange rate (\$2 million). Also, included in the DD&A expenses for the third quarter 2003 was \$1 million of accretion expense related to SFAS No. 143 - "Accounting for Asset Retirement Obligations."

Lease and well expenses of \$54 million were \$9 million higher than the period a year ago due primarily to a general increase in service costs related to expanded activities in the United States (\$5 million), increased lease and well administrative expenses (\$2 million) and changes in the Canadian exchange rate (\$1 million).

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)  
EOG RESOURCES, INC.**

General and administrative ("G&A") expenses of \$26 million were \$5 million higher than the period a year ago due primarily to expanded operations (\$3 million) and increased insurance expense (\$1 million).

Exploration costs of \$18 million were \$5 million higher than a year ago due primarily to increased geological and geoscience expenditures in the United States (\$4 million) and increased technical staff costs across EOG (\$1 million).

Taxes other than income of \$21 million were \$4 million higher than the prior year period primarily due to an increase of \$8 million as a result of increased wellhead revenue as previously discussed, partially offset by a \$4 million credit from severance tax adjustments resulting from the qualification of additional wells for a Texas high cost gas severance tax exemption.

**Interest Expense, Net.** For the third quarter of 2003, net interest expense of \$16 million decreased approximately \$3 million, or 17%, compared to the third quarter of 2002. This decrease is due primarily to the \$5 million one-time close-out fees recorded in the third quarter of 2002 associated with the completion of the Section 29 (Tight Gas Sands Federal Income Tax Credits) financing.

**Per-Unit Costs.** The following table presents the costs per Mcfe for the three-month periods ended September 30, 2003 and 2002.

<b>Three Months Ended September 30,</b>		
	<b>2003</b>	<b>2002</b>
Lease and Well	\$ 0.53	\$ 0.45
DD&A	1.08	0.99
G&A	0.26	0.21
Taxes Other than Income	0.21	0.17
Interest Expense, Net	0.15	0.18
<b><i>Total Per-Unit Costs</i></b>	<b><u>\$ 2.23</u></b>	<b><u>\$ 2.00</u></b>

The higher per-unit rates of lease and well, DD&A, G&A and taxes other than income and the lower per-unit rate of net interest expense for the three-month period ended September 30, 2003 compared to the same period in 2002 were due primarily to the reasons set forth above.

**Income Tax Provision.** For the third quarter of 2003, income tax provision of \$62 million increased \$48 million as compared to the third quarter of 2002 due to increases in both pre-tax income and effective tax rate. The increase in the effective tax rate for the third quarter of 2003 to 35% from 33% for the same period in 2002 was due primarily to the expiration of the Section 29 Credit provision in the Internal Revenue Code as of December 31, 2002.

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)  
EOG RESOURCES, INC.**

**Results of Operations**

*Nine Months Ended September 30, 2003 vs. Nine Months Ended September 30, 2002*

**Net Operating Revenues.** During the first nine months of 2003, net operating revenue increased \$592 million to \$1,348 million. Total wellhead revenues increased 79% to \$1,380 million in the first nine months of 2003 from \$769 million in the first nine months of 2002. Wellhead volume and price statistics for the specified periods were as follows:

	<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>
<hr/>		
<b><i>Natural Gas Volumes (MMcf per day)</i></b>		
United States	641	631
Canada	154	152
North America	795	783
Trinidad	152	128
<b><i>TOTAL</i></b>	<b><u>947</u></b>	<b><u>911</u></b>
<b><i>Average Natural Gas Prices (\$/Mcf)</i></b>		
United States	\$ 5.25	\$ 2.68
Canada	4.80	2.41
North America Composite	5.16	2.63
Trinidad	1.33	1.19
<b><i>COMPOSITE</i></b>	<b><u>4.54</u></b>	<b><u>2.43</u></b>
<b><i>Crude Oil/Condensate Volumes (MBbl per day)</i></b>		
United States	17.9	19.1
Canada	2.2	2.0
North America	20.1	21.1
Trinidad	2.4	2.2
<b><i>TOTAL</i></b>	<b><u>22.5</u></b>	<b><u>23.3</u></b>
<b><i>Average Crude Oil/Condensate Prices (\$/Bbl)</i></b>		
United States	\$ 30.22	\$ 24.05
Canada	28.86	23.19
North America Composite	30.07	23.97
Trinidad	28.75	22.47
<b><i>COMPOSITE</i></b>	<b><u>29.93</u></b>	<b><u>23.82</u></b>
<b><i>Natural Gas Liquids Volumes (MBbl per day)</i></b>		
United States	3.0	3.1
Canada	0.6	0.8
<b><i>TOTAL</i></b>	<b><u>3.6</u></b>	<b><u>3.9</u></b>
<b><i>Average Natural Gas Liquids Prices (\$/Bbl)</i></b>		
United States	\$ 21.16	\$ 13.72
Canada	18.80	10.05
<b><i>COMPOSITE</i></b>	<b><u>20.76</u></b>	<b><u>13.03</u></b>
<b><i>Natural Gas Equivalent Volumes (MMcfe per day)</i></b>		
United States	766	765
Canada	172	168
North America	938	933
Trinidad	166	141
<b><i>TOTAL</i></b>	<b><u>1,104</u></b>	<b><u>1,074</u></b>
<b><i>Total Bcfe Deliveries</i></b>	<b><u>302</u></b>	<b><u>293</u></b>
<hr/>		

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)  
EOG RESOURCES, INC.**

Wellhead natural gas revenues increased approximately \$571 million, or 95%, due to increases in average wellhead natural gas prices and natural gas deliveries. The average wellhead price for natural gas increased 87% to \$4.54 per Mcf for the first nine months of 2003 from \$2.43 per Mcf for the same period a year ago.

Natural gas deliveries increased 4% to 947 MMcf per day for the first nine months of 2003 from 911 MMcf per day a year ago. The increase in natural gas deliveries was primarily due to the additional production of 23 MMcf per day from the U(a) Block in Trinidad where production commenced May 2002, and to increased production in North America. The increase in North America was due to increased production of 10 MMcf per day, or 2%, in the United States and 2 MMcf per day, or 1%, in Canada.

Wellhead crude oil and condensate revenues for the first nine months of 2003 increased approximately \$32 million, or 21%, as compared to the prior year period, primarily due to an increase in the average wellhead crude oil and condensate prices, partially offset by lower crude oil and condensate deliveries. The average wellhead price for crude oil and condensate increased 26% to \$29.93 per barrel from \$23.82 per barrel for the period a year ago.

Crude oil and condensate deliveries decreased 3% to 22.5 MBbl per day for the first nine months of 2003 from 23.3 MBbl per day a year ago.

Natural gas liquids revenues were approximately \$7 million higher than a year ago primarily due to a 59% increase in prices, partially offset by an 8% decrease in deliveries.

Other marketing activities associated with sales and purchases of natural gas increased net operating revenues by \$1.5 million for the first nine months of 2003 compared to an increase of \$28.0 million for the same period in 2002.

During the first nine months of 2003, EOG recognized a loss from mark-to-market financial commodity price swap and collar contracts of \$37.3 million compared to a loss of \$41.5 million for the prior year period. During the same period of 2003, net cash outflows related to settled natural gas and crude oil financial price swap contracts, settled natural gas financial collar contracts and premium payments associated with certain 2004 natural gas financial collar contracts were \$49.1 million compared to a net cash outflow of \$11.7 million for the comparable period in 2002.

**Operating Expenses.** For the first nine months of 2003, operating expenses of \$752 million were approximately \$106 million higher than the first nine months of 2002.

Impairments increased \$29 million to \$64 million in the first nine months of 2003 compared to a year ago due to higher amortization of unproved leases and impairments to the carrying value of certain long-lived assets as a result of downward revisions in the future cash flow analysis for certain properties. For the nine-month periods ended September 30, 2003 and 2002, total impairments under SFAS No. 144 – "Accounting for the Impairment or Disposal of Long-Lived Assets" were \$16 million and \$9 million, respectively.

DD&A expenses of \$321 million increased \$28 million from the prior year period due primarily to more relative production from higher cost properties in the United States (\$15 million) and Canada (\$4 million), increased production in Trinidad (\$2 million) and changes in the Canadian exchange rate (\$2 million). Also, included in the DD&A expenses for the first nine months of 2003 was \$4 million of accretion expense related to SFAS No. 143 - "Accounting for Asset Retirement Obligations."

Lease and well expenses of \$156 million were \$26 million higher than the period a year ago due primarily to general increases in service costs related to expanded activities in the United States (\$11 million), Canada (\$6 million) and Trinidad (\$1 million), lease and well administrative expenses (\$7 million) and changes in the Canadian exchange rate (\$1 million).

Exploration costs of \$57 million were \$16 million higher than a year ago due primarily to increased geological and geoscience expenditures in the United States (\$7 million), increased technical staff costs across EOG (\$7 million) and certain seismic projects in Trinidad (\$3 million).

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)  
EOG RESOURCES, INC.**

Taxes other than income of \$63 million were \$12 million higher than the prior year period primarily due an increase of \$34 million as a result of increased wellhead revenue as previously discussed, partially offset by a \$22 million credit from severance tax adjustments resulting from the qualification of additional wells for a Texas high cost gas severance tax exemption.

G&A expenses of \$72 million were \$7 million higher than a year ago due primarily to expanded operations (\$5 million) and increased insurance expense (\$4 million).

**Per-Unit Costs.** The following table presents the costs per Mcfe for the nine-month periods ended September 30, 2003 and 2002.

<b>Nine Months Ended September 30,</b>		
	<b>2003</b>	<b>2002</b>
Lease and Well	\$ 0.52	\$ 0.44
DD&A	1.06	1.00
G&A	0.24	0.22
Taxes Other than Income	0.21	0.17
Interest Expense, Net	0.15	0.15
<b><i>Total Per-Unit Costs</i></b>	<b><u>\$ 2.18</u></b>	<b><u>\$ 1.98</u></b>

The higher per-unit rates of lease and well, DD&A, G&A and taxes other than income for the nine-month period ended September 30, 2003 compared to the same period in 2002 were due primarily to the reasons set forth above.

**Income Tax Provision.** For the first nine months of 2003, income tax provision of \$194 million increased \$174 million as compared to the first nine months of 2002 due to increases in both pre-tax income and effective tax rate. The increase in the effective tax rate for the first nine months of 2003 to 35% from 32% for the same period of 2002 was due primarily to the expiration of the Section 29 Credit provision in the Internal Revenue Code as of December 31, 2002 and increases in the overall foreign effective tax rate.

**Capital Resources and Liquidity**

EOG's primary sources of cash during the nine months ended September 30, 2003 included funds generated from operations, proceeds from sales of partial interests in certain equity investments and proceeds from stock options exercised. Primary cash outflows included funds used in operations, exploration and development expenditures, property acquisitions, repayment of debt, common stock repurchases and dividends.

Net operating cash inflows of \$1,014 million for the first nine months of 2003 increased approximately \$551 million as compared to the first nine months of 2002 primarily reflecting higher wellhead revenues (\$611 million) and favorable changes in working capital (\$130 million), partially offset by higher cash operating expenses (\$134 million) and lower income from other marketing activities (\$26 million).

Net investing cash outflows of approximately \$677 million for the first nine months of 2003 increased by \$19 million versus the prior year period due primarily to a \$64 million deposit made in connection with the Canadian acquisition (see below) and increased exploration and development expenditures of \$26 million, partially offset by favorable changes in working capital of \$58 million related to investing activities. Changes in Components of Working Capital Associated with Investing Activities included changes in accounts payable associated with the accrual of exploration and development expenditures and changes in inventories which represent materials and equipment used in drilling and related activities.

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)  
EOG RESOURCES, INC.**

Exploration and development expenditures for the first nine months of 2003 and 2002 were as follows (in millions):

	<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>
United States	\$ 490	\$ 433
Canada	<u>116</u>	<u>149</u>
North America	606	582
Trinidad	17	33
United Kingdom	14	-
Other	<u>4</u>	<u>-</u>
Subtotal	641	615
Deferred Income Tax Gross Up	<u>-</u>	<u>12</u>
<b>TOTAL</b>	<b><u>\$ 641</u></b>	<b><u>\$ 627</u></b>

Total exploration and development expenditures of \$641 million for the first nine months of 2003 were \$14 million higher than the prior year period due primarily to increased United States development and exploratory activities, partially offset by decreases in Trinidad and lower property acquisitions in Canada during the first nine months of 2003. Included in the 2003 expenditures are \$445 million in development, \$169 million for exploration, \$21 million in property acquisitions and \$6 million in capitalized interest.

On October 1, 2003, a Canadian subsidiary of EOG closed the previously announced asset purchase of natural gas properties in the Wintering Hills, Drumheller East and Twining areas of southeast Alberta from a subsidiary of Husky Energy Inc. (Husky) for US \$320 million. These properties are essentially adjacent to existing EOG operations or are properties in which EOG already has a working interest. The transaction value, reserves and working interest in the properties are subject to adjustment if preferential rights on the properties are exercised. The transaction was partially funded by commercial paper borrowings of US \$140.5 million on October 1, 2003. The remainder of the purchase price, US \$179.5 million, was funded by EOG's available cash balance, of which US \$64 million was paid to Husky during the third quarter of 2003 as a deposit.

The level of exploration and development expenditures varies depending on energy market conditions and other related economic factors. EOG has significant flexibility with respect to financing alternatives and the ability to adjust its exploration and development expenditure budget as circumstances warrant. There are no material continuing commitments associated with expenditure plans.

Cash used by financing activities was \$163 million for the first nine months of 2003 versus cash provided of \$200 million for the prior year period. Financing activities for 2003 included the repayment of the outstanding balances of commercial paper borrowings and the uncommitted line of credit of \$120 million and \$14 million, respectively, repurchases of EOG's common stock of \$21 million, cash dividend payments of \$23 million and proceeds of \$17 million from sales of treasury stock attributable to employee stock option exercises and the employee stock purchase plan.

Based upon existing economic and market conditions, management believes net operating cash flow and available financing alternatives will be sufficient to fund net investing and other cash requirements of EOG for the foreseeable future.

As more fully discussed in Note 11 to the consolidated financial statements included in EOG's 2002 Annual Report, EOG engages in price risk management activities from time to time. Derivative financial instruments (primarily price swaps and collars) are utilized selectively to hedge the impact of market fluctuations on natural gas and crude oil prices. During the first nine months of 2003 and 2002, EOG elected not to designate any of its price risk management activities as accounting hedges, and accordingly, accounted for them using the mark-to-market accounting method.

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)  
EOG RESOURCES, INC.**

Presented below is a summary of EOG's outstanding natural gas financial collar contracts and natural gas and crude oil financial price swap contracts as of September 30, 2003 with volumes expressed in either million British thermal units per day (MMBtud) or barrels per day (Bbld) and prices in either dollars per million British thermal unit (\$/MMBtu) or dollars per barrel (\$/Bbl):

	Natural Gas Financial Collar Contracts <sup>(1)</sup>					Financial Price Swap Contracts <sup>(1)</sup>			
	Floor Price		Ceiling Price			Natural Gas		Crude Oil	
	Volume	Floor Range	Weighted Average	Ceiling Range	Weighted Average	Net Volume	Weighted Average	Volume	Weighted Average
	(MMBtud)	(\$/MMBtu)	(\$/MMBtu)	(\$/MMBtu)	(\$/MMBtu)	(MMBtud)	(\$/MMBtu)	(Bbld)	(\$/Bbl)
<u>2003</u> <sup>(2)</sup>									
Oct <sup>(3)</sup>	125,000	\$3.60 - 3.90	\$3.75	\$4.73 - 5.90	\$5.27	205,000	\$4.70	5,000	\$24.90
Nov <sup>(3)</sup>	255,000	3.77 - 5.07	4.38	4.90 - 6.04	5.42	40,000	4.97	5,000	24.70
Dec	255,000	3.92 - 5.27	4.57	5.05 - 6.18	5.61	40,000	5.19	5,000	24.47
<u>2004</u>									
Jan <sup>(4)</sup>	180,000	\$5.06 - 5.39	\$5.22	\$5.86 - 6.43	\$6.18	30,000	\$5.57	--	--
Feb <sup>(4)</sup>	180,000	5.02 - 5.32	5.16	5.82 - 6.37	6.13	30,000	5.50	--	--
Mar <sup>(4)</sup>	180,000	4.93 - 5.19	5.05	5.73 - 6.27	6.03	30,000	5.37	--	--
Apr	225,000	4.47 - 4.71	4.58	4.93 - 5.30	5.12	30,000	4.89	--	--
May	225,000	4.47 - 4.75	4.57	4.93 - 5.17	5.05	30,000	4.80	--	--
Jun	225,000	4.47 - 4.75	4.57	4.93 - 5.17	5.05	30,000	4.80	--	--
Jul	225,000	4.47 - 4.75	4.57	4.93 - 5.17	5.05	30,000	4.80	--	--
Aug	225,000	4.47 - 4.75	4.58	4.93 - 5.17	5.05	30,000	4.80	--	--
Sep	225,000	4.47 - 4.75	4.57	4.93 - 5.17	5.05	30,000	4.78	--	--
Oct	225,000	4.47 - 4.75	4.58	4.93 - 5.17	5.05	30,000	4.80	--	--

- (1) At September 30, 2003, the fair value of the natural gas financial collar contracts, natural gas financial price swap contracts, and crude oil financial price swap contracts was \$5 million, \$3 million and negative \$2 million, respectively.
- (2) 50,000 MMBtud of each of the 2003 monthly contract volumes were purchased at a premium of \$0.10 per MMBtu.
- (3) October 2003 and November 2003 natural gas financial collar contracts and natural gas financial price swap contracts are closed. October 2003 crude oil financial price swap contracts are closed.
- (4) The collar contracts for January 2004 to March 2004 were purchased at a premium of \$0.10 per MMBtu.

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)  
EOG RESOURCES, INC.**

Subsequent to September 30, 2003, EOG has entered into additional natural gas financial collar contracts and crude oil financial price swap contracts. Presented below is a summary of EOG's outstanding natural gas financial collar contracts and natural gas and crude oil financial price swap contracts as of November 6, 2003:

	Natural Gas Financial Collar Contracts					Financial Price Swap Contracts			
	Floor Price		Ceiling Price			Natural Gas		Crude Oil	
	Volume	Floor	Weighted	Ceiling	Weighted	Net	Weighted	Volume	Weighted
	(MMBtud)	Range	Average	Range	Average	Volume	Average	(Bbld)	Average
		(\$/MMBtu)	(\$/MMBtu)	(\$/MMBtu)	(\$/MMBtu)	(MMBtud)	(\$/MMBtu)		(\$/Bbl)
<u>2003</u> <sup>(1)</sup>									
Oct <sup>(2)</sup>	125,000	\$3.60 - 3.90	\$3.75	\$4.73 - 5.90	\$5.27	205,000	\$4.70	5,000	\$24.90
Nov <sup>(2)</sup>	255,000	3.77 - 5.07	4.38	4.90 - 6.04	5.42	40,000	4.97	5,000	24.70
Dec	255,000	3.92 - 5.27	4.57	5.05 - 6.18	5.61	40,000	5.19	5,000	24.47
<u>2004</u>									
Jan <sup>(3)</sup>	330,000	\$5.06 - 5.88	\$5.38	\$5.86 - 6.69	\$6.29	30,000	\$5.57	2,000	\$29.80
Feb <sup>(3)</sup>	330,000	5.02 - 5.78	5.31	5.82 - 6.62	6.24	30,000	5.50	2,000	29.37
Mar <sup>(3)</sup>	330,000	4.93 - 5.53	5.16	5.73 - 6.40	6.10	30,000	5.37	2,000	28.87
Apr	375,000	4.47 - 4.71	4.59	4.93 - 5.30	5.13	30,000	4.89	2,000	28.42
May	375,000	4.47 - 4.75	4.58	4.93 - 5.19	5.09	30,000	4.80	2,000	28.05
Jun	375,000	4.47 - 4.75	4.58	4.93 - 5.19	5.09	30,000	4.80	2,000	27.70
Jul	375,000	4.47 - 4.75	4.58	4.93 - 5.19	5.09	30,000	4.80	1,000	26.86
Aug	375,000	4.47 - 4.75	4.58	4.93 - 5.19	5.09	30,000	4.80	--	--
Sept	375,000	4.47 - 4.75	4.58	4.93 - 5.19	5.09	30,000	4.78	--	--
Oct	375,000	4.47 - 4.75	4.58	4.93 - 5.19	5.09	30,000	4.80	--	--

- (1) 50,000 MMBtud of each of the 2003 monthly contract volumes were purchased at a premium of \$0.10 per MMBtu.  
(2) October 2003 and November 2003 natural gas financial collar contracts and natural gas financial price swap contracts are closed. October 2003 crude oil financial price swap contracts are closed.  
(3) The collar contracts for January 2004 to March 2004 were purchased at a premium of \$0.10 per MMBtu.

**PART I. FINANCIAL INFORMATION (Continued)**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Concluded)  
EOG RESOURCES, INC.**

**Information Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts, including, among others, statements regarding EOG's future financial position, business strategy, budgets, reserve information, projected levels of production, projected costs and plans and objectives of management for future operations, are forward-looking statements. EOG typically uses words such as "expect," "anticipate," "estimate," "strategy," "intend," "plan," "target" and "believe" or the negative of those terms or other variations of them or by comparable terminology to identify its forward-looking statements. In particular, statements, express or implied, concerning future operating results, the ability to replace or increase reserves or to increase production, or the ability to generate income or cash flows are forward-looking statements. Forward-looking statements are not guarantees of performance. Although EOG believes its expectations reflected in forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations will be achieved. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include, among others: the timing and extent of changes in commodity prices for crude oil, natural gas and related products, foreign currency exchange rates and interest rates; the timing and impact of liquefied natural gas imports; the extent and effect of any hedging activities engaged in by EOG; the extent of EOG's success in discovering, developing, marketing and producing reserves and in acquiring oil and gas properties; the accuracy of reserve estimates, which by their nature involve the exercise of professional judgment and may therefore be imprecise; political developments around the world, including terrorist activities and responses to such activities; acts of war; and financial market conditions. In light of these risks, uncertainties and assumptions, the events anticipated by EOG's forward-looking statements might not occur. EOG undertakes no obligations to update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

**PART I. FINANCIAL INFORMATION (Concluded)**

**ITEM 4. CONTROLS AND PROCEDURES  
EOG RESOURCES, INC.**

Based on an evaluation of EOG's disclosure controls and procedures conducted as of September 30, 2003, the Chairman of the Board and Chief Executive Officer, Mark G. Papa, and the President and Chief of Staff, and Principal Financial Officer, Edmund P. Segner, III, have concluded that EOG's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934) are effective. There were no significant changes in EOG's internal controls or in other factors known to EOG that could significantly affect those controls subsequent to the date of the evaluation thereof.

## **PART II. OTHER INFORMATION**

### **EOG RESOURCES, INC.**

#### **ITEM 1. Legal Proceedings**

See Part 1, Item 1, Note 5 to Consolidated Financial Statements, which is incorporated herein by reference.

#### **ITEM 6. Exhibits and Current Reports on Form 8-K**

##### **(a) Exhibits**

Exhibit 31.1 - Section 302 Certification of Periodic Report of Chief Executive Officer.

Exhibit 31.2 - Section 302 Certification of Periodic Report of Principal Financial Officer.

Exhibit 32.1 - Section 906 Certification of Periodic Report of Chief Executive Officer.

Exhibit 32.2 - Section 906 Certification of Periodic Report of Principal Financial Officer.

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

During the third quarter of 2003, EOG filed the following Current Reports on Form 8-K:

- On July 1, 2003, to provide updated summaries of natural gas and crude oil financial price swap and natural gas financial collar contracts for the last nine months of 2003 and to report anticipated results of the price risk management activities for the second quarter of 2003 in Item 9 - Regulation FD Disclosure.
- On July 28, 2003, to report temporary suspension of trading under registrant's employee benefit plans in Item 7(c) – Exhibits and Item 11 – Temporary Suspension of Trading Under Registrant's Employee Benefit Plans.
- On August 5, 2003, to provide estimates for the third quarter and full year 2003 and updated summaries of natural gas and crude oil financial price swap and natural gas financial collar contracts for the second half of 2003 in Item 9 - Regulation FD Disclosure.
- On August 6, 2003 to furnish the press release issued on August 5, 2003 for the second quarter 2003 financial and operational results in Item 7 – Financial Statements and Exhibits and Item 12 – Results of Operations and Financial Condition.
- On September 10, 2003, to provide updated summaries of natural gas and crude oil financial price swap and natural gas financial collar contracts for 2003 second half and 2004 in Item 9 - Regulation FD Disclosure.

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EOG RESOURCES, INC.  
(Registrant)

Date: November 6, 2003

By /s/ TIMOTHY K. DRIGGERS  
Timothy K. Driggers  
Vice President and Chief  
Accounting Officer  
(Principal Accounting Officer)

## EXHIBIT INDEX

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
*31.1	-- Section 302 Certification of Periodic Report of Chief Executive Officer
*31.2	-- Section 302 Certification of Periodic Report of Principal Financial Officer
*32.1	-- Section 906 Certification of Periodic Report of Chief Executive Officer
*32.2	-- Section 906 Certification of Periodic Report of Principal Financial Officer

\*Exhibits filed herewith

## CERTIFICATIONS

I, Mark G. Papa, the Principal Executive Officer of EOG Resources, Inc., a Delaware corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of EOG Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2003

/s/ MARK G. PAPA

Mark G. Papa  
Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATIONS

I, Edmund P. Segner, III, the Principal Financial Officer of EOG Resources, Inc., a Delaware corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of EOG Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2003

/s/ EDMUND P. SEGNER, III

Edmund P. Segner, III  
President and Chief of Staff  
(Principal Financial Officer)

**CERTIFICATION OF PERIODIC REPORT**

I, Mark G. Papa, Chairman of the Board and Chief Executive Officer of EOG Resources, Inc., a Delaware Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: November 6, 2003

/s/ MARK G. PAPA  
Mark G. Papa  
Chairman of the Board and  
Chief Executive Officer

**CERTIFICATION OF PERIODIC REPORT**

I, Edmund P. Segner, III, President and Chief of Staff, and Principal Financial Officer of EOG Resources, Inc., a Delaware Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: November 6, 2003

/s/ EDMUND P. SEGNER, III

Edmund P. Segner, III  
President and Chief of Staff,  
and Principal Financial Officer