EOG RESOURCES INC
Form 8-K
February 24, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: February 24, 2004

EOG RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Delaware	1-9743	47-0684736
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

333 Clay Street
Suite 4200
Houston, Texas
(Address of principal executive offices)

77002
(Zip code)

713/651-7000
(Registrant's telephone number, including area code)

EOG RESOURCES, INC.

Item 7. Financial Statements and Exhibits.

(a) Financial Statements of EOG Resources, Inc.

Financial Statements of EOG Resources, Inc. and its

Consolidated Subsidiaries for the fiscal year ended December 31, 2003, including Reports of Independent Public Accountants.

(b) Exhibits.

23.1 Consent of DeGolyer and MacNaughton.

23.2 Opinion of DeGolyer and MacNaughton dated January 30, 2004.

23.3 Consent of Deloitte & Touche LLP.

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 hereunto duly authorized.

EOG RESOURCES, INC.
(Registrant)

Date: February 24, 2004

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

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

EOG Resources, Inc. (EOG) is one of the largest independent (non-integrated) oil and gas companies in the United States and has substantial proved reserves in the U.S., Canada, and offshore Trinidad, and to a lesser extent, the United Kingdom North Sea. EOG operates under a business strategy that focuses predominantly on three factors: achieving a strong reinvestment rate of return on its capital program, drilling internally generated prospects in order to find and develop low cost reserves, and maintaining a strong balance sheet, with a below average debt-to-total capitalization ratio.

EOG had record operating earnings in 2003. Net income available to common for 2003 of $419.1 million, or $3.60 per share, was up 450% over 2002, attributable primarily to higher commodity prices. In addition, EOG substantially added to its reserve base by replacing 249% of production at an all-in finding cost of $1.28 per thousand cubic feet equivalent (Mcfe). From drilling alone, EOG replaced 183% of production at a rate of $1.21 per Mcfe.

Operations

Several important developments have occurred since January 1, 2003.

North America. EOG closed the largest property acquisition in its history on October 1, 2003, with the purchase of natural gas properties in the Wintering Hills, Drumheller East and Twining areas of southeast Alberta, Canada, from a subsidiary of Husky Energy Inc. for approximately US $320 million. This transaction increases EOG's drilling inventory in Canada, primarily in the footprint of its very successful shallow natural gas program in southern Alberta. It also complements EOG's existing Canadian assets by providing incremental reserve potential and significantly increasing EOG's coal bed methane acreage position in the Twining Field.

EOG's effort to identify plays with larger reserve potential has proven a successful supplement to its base development and exploitation program in North America. EOG plans to continue to drill smaller wells in large acreage plays, which in the aggregate, will contribute substantially to EOG's crude oil and natural gas production. EOG has several larger potential plays underway in Wyoming, Utah and Texas, including the Barnett Shale, from which more information will become known during 2004.

International. In 2003, Trinidad had its first full year of sales to the Caribbean Nitrogen Company Limited (CNCL) ammonia plant versus only six months of sales in 2002. Also in Trinidad in 2003, construction progressed on the Nitro 2000 ammonia plant, which is scheduled to start up in the second half of 2004. EOG will supply 60 million cubic feet per day (MMcfd), gross, and based on current price assumptions, expects to supply 47 MMcfd, net, of natural gas to this facility under a fifteen-year contract. Additionally in Trinidad, EOG signed a fifteen-year contract to supply a portion of the natural gas requirements of the M5000 methanol plant. Currently under construction, start-up of the M5000 facility is planned for mid-2005. When the plant is running at its design capacity, EOG anticipates supplying approximately 95 MMcfd, gross, of natural gas during the first four years and approximately 125 MMcfd, gross, during the remaining eleven years of the contract. Based on current price assumptions, the company expects to supply an average 67 MMcfd, net, during the first four years and 87 MMcfd, net, during the remaining eleven years. The wellhead price will be linked to Caribbean methanol prices but with a floor price. With this new contract, EOG anticipates another significant increase in its Trinidad production next year. In addition, EOG believes that there are additional exploration opportunities in its existing acreage position in Trinidad and continues to pursue additional acreage.

Although EOG continues to focus on North American natural gas, EOG sees an increasing linkage between North American natural gas demand and Trinidadian natural gas supply. For example, liquefied natural gas (LNG) imports from existing and planned facilities in Trinidad are serious contenders to meet increasing U.S. demand. In addition, ammonia, methanol and chemical production has been relocating from North America to Trinidad, driven by attractive natural gas feedstock prices in the island nation. EOG anticipates that its existing position with the supply contracts to the two ammonia plants and the new methanol plant, discussed above, will continue to give its portfolio an even broader exposure to North American natural gas fundamentals.

Also in 2003, EOG established a new venue outside of North America with two natural gas discoveries in the Southern Gas Basin of the United Kingdom North Sea. The wells were farm-in opportunities from major oil companies. Production of approximately 40 MMcfd, net, is expected by year-end 2004. EOG is reviewing additional farm-in opportunities in this area and expects to participate in several exploration wells in 2004.

Capital Structure

As noted, one of management's key strategies is to keep a strong balance sheet with a consistently below average debt-to-total capitalization ratio. At December 31, 2003, its debt-to-total capitalization ratio was 33.3%, down from 40.6% at year-end 2002. With the net cash provided from operating activities, EOG funded its entire $917 million capital program, paid down $36 million of debt, closed $405 million of acquisitions and, in May 2003, increased the dividend paid to common shareholders by 25%. As management currently assesses price forecast and demand trends for 2004, EOG believes that operations and capital expenditure activity can essentially be funded by cash from operations.

For 2004, EOG's estimated capital expenditure budget is approximately $1.1 billion, excluding acquisitions. EOG plans to spend about 5% of this estimated capital expenditure budget to drill new, internally generated, bigger target ideas. North American natural gas continues to be a key component of this effort. When it fits EOG's strategy, EOG will make acquisitions that bolster existing drilling programs or offer EOG incremental exploration and/or production opportunities. Management believes EOG has one of the strongest prospect inventories in EOG's history.

Finding Costs and Reserve Replacement

During 2003, EOG replaced 249% of its production at an all-in $1.28 per Mcfe finding cost. In North America, EOG had 259% reserve replacement at $1.36 per Mcfe. EOG replaced 189% of production at a $0.63 per Mcfe finding costs in its Trinidad and United Kingdom activities. An external review of approximately 70% of EOG's reserves was conducted by the independent reserve engineering firm of DeGolyer and MacNaughton (D&M). For the sixteenth consecutive year, D&M reported no material differences overall between their independent estimates and EOG's internal estimates.

The following review of operations for each of the three years in the period ended December 31, 2003 should be read in conjunction with the consolidated financial statements of EOG and notes thereto beginning with page 20.

Results of Operations

Net Operating Revenue

During 2003, net operating revenues increased $650 million to $1,745 million. Total wellhead revenues increased 65% to $1,818 million as compared to 2002. Wellhead volume and price statistics for the specified years were as follows:

	Year Ended December 31,		
	2003	2002	2001
Natural Gas Volumes (MMcf per day) (1)			
United States	638	635	680
Canada	165	154	126

Trinidad	152	135	115
Total	955	924	921
Average Natural Gas Prices ($/Mcf) (2)			
United States	$5.06	$2.89	$4.26
Canada	4.66	2.67	3.78
Trinidad	1.35	1.20	1.22
Composite	4.40	2.60	3.81
Crude Oil and Condensate Volumes (MBbl per day) (1)			
United States	18.5	18.8	22.0
Canada	2.3	2.1	1.7
Trinidad	2.4	2.4	2.1
Total	23.2	23.3	25.8
Average Crude Oil and Condensate Prices ($/Bbl) (2)			
United States	$30.24	$24.79	$25.06
Canada	28.54	23.62	22.70
Trinidad	28.88	23.58	24.14
Composite	29.92	24.56	24.83
Natural Gas Liquids Volumes (MBbl per day) (1)			
United States	3.2	2.9	3.5
Canada	0.6	0.8	0.5
Total	3.8	3.7	4.0
Average Natural Gas Liquids Prices ($/Bbl) (2)			
United States	$21.53	$14.76	$17.17
Canada	19.13	11.17	15.05
Composite	21.13	14.05	16.89
Natural Gas Equivalent Volumes (MMcfe per day) (3)			
United States	768	765	833
Canada	183	171	139
Trinidad	166	150	128
Total	1,117	1,086	1,100
Total Bcfe (3) Deliveries	408	396	401