# FORM 10-K405

## EOG RESOURCES INC - EOG

**Filed: March 08, 2000 (period: December 31, 1999)**

Annual report filed under Regulation S-K Item 405 (Discontinued)

---

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

[ ] 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 | 47-0684736 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

1200 SMITH STREET, SUITE 300, HOUSTON, TEXAS 77002-7361
(Address of principal executive offices) (zip code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 713-651-7000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| Common Stock, $.01 par value | New York Stock Exchange |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NONE

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 [X] No [ ].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X].

Aggregate market value of the voting stock held by nonaffiliates of the registrant, based on the closing sale price in the daily composite list for transactions on the New York Stock Exchange on February 25, 2000 was $1,609,731,449. As of March 1, 2000, there were 117,211,873 shares of the registrant's Common Stock, $.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE. Certain portions of the registrant's definitive Proxy Statement for the May 9, 2000 Annual Meeting of Shareholders ("Proxy Statement") are incorporated in Part III by reference.

---

---



TABLE OF CONTENTS

PART III



PART IV





PART I

ITEM 1. BUSINESS

GENERAL

EOG Resources, Inc. (the "Company"), a Delaware corporation organized in 1985, is engaged, either directly or through a marketing subsidiary with regard to domestic operations or through various subsidiaries with regard to international operations, in the exploration for, and the development, production and marketing of, natural gas and crude oil primarily in major producing basins in the United States, as well as in Canada and Trinidad and, to a lesser extent, selected other international areas. The Company's principal producing areas are further described under "Exploration and Production" below. At December 31, 1999, the Company's estimated net proved natural gas reserves were 3,175 billion cubic feet ("Bcf") and estimated net proved crude oil, condensate and natural gas liquids reserves were 73 million barrels ("MMBbl"). (See "Supplemental Information to Consolidated Financial Statements"). At such date, approximately 54% of the Company's reserves (on a natural gas equivalent basis) was located in the United States, 16% in Canada and 30% in Trinidad. As of December 31, 1999, the Company employed approximately 775 persons, including foreign national employees.

The Company's business strategy is to maximize the rate of return on investment of capital by controlling all operating and capital costs. This strategy enhances the generation of both income and cash flow from each unit of production and allows for the growth of production on a cost-effective basis by optimizing the reinvestment of cash flow. The Company continued to focus its 1999 drilling activity toward natural gas deliverability in addition to natural gas reserve enhancement and to a lesser extent crude oil exploitation. The Company also continues to focus on the cost-effective utilization of advances in technology associated with gathering, processing and interpretation of 3-D seismic data, developing reservoir simulation models and drilling operations through the use of new and/or improved drill bits, mud motors, mud additives, formation logging techniques and reservoir fracturing methods. These advanced technologies are used, as appropriate, throughout the Company to reduce the risks associated with all aspects of oil and gas reserve exploration, exploitation and development. The Company implements its strategy by emphasizing the drilling of internally generated prospects in order to find and develop low cost reserves. Achieving and maintaining the lowest possible operating cost

structure are also important goals in the implementation of the Company's strategy.

On August 16, 1999, the Company and Enron Corp. completed the Share Exchange Agreement ("Share Exchange") whereby the Company received 62,270,000 shares of the Company's common stock out of 82,270,000 shares owned by Enron Corp. in exchange for all the stock of the Company's subsidiary, EOGI-India, Inc. Prior to the Share Exchange, the Company made an indirect capital contribution of approximately $600 million in cash, plus certain intercompany receivables, to EOGI-India, Inc. At the time of completion of this transaction, this subsidiary owned, through subsidiaries, all of the Company's assets and operations in India and China. The Company recognized a $575 million tax-free gain on the Share Exchange based on the fair value of the shares received, net of transaction fees of $14 million. Immediately following the Share Exchange, the Company retired the 62,270,000 shares of the Company's common stock received in the transaction. The weighted average basis in the treasury shares retired was first deducted from and fully eliminated existing additional paid in capital with the remaining value deducted from retained earnings. On August 30, 1999, the Company changed its corporate name to "EOG Resources, Inc." from "Enron Oil & Gas Company" and has since made similar changes to its subsidiaries' names.

On July 23, 1999, the Company filed a registration statement with the Securities and Exchange Commission for the public offering of 27,000,000 shares of the Company's common stock. The public offering was completed on August 16, 1999, and the net proceeds were used to repay short-term borrowings used to fund a significant portion of the cash capital contribution in connection with the Share Exchange. As a result of the public offering and the retirement of 62,270,000 shares of the Company's common stock previously mentioned, the number of shares of the Company's common stock issued was reduced to 124,730,000 from 160,000,000 prior to the Share Exchange. As of December 31, 1999, the Company had in its treasury



5,625,446 shares of its common stock issued, reducing the number of shares outstanding to 119,104,554 shares.

Immediately prior to the closing of the Share Exchange, Enron Corp. owned 82,270,000 shares of the Company's common stock, representing approximately 53.5 percent of all of the shares of the Company's common stock that were outstanding. As a result of the closing of the Share Exchange, the sale by Enron Corp. of 8,500,000 shares of the Company's common stock as a selling stockholder in the public offering referred to above, and the completion on August 17, 1999 and August 20, 1999 of the offering of Enron Corp. notes mandatorily exchangeable at maturity into up to 11,500,000 shares of the Company's common stock, Enron Corp's maximum remaining interest in the Company after the automatic conversion of its notes on July 31, 2002, will be under two percent (assuming the notes are exchanged for less than the 11,500,000 shares of the Company's common stock). As a result, beginning with the Share Exchange all transactions with Enron Corp. and its affiliates have been classified as Trade.

Effective as of August 16, 1999, the closing date of the Share Exchange, the members of the board of directors of the Company who were officers or directors of Enron Corp. resigned their positions as directors of the Company.

As a result of the change to the Company's portfolio of assets brought about by the Share Exchange, the Company conducted a re-evaluation of its overall business. As a result of this re-evaluation, some of the Company's projects were no longer deemed central to its business. The Company incurred non-cash charges in connection with the impairment and/or the Company's decision to dispose of such projects of $89 million after-tax. In the United States operating segment, a pre-tax charge of $78 million was recorded to depreciation, depletion and amortization expense for impairment. The carrying values for assets determined to be impaired were adjusted to estimated fair values based on projected future discounted net cash flows for such assets. In the Other operating segment, a pre-tax charge of $36 million was recorded to depreciation,

depletion and amortization expense to fully write-off the Company's basis and a pre-tax charge of $19 million was recorded to other income (expense) -- other, net for the estimated exit costs related to the Company's decision to dispose of certain international operations. Net loss for such operations for 1999 excluding these charges was approximately $3 million. In addition, in the fourth quarter, depreciation, depletion and amortization expense of $7 million pre-tax was recorded in the United States operating segment resulting from a reduction in proved reserves related to the Company's decision to defer the development of the Big Piney Madison deep Paleozoic formation methane reserves in Wyoming for the foreseeable future. Starting in 2000, this reserve reduction will increase depreciation, depletion and amortization by approximately $26 million annually. At December 31, 1998, these reserves represented approximately $100 million or 5% of the Company's Standardized Measure of Discounted Future Net Cash Flows as adjusted for the sale of the India and China reserves as a result of the Share Exchange.

On July 28, 1999, the Company executed a series of new credit agreements aggregating $1.3 billion (the "Credit Facilities"). At the same time, the Company cancelled its existing credit facilities totaling $450 million. Of the $1.3 billion, $500 million was set to expire in 364 days (the "Interim Facility"), $400 million was structured as a 364-day revolving credit facility with a one-year term option subsequent to the revolving period and $400 million was structured as a five-year revolving credit facility. The Interim Facility was cancelled subsequent to the completion of the public offering referred to above.

Unless the context otherwise requires, all references herein to the Company include EOG Resources, Inc., its predecessors and subsidiaries, and any reference to the ownership of interests or pursuit of operations in any international areas by the Company recognizes that all such interests are owned and operations are pursued by subsidiaries of EOG Resources, Inc. Unless the context otherwise requires, all references herein to Enron Corp. include Enron Corp., its predecessors and affiliates, other than the Company and its predecessors and subsidiaries.

With respect to information on the Company's working interest in wells or acreage, "net" oil and gas wells or acreage are determined by multiplying "gross" oil and gas wells or acreage by the Company's working interest in the wells or acreage. Unless otherwise defined, all references to wells are gross.



BUSINESS SEGMENTS

The Company's operations are all natural gas and crude oil exploration and production related.

EXPLORATION AND PRODUCTION

NORTH AMERICA OPERATIONS

United States. The Company's principal United States producing areas are the Southwestern Wyoming area, Vernal area of Utah, South Texas area, East Texas area, Mississippi Salt Basin, Offshore Gulf of Mexico area, Southeastern New Mexico area, Val Verde Basin and Midland Basin of West Texas, and Mid Continent area. Properties in these areas comprised approximately 95% of the Company's United States reserves (on a natural gas equivalent basis) and 97% of the Company's United States net natural gas deliverability as of December 31, 1999 and substantially all are operated by the Company.

The Company's other United States natural gas and crude oil producing properties are located primarily in other areas of Texas, Utah, New Mexico, Oklahoma, California, and Kansas.

At December 31, 1999, 85% of the Company's proved United States reserves (on a natural gas equivalent basis) was natural gas and 15% was crude oil,

condensate and natural gas liquids. A substantial portion of the Company's United States natural gas reserves is in long-lived fields with well-established production histories. The Company believes that opportunities exist to increase production in many of these fields through continued infill and other development drilling.

Southwestern Wyoming Area. Big Piney, the Company's largest reserve accumulation, is located in Sublette and Lincoln Counties of Southwestern Wyoming. The Company is the holder of the largest productive acreage base in the Big Piney area, with approximately 265,000 net acres under lease. The Company operates approximately 824 natural gas and crude oil wells in this area with an 85% average working interest. Deliveries from the Big Piney area net to the Company averaged 97 million cubic feet ("MMcf") per day of natural gas and 4.2 thousand barrels ("MBbl") per day of crude oil, condensate, and natural gas liquids in 1999. At December 31, 1999, natural gas deliverability net to the Company was approximately 95 MMcf per day.

The principal producing intervals within the Big Piney area are the Almy, Mesaverde and Frontier formations. The Frontier formation, which occurs at 6,500 to 10,000 feet, contains approximately 60% of the Company's Big Piney proved developed reserves. The Company drilled 47 wells in the Big Piney area in 1999 and anticipates an active drilling program will continue for several years.

During 1999, the Company drilled three wells in the Washakie Basin, Sweetwater County, Wyoming. The Cepo Lewis 21-18 and the Powder Mountain 1-13 initially produced at a combined rate of 12 MMcf per day from the Lewis formation, and the Cedar Chest 31-5 initially produced 5 MMcf per day from the Almond formation. The Company owns 20,000 net leasehold acres and 220 square miles of new 3-D seismic, and anticipates an active drilling program in the Washakie Basin for several years. Natural gas deliveries net to the Company in this area averaged approximately 9.1 MMcf per day in 1999, and deliverability at December 31, 1999 was approximately 15 MMcf per day.

Vernal Area. In the Vernal area, located primarily in Uintah County, Utah, the Company operates approximately 334 producing wells and presently controls approximately 66,000 net acres. In 1999, natural gas deliveries net to the Company from the Vernal area averaged 26 MMcf per day. Deliverability at December 31, 1999, was approximately 28 MMcf per day. Production is from the Green River and Wasatch formations located at depths between 4,500 and 8,000 feet. The Company has an average working interest of approximately 61%. Numerous drilling opportunities will be available in this area in 2000.

South Texas Area. The Company's activities in South Texas are focused in the Lobo/Roleta, Frio and Wilcox producing horizons. The principal areas of activity are in the Lobo/Roleta trend which occurs primarily in Webb and Zapata Counties and the Frio trend in Matagorda County. Utilizing newly acquired 3-D seismic in Webb and Zapata Counties, the Company added two significant field extensions in the Pok-A-Dot area. Thirteen wells were drilled and completed during 1999. At December 31, 1999, net deliveries



from these wells were 28 MMcf per day of natural gas. During 1999, Lobo/Roleta net deliverability averaged approximately 39 MMcf per day of natural gas. In Matagorda County, seven wells were completed in 1999 with a combined initial rate of 55 MMcf per day of natural gas and 1 MBbl per day of condensate net to the Company. During 1999, Frio net deliverability averaged approximately 34 MMcf per day of natural gas and 1 MBbl per day of condensate.

The Company operates approximately 429 wells in the South Texas area, and production is primarily from the Lobo, Roleta and Frio sands at depths ranging from 5,000 to 16,000 feet. The Company owns approximately 288,000 net leasehold acres and more than 40,000 net mineral fee acres in this area. Natural gas deliveries net to the Company averaged approximately 142 MMcf per day in 1999. At December 31, 1999, natural gas deliverability from this area net to the Company was approximately 190 MMcf per day. During 1999, the Company drilled 53

wells in the South Texas area, acquired 480 square miles of new 3-D seismic and leased 35,000 net acres. An active drilling program in this area is anticipated to continue for several years.

East Texas Area. The Company's activities in the East Texas area are primarily in the Carthage field, located in Panola County, the North Milton field, located in Harris County and the Stowell/Big Hill area, located in Jefferson and Chambers Counties. Pursuant to a property exchange with OXY USA Inc. ("OXY") in 1999, the Company acquired working interests in 715 wells located primarily in Gregg and Panola Counties.

The Carthage field production is from the Cotton Valley, Travis Peak and Pettit formations. The Company owns approximately 37,000 net operated acres under lease with an average 83% working interest in this area. The Company drilled 17 wells in the Carthage field in 1999 and anticipates an active drilling program will continue for several years. The Company has continued its activity in the North Milton field where it now operates 29 wells and holds a 100% working interest in the acreage. The Company anticipates drilling additional wells during 2000. The Company drilled 4 wells in the Stowell/Big Hill area in 1999 and expects to continue expansion of the program in 2000. During 1999, net deliveries from the East Texas area averaged 76 MMcf per day of natural gas and 2.7 MBbl per day of crude oil, condensate and natural gas liquids. At December 31, 1999, deliverability from the area was approximately 103 MMcf per day of natural gas with 5.9 MBbl per day of crude oil, condensate and natural gas liquids both net to the Company.

Mississippi Salt Basin. The Company's activities in this basin target the Cretaceous (Rodessa, Sligo, Hosston and Selma Chalk) formation. In Mississippi, the Company operates 114 producing wells and owns approximately 47,000 net acres. During 1999, the Company drilled 4 deep Cretaceous and 17 Chalk wells. The Company plans an expanded program in 2000. Net deliveries from the area during 1999 averaged 15 MMcf per day of natural gas and 0.6 MBbl per day of crude oil and condensate. At December 31, 1999, net deliverability from the area was approximately 15 MMcf per day of natural gas and 1.0 MBbl per day of crude oil and condensate.

Offshore Gulf of Mexico Area. Development of the Eugene Island 135 discovery continued with the installation of a second platform and the drilling of one development well in 1999. The Company anticipates drilling one additional step-out well in 2000. At December 31, 1999, net deliverability from the block was approximately 14 MMcf per day of natural gas. During 1999, net production from the Matagorda Island 623 field, where the Company purchased a 19% working interest in 1998, averaged approximately 43 MMcf per day of natural gas. The Company expects to drill two replacement wells in this field during 2000.

During the year, the Company continued to rationalize its primary term acreage position through third-party joint ventures. At December 31, 1999, the Company held an interest in 135 blocks in the Offshore Gulf of Mexico area totaling approximately 342,000 net acres with 78 primary term leases and 57 leases held by production or being developed. Of these 135 blocks, located predominantly in federal waters offshore Texas and Louisiana, 85 are operated by the Company. In 1999, the Company traded its interests in 4 producing blocks in the Matagorda Island and Garden Banks area, and the member interests in an indirect wholly owned limited liability company whose assets included interests in 5 producing blocks in the Matagorda Island area, representing in the aggregate 28 MMcf per day of natural gas production net to the Company, as part of a property exchange with OXY. Natural gas deliveries from this area averaged 127 MMcf per day during 1999, inclusive of the production from the properties traded to OXY, which transaction closed on December 31, 1999.



During 1999, the Company implemented a shift in its Gulf of Mexico strategy from exploration drilling to one of acquisition and exploitation in core areas of the Louisiana and Texas shelf. During 2000, the Company anticipates participating in 5 to 10 wells in this area.

Southeastern New Mexico Area. The Company's activities in this area have been concentrated in Lea and Eddy Counties in New Mexico. Production is primarily from the Bone Springs, Wolfcamp, Chester, Morrow, and Atoka formations. Natural gas deliveries for 1999 averaged 35 MMcf per day and deliveries of crude oil, condensate and natural gas liquids averaged 2.3 MBbl per day both net to the Company. At year end 1999, deliverability, net to the Company, was approximately 42 MMcf per day of natural gas and 2.0 MBbl per day of crude oil, condensate and natural gas liquids. The Company holds 93,000 net acres and has an average working interest of approximately 70%. Significant drilling activity is planned in 2000 for this area.

Val Verde Basin. The Company's activities in this area have been concentrated in Crockett, Terrell and Val Verde Counties in Texas. The Company holds approximately 51,000 net acres and now operates approximately 325 natural gas wells in this area in which it owns a 90% average working interest. Production is from the Canyon sands and Strawn limestone at depths from 5,500 to 12,500 feet. At December 31, 1999, natural gas deliverability net to the Company was approximately 20 MMcf per day. The Company plans to test several Val Verde basin prospects in 2000.

Midland Basin. The Company's activities in this area have been concentrated in Upton and Reagan Counties in Texas. Production is primarily from the Wolfcamp and Strawn formations. In 1999, deliveries net to the Company averaged 11 MMcf per day of natural gas and approximately 2.4 MBbl per day of crude oil, condensate and natural gas liquids. At December 31, 1999, deliverability net to the Company was approximately 14 MMcf per day of natural gas and 3.3 MBbl per day of crude oil, condensate and natural gas liquids. The Company holds approximately 40,000 net acres and has an average working interest of approximately 95%. The Company expects to drill numerous wells in this area during 2000.

Mid Continent Area. The Company's activities in the Mid-Continent area are concentrated in the Oklahoma and Texas panhandles and in the deeper Anadarko Basin. During 1999, the Company drilled 57 natural gas wells in the Oklahoma panhandle and 5 natural gas wells in the Texas panhandle. The Company controls over 400,000 acres in the Oklahoma panhandle including certain exploration rights on approximately 320,000 acres by virtue of a Farmout Agreement obtained as a part of the property exchange with OXY closed on December 31, 1999, and 27,000 acres in the Texas panhandle. Production from these areas is primarily from the Morrow, Toronto, and Council Grove formations. Net deliveries from the panhandle areas averaged approximately 34 MMcf per day of natural gas during 1999. At December 31, 1999 net deliveries from the panhandle areas were approximately 42 MMcf per day of natural gas and 0.3 MBbl per day of crude oil and condensate.

During 1999, the Company also drilled 39 wells in other areas of the Anadarko Basin. Deliveries from this area, net to the Company, averaged approximately 39 MMcf per day of natural gas and 0.3 MBbl per day of crude oil, condensate and natural gas liquids in 1999. The Company anticipates an active Mid-Continent drilling program for several years.

Canada. The Company is engaged in the exploration for and the development, production and marketing of natural gas, natural gas liquids and crude oil in Western Canada, principally in the provinces of Alberta, Saskatchewan, and Manitoba. The Company conducts operations from offices in Calgary, Alberta, and produces natural gas and crude oil from five major areas. The Sandhills area in southwestern Saskatchewan is the Company's largest single natural gas producing area in Canada. In 1999, 254 wells were drilled in the area and additional acreage and wells were acquired in the area resulting in deliverability of approximately 51 MMcf per day net to the Company at December 31, 1999. The Blackfoot area in southeastern Alberta is the second largest natural gas producing area in Canada for the Company. In 1999, 78 new wells were drilled and numerous recompletions, workovers and facility optimizations were carried out resulting in deliverability of approximately 36 MMcf per day and 0.8 MBbl per day of crude oil and condensate net to the Company at December 31, 1999. Total Canadian natural gas deliverability net to the Company at December 31, 1999 was approximately 131 MMcf per day, and the Company held approximately 522,000 net undeveloped acres in Canada. Total Canadian natural gas deliveries net to the

averaged approximately 115 MMcf per day. The Company expects to maintain an active drilling program in Western Canada for several years.

OUTSIDE NORTH AMERICA OPERATIONS

The Company has producing operations offshore Trinidad and is evaluating exploration, exploitation and development opportunities in selected other international areas.

Trinidad. In November 1992, the Company was awarded a 95% working interest concession in the South East Coast Consortium ("SECC") Block offshore Trinidad, encompassing three undeveloped fields, previously held by three government-owned energy companies. The Kiskadee and Ibis fields have since been developed, and the Oilbird field is anticipated to be developed within the next several years. Existing surplus processing and transportation capacity at the Pelican field facilities owned and operated by Trinidad and Tobago government-owned companies is being used to process and transport the production. Natural gas is being sold into the local market under a take-or-pay agreement with the National Gas Company of Trinidad and Tobago. In 1999, deliveries net to the Company averaged 123 MMcf per day of natural gas, which includes 21 MMcf per day of gas balancing volumes relating to a field allocation agreement and 2.4 MBbl per day of crude oil and condensate.

In 1996, the Company signed a production sharing contract with the Government of Trinidad and Tobago for the Modified U(a) Block where the Company holds a 100% working interest. The contract committed the Company to the acquisition of 3-D seismic data and the drilling of three wells. The first well, Osprey, was drilled in 1998 and was successful, encountering over 400 feet of net pay. This is the largest exploration discovery in the Company's history. The Company has booked 675 Bcfe of proved reserves in this discovery. During the fourth quarter of 1999, the Company drilled an unsuccessful exploration well, the Motmot, and in the first quarter of 2000, the Tanager well was determined to be unsuccessful. These wells fulfilled the drilling obligations on the block. At December 31, 1999, the Company held approximately 144,000 net undeveloped acres in Trinidad.

In January 2000, the Company signed a 15-year natural gas supply contract for over 60 MMcf per day with the National Gas Company of Trinidad and Tobago. This natural gas will supply a 1,850 metric ton per day anhydrous ammonia plant that is to be constructed by Caribbean Nitrogen Company Limited, a Trinidadian company in which the Company has a 16% interest. Negotiations are currently underway to obtain financing for the plant.

Venezuela. The Company was awarded exploration, exploitation and development rights for a block offshore the eastern state of Sucre, Venezuela in early 1996. The Company signed agreements with the government of Venezuela and other participants associated with a concession awarded in the Gulf of Paria East. The Company holds an initial 90% working interest in the joint venture and acts as operator. One exploratory well was drilled during 1998 and encountered hydrocarbons. The Company is presently seeking a party to complete the remaining commitment under the concession and during 1999 impaired the carrying value to reflect the Company's estimate of fair value.

Other International. The Company continues to evaluate other selected conventional natural gas and crude oil opportunities outside North America primarily by pursuing exploitation opportunities in countries where indigenous natural gas and crude oil reserves have been identified.

MARKETING

Wellhead Marketing. The Company's North America wellhead natural gas production is currently being sold on the spot market and under long-term natural gas contracts at market responsive prices. In many instances, the

long-term contract prices closely approximate the prices received for natural gas being sold on the spot market. Wellhead natural gas volumes from Trinidad are sold at prices that are based on a fixed price schedule with annual escalations. Prior to the Share Exchange and under terms of the production sharing contracts, natural gas volumes in India were sold to a nominee of the Government of India at a price linked to a basket of world market fuel oil quotations with floor and ceiling limits.



Substantially all of the Company's wellhead crude oil and condensate is sold under various terms and arrangements at market responsive prices.

Other Marketing. EOG Resources Marketing, Inc. ("EOGM"), a wholly owned subsidiary of the Company, is a marketing company engaging in various marketing activities. Both the Company and EOGM contract to provide, under short and long-term agreements, natural gas to various purchasers and then aggregate the necessary supplies for the sales with purchases from various sources including third-party producers, marketing companies, pipelines or from the Company's own production and arrange for any necessary transportation to the points of delivery. In addition, EOGM has purchased and constructed several small gathering systems in order to facilitate its entry into the gathering business on a limited basis. Both the Company and EOGM utilize other short and long-term hedging and trading mechanisms including sales and purchases utilizing NYMEX-related commodity market transactions. These marketing activities have provided an effective balance in managing a portion of the Company's exposure to commodity price risks for both natural gas and crude oil and condensate wellhead prices. (See "Other Matters - Risk Management").



WELLHEAD VOLUMES AND PRICES, AND LEASE AND WELL EXPENSES

The following table sets forth certain information regarding the Company's wellhead volumes of and average prices for natural gas per thousand cubic feet ("Mcf"), crude oil and condensate, and natural gas liquids per barrel ("Bbl"), and average lease and well expenses per thousand cubic feet equivalent ("Mcfe" - natural gas equivalents are determined using the ratio of 6.0 Mcf of natural gas to 1.0 Bbl of crude oil, condensate or natural gas liquids) delivered during each of the three years in the period ended December 31:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| VOLUMES (PER DAY) | | | |
| Natural Gas (MMcf) | | | |
| United States(1) | 654 | 671 | 657 |
| Canada | 115 | 105 | 101 |
| Trinidad | 123 | 139 | 113 |
| India(2) | 46 | 56 | 18 |
| Total | 938 | 971 | 889 |
| Crude Oil and Condensate (MBbl) | | | |
| United States | 14.4 | 14.0 | 11.7 |
| Canada | 2.6 | 2.6 | 2.5 |
| Trinidad | 2.4 | 3.0 | 3.4 |
| India(2) | 4.1 | 5.1 | 2.3 |
| Total | 23.5 | 24.7 | 19.9 |
| Natural Gas Liquids (MBbl) | | | |
| United States | 2.6 | 2.9 | 2.6 |

| | | | |
|---|---|---|---|
| Canada | 0.8 | 1.0 | 1.3 |
| Total | 3.4 | 3.9 | 3.9 |
| AVERAGE PRICES | | | |
| Natural Gas ($/Mcf) | | | |
| United States(3) | $ 2.12 | $ 1.93 | $ 2.32 |
| Canada | 1.80 | 1.40 | 1.43 |
| Trinidad | 1.08 | 1.06 | 1.05 |
| India(2) | 1.95 | 2.41 | 2.79 |
| Composite | 1.94 | 1.78 | 2.07 |
| Crude Oil and Condensate ($/Bbl) | | | |
| United States | $18.41 | $12.84 | $19.81 |
| Canada | 16.77 | 11.82 | 17.16 |
| Trinidad | 16.21 | 12.26 | 18.68 |
| India(2) | 12.80 | 12.86 | 20.05 |
| Composite | 17.03 | 12.66 | 19.30 |
| Natural Gas Liquids ($/Bbl) | | | |
| United States | $12.01 | $ 8.38 | $12.76 |
| Canada | 8.23 | 5.32 | 8.94 |
| Composite | 11.16 | 7.56 | 11.54 |
| LEASE AND WELL EXPENSES ($/MCFE) | | | |
| United States | $ .21 | $ .22 | $ .23 |
| Canada | .40 | .37 | .39 |
| Trinidad | .12 | .12 | .16 |
| India(2) | .25 | .24 | .64 |
| Composite | .23 | .24 | .26 |

---

(1) Includes 48 MMcf per day in 1998 and 1997 delivered under the terms of a volumetric production payment agreement effective October 1, 1992, as amended. Delivery obligations were terminated in December 1998.

(2) See "Business -- General" regarding the Share Exchange.

(3) Includes an average equivalent wellhead value of $1.53 per Mcf in 1998 and $1.73 per Mcf in 1997 for the volumes described in note (1), net of transportation costs.



COMPETITION

The Company actively competes for reserve acquisitions and exploration/exploitation leases, licenses and concessions, frequently against companies with substantially larger financial and other resources. To the extent the Company's exploration budget is lower than that of certain of its competitors, the Company may be disadvantaged in effectively competing for certain reserves, leases, licenses and concessions. Competitive factors include price, contract terms, and quality of service, including pipeline connection times and distribution efficiencies. In addition, the Company faces competition from other producers and suppliers, including competition from other world wide energy supplies, such as natural gas from Canada.

REGULATION

United States Regulation of Natural Gas and Crude Oil Production. Natural gas and crude oil production operations are subject to various types of regulation, including regulation in the United States by state and federal agencies.

United States legislation affecting the oil and gas industry is under constant review for amendment or expansion. Also, numerous departments and agencies, both federal and state, are authorized by statute to issue and have issued rules and regulations which, among other things, require permits for the drilling of wells, regulate the spacing of wells, prevent the waste of natural gas and liquid hydrocarbon resources through proration and restrictions on flaring, require drilling bonds and regulate environmental and safety matters.

The regulatory burden on the oil and gas industry increases its cost of doing business and, consequently, affects its profitability.

A substantial portion of the Company's oil and gas leases in the Big Piney area and in the Gulf of Mexico, as well as some in other areas, are granted by the federal government and administered by the Bureau of Land Management (the "BLM") and the Minerals Management Service (the "MMS"), both federal agencies. Operations conducted by the Company on federal oil and gas leases must comply with numerous statutory and regulatory restrictions concerning the above and other matters. Certain operations must be conducted pursuant to appropriate permits issued by the BLM and the MMS.

BLM and MMS leases contain relatively standardized terms requiring compliance with detailed regulations and, in the case of offshore leases, orders pursuant to the Outer Continental Shelf Lands Act (which are subject to change by the MMS). Such offshore operations are subject to numerous regulatory requirements, including the need for prior MMS approval for exploration, development, and production plans, stringent engineering and construction specifications applicable to offshore production facilities, regulations restricting the flaring or venting of production, and regulations governing the plugging and abandonment of offshore wells and the removal of all production facilities. Under certain circumstances, the MMS may require operations on federal leases to be suspended or terminated. Any such suspension or termination could adversely affect the Company's interests.

The MMS has issued a notice of proposed rulemaking in which it proposes to amend its regulations governing the calculation of royalties and the valuation of crude oil produced from federal leases. This proposed rule would modify the valuation procedures for both arm's length and non-arm's length crude oil transactions to decrease reliance on oil posted prices and assign a value to crude oil that, in the opinion of the MMS, better reflects its market value, establish a new MMS form for collecting differential data, and amend the valuation procedure for the sale of federal royalty oil. The Company cannot predict what action the MMS will take on this matter, nor can it predict how the Company will be affected by any change to this regulation.

The MMS recently issued a final rule to clarify the types of costs that are deductible transportation costs for purposes of royalty valuation of production sold off the lease. In particular, the MMS will not allow deduction of costs associated with marketer fees, cash out and other pipeline imbalance penalties, or long-term storage fees. The rule is under court review in two suits brought by oil and gas trade associations. The Company cannot predict what, if any, effect the new rule will have on its operations.

Sales of crude oil, condensate and natural gas liquids by the Company are made at unregulated market prices.



The transportation and sale for resale of natural gas in interstate commerce are regulated pursuant to the Natural Gas Act of 1938 (the "NGA") and the Natural Gas Policy Act of 1978 (the "NGPA"). These statutes are administered by the Federal Energy Regulatory Commission (the "FERC"). Effective January 1, 1993, the Natural Gas Wellhead Decontrol Act of 1989 deregulated natural gas prices for all "first sales" of natural gas, which includes all sales by the Company of its own production. All other sales of natural gas by the Company, such as those of natural gas purchased from third parties, remain jurisdictional sales subject to a blanket sales certificate under the NGA, which has flexible terms and conditions. Consequently, all of the Company's sales of natural gas currently may be made at market prices, subject to applicable contract provisions. The Company's jurisdictional sales, however, are subject to the future possibility of greater federal oversight, including the possibility the FERC might prospectively impose more restrictive conditions on such sales.

Since 1985, the FERC has endeavored to enhance competition in natural gas markets by making natural gas transportation more accessible to natural gas buyers and sellers on an open and nondiscriminatory basis. These efforts

culminated in Order No. 636 and various rehearing orders ("Order No. 636"), which mandate a fundamental restructuring of interstate natural gas pipeline sales and transportation services, including the "unbundling" by interstate natural gas pipelines of the sales, transportation, storage, and other components of their service, and to separately state the rates for each unbundled service. The courts have largely affirmed the significant features of Order No. 636 and numerous related orders pertaining to the individual pipelines, although certain appeals remain pending and the FERC continues to review and modify its open access regulations. Order No. 636 does not directly regulate the Company's activities, but has an indirect effect because of its broad scope. Order No. 636 has ended interstate pipelines' traditional role as wholesalers of natural gas, and substantially increased competition in natural gas markets. In spite of this uncertainty, Order No. 636 may enhance the Company's ability to market and transport its natural gas production, although it may also subject the Company to more restrictive pipeline imbalance tolerances and greater penalties for violation of such tolerances.

The Company owns, directly or indirectly, certain natural gas pipelines that it believes meet the traditional tests the FERC has used to establish a pipeline's status as a gatherer not subject to FERC jurisdiction under the NGA. State regulation of gathering facilities generally includes various safety, environmental, and in some circumstances, nondiscriminatory take requirements, but does not generally entail rate regulation. Natural gas gathering may receive greater regulatory scrutiny at both the state and federal levels as the pipeline restructuring under Order No. 636 is implemented. For example, the Texas Railroad Commission has approved changes to its regulations governing transportation and gathering services performed by intrastate pipelines and gatherers, which prohibit such entities from unduly discriminating in favor of their affiliates. The Company's gathering operations could be adversely affected should they be subject in the future to the application of state or federal regulation of rates and services.

The Company's natural gas gathering operations also may be or become subject to safety and operational regulations relating to the design, installation, testing, construction, operation, replacement, and management of facilities. Additional rules and legislation pertaining to these matters are considered or adopted from time to time. The Company cannot predict what effect, if any, such legislation might have on its operations, but the industry could be required to incur additional capital expenditures and increased costs depending on future legislative and regulatory changes.

The FERC recently began a broad review of its transportation regulations, including how they operate in conjunction with state proposals for retail gas marketing restructuring, whether to eliminate cost-of-service rates for short-term transportation, whether to allocate all short-term capacity on the basis of competitive auctions, and whether changes to its long-term transportation policies may also be appropriate to alleviate a market bias toward short-term contracts. This review culminated in part with the FERC's issuance of Order No. 637 on February 9, 2000.

Order No. 637 revises the FERC's current regulatory framework for purposes of improving the efficiency of the market and providing captive pipeline customers with the opportunity to reduce their cost of holding long-term pipeline capacity while continuing to protect against the exercise of market power. Order No. 637



revises FERC pricing policy by waiving price ceilings for short-term released capacity for a two year period and permitting pipelines to file for peak/off-peak and term differentiated rate structures. Order No. 637 does not, however, require the allocation of all short-term capacity on the basis of competitive auctions -- as had been proposed by the FERC. Order No. 637 adopts changes in regulations relating to scheduling procedures, capacity segmentation and pipeline penalties to improve the competitiveness and efficiency of the interstate pipeline grid. It also narrows pipeline customers' right of first

refusal to remove economic biases in the current rule, while still protecting captive customers' ability to resubscribe to long-term capacity. Finally, it improves the FERC's reporting requirements to provide more transparent pricing information and permit more effective monitoring of the market.

While Order No. 637, and any subsequent FERC action will affect the Company only indirectly, the Order and related inquiries are intended to further enhance competition in natural gas markets, while maintaining adequate consumer protections.

The Company cannot predict the effect that any of the aforementioned orders or the challenges to such orders will ultimately have on the Company's operations. Additional proposals and proceedings that might affect the natural gas industry are considered from time to time by Congress, the FERC and the courts. The Company cannot predict when or whether any such proposals or proceedings may become effective. It should also be noted that the natural gas industry historically has been very heavily regulated; therefore, there is no assurance that the less regulated approach currently being pursued by the FERC will continue indefinitely.

Environmental Regulation. Various federal, state and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, affect the Company's operations and costs as a result of their effect on natural gas and crude oil exploration, development and production operations and could cause the Company to incur remediation or other corrective action costs in connection with a release of regulated substances, including crude oil, into the environment. Compliance with such laws and regulations has not had a material adverse effect on the Company's operations or financial condition. It is not anticipated, based on current laws and regulations, that the Company will be required in the near future to expend amounts that are material in relation to its total exploration and development expenditure program in order to comply with each environmental law and regulation, but inasmuch as such laws and regulations are frequently changed, the Company is unable to predict the ultimate cost of compliance.

Canadian Regulation. In Canada, the petroleum industry is subject to extensive controls and operates under various provincial and federal legislation and regulations governing land tenure, royalties, taxes, production rates, operational standards, environmental protection, health and safety, exports and other matters. The Company operates within this regulatory framework and continues to monitor and evaluate the impact of the regulatory regime when determining parameters for engaging in oil and gas activities and investments in Canada. The price of natural gas and crude oil in Canada has been deregulated and is determined by market conditions and negotiations between buyers and sellers in a North American market place. The North American Free Trade Agreement supports the on-going cross-border commercial transactions of the natural gas and crude oil business.

Various matters relating to the transportation and export of natural gas continue to be subject to regulation by provincial agencies and federally, by the National Energy Board; however, the North American Free Trade Agreement may have reduced the risk of altering existing cross-border commercial transactions through the assurance of fair implementation of regulatory changes, minimal disruption of contractual arrangements and the prohibition of discriminatory order restrictions and export taxes.

Canadian governmental regulations may have a material effect on the economic parameters for engaging in oil and gas activities in Canada and may have a material effect on the advisability of investments in Canadian oil and gas drilling activities. The Company is monitoring political, regulatory and economic developments in Canada.

Other International Regulation. The Company's exploration and production operations outside North America are subject to various types of regulations imposed by the respective governments of the countries in

which the Company's operations are conducted, and may affect the Company's operations and costs within that country. The Company currently has operations offshore Trinidad.

RELATIONSHIP BETWEEN THE COMPANY AND ENRON CORP.

On August 16, 1999, the Company and Enron Corp. closed the Share Exchange in which the Company acquired 62,270,000 shares of the Company's common stock out of 82,270,000 shares then owned by Enron Corp., and in return Enron Corp. received all of the stock of EOGI-India, Inc., a subsidiary of the Company. EOGI-India, Inc. owned, through subsidiaries, all of the Company's assets and operations in India and China, and had received from the Company an indirect $600 million cash capital contribution, plus certain intercompany receivables, prior to the exchange. On the closing of the Share Exchange, all of Enron Corp.'s officers and directors then serving as Company directors resigned from the Company's board. Following the closing of the Share Exchange, Enron Corp. sold 8,500,000 shares of Company stock pursuant to a public offering in which the Company also sold 27,000,000 shares of its common stock. Subsequent to the closing of the Share Exchange and the common stock offering, Enron Corp. sold securities that are mandatorily exchangeable at maturity into a minimum of 9,746,250 EOG shares and a maximum of 11,500,000 EOG shares, the latter being an amount equal to all of Enron Corp.'s remaining shares in the Company. The maturity date for these securities is July 31, 2002.

The Company and Enron Corp. have in the past entered into material transactions and agreements incident to their respective businesses. Such transactions and agreements have related to, among other things, the purchase and sale of natural gas and crude oil and hedging and trading activities. Many of these agreements are still in place, and the Company and Enron Corp. may enter into similar types of transactions and agreements in the future. The Company intends that the terms of any future transactions and agreements with Enron Corp. will be at least as favorable to the Company as could be obtained from other third parties.

OTHER MATTERS

Energy Prices. Since the Company is primarily a natural gas company, it is more significantly impacted by changes in natural gas prices than in the prices for crude oil, condensate or natural gas liquids. During recent periods, domestic natural gas has been priced significantly below parity with crude oil and condensate based on the energy equivalency of, and differences in transportation and processing costs associated with, the respective products. This imbalance in parity has been primarily driven by, among other things, a supply of domestic natural gas volumes in excess of demand requirements. The Company is unable to predict when this supply imbalance may be resolved due to the significant impacts of factors such as general economic conditions, technology developments, weather and other international energy supplies over which the Company has no control.

Average North America wellhead natural gas prices have fluctuated, at times rather dramatically, during the last three years. These fluctuations resulted in an increase in the average wellhead natural gas price for North America received by the Company of 15% from 1996 to 1997, a decrease of 15% from 1997 to 1998, and an increase of 11% from 1998 to 1999. Wellhead natural gas volumes from Trinidad are sold at prices that are based on a fixed schedule with periodic escalations. Due to the many uncertainties associated with the world political environment, the availabilities of other world wide energy supplies and the relative competitive relationships of the various energy sources in the view of the consumers, the Company is unable to predict what changes may occur in natural gas prices in the future.

Substantially all of the Company's wellhead crude oil and condensate is sold under various terms and arrangements at market responsive prices. Crude oil and condensate prices also have fluctuated during the last three years. Due to the many uncertainties associated with the world political environment, the availabilities of other world wide energy supplies and the relative competitive

relationships of the various energy sources in the view of the consumers, the Company is unable to predict what changes may occur in crude oil and condensate prices in the future.

Risk Management. The Company engages in price risk management activities from time to time primarily for non-trading and to a lesser extent for trading purposes. Derivative financial instruments



(primarily price swaps and costless collars) are utilized for non-trading purposes to hedge the impact of market fluctuations of natural gas and crude oil market prices on net income and cash flow.

At December 31, 1999, the Company had outstanding crude oil commodity price swap transactions, designated as hedges, covering approximately 0.5 MMBbl of crude oil and condensate for 2000. The fair value of the positions was a negative $2 million at December 31, 1999.

At December 31, 1999, based on the Company's tax position and the portion of the Company's anticipated natural gas volumes for 2000 for which prices have not, in effect, been hedged using NYMEX-related commodity market transactions and long-term marketing contracts, the Company's net income and current operating cash flow sensitivities to changing natural gas prices are approximately $18 million (or $.15 per share) and $28 million, respectively, for each $.10 per Mcf change in average wellhead natural gas prices. The Company is not impacted as significantly by changing crude oil prices for those volumes not otherwise hedged. The Company's net income and current operating cash flow sensitivities are approximately $5 million (or $.04 per share) and $8 million, respectively, for each $1.00 per barrel change in average wellhead crude oil prices.

Tight Gas Sand Tax Credits (Section 29) and Severance Tax Exemption. United States federal tax law provides a tax credit for production of certain fuels produced from nonconventional sources (including natural gas produced from tight formations), subject to a number of limitations. Fuels qualifying for the credit must be produced from a well drilled or a facility placed in service after November 5, 1990 and before January 1, 1993, and must be sold before January 1, 2003.

The credit, which is currently approximately $.52 per million British thermal units ("MMBtu") of natural gas, is computed by reference to the price of crude oil, and is phased out as the price of crude oil exceeds $23.50 in 1980 dollars (adjusted for inflation) with complete phaseout if such price exceeds $29.50 in 1980 dollars (similarly adjusted). Under this formula, the commencement of phaseout would be triggered if the average price for crude oil rose above approximately $48 per barrel in current dollars. Significant benefits from the tax credit have accrued and continue to accrue to the Company since a portion (and in some cases a substantial portion) of the Company's natural gas production from new wells drilled after November 5, 1990, and before January 1, 1993, on the Company's leases in several of the Company's significant producing areas qualify for this tax credit. The Company entered into an arrangement with a third party whereby certain Section 29 credits were sold by the Company to the third party, and payments for such credits will be received on an as-generated basis.

Natural gas production from wells spudded or completed after May 24, 1989 and before September 1, 1996 in tight formations in Texas qualifies for a ten-year exemption, ending August 31, 2001, from severance taxes, subject to certain limitations. In 1995, the drilling qualification period was extended in a modified and somewhat reduced form from September 1996 through August 2002. In 1999, the drilling qualification period was extended eight years through August 2010. Consequently, new qualifying production will be added prospectively to that presently qualified.

Other. All of the Company's natural gas and crude oil activities are subject to the risks normally incident to the exploration for and development

and production of natural gas and crude oil, including blowouts, cratering and fires, each of which could result in damage to life and property. Offshore operations are subject to usual marine perils, including hurricanes and other adverse weather conditions, and governmental regulations as well as interruption or termination by governmental authorities based on environmental and other considerations. In accordance with customary industry practices, insurance is maintained by the Company against some, but not all, of the risks. Losses and liabilities arising from such events could reduce revenues and increase costs to the Company to the extent not covered by insurance.

The Company's operations outside of North America are subject to certain risks, including expropriation of assets, risks of increases in taxes and government royalties, renegotiation of contracts with foreign governments, political instability, payment delays, limits on allowable levels of production and currency exchange and repatriation losses, as well as changes in laws, regulations and policies governing operations of foreign companies generally.



CURRENT EXECUTIVE OFFICERS OF THE REGISTRANT

The current executive officers of the Company and their names and ages are as follows (all positions are with the Company unless otherwise noted):

| NAME | AGE | POSITION |
|---|---|---|
| Mark G. Papa..... | 53 | Chairman of the Board and Chief Executive Officer; Director |
| Edmund P. Segner, III.... | 46 | President and Chief of Staff; Director |
| Loren M. Leiker..... | 46 | Executive Vice President, Exploration and Development |
| Gary L. Thomas..... | 50 | Executive Vice President, North America Operations |
| Barry Hunsaker, Jr. ..... | 49 | Senior Vice President and General Counsel |
| Walter C. Wilson..... | 57 | Senior Vice President and Chief Financial Officer |
| Timothy K. Driggers..... | 38 | Vice President and Controller |

Mark G. Papa was elected Chairman of the Board and Chief Executive Officer in August 1999, President and Chief Executive Officer and Director of the Company in September 1998, President and Chief Operating Officer in September 1997, President in December 1996 and was President -- North America Operations from February 1994 to September 1998. From May 1986 through January 1994, Mr. Papa served as Senior Vice President -- Operations. Mr. Papa joined Belco Petroleum Corporation, a predecessor of the Company, in 1981.

Edmund P. Segner, III became President and Chief of Staff and Director of the Company in August 1999. He became Vice Chairman and Chief of Staff of the Company in September 1997. Mr. Segner was a director of the Company from January 1997 to October 1997. Mr. Segner joined Enron Corp. in 1988 and was Executive Vice President and Chief of Staff.

Loren M. Leiker joined the Company in April 1989 as Senior Vice President, Exploration. He was elected Executive Vice President, Exploration in May 1998 and Executive Vice President, Exploration and Development in February 2000.

Gary L. Thomas was elected Executive Vice President, North America Operations in May 1998. He was previously Senior Vice President and General Manager of the Company's Midland Division. Mr. Thomas joined a predecessor of the Company in July 1978.

Barry Hunsaker, Jr. has been Senior Vice President and General Counsel since he joined the Company in May 1996. Prior to joining the Company, Mr.

Hunsaker was a partner in the law firm of Vinson & Elkins L.L.P.

Walter C. Wilson joined the Company in November 1987 and has been Senior Vice President and Chief Financial Officer since May 1991.

Timothy K. Driggers was elected Vice President and Controller of the Company in October 1999. He was Assistant Controller of Enron Corp. from October 1998 through September 1999. Mr. Driggers held management positions in the Financial Planning and Reporting Department of the Company from August 1995 through September 1998. Prior to joining the Company, Mr. Driggers was a Senior Audit Manager at Arthur Andersen LLP.



ITEM 2. PROPERTIES

OIL AND GAS EXPLORATION AND PRODUCTION PROPERTIES AND RESERVES

Reserve Information. For estimates of the Company's net proved and proved developed reserves of natural gas and liquids, including crude oil, condensate and natural gas liquids, see "Supplemental Information to Consolidated Financial Statements."

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the producer. The reserve data set forth in Supplemental Information to Consolidated Financial Statements represent only estimates. Reserve engineering is a subjective process of estimating underground accumulations of natural gas and liquids, including crude oil, condensate and natural gas liquids, that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the amount and quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers normally vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities ultimately recovered. The meaningfulness of such estimates is highly dependent upon the accuracy of the assumptions upon which they were based.

In general, the volume of production from oil and gas properties owned by the Company declines as reserves are depleted. Except to the extent the Company acquires additional properties containing proved reserves or conducts successful exploration, exploitation and development activities, the proved reserves of the Company will decline as reserves are produced. Volumes generated from future activities of the Company are therefore highly dependent upon the level of success in finding or acquiring additional reserves and the costs incurred in so doing. The Company's estimates of reserves filed with other federal agencies agree with the information set forth in Supplemental Information to Consolidated Financial Statements.



Acreage. The following table summarizes the Company's developed and undeveloped acreage at December 31, 1999. Excluded is acreage in which the Company's interest is limited to owned royalty, overriding royalty and other similar interests.

| | DEVELOPED | | UNDEVELOPED | | TOTAL | |
|---|---|---|---|---|---|---|
| | GROSS | NET | GROSS | NET | GROSS | NET |
| United States | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| California | 707 | 395 | 67,896 | 67,584 | 68,603 | 67,979 |
| Texas | 383,296 | 270,130 | 579,393 | 483,082 | 962,689 | 753,212 |
| Offshore Gulf of Mexico | 214,772 | 81,770 | 369,551 | 266,462 | 584,323 | 348,232 |
| Wyoming | 160,892 | 120,844 | 323,945 | 245,402 | 484,837 | 366,246 |
| Oklahoma | 160,231 | 93,552 | 156,697 | 109,684 | 316,928 | 203,236 |
| Montana | 119,686 | 560 | 162,616 | 119,990 | 282,302 | 120,550 |
| New Mexico | 57,608 | 31,748 | 113,105 | 62,550 | 170,713 | 94,298 |
| Utah | 74,617 | 50,474 | 40,870 | 15,881 | 115,487 | 66,355 |
| Mississippi | 6,549 | 6,445 | 41,256 | 39,385 | 47,805 | 45,830 |
| Kansas | 12,013 | 9,772 | 34,069 | 30,976 | 46,082 | 40,748 |
| Colorado | 22,815 | 1,287 | 33,636 | 13,622 | 56,451 | 14,909 |
| Louisiana | 6,901 | 6,045 | 7,703 | 4,276 | 14,604 | 10,321 |
| Arkansas | 8,013 | 1,187 | 1,388 | 577 | 9,401 | 1,764 |
| Other | 5,177 | 960 | 996 | 795 | 6,173 | 1,755 |
| Total United States | 1,233,277 | 675,169 | 1,933,121 | 1,460,266 | 3,166,398 | 2,135,435 |
| Canada | | | | | | |
| Saskatchewan | 283,525 | 267,282 | 277,535 | 273,365 | 561,060 | 540,647 |
| Alberta | 425,937 | 295,863 | 279,336 | 221,739 | 705,273 | 517,602 |
| Manitoba | 11,863 | 10,026 | 16,848 | 15,436 | 28,711 | 25,462 |
| British Columbia | 656 | 164 | 18,680 | 10,865 | 19,336 | 11,029 |
| Total Canada | 721,981 | 573,335 | 592,399 | 521,405 | 1,314,380 | 1,094,740 |
| Other International | | | | | | |
| Trinidad | 4,200 | 3,990 | 147,233 | 143,490 | 151,433 | 147,480 |
| Venezuela | - | - | 268,413 | 241,572 | 268,413 | 241,572 |
| France | - | - | 168,032 | 168,032 | 168,032 | 168,032 |
| Total Other International | 4,200 | 3,990 | 583,678 | 553,094 | 587,878 | 557,084 |
| Total | 1,959,458 | 1,252,494 | 3,109,198 | 2,534,765 | 5,068,656 | 3,787,259 |

Producing Well Summary. The following table reflects the Company's ownership in gas and oil wells located in Texas, the Gulf of Mexico, Oklahoma, New Mexico, Utah, Wyoming, and various other states, Canada and Trinidad at December 31, 1999. Gross gas and oil wells include 222 with multiple completions.

| | PRODUCTIVE WELLS | |
|---|---|---|
| | GROSS | NET |
| Gas | 6,063 | 4,452 |
| Oil | 1,098 | 943 |
| Total | 7,161 | 5,395 |





Drilling and Acquisition Activities. During the years ended December 31, 1999, 1998 and 1997 the Company spent approximately $467 million, $779 million and $701 million, respectively, for exploratory and development drilling and acquisition of leases and producing properties. The Company drilled, participated in the drilling of or acquired wells as set out in the table below for the periods indicated:

| | YEAR ENDED DECEMBER 31, | | | | | |
|---|---|---|---|---|---|---|
| | 1999 | | 1998 | | 1997 | |
| | GROSS | NET | GROSS | NET | GROSS | NET |
| Development Wells Completed | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| North America | | | | | | |
| Gas | 613 | 515.64 | 478 | 402.80 | 467 | 352.90 |
| Oil | 53 | 52.02 | 38 | 34.98 | 94 | 74.85 |
| Dry | 68 | 58.43 | 79 | 62.16 | 101 | 80.01 |
| Total | 734 | 626.09 | 595 | 499.94 | 662 | 507.76 |
| Outside North America | | | | | | |
| Gas | 6 | 2.00 | - | - | 12 | 3.60 |
| Oil | 6 | 1.90 | 21 | 6.30 | 6 | 1.80 |
| Dry | - | - | - | - | - | - |
| Total | 12 | 3.90 | 21 | 6.30 | 18 | 5.40 |
| Total Development | 746 | 629.99 | 616 | 506.24 | 680 | 513.16 |
| Exploratory Wells Completed | | | | | | |
| North America | | | | | | |
| Gas | 21 | 14.57 | 5 | 4.40 | 8 | 5.12 |
| Oil | 2 | 2.00 | 6 | 5.50 | - | - |
| Dry | 19 | 14.55 | 22 | 15.70 | 12 | 7.53 |
| Total | 42 | 31.12 | 33 | 25.60 | 20 | 12.65 |
| Outside North America | | | | | | |
| Gas | 1 | 0.30 | 1 | 1.00 | - | - |
| Oil | - | - | 1 | .90 | - | - |
| Dry | 1 | 1.00 | - | - | - | - |
| Total | 2 | 1.30 | 2 | 1.90 | - | - |
| Total Exploratory | 44 | 32.42 | 35 | 27.50 | 20 | 12.65 |
| Total | 790 | 662.41 | 651 | 533.74 | 700 | 525.81 |
| Wells in Progress at end of period | 25 | 21.34 | 28 | 15.73 | 44 | 36.39 |
| Total | 815 | 683.75 | 679 | 549.47 | 744 | 562.20 |
| Wells Acquired* | | | | | | |
| Gas | 576 | 380.01 | 333 | 317.23 | 227 | 82.45 |
| Oil | 422 | 402.34 | - | 1.70 | 48 | 20.50 |
| Total | 998 | 782.35 | 333 | 318.93 | 275 | 102.95 |

---

* Includes the acquisition of additional interests in certain wells in which the Company previously owned an interest.

All of the Company's drilling activities are conducted on a contract basis with independent drilling contractors. The Company owns no drilling equipment.



ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries and related companies are named defendants in numerous lawsuits and named parties in numerous governmental proceedings arising in the ordinary course of business. While the outcome of lawsuits or other proceedings against the Company cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the financial condition or results of operations of the Company.

On July 21, 1999, two stockholders of the Company filed separate lawsuits purportedly on behalf of the Company against Enron Corp. and those individuals who were then directors of the Company, alleging that Enron Corp. and those directors breached their fiduciary duties of good faith and loyalty in approving the Share Exchange. The lawsuits seek to rescind the transaction or to receive monetary damages and costs and expenses, including reasonable attorneys' and experts' fees. The Company, Enron Corp. and the individual defendants believe the lawsuits are without merit and intend to vigorously contest them.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the

fourth quarter of 1999.



PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The following table sets forth, for the periods indicated, the high and low sales prices per share for the common stock of the Company, as reported on the New York Stock Exchange Composite Tape, and the amount of cash dividends paid per share.

| | PRICE RANGE | | CASH |
|---|---|---|---|
| | HIGH | LOW | DIVIDENDS |
| 1997 | | | |
| First Quarter | $27.00 | $19.88 | $0.03 |
| Second Quarter | 21.75 | 17.50 | 0.03 |
| Third Quarter | 25.06 | 17.69 | 0.03 |
| Fourth Quarter | 23.81 | 18.50 | 0.03 |
| 1998 | | | |
| First Quarter | $24.13 | $18.56 | $0.03 |
| Second Quarter | 24.50 | 18.13 | 0.03 |
| Third Quarter | 20.69 | 11.75 | 0.03 |
| Fourth Quarter | 18.50 | 12.69 | 0.03 |
| 1999 | | | |
| First Quarter | $18.38 | $15.69 | $0.03 |
| Second Quarter | 21.50 | 16.00 | 0.03 |
| Third Quarter | 25.38 | 19.25 | 0.03 |
| Fourth Quarter | 23.00 | 14.38 | 0.03 |

As of February 15, 2000, there were approximately 410 record holders of the Company's common stock, including individual participants in security position listings. There are an estimated 26,600 beneficial owners of the Company's common stock, including shares held in street name.

The Company currently intends to continue to pay quarterly cash dividends on its outstanding shares of common stock. However, the determination of the amount of future cash dividends, if any, to be declared and paid will depend upon, among other things, the financial condition, funds from operations, level of exploration, exploitation and development expenditure opportunities and future business prospects of the Company.

RECENT SALES OF UNREGISTERED SECURITIES

On December 10, 1999, the Company sold in a private placement 100,000 shares of Series A Fixed Rate Cumulative Perpetual Senior Preferred Stock, par value $.01 per share, liquidation preference $1,000 per share (the "Series A Stock") to Lehman Brothers Inc., Banc of America Securities LLC and Goldman, Sachs & Co., as initial purchasers, for resale to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) and to a limited number of institutional "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act), at the aggregate offering price of approximately $98,000,000. The Company has entered into a registration rights agreement with the initial purchasers for the benefit of the holders of Series A Stock wherein the Company has agreed (1) to use its reasonable best efforts to file with the Commission, within 150 days after the initial issuance of the Series A Stock (which would be May 8, 2000), a registration statement with respect to an offer to exchange shares of the Series A Stock for shares of fixed rate cumulative perpetual senior preferred stock of the Company with substantially identical terms to the Series A Stock (the "Exchange Stock"), except that the Exchange Stock will not contain terms with

respect to, among other matters, the transfer restrictions under the Securities Act, or the payment of additional dividends under certain circumstances relating to the Company's obligations under the registration rights agreement and (2) to use its reasonable best efforts to cause such registration statement to be declared effective under the Securities Act within 180 days after the initial issuance of the Series A Stock (which would be June 7, 2000). Promptly after such registration





statement has been declared effective, the Company intends to offer the Exchange Stock in exchange for surrender of the Series A Stock. For each share of Series A Stock validly tendered to the Company pursuant to the exchange offer and not validly withdrawn by the holder thereof, the holder of such share of Series A Stock will receive a share of the Exchange Stock having a liquidation preference equal to the liquidation preference of the tendered Series A Stock. In the event that applicable law or interpretations of the staff of the Commission do not permit the Company to effect the exchange offer, or in certain other circumstances, the Company has agreed to use its reasonable best efforts to cause to become effective a shelf registration statement with respect to the resale of the Series A Stock.

On December 22, 1999, the Company sold in a private placement 500 shares of Series C Flexible Money Market Cumulative Preferred Stock, par value $.01 per share, liquidation preference $100,000 per share (the "Series C Stock") to Lehman Brothers Inc., as initial purchaser, for resale to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) and to a limited number of institutional "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act), at the aggregate offering price of approximately $49,000,000. The Company has entered into a registration rights agreement with the initial purchaser for the benefit of the holders of Series C Stock wherein the Company has agreed (1) to use its reasonable best efforts to file with the Commission, within 150 days after the initial issuance of the Series C Stock (which would be May 20, 2000), a registration statement with respect to an offer to exchange shares of the Series C Stock for shares of money market cumulative preferred stock of the Company with substantially identical terms to the Series C Stock (the "Exchange Stock"), except that the Exchange Stock will not contain terms with respect to, among other matters, the transfer restrictions under the Securities Act or the payment of additional dividends under certain circumstances relating to the Company's obligations under the registration rights agreement and (2) to use its reasonable best efforts to cause such registration statement to be declared effective under the Securities Act within 180 days after the initial issuance of the Series C Stock (which would be June 19, 2000). Promptly after such registration statement has been declared effective, the Company intends to offer the Exchange Stock in exchange for surrender of the Series C Stock. For each share of Series C Stock validly tendered to the Company pursuant to the exchange offer and not validly withdrawn by the holder thereof, the holder of such share of Series C Stock will receive a share of the Exchange Stock having a liquidation preference equal to the liquidation preference of the tendered Series C Stock. In the event that applicable law or interpretations of the staff of the Commission do not permit the Company to effect the exchange offer, or in certain other circumstances, the Company has agreed to use its reasonable best efforts to cause to become effective a shelf registration statement with respect to the resale of the Series C Stock.





ITEM 6. SELECTED FINANCIAL DATA

| | YEAR ENDED DECEMBER 31, |
|---|---|

| | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|
| | (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | | | |
| STATEMENT OF INCOME DATA: | | | | | |
| Net operating revenues..... | $801,406 | $769,188 | $783,501 | $730,648 | $648,702 |
| Operating expenses | | | | | |
| Lease and well..... | 91,540 | 98,868 | 96,064 | 76,618 | 69,463 |
| Exploration costs..... | 52,773 | 65,940 | 57,696 | 55,009 | 42,044 |
| Dry hole costs..... | 11,893 | 22,751 | 17,303 | 13,193 | 12,911 |
| Impairment of unproved oil and gas properties..... | 31,608 | 32,076 | 27,213 | 21,226 | 23,715 |
| Depreciation, depletion and amortization..... | 459,877(1) | 315,106 | 278,179 | 251,278 | 216,047 |
| General and administrative.... | 82,857 | 69,010 | 54,415 | 56,405 | 56,626 |
| Taxes other than income..... | 52,670 | 51,776 | 59,856 | 48,089 | 32,587 |
| Total..... | 783,218 | 655,527 | 590,726 | 521,818 | 453,393 |
| Operating income..... | 18,188 | 113,661 | 192,775 | 208,830 | 195,309 |
| Other income (expense), net..... | 611,343(2) | (4,800) | (1,588) | (5,007) | 669 |
| Interest expense (net of interest capitalized)..... | 61,819 | 48,579 | 27,717 | 12,861 | 11,924 |
| Income before income taxes..... | 567,712 | 60,282 | 163,470 | 190,962 | 184,054 |
| Income tax provision (benefit)(3)..... | (1,382) | 4,111(4) | 41,500(5) | 50,954(6) | 41,936(7) |
| Net income..... | $569,094 | $ 56,171 | $121,970 | $140,008 | $142,118 |
| Net income per share available to common | | | | | |
| Basic..... | $ 4.04 | $ .36 | $ .78 | $ .88 | $ .89 |
| Diluted..... | $ 3.99 | $ .36 | $ .77 | $ .87 | $ .88 |
| Average number of common shares | | | | | |
| Basic..... | 140,869 | 154,345 | 157,376 | 159,853 | 159,917 |
| Diluted..... | 142,352 | 155,054 | 158,160 | 161,525 | 161,132 |

| | AT DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| | (IN THOUSANDS) | | | | |
| BALANCE SHEET DATA: | | | | | |
| Oil and gas properties -- net.... | $2,334,928 | $2,676,363 | $2,387,207 | $2,099,589 | $1,881,545 |
| Total assets..... | 2,610,793 | 3,018,095 | 2,723,355 | 2,458,353 | 2,147,258 |
| Long-term debt | | | | | |
| Trade..... | 990,306 | 942,779 | 548,775 | 466,089 | 147,559 |
| Affiliate..... | -- | 200,000 | 192,500 | -- | 141,520 |
| Deferred revenue..... | -- | 4,198 | 39,918 | 56,383 | 205,453 |
| Shareholders' equity..... | 1,129,611 | 1,280,304 | 1,281,049 | 1,265,090 | 1,163,659 |

---

(1) See Note 16 to the Consolidated Financial Statements.

(2) See "Item 1. Business -- General" regarding the Share Exchange.

(3) Includes benefits of approximately $8 million, $12 million, $12 million, $16 million and $22 million in 1999, 1998, 1997, 1996 and 1995, respectively, relating to tight gas sand federal income tax credits.

(4) Includes a benefit of $2 million related to the final audit assessments of India taxes for certain prior years, a benefit of $3.8 million related to reduced deferred franchise taxes, and $3.5 million related to Venezuela deferred tax benefits.

(5) Includes a benefit of $15 million primarily associated with the refiling of certain Canadian tax returns and the sale of certain international assets and subsidiaries.

(6) Includes a benefit of $9 million primarily associated with a reassessment of deferred tax requirements and the successful resolution on audit of Canadian income taxes for certain prior years.

(7) Includes a benefit of approximately $14 million associated with the successful resolution on audit of federal income taxes for certain prior years.



ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following review of operations for each of the three years in the period ended December 31, 1999 should be read in conjunction with the consolidated financial statements of the Company and notes thereto beginning with page F-1.

RESULTS OF OPERATIONS

Net Operating Revenues. Wellhead volume and price statistics for the specified years were as follows:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| Natural Gas Volumes (MMcf per day) | | | |
| United States(1) | 654 | 671 | 657 |
| Canada | 115 | 105 | 101 |
| Trinidad | 123 | 139 | 113 |
| India(2) | 46 | 56 | 18 |
| Total | 938 | 971 | 889 |
| Average Natural Gas Prices ($/Mcf) | | | |
| United States(3) | $ 2.12 | $ 1.93 | $ 2.32 |
| Canada | 1.80 | 1.40 | 1.43 |
| Trinidad | 1.08 | 1.06 | 1.05 |
| India(2) | 1.95 | 2.41 | 2.79 |
| Composite | 1.94 | 1.78 | 2.07 |
| Crude Oil and Condensate Volumes (MBbl per day) | | | |
| United States | 14.4 | 14.0 | 11.7 |
| Canada | 2.6 | 2.6 | 2.5 |
| Trinidad | 2.4 | 3.0 | 3.4 |
| India(2) | 4.1 | 5.1 | 2.3 |
| Total | 23.5 | 24.7 | 19.9 |
| Average Crude Oil and Condensate Prices ($/Bbl) | | | |
| United States | $18.41 | $12.84 | $19.81 |
| Canada | 16.77 | 11.82 | 17.16 |
| Trinidad | 16.21 | 12.26 | 18.68 |
| India(2) | 12.80 | 12.86 | 20.05 |
| Composite | 17.03 | 12.66 | 19.30 |
| Natural Gas Equivalent Volumes (MMcfe per day)(4) | | | |
| United States | 757 | 771 | 743 |
| Canada | 134 | 128 | 124 |
| Trinidad | 138 | 157 | 133 |
| India(2) | 70 | 86 | 32 |
| Total | 1,099 | 1,142 | 1,032 |
| Total Bcfe Deliveries | 401 | 417 | 377 |

---

(1) Includes 48 MMcf per day in 1998 and 1997 delivered under the terms of a

volumetric production payment agreement effective October 1, 1992, as amended. Delivery obligations were terminated in December 1998.

(2) See "Item 1. Business -- General" regarding the Share Exchange.

(3) Includes an average equivalent wellhead value of $1.53 per Mcf in 1998 and $1.73 per Mcf in 1997 for the volumes detailed in note (1), net of transportation costs.

(4) Includes natural gas, crude oil, condensate and natural gas liquids.



1999 compared to 1998. During 1999, net operating revenues increased $31 million to $801 million. Total wellhead revenues of $823 million increased by $68 million, or 9%, as compared to 1998.

Average wellhead natural gas prices for 1999 were approximately 9% higher than the comparable period in 1998 increasing net operating revenues by approximately $55 million. Average wellhead crude oil and condensate prices were up by 35% increasing net operating revenues by $37 million. Revenues from the sale of natural gas liquids increased $3 million primarily due to higher wellhead prices. Wellhead natural gas volumes were approximately 3% lower than the comparable period in 1998 decreasing net operating revenues by nearly $21 million. The decrease in volumes is primarily due to the transfer of producing properties in the Share Exchange and decreased deliveries in Trinidad. (See "Item 1. Business -- General" for a discussion of the Share Exchange.) Production in Trinidad decreased 16 MMcf per day due primarily to decreased nominations and the temporary shut-in of a well in accordance with the terms of a field allocation agreement. North America wellhead natural gas production was approximately 1% lower than the comparable period in 1998. Wellhead crude oil and condensate volumes were 5% lower than in 1998 decreasing net operating revenues by $6 million. The decrease is primarily attributable to the Share Exchange and decreased deliveries in Trinidad.

Gains (losses) on sales of reserves and related assets and other, net totaled a loss of $1 million during 1999 compared to a net gain of $18 million in 1998. The difference is due primarily to an $8 million loss in 1999 related to the anticipated disposition of certain international assets compared to a $27 million gain on sale of certain South Texas properties, partially offset by a $14 million provision for loss on certain physical natural gas contracts in 1998.

Other marketing activities associated with sales and purchases of natural gas, natural gas and crude oil price hedging and trading transactions, and margins related to the volumetric production payment (in 1998) decreased net operating revenue by $21 million during 1999, compared to a $4 million reduction in 1998.

1998 compared to 1997. During 1998, net operating revenues decreased $14 million to $769 million. Total wellhead revenues of $755 million decreased by $74 million, or 9%, as compared to 1997.

Average wellhead natural gas prices for 1998 were approximately 14% lower than the comparable period in 1997 reducing net operating revenues by approximately $104 million. Average wellhead crude oil and condensate prices were down by 34% worldwide decreasing net operating revenues by $60 million. Revenues from the sale of natural gas liquids decreased $6 million primarily due to lower wellhead prices. Wellhead natural gas volumes were approximately 9% higher than the comparable period in 1997 increasing net operating revenues by nearly $62 million. Natural gas production in India increased 38 MMcf per day from the Tapti and Panna fields, which did not commence deliveries until late in the second quarter of 1997 and the first quarter of 1998, respectively. Production in Trinidad increased 26 MMcf per day due primarily to additional volumes above the current contract level relating to gas balancing volumes pursuant to a field allocation agreement. North America wellhead natural gas

production was approximately 2% higher than the comparable period in 1997. Wellhead crude oil and condensate volumes were 24% higher than in 1997 increasing net operating revenues by $34 million. Production from the Panna and Mukta fields in India more than doubled as a result of the ongoing development program and shut-down of crude oil production in the second quarter of 1997 to allow for the conversion from temporary to permanent production facilities. North America crude oil and condensate volumes increased 17% due primarily to higher levels of liquids production in South Texas and offshore.

Other marketing activities associated with sales and purchases of natural gas, natural gas and crude oil price hedging and trading transactions, and margins related to the volumetric production payment decreased net operating revenue by $4 million during 1998, compared to a $61 million reduction in 1997, representing an improvement of $57 million.

Operating Expenses

1999 compared to 1998. During 1999, operating expenses of $783 million were approximately $127 million higher than the $656 million incurred in 1998.



Lease and well expenses decreased $7 million to $92 million primarily due to the effects of the Share Exchange, fewer workovers, the effects of a warm winter and a continuing focus on controlling operating costs in all areas of Company operations. Exploration expenses of $53 million and dry hole expenses of $12 million decreased $13 million and $11 million, respectively, from 1998 primarily due to implementation of cost provisions of certain new service agreements in North America. Impairment of unproved oil and gas properties of $32 million remained essentially flat compared to 1998. Depreciation, depletion and amortization ("DD&A") expense increased approximately $145 million to $460 million in 1999 primarily due to charges of $15 million pursuant to a change in the Company's strategy related to certain offshore operations in the second quarter and an impairment of various North America properties in the fourth quarter, and non-recurring charges of $114 million related primarily to assets determined no longer central to the Company's business in the third quarter. General and administrative ("G&A") expenses were $14 million higher than in 1998 due to non-recurring costs of $5 million related to the potential sale of the Company, $4 million related to personnel expenses and $9 million related to the completion of the Share Exchange partially offset by a reduction of $4 million resulting from the discontinuance of the India and China operations as a result of the Share Exchange.

Total operating costs per unit of production, which include lease and well, DD&A, G&A, taxes other than income and interest expense, increased 34% to $1.87 per thousand cubic feet equivalent ("Mcfe") in 1999 from $1.40 per Mcfe in 1998. This increase is primarily due to a higher per unit rate of DD&A expense, G&A expenses and interest expense, partially offset by a lower per unit rate of lease and well expense. Excluding the aforementioned charges of $15 million and $114 million in DD&A expense and $14 million in G&A expenses, the per unit operating costs for the Company were $1.51 per Mcfe. The adjusted per unit operating costs were $0.11 higher compared to $1.40 per Mcfe for the comparable period in 1998 primarily due to a higher per unit rate of interest as a result of higher debt levels and a higher per unit rate of DD&A expense.

1998 compared to 1997. During 1998, operating expenses of $656 million were approximately $65 million higher than the $591 million incurred in 1997.

Lease and well expenses increased $3 million to $99 million primarily due to commencement of operations in China. Exploration expenses of $66 million and dry hole expenses of $23 million increased $8 million and $5 million, respectively, from 1997 primarily due to increased exploratory drilling and other exploration activities in North America. Impairment of unproved oil and gas properties increased $5 million to $32 million resulting from a full year of impairment recorded on unproved leases acquired in 1997 in North America. DD&A expense increased approximately $37 million to $315 million in 1998 primarily

reflecting a higher per unit rate in North America and increased worldwide production volumes. G&A expenses were $15 million higher than in 1997 due to expanded worldwide operations. Taxes other than income were down by approximately $8 million from the prior year primarily due to lower state severance taxes associated with decreased wellhead revenues in the United States.

Total operating costs per unit of production, which include lease and well, DD&A, G&A, taxes other than income and interest expense, increased 2% to $1.40 per Mcfe in 1998 from $1.37 per Mcfe in 1997. This increase is primarily due to a higher per unit rate of interest expense, DD&A expense and G&A expenses, partially offset by a lower per unit rate of lease and well expense and taxes other than income.

Other Income (Expense). The other income of $611 million for 1999 included a $575 million net gain from the Share Exchange (See Note 7 to the Consolidated Financial Statements), a $59.6 million gain on the sale of 3.2 million options owned by the Company to purchase Enron Corp. common stock (See Note 3 to the Consolidated Financial Statements), and a $19.4 million charge for estimated exit costs related to the Company's decision to dispose of certain international assets.

Interest Expense. The increase in net interest expense of $13 million from 1998 to 1999 and $21 million from 1997 to 1998 primarily reflects a higher level of debt outstanding due to expanded worldwide operations and common stock repurchases. (See Note 4 to the Consolidated Financial Statements).





Income Taxes. Income tax provision decreased approximately $5 million for 1999 as compared to 1998 and decreased approximately $37 million for 1998 as compared to 1997 primarily due to lower pre-tax income year to year after removing the gain on the Share Exchange which is non-taxable.

CAPITAL RESOURCES AND LIQUIDITY

Cash Flow. The primary sources of cash for the Company during the three-year period ended December 31, 1999 included funds generated from operations, proceeds from the sales of other assets, selected oil and gas reserves and related assets, funds from new borrowings and proceeds from equity offerings. Primary cash outflows included funds used in operations, exploration and development expenditures, common stock repurchases, dividends paid to Company shareholders, the repayment of debt and cash contributed to transferred subsidiaries in the Share Exchange.

Net operating cash flows of $442 million in 1999 increased approximately $39 million as compared to 1998 due to higher net operating revenues resulting from higher prices net of cash operating expenses and lower current income taxes. Changes in working capital and other liabilities decreased operating cash flows by $18 million as compared to 1998 primarily due to changes in accounts receivable, accrued royalties payable and accrued production taxes caused by fluctuation of commodity prices at each year end. Net investing cash outflows of $363 million in 1999 decreased by $396 million as compared to 1998 due primarily to decreased exploration and development expenditures of $312 million (including producing property acquisitions) and higher proceeds from sales of other assets of $83 million partially offset by lower proceeds from sales of reserves and related assets of $51 million. Changes in Components of Working Capital Associated with Investing Activities included for all periods changes in accounts payable related to the accrual of exploration and development expenditures and changes in inventories which represent materials and equipment used in drilling and related activities. Cash used in financing activities in 1999 was $60 million as compared to cash provided by financing activities of $353 million in 1998. Financing activities in 1999 included funds used in the Share Exchange of $609 million, dividend payments of $17 million, transaction fees of $19 million associated with the Share Exchange and other financing transactions, and net repayment of $152 million of long-term debt, partially

offset by net proceeds from equity offerings of $725 million and proceeds from sales of treasury stock of $15 million.

Net operating cash flows of $404 million in 1998 decreased approximately $127 million as compared to 1997 primarily reflecting increased working capital for operating activities, higher interest expense, decreased operating revenues, increased cash operating expenses and increased cash taxes. Changes in working capital and other liabilities decreased operating cash flows by $72 million as compared to 1997 primarily due to the payment of $25 million of income taxes due under the 1997 tax agreement with Enron Corp. and changes in accounts receivable, accrued royalties payable and accrued production taxes caused by fluctuation of commodity prices at each year end. Net investing cash outflows of $760 million in 1998 increased by $63 million as compared to 1997 due primarily to increased exploration and development expenditures of $78 million, partially offset by higher proceeds from sales of reserves and related assets of $24 million. Changes in Components of Working Capital Associated with Investing Activities included for all periods changes in accounts payable related to the accrual of exploration and development expenditures and changes in inventories which represent materials and equipment used in drilling and related activities. Cash provided by financing activities in 1998 was $353 million as compared to $168 million in 1997. Financing activities in 1998 included the net issuance of $402 million of long-term debt primarily to fund exploration and development activities, to repurchase shares of the Company's common stock and to pay cash dividends. Share repurchases in 1998 totaled $26 million as compared to repurchases of $99 million in 1997. Dividend payments were approximately $19 million in each year.

Discretionary cash flow, a frequently used measure of performance for exploration and production companies, is generally derived by adjusting net income to eliminate the effects of depreciation, depletion and amortization, impairment of unproved oil and gas properties, deferred income taxes, gains on sales of oil and gas reserves and related assets, certain other non-cash amounts, except for amortization of deferred revenue and exploration and dry hole costs. The Company generated discretionary cash flow of approximately $476 million in 1999, $463 million in 1998, and $508 million in 1997.





Exploration and Development Expenditures. The table below sets out components of actual exploration and development expenditures for the years ended December 31, 1999, 1998 and 1997, along with those budgeted for the year 2000.

| | ACTUAL | | | EXCLUDING INDIA AND CHINA OPERATIONS | | | |
|---|---|---|---|---|---|---|---|
| EXPENDITURE CATEGORY | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 | BUDGETED 2000 |
| (IN MILLIONS) | | | | | | | |
| Capital | | | | | | | |
| Drilling and Facilities | $320 | $421 | $446 | $293 | $374 | $385 | |
| Leasehold Acquisitions | 21 | 36 | 77 | 21 | 36 | 77 | |
| Producing Property Acquisitions | 45 | 211 | 81 | 43 | 211 | 81 | |
| Capitalized Interest and Other | 16 | 22 | 22 | 14 | 17 | 14 | |
| Subtotal | 402 | 690 | 626 | 371 | 638 | 557 | |
| Exploration Costs | 53 | 66 | 58 | 51 | 64 | 53 | |
| Dry Hole Costs | 12 | 23 | 17 | 12 | 23 | 17 | |
| Total | $467 | $779 | $701 | $434 | $725 | $627 | $500-$525 |

Exploration and development expenditures decreased $312 million in 1999 as compared to 1998 primarily due to a reduced level of service industry costs as well as reduced spending on the North America, Trinidad and India drilling and acquisition program. Producing property acquisitions decreased $166 million primarily in North America. Drilling and facilities expenditures declined by

$101 million in 1999 primarily due to implementation of cost provisions of certain new service agreements in North America and effects of the Share Exchange.

Exploration and development expenditures increased $78 million in 1998 as compared to 1997 primarily due to the third quarter 1998 acquisition of producing properties in the Gulf of Mexico for $156 million. Unproved leasehold acquisitions decreased $41 million primarily in North America. Drilling and facilities expenditures declined by approximately $25 million in 1998 as decreased activity in North America and lower expenditures in India were partially offset by new drilling in Trinidad and Venezuela. While development activities continued in India, expenditures in 1998 were less than in 1997 due to 1997 expenditures associated with the installation of permanent production facilities. (See "Business -- Exploration and Production" for additional information detailing the specific geographic locations of the Company's drilling programs and "Outlook" below for a discussion related to 2000 exploration and development expenditure plans).

Hedging Transactions. The Company's 1999 NYMEX-related natural gas and crude oil commodity price swaps closed with "other marketing revenue" decreases of $7 million and $3 million pretax, respectively. At December 31, 1999, there were open crude oil commodity price swaps for 2000 covering approximately 548 MBbl of crude oil at a weighted average price of $19.23 per barrel. There were no open natural gas commodity price swaps.

Financing. The Company's long-term debt-to-total-capital ratio was 47% as of December 31, 1999 and 1998.

During 1999, total long-term debt decreased $153 million to $990 million following the issuance of two series of preferred stock with combined face value of $150 million and the subsequent use of approximately $147 million of net proceeds received therefrom to reduce commercial paper and bank debt borrowings. (See Notes 4 and 6 to the Consolidated Financial Statements). The estimated fair value of the Company's long-term debt at December 31, 1999 and 1998 was $933 million and $1,141 million, respectively, based upon quoted market prices and, where such prices were not available, upon interest rates currently available to the Company at year end. The Company's debt is primarily at fixed interest rates. At December 31, 1999, a 1% change in interest rates would result in a $46 million change in the estimated fair value of the fixed rate obligations. (See Note 14 to the Consolidated Financial Statements).



Prior to August 16, 1999, the Company engaged in various transactions with Enron Corp. that were characteristic of a consolidated group under common control. Accordingly, the Company maintained reciprocal agreements with Enron Corp. that provided for the borrowing by the Company of up to $200 million and investing by the Company of surplus funds of up to $200 million at market-based interest rates. Advances from Enron Corp. of $200 million were outstanding at December 31, 1998, and such balances were classified as long-term based on the Company's intent and ability to ultimately replace such amounts with other long-term debt. The reciprocal agreements terminated on August 16, 1999 upon the closing of the Share Exchange. There were no investments with Enron Corp. at December 31, 1998 or 1999. (See Note 4 to the Consolidated Financial Statements).

Outlook. Uncertainty continues to exist as to the direction of future North America natural gas and crude oil price trends, and there remains a rather wide divergence in the opinions held by some in the industry. This divergence in opinion is caused by various factors including improvements in the technology used in drilling and completing crude oil and natural gas wells that are tending to mitigate the impacts of fewer crude oil and natural gas wells being drilled, improvements being realized in the availability and utilization of natural gas storage capacity and warmer than normal weather experienced in 1999 and to date in 2000. However, the continually increasing recognition of natural gas as a more environmentally friendly source of energy along with the availability of

significant domestically sourced supplies should result in further increases in demand and a supporting/strengthening of the overall natural gas market over time. Being primarily a natural gas producer, the Company is more significantly impacted by changes in natural gas prices than by changes in crude oil and condensate prices. (See "Business -- Other Matters -- Energy Prices"). At December 31, 1999, based on the Company's tax position and the portion of the Company's anticipated natural gas volumes for 2000 for which prices have not, in effect, been hedged using NYMEX-related commodity market transactions and long-term marketing contracts, the Company's net income and current operating cash flow sensitivities to changing natural gas prices are approximately $18 million (or $.15 per share) and $28 million, respectively, for each $.10 per Mcf change in average wellhead natural gas prices. The Company is not impacted as significantly by changing crude oil prices for those volumes not otherwise hedged. The Company's net income and current operating cash flow sensitivities are approximately $5 million (or $.04 per share) and $8 million, respectively, for each $1.00 per barrel change in average wellhead crude oil prices.

The Company plans to continue to focus a substantial portion of its exploration and development expenditures in its major producing areas in North America. However, based on the continuing uncertainty associated with North America natural gas prices and as a result of the overall success realized in Trinidad, the Company anticipates expending a portion of its available funds in the further development of opportunities outside North America. In addition, the Company expects to conduct limited exploratory activity in other areas outside of North America and will continue to evaluate the potential for involvement in other exploitation type opportunities. (See "Business -Exploration and Production" for additional information detailing the specific geographic locations of the related drilling programs). Budgeted 2000 expenditures are anticipated to be managed within the range of $500-$525 million, addressing the continuing uncertainty with regard to the future of the North America natural gas and crude oil and condensate price environment. Budgeted expenditures for 2000 are structured to maintain the flexibility necessary under the Company's continuing strategy of funding North America exploration, exploitation, development and acquisition activities primarily from available internally generated cash flow.

The level of exploration and development expenditures may vary in 2000 and will vary in future periods depending on energy market conditions and other related economic factors. Based upon existing economic and market conditions, the Company believes net operating cash flow and available financing alternatives in 2000 will be sufficient to fund its net investing cash requirements for the year. However, the Company has significant flexibility with respect to its financing alternatives and adjustment of its exploration, exploitation, development and acquisition expenditure plans if circumstances warrant. While the Company has certain continuing commitments associated with expenditure plans related to operations in Trinidad, such commitments are not anticipated to be material when considered in relation to the total financial capacity of the Company.



Environmental Regulations. Various federal, state and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to protection of the environment, may affect the Company's operations and costs as a result of their effect on natural gas and crude oil exploration, exploitation, development and production operations. Compliance with such laws and regulations has not had a material adverse effect on the Company's operations or financial condition. It is not anticipated, based on current laws and regulations, that the Company will be required in the near future to expend amounts that are material in relation to its total exploration and development expenditure program by reason of environmental laws and regulations. However, inasmuch as such laws and regulations are frequently changed, the Company is unable to predict the ultimate cost of compliance.

NEW ACCOUNTING PRONOUNCEMENT -- SFAS NO. 133

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133 -- "Accounting for Derivative Instruments and Hedging Activities" effective for fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS No. 137, which delays the effective date of SFAS No. 133 for one year, to fiscal years beginning after June 15, 2000. SFAS No. 133, as amended by SFAS No. 137, cannot be applied retroactively and must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired or substantively modified after a transition date to be selected by the Company of either December 31, 1997 or December 31, 1998.

The statement establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statements of income and requires a company to formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

The Company has not yet quantified the impacts of adopting SFAS No. 133 on its financial statements and has not determined the timing of adoption. Based on the Company's current level of derivative and hedging activities, the Company does not expect the impact of adoption to be material.

YEAR 2000

The Company did not experience any significant operational difficulties or incur any significant expenses in connection with the Year 2000 issue. The Company will continue to monitor all critical systems for any incidents of delayed complications or disruptions and problems encountered through third parties with whom the Company deals so that they may be timely addressed.



INFORMATION REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K 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 the Company's future financial position, business strategy, budgets, reserve information, projected levels of production, exploration and development expenditures, projected costs and plans and objectives of management for future operations, are forward-looking statements. The Company typically uses words such as "expect," "anticipate," "estimate," "strategy," "intend," "plan" 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 or the ability to generate income or cash flows are forward-looking statements. Although the Company 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: timing and extent of changes in commodity prices for crude oil, natural gas and related products and interest rates; extent of the Company's success in discovering, developing, marketing and producing reserves and in acquiring oil and gas properties; political developments around the world; and financial market conditions.

In light of these risks, uncertainties and assumptions, the events anticipated by the Company's forward-looking statements might not occur. The Company undertakes no obligations to update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to interest rate risk and commodity price risk is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Capital Resources and Liquidity -- Financing" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Capital Resources and Liquidity -- Outlook," respectively. The Company's exposure to foreign currency exchange rate risks and other market risks is insignificant.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required hereunder is included in this report as set forth in the "Index to Financial Statements" on page F-1.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.



PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item regarding directors is set forth in the Proxy Statement under the caption entitled "Election of Directors," and is incorporated herein by reference.

See list of "Current Executive Officers of the Registrant" in Part I located elsewhere herein.

There are no family relationships among the officers listed, and there are no arrangements or understandings pursuant to which any of them were elected as officers. Officers are appointed or elected annually by the Board of Directors at its first meeting following the Annual Meeting of Shareholders, each to hold office until the corresponding meeting of the Board in the next year or until a successor shall have been elected, appointed or shall have qualified.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is set forth in the Proxy Statement under the caption "Compensation of Directors and Executive Officers," and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is set forth in the Proxy Statement under the captions "Election of Directors" and "Compensation of Directors and Executive Officers," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is set forth in the Proxy Statement under the caption "Certain Transactions," and is incorporated herein by reference.

PART IV

ITEM 14. FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE, EXHIBITS AND REPORTS ON FORM 8-K

(A)(1) AND (2) FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

See "Index to Financial Statements" set forth on page F-1.

(A)(3) EXHIBITS

See pages E-1 through E-4 for a listing of the exhibits.

(B) REPORTS ON FORM 8-K

The Company filed a Report on Form 8-K on August 31, 1999, to report the Share Exchange on August 16, 1999, in Item 2 -- Acquisition or Disposition of Assets, the change of the Company's name on August 30, 1999, in Item 5 -- Other Events, and pro forma financial information in Item 7 -- Financial Statements, Pro Forma Financial Information and Exhibits.



33

INDEX TO FINANCIAL STATEMENTS
EOG RESOURCES, INC.



Other financial statement schedules have been omitted because they are inapplicable or the information required therein is included elsewhere in the consolidated financial statements or notes thereto.



34

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The following consolidated financial statements of EOG Resources, Inc. and its subsidiaries were prepared by management, which is responsible for their integrity, objectivity and fair presentation. The statements have been prepared in conformity with generally accepted accounting principles and, accordingly, include some amounts that are based on the best estimates and judgments of management.

Arthur Andersen LLP, independent public accountants, was engaged to audit the consolidated financial statements of EOG Resources, Inc. and its subsidiaries and issue a report thereon. In the conduct of the audit, Arthur Andersen LLP was given unrestricted access to all financial records and related

data including minutes of all meetings of shareholders, the Board of Directors and committees of the Board. Management believes that all representations made to Arthur Andersen LLP during the audit were valid and appropriate.

The system of internal controls of EOG Resources, Inc. and its subsidiaries is designed to provide reasonable assurance as to the reliability of financial statements and the protection of assets from unauthorized acquisition, use or disposition. This system includes, but is not limited to, written policies and guidelines including a published code for the conduct of business affairs, conflicts of interest and compliance with laws regarding antitrust, antiboycott and foreign corrupt practices policies, the careful selection and training of qualified personnel, and a documented organizational structure outlining the separation of responsibilities among management representatives and staff groups.

The adequacy of financial controls of EOG Resources, Inc. and its subsidiaries and the accounting principles employed in financial reporting by the Company are under the general oversight of the Audit Committee of the Board of Directors. No member of this committee is an officer or employee of the Company. The independent public accountants and internal auditors have direct access to the Audit Committee and meet with the committee from time to time to discuss accounting, auditing and financial reporting matters. It should be recognized that there are inherent limitations to the effectiveness of any system of internal control, including the possibility of human error and circumvention or override. Accordingly, even an effective system can provide only reasonable assurance with respect to the preparation of reliable financial statements and safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

It is management's opinion that, considering the criteria for effective internal control over financial reporting and safeguarding of assets which consists of interrelated components including the control environment, risk assessment process, control activities, information and communication systems, and monitoring, the Company maintained an effective system of internal control as to the reliability of financial statements and the protection of assets against unauthorized acquisition, use or disposition during the year ended December 31, 1999.

| | | |
|---|---|---|
| TIMOTHY K. DRIGGERS<br>Vice President and Controller | WALTER C. WILSON<br>Senior Vice President and<br>Chief Financial Officer | MARK G. PAPA<br>Chairman and<br>Chief Executive Officer |

Houston, Texas
March 2, 2000



## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To EOG Resources, Inc.:

We have audited the accompanying consolidated balance sheets of EOG Resources, Inc. (formerly Enron Oil & Gas Company, a Delaware corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements

are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EOG Resources, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedule listed in the index to financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Houston, Texas
March 2, 2000



EOG RESOURCES, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| NET OPERATING REVENUES | | | |
| Natural Gas | | | |
| Trade | $588,432 | $558,376 | $544,181 |
| Associated Companies | 56,450 | 62,929 | 71,339 |
| Crude Oil, Condensate and Natural Gas Liquids | | | |
| Trade | 156,441 | 120,366 | 121,838 |
| Associated Companies | 826 | 9,266 | 29,951 |
| Gains (Losses) on Sales of Reserves and Related Assets and Other, Net | (743) | 18,251 | 16,192 |
| Total | 801,406 | 769,188 | 783,501 |
| OPERATING EXPENSES | | | |
| Lease and Well | 91,540 | 98,868 | 96,064 |
| Exploration Costs | 52,773 | 65,940 | 57,696 |
| Dry Hole Costs | 11,893 | 22,751 | 17,303 |
| Impairment of Unproved Oil and Gas Properties | 31,608 | 32,076 | 27,213 |
| Depreciation, Depletion and Amortization | 459,877 | 315,106 | 278,179 |
| General and Administrative | 82,857 | 69,010 | 54,415 |
| Taxes Other Than Income | 52,670 | 51,776 | 59,856 |
| Total | 783,218 | 655,527 | 590,726 |
| OPERATING INCOME | 18,188 | 113,661 | 192,775 |
| OTHER INCOME (EXPENSE) | | | |
| Gain on Share Exchange | 575,151 | -- | -- |
| Other, Net | 36,192 | (4,800) | (1,588) |

| | | | |
|---|---|---|---|
| Total | 611,343 | (4,800) | (1,588) |
| INCOME BEFORE INTEREST EXPENSE AND INCOME TAXES | 629,531 | 108,861 | 191,187 |
| INTEREST EXPENSE | | | |
| Incurred | | | |
| Trade | 72,157 | 60,701 | 41,399 |
| Affiliate | 256 | 589 | 24 |
| Capitalized | (10,594) | (12,711) | (13,706) |
| Net Interest Expense | 61,819 | 48,579 | 27,717 |
| INCOME BEFORE INCOME TAXES | 567,712 | 60,282 | 163,470 |
| INCOME TAX PROVISION (BENEFIT) | (1,382) | 4,111 | 41,500 |
| NET INCOME | 569,094 | 56,171 | 121,970 |
| PREFERRED STOCK DIVIDENDS | (535) | -- | -- |
| NET INCOME AVAILABLE TO COMMON | 568,559 | 56,171 | 121,970 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Foreign Currency Translation Adjustment | 16,038 | (16,077) | (9,592) |
| COMPREHENSIVE INCOME | $584,597 | $ 40,094 | $112,378 |
| NET INCOME PER SHARE AVAILABLE TO COMMON | | | |
| Basic | $ 4.04 | $ .36 | $ .78 |
| Diluted | $ 3.99 | $ .36 | $ .77 |
| AVERAGE NUMBER OF COMMON SHARES | | | |
| Basic | 140,869 | 154,345 | 157,376 |
| Diluted | 142,352 | 155,054 | 158,160 |

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



EOG RESOURCES, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

ASSETS

| | AT DECEMBER 31, | |
|---|---|---|
| | 1999 | 1998 |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | $ 24,836 | $ 6,303 |
| Accounts Receivable | | |
| Trade | 148,189 | 176,608 |
| Associated Companies | -- | 16,980 |
| Inventories | 18,816 | 39,581 |
| Other | 8,660 | 6,878 |
| Total | 200,501 | 246,350 |
| OIL AND GAS PROPERTIES (Successful Efforts Method) | 4,602,740 | 4,814,425 |
| Less Accumulated Depreciation, Depletion and Amortization | (2,267,812) | (2,138,062) |
| Net Oil and Gas Properties | 2,334,928 | 2,676,363 |
| OTHER ASSETS | 75,364 | 95,382 |
| TOTAL ASSETS | $ 2,610,793 | $ 3,018,095 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts Payable | | |
| Trade | $ 172,780 | $ 159,690 |
| Associated Companies | -- | 46,597 |
| Accrued Taxes Payable | 19,648 | 20,087 |
| Dividends Payable | 4,227 | 4,710 |
| Other | 21,963 | 31,550 |
| Total | 218,618 | 262,634 |
| LONG-TERM DEBT | | |
| Trade | 990,306 | 942,779 |
| Affiliate | -- | 200,000 |
| OTHER LIABILITIES | | |
| Trade | 46,306 | 21,516 |
| Associated Companies | -- | 46,327 |
| DEFERRED INCOME TAXES | 225,952 | 260,337 |
| DEFERRED REVENUE | -- | 4,198 |
| SHAREHOLDERS' EQUITY | | |
| Preferred Stock, $.01 Par, 10,000,000 shares Authorized: | | |
| Series A, 100,000 shares Issued, Cumulative, $100,000,000 Liquidation Preference | 97,909 | -- |
| Series C, 500 shares Issued, Cumulative, $50,000,000 Liquidation Preference | 49,281 | -- |
| Common Stock, $.01 Par, 320,000,000 shares Authorized; 124,730,000 shares Issued at December 31, 1999 and 160,000,000 shares Issued at December 31, 1998 | 201,247 | 201,600 |
| Additional Paid In Capital | -- | 401,524 |
| Unearned Compensation | (1,618) | (4,900) |
| Cumulative Foreign Currency Translation Adjustment | (19,810) | (35,848) |
| Retained Earnings | 930,938 | 838,371 |
| Common Stock Held in Treasury, 5,625,446 shares at December 31, 1999 and 6,276,156 shares at December 31, 1998 | (128,336) | (120,443) |
| Total Shareholders' Equity | 1,129,611 | 1,280,304 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 2,610,793 | $ 3,018,095 |

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



EOG RESOURCES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | PREFERRED STOCK | COMMON STOCK | ADDITIONAL PAID IN CAPITAL | UNEARNED COMPENSATION | CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENT | RETAINED EARNINGS | COMMON STOCK HELD IN TREASURY |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 1996 | $ -- | $201,600 | $ 388,212 | $(5,727) | $(10,179) | $697,564 | $ (6,380) |
| Net Income | -- | -- | -- | -- | -- | 121,970 | -- |
| Dividends Paid/Declared, $.12 per Share | -- | -- | -- | -- | -- | (18,825) | -- |
| Translation Adjustment | -- | -- | -- | -- | (9,592) | -- | -- |
| Treasury Stock Purchased | -- | -- | -- | -- | -- | -- | (99,306) |
| Treasury Stock Issued Under Stock Option Plans | -- | -- | (872) | -- | -- | -- | 6,014 |
| Options Granted by Enron Corp | -- | -- | 15,081 | -- | -- | -- | -- |
| Amortization of Unearned Compensation | -- | -- | -- | 1,033 | -- | -- | -- |
| Other | -- | -- | 456 | -- | -- | -- | -- |
| Balance at December 31, 1997 | -- | 201,600 | 402,877 | (4,694) | (19,771) | 800,709 | (99,672) |
| Net Income | -- | -- | -- | -- | -- | 56,171 | -- |
| Dividends Paid/Declared, $.12 per Share | -- | -- | -- | -- | -- | (18,509) | -- |
| Translation Adjustment | -- | -- | -- | -- | (16,077) | -- | -- |
| Treasury Stock | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Purchased | -- | -- | -- | -- | -- | -- | (25,875) |
| Treasury Stock Issued Under Stock Option Plans | -- | -- | (492) | (1,709) | -- | -- | 5,104 |
| Amortization of Unearned Compensation | -- | -- | -- | 1,503 | -- | -- | -- |
| Other | -- | -- | (861) | -- | -- | -- | -- |
| Balance at December 31, 1998 | -- | 201,600 | 401,524 | (4,900) | (35,848) | 838,371 | (120,443) |
| Net Income | -- | -- | -- | -- | -- | 569,094 | -- |
| Preferred Stock Issued | 147,175 | -- | -- | -- | -- | -- | -- |
| Amortization of Preferred Stock Discount | 15 | -- | -- | -- | -- | -- | -- |
| Common Stock Issued | -- | 270 | 577,662 | -- | -- | -- | -- |
| Preferred Stock Dividends Accrued | -- | -- | -- | -- | -- | (535) | -- |
| Common Stock Dividends Paid/Declared, $.12 per Share | -- | -- | -- | -- | -- | (16,377) | -- |
| Translation Adjustment | -- | -- | -- | -- | 16,038 | -- | -- |
| Treasury Stock Purchased | -- | -- | -- | -- | -- | -- | (2,143) |
| Treasury Stock Received in Share Exchange | -- | -- | -- | -- | -- | -- | (1,459,484) |
| Common Stock Retired | -- | (623) | (978,224) | -- | -- | (458,033) | 1,436,880 |
| Treasury Stock Issued Under Stock Option Plans | -- | -- | (887) | 136 | -- | (1,582) | 16,854 |
| Amortization of Unearned Compensation | -- | -- | -- | 3,146 | -- | -- | -- |
| Other | -- | -- | (75) | -- | -- | -- | -- |
| Balance at December 31, 1999 | $147,190 | $201,247 | $ -- | $(1,618) | $(19,810) | $930,938 | $ (128,336) |

| | TOTAL SHAREHOLDERS' EQUITY |
|---|---|
| Balance at December 31, 1996 | $1,265,090 |
| Net Income | 121,970 |
| Dividends Paid/Declared, $.12 per Share | (18,825) |
| Translation Adjustment | (9,592) |
| Treasury Stock Purchased | (99,306) |
| Treasury Stock Issued Under Stock Option Plans | 5,142 |
| Options Granted by Enron Corp | 15,081 |
| Amortization of Unearned Compensation | 1,033 |
| Other | 456 |
| Balance at December 31, 1997 | 1,281,049 |
| Net Income | 56,171 |
| Dividends Paid/Declared, $.12 per Share | (18,509) |
| Translation Adjustment | (16,077) |
| Treasury Stock Purchased | (25,875) |
| Treasury Stock Issued Under Stock Option Plans | 2,903 |
| Amortization of Unearned Compensation | 1,503 |
| Other | (861) |
| Balance at December 31, 1998 | 1,280,304 |
| Net Income | 569,094 |
| Preferred Stock Issued | 147,175 |
| Amortization of Preferred Stock Discount | 15 |
| Common Stock Issued | 577,932 |
| Preferred Stock Dividends Accrued | (535) |
| Common Stock Dividends Paid/Declared, $.12 per Share | (16,377) |
| Translation Adjustment | 16,038 |
| Treasury Stock Purchased | (2,143) |
| Treasury Stock Received in Share Exchange | (1,459,484) |
| Common Stock Retired | -- |
| Treasury Stock Issued Under Stock Option Plans | 14,521 |
| Amortization of Unearned Compensation | 3,146 |
| Other | (75) |
| Balance at December 31, 1999 | $1,129,611 |

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



EOG RESOURCES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Reconciliation of Net Income to Net Operating Cash Inflows: | | | |
| Net Income | $ 569,094 | $ 56,171 | $ 121,970 |
| Items Not Requiring (Providing) Cash | | | |
| Depreciation, Depletion and Amortization | 459,877 | 315,106 | 278,179 |
| Impairment of Unproved Oil and Gas Properties | 31,608 | 32,076 | 27,213 |
| Deferred Income Taxes | (26,252) | (26,794) | 16,665 |
| Other, Net | 25,583 | 7,761 | 359 |
| Exploration Costs | 52,773 | 65,940 | 57,696 |
| Dry Hole Costs | 11,893 | 22,751 | 17,303 |
| Losses (Gains) On Sales of Reserves and Related Assets and Other, Net | 5,602 | (11,191) | (9,287) |
| Gains on Sales of Other Assets | (59,647) | -- | -- |
| Gain on Share Exchange | (575,151) | -- | -- |
| Other, Net | (19,081) | 1,116 | (2,590) |
| Changes in Components of Working Capital and Other Liabilities | | | |
| Accounts Receivable | (12,914) | 36,363 | 48,893 |
| Inventories | 5,180 | (7,541) | (11,294) |
| Accounts Payable | 4,395 | (65,249) | (11,478) |
| Accrued Taxes Payable | 2,449 | (8,754) | 10,287 |
| Other Liabilities | (15,438) | 2,324 | 2,521 |
| Other, Net | (9,960) | (3,620) | 9,760 |
| Amortization of Deferred Revenue | -- | (43,344) | (43,345) |
| Changes in Components of Working Capital Associated with Investing and Financing Activities | (7,879) | 30,491 | 18,077 |
| NET OPERATING CASH INFLOWS | 442,132 | 403,606 | 530,929 |
| INVESTING CASH FLOWS | | | |
| Additions to Oil and Gas Properties | (402,829) | (690,352) | (626,198) |
| Exploration Costs | (52,773) | (65,940) | (57,696) |
| Dry Hole Costs | (11,893) | (22,751) | (17,303) |
| Proceeds from Sales of Reserves and Related Assets | 10,934 | 61,858 | 37,521 |
| Proceeds from Sales of Other Assets | 82,965 | -- | -- |
| Changes in Components of Working Capital Associated with Investing Activities | 7,909 | (30,173) | (22,454) |
| Other, Net | 2,322 | (12,262) | (11,000) |
| NET INVESTING CASH OUTFLOWS | (363,365) | (759,620) | (697,130) |
| FINANCING CASH FLOWS | | | |
| Long-Term Debt | | | |
| Trade | 47,527 | 394,004 | 86,595 |
| Affiliate | (200,000) | 7,500 | 192,500 |
| Proceeds from Preferred Stock Issued | 147,175 | -- | -- |
| Proceeds from Common Stock Issued | 577,932 | -- | -- |
| Dividends Paid | (17,395) | (18,504) | (18,938) |
| Treasury Stock Purchased | (2,143) | (25,875) | (99,306) |
| Proceeds from Sales of Treasury Stock | 14,728 | 2,883 | 5,141 |
| Equity Contribution to Transferred Subsidiaries | (608,750) | -- | -- |
| Other, Net | (19,308) | (7,021) | 1,895 |
| NET FINANCING CASH INFLOWS (OUTFLOWS) | (60,234) | 352,987 | 167,887 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 18,533 | (3,027) | 1,686 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 6,303 | 9,330 | 7,644 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 24,836 | $ 6,303 | $ 9,330 |

The accompanying notes are an integral part of these consolidated financial

statements.



EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS UNLESS OTHERWISE INDICATED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation. The consolidated financial statements of EOG Resources, Inc., formerly Enron Oil & Gas Company (the "Company") include the accounts of all domestic and foreign subsidiaries. All material intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to the consolidated financial statements for prior years to conform with the current presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents. The Company records as cash equivalents all highly liquid short-term investments with original maturities of three months or less. The Company had approximately $23 million of outstanding checks payable classified as accounts payable at December 31, 1999.

Oil and Gas Operations. The Company accounts for its natural gas and crude oil exploration and production activities under the successful efforts method of accounting.

Oil and gas lease acquisition costs are capitalized when incurred. Unproved properties with significant acquisition costs are assessed quarterly on a property-by-property basis, and any impairment in value is recognized. Amortization of any remaining costs of such leases begins at a point prior to the end of the lease term depending upon the length of such term. Unproved properties with acquisition costs that are not individually significant are aggregated, and the portion of such costs estimated to be nonproductive, based on historical experience, is amortized over the average holding period. If the unproved properties are determined to be productive, the appropriate related costs are transferred to proved oil and gas properties. Lease rentals are expensed as incurred.

Oil and gas exploration costs, other than the costs of drilling exploratory wells, are charged to expense as incurred. The costs of drilling exploratory wells are capitalized pending determination of whether they have discovered proved commercial reserves. If proved commercial reserves are not discovered, such drilling costs are expensed. Costs to develop proved reserves, including the costs of all development wells and related equipment used in the production of natural gas and crude oil, are capitalized.

Depreciation, depletion and amortization of the cost of proved oil and gas properties is calculated using the unit-of-production method. Estimated future dismantlement, restoration and abandonment costs (classified as long-term liabilities), net of salvage values, are taken into account. Certain other assets are depreciated on a straight-line basis. Periodically, or when circumstances indicate that an asset may be impaired, the Company compares expected undiscounted future cash flows at a producing field level to the unamortized capitalized cost of the asset. If the future undiscounted cash flows, based on the Company's estimate of future crude oil and natural gas prices and operating costs and anticipated production from proved reserves are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is calculated by discounting the future cash flows at an

appropriate risk-adjusted discount rate.

Inventories, consisting primarily of tubular goods and well equipment held for use in the exploration for, and development and production of natural gas and crude oil reserves, are carried at cost with adjustments made from time to time to recognize changes in value.

Natural gas revenues are recorded on the entitlement method based on the Company's percentage ownership of current production. Each working interest owner in a well generally has the right to a specific percentage of production, although actual production sold may differ from an owner's ownership percentage.





Under entitlement accounting, a receivable is recorded when underproduction occurs and a payable when overproduction occurs.

Gains and losses associated with the sale of in place natural gas and crude oil reserves and related assets are classified as net operating revenues in the consolidated statements of income and comprehensive income based on the Company's strategy of continuing such sales in order to maximize the economic value of its assets.

Accounting for Price Risk Management. The Company engages in price risk management activities from time to time primarily for non-trading and to a lesser extent for trading purposes. Derivative financial instruments (primarily price swaps and costless collars) are utilized selectively for non-trading purposes to hedge the impact of market fluctuations on natural gas and crude oil market prices. Hedge accounting is utilized in non-trading activities when there is a high degree of correlation between price movements in the derivative and the item designated as being hedged. Gains and losses on derivative financial instruments used for hedging purposes are recognized as revenue in the same period as the hedged item. Gains and losses on hedging instruments that are closed prior to maturity are deferred in the consolidated balance sheets. In instances where the anticipated correlation of price movements does not occur, hedge accounting is terminated and future changes in the value of the derivative are recognized as gains or losses using the mark-to-market method of accounting. Derivative and other financial instruments utilized in connection with trading activities, primarily price swaps and call options, are accounted for using the mark-to-market method, under which changes in the market value of outstanding financial instruments are recognized as gains or losses in the period of change. The cash flow impact of derivative and other financial instruments used for non-trading and trading purposes is reflected as cash flows from operating activities in the consolidated statements of cash flows.

Capitalized Interest Costs. Certain interest costs have been capitalized as a part of the historical cost of unproved oil and gas properties and in work in progress for exploratory drilling and related facilities with significant cash outlays.

Income Taxes. The Company accounts for income taxes under the provisions of SFAS No. 109 -- "Accounting for Income Taxes." SFAS No. 109 requires the asset and liability approach for accounting for income taxes. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases (See Note 8 "Income Taxes").

Foreign Currency Translation. For subsidiaries whose functional currency is deemed to be other than the U.S. dollar, asset and liability accounts are translated at year-end exchange rates and revenue and expenses are translated at average exchange rates prevailing during the year. Translation adjustments are included as a separate component of shareholders' equity. Any gains or losses on

transactions or monetary assets or liabilities in currencies other than the functional currency are included in net income in the current period.

Net Income Per Share. In accordance with the provisions of SFAS No. 128 -- "Earnings per Share," basic net income per share is computed on the basis of the weighted-average number of common shares outstanding during the periods. Diluted net income per share is computed based upon the weighted-average number of common shares plus the assumed issuance of common shares for all potentially dilutive securities. (See Note 10 "Net Income Per Share Available to Common" for additional information to reconcile the difference between the Average Number of Common Shares outstanding for basic and diluted net income per share).





2. NATURAL GAS AND CRUDE OIL, CONDENSATE AND NATURAL GAS LIQUIDS NET OPERATING REVENUES

Natural gas revenues, trade for 1999, 1998 and 1997 are net of costs of natural gas purchased for sale related to natural gas marketing activities of $44.6 million, $44.8 million and $73.6 million, respectively. Natural gas revenues, associated for 1999, 1998 and 1997 are net of costs of natural gas purchased for sale related to natural gas marketing activities of $13.5 million, $51.0 million and $47.7 million, respectively.

In March 1995, in a series of transactions with Enron Corp. and an affiliate of Enron Corp., the Company exchanged all of its fuel supply and purchase contracts and related price swap agreements associated with a Texas City cogeneration plant (the "Cogen Contracts") for certain natural gas price swap agreements of equivalent value issued by the affiliate that are designated as hedges (the "Swap Agreements"). Such Swap Agreements were closed on March 31, 1995. As a result of the transactions, the Company was relieved of all performance obligations associated with the Cogen Contracts. The Company realized net operating revenues and received corresponding cash payments of approximately $91 million during the period extending through December 31, 1999, under the terms of the closed Swap Agreements. The estimated fair value of the Swap Agreements was approximately $81 million at the date the Swap Agreements were received in exchange for the Cogen Contracts. The net effect of this series of transactions resulted in increases in net operating revenues and cash receipts for the Company during 1995 and 1996 of approximately $13 million and $7 million, respectively, with offsetting decreases in 1998 and 1999 versus that anticipated under the Cogen Contracts.

3. OTHER ASSETS

In December 1997, the Company and Enron Corp. entered into an Equity Participation and Business Opportunity Agreement. Among other things, under the agreement, Enron Corp. granted to the Company options to purchase 3.2 million shares of Enron Corp. common stock at a price of $39.1875 per share which was the closing price of the stock on the date that the agreement was approved by the Board of Directors of the Company. Other Assets at December 31, 1998 includes $23.3 million or $7.29 per share representing the estimated fair value of the Enron Corp. stock options at the date of grant. Such estimated fair value was determined using the Black-Scholes option-pricing model with the following weighted-average assumptions at the date the options were issued: (1) dividend yield of 2.5%, (2) expected volatility of 17.5%, (3) risk-free interest rate of 5.85%, and (4) expected average life of 4.0 years. Receipt of the options represented a capital contribution from Enron Corp. and, accordingly, the fair value received, net of tax effects of $8.2 million, was credited to Additional Paid In Capital.

During the first and second quarters of 1999, the Company sold the 3.2 million options to purchase common stock of Enron Corp. In the first quarter of 1999, the Company sold 1.6 million options at an average price of $24.81 ($64.00

Enron Corp. stock price equivalent), realizing net proceeds of $40 million and a gain of $28 million pre-tax ($18 million after-tax). Early in the second quarter, the Company sold the remaining 1.6 million options at an average price of $27.07 ($66.26 Enron Corp. stock price equivalent), realizing net proceeds of $43 million and a gain of $32 million pre-tax ($21 million after-tax). The gain on sale of the options is included in other income (expense) - other, net in the Consolidated Statements of Income and Comprehensive Income. These transactions were completed prior to Enron Corp. effecting a two-for-one stock split.





4. LONG-TERM DEBT

Long-Term Debt at December 31 consisted of the following:

| | 1999 | 1998 |
|---|---|---|
| Commercial Paper | $123,186 | $ 162,539 |
| Uncommitted Credit Facilities | 87,000 | -- |
| 6.50% Notes due 2004 | 100,000 | 100,000 |
| 6.70% Notes due 2006 | 150,000 | 150,000 |
| 6.50% Notes due 2007 | 100,000 | 100,000 |
| 6.00% Notes due 2008 | 175,000 | 175,000 |
| 6.65% Notes due 2028 | 150,000 | 150,000 |
| Subsidiary Debt due 2001 | 105,000 | 105,000 |
| Other | 120 | 240 |
| | 990,306 | 942,779 |
| Affiliate | -- | 200,000 |
| Total | $990,306 | $1,142,779 |

During 1999, the Company entered into two new credit facilities with domestic and foreign banks which provide for an aggregate of $800 million in long-term committed credit, with $400 million expiring in 2000 and $400 million expiring in 2004, and concurrently cancelled the existing $450 million facility. With respect to the $400 million expiring in 2000, the Company may, at its option, extend the final maturity date of any advances made under the facility by one full year from the expiration date of the facility, effectively qualifying such debt as long-term. Advances under both agreements bear interest, at the option of the Company, based upon a base rate or a Eurodollar rate. At December 31, 1999, there were no advances outstanding under either of these agreements.

Commercial paper and short-term funding from uncommitted credit facilities provide financing for various corporate purposes and bear interest based upon market rates. Commercial paper and uncommitted credit are classified as long-term debt based on the Company's intent and ability to ultimately replace such amounts with other long-term debt. (See Note 14 "Price and Interest Rate Risk Management").

The 6.00% to 6.70% Notes due 2004 to 2028 were issued through public offerings and have effective interest rates of 6.14% to 6.83%. The Subsidiary Debt due 2001 bears interest at variable market-based rates and is guaranteed by the Company.

At December 31, 1999, the aggregate annual maturities of long-term debt

outstanding were less than $1.0 million for 2000, $105 million for 2001, none for 2002 and 2003 and $100 million for 2004.

See Note 14 "Price and Interest Rate Risk Management."

Shelf Registration. The Company may sell from time to time up to an aggregate of approximately $88 million in debt securities and/or common stock pursuant to an effective "shelf" registration statement filed with the Securities and Exchange Commission.

Financing Arrangements With Enron Corp. Prior to August 16, 1999, the Company engaged in various transactions with Enron Corp. that were characteristic of a consolidated group under common control. Accordingly, the Company maintained reciprocal agreements with Enron Corp. that provided for the borrowing by the Company of up to $200 million and investing by the Company of surplus funds of up to $200 million at market-based interest rates. Advances from Enron Corp. of $200 million were outstanding at December 31, 1998, and such balances were classified as long-term based on the Company's intent and ability



to ultimately replace such amounts with other long-term debt. The reciprocal agreements terminated on August 16, 1999 upon the closing of the Share Exchange. There were no investments with Enron Corp. at December 31, 1998 or 1999. (See Note 14 "Price and Interest Rate Risk Management").

Fair Value Of Long-Term Debt. At December 31, 1999 and 1998, the Company had $990 million and $1,143 million, respectively, of long-term debt which had fair values of approximately $933 million and $1,141 million, respectively. The fair value of long-term debt is the value the Company would have to pay to retire the debt, including any premium or discount to the debtholder for the differential between the stated interest rate and the year-end market rate. The fair value of long-term debt is based upon quoted market prices and, where such quotes were not available, upon interest rates available to the Company at year-end.

## 5. VOLUMETRIC PRODUCTION PAYMENT

In September 1992, the Company sold a volumetric production payment for $326.8 million to a limited partnership. Under the terms of the production payment, as amended October 1, 1993, the Company conveyed a real property interest in certain natural gas and other hydrocarbons to the purchaser. Deliveries were scheduled at the rate of 50 billion British thermal units per day through March 31, 1999. The Company accounted for the proceeds received in the transaction as deferred revenue, which was amortized into revenue and income as natural gas and other hydrocarbons were produced and delivered during the term of the volumetric production payment agreement. In December 1998, the Company settled the remainder of the contract in cash which was not materially different from the recorded deferred revenue, and delivery obligations were terminated.

## 6. SHAREHOLDERS' EQUITY

The Board of Directors of the Company has approved an authorization for purchasing and holding in treasury at any time up to 1,000,000 shares of common stock of the Company for the purpose of, but not limited to, meeting obligations associated with the exercise of stock options granted to qualified employees pursuant to the Company's stock option plans. The Board of Directors has also approved the selling from time to time, subject to certain conditions, of put options on the common stock of the Company. The 1,000,000 share limit mentioned above applies to shares held in treasury and unexpired put options outstanding. In February 1997, as amended in February 1998, the Board of Directors authorized the additional purchase of up to an aggregate maximum of 10 million shares of

common stock of the Company from time to time in the open market to be held in treasury for the purpose of, but not limited to, fulfilling any obligations arising under the Company's stock option plans and any other approved transactions or activities for which such common stock shall be required. At December 31, 1999 and 1998, 5,625,446 shares and 6,276,156 shares, respectively, were held in treasury under these authorizations. In February 2000, the Board of Directors authorized the purchase of an aggregate maximum of 10 million shares of common stock of the Company which replaced the remaining authorization from February 1998. (See Note 9 "Commitments and Contingencies -- Treasury Shares"). The Company has, from time to time, entered into transactions in which it writes put options on its own common stock. At December 31, 1999, there were no put options outstanding. At December 31, 1998, there were put options outstanding for 175,000 shares of common stock.

On July 23, 1999, the Company filed a registration statement with the Securities and Exchange Commission for the public offering of 27,000,000 shares of the Company's common stock. The public offering was completed on August 16, 1999, and the net proceeds were used to repay short-term borrowings used to fund a significant portion of the cash capital contribution in connection with the Share Exchange Agreement ("Share Exchange") described in Note 7 "Transactions with Enron Corp. and Related Parties." As a result of the public offering and the retirement of the 62,270,000 shares of the Company's common stock received from Enron Corp. in the Share Exchange transaction, the number of shares of the Company's common stock issued was reduced to 124,730,000 from 160,000,000 prior to the Share Exchange.





In December 1999, the Company issued the following two series of preferred stock:

Series A. On December 10, 1999 the Company issued 100,000 shares of Fixed Rate Cumulative Perpetual Senior Preferred Stock, Series A, with a $1,000 Liquidation Preference per share, in a private transaction. Subject to the terms of a registration rights agreement, the Company is required to register these shares for public sale within 150 days of the issuance date. Dividends will be payable on the shares only if declared by the Company's board of directors and will be cumulative. If declared, dividends will be payable at a rate of $71.95 per share, per year on March 15, June 15, September 15, and December 15 of each year beginning March 15, 2000. The dividend rate may only be adjusted in the event that certain amendments are made to the Dividend Received Percentage within the first 18 months of the issuance date. The Company may redeem all or a part of the Series A preferred stock at any time beginning on December 15, 2009 at $1,000 per share, plus accrued and unpaid dividends. The shares may also be redeemable, in whole but not in part, in the event that certain amendments are made to the Dividend Received Percentage. The Series A preferred shares are not convertible into, or exchangeable for, common stock of the Company.

Series C. On December 22, 1999, the Company issued 500 shares of Flexible Money Market Cumulative Preferred Stock, Series C, with a liquidation preference of $100,000 per share, in a private transaction. Subject to the terms of a registration rights agreement, the Company is required to register these shares for public sale within 150 days of the issuance date. Dividends will be payable on the shares only if declared by the Company's board of directors and will be cumulative. The initial dividend rate on the shares will be 6.84% until December 15, 2004 (the "Initial Period-End Dividend Payment Date"). Through the Initial Period-End Dividend Payment Date dividends will be payable, if declared, on March 15, June 15, September 15, and December 15 of each year beginning March 15, 2000. The cash dividend rate for each subsequent dividend period will be determined pursuant to periodic auctions conducted in accordance with certain auction procedures. The first auction date will be December 14, 2004. After December 15, 2004 (unless the Company has elected a "Non-Call Period" for a subsequent dividend period), the Company may redeem the shares, in whole or in

part, on any dividend payment date at $100,000 per share upon the payment of accumulated and unpaid dividends. The shares may also be redeemable, in whole but not in part, in the event that certain amendments are made to the Dividend Received Percentage. The Series C preferred shares are not convertible into, or exchangeable for, common stock of the Company.

7. TRANSACTIONS WITH ENRON CORP. AND RELATED PARTIES

On August 16, 1999, the Company and Enron Corp. completed the Share Exchange whereby the Company received 62,270,000 shares of the Company's common stock out of 82,270,000 shares owned by Enron Corp. in exchange for all the stock of the Company's subsidiary, EOGI-India, Inc. Prior to the Share Exchange, the Company made an indirect capital contribution of approximately $600 million in cash, plus certain intercompany receivables, to EOGI-India, Inc. At the time of completion of this transaction, this subsidiary owned, through subsidiaries, all of the Company's assets and operations in India and China. The Company recognized a $575 million tax-free gain on the Share Exchange based on the fair value of the shares received, net of transaction fees of $14 million. Immediately following the Share Exchange, the Company retired the 62,270,000 shares of the Company's common stock received in the transaction. The weighted average basis in the treasury shares retired was first deducted from and fully eliminated existing additional paid in capital with the remaining value deducted from retained earnings. This transaction is a tax-free exchange to the Company. On August 30, 1999, the Company changed its corporate name to "EOG Resources, Inc." from "Enron Oil & Gas Company" and has since made similar changes to its subsidiaries' names.





Immediately prior to the closing of the Share Exchange, Enron Corp. owned 82,270,000 shares of the Company's common stock, representing approximately 53.5 percent of all of the shares of the Company's common stock that were issued and outstanding. As a result of the closing of the Share Exchange, the sale by Enron Corp. of 8,500,000 shares of the Company's common stock as a selling stockholder in the public offering referred to above, and the completion on August 17, 1999 and August 20, 1999 of the offering of Enron Corp. notes mandatorily exchangeable at maturity into up to 11,500,000 shares of the Company's common stock, Enron Corp's maximum remaining interest in the Company after the automatic conversion of its notes on July 31, 2002, will be under two percent (assuming the notes are exchanged for less than the 11,500,000 shares of the Company's common stock). As a result, beginning with the Share Exchange all transactions with Enron Corp. and its affiliates have been classified as Trade.

Effective as of August 16, 1999, the closing date of the Share Exchange, the members of the board of directors of the Company who were officers or directors of Enron Corp. resigned their positions as directors of the Company.

Business Opportunity Agreement. In December 1997, Enron Corp. and the Company entered into the Equity Participation and Business Opportunity Agreement ("Business Opportunity Agreement") which defined certain obligations that Enron Corp. owed to the Company and relieved Enron Corp. from certain obligations to the Company that it might otherwise have, including the obligation to offer certain business opportunities to the Company. The Business Opportunity Agreement was approved by the Board of Directors of the Company after it was approved unanimously by a special committee of the Board of Directors consisting of the Company's independent directors.

The Business Opportunity Agreement provided generally that, so long as such activities were conducted in compliance with the Business Opportunity Agreement in all material respects, Enron Corp. could pursue business opportunities independently of the Company.

In consideration for the Company's agreements in the Business Opportunity

Agreement, Enron Corp. provided valuable consideration to the Company, including options to purchase common stock of Enron Corp., all of which were sold by the Company during 1999 (see Note 3 "Other Assets").

Natural Gas and Crude Oil, Condensate and Natural Gas Liquids Net Operating Revenues. Prior to the Share Exchange, Natural Gas and Crude Oil, Condensate and Natural Gas Liquids Net Operating Revenues included revenues from and associated costs paid to various subsidiaries and affiliates of Enron Corp. pursuant to contracts which, in the opinion of management, were no less favorable than could be obtained from third parties. (See Note 2 "Natural Gas and Crude Oil, Condensate and Natural Gas Liquids Net Operating Revenues"). Natural Gas and Crude Oil, Condensate and Natural Gas Liquids Net Operating Revenues also included certain commodity price swap and NYMEX-related commodity transactions with Enron Corp. affiliated companies, which in the opinion of management, were no less favorable than could be received from third parties. (See Note 14 "Price and Interest Rate Risk Management").

General and Administrative Expenses. Prior to the Share Exchange, the Company was charged by Enron Corp. for all direct costs associated with its operations. Such direct charges, excluding benefit plan charges (See Note 9 "Commitments and Contingencies -- Employee Benefit Plans"), totaled $10.6 million, $14.2 million and $16.1 million for the years ended December 31, 1999, 1998 and 1997, respectively. Additionally, certain administrative costs not directly charged to any Enron Corp. operations or business segments were allocated to the entities of the consolidated group. Approximately $3.4 million, $5.1 million and $5.3 million was incurred by the Company for indirect general and administrative expenses for 1999, 1998 and 1997, respectively. Management believes that these charges were reasonable.

Financing. See Note 4 "Long-Term Debt -- Financing Arrangements with Enron Corp." for a discussion of financing arrangements with Enron Corp.



8. INCOME TAXES

The principal components of the Company's net deferred income tax liability at December 31, 1999 and 1998 were as follows:

| | 1999 | 1998 |
|---|---|---|
| Deferred Income Tax Assets | | |
| Cogen Contract Exchange | $ -- | $ 9,519 |
| Net Operating Loss Carryforward, India | -- | 44,640 |
| Non-Producing Leasehold Costs | 25,199 | 19,411 |
| Seismic Costs Capitalized for Tax | 9,912 | 7,687 |
| Alternative Minimum Tax Credit Carryforward | 21,772 | 17,656 |
| Trading Activity | 1,426 | 4,253 |
| Section 29 Credit Monetization | 15,657 | -- |
| Other | 13,993 | 12,084 |
| Total Deferred Income Tax Assets | 87,959 | 115,250 |
| Deferred Income Tax Liabilities | | |
| Oil and Gas Exploration and Development Costs Deducted for Tax Over Book Depreciation, Depletion and Amortization | 299,704 | 360,045 |
| Capitalized Interest | 11,986 | 12,512 |
| Other | 2,221 | 3,030 |

| | | |
|---|---|---|
| Total Deferred Income Tax Liabilities..... | 313,911 | 375,587 |
| Net Deferred Income Tax Liability..... | $225,952 | $260,337 |

The components of income (loss) before income taxes were as follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| United States..... | $561,841 | $ (3,297) | $103,831 |
| Foreign..... | 5,871 | 63,579 | 59,639 |
| Total..... | $567,712 | $ 60,282 | $163,470 |

Total income tax provision (benefit) was as follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Current: | | | |
| Federal..... | $ 5,510 | $ 10,496 | $ 50,494 |
| State..... | 3,234 | 1,474 | 840 |
| Foreign..... | 16,126 | 18,935 | 23,614 |
| Total..... | 24,870 | 30,905 | 74,948 |
| Deferred: | | | |
| Federal..... | (49,474) | (31,279) | (32,711) |
| State..... | (502) | (4,589) | 348 |
| Foreign..... | 23,724 | 9,074 | (1,085) |
| Total..... | (26,252) | (26,794) | (33,448) |
| Income Tax Provision (Benefit)..... | $ (1,382) | $ 4,111 | $ 41,500 |





The differences between taxes computed at the U.S. federal statutory tax rate and the Company's effective rate were as follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Statutory Federal Income Tax Rate..... | 35.00% | 35.00% | 35.00% |
| State Income Tax, Net of Federal Benefit..... | 0.31 | (3.36) | 0.47 |
| Income Tax Related to Foreign Operations..... | 1.60 | 4.76 | 2.83 |
| Tight Gas Sand Federal Income Tax Credits..... | (1.45) | (17.36) | (7.51) |
| Revision of Prior Years' Tax Estimates..... | (0.21) | (10.78) | (4.34) |
| Share Exchange..... | (35.46) | -- | -- |
| Other..... | (.03) | (1.45) | (1.06) |
| Effective Income Tax Rate..... | (0.24)% | 6.81% | 25.39% |

In 1997, the Company and Enron Corp. agreed to replace an existing tax allocation agreement with a new tax allocation agreement. In the new agreement,

Enron Corp. agreed to refund a $13 million payment made by the Company pursuant to the existing agreement, the Company agreed to release Enron Corp. from the liabilities assumed related to the $13 million payment and the parties agreed to indemnify each other in a manner consistent with a former agreement. Enron Corp. also advanced the Company approximately $50 million to fund certain federal income taxes related to the 1995 taxable year. This advance was scheduled to be repaid in annual installments through January 1, 2001. Final payment to Enron was made on August 16, 1999.

The Company's foreign subsidiaries' undistributed earnings of approximately $275 million at December 31, 1999 are considered to be indefinitely invested outside the U.S. and, accordingly, no U.S. federal or state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends, the Company may be subject to both foreign withholding taxes and U.S. income taxes, net of allowable foreign tax credits. Determination of any potential amount of unrecognized deferred income tax liabilities is not practicable.

The Company has an alternative minimum tax ("AMT") credit carryforward of $22 million which can be used to offset regular income taxes payable in future years. The AMT credit carryforward has an indefinite carryforward period.

In 1999, the Company entered into an arrangement with a third party whereby certain Section 29 credits were sold by the Company to the third party, and payments for such credits will be received on an as-generated basis. As a result of this transaction, the Company recorded a deferred tax asset representing a tax gain on the sale of the Section 29 credit properties, which will reverse as the operation of such properties are recognized for book purposes.

9. COMMITMENTS AND CONTINGENCIES

Employee Benefit Plans. Employees of the Company were covered by various retirement, stock purchase and other benefit plans of Enron Corp. through August 1999. During each of the years ended December 31, 1999, 1998, and 1997, the Company was charged $4.4 million, $6.4 million and $5.0 million, respectively, for all such benefits, including pension expense totaling $.9 million, $1.3 million and $1.0 million, respectively, by Enron Corp.

Since August 1999, the Company has adopted defined contribution pension plans for most of its employees in the United States. The Company's contributions to these plans are based on various percentages of compensation, and in some instances are based upon the amount of the employees' contributions to the



plan. From August 31, 1999 to December 31, 1999 the cost of these plans amounted to approximately $1.2 million, a substantial part of which was funded currently.

The Company also has in effect pension and savings plans related to its Canadian and Trinidadian subsidiaries. Activity related to these plans is not material relative to the Company's operations.

Stock Plans

Stock Options. The Company has various stock plans ("the Plans") under which employees of the Company and its subsidiaries and nonemployee members of the Board of Directors have been or may be granted rights to purchase shares of common stock of the Company at a price not less than the market price of the stock at the date of grant. Stock options granted under the Plans vest over a period of time based on the nature of the grants and as defined in the individual grant agreements. Terms for stock options granted under the Plans have not exceeded a maximum term of 10 years.

The Company accounts for the stock options under the provisions and related interpretations of Accounting Principles Board Opinion No. 25 ("APB No. 25") -- "Accounting for Stock Issued to Employees." No compensation expense is recognized for such options. As allowed by SFAS No. 123 -- "Accounting for Stock-Based Compensation" issued in 1995, the Company has continued to apply APB No. 25 for purposes of determining net income and to present the pro forma disclosures required by SFAS No. 123.

The following table sets forth the option transactions under the Plans for the years ended December 31 (options in thousands):

| | 1999 | | 1998 | | 1997 | |
|---|---|---|---|---|---|---|
| | OPTIONS | AVERAGE GRANT PRICE | OPTIONS | AVERAGE GRANT PRICE | OPTIONS | AVERAGE GRANT PRICE |
| Outstanding at January 1..... | 15,036 | $18.35 | 9,735 | $19.99 | 8,796 | $20.70 |
| Granted..... | 1,272 | 19.88 | 5,949 | 15.76 | 3,079 | 20.18 |
| Exercised..... | (822) | 16.22 | (172) | 15.14 | (261) | 17.16 |
| Forfeited..... | (2,827) | 18.26 | (476) | 20.62 | (1,879) | 24.06 |
| Outstanding at December 31..... | 12,659 | 18.66 | 15,036 | 18.35 | 9,735 | 19.99 |
| Options Exercisable at December 31..... | 8,118 | 19.23 | 7,703 | 19.38 | 5,618 | 19.70 |
| Options Available for Future Grant..... | 5,564 | | 3,098 | | 2,519 | |
| Average Fair Value of Options Granted During Year..... | $ 7.43 | | $ 4.75 | | $ 6.96 | |

The fair value of each option grant is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1999, 1998, and 1997, respectively: (1) dividend yield of 0.6%, 0.6% and 0.6%, (2) expected volatility of 28%, 26%, and 27%, (3) risk-free interest rate of 5.9%, 5.1%, and 6.3%, and (4) expected life of 6.0 years, 4.9 years and 5.2 years.

During 1997, in response to extremely competitive conditions for technical personnel, the Company cancelled options issued in 1996 to purchase 1,282,000 shares of common stock at an exercise price of $25.38 per share, and reissued the same number of options with an exercise price of $18.25 per share. The reissue did not involve any executive officers of the Company.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table summarizes certain information for the options outstanding at December 31, 1999 (options in thousands):

| | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|---|---|---|---|---|---|
| RANGE OF GRANT PRICES | OPTIONS | WEIGHTED AVERAGE REMAINING LIFE (YEARS) | WEIGHTED AVERAGE GRANT PRICE | OPTIONS | WEIGHTED AVERAGE GRANT PRICE |
| $ 9.00 to $12.99..... | 339 | 2 | $ 9.77 | 339 | $ 9.77 |
| 13.00 to 17.99..... | 3,923 | 8 | 15.05 | 1,956 | 15.73 |
| 18.00 to 22.99..... | 7,084 | 6 | 20.14 | 4,741 | 20.32 |
| 23.00 to 29.00..... | 1,313 | 5 | 23.78 | 1,082 | 23.77 |

| | | | | | |
|---|---|---|---|---|---|
| 9.00 to 29.00 | 12,659 | 6 | 18.66 | 8,118 | 19.23 |

The Company's pro forma net income and net income per share of common stock for 1999, 1998 and 1997, had compensation costs been recorded in accordance with SFAS No. 123, are presented below (in millions except per share data):

| | 1999 | | 1998 | | 1997 | |
|---|---|---|---|---|---|---|
| | AS REPORTED | PRO FORMA | AS REPORTED | PRO FORMA | AS REPORTED | PRO FORMA |
| Net Income Available to Common | $568.6 | $566.3 | $ 56.2 | $ 47.3 | $122.0 | $116.7 |
| Net Income per Share Available to Common | | | | | | |
| Basic | $ 4.04 | $ 4.02 | $ .36 | $ .31 | $ .78 | $ .74 |
| Diluted | $ 3.99 | $ 3.98 | $ .36 | $ .30 | $ .77 | $ .74 |

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

The Black-Scholes model used by the Company to calculate option values, as well as other currently accepted option valuation models, were developed to estimate the fair value of freely tradable, fully transferable options without vesting and/or trading restrictions, which significantly differ from the Company's stock option awards. These models also require highly subjective assumptions, including future stock price volatility and expected time until exercise, which significantly affect the calculated values. Accordingly, management does not believe that this model provides a reliable single measure of the fair value of the Company's stock option awards.





Restricted Stock. Under the Plans, participants may be granted restricted stock without cost to the participant. The shares granted vest to the participant at various times ranging from one to seven years. Upon vesting, the shares are released to the participants. The following summarizes shares of restricted stock granted:

| | RESTRICTED SHARES | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| Outstanding at January 1 | 345,334 | 284,000 | 284,000 |
| Granted | 23,000 | 108,500 | -- |
| Released to Participants | (37,166) | (14,166) | -- |
| Forfeited or Expired | (66,000) | (33,000) | -- |
| Outstanding at December 31 | 265,168 | 345,334 | 284,000 |
| Average Fair Value of Shares Granted During Year | $ 21.43 | $ 20.11 | $ -- |

The fair value of the restricted shares at date of grant has been recorded

in shareholders' equity as unearned compensation and is being amortized as compensation expense. Related compensation expense for 1999, 1998 and 1997 was approximately $3.1 million, $1.5 million and $1.0 million, respectively.

Treasury Shares. During 1999, 1998 and 1997, the Company purchased or was tendered 130,000, 1,590,200, and 4,954,344 of its common shares, respectively, and delivered such shares upon the exercise of stock options and awards of restricted stock, except for shares held in treasury at December 31, 1999, 1998 and 1997. The difference between the cost of the treasury shares and the exercise price of the options, net of federal income tax benefit of $1.4 million, $.3 million, and $.5 million for the years 1999, 1998 and 1997, respectively, is reflected as an adjustment to Additional Paid In Capital through August 1999 and Retained Earnings thereafter as a result of the share retirement described in Note 7. In December 1992, as amended in September 1994 and December 1996, the Company commenced a stock repurchase program of up to 1,000,000 shares authorized by the Board of Directors to facilitate the availability of treasury shares of common stock for, but not limited to, the settlement of employee stock option exercises pursuant to the Plans. In February 1997 as amended in February 1998, the Board of Directors authorized the additional purchase of up to 10 million shares for similar purposes. At December 31, 1999 and 1998, 5,625,446 and 6,276,156 shares, respectively, were held in treasury under these authorizations. In February 2000, the Board of Directors authorized the purchase of an aggregate maximum of 10 million shares of common stock of the Company which replaced the remaining authorization from February 1998. (See Note 6 "Shareholders' Equity").

Letters Of Credit. At December 31, 1999 and 1998, the Company had letters of credit and guaranties outstanding totaling approximately $118 million and $127 million, respectively.

Contingencies. On July 21, 1999, two stockholders of the Company filed separate lawsuits purportedly on behalf of the Company against Enron Corp. and those individuals who were then directors of the Company, alleging that Enron Corp. and those directors breached their fiduciary duties of good faith and loyalty in approving the Share Exchange. The lawsuits seek to rescind the transaction or to receive monetary damages and costs and expenses, including reasonable attorneys' and experts' fees. The Company, Enron Corp. and the individual defendants believe the lawsuits are without merit and intend to vigorously contest them. There are various other suits and claims against the Company 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 the Company. The Company 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 materially adverse effect on the financial condition or results of operations of the Company.





## 10. NET INCOME PER SHARE AVAILABLE TO COMMON

The difference between the Average Number of Common Shares outstanding for basic and diluted net income per share of common stock is due to the assumed issuance of approximately 1,483,132, 709,000, and 784,000 common shares relating to employee stock options in 1999, 1998 and 1997, respectively.

## 11. CASH FLOW INFORMATION

On August 16, 1999, the Company and Enron Corp. completed the Share Exchange whereby the Company received 62,270,000 shares of the Company's common stock out of 82,270,000 shares owned by Enron Corp. in exchange for all the

stock of the Company's subsidiary, EOGI-India, Inc (see Note 7 "Transactions with Enron Corp. and Related Parties"). Prior to the Share Exchange, the Company made an indirect capital contribution of approximately $600 million in cash, plus certain intercompany receivables, to EOGI-India, Inc. At the time of completion of this transaction, the Company's net investment in EOGI-India, Inc. was $870 million.

On December 31, 1999, the Company completed an exchange agreement with OXY USA Inc. The acquired properties were assigned the net book value of the properties transferred of $88 million, resulting in no gain or loss.

Cash paid for interest and income taxes was as follows for the years ended December 31:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Interest (net of amount capitalized) | $67,965 | $51,166 | $27,759 |
| Income taxes | 19,810 | 38,551 | 28,708 |





12. BUSINESS SEGMENT INFORMATION

The Company's operations are all natural gas and crude oil exploration and production related. The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," during the fourth quarter of 1998. SFAS No. 131 establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports. Operating segments are defined as components of an enterprise about which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision making group is the Executive Committee, which consists of the Chairman and Chief Executive Officer and other key officers. This group routinely reviews and makes operating decisions related to significant issues associated with each of the Company's major producing areas in the United States and each significant international location. For segment reporting purposes, the major U.S. producing areas have been aggregated as one reportable segment due to similarities in their operations as allowed by SFAS No. 131. Financial information by reportable segment is presented below for the years ended December 31, or at December 31:

| | UNITED STATES | CANADA | TRINIDAD | INDIA(1) | OTHER(2) | TOTAL |
|---|---|---|---|---|---|---|
| 1999 | | | | | | |
| Net Operating Revenues | $ 600,315(3) | $ 94,739(3) | $ 62,689 | $ 51,554 | $ (7,891) | $ 801,406(3) |
| Depreciation, Depletion and Amortization | 371,606 | 29,826 | 12,787 | 7,223 | 38,435 | 459,877 |
| Operating Income (Loss) | (7,714) | 33,941 | 32,643 | 22,699 | (63,381) | 18,188 |
| Interest Income | 113 | 184 | 626 | 51 | 63 | 1,037 |
| Other Income (Expense) | 630,872 | 112 | 128 | (992) | (19,814) | 610,306 |
| Interest Expense | 64,875 | 7,215 | 323 | -- | -- | 72,413 |
| Income Tax Provision (Benefit) | (4,200) | 4,637 | 18,484 | 8,858 | (29,161) | (1,382) |
| Additions to Oil and Gas Properties | 298,660 | 63,071 | 8,175 | 23,820 | 9,103 | 402,829 |
| Total Assets | 2,118,843 | 344,465 | 145,186 | -- | 2,299 | 2,610,793 |
| 1998 | | | | | | |
| Net Operating Revenues | $ 564,378 | $ 68,622 | $ 66,967 | $ 72,826 | $ (3,605) | $ 769,188 |
| Depreciation, Depletion and Amortization | 265,738 | 25,972 | 12,867 | 8,456 | 2,073 | 315,106 |
| Operating Income (Loss) | 54,272 | 11,908 | 42,094 | 41,718 | (36,331) | 113,661 |
| Interest Income | 216 | 88 | 507 | 205 | 131 | 1,147 |
| Other Income (Expense) | (559) | -- | (150) | (1,761) | (3,477) | (5,947) |
| Interest Expense | 53,773 | 6,558 | 859 | 100 | -- | 61,290 |
| Income Tax Provision (Benefit) | (6,214) | (1,112) | 21,517 | 13,401 | (23,481) | 4,111 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Additions to Oil and Gas Properties | 547,209 | 49,142 | 19,347 | 46,657 | 27,997 | 690,352 |
| Total Assets | 2,238,969 | 277,861 | 131,964 | 289,596 | 79,705 | 3,018,095 |
| 1997 | | | | | | |
| Net Operating Revenues | $ 603,845 | $ 73,466 | $ 66,000 | $ 35,332 | $ 4,858 | $ 783,501 |
| Depreciation, Depletion and Amortization | 239,418 | 23,116 | 11,031 | 3,716 | 898 | 278,179 |
| Operating Income (Loss) | 138,213 | 19,983 | 38,968 | 13,794 | (18,183) | 192,775 |
| Interest Income | 2,746 | 392 | 484 | 134 | 366 | 4,122 |
| Other Income (Expense) | (5,517) | 4 | (289) | (848) | 940 | (5,710) |
| Interest Expense | 28,548 | 8,132 | 4,701 | 42 | -- | 41,423 |
| Income Tax Provision (Benefit) | 30,940 | (3,228) | 21,538 | 1,402 | (9,152) | 41,500 |
| Additions to Oil and Gas Properties | 468,168 | 79,789 | 163 | 67,777 | 10,301 | 626,198 |
| Total Assets | 2,036,933 | 276,998 | 116,578 | 252,115 | 40,731 | 2,723,355 |

---

(1) See Note 7 "Transactions with Enron Corp. and Related Parties."

(2) Other includes China operations. See Note 7 "Transactions with Enron Corp. and Related Parties."

(3) Sales activity with a certain purchaser in the United States and Canada segments totaled approximately $98,100 of the consolidated Net Operating Revenues.





13. OTHER INCOME (EXPENSE), NET

Other income (expense), net consisted of the following for the years ended December 31:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Interest Income | $ 1,037 | $ 1,147(1) | $ 4,122(1) |
| Financial Reserve Accruals(2) | (1,972) | (4,350) | -- |
| Gain on Sale of Other Assets(3) | 59,647 | -- | -- |
| Gain on Share Exchange | 575,151 | -- | -- |
| International Asset Re-evaluation(4) | (19,375) | -- | -- |
| Contract Settlement | -- | (610) | -- |
| Litigation Provision | -- | -- | (5,800) |
| Other, Net | (3,145) | (987) | 90 |
| Total | $611,343 | $(4,800) | $ (1,588) |

---

(1) Includes $102 in 1998 and $2,549 in 1997 from related parties.

(2) Pertains to provisions for doubtful accounts receivable associated with certain international activities.

(3) See Note 3 "Other Assets."

(4) Relates to anticipated costs of abandonment of certain international activity.

14. PRICE AND INTEREST RATE RISK MANAGEMENT

Periodically, the Company enters into certain trading and non-trading activities including NYMEX-related commodity market transactions and other contracts. The non-trading portions of these activities have been designated to

hedge the impact of market price fluctuations on anticipated commodity delivery volumes or other contractual commitments.

Trading Activities. In 1999, no trading transactions were executed. Trading activities in 1998 included a revenue increase of $1.1 million related to change in market value of natural gas price swap options exercisable by a counterparty and partially offsetting "buy" price swap positions.

During 1995, the Company entered into a NYMEX-related natural gas price swap covering 73 trillion British thermal units ("TBtu") for the year ended December 31, 1996. This swap contained an option to extend the price swap covering 73 TBtu for each of the years 1997 and 1998 which was exercisable at one time prior to December 31, 1996. The 1996 price swap was closed in the first quarter of 1996. During 1996, this option was restructured into four options each exercisable, in total, at one time by the counterparty before December 31, 1996, 1997, 1998 and 1999 to purchase 37 TBtu of notional natural gas for each of the years 1997, 1998, 1999 and 2000 at an average fixed price of $1.98, $1.98, $1.93 and $1.93 per million British thermal units ("MMBtu"), respectively. The 1997 and 1998 options were subsequently restructured to be exercisable monthly at a price of $2.16 and $2.07 per MMBtu, respectively. These options cover notional volumes averaging 3 TBtu per month during 1997 and 1998. During the fourth quarter of 1996, the 1999 and 2000 options were terminated. In 1996, the Company entered into "buy" NYMEX-related natural gas price swap positions in the same notional quantities and maturities as are covered by the 1997 and 1998 options. The Company recognized a $1.1 million and $3.4 million revenue increase in 1998 and 1997, respectively, related to these trading activities.





The following table summarizes the estimated fair value of financial instruments held for trading purposes at year-end and the average during the year:

| | ESTIMATED FAIR VALUES | | | | | |
|---|---|---|---|---|---|---|
| | 1999(1) | | 1998(1) | | 1997(1) | |
| | YEAR END | AVERAGE | YEAR END | AVERAGE | YEAR END | AVERAGE |
| | (IN MILLIONS) | | | | | |
| Options Written | $ - | $ - | $ - | $(5.1) | $(10.5) | $(13.7) |
| NYMEX-related Natural Gas Price Swaps | - | - | - | 5.0 | 4.2 | 7.1 |

---

(1) Estimated fair values have been determined by using available market data and valuation methodologies. Judgment is necessarily required in interpreting market data and the use of different market assumptions or estimation methodologies may affect the estimated fair value amounts.

Interest Rate Swap Agreements and Foreign Currency Contracts. At December 31, 1999 and 1998, a subsidiary of the Company and the Company are parties to offsetting foreign currency and interest rate swap agreements with an aggregate notional principal amount of $210 million. Such swap agreements are scheduled to terminate in 2001. At December 31, 1999 and 1998, the composite fair value of the agreements was not significant based upon termination values obtained from third parties. In November 1998, the Company entered into two interest rate swap agreements having notional values of $100 million each. The agreements were entered into to hedge the base variable interest rates of the Company's

commercial paper, uncommitted credit facilities and affiliated borrowings. The Company anticipates having such borrowings outstanding of at least the notional amounts under the swap agreements during the term of the swap agreements. Under the agreements, the Company will pay interest based on fixed rates of approximately 4.96% and 5.01% and receive interest based on the three-month LIBOR calculated on the notional value of the swap agreements. These agreements are scheduled to terminate in November 2000. At December 31, 1999, the composite fair value of these agreements was $2.6 million.

Hedging Transactions. With the objective of enhancing the certainty of future revenues, the Company from time to time enters into NYMEX-related commodity price swaps and costless collars. Using NYMEX-related commodity price swaps, the Company receives a fixed price for the respective commodity hedged and pays a floating market price, as defined for each transaction, to the counterparty at settlement.

At December 31, 1999, the Company had outstanding positions covering notional volumes of .5 million barrels ("MMBbl") of crude oil and condensate for 2000. The fair value of these positions was approximately $2 million negative. At December 31, 1999, the Company had closed positions covering notional volumes of approximately 4 TBtu of natural gas for each of the years 2000 through 2005. The Company also had closed positions covering 1.7 MMBbl of crude oil and condensate for the year 2000. At December 31, 1999, the aggregate deferred revenue reduction for 2000, 2001 and thereafter was approximately $12 million, $1 million and $5 million, respectively, and is classified as "Other Assets."

At December 31, 1998, the Company had outstanding positions covering notional volumes of .7 MMBbl of crude oil and condensate for 1999. The fair value of the positions was approximately $4 million. In 1998, the Company closed positions covering notional volumes of approximately 4 TBtu of natural gas for each of the years 1999 through 2005. The Company also recorded closed positions covering 2.2 MMBbl and 1.7 MMBbl of crude oil and condensate for the years 1999 and 2000, respectively. At December 31, 1998, the aggregate deferred revenue reduction for 1999, 2000 and thereafter was approximately $13 million, $12 million and $6 million, respectively, and is classified as "Other Assets."



The following table summarizes the estimated fair value of financial instruments and related transactions for non-trading activities at December 31, 1999 and 1998:

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | CARRYING AMOUNT | ESTIMATED FAIR VALUE(1) | CARRYING AMOUNT | ESTIMATED FAIR VALUE(1) |
| | (IN MILLIONS) | | (IN MILLIONS) | |
| Long-Term Debt(2) | $990.3 | $933.0 | $1,142.8 | $1,141.0 |
| Swap Agreements | -- | -- | 4.2 | 4.1 |
| NYMEX-Related Commodity Market Positions | (18.0) | (20.3) | (30.9) | (26.5) |

---

(1) Estimated fair values have been determined by using available market data and valuation methodologies. Judgment is necessarily required in interpreting market data and the use of different market assumptions or estimation methodologies may affect the estimated fair value amounts.

(2) See Note 4 "Long-Term Debt."

Credit Risk. While notional contract amounts are used to express the magnitude of price and interest rate swap agreements, the amounts potentially subject to credit risk, in the event of nonperformance by the other parties, are substantially smaller. The Company does not anticipate nonperformance by the other parties.

15. CONCENTRATION OF CREDIT RISK

Substantially all of the Company's accounts receivable at December 31, 1999 and 1998 result from crude oil and natural gas sales and/or joint interest billings to affiliate and third party companies including foreign state-owned entities in the oil and gas industry. This concentration of customers and joint interest owners may impact the Company's overall credit risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions. In determining whether or not to require collateral from a customer or joint interest owner, the Company analyzes the entity's net worth, cash flows, earnings, and credit ratings. Receivables are generally not collateralized. Historical credit losses incurred on receivables by the Company have been immaterial.

16. ACCOUNTING FOR CERTAIN LONG-LIVED ASSETS

As a result of the change to the Company's portfolio of assets brought about by the Share Exchange (see Note 7 "Transactions with Enron Corp. and Related Parties"), the Company conducted a re-evaluation of its overall business. As a result of this re-evaluation, some of the Company's projects were no longer deemed central to its business. The Company recorded non-cash charges in connection with the impairment and/or the Company's decision to dispose of such projects of $133 million pre-tax ($89 million after-tax). In addition, the Company recorded charges of $15 million pre-tax ($10 million after-tax) pursuant to a change in the Company's strategy related to certain offshore operations in the second quarter and an impairment of various North America properties in the fourth quarter to depreciation, depletion and amortization expense. In the United States operating segment, a pre-tax impairment charge of $85 million was recorded to depreciation, depletion and amortization expense. The carrying values for assets determined to be impaired were adjusted to estimated fair values based on projected future discounted net cash flows for such assets. In the Other operating segment, a pre-tax charge of $36 million was recorded to depreciation, depletion and amortization expense to fully write-off the Company's basis and a pre-tax charge of $19 million was recorded to other income (expense) -- other, net for the estimated exit costs related to the Company's decision to dispose of certain international operations. Net loss for the Other operating segment operations for 1999, excluding these charges, was approximately $3 million.





17. NEW ACCOUNTING PRONOUNCEMENT -- SFAS NO. 133

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133 -- "Accounting for Derivative Instruments and Hedging Activities" effective for fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS No. 137, which delays the effective date of SFAS No. 133 for one year, to fiscal years beginning after June 15, 2000. SFAS No. 133, as amended by SFAS No. 137, cannot be applied retroactively and must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired or substantively modified after a transition date to be selected by the Company of either December 31, 1997 or December 31, 1998.

The statement establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset

or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statements of income and requires a company to formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

The Company has not yet quantified the impacts of adopting SFAS No. 133 on its financial statements and has not determined the timing of adoption. Based on the Company's current level of derivative and hedging activities, the Company does not expect the impact of adoption to be material.

18. SUBSEQUENT EVENT

On February 14, 2000, the Company's Board of Directors declared a dividend of one preferred share purchase right (a "Right" or "Rights Agreement") for each outstanding share of common stock, par value $.01 per share. The Board of Directors has adopted this Rights Agreement to protect stockholders from coercive or otherwise unfair takeover tactics. The dividend was distributed to the stockholders of record on February 24, 2000. Each Right, expiring February 24, 2010, represents a right to buy from the Company one hundredth ( 1/100) of a share of Series E Junior Participating Preferred Stock ("Preferred Share") for $90, once the Rights become exercisable. This portion of a Preferred Share will give the stockholder approximately the same dividend, voting, and liquidation rights as would one share of common stock. Prior to exercise, the Right does not give its holder any dividend, voting, or liquidation rights. If issued, each one hundredth ( 1/100) of a Preferred Share (i) will not be redeemable; (ii) will entitle holders to quarterly dividend payments of $.01 per share, or an amount equal to the dividend paid on one share of common stock, whichever is greater; (iii) will entitle holders upon liquidation either to receive $1 per share or an amount equal to the amount made on one share of common stock, whichever is greater; (iv) will have the same voting power as one share of common stock; and (v) if shares of the Company's common stock are exchanged via merger, consolidation, or a similar transaction, will entitle holders to a per share payment equal to the payment made on one share of common stock.

The Rights will not be exercisable until ten days after the public announcement that a person or group has become an acquiring person ("Acquiring Person") by obtaining beneficial ownership of 15% or more of the Company's common stock, or if earlier, ten business days (or a later date determined by the Company's Board of Directors before any person or group becomes an Acquiring Person) after a person or group begins a tender or exchange offer which, if consummated, would result in that person or group becoming an Acquiring Person. The Board of Directors may reduce the threshold at which a person or a group becomes an Acquiring Person from 15% to not less than 10% of the outstanding common stock.

If a person or group becomes an Acquiring Person, all holders of Rights except the Acquiring Person may, for $90, purchase shares of our common stock with a market value of $180, based on the market price of the common stock prior to such acquisition. If the Company is later acquired in a merger or similar transaction after the Rights become exercisable, all holders of Rights except the Acquiring Person may, for



$90, purchase shares of the acquiring corporation with a market value of $180 based on the market price of the acquiring corporation's stock, prior to such merger.

The Company's Board of Directors may redeem the Rights for $.01 per Right at any time before any person or group becomes an Acquiring Person. If the Board

of Directors redeems any Rights, it must redeem all of the Rights. Once the Rights are redeemed, the only right of the holders of Rights will be to receive the redemption price of $.01 per Right. The redemption price will be adjusted if the Company has a stock split or stock dividends of the Company's common stock. After a person or group becomes an Acquiring Person, but before an Acquiring Person owns 50% or more of the Company's outstanding common stock, the Board of Directors may exchange the Rights for common stock or equivalent security at an exchange ratio of one share of common stock or an equivalent security for each such Right, other than Rights held by the Acquiring Person.



EOG RESOURCES, INC.

SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS UNLESS OTHERWISE INDICATED)
(UNAUDITED EXCEPT FOR RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES)

OIL AND GAS PRODUCING ACTIVITIES

The following disclosures are made in accordance with SFAS No. 69 -- "Disclosures about Oil and Gas Producing Activities":

Oil and Gas Reserves. Users of this information should be aware that the process of estimating quantities of "proved," "proved developed" and "proved undeveloped" crude oil and natural gas reserves is very complex, requiring significant subjective decisions in the evaluation of all available geological, engineering and economic data for each reservoir. The data for a given reservoir may also change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history, and continual reassessment of the viability of production under varying economic conditions. Consequently, material revisions to existing reserve estimates occur from time to time. Although every reasonable effort is made to ensure that reserve estimates reported represent the most accurate assessments possible, the significance of the subjective decisions required and variances in available data for various reservoirs make these estimates generally less precise than other estimates presented in connection with financial statement disclosures.

Proved reserves represent estimated quantities of natural gas, crude oil, condensate, and natural gas liquids that geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under economic and operating conditions existing at the time the estimates were made.

Proved developed reserves are proved reserves expected to be recovered, through wells and equipment in place and under operating methods being utilized at the time the estimates were made.

Proved undeveloped reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves are not attributed to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

Canadian provincial royalties are determined based on a graduated percentage scale which varies with prices and production volumes. Canadian reserves, as presented on a net basis, assume prices and royalty rates in existence at the time the estimates were made, and the Company's estimate of

future production volumes. Future fluctuations in prices, production rates, or changes in political or regulatory environments could cause the Company's share of future production from Canadian reserves to be materially different from that presented.

As a result of the re-evaluation of the Company's portfolio of assets following the Share Exchange, on November 12, 1999 senior management proposed to the Board of Directors ("the Board") of the Company to defer the development of the Big Piney Madison deep Paleozoic formation methane reserves in Wyoming for the foreseeable future. The basis for this recommendation was the substantial capital cost required to develop the project relative to the Company's anticipated spending budget for the next several years as well as the project's anticipated rate of return compared to other investment opportunities currently available to the Company. The Board approved the recommendation. As a result, the 1.2 trillion cubic feet of methane reserves in the formation, which are located on acreage owned by the Company and held by production for the foreseeable future, and which were classified as proved undeveloped reserves at December 31, 1998, were removed as a revision during 1999. At December 31, 1998, these reserves represented approximately





$100 million or 5% of the Company's Standardized Measure of Discounted Future Net Cash Flows as adjusted for the sale of the India and China reserves as a result of the Share Exchange.

Estimates of proved and proved developed reserves at December 31, 1999, 1998 and 1997 were based on studies performed by the engineering staff of the Company for reserves in the United States, Canada, Trinidad, India and China (see Note 7 to the Consolidated Financial Statements regarding operations transferred under the Share Exchange). Opinions by DeGolyer and MacNaughton ("D&M"), independent petroleum consultants, for the years ended December 31, 1999, 1998 and 1997 covered producing areas containing 52%, 39% and 54%, respectively, of proved reserves, excluding deep Paleozoic methane reserves in 1998 and 1997, of the Company on a net-equivalent-cubic-feet-of-gas basis. D&M's opinions indicate that the estimates of proved reserves prepared by the Company's engineering staff for the properties reviewed by D&M, when compared in total on a net-equivalent-cubic-feet-of-gas basis, do not differ materially from the estimates prepared by D&M. The deep Paleozoic methane reserves were covered by the opinion of D&M for the year ended December 31 1995. Such estimates by D&M in the aggregate varied by not more than 5% from those prepared by the engineering staff of the Company. All reports by D&M were developed utilizing geological and engineering data provided by the Company.

No major discovery or other favorable or adverse event subsequent to December 31, 1999 is believed to have caused a material change in the estimates of proved or proved developed reserves as of that date.

The following table sets forth the Company's net proved and proved developed reserves at December 31 for each of the four years in the period ended December 31, 1999, and the changes in the net proved reserves for each of the three years in the period then ended as estimated by the engineering staff of the Company.

NET PROVED AND PROVED DEVELOPED RESERVE SUMMARY

| | UNITED STATES | CANADA | TRINIDAD | SUBTOTAL | INDIA(2) | OTHER(3) | TOTAL |
|---|---|---|---|---|---|---|---|
| NATURAL GAS (BCF)(1) | | | | | | | |
| Net proved reserves at December 31, 1996 | 2,746.5 (4) | 320.9 | 370.2 | 3,437.6 | 199.6 | -- | 3,637.2 |
| Revisions of previous estimates | (50.8) | (1.5) | (0.4) | (52.7) | 25.1 | -- | (27.6) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Purchases in place | 60.0 | 67.6 | -- | 127.6 | -- | -- | 127.6 |
| Extensions, discoveries and other additions | 275.9 | 37.8 | -- | 313.7 | 253.5 | 7.7 | 574.9 |
| Sales in place | (17.7) | (0.4) | -- | (18.1) | -- | -- | (18.1) |
| Production | (229.1) | (37.0) | (41.0) | (307.1) | (6.6) | -- | (313.7) |
| Net proved reserves at December 31, 1997 | 2,784.8 (4) | 387.4 | 328.8 | 3,501.0 | 471.6 | 7.7 | 3,980.3 |
| Revisions of previous estimates | (55.9) | (2.5) | 4.7 | (53.7) | 32.3 | (0.4) | (21.8) |
| Purchases in place | 123.0 | 54.9 | -- | 177.9 | -- | -- | 177.9 |
| Extensions, discoveries and other additions | 272.8 | 62.9 | 693.8 | 1,029.5 | 340.9 | 103.0 | 1,473.4 |
| Sales in place | (37.5) | -- | -- | (37.5) | -- | -- | (37.5) |
| Production | (233.8) | (38.5) | (50.9) | (323.2) | (20.2) | -- | (343.4) |
| Net proved reserves at December 31, 1998 | 2,853.4 (4) | 464.2 | 976.4 | 4,294.0 | 824.6 | 110.3 | 5,228.9 |
| Revisions of previous estimates | (1,199.1)(5) | (1.3) | 4.5 | (1,195.9) | -- | -- | (1,195.9) |
| Purchases in place | 108.5 | 34.0 | -- | 142.5 | -- | -- | 142.5 |
| Extensions, discoveries and other additions | 208.2 | 69.8 | 51.0 | 329.0 | -- | -- | 329.0 |
| Sales in place(2) | (70.9) | (1.4) | -- | (72.3) | (807.9) | (110.3) | (990.5) |
| Production | (242.9) | (41.8) | (37.3) | (322.0) | (16.7) | -- | (338.7) |
| Net proved reserves at December 31, 1999 | 1,657.2 | 523.5 | 994.6 | 3,175.3 | -- | -- | 3,175.3 |



EOG RESOURCES, INC.

SUPPLEMENTAL INFORMATION TO CONSOLIDATED
FINANCIAL STATEMENTS -- (CONTINUED)

| | UNITED STATES | CANADA | TRINIDAD | SUBTOTAL | INDIA(2) | OTHER(3) | TOTAL |
|---|---|---|---|---|---|---|---|
| LIQUIDS (MBBL)(6)(7) | | | | | | | |
| Net proved reserves at December 31, 1996 | 28,876 | 7,452 | 8,168 | 44,496 | 10,791 | -- | 55,287 |
| Revisions of previous estimates | 3,515 | 225 | (31) | 3,709 | 19 | -- | 3,728 |
| Purchases in place | 127 | 1,123 | -- | 1,250 | -- | -- | 1,250 |
| Extensions, discoveries and other additions | 6,037 | 1,590 | -- | 7,627 | 20,123 | -- | 27,750 |
| Sales in place | (1,683) | -- | -- | (1,683) | -- | -- | (1,683) |
| Production | (5,223) | (1,384) | (1,236) | (7,843) | (838) | -- | (8,681) |
| Net proved reserves at December 31, 1997 | 31,649 | 9,006 | 6,901 | 47,556 | 30,095 | -- | 77,651 |
| Revisions of previous estimates | (152) | (504) | (1,049) | (1,705) | 3,063 | 73 | 1,431 |
| Purchases in place | 3,104 | -- | -- | 3,104 | -- | -- | 3,104 |
| Extensions, discoveries and other additions | 9,396 | 448 | 11,429 | 21,273 | 11,501 | 1,089 | 33,863 |
| Sales in place | (1,039) | -- | -- | (1,039) | -- | -- | (1,039) |
| Production | (6,131) | (1,358) | (1,077) | (8,566) | (1,874) | -- | (10,440) |
| Net proved reserves at December 31, 1998 | 36,827 | 7,592 | 16,204 | 60,623 | 42,785 | 1,162 | 104,570 |
| Revisions of previous estimates | 5,085 | 117 | (72) | 5,130 | -- | -- | 5,130 |
| Purchases in place | 2,753 | 39 | -- | 2,792 | -- | -- | 2,792 |
| Extensions, discoveries and other additions | 9,520 | 2,416 | 509 | 12,445 | -- | -- | 12,445 |
| Sales in place(2) | (121) | (37) | -- | (158) | (41,306) | (1,162) | (42,626) |
| Production | (6,217) | (1,231) | (878) | (8,326) | (1,479) | -- | (9,805) |
| Net proved reserves at December 31, 1999 | 47,847 | 8,896 | 15,763 | 72,506 | -- | -- | 72,506 |
| BCF EQUIVALENT (BCFE)(1) | | | | | | | |
| Net proved reserves at December 31, 1996 | 2,920.1 (4) | 365.3 | 419.2 | 3,704.6 | 264.3 | -- | 3,968.9 |
| Revisions of previous estimates | (29.8) | (0.1) | (0.5) | (30.4) | 25.2 | -- | (5.2) |
| Purchases in place | 60.7 | 74.4 | -- | 135.1 | -- | -- | 135.1 |
| Extensions, discoveries and other additions | 312.1 | 47.4 | -- | 359.5 | 374.2 | 7.7 | 741.4 |
| Sales in place | (27.7) | (0.4) | -- | (28.1) | -- | -- | (28.1) |
| Production | (260.4) | (45.3) | (48.5) | (354.2) | (11.7) | -- | (365.9) |
| Net proved reserves at December 31, 1997 | 2,975.0 (4) | 441.3 | 370.2 | 3,786.5 | 652.0 | 7.7 | 4,446.2 |
| Revisions of previous estimates | (57.0) | (5.5) | (1.7) | (64.2) | 50.8 | -- | (13.4) |
| Purchases in place | 141.6 | 54.9 | -- | 196.5 | -- | -- | 196.5 |
| Extensions, discoveries and other additions | 329.2 | 65.6 | 762.4 | 1,157.2 | 409.9 | 109.5 | 1,676.6 |
| Sales in place | (43.7) | -- | -- | (43.7) | -- | -- | (43.7) |
| Production | (270.6) | (46.6) | (57.3) | (374.5) | (31.4) | -- | (405.9) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net proved reserves at December 31, 1998 | 3,074.5 (4) | 509.7 | 1,073.6 | 4,657.8 | 1,081.3 | 117.2 | 5,856.3 |
| Revisions of previous estimates | (1,168.8)(5) | (0.6) | 4.1 | (1,165.3) | -- | -- | (1,165.3) |
| Purchases in place | 125.1 | 34.3 | -- | 159.4 | -- | -- | 159.4 |
| Extensions, discoveries and other additions | 265.3 | 84.3 | 54.0 | 403.6 | -- | -- | 403.6 |
| Sales in place(2) | (71.6) | (1.6) | -- | (73.2) | (1,055.7) | (117.2) | (1,246.1) |
| Production | (280.2) | (49.2) | (42.5) | (371.9) | (25.6) | -- | (397.5) |
| Net proved reserves at December 31, 1999 | 1,944.3 | 576.9 | 1,089.2 | 3,610.4 | -- | -- | 3,610.4 |



EOG RESOURCES, INC.

SUPPLEMENTAL INFORMATION TO CONSOLIDATED
FINANCIAL STATEMENTS -- (CONTINUED)

| | UNITED STATES | CANADA | TRINIDAD | SUBTOTAL | INDIA(2) | TOTAL |
|---|---|---|---|---|---|---|
| NET PROVED DEVELOPED RESERVES AT | | | | | | |
| NATURAL GAS (BCF) | | | | | | |
| December 31, 1996 | 1,325.7 | 319.5 | 370.2 | 2,015.4 | 124.6 | 2,140.0 |
| December 31, 1997 | 1,349.0 | 370.9 | 328.8 | 2,048.7 | 286.6 | 2,335.3 |
| December 31, 1998 | 1,429.7 | 387.4 | 283.0 | 2,100.1 | 407.4 | 2,507.5 |
| December 31, 1999 | 1,446.5 | 451.1 | 250.2 | 2,147.8 | -- | 2,147.8 |
| LIQUIDS (MBBL)(7) | | | | | | |
| December 31, 1996 | 24,868 | 7,452 | 8,168 | 40,488 | 10,791 | 51,279 |
| December 31, 1997 | 27,707 | 8,885 | 6,901 | 43,493 | 23,322 | 66,815 |
| December 31, 1998 | 33,045 | 7,465 | 4,782 | 45,292 | 33,472 | 78,764 |
| December 31, 1999 | 41,717 | 7,041 | 3,833 | 52,591 | -- | 52,591 |
| BCF EQUIVALENTS | | | | | | |
| December 31, 1996 | 1,474.9 | 364.2 | 419.2 | 2,258.3 | 189.3 | 2,447.6 |
| December 31, 1997 | 1,515.3 | 424.2 | 370.2 | 2,309.7 | 426.5 | 2,736.2 |
| December 31, 1998 | 1,628.0 | 432.1 | 311.7 | 2,371.8 | 608.2 | 2,980.0 |
| December 31, 1999 | 1,696.8 | 493.3 | 273.2 | 2,463.3 | -- | 2,463.3 |

---

(1) Billion cubic feet or billion cubic feet equivalent, as applicable.

(2) See Note 7 "Transactions with Enron Corp. and Related Parties."

(3) Other includes proved reserves for China operations only, none of which are proved developed. See Note 7 "Transactions with Enron Corp. and Related Parties."

(4) Includes 1,180 Bcf of proved undeveloped methane reserves contained, along with high concentrations of carbon dioxide and other gases, in deep Paleozoic (Madison) formations in the Big Piney area of Wyoming.

(5) Includes removal of the 1,180 Bcf of proved undeveloped methane reserves mentioned in (4) as a result of the Company's decision to defer the development of the Big Piney Madison deep Paleozoic formation methane reserves in Wyoming for the foreseeable future.

(6) Thousand barrels.

(7) Includes crude oil, condensate and natural gas liquids.

Capitalized Costs Relating to Oil and Gas Producing Activities. The following table sets forth the capitalized costs relating to the Company's natural gas and crude oil producing activities at December 31, 1999 and 1998:

| | 1998 | | |
|---|---|---|---|
| 1999 | NORTH AMERICA AND TRINIDAD | OTHER | TOTAL |

| | | | | |
|---|---|---|---|---|
| Proved Properties | $ 4,459,727 | $ 4,352,247 | $257,643 | $ 4,609,890 |
| Unproved Properties | 143,013 | 176,420 | 28,115 | 204,535 |
| Total | 4,602,740 | 4,528,667 | 285,758 | 4,814,425 |
| Accumulated depreciation, depletion and amortization | (2,267,812) | (2,120,520) | (17,542) | (2,138,062) |
| Net capitalized costs | $ 2,334,928 | $ 2,408,147 | $268,216 | $ 2,676,363 |



EOG RESOURCES, INC.

SUPPLEMENTAL INFORMATION TO CONSOLIDATED
FINANCIAL STATEMENTS -- (CONTINUED)

Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities. The acquisition, exploration and development costs disclosed in the following tables are in accordance with definitions in SFAS No. 19 -- "Financial Accounting and Reporting by Oil and Gas Producing Companies."

Acquisition costs include costs incurred to purchase, lease, or otherwise acquire property.

Exploration costs include exploration expenses, additions to exploration wells including those in progress, and depreciation of support equipment used in exploration activities.

Development costs include additions to production facilities and equipment, additions to development wells including those in progress and depreciation of support equipment and related facilities used in development activities.

The following tables set forth costs incurred related to the Company's oil and gas activities for the years ended December 31:

| | UNITED STATES | CANADA | TRINIDAD | OTHER | SUBTOTAL | INDIA(1) | CHINA(1) | TOTAL |
|---|---|---|---|---|---|---|---|---|
| 1999 | | | | | | | | |
| Acquisition Costs of Properties | | | | | | | | |
| Unproved | $ 18,964 | $ 2,276 | $ -- | $ -- | $ 21,240 | $ -- | $ -- | $ 21,240 |
| Proved | 22,092 | 20,838 | -- | -- | 42,930 | -- | -- | 42,930 |
| Total | 41,056 | 23,114 | -- | -- | 64,170 | -- | -- | 64,170 |
| Exploration Costs | 65,070 | 6,516 | 8,425 | 4,350 | 84,361 | 1,083 | 1,014 | 86,458 |
| Development Costs | 240,590 | 38,832 | 5,615 | -- | 285,037 | 23,820 | 8,010 | 316,867 |
| Total | $346,716 | $68,462 | $14,040 | $ 4,350 | $433,568 | $24,903 | $9,024 | $467,495 |
| 1998 | | | | | | | | |
| Acquisition Costs of Properties | | | | | | | | |
| Unproved | $ 32,925 | $ 3,545 | $ -- | $ -- | $ 36,470 | $ -- | $ -- | $ 36,470 |
| Proved | 198,006 | 12,896 | -- | -- | 210,902 | -- | -- | 210,902 |
| Total | 230,931 | 16,441 | -- | -- | 247,372 | -- | -- | 247,372 |
| Exploration Costs | 82,248 | 12,375 | 15,217 | 24,183 | 134,023 | 1,278 | 1,282 | 136,583 |
| Development Costs | 297,904 | 27,822 | 6,157 | 12,016 | 343,899 | 46,657 | 4,532 | 395,088 |
| Total | $611,083 | $56,638 | $21,374 | $36,199 | $725,294 | $47,935 | $5,814 | $779,043 |
| 1997 | | | | | | | | |
| Acquisition Costs of Properties | | | | | | | | |
| Unproved | $ 69,258 | $ 7,700 | $ -- | $ 35 | $ 76,993 | $ -- | $ 200 | $ 77,193 |
| Proved | 42,386 | 38,949 | -- | 28 | 81,363 | -- | -- | 81,363 |
| Total | 111,644 | 46,649 | -- | 63 | 158,356 | -- | 200 | 158,556 |
| Exploration Costs | 74,360 | 8,279 | 1,344 | 11,407 | 95,390 | 965 | 4,528 | 100,883 |
| Development Costs | 333,093 | 30,856 | 163 | 9,185 | 373,297 | 67,777 | 684 | 441,758 |
| Total | $519,097 | $85,784 | $ 1,507 | $20,655 | $627,043 | $68,742 | $5,412 | $701,197 |

---

(1) See Note 7 "Transactions with Enron Corp. and Related Parties."

EOG RESOURCES, INC.

SUPPLEMENTAL INFORMATION TO CONSOLIDATED
FINANCIAL STATEMENTS -- (CONTINUED)

Results of Operations for Oil and Gas Producing Activities(1). The following tables set forth results of operations for oil and gas producing activities for the years ended December 31:

| | UNITED STATES | CANADA | TRINIDAD | SUBTOTAL | INDIA(2) | OTHER(3) | TOTAL |
|---|---|---|---|---|---|---|---|
| 1999 | | | | | | | |
| Operating Revenues | | | | | | | |
| Trade | $492,308 | $83,503 | $55,900 | $631,711 | $51,554 | $ 39 | $683,304 |
| Associated Companies | 121,790 | 11,161 | -- | 132,951 | -- | -- | 132,951 |
| Gains on Sales of Reserves and Related Assets | 2,254 | 75 | -- | 2,329 | -- | (7,931) | (5,602) |
| Total | 616,352 | 94,739 | 55,900 | 766,991 | 51,554 | (7,892) | 810,653 |
| Exploration Expenses, including Dry Hole | 49,181 | 5,122 | 5,865 | 60,168 | 1,083 | 3,415 | 64,666 |
| Production Costs | 93,137 | 21,620 | 8,322 | 123,079 | 11,070 | 2,334 | 136,483 |
| Impairment of Unproved Oil and Gas Properties | 29,384 | 2,224 | -- | 31,608 | -- | -- | 31,608 |
| Depreciation, Depletion and Amortization | 370,536 | 29,826 | 12,787 | 413,149 | 7,223 | 38,436 | 458,808 |
| Income (Loss) before Income Taxes | 74,114 | 35,947 | 28,926 | 138,987 | 32,178 | (52,077) | 119,088 |
| Income Tax Provision (Benefit) | 21,283 | 12,259 | 15,909 | 49,451 | 15,445 | (18,227) | 46,669 |
| Results of Operations | $ 52,831 | $23,688 | $13,017 | $89,536 | $16,733 | $(33,850) | $ 72,419 |
| 1998 | | | | | | | |
| Operating Revenues | | | | | | | |
| Trade | $431,943 | $53,485 | $66,967 | $552,395 | $72,826 | $ 52 | $625,273 |
| Associated Companies | 117,719 | 15,132 | -- | 132,851 | -- | -- | 132,851 |
| Gains on Sales of Reserves and Related Assets | 29,268 | (15) | -- | 29,253 | -- | (3,658) | 25,595 |
| Total | 578,930 | 68,602 | 66,967 | 714,499 | 72,826 | (3,606) | 783,719 |
| Exploration Expenses, including Dry Hole | 63,875 | 7,496 | 2,027 | 73,398 | 1,278 | 14,015 | 88,691 |
| Production Costs | 98,909 | 19,715 | 7,361 | 125,985 | 13,617 | 3,666 | 143,268 |
| Impairment of Unproved Oil and Gas Properties | 29,952 | 2,124 | -- | 32,076 | -- | -- | 32,076 |
| Depreciation, Depletion and Amortization | 264,927 | 25,972 | 12,867 | 303,766 | 8,456 | 2,073 | 314,295 |
| Income (Loss) before Income Taxes | 121,267 | 13,295 | 44,712 | 179,274 | 49,475 | (23,360) | 205,389 |
| Income Tax Provision (Benefit) | 22,944 | 3,840 | 24,592 | 51,376 | 23,748 | (7,370) | 67,754 |
| Results of Operations | $ 98,323 | $ 9,455 | $20,120 | $127,898 | $25,727 | $(15,990) | $137,635 |
| 1997 | | | | | | | |
| Operating Revenues | | | | | | | |
| Trade | $448,824 | $58,712 | $66,000 | $573,536 | $35,332 | $ 21 | $608,889 |
| Associated Companies | 206,738 | 15,280 | -- | 222,018 | -- | 2 | 222,020 |
| Gains on Sales of Reserves and Related Assets | 4,464 | (13) | -- | 4,451 | -- | 4,836 | 9,287 |
| Total | 660,026 | 73,979 | 66,000 | 800,005 | 35,332 | 4,859 | 840,196 |
| Exploration Expenses, including Dry Hole | 50,930 | 5,995 | 1,344 | 58,269 | 965 | 15,765 | 74,999 |
| Production Costs | 106,395 | 20,073 | 12,256 | 138,724 | 10,505 | 75 | 149,304 |
| Impairment of Unproved Oil and Gas Properties | 24,229 | 2,643 | -- | 26,872 | -- | 341 | 27,213 |
| Depreciation, Depletion and Amortization | 238,765 | 23,116 | 11,032 | 272,913 | 3,716 | 901 | 277,530 |
| Income (Loss) before Income Taxes | 239,707 | 22,152 | 41,368 | 303,227 | 20,146 | (12,223) | 311,150 |
| Income Tax Provision (Benefit) | 69,252 | 8,130 | 22,752 | 100,134 | 9,670 | (252) | 109,552 |
| Results of Operations | $170,455 | $14,022 | $18,616 | $203,093 | $10,476 | $(11,971) | $201,598 |

---

(1) Excludes net revenues associated with other marketing activities, interest charges, general corporate expenses and certain gathering and handling fees for each of the three years in the period ended December 31, 1999. The gathering and handling fees and other marketing net revenues are directly associated with oil and gas operations with regard to segment reporting as defined in SFAS No. 131 -- "Disclosures about Segments of an Enterprise and Related Information," but are not part of Disclosures about Oil and Gas Producing Activities as defined in SFAS No. 69.

(2) See Note 7 "Transactions with Enron Corp. and Related Parties."

(3) Other includes China and other international operations. See Note 7 "Transactions with Enron Corp. and Related Parties."

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves. The following information has been developed utilizing procedures prescribed by SFAS No. 69 and based on crude oil and natural gas reserve and production volumes estimated by the engineering staff of the Company. It may be useful for certain comparison purposes, but should not be solely relied upon in evaluating the Company or its performance. Further, information contained in the following table should not be considered as representative of realistic assessments of future cash flows, nor should the Standardized Measure of Discounted Future Net Cash Flows be viewed as representative of the current value of the Company.

The future cash flows presented below are based on sales prices, cost rates, and statutory income tax rates in existence as of the date of the projections. It is expected that material revisions to some estimates of crude oil and natural gas reserves may occur in the future, development and production of the reserves may occur in periods other than those assumed, and actual prices realized and costs incurred may vary significantly from those used.

Management does not rely upon the following information in making investment and operating decisions. Such decisions are based upon a wide range of factors, including estimates of probable as well as proved reserves, and varying price and cost assumptions considered more representative of a range of possible economic conditions that may be anticipated.





The following table sets forth the standardized measure of discounted future net cash flows from projected production of the Company's crude oil and natural gas reserves for the years ended December 31:

| | UNITED STATES | CANADA | TRINIDAD | SUBTOTAL | INDIA(1) | OTHER(2) | TOTAL |
|---|---|---|---|---|---|---|---|
| 1999 | | | | | | | |
| Future cash inflows | $ 4,653,014 | $1,338,034 | $1,455,951 | $7,446,999 | $ -- | $ -- | $ 7,446,999 |
| Future production costs | (1,277,485) | (477,303) | (486,902) | (2,241,690) | -- | -- | (2,241,690) |
| Future development costs | (175,039) | (49,005) | (158,778) | (382,822) | -- | -- | (382,822) |
| Future net cash flows before income taxes | 3,200,490 | 811,726 | 810,271 | 4,822,487 | -- | -- | 4,822,487 |
| Future income taxes | (630,876) | (226,118) | (253,373) | (1,110,367) | -- | -- | (1,110,367) |
| Future net cash flows | 2,569,614 | 585,608 | 556,898 | 3,712,120 | -- | -- | 3,712,120 |
| Discount to present value at 10% annual rate | (842,382) | (207,717) | (267,965) | (1,318,064) | -- | -- | (1,318,064) |
| Standardized measure of discounted future net cash flows relating to proved oil and gas reserves | $ 1,727,232 | $ 377,891 | $ 288,933 | $2,394,056 | -- | -- | $ 2,394,056 |
| 1998 | | | | | | | |
| Future cash inflows | $ 5,471,121 | $ 950,151 | $1,210,060 | $7,631,332 | $2,384,459 | $179,329 | $10,195,120 |
| Future production costs | (1,280,875) | (319,938) | (347,431) | (1,948,244) | (556,609) | (127,039) | (2,631,892) |
| Future development costs | (316,175) | (42,252) | (161,424) | (519,851) | (392,546) | (11,325) | (923,722) |
| Future net cash flows before income taxes | 3,874,071 | 587,961 | 701,205 | 5,163,237 | 1,435,304 | 40,965 | 6,639,506 |
| Future income taxes | (903,983) | (119,655) | (229,281) | (1,252,919) | (614,297) | (7,111) | (1,874,327) |
| Future net cash flows | 2,970,088 | 468,306 | 471,924 | 3,910,318 | 821,007 | 33,854 | 4,765,179 |
| Discount to present value at 10% annual rate | (1,399,541) | (161,988) | (234,129) | (1,795,658) | (434,714) | (13,893) | (2,244,265) |
| Standardized measure of discounted future net cash flows relating to proved oil and gas reserves | $ 1,570,547(3) | $ 306,318 | $ 237,795 | $2,114,660 | $ 386,293 | $ 19,961 | $ 2,520,914 |
| 1997 | | | | | | | |
| Future cash inflows | $ 5,186,755 | $ 814,195 | $ 532,318 | $6,533,268 | $1,633,199 | $ 13,862 | $ 8,180,329 |
| Future production costs | (1,138,401) | (302,965) | (106,999) | (1,548,365) | (422,474) | (3,587) | (1,974,426) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Future development costs..... | (313,463) | (19,610) | (400) | (333,473) | (102,014) | (1,814) | (437,301) |
| Future net cash flows before income taxes..... | 3,734,891 | 491,620 | 424,919 | 4,651,430 | 1,108,711 | 8,461 | 5,768,602 |
| Future income taxes..... | (887,521) | (92,927) | (215,344) | (1,195,792) | (501,109) | (779) | (1,697,680) |
| Future net cash flows..... | 2,847,370 | 398,693 | 209,575 | 3,455,638 | 607,602 | 7,682 | 4,070,922 |
| Discount to present value at 10% annual rate..... | (1,297,651) | (121,381) | (61,656) | (1,480,688) | (287,874) | (1,906) | (1,770,468) |
| Standardized measure of discounted future net cash flows relating to proved oil and gas reserves..... | $ 1,549,719(3) | $ 277,312 | $ 147,919 | $1,974,950 | $ 319,728 | $ 5,776 | $ 2,300,454 |

---

(1) See Note 7 "Transactions with Enron Corp. and Related Parties."

(2) Other includes the standardized measure for proved reserves for China operations only. See Note 7 "Transactions with Enron Corp. and Related Parties."

(3) Includes approximately $55,316 and $100,294 in 1997 and 1998, respectively, related to the reserves in the Big Piney deep Paleozoic formations, which were removed from proved reserves in 1999.





Changes in Standardized Measure of Discounted Future Net Cash Flows. The following table sets forth the changes in the standardized measure of discounted future net cash flows at December 31, for each of the three years in the period ended December 31, 1999.

| | UNITED STATES | CANADA | TRINIDAD | SUBTOTAL | INDIA(1) | OTHER(2) | TOTAL |
|---|---|---|---|---|---|---|---|
| December 31, 1996..... | $ 2,491,769 (3) | $225,758 | $156,838 | $2,874,365 | $ 194,185 | $ -- | $ 3,068,550 |
| Sales and transfers of oil and gas produced, net of production costs... | (518,594) | (53,919) | (53,744) | (626,257) | (24,827) | -- | (651,084) |
| Net changes in prices and production costs..... | (1,664,174) | (19,784) | 4,730 | (1,679,228) | (34,611) | -- | (1,713,839) |
| Extensions, discoveries, additions and improved recovery net of related costs..... | 374,283 | 37,533 | -- | 411,816 | 257,256 | 5,616 | 674,688 |
| Development costs incurred..... | 52,300 | 1,900 | -- | 54,200 | -- | -- | 54,200 |
| Revisions of estimated development costs..... | 3,681 | 4,345 | 1,188 | 9,214 | (33,210) | -- | (23,996) |
| Revisions of previous quantity estimates..... | (17,257) | (101) | (442) | (17,800) | 26,696 | -- | 8,896 |
| Accretion of discount..... | 327,724 | 26,287 | 30,956 | 384,967 | 31,669 | -- | 416,636 |
| Net change in income taxes..... | 605,769 | 11,097 | 12,734 | 629,600 | (90,729) | 160 | 539,031 |
| Purchases of reserves in place..... | 43,882 | 52,911 | -- | 96,793 | -- | -- | 96,793 |
| Sales of reserves in place..... | (28,589) | (379) | -- | (28,968) | -- | -- | (28,968) |
| Changes in timing and other..... | (121,075) | (8,336) | (4,341) | (133,752) | (6,701) | -- | (140,453) |
| December 31, 1997..... | 1,549,719 (3) | 277,312 | 147,919 | 1,974,950 | 319,728 | 5,776 | 2,300,454 |
| Sales and transfers of oil and gas produced, net of production costs... | (423,733) | (48,902) | (59,606) | (532,241) | (59,209) | 3,664 | (587,786) |
| Net changes in prices and production costs..... | (33,809) | 10,891 | (36,730) | (59,648) | (103,097) | (6,961) | (169,706) |
| Extensions, discoveries, additions and improved recovery net of related costs..... | 325,308 | 43,686 | 159,497 | 528,491 | 218,168 | 18,894 | 765,553 |
| Development costs incurred..... | 59,600 | 2,900 | 6,000 | 68,500 | 43,400 | 4,300 | 116,200 |
| Revisions of estimated development costs..... | (26,611) | 690 | (11,410) | (37,331) | (66,128) | (3,233) | (106,692) |
| Revisions of previous quantity estimates..... | (35,216) | (4,137) | (1,142) | (40,495) | 36,877 | -- | (3,618) |
| Accretion of discount..... | 174,102 | 30,332 | 28,791 | 233,225 | 53,296 | 562 | 287,083 |
| Net change in income taxes..... | 47,745 | (5,822) | (122) | 41,801 | 212 | (428) | 41,585 |
| Purchases of reserves in place..... | 156,818 | 20,131 | -- | 176,949 | -- | -- | 176,949 |
| Sales of reserves in place..... | (33,549) | -- | -- | (33,549) | -- | -- | (33,549) |
| Changes in timing and other..... | (189,827) | (20,763) | 4,598 | (205,992) | (56,954) | (2,613) | (265,559) |
| December 31, 1998..... | 1,570,547 (3) | 306,318 | 237,795 | 2,114,660 | 386,293 | 19,961 | 2,520,914 |
| Sales and transfers of oil and gas produced, net of production costs... | (520,961) | (73,044) | (47,578) | (641,583) | (40,484) | 2,334 | (679,733) |
| Net changes in prices and production costs..... | 265,946 | 76,478 | 76,381 | 418,805 | -- | -- | 418,805 |
| Extensions, discoveries, additions and improved recovery net of related costs..... | 310,470 | 68,396 | 8,523 | 387,389 | -- | -- | 387,389 |
| Development costs incurred..... | 42,500 | 16,100 | -- | 58,600 | 23,820 | 8,010 | 90,430 |
| Revisions of estimated development costs..... | 133,741 | (1,127) | 8,178 | 140,792 | -- | -- | 140,792 |
| Revisions of previous quantity estimates..... | (163,423)(4) | (506) | 2,051 | (161,878) | -- | -- | (161,878) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Accretion of discount | 171,588 | 33,815 | 37,790 | 243,193 | -- | -- | 243,193 |
| Net change in income taxes | (27,883) | (79,397) | (22,874) | (130,154) | -- | -- | (130,154) |
| Purchases of reserves in place | 102,086 | 18,769 | -- | 120,855 | -- | -- | 120,855 |
| Sales of reserves in place | (81,607) | (1,276) | -- | (82,883) | (369,629) | (30,305) | (482,817) |
| Changes in timing and other | (75,772) | 13,365 | (11,333) | (73,740) | -- | -- | (73,740) |
| December 31, 1999 | $ 1,727,232 | $377,891 | $288,933 | $2,394,056 | $ -- | $ -- | $ 2,394,056 |

---

(1) See Note 7 "Transactions with Enron Corp. and Related Parties."

(2) Other includes China operations only. See Note 7 "Transactions with Enron Corp. and Related Parties."

(3) Includes approximately $222,228, $55,316 and $100,294, in 1996, 1997 and 1998, respectively, related to the reserves in the Big Piney deep Paleozoic formations.

(4) Includes reduction of approximately $172,057, discounted before income taxes, related to the reserves in the Big Piney deep Paleozoic formations.





UNAUDITED QUARTERLY FINANCIAL INFORMATION

| | QUARTER ENDED | | | |
|---|---|---|---|---|
| | MARCH 31 | JUNE 30 | SEPT. 30 | DEC. 31 |
| 1999 | | | | |
| Net Operating Revenues | $158,954 | $187,195 | $226,780 | $228,477 |
| Operating Income (Loss) | $ (9,604) | $ 15,695 | $(53,229) | $ 65,326 |
| Income before Income Taxes | 3,067 | 32,273 | 484,281 | 48,091 |
| Income Tax Provision (Benefit) | (1,999) | 11,635 | (28,640) | 17,622 |
| Net Income | $ 5,066 | $ 20,638 | $512,921 | $ 30,469 |
| Net Income per Share Available to Common | | | | |
| Basic | $ .03 | $ .13 | $ 3.75 | $ .25 |
| Diluted | $ .03 | $ .13 | $ 3.68 | $ .25 |
| Average Number of Common Shares | | | | |
| Basic | 153,733 | 153,825 | 136,750 | 119,169 |
| Diluted | 154,615 | 155,271 | 139,204 | 120,226 |
| 1998 | | | | |
| Net Operating Revenues | $199,831 | $183,307 | $191,262 | $194,788 |
| Operating Income | $ 38,286 | $ 32,669 | $ 19,199 | $ 23,507 |
| Income before Income Taxes | 28,206 | 22,173 | 3,969 | 5,934 |
| Income Tax Provision (Benefit) | 1,201 | 8,916 | (1,975) | (4,031) |
| Net Income | $ 27,005 | $ 13,257 | $ 5,944 | $ 9,965 |
| Net Income per Share Available to Common | | | | |
| Basic | $ .17 | $ .09 | $ .04 | $ .06 |
| Diluted | $ .17 | $ .09 | $ .04 | $ .06 |
| Average Number of Common Shares | | | | |
| Basic | 154,736 | 154,857 | 154,083 | 153,702 |
| Diluted | 155,522 | 155,770 | 154,409 | 154,516 |

| | | | | |
|---|---|---|---|---|
| 1997 | | | | |
| Net Operating Revenues | $180,651 | $171,753 | $193,120 | $237,977 |
| Operating Income | $ 41,170 | $ 28,619 | $ 48,757 | $ 74,229 |
| Income before Income Taxes | 37,311 | 24,111 | 40,975 | 61,073 |
| Income Tax Provision (Benefit) | 14,246 | (460) | 9,802 | 17,912 |
| Net Income | $ 23,065 | $ 24,571 | $ 31,173 | $ 43,161 |
| Net Income per Share Available to Common | | | | |
| Basic | $ .15 | $ .16 | $ .20 | $ .28 |
| Diluted | $ .14 | $ .16 | $ .20 | $ .28 |
| Average Number of Common Shares | | | | |
| Basic | 158,866 | 157,489 | 157,072 | 156,076 |
| Diluted | 159,790 | 157,950 | 158,049 | 156,808 |



SCHEDULE II

EOG RESOURCES, INC.

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(IN THOUSANDS)

| COLUMN A<br>DESCRIPTION | COLUMN B<br>BALANCE AT BEGINNING OF YEAR | COLUMN C<br>ADDITIONS CHARGED TO COSTS AND EXPENSES | COLUMN D<br>DEDUCTIONS FOR PURPOSE FOR WHICH RESERVES WERE CREATED | COLUMN E<br>BALANCE AT END OF YEAR |
|---|---|---|---|---|
| 1999 | | | | |
| Reserves deducted from assets to which they apply -- | | | | |
| Revaluation of Accounts Receivable | $11,375 | $1,972 | $9,721 | $ 3,626 |
| 1998 | | | | |
| Reserves deducted from assets to which they apply -- | | | | |
| Revaluation of Accounts Receivable | $ 7,025 | $4,350 | $ -- | $11,375 |
| 1997 | | | | |
| Reserves deducted from assets to which they apply -- | | | | |
| Revaluation of Accounts Receivable | $ 7,030 | $ -- | $ 5 | $ 7,025 |



EXHIBITS

Exhibits not incorporated herein by reference to a prior filing are designated by an asterisk (*) and are filed herewith; all exhibits not so designated are incorporated herein by reference to the Company's Form S-1 Registration Statement, Registration No. 33-30678, filed on August 24, 1989 ("Form S-1"), or as otherwise indicated.

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 3.1(a) | -- Restated Certificate of Incorporation (Exhibit 3.1 to Form S-1). |
| 3.1(b) | -- Certificate of Amendment of Restated Certificate of Incorporation (Exhibit 4.1(b) to Form S-8 Registration Statement No. 33-52201, filed February 8, 1994). |
| 3.1(c) | -- Certificate of Amendment of Restated Certificate of Incorporation (Exhibit 4.1(c) to Form S-8 Registration Statement No. 33-58103, filed March 15, 1995). |
| 3.1(d) | -- Certificate of Amendment of Restated Certificate of Incorporation, dated June 11, 1996 (Exhibit 3(d) to Form S-3 Registration Statement No. 333-09919, filed August 9, 1996). |
| 3.1(e) | -- Certificate of Amendment of Restated Certificate of Incorporation, dated May 7, 1997 (Exhibit 3(e) to Form S-3 Registration Statement No. 333-44785, filed January 23, 1998). |
| *3.1(f) | -- Certificate of Ownership and Merger, dated August 26, 1999. |
| *3.1(g) | -- Certificate of Designation, Preferences and Rights of Fixed Rate Cumulative Perpetual Senior Preferred Stock, Series A, dated December 8, 1999. |
| *3.1(h) | -- Certificate of Designations, Preferences and Rights of Flexible Money Market Cumulative Preferred Stock, Series C, dated December 20, 1999. |
| 3.1(i) | -- Certificate of Designations of Series E Junior Participating Preferred Stock, dated February 14, 2000 (Exhibit 2 to Form 8-A Registration Statement, filed February 18, 2000). |
| 3.2 | -- By-laws, dated August 23, 1989, as amended December 12, 1990, February 8, 1994, January 19, 1996, February 13, 1997, May 5, 1998, September 7, 1999 and February 14, 2000 (Exhibit 3.1 to the Company's Current Report on Form 8-K, filed February 18, 2000). |
| *3.3 | -- Specimen of Certificate evidencing the Common Stock. |
| 4.3(a) | -- Amended and Restated 1994 Stock Plan (Exhibit 4.3 to Form S-8 Registration Statement No. 33-58103, filed March 15, 1995). |
| 4.3(b) | -- Amendment to Amended and Restated 1994 Stock Plan, dated effective as of December 12, 1995 (Exhibit 4.3(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995). |
| 4.3(c) | -- Amendment to Amended and Restated 1994 Stock Plan, dated effective as of December 10, 1996 (Exhibit 4.3(a) to Form S-8 Registration Statement No. 333-20841, filed January 31, 1997). |
| 4.3(d) | -- Third Amendment to Amended and Restated 1994 Stock Plan, dated effective as of December 9, 1997 (Exhibit 4.3(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). |
| 4.3(e) | -- Fourth Amendment to Amended and Restated 1994 Stock Plan, dated effective as of May 5, 1998 (Exhibit 4.3(e) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |



| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 4.3(f) | -- Fifth Amendment to Amended and Restated 1994 Stock Plan, dated effective as of December 8, 1998 (Exhibit 4.3(f) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| 10.2(a) | -- Stock Restriction and Registration Agreement dated as of August 23, 1989 (Exhibit 10.2 to Form S-1). |
| 10.2(b) | -- Amendment to Stock Restriction and Registration Agreement, dated December 9, 1997, between the Company and Enron Corp. (Exhibit 10.2(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). |

| | |
|---|---|
| 10.3 | -- Tax Allocation Agreement, entered into effective as of the Deconsolidation Date, between Enron Corp., the Company, and the subsidiaries of the Company listed therein as additional parties (Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| 10.4(a) | -- Share Exchange Agreement, dated as of July 19, 1999, between Enron Corp. and the Company (Exhibit 2 to Form S-3 Registration Statement No. 333-83533, filed July 23, 1999). |
| 10.4(b) | -- Letter Amendment, dated July 30, 1999, to Share Exchange Agreement, between Enron Corp. and the Company (Exhibit 2.2 to the Company's Current Report on Form 8-K, filed August 31, 1999). |
| 10.4(c) | -- Letter Amendment, dated August 10, 1999, to Share Exchange Agreement, between Enron Corp. and the Company (Exhibit 2.3 to the Company's Current Report on Form 8-K, filed August 31, 1999). |
| 10.14(a) | -- 1993 Nonemployee Directors' Stock Option Plan (Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992). |
| 10.14(b) | -- First Amendment to 1993 Nonemployee Directors' Stock Option Plan (Exhibit 10.14(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1996). |
| 10.16 | -- Interest Rate and Currency Exchange Agreement, dated as of June 1, 1991, between Enron Risk Management Services Corp. and Enron Oil & Gas Marketing, Inc. (Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991), Confirmation dated June 14, 1992 (Exhibit 10.17 to Form S-1 Registration Statement, No. 33-50462, filed August 5, 1992) and Confirmations dated March 25, 1991, April 25, 1991, and September 23, 1992 (assigned to Enron Risk Management Services Corp. by Enron Finance Corp. pursuant to an Assignment and Assumption Agreement, dated as of November 1, 1993, by and between Enron Finance Corp., Enron Risk Management Services Corp. and Enron Oil & Gas Marketing, Inc.). (Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993). |
| 10.17 | -- Assignment and Assumption Agreement, dated as of November 1, 1993, by and between Enron Oil & Gas Marketing, Inc., the Company and Enron Risk Management Services Corp. (Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993). |
| 10.18 | -- ISDA Master Agreement, dated as of November 1, 1993, between the Company and Enron Risk Management Services Corp., and Confirmation Nos. 1268.0, 1286.0, 1291.0, 1292.0, 1304.0, 1305.0, 1321.0, 1335.0, 1338.0, 1370.0, 1471.0, 1485.0, 1486.0, 1494.0, 1495.0, 1509.0, 1514.0, 1533.01, 1569.0, 1986.0, 2217.0, 2227.0, 2278.0, 2299.0, 2372.0, 2647.0 (Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993). |



| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 10.19 | -- Letter Agreement between Colorado Interstate Gas Company and Enron Oil & Gas Marketing, Inc. dated November 1, 1990 (Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990). |
| 10.23 | -- Gas Purchase Agreement between the Company and Enron Oil & Gas Marketing, Inc. dated August 22, 1989 (Exhibit 10.41 to Form S-1). |
| 10.24 | -- Gas Purchase Agreement between the Company and Enron Oil & Gas Marketing, Inc. dated August 22, 1989 (Exhibit 10.42 to Form S-1). |
| 10.25 | -- Enron Corp. 1991 Stock Plan (Exhibit 10.08 to Enron Corp. Annual Report on Form 10-K for the year ended December |

| | | |
|---|---|---|
| | | 31, 1991). |
| 10.26 | -- | Enron Corp. 1988 Deferral Plan (Exhibit 10.49 to Form S-1). |
| 10.28 | -- | Enron Executive Supplemental Survivor Benefits Plan Effective January 1, 1987 (Exhibit 10.51 to Form S-1). |
| 10.34 | -- | 1992 Stock Plan (As Amended and Restated Effective June 28, 1999) (Exhibit A to the Company's Proxy Statement, dated June 4, 1999, with respect to the Company's Annual Meeting of Shareholders). |
| 10.57(a) | -- | Letter Agreement relating to Natural Gas Swap Transactions, dated March 31, 1995, among the Company, Enron Corp. and Enron Capital & Trade Resources Corp (Exhibit 10.57(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995). |
| 10.57(b) | -- | Amendment to Natural Gas Swap Transactions Letter Agreement, dated March 31, 1995, among the Company, Enron Corp. and Enron Capital & Trade Resources Corp (Exhibit 10.57(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995). |
| 10.58 | -- | Confirmation Letter (revised due to adjustments to the attached Payment Schedule), dated March 31, 1995, between the Company and Enron Capital & Trade Resources Corp. (ECT Transaction Reference No. 15198.00) (Exhibit 10.58 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995). |
| 10.59 | -- | Confirmation Letter (revised due to Price Change for 1998 and adjustment to the attached Payment Schedule), dated March 31, 1995, between the Company and Enron Capital & Trade Resources Corp. (ECT Transaction Reference No. 15198.01) (Exhibit 10.59 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995). |
| 10.60 | -- | Services Agreement, dated January 1, 1997, between Enron Corp. and the Company (Exhibit 10.60 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). |
| 10.61 | -- | Equity Participation and Business Opportunity Agreement, dated December 9, 1997, between the Company and Enron Corp. (Exhibit 10 to Form S-3 Registration Statement No. 333-44785, filed January 23, 1998). |
| 10.63(a) | -- | 1996 Deferral Plan (Exhibit 10.63(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). |
| 10.63(b) | -- | First Amendment to 1996 Deferral Plan, dated effective as of December 9, 1997 (Exhibit 10.63(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). |
| 10.63(c) | -- | Second Amendment to 1996 Deferral Plan, dated effective as of December 8, 1998 (Exhibit 10.63(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |



| EXHIBIT NUMBER | | DESCRIPTION |
|---|---|---|
| 10.64(a) | -- | Executive Employment Agreement between the Company and Mark G. Papa, effective as of November 1, 1997 (Exhibit 10.64 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). |
| 10.64(b) | -- | First Amendment to Executive Employment Agreement between the Company and Mark G. Papa, effective as of February 1, 1999 (Exhibit 10.64(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| *10.64(c) | -- | Second Amendment to Executive Agreement between the Company and Mark G. Papa, effective as of June 28, 1999. |
| 10.65(a) | -- | Executive Employment Agreement between the Company and Edmund P. Segner, III, effective as of September 1, 1998 (Exhibit 10.65(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| 10.65(b) | -- | First Amendment to Executive Employment Agreement between the Company and Edmund P. Segner, III, effective as of |

| | |
|---|---|
| | February 1, 1999 (Exhibit 10.65(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| *10.65(c) | -- Second Amendment to Executive Employment Agreement between the Company and Edmund P. Segner, III, effective as of June 28, 1999. |
| *10.66(a) | -- Executive Employment Agreement between the Company and Barry Hunsaker, Jr., effective as of September 1, 1998. |
| *10.66(b) | -- First Amendment to Executive Employment Agreement between the Company and Barry Hunsaker, Jr., effective as of December 21, 1998. |
| *10.66(c) | -- Second Amendment to Executive Employment Agreement between the Company and Barry Hunsaker, Jr., effective as of February 1, 1999. |
| *10.67(a) | -- Executive Employment Agreement between the Company and Loren M Leiker, effective as of March 1, 1998. |
| *10.67(b) | -- First Amendment to Executive Employment Agreement between the Company and Loren M. Leiker, effective as of February 1, 1999. |
| *10.68(a) | -- Executive Employment Agreement between the Company and Gary L. Thomas, effective as of September 1, 1998. |
| *10.68(b) | -- First Amendment to Executive Employment Agreement between the Company and Gary L. Thomas, effective as of February 1, 1999. |
| *12 | -- Computation of Ratio of Earnings to Fixed Charges |
| *21 | -- List of subsidiaries. |
| *23.1 | -- Consent of DeGolyer and MacNaughton. |
| *23.2 | -- Opinion of DeGolyer and MacNaughton dated February 8, 2000. |
| *23.3 | -- Consent of Arthur Andersen LLP. |
| *24 | -- Powers of Attorney. |
| *27 | -- Financial Data Schedule. |



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 8th day of March, 2000.

EOG RESOURCES, INC.
(Registrant)

By /s/ WALTER C. WILSON
(Walter C. Wilson)
Senior Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of registrant and in the capacities with EOG Resources, Inc. indicated and on the 8th day of March, 2000.

| SIGNATURE | TITLE |
|---|---|
| /s/ MARK G. PAPA<br>(Mark G. Papa) | Chairman and Chief Executive Officer and Director (Principal Executive Officer) |
| /s/ WALTER C. WILSON<br>(Walter C. Wilson) | Senior Vice President and Chief Financial Officer (Principal Financial Officer) |
| /s/ TIMOTHY K. DRIGGERS<br>(Timothy K. Driggers) | Vice President and Controller (Principal Accounting Officer) |

| | | |
|---|---|---|
| *EDMUND P. SEGNER, III<br>(Edmund P. Segner, III) | President and Chief of Staff and Director |
| *FRED C. ACKMAN<br>(Fred C. Ackman) | Director |
| *EDWARD RANDALL, III<br>(Edward Randall, III) | Director |
| *FRANK G. WISNER<br>(Frank G. Wisner) | Director |

*By /s/ PATRICIA L. EDWARDS
(Patricia L. Edwards)
(Attorney-in-fact for persons indicated)



EXHIBIT INDEX

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 3.1(a) | -- Restated Certificate of Incorporation (Exhibit 3.1 to Form S-1). |
| 3.1(b) | -- Certificate of Amendment of Restated Certificate of Incorporation (Exhibit 4.1(b) to Form S-8 Registration Statement No. 33-52201, filed February 8, 1994). |
| 3.1(c) | -- Certificate of Amendment of Restated Certificate of Incorporation (Exhibit 4.1(c) to Form S-8 Registration Statement No. 33-58103, filed March 15, 1995). |
| 3.1(d) | -- Certificate of Amendment of Restated Certificate of Incorporation, dated June 11, 1996 (Exhibit 3(d) to Form S-3 Registration Statement No. 333-09919, filed August 9, 1996). |
| 3.1(e) | -- Certificate of Amendment of Restated Certificate of Incorporation, dated May 7, 1997 (Exhibit 3(e) to Form S-3 Registration Statement No. 333-44785, filed January 23, 1998). |
| *3.1(f) | -- Certificate of Ownership and Merger, dated August 26, 1999. |
| *3.1(g) | -- Certificate of Designation, Preferences and Rights of Fixed Rate Cumulative Perpetual Senior Preferred Stock, Series A, dated December 8, 1999. |
| *3.1(h) | -- Certificate of Designations, Preferences and Rights of Flexible Money Market Cumulative Preferred Stock, Series C, dated December 20, 1999. |
| 3.1(i) | -- Certificate of Designations of Series E Junior Participating Preferred Stock, dated February 14, 2000 (Exhibit 2 to Form 8-A Registration Statement, filed February 18, 2000). |
| 3.2 | -- By-laws, dated August 23, 1989, as amended December 12, 1990, February 8, 1994, January 19, 1996, February 13, 1997, May 5, 1998, September 7, 1999 and February 14, 2000 (Exhibit 3.1 to the Company's Current Report on Form 8-K, filed February 18, 2000). |
| *3.3 | -- Specimen of Certificate evidencing the Common Stock. |
| 4.3(a) | -- Amended and Restated 1994 Stock Plan (Exhibit 4.3 to Form S-8 Registration Statement No. 33-58103, filed March 15, 1995). |
| 4.3(b) | -- Amendment to Amended and Restated 1994 Stock Plan, dated effective as of December 12, 1995 (Exhibit 4.3(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995). |
| 4.3(c) | -- Amendment to Amended and Restated 1994 Stock Plan, dated effective as of December 10, 1996 (Exhibit 4.3(a) to Form S-8 Registration Statement No. 333-20841, filed January |

| | |
|---|---|
| | 31, 1997). |
| 4.3(d) | -- Third Amendment to Amended and Restated 1994 Stock Plan, dated effective as of December 9, 1997 (Exhibit 4.3(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). |
| 4.3(e) | -- Fourth Amendment to Amended and Restated 1994 Stock Plan, dated effective as of May 5, 1998 (Exhibit 4.3(e) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| 4.3(f) | -- Fifth Amendment to Amended and Restated 1994 Stock Plan, dated effective as of December 8, 1998 (Exhibit 4.3(f) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| 10.2(a) | -- Stock Restriction and Registration Agreement dated as of August 23, 1989 (Exhibit 10.2 to Form S-1). |



| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 10.2(b) | -- Amendment to Stock Restriction and Registration Agreement, dated December 9, 1997, between the Company and Enron Corp. (Exhibit 10.2(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). |
| 10.3 | -- Tax Allocation Agreement, entered into effective as of the Deconsolidation Date, between Enron Corp., the Company, and the subsidiaries of the Company listed therein as additional parties (Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| 10.4(a) | -- Share Exchange Agreement, dated as of July 19, 1999, between Enron Corp. and the Company (Exhibit 2 to Form S-3 Registration Statement No. 333-83533, filed July 23, 1999). |
| 10.4(b) | -- Letter Amendment, dated July 30, 1999, to Share Exchange Agreement, between Enron Corp. and the Company (Exhibit 2.2 to the Company's Current Report on Form 8-K, filed August 31, 1999). |
| 10.4(c) | -- Letter Amendment, dated August 10, 1999, to Share Exchange Agreement, between Enron Corp. and the Company (Exhibit 2.3 to the Company's Current Report on Form 8-K, filed August 31, 1999). |
| 10.14(a) | -- 1993 Nonemployee Directors' Stock Option Plan (Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992). |
| 10.14(b) | -- First Amendment to 1993 Nonemployee Directors' Stock Option Plan (Exhibit 10.14(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1996). |
| 10.16 | -- Interest Rate and Currency Exchange Agreement, dated as of June 1, 1991, between Enron Risk Management Services Corp. and Enron Oil & Gas Marketing, Inc. (Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991), Confirmation dated June 14, 1992 (Exhibit 10.17 to Form S-1 Registration Statement, No. 33-50462, filed August 5, 1992) and Confirmations dated March 25, 1991, April 25, 1991, and September 23, 1992 (assigned to Enron Risk Management Services Corp. by Enron Finance Corp. pursuant to an Assignment and Assumption Agreement, dated as of November 1, 1993, by and between Enron Finance Corp., Enron Risk Management Services Corp. and Enron Oil & Gas Marketing, Inc.). (Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993). |
| 10.17 | -- Assignment and Assumption Agreement, dated as of November 1, 1993, by and between Enron Oil & Gas Marketing, Inc., the Company and Enron Risk Management Services Corp. (Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993). |
| 10.18 | -- ISDA Master Agreement, dated as of November 1, 1993, between the Company and Enron Risk Management Services Corp., and Confirmation Nos. 1268.0, 1286.0, 1291.0, 1292.0, 1304.0, 1305.0, 1321.0, 1335.0, 1338.0, 1370.0, |

| | | |
|---|---|---|
| | | 1471.0, 1485.0, 1486.0, 1494.0, 1495.0, 1509.0, 1514.0, 1533.01, 1569.0, 1986.0, 2217.0, 2227.0, 2278.0, 2299.0, 2372.0, 2647.0 (Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993). |
| 10.19 | -- | Letter Agreement between Colorado Interstate Gas Company and Enron Oil & Gas Marketing, Inc. dated November 1, 1990 (Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990). |
| 10.23 | -- | Gas Purchase Agreement between the Company and Enron Oil & Gas Marketing, Inc. dated August 22, 1989 (Exhibit 10.41 to Form S-1). |



| EXHIBIT NUMBER | | DESCRIPTION |
|---|---|---|
| 10.24 | -- | Gas Purchase Agreement between the Company and Enron Oil & Gas Marketing, Inc. dated August 22, 1989 (Exhibit 10.42 to Form S-1). |
| 10.25 | -- | Enron Corp. 1991 Stock Plan (Exhibit 10.08 to Enron Corp. Annual Report on Form 10-K for the year ended December 31, 1991). |
| 10.26 | -- | Enron Corp. 1988 Deferral Plan (Exhibit 10.49 to Form S-1). |
| 10.28 | -- | Enron Executive Supplemental Survivor Benefits Plan Effective January 1, 1987 (Exhibit 10.51 to Form S-1). |
| 10.34 | -- | 1992 Stock Plan (As Amended and Restated Effective June 28, 1999) (Exhibit A to the Company's Proxy Statement, dated June 4, 1999, with respect to the Company's Annual Meeting of Shareholders). |
| 10.57(a) | -- | Letter Agreement relating to Natural Gas Swap Transactions, dated March 31, 1995, among the Company, Enron Corp. and Enron Capital & Trade Resources Corp (Exhibit 10.57(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995). |
| 10.57(b) | -- | Amendment to Natural Gas Swap Transactions Letter Agreement, dated March 31, 1995, among the Company, Enron Corp. and Enron Capital & Trade Resources Corp (Exhibit 10.57(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995). |
| 10.58 | -- | Confirmation Letter (revised due to adjustments to the attached Payment Schedule), dated March 31, 1995, between the Company and Enron Capital & Trade Resources Corp. (ECT Transaction Reference No. 15198.00) (Exhibit 10.58 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995). |
| 10.59 | -- | Confirmation Letter (revised due to Price Change for 1998 and adjustment to the attached Payment Schedule), dated March 31, 1995, between the Company and Enron Capital & Trade Resources Corp. (ECT Transaction Reference No. 15198.01) (Exhibit 10.59 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995). |
| 10.60 | -- | Services Agreement, dated January 1, 1997, between Enron Corp. and the Company (Exhibit 10.60 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). |
| 10.61 | -- | Equity Participation and Business Opportunity Agreement, dated December 9, 1997, between the Company and Enron Corp. (Exhibit 10 to Form S-3 Registration Statement No. 333-44785, filed January 23, 1998). |
| 10.63(a) | -- | 1996 Deferral Plan (Exhibit 10.63(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). |
| 10.63(b) | -- | First Amendment to 1996 Deferral Plan, dated effective as of December 9, 1997 (Exhibit 10.63(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1997). |
| 10.63(c) | -- | Second Amendment to 1996 Deferral Plan, dated effective as of December 8, 1998 (Exhibit 10.63(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| 10.64(a) | -- | Executive Employment Agreement between the Company and Mark G. Papa, effective as of November 1, 1997 (Exhibit |

10.64 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).



| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 10.64(b) | -- First Amendment to Executive Employment Agreement between the Company and Mark G. Papa, effective as of February 1, 1999 (Exhibit 10.64(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| *10.64(c) | -- Second Amendment to Executive Agreement between the Company and Mark G. Papa, effective as of June 28, 1999. |
| 10.65(a) | -- Executive Employment Agreement between the Company and Edmund P. Segner, III, effective as of September 1, 1998 (Exhibit 10.65(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| 10.65(b) | -- First Amendment to Executive Employment Agreement between the Company and Edmund P. Segner, III, effective as of February 1, 1999 (Exhibit 10.65(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1998). |
| *10.65(c) | -- Second Amendment to Executive Employment Agreement between the Company and Edmund P. Segner, III, effective as of June 28, 1999. |
| *10.66(a) | -- Executive Employment Agreement between the Company and Barry Hunsaker, Jr., effective as of September 1, 1998. |
| *10.66(b) | -- First Amendment to Executive Employment Agreement between the Company and Barry Hunsaker, Jr., effective as of December 21, 1998. |
| *10.66(c) | -- Second Amendment to Executive Employment Agreement between the Company and Barry Hunsaker, Jr., effective as of February 1, 1999. |
| *10.67(a) | -- Executive Employment Agreement between the Company and Loren M Leiker, effective as of March 1, 1998. |
| *10.67(b) | -- First Amendment to Executive Employment Agreement between the Company and Loren M. Leiker, effective as of February 1, 1999. |
| *10.68(a) | -- Executive Employment Agreement between the Company and Gary L. Thomas, effective as of September 1, 1998. |
| *10.68(b) | -- First Amendment to Executive Employment Agreement between the Company and Gary L. Thomas, effective as of February 1, 1999. |
| *12 | -- Computation of Ratio of Earnings to Fixed Charges |
| *21 | -- List of subsidiaries. |
| *23.1 | -- Consent of DeGolyer and MacNaughton. |
| *23.2 | -- Opinion of DeGolyer and MacNaughton dated February 8, 2000. |
| *23.3 | -- Consent of Arthur Andersen LLP. |
| *24 | -- Powers of Attorney. |
| *27 | -- Financial Data Schedule. |

EXHIBIT 3.1(f)

CERTIFICATE OF OWNERSHIP
AND MERGER

MERGING

EOG RESOURCES, INC.
A DELAWARE CORPORATION

INTO

ENRON OIL & GAS COMPANY
A DELAWARE CORPORATION

(Pursuant to Section 253 of the General Corporation
Law of the State of Delaware)

Enron Oil & Gas Company, a corporation duly organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

FIRST: That Enron Oil & Gas Company (the "Company") and EOG Resources, Inc. ("EOG") are corporations duly organized and existing under and by virtue of the General Corporation Law of the State of Delaware.

SECOND: That the Company owns all of the issued and outstanding shares of the capital stock of EOG.

THIRD: That the board of directors of the Company adopted the following resolutions by unanimous written consent dated August 25, 1999, and that such resolutions have not been rescinded and are in full force and effect on the date hereof:

"WHEREAS, EOG Resources, Inc., a Delaware corporation ("EOG"), is a wholly owned subsidiary of the Company;

WHEREAS, the board of directors of the Company deems it advisable and in the best interest of the Company to merge EOG with and into the Company, with the Company being the surviving corporation;

NOW, THEREFORE, BE IT RESOLVED, that EOG be merged with and into the Company pursuant to Section 253 of the General Corporation Law of the State of Delaware, and that the Company succeed to and possess all the rights and assets of EOG and be subject to all of the liabilities and obligations of EOG;

RESOLVED, that the Company change its corporate name by changing Article First of the Certificate of Incorporation of the Company to read in its entirety as follows:

"First: The name of the Corporation is EOG Resources, Inc."



RESOLVED, that each share of common stock, $1.00 par value per share, of EOG issued and outstanding immediately prior to the effective date of the merger shall, upon the effective date and by virtue of the merger, be canceled without payment therefor;

RESOLVED, that the merger shall become effective on the date the Company files a Certificate of Ownership and Merger with respect to such merger with the Secretary of State of the State of Delaware;

RESOLVED, that the appropriate officers of the Company are hereby authorized and empowered to file the necessary documents with the Secretary of State of the State of Delaware, to incur the necessary expenses therefor and to take, or cause to be taken, all such further action and to execute and deliver or cause to be executed and delivered, in the name of and on behalf of the Company, all such further instruments and documents as any such officer may deem to be necessary or advisable in order to effect the purpose and intent of the foregoing resolutions and to be in the best interests of the Company (as conclusively evidenced by the taking of such action or the execution and delivery of such instruments and documents, as the case may be, by or under the direction of any such officer);

RESOLVED, that the prior actions of the officers and directors of the Company in undertaking to carry out the transactions contemplated by the foregoing resolutions be, and the same hereby are, in all respects, approved, adopted, ratified and confirmed."

IT WITNESS WHEREOF, the Company has caused this Certificate to be signed by its duly authorized officer this 26th day of August, 1999.

ENRON OIL & GAS COMPANY

By: /s/ W. C. WILSON
---
Walter C. Wilson
Senior Vice President and
Chief Financial Officer

EXHIBIT 3.1(g)

EOG RESOURCES, INC.
CERTIFICATE OF DESIGNATION, PREFERENCES AND RIGHTS
OF
FIXED RATE CUMULATIVE PERPETUAL SENIOR PREFERRED STOCK,
SERIES A
(Liquidation Preference $1,000.00 Per Share)

---

Pursuant to Section 151 of the
General Corporation Law of the State of Delaware

---

The following resolutions were duly adopted by a duly authorized committee of the Board of Directors (the "Board of Directors" or "Board") of EOG Resources, Inc., a Delaware corporation (the "Corporation"), by unanimous written consent dated as of December 7, 1999 and in accordance with the provisions of Section 151 of the Delaware General Corporation Law:

RESOLVED, that pursuant to authority conferred upon the Board of Directors by the provisions of the Restated Certificate of Incorporation, as amended (the "Certificate"), and the By-Laws, as amended, (the "By- Laws"), of the Corporation, this committee of the Board of Directors hereby creates one series of the Preferred Stock, $.01 par value per share, of the Corporation ("Senior Preferred Stock") and fixes the designation, preferences and rights of the shares of such series as follows:

1. Designation. The designation of the series of Senior Preferred Stock created by these resolutions shall be Fixed Rate Cumulative Perpetual Senior Preferred Stock, Series A ("Series A Senior Preferred Stock"). The number of authorized shares constituting the Series A Senior Preferred Stock is 100,000. The shares of the Series A Senior Preferred Stock shall have a stated value of $1,000.00 per share.

2. Voting Rights. The Series A Senior Preferred Stock shall not have any voting powers, either general or special, except as required by applicable law and as stated herein.

(a) Unless the vote or consent of the holders of a greater number of shares shall then be required by law, the consent of the holders of at least 66 2/3% of all of the shares of Series A Senior Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by a vote at a meeting called for the purpose at which the holders of shares of Series A Senior Preferred Stock shall vote together as a separate class, shall be necessary for authorizing, effecting or validating the amendment, alteration or repeal of any of the provisions of the Certificate, of the applicable Certificate of Designation, Preferences and Rights or of any other certificate amendatory of or supplemental to the Certificate (including any certificate of designation, preferences and rights or





(any similar document relating to any series of Senior Preferred Stock or any series of the Preferred Stock, $.01 par value per share, of the Corporation ("Junior Preferred Stock")) or of the By-laws of the Corporation which would adversely affect the preferences, rights, powers or privileges of the Series A

Senior Preferred Stock;

(b) Unless the vote or consent of the holders of a greater number of shares shall then be required by law, the consent of the holders of at least 66 2/3% of all of the then outstanding Series A Senior Preferred Stock and all other series of Senior Preferred Stock for which dividends are cumulative ("Cumulative Senior Preferred Stock") ranking on a parity with shares of the Series A Senior Preferred Stock, either as to dividends or upon liquidation, at the time outstanding, given in person or by proxy, either in writing or by a vote at a meeting called for the purpose at which the holders of shares of the Series A Senior Preferred Stock and such other series of Cumulative Senior Preferred Stock shall vote together as a single class without regard to series, shall be necessary for authorizing, effecting, increasing or validating the creation, authorization or issue of any shares of any class of stock of the Corporation ranking prior to the shares of the Series A Senior Preferred Stock as to dividends or upon liquidation, or the reclassification of any authorized stock of the Corporation into any such prior shares, or the creation, authorization or issue of any obligation or security convertible into or evidencing the right to purchase any such prior shares.

(c) If a default in preference dividends payable on any share or shares of the Series A Senior Preferred Stock or any other class or series of Cumulative Senior Preferred Stock ranking on a parity with the Series A Senior Preferred Stock, either as to dividends or upon liquidation, and upon which like voting rights have been conferred and are exercisable (excluding any other class or series of Cumulative Senior Preferred Stock expressly entitled to elect additional directors to the Board by a vote separate and distinct from the vote provided for in this paragraph (c),"Voting Cumulative Senior Preferred Stock") shall exist, the number of directors constituting the Board shall be increased by two (without duplication of any increase made pursuant to the terms of any other class or series of Voting Cumulative Senior Preferred Stock), and the holders of the Series A Senior Preferred Stock and the Voting Cumulative Senior Preferred Stock shall have the right, voting together as a single class without regard to class or series (to the exclusion of the holders of Common Stock, Junior Preferred Stock and of any series of Senior Preferred Stock which is not Voting Cumulative Senior Preferred Stock), to elect two directors of the Corporation to fill such newly created directorships. Each director elected by the holders of shares of Series A Senior Preferred Stock and any class or series of Voting Cumulative Preferred Stock in an election provided for by this Section 2(c) (herein called a "Preferred Director") shall continue to serve as such director until all accrued but unpaid dividends have been paid. Any Preferred Director may be removed by, and shall not be removed except by, the vote of the holders of record of the then outstanding shares of Series A Senior Preferred Stock and Voting Cumulative Senior Preferred Stock entitled to have originally voted for such director's election, voting together as a single class without regard to class or series, at a meeting of the Corporation's stockholders, or of the holders of shares of Series A Senior Preferred Stock and Voting Cumulative Senior Preferred Stock, called for that purpose. So long as a default in any preference dividends on the Series A Senior Preferred Stock or any class or series of Voting Cumulative Senior Preferred Stock shall exist, (A) any vacancy in the office of a Preferred





Director may be filled (except as provided in the following clause (B)) by an instrument in writing signed by the remaining Preferred Director and filed with the Corporation and (B) in the case of the removal of any Preferred Director, the vacancy may be filled by the vote of the holders of the then outstanding shares of Series A Senior Preferred Stock and Voting Cumulative Senior Preferred Stock entitled to have originally voted for the removed director's election, voting together as a single class without regard to class or series, at the same meeting at which such removal shall be voted. Each director appointed as aforesaid shall be deemed for all purposes hereto to be a Preferred Director.

Whenever a default in preference dividends shall no longer exist, the

number of directors constituting the Board shall be reduced by two. For purposes hereof, a "default in preference dividends" on the Series A Series Preferred Stock or any class or series of Voting Cumulative Senior Preferred Stock shall be deemed to have occurred whenever dividends upon the Series A Senior Preferred Stock or such class or series of Voting Cumulative Senior Preferred Stock have not been paid or declared and set aside for payment for the equivalent of six consecutive full quarterly dividend periods or more and, having so occurred, such default shall be deemed to exist thereafter until, but only until, all dividends on the Series A Senior Preferred Stock or such other class or series of Voting Cumulative Senior Preferred Stock have been paid or declared and set apart for payment.

3. Preferences. The Series A Senior Preferred Stock will be fixed rate cumulative perpetual (i.e., will be redeemable, if at all, solely at the option of the Corporation) Senior Preferred Stock. The Corporation has not issued any other series of Preferred Stock.

4. Dividends.

(a) If declared by the Corporation's Board of Directors, the holders of shares of the Series A Senior Preferred Stock shall be entitled to receive cash dividends thereon at a rate of $71.95 per share per annum which equals 7.195% of the Series A Preferred Stock's liquidation preference payable (if declared) quarterly out of the funds of the Corporation legally available for the payment of dividends. Such dividends shall be payable, when, as and if declared by the Board or a duly authorized committee thereof, on March 15, June 15, September 15 and December 15 of each year (each a "Dividend Payment Date"), commencing March 15, 2000. Each such dividend shall be paid to the holders of record of shares of Series A Senior Preferred Stock as they appear on the stock register of the Corporation on the close of business on such record date, which shall be not less than five nor more than 50 days (whether or not business days) preceding the Dividend Payment Date, as shall be fixed by the Board or a duly authorized committee thereof. The rights of holders of the Series A Senior Preferred Stock shall be cumulative. Accordingly, if the Board fails to declare a dividend on the Series A Senior Preferred Stock payable on a Dividend Payment Date, then holders of Series A Senior Preferred Stock shall have the right to receive a dividend in respect of the dividend period ending on such Dividend Payment Date, and the Corporation will have the obligation to pay dividends accrued for such period, whether or not dividends on the Series A Senior Preferred Stock are declared payable on any future Dividend Payment Date. The amount of dividends payable for any period shorter than a full quarterly dividend period shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.





(b) If, at any time prior to 18 months after the date of original issuance of the Series A Senior Preferred Stock, one or more amendments to the Internal Revenue Code of 1986, as amended (the "Code"), are enacted that reduce the percentage of the dividends received deduction (generally, 70%) as specified in Section 243(a)(1) of the Code or any successor provision (the "Dividends Received Percentage"), the amount of each dividend payable (if declared) per share of the Series A Senior Preferred Stock for dividend payments made on or after the date of enactment of such change shall be increased by multiplying the amount of the dividend payable determined as described above (before adjustment) by a factor, which shall be the number determined in accordance with the following formula (the "DRD Formula") and rounding the result to the nearest cent (with one-half cent rounded up):

$$\frac{1 - [.35\ (1 - .70)]}{1 - [.35\ (1 - DRP)]}$$

For purposes of the DRD Formula, "DRP" means the Dividends Received

Percentage applicable to the dividend in question; provided, however, that if the Dividends Received Percentage applicable to the dividend in question is less than 50%, then the DRP will equal 0.50. No amendment to the Code, other than a change in the percentage of the dividends received deduction set forth in Section 243(a)(1) of the Code or any successor provision prior to 18 months after the date of original issuance of the Series A Senior Preferred Stock, will give rise to an adjustment. Notwithstanding the foregoing provisions, in the event that, with respect to any such amendment, the Corporation shall receive either (i) an unqualified opinion of independent recognized tax counsel based upon the legislation amending or establishing the DRP or upon a published pronouncement of the Internal Revenue Service (the "IRS") addressing such legislation or (ii) a private letter ruling or similar form of assurance from the IRS, in either case to the effect that such an amendment would not apply to dividends payable on shares of Series A Senior Preferred Stock, then any such amendment shall not result in the adjustment provided for pursuant to the DRD Formula. The Corporation's calculation of the dividends payable, as so adjusted and as certified accurate as to calculation and reasonable as to method by the independent certified public accountants then regularly engaged by the Corporation, shall be final and not subject to review.

If any such amendment to the Code which reduces the Dividends Received Percentage is enacted after a dividend payable on a Dividend Payment Date has been declared but before such dividend has been paid, the amount of dividends payable on such Dividend Payment Date shall not be increased; but instead, an amount equal to the excess, if any, of (x) the product of the dividends paid by the Corporation on such Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the reduced Dividends Received Percentage and 0.50) over (y) the dividends paid by the Corporation on such Dividend Payment Date, will be payable (if declared) on the next succeeding Dividend Payment Date to holders of





Series A Senior Preferred Stock on the record date applicable to such succeeding Dividend Payment Date, in addition to any other amounts payable on such Dividend Payment Date.

In addition, if any such amendment to the Code is enacted that reduces the Dividends Received Percentage and such reduction retroactively applies to a Dividend Payment Date as to which the Corporation previously paid dividends on shares of Series A Senior Preferred Stock (each, an "Affected Dividend Payment Date"), the Corporation will pay (if declared) additional dividends (the "Retroactive Dividends") on the next succeeding Dividend Payment Date (or if such amendment is enacted after the dividend payable on such Dividend Payment Date has been declared, on the second succeeding Dividend Payment Date following the date of enactment), to holders of Series A Senior Preferred Stock on the record date applicable to such succeeding Dividend Payment Date, in an amount equal to the excess, if any, of (x) the product of the dividends paid by the Corporation on each Affected Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the reduced Dividends Received Percentage and 0.50, applied to each Affected Dividend Payment Date) over (y) the dividends paid by the Corporation on each Affected Dividend Payment Date.

Retroactive Dividends will not be paid in respect of the enactment of any amendment to the Code if such amendment would not result in an adjustment due to the Corporation having received either an opinion of counsel or tax ruling referred to in the third preceding paragraph. The Corporation will only make one payment of Retroactive Dividends.

No adjustments in the dividends payable by the Corporation will be made, and no Retroactive Dividends will be payable by the Corporation, because of any amendment to the Code at any time beginning 18 months after the date of original issuance of the Series A Senior Preferred Stock that reduces the Dividends Received Percentage.

In the event that the amount of dividends payable per share of Series A Senior Preferred Stock shall be adjusted pursuant to the DRD Formula and/or Retroactive Dividends are to be paid, the Corporation will cause notice of each such adjustment and, if applicable any Retroactive Dividends, to be sent to each holder of record of the shares of Series A Senior Preferred Stock at such holder's address as the same appears on the stock register of the Corporation.

(c) So long as any shares of Series A Senior Preferred Shares are outstanding, no dividend (other than a dividend in common stock, $.01 par value per share, of the Corporation ("Common Stock"), Junior Preferred Stock or any other stock of the Corporation ranking junior to the Series A Senior Preferred Stock as to dividends and upon liquidation and other than as provided in subsection (d) of this Section 4) shall be declared or paid or set aside for payment, nor shall any other distribution be declared or made upon the Common Stock, Junior Preferred Stock or any other stock of the Corporation ranking junior to or on a parity with the Series A Senior Preferred Stock as to dividends or upon liquidation, nor shall any Common Stock, Junior Preferred Stock or other stock of the Corporation ranking junior to or on a parity with the Series A Senior Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration





(nor shall any funds be paid to, or made available for, a sinking fund for the redemption of any shares of any such stock) by the Corporation (except by conversion into or exchange for stock of the Corporation ranking junior to the Series A Senior Preferred Stock as to dividends and upon liquidation) unless, in each case, the full dividends on all outstanding shares of the Series A Senior Preferred Stock shall have been, or contemporaneously are, paid, or declared and a sum sufficient for the payment thereof has been or is set apart for such payment.

(d) When dividends are not paid or declared and set aside for payment in full, as aforesaid, upon the shares of Series A Senior Preferred Stock and any other Senior Preferred Stock ranking on a parity as to dividends with the Series A Senior Preferred Stock, all dividends declared upon shares of Series A Senior Preferred Stock and any other class or series of Senior Preferred Stock ranking on a parity as to dividends with the Series A Senior Preferred Stock shall be declared pro rata so that the amount of dividends declared per share on the Series A Senior Preferred Stock and such other Senior Preferred Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the shares of Series A Senior Preferred Stock and such other Senior Preferred Stock bear to each other.

5. Redemption.

(a) Except as described in Section 5(f) hereof, the shares of Series A Senior Preferred Stock shall not be redeemable prior to December 15, 2009. On and after such initial redemption date, the Corporation, at its option, may redeem shares of the Series A Senior Preferred Stock, in whole or in part, at any time or from time to time, at a redemption price of $1,000.00 per share, plus accrued and unpaid dividends thereon (whether or not earned or declared) to the redemption date, including any dividends payable due to changes in the Dividends Received Percentage and Retroactive Dividends to the date fixed for redemption. In the event that fewer than all the outstanding shares of Series A Senior Preferred Stock are to be redeemed pursuant to this Section 5(a), the number of shares to be redeemed shall be determined by the Board and the shares to be redeemed shall be determined by lot or pro rata as may be determined by the Board or by any other method as may be determined by the Board in its sole discretion to be equitable.

(b) Notwithstanding the foregoing, if dividends to the redemption date have not been declared and paid or set apart for payment on all outstanding shares of Series A Senior Preferred Stock, no shares of Series A Senior

Preferred Stock shall be redeemed unless all outstanding shares of Series A Senior Preferred Stock are simultaneously redeemed, and the Corporation shall not purchase or otherwise acquire any shares of Series A Senior Preferred Stock; provided, however, that the foregoing shall not prevent the purchase or acquisition of shares of Series A Senior Preferred Stock pursuant to a tender or exchange offer made on the same terms to all holders of Series A Senior Preferred Stock and mailed to the holders of record of the Series A Senior Preferred Stock at such holders' addresses as the same appear on the stock register of the Corporation; provided, further, that if some, but less than all, of the shares of the Series A Senior Preferred Stock are to be purchased or otherwise acquired pursuant to such tender or exchange offer and the number of shares so tendered exceeds the number of shares so to be purchased or otherwise acquired by the





Corporation, the shares of the Series A Senior Preferred Stock tendered shall be purchased or otherwise acquired by the Corporation on a pro rata basis (with adjustments to eliminate fractions) according to the number of such shares tendered by each holder tendering shares of Series A Senior Preferred Stock.

(c) In the event the Corporation shall redeem shares of Series A Senior Preferred Stock pursuant to subsection (a) of this Section 5, notice of such redemption shall be given by first class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the redemption date, to each holder of record of the shares to be redeemed, at such holder's address as the same appears on the stock register of the Corporation. Each such notice shall state: (i) the redemption date; (ii) the number of shares of Series A Senior Preferred Stock to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on such redemption date.

(d) Notice having been mailed as aforesaid, from and after the redemption date (unless default shall be made by the Corporation in providing funds for the payment of the redemption price) dividends on the shares of Series A Senior Preferred Stock so called for redemption under subsection (a) of this Section 5 shall cease to accrue, and said shares shall no longer be deemed to be outstanding, and all rights of the holders thereof as stockholders of the Corporation (except the right to receive from the Corporation the redemption price against delivery of such shares) shall cease. Upon surrender in accordance with said notice of the certificates for any shares so redeemed (properly endorsed or assigned for transfer, if the Board shall so require and the notice shall so state), such shares shall be redeemed by the Corporation at the applicable redemption price. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the holder thereof.

(e) If the Corporation gives notice of redemption, then, by 12:00 Noon, Houston time, on the redemption date, the Corporation shall irrevocably deposit with a paying agent (which may be an affiliate of the Corporation) (the "Paying Agent"), which shall be a bank or trust company organized and in good standing under the laws of the United States, the State of Texas or the State of New York and having capital, surplus and undivided profits aggregating at least $10,000,000, funds sufficient to pay the applicable redemption price, including any accrued and unpaid dividends to the redemption date, and shall give the Paying Agent irrevocable instructions and authority to pay the redemption price to the holder or holders of record of the shares of Series A Senior Preferred Stock upon surrender of certificates for such shares (properly endorsed or assigned for transfer). If notice of redemption shall have been given, then upon the date of such deposit, all rights of holders of the shares so called for redemption shall cease, except the right of the holders of such shares to receive the redemption price against delivery of such shares, but without

interest, and such shares shall cease to be outstanding. The Corporation shall be entitled to receive, from time to time, from the Paying Agent, the interest, if any, earned on such funds deposited with the Paying Agent, and the holders of any shares to be redeemed with such funds shall have no claim to any such interest. Any funds



so deposited which are unclaimed at the end of two years from such redemption date shall upon demand be repaid to the Corporation, after which the holders of the shares of Series A Senior Preferred Stock so called for redemption shall be entitled to look only to the Corporation for payment thereof.

(f) If at any time prior to 18 months after the original issuance date of the Series A Senior Preferred Stock, one or more amendments to the Code are enacted that reduce the Dividends Received Percentage to 50% or less, and, as a result, the amount of dividends on the Series A Senior Preferred Stock payable on any Dividend Payment Date may be adjusted upwards pursuant to Section 4(b) hereof, the Corporation, at its option, may redeem all, but not less than all, of the outstanding shares of the Series A Senior Preferred Stock, provided that, within 60 days of the date on which an amendment to the Code is enacted that reduces the Dividends Received Percentage to 50% or less, the Corporation sends notice to the holders of the Series A Senior Preferred Stock of such redemption. Any redemption of the Series A Senior Preferred Stock pursuant to this Section will take place on the date specified in the notice, which will be not less than 30 nor more than 60 days from the date such notice is sent to the holders of the Series A Senior Preferred Stock. Any such redemption of the Series A Senior Preferred Stock will be at a redemption price of $1,050 per share, plus all accrued and unpaid dividends (whether or not declared and including any increase in dividends payable due to changes in the Dividends Received Percentage).

6. Liquidation Preference.

(a) Upon the dissolution, liquidation or winding up of the Corporation, voluntary or involuntary, the holders of the then outstanding shares of Series A Senior Preferred Stock shall be entitled to receive and be paid out of the assets of the Corporation available for distribution to its stockholders, before any payment or distribution of assets shall be made on the Common Stock, the Junior Preferred Stock or any other class of stock of the Corporation ranking junior to the Series A Senior Preferred Stock upon liquidation, the amount of $1,000.00 per share, plus an amount equal to the sum of all accrued and unpaid dividends (whether or not earned or declared) on such shares to the date of final distribution.

(b) Neither the sale of all or substantially all the property or business of the Corporation nor the merger or consolidation of the Corporation into or with any other corporation or the merger or consolidation of any other corporation into or with the Corporation, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 6.

(c) After the payment to the holders of the shares of Series A Senior Preferred Stock of the full preferential amounts provided for in this Section 6, the holders of the shares of Series A Senior Preferred Stock, as such, shall have no right or claim to any of the remaining assets of the Corporation.

(d) In the event the assets of the Corporation available for distribution to the holders of the shares of Series A Senior Preferred Stock and any other class or series of shares of Senior Preferred

Stock ranking on a parity with the Series A Senior Preferred Stock as to such distribution upon any dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, shall be insufficient to pay in full all preferential amounts to which such holders are entitled, no such distribution shall be made on account of the Series A Senior Preferred Stock or any shares of any other class or series of Senior Preferred Stock ranking on a parity with the shares of Series A Senior Preferred Stock upon such dissolution, liquidation or winding up, unless proportionate distributive amounts shall be paid on account of the shares of Series A Senior Preferred Stock and such shares of Senior Preferred Stock ratably, in proportion to the full distributable amounts for which holders of all such parity shares are respectively entitled upon such dissolution, liquidation or winding up.

7. Conversion and Exchange. The holders of shares of the Series A Senior Preferred Stock shall not have any rights to convert such shares into, or to exchange such shares for, shares of Common Stock, any other class or classes of capital stock (or any other security) or any other series of any class or classes of capital stock (or any other security) of the Corporation.

8. Priority as to Certain Distributions. As a series of Senior Preferred Stock, the shares of the Series A Senior Preferred Stock shall be entitled to such rights and priorities, and subject to such limitations, as to dividends as are set forth in these resolutions and in the Certificate.

9. Sinking Fund. No sinking fund shall be provided for the purchase or redemption of shares of the Series A Senior Preferred Stock.

10. Ranking. Without limitation to any provision set forth in these resolutions or in the Restated Certificate, it is hereby confirmed and expressly declared that the Series A Senior Preferred Stock constitutes a series of Senior Preferred Stock and, accordingly, ranks senior to all shares of Junior Preferred Stock as to dividends and distributions of assets upon liquidation, dissolution or winding up. For purposes hereof, any class or series or stock of the Corporation shall be deemed to rank:

(a) prior to the Series A Senior Preferred Stock as to dividends or distribution of assets upon liquidation, dissolution or winding up, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be, in preference or priority to the holders of Series A Senior Preferred Stock;

(b) on a parity with the Series A Senior Preferred Stock as to dividends or distribution of assets upon liquidation, dissolution or winding up, whether or not the dividend rates, dividend payment dates, redemption prices or liquidation preferences per share thereof are different from those of the Series A Senior Preferred Stock, if the holders of such class or series of stock and of the Series A Senior Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be, in proportion to their respective dividend amounts or liquidation preferences, without preference or priority to the holders of Series A Senior Preferred Stock; and





(c) junior to the Series A Senior Preferred Stock as to dividends or distribution of assets upon liquidation, dissolution or winding up, if such stock shall be Common Stock or Junior Preferred Stock or if the holders of the Series A Senior Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be, in preference or priority to the holders of shares of such class or series.

11. Exclusion of Other Rights. Unless otherwise required by law, shares of the Series A Senior Preferred Stock shall not have any rights, including

preemptive and subscription rights, or preferences other than those specifically set forth herein or as provided by applicable law.

12. Miscellaneous. The Board of Directors may interpret the provisions hereof to resolve any inconsistency or ambiguity which may arise or be revealed and if such inconsistency or ambiguity reflects an inaccurate provision hereof, the Board of Directors may, in appropriate circumstances, authorize the filing of a certificate of correction pursuant to Delaware law.

13. Change in Number of Shares. As provided in the Certificate, but subject to applicable law, the Board of Directors may increase or decrease the number of shares of this series of Senior Preferred Stock subsequent to the issue of shares of this series, but not below the number of shares of Series A Senior Preferred Stock then outstanding.

FURTHER RESOLVED, that the 100,000 shares of Series A Senior Preferred Stock authorized for issuance pursuant to the resolutions of this duly authorized committee of the Board of Directors all constitute Preferred Stock within the 10,000,000 shares authorized pursuant to the Certificate of the Corporation.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be signed by David R. Looney, its Vice President, this 8th day of December, 1999.

EOG RESOURCES, INC.

By: /s/ DAVID R. LOONEY
---
David R. Looney, Vice President

EXHIBIT 3.1(h)

EOG RESOURCES, INC.
CERTIFICATE OF DESIGNATIONS, PREFERENCES AND RIGHTS
OF
FLEXIBLE MONEY MARKET CUMULATIVE PREFERRED STOCK (MMP(R)), SERIES C

(Liquidation Preference $100,000 Per Share)

---

Pursuant to Section 151 of the
General Corporation Law of the State of Delaware

---

The following resolutions were duly adopted by a duly authorized committee of the Board of Directors (the "Board of Directors" or "Board") of EOG Resources, Inc., a Delaware corporation (the "Corporation"), by unanimous written consent dated as of December 14, 1999 and in accordance with the provisions of Section 151 of the Delaware General Corporation Law:

RESOLVED, that pursuant to authority conferred upon the Board of Directors by the provisions of the Restated Certificate of Incorporation, as amended (the "Certificate"), and the By-Laws, as amended, (the "By-Laws"), of the Corporation, this committee of the Board of Directors hereby creates a series of the preferred stock, $0.01 par value per share, of the Corporation ("Preferred Stock") and fixes the designation, preferences and rights of the shares of such series as follows:

1. Designation: A series of five hundred (500) shares of Preferred Stock, par value $0.01 per share, liquidation preference $100,000 per share plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared) thereon, is hereby designated "Flexible Money Market Cumulative Preferred Stock (MMP(R)), Series C" (the "Shares"). The Shares shall constitute a separate series of preferred stock of the Corporation, and shall rank on a parity with the shares of the Series A preferred stock and prior to or on a parity with other shares of preferred stock as to dividends and upon the liquidation, dissolution or winding up of the Corporation, except as described herein.

2. Definitions(1). Unless the context or use indicates another or different meaning or intent, in this Certificate of Designations the following terms have the following meanings, whether used in the singular or plural:

"AA Composite Commercial Paper Rate," on any date of determination, means (i) the Interest Equivalent of the rate on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P or "Aa" by Moody's or the equivalent of such rating by another nationally recognized statistical rating organization, as such rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately

---

(R) Registered trademark of Lehman Brothers Inc.

(1) Certain additional terms used in this Certificate of Designations are defined in Paragraphs 2, 3 and 7 hereof.

preceding such date, or (ii) in the event that the Federal Reserve Bank of New York does not make available such a rate, then the arithmetic average of the Interest Equivalent of the rate on commercial paper placed on behalf of such issuers, as quoted on a discount basis or otherwise by the Commercial Paper Dealer, to the Auction Agent for the close of business on the Business Day immediately preceding such date. If the Commercial Paper Dealer does not quote a rate required to determine the "AA" Composite Commercial Paper Rate, the "AA" Composite Commercial Paper Rate will be determined on the basis of the quotation or quotations furnished by any Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers. If the number of Dividend Period Days shall be (i) 7 or more but fewer than 49 days, such rate shall be the Interest Equivalent of the 30-day rate on such commercial paper; (ii) 49 or more but fewer than 70 days, such rate shall be the Interest Equivalent of the 60-day rate on such commercial paper; (iii) 70 or more days but fewer than 85 days, such rate shall be the arithmetic average of the Interest Equivalent of the 60-day and 90-day rates on such commercial paper; (iv) 85 or more days but fewer than 99 days, such rate shall be the Interest Equivalent of the 90-day rate on such commercial paper; or (v) 99 or more days but fewer than 183 days, such rate shall be determined by linear interpolation between the Interest Equivalents of the 90-day rate and the 180-day rate on such commercial paper.

"Affected Dividend Payment Date" has the meaning set forth in paragraph 3(e).

"Affiliate" means any Person known to the Auction Agent to be controlled by, in control of, or under common control with, the Corporation.

"Agent Member" means a member of the Securities Depository that will act on behalf of an Existing Holder, a beneficial owner, or a Potential Holder or potential beneficial owner of one or more Shares.

"Applicable Rate" means, with respect to any Shares for any Dividend Period therefor, the rate per annum at which cash dividends are payable on such Shares for such Dividend Period.

"Auction" means a periodic implementation of the Auction Procedures.

"Auction Agent" means a commercial bank, trust company or other financial institution appointed by a resolution of the Board of Directors that has entered into an agreement with the Corporation to follow the Auction Procedures for the purpose of determining the Applicable Rate and to act as transfer agent, registrar, dividend disbursing agent and redemption agent for the Shares.

"Auction Procedures" means the procedures for conducting Auctions set forth in paragraph 7.

"beneficial ownership" or "beneficially own" shall have the meanings ascribed to them under Rule 13d-3 under the Securities Exchange Act and "beneficial owner" shall have a corollary meaning.

"Board of Directors" means the Board of Directors of the Corporation or any duly authorized committee thereof.





"Broker-Dealer" means any broker-dealer, or other entity permitted by law to perform the functions required of a Broker-Dealer in paragraph 7, that has been selected by the Corporation and has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

"Broker-Dealer Agreement" means an agreement between the Auction Agent and one or more Broker-Dealers pursuant to which each such Broker-Dealer agrees to follow the procedures specified in paragraph 7 of this Certificate of Designations.

"Business Day" means a day on which the New York Stock Exchange, Inc. is open for trading and which is not a day on which banks in The City of New York are authorized or obligated by law to close.

"Certificate" means the Corporation's Certificate of Incorporation, as amended and supplemented, on file in the office of the Secretary of State of the State of Delaware.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commercial Paper Dealers" means such commercial paper dealer or dealers as the Corporation may from time to time appoint, or, in lieu of any thereof, their respective affiliates or successors.

"Common Stock" means the common stock, par value $0.01 per share, of the Corporation.

"Corporation" means EOG Resources, Inc., a Delaware corporation, and its successors.

"Cumulative Parity Preferred Stock" has the meaning set forth in paragraph 6(b).

"Date of Original Issue" means, with respect to the Shares, the date on which the Corporation originally issues such Shares.

"Dividend Non-Payment Period" has the meaning set forth in paragraph 3(b)(iii)(B).

"Dividend Payment Date," with respect to the Shares, includes each Initial Dividend Payment Date, Subsequent Dividend Payment Date and Period-End Dividend Payment Date.

"Dividend Period," with respect to the Shares, includes the Initial Dividend Period and each Subsequent Dividend Period.

"Dividend Period Days," with respect to any Dividend Period, means the calendar days included in such Dividend Period.

"Dividends Received Percentage" means the percentage of dividends received by corporate taxpayers which may be deducted for federal income tax purposes pursuant to Section 243(a)(1) of the Code (or any successor provision).





"DRD Formula" means the amount derived from the following fraction:

$$\frac{1 - [.35(1-.70)]}{1 - [.35(1-DRP)]}$$

"DRD Gross-Up Provisions" has the meaning set forth in paragraph 3(e).

"DRP," as used in computing the DRD Formula, means the Dividends Received Percentage, measured as a fraction, applicable to the dividend in question; provided, however, that DRP shall in no event be less than .50.

"Existing Holder," with respect to the Shares, means a Person who is listed as the owner of such Shares in the Stock Books.

"Holder" or "holder," with respect to any Shares, means the record holder thereof.

"IRS" means the Internal Revenue Service.

"Initial Dividend Payment Dates," with respect to the Shares, means each March 15, June 15, September 15 and December 15 of each year during the Initial Dividend Period, commencing March 15, 2000.

"Initial Dividend Period," with respect to the Shares, means the period from and including the Date of Original Issue for the Shares to but excluding the Initial Period-End Dividend Payment Date for the Shares.

"Initial Dividend Rate," with respect to the Shares, means 6.84% per annum for the Initial Dividend Period for the Shares.

"Initial Period-End Dividend Payment Date," with respect to the Shares, means December 15, 2004.

"Interest Equivalent" means a yield on a 360-day basis of a discount basis security which is equal to the yield on an equivalent interest-bearing security.

"Maximum Applicable Rate" has the meaning set forth in paragraph 7(a)(vi) of this Certificate of Designations.

"Minimum Holding Period" means, at the time of reference thereto, the minimum holding period then required for corporate taxpayers to be entitled to the Dividends Received Deduction.

"Moody's" means Moody's Investors Service, Inc. or its successors.

"Non-Call Period," with respect to the Shares, means a specified portion or the entirety of a Special Dividend Period for the Shares during which the Shares shall not be subject to Optional Redemption, as selected by the Corporation pursuant to a Notice of Special Dividend Period.





"Non-Payment Period" includes any Dividend Non-Payment Period and Redemption Price Non-Payment Period.

"Non-Payment Period Rate," with respect to the Shares, means 275% of the Reference Rate applicable to such Shares.

"Notice of Redemption" means a written notice of redemption given pursuant to paragraph 5.

"Notice of Revocation" has the meaning set forth in paragraph 3(c)(iii).

"Notice of Special Dividend Period" has the meaning set forth in paragraph 3(c)(iii).

"Optional Redemption" means an optional redemption of Shares by the Corporation pursuant to paragraph 5(a)(i) or 5(a)(ii).

"Optional Redemption Date" means the Dividend Payment Date selected by the Corporation for an Optional Redemption, which is at least 30 days but not more than 60 days after delivery of a Notice of Redemption with respect to such Optional Redemption.

"Outstanding" means, as of any date, (i) with respect to the Shares, the Shares theretofore issued by the Corporation except, without duplication, (A) any Shares theretofore cancelled, or delivered to the Auction Agent for cancellation, or redeemed by the Corporation, or as to which a Notice of Redemption shall have been given and the full amount payable upon such

redemption shall have been deposited in trust by the Corporation with irrevocable payment instructions given pursuant to paragraph 5(c), provided that Shares as to which a Notice of Redemption has been given by the Corporation shall be deemed to be not outstanding for purposes of any Auction for such Shares held subsequent to the date of such Notice of Redemption and (B) any Shares as to which the Corporation or any Affiliate shall be an Existing Holder or beneficial owner and (ii) with respect to shares of other Preferred Stock, has the equivalent meaning.

"Parity Preferred" means, with respect to the Shares, shares of the Series A Preferred Stock and each other outstanding series of Preferred Stock the holders of which, together with the Holders of the Shares, shall be entitled to the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up of the Corporation, as the case may be, in proportion to the full respective preferential amounts to which they are entitled, without preference or priority of one over the other.

"Period-End Dividend Payment Dates" include the Initial Period-End Dividend Payment Date and each Subsequent Period-End Dividend Payment Date.

"Person" means and includes an individual, a partnership, a corporation, a trust, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof.

"Potential Holder" means any Person who is not an Existing Holder but who may be interested in acquiring Shares, or who is an Existing Holder but who wishes to acquire additional Shares.





"Preferred Stock" means any preferred stock of the Corporation, including the Shares, that the Board of Directors has authority to issue under the Certificate of Incorporation.

"Preferred Directors" has the meaning set forth in paragraph 6(c).

"Redemption Non-Payment Period" has the meaning set forth in paragraph 3(b)(iv)(C)(1).

"Reference Rate" means, (i) with respect to a Dividend Period of 49 days to 183 days, the applicable "AA" Composite Commercial Paper Rate, (ii) with respect to a Dividend Period of 184 days to 364 days, the applicable U.S. Treasury Bill Rate, (iii) with respect to a Dividend Period of one year to ten years, the applicable U.S. Treasury Note Rate, and (iv) with respect to a Dividend Period in excess of ten years, the applicable U.S. Treasury Bond Rate.

"Regular Dividend Period" means a Subsequent Dividend Period consisting of 49 days as the same may be adjusted from time to time pursuant to paragraph 3(b)(i) in connection with requirement of, or a change of law altering the requirements of, the Minimum Holding Period, but in no event exceeding 98 days.

"Retroactive Dividends" has the meaning set forth in Section 3(e).

"S&P" means Standard & Poor's Ratings Services or its successors.

"Securities Act" means the Securities Act of 1933, as amended.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Securities Depository" means The Depository Trust Company or any successor Corporation or other entities elected by the Corporation as securities depository for the Shares that agrees to follow the procedures required to be followed by such securities depository in connection with the Shares.

"Series A Preferred Stock" means the shares of Preferred Stock, par value $0.01 per share, liquidation preference $1,000 per shares designated as the "Fixed Rate Cumulative Perpetual Senior Preferred Stock, Series A," of the Corporation.

"Shares" means the shares of Preferred Stock, par value $0.01 per share, liquidation preference $100,000 per share, plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared), designated as the "Flexible Money Market Cumulative Preferred Stock (MMP(R)), Series C," of the Corporation.

"Special Dividend Period" means a Subsequent Dividend Period consisting of at least 49 days as selected by the Corporation pursuant to a Notice of Special Dividend Period, to the extent that such selection by the Corporation shall be available pursuant hereto and subject to adjustment from time to time pursuant to paragraph 3(b)(i) in connection with requirements of, or a change of law altering requirements of, the Minimum Holding Period.





"Stock Books" means the books maintained by the Auction Agent setting forth at all times a current list, as determined by the Auction Agent, of Existing Holders.

"Subsequent Dividend Payment Date" has the meaning set forth in paragraph 3(b)(i) of this Certificate of Designations.

"Subsequent Dividend Period" has the meaning set forth in paragraph 3(c)(i) of this Certificate of Designations.

"Subsequent Period-End Dividend Payment Date," with respect to each Subsequent Dividend Period, means the Business Day immediately succeeding the last day of such Subsequent Dividend Period.

"Substitute Commercial Paper Dealer" or "Substitute Commercial Paper Dealers" means such substitute Commercial Paper Dealer or substitute Commercial Paper Dealers as the Corporation may from time to time appoint or, in lieu of any thereof, their respective affiliates or successors.

"Substitute Rating Agency" and "Substitute Rating Agencies" mean a nationally recognized statistical rating organization and two nationally recognized statistical rating organizations, respectively, each term as defined for purpose of Rule 436(g)(2) under the Securities Act, selected by the Corporation after consultation with each Broker-Dealer, to act as the substitute rating agency or substitute rating agencies, as the case may be, to determine the credit ratings of the Shares.

"Sufficient Clearing Bids" has the meaning as defined in paragraph 7(a).

"U.S. Treasury Bill Rate" on any date means (i) the Interest Equivalent of the rate on the actively traded Treasury Bill with a maturity most nearly comparable to the length of the related Dividend Period, as such rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York in its Composite 3:30 P.M. Quotations for U.S. Government Securities report for such Business Day, or (ii) if such yield as so calculated is not available, the Alternate Treasury Bill Rate on such date. "Alternate Treasury Bill Rate" on any date means the Interest Equivalent of the yield as calculated by reference to the arithmetic average of the bid price quotations of the actively traded Treasury Bill with a maturity most nearly comparable to the length of the related Dividend Period, as determined by bid price quotations as of any time on the Business Day immediately preceding such date, obtained from at least three recognized primary U.S. Government securities dealers selected by the Auction Agent.

"U.S. Treasury Bond Rate" on any date means (i) the yield as calculated by reference to the bid price quotation of the actively traded, current coupon Treasury Bond with a maturity most nearly comparable to the length of the related Dividend Period, as such bid price quotation is published on the Business Day immediately preceding such date by the Federal Reserve Bank of New York in its Composite 3:30 P.M. Quotations for U.S. Government Securities report for such Business Day, or (ii) if such yield as so calculated is not available, the Alternate Treasury Bond Rate on such date. "Alternate Treasury Bond Rate" on any date means the yield as calculated by reference to the arithmetic average of the bid price quotations of the actively traded, current coupon Treasury Bond with a maturity most nearly comparable to the length of





the related Dividend Period, as determined by the bid price quotations as of any time on the Business Day immediately preceding such date, obtained from at least three recognized primary U.S. Government securities dealers selected by the Auction Agent.

"U.S. Treasury Note Rate" on any date means (i) the yield as calculated by reference to the bid price quotation of the actively traded, current coupon Treasury Note with a maturity most nearly comparable to the length of the related Dividend Period, as such bid price quotation is published on the Business Day immediately preceding such date by the Federal Reserve Bank of New York in its Composite 3:30 P.M. Quotations for U.S. Government Securities report for such Business Day, or (ii) if such yield as so calculated is not available, the Alternate Treasury Note Rate on such date. "Alternate Treasury Note Rate" on any date means the yield as calculated by reference to the arithmetic average of the bid price quotations of the actively traded, current coupon Treasury Note with a maturity most nearly comparable to the length of the related Dividend Period, as determined by the bid price quotations as of any time on the Business Day immediately preceding such date, obtained from at least three recognized primary U.S. Government securities dealers selected by the Auction Agent.

"Voting Cumulative Parity Preferred Stock" has the meaning set forth in paragraph 6(c).

3. Dividends. (a) The holders of Shares shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, cumulative cash dividends at the Applicable Rate determined as set forth in paragraph 3(c), payable on the respective Dividend Payment Dates for the Shares.

(b) (i) Dividends on Shares shall accumulate (whether or not earned or declared) at the Applicable Rate for such Shares from the Date of Original Issue and shall be payable, when, as and if declared by the Board of Directors, out of funds legally available therefor, on each Initial Dividend Payment Date for the Shares and on the Initial Period-End Dividend Payment Date for the Shares. Following the Initial Period-End Dividend Payment Date for the Shares, dividends on the Shares will be payable on each Subsequent Period-End Dividend Payment Date, and in addition, (A) with respect to any Subsequent Dividend Period of 100 days to 190 days, on the 91st day, (B) with respect to any Subsequent Dividend Period of 191 days to 281 days, on the 91st and 182nd days, (C) with respect to any Subsequent Dividend Period of 282 days to 364 days, on the 91st, 182nd and 273rd days, and (D) with respect to any Subsequent Dividend Period of one year or longer, on March 15, June 15, September 15 and December 15 of each year (each such date referred to in clause (A) through (D) above being herein referred to as a "Subsequent Dividend Payment Date"). Notwithstanding the foregoing, if any Dividend Payment Date is not a Business Day then such Dividend Payment Date shall be the immediately succeeding Business Day.

Notwithstanding the foregoing, if any date on which dividends on the Shares would be payable as described in the immediately preceding paragraph is a day that would result in the number of Dividend Period Days in the then current Dividend Period for the Shares not being at least equal to the then current

Minimum Holding Period, then dividends with respect to such Dividend Period shall be payable on the first Business Day following such date on which dividends would be so payable that results in the number of Dividend Period Days in such Dividend Period being at least equal to the Minimum Holding Period or, if earlier, the 98th day





of such Dividend Period. Moreover, notwithstanding the foregoing, in the event of a change in law altering the Minimum Holding Period, the Board of Directors shall adjust, if necessary, the number of Dividend Period Days in each Regular Dividend Period and the minimum number of days of each Special Dividend Period commencing after the date of such change in law to equal or exceed the Minimum Holding Period, provided that the number of Dividend Period Days in a Regular Dividend Period shall not exceed by more than nine days the length of the Minimum Holding Period and shall be evenly divisible by seven, and the maximum number of Dividend Period Days in a Regular Dividend Period and the minimum number of Dividend Period Days in a Special Dividend Period, as adjusted pursuant hereto, shall in no event exceed 98 days. Upon any change in the number of Dividend Period Days in any then current Dividend Period or in a Regular Dividend Period or Special Dividend Period as a result of a change in the Minimum Holding Period, the Corporation will mail notice of such change to all holders of record of Shares. Although any particular Dividend Payment Date for the Shares may not occur on the day of the week or the date originally scheduled as a Dividend Payment Date for the Shares because of the adjustments set forth above, each succeeding Dividend Payment Date for the Shares shall occur, subject to such adjustments, on the day of the week or the date originally scheduled as a Dividend Payment Date for the Shares as if each preceding Dividend Payment Date had occurred on such day of the week or date.

(ii) On or prior to any Dividend Payment Date for the Shares, the Corporation shall pay to the Auction Agent sufficient funds for the payment in full of all accumulated dividends with respect to the Shares payable on such Dividend Payment Date. Each dividend shall be paid to the holder or holders of record of the Shares as they appear on the Stock Books of the Corporation on the Business Day immediately preceding the applicable Dividend Payment Date. Dividends in arrears in respect of Shares for any past Dividend Period may be declared and paid at any time, without reference to any regular Dividend Payment Date, to the holder or holders of such Shares as they appear on the Stock Books on a date, not exceeding 15 days prior to the payment date therefor, as may be fixed by the Board of Directors. Any dividend payment made on the Shares shall be applied, without duplication, in the following order of priority:

FIRST, in or toward payment of all accumulated dividends with respect to such earliest Dividend Period for such Shares for which dividends have not been paid; and

SECOND, in or toward payment of all then accumulated dividends with respect to each succeeding Dividend Period for such Shares for which dividends have not been paid.

(iii) If the Corporation fails to pay to the Auction Agent on or prior to any Period-End Dividend Payment Date for the Shares the full amount of all accumulated and unpaid dividends payable on the Shares on such Period-End Dividend Payment Date, then:

(A) if such failure to pay is cured as provided below, the Applicable Rate for the Shares for the Dividend Period commencing on the Period-End Dividend Payment Date on which the Corporation failed to pay shall be equal to the dividend rate determined on the Auction Date immediately preceding such Period-End Dividend Payment Date; and

(B) if such failure to pay is not cured as provided below, then, for the period (the "Dividend Non-Payment Period") commencing on and including such Period-End Dividend Payment Date and ending on and including the Business Day on which, by 12:00 noon, New York City time, all unpaid cash dividends shall have been deposited with the Auction Agent or otherwise made available for payment to the applicable Holders in same day funds (provided that, at least two Business Days but no more than 30 days prior to such Business Day, the Corporation shall have given the Auction Agent, the Securities Depository and the applicable Holders written notice of such deposit or availability):

(1) each Subsequent Dividend Period shall be a Regular Dividend Period (regardless of any Special Dividend Period election made by the Corporation) and Auctions for the Shares shall be suspended and shall not resume, in each case until all accumulated and unpaid dividends on the Shares for all past Dividend Periods shall have been paid to the Auction Agent, not later than the second Business Day immediately preceding an Auction Date for the Shares; and

(2) the Applicable Rate for the Shares during such Dividend Non-Payment Period shall be equal to Non-Payment Period Rate for the Shares.

(iv) If the Corporation fails to pay to the Auction Agent on or prior to any date set for redemption of less than all of the Shares the full amount payable upon redemption of the Shares called for redemption, then:

(A) Auctions for the Shares shall be suspended and shall not resume until all amounts payable upon the redemption of the Shares called for redemption shall have been paid to the Auction Agent not later than the second Business Day immediately preceding an Auction Date for the Shares;

(B) if such failure to pay is cured as provided below, the Applicable Rate for the Shares for the Dividend Period commencing after the redemption date on which the Corporation failed to pay shall be equal to the Maximum Applicable Rate for the Shares (as determined on the Business Day immediately preceding the first day of such Dividend Period) and such Dividend Period shall be a Regular Dividend Period (regardless of any Special Dividend Period election made by the Corporation), unless on the Auction Date for such Dividend Period, Auctions for the Shares may be resumed as provided in clause (A) above; and

(C) if such failure to pay is not cured as provided below, then:

(1) each Subsequent Dividend Period shall be a Regular Dividend Period (regardless of any Special Dividend Period election made by the Corporation) and the Applicable Rate for the Shares not called for redemption for each Dividend Period, commencing on the date immediately succeeding the redemption date on which the Corporation failed to pay, to but excluding the Dividend Period, if any, next succeeding the Auction Date on which Auctions for the Shares may be resumed as provided in clause (A) above (the "Redemption Non-Payment





Period"), shall be equal to the Non-Payment Period Rate for the Shares (as determined on the Business Day immediately preceding the first day of each such Dividend Period); and

(2) the Applicable Rate for the Shares called for redemption for each Dividend Period for the Shares commencing after the redemption date on which the Corporation failed to pay shall be equal to the Non-Payment Period Rate for the Shares (as determined on the Business Day immediately preceding the first day of each such Dividend Period).

For purposes of paragraphs 3(b)(iii)(A) and 3(b)(iv)(B), any such failure to pay with respect to the Shares shall be deemed cured if, not later than 12:00 noon, New York City time, on the third Business Day immediately succeeding such failure to pay, there shall have been paid to the Auction Agent (i) all accumulated and unpaid dividends on the Shares including the full amount of any dividends to be paid on the Period-End Dividend Payment Date with respect to which such failure to pay occurred but excluding amounts accumulated after such Period-End Dividend Payment Date, plus additional dividends in an amount computed by multiplying (A) the Non-Payment Period Rate for the Shares (as determined on the Business Day immediately preceding such Dividend Payment Date) by (B) a fraction, the numerator of which shall be the number of days in respect of which such failure to pay is not cured in accordance herewith (including the day such failure to pay occurs and excluding the day such failure to pay is cured) and the denominator of which shall be 360, and multiplying the rate so obtained by the product of $100,000 and the number of Shares then outstanding and (ii) the full amount payable upon redemption of the Shares called for redemption that have not been so redeemed, plus (except to the extent such amount has been paid pursuant to paragraph 3(b)(iv)(A) above) an amount computed by multiplying (X) the Non-Payment Period Rate for the Shares (as determined on the Business Day immediately preceding the first day of the current Dividend Period), and (Y) a fraction, the numerator of which shall be the number of days for which such failure to pay is not cured in accordance herewith (including the day such failure to pay occurs and excluding the day such failure to pay is cured) and the denominator of which shall be 360, and applying the rate so obtained against the product of $100,000 and the number of Shares called for redemption that have not been so redeemed.

If the Corporation fails to pay the Auction Agent on or prior to any date for redemption of all the Shares the full amount payable upon such redemption to the Shares, then the Applicable Rate for the Shares for each Dividend Period or portion thereof commencing on or after the redemption date on which the Corporation failed to pay shall be equal to the Non-Payment Period Rate for the Shares (as determined on the Business Day immediately preceding the first day of each such Dividend Period or portion thereof).

(c) (i) During the Initial Dividend Period, the Applicable Rate for the Shares shall be the Initial Dividend Rate. Commencing on the Initial Period-End Dividend Payment Date for the Shares, the Applicable Rate for the Shares for the period commencing on and including the Initial Period-End Dividend Payment Date and ending on and including the calendar day immediately preceding the immediately succeeding Subsequent Period-End Dividend Payment Date and for each period thereafter commencing on and including each Subsequent Period-End Dividend Payment Date and ending on and including the calendar day immediately preceding to





the immediately succeeding Subsequent Period-End Dividend Payment Date (each such period being herein referred to as a "Subsequent Dividend Period"), shall be equal to the rate per annum that results from implementation of the Auction Procedures with respect to Shares as the Auction Agent advises the Corporation following the conclusion of the Auction for such Shares.

Each Subsequent Dividend Period shall be a Regular Dividend Period unless the Corporation has duly selected a Special Dividend Period with respect thereto pursuant to paragraph 3(c)(iii) and such selection is available hereunder. In the event that Sufficient Clearing Bids have not been made in any

Auction under paragraph 7, then the immediately succeeding Subsequent Dividend Period shall automatically be a Regular Dividend Period regardless of whether the Corporation has elected a Special Dividend Period.

In the event that an Auction for any Subsequent Dividend Period with respect to the Shares is not held for any reason (other than as a result of the existence and continuance of a Non-Payment Period), such Subsequent Dividend Period next succeeding the originally scheduled Auction shall automatically be a Regular Dividend Period and the Applicable Rate for such Subsequent Dividend Period shall be equal to the Maximum Applicable Rate on the Business Day immediately preceding the commencement of such Subsequent Dividend Period.

The Applicable Rate for each Dividend Period commencing during a Non-Payment Period shall be equal to the Non-Payment Period Rate, and each Dividend Period, commencing after the first day of, and during, a Non-Payment Period shall be a Regular Dividend Period regardless of any election made by the Corporation for a Special Dividend Period relating thereto.

(ii) During the Initial Dividend Period and any Special Dividend Period in excess of 364 days in duration, the amount of dividends accumulated and payable, if declared, for each period that begins on a Dividend Payment Date and ends on the day immediately preceding the immediately succeeding Dividend Payment Date shall be computed by (A) multiplying the Applicable Rate for such Dividend Period by 0.25 and (B) multiplying $100,000 by the rate so obtained. The amount of dividends accumulated and payable, if declared, on each Share on any Dividend Payment Date with respect to any Regular Dividend Period and any period during the Initial Dividend Period and any Special Dividend Period in excess of 364 days that is not set forth in clause (A) above will be computed by (X) multiplying the Applicable Rate for such Dividend Period by a fraction, the numerator of which is the actual number of days in the portion of such Dividend Period prior to such Dividend Payment Date as to which dividends have not been paid and the denominator of which is 360, and (Y) multiplying $100,000 by the rate so obtained.

(iii) The Corporation may, at its option and to the extent permitted by law, by written notice (a "Notice of Special Dividend Period") to the Auction Agent and each Holder of the Shares, request that the next succeeding Dividend Period for the Shares be a number of days, at least as long as the Minimum Holding Period, specified in such notice, provided that such Notice of Special Dividend Period shall be null and void if Sufficient Clearing Bids have not been made in the relevant Auction and the Corporation may not again give a Notice of Special Dividend Period for the Shares (and any such attempted notice shall be null and void) until Sufficient Clearing Bids have been made in an Auction with respect to the Shares. Such Notice of Special





Dividend Period shall be sent by the Corporation, by first-class mail, postage prepaid, to each Holder of the Shares, not less than 10 days nor more than 60 days prior to the Auction for the relevant Subsequent Dividend Period. A Notice of Special Dividend Period with respect to the Shares will specify (A) the Corporation's determination of the length of the Special Dividend Period (which shall be equal to or longer than the Minimum Holding Period), (B) in the case of any Special Dividend Period in excess of 99 days in duration, any Subsequent Dividend Payment Date or Dates other than the Subsequent Period-End Dividend Payment Date for such Dividend Period, (C) if the Corporation has elected that the Shares will be subject to a Non-Call Period during such Special Dividend Period, a statement to that effect, (D) if the Corporation has elected that the DRD Gross-Up Provisions shall apply during such Special Dividend Period, a statement to that effect, and (E) if the Corporation has elected to redeem the Shares during such Special Dividend Period in accordance with paragraph 5(a)(ii), a statement to that effect. If the Corporation has given a Notice of Special Dividend Period, the Corporation may withdraw such election by giving telephonic and written notice of its revocation (a "Notice of Revocation") to each Holder of the Shares by no later than 3:00 P.M., New York City time, on the

Business Day immediately preceding the date of the Auction with respect to which such Notice of Special Dividend Period and Notice of Revocation were delivered, and in such event such election by the Corporation of a Special Dividend Period shall be of no force and effect. The Corporation shall deliver, or cause to be delivered, physically, by telecopier or by other written electronic communication, copies of each Notice of Special Dividend Period and each Notice of Revocation to the Auction Agent at the same time such notices are transmitted to the Holders of the Shares. In the event that the Corporation has effectively revoked its election of a Special Dividend Period for the Shares as described above, the next succeeding Dividend Period for the Shares shall be a Regular Dividend Period. No defect in a Notice of Special Dividend Period or in the mailing thereof shall affect the validity of any change in any Dividend Period.

(d) (i) Except as provided in this Certificate of Designations, Holders shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of full cumulative dividends and applicable late charges, as herein provided, on any Shares, and no interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment on any Shares that may be in arrears.

(ii) So long as any Shares are outstanding, no dividend (other than a dividend in Common Stock or any other capital stock of the Corporation ranking junior to the Shares as to dividends and upon liquidation and other than as provided in paragraph 3(d)(iii)) shall be declared or made upon any Parity Preferred, the Common Stock or any other shares of capital stock of the Corporation ranking junior to the Shares as to dividends or upon liquidation, nor shall any Parity Preferred, Common Stock or any other shares of capital stock of the Corporation ranking junior to the Shares as to dividends or upon liquidation, be redeemed, purchased or otherwise acquired for any consideration (nor shall any funds be paid to, or made available for, a sinking fund for the redemption of any shares of such stock) by the Corporation (except by conversion into or exchange for Common Stock or shares of capital stock of the Corporation ranking junior to the Shares as to dividends or upon liquidation) unless, in each case, the full cumulative dividends on the outstanding Shares shall have been or contemporaneously are, paid, or declared and a sum sufficient for the payment thereof has been or is set apart for such payment.





(iii) When dividends are not paid or declared and set aside for payment in full, as described in paragraph 3(d)(ii), upon the Shares and any Parity Preferred, all dividends declared upon the Shares and any Parity Preferred shall be declared pro rata so that the amount of dividends declared per share on such Shares and Parity Preferred shall in all cases bear to each other the same ratio that accumulated dividends per share on such Shares and Parity Preferred bear to each other.

(e) If, at any time prior to 18 months after the Date of Original Issue of the Shares any amendment to the Code shall have been enacted and become effective during any period in which Shares shall be outstanding and has the effect of changing the Dividends Received Percentage, then the Applicable Rate with respect to such Shares for the Dividend Period in which the effective date of such amendment to the Code occurs will, to the extent that such amendment applies to such Dividend Period, be adjusted on and after such effective date for the remainder of such Dividend Period by multiplying the Applicable Rate (determined before such adjustment) by the DRD Formula and rounding the result to the nearest basis point. No amendment to the Code, other than a change in the percentage of the dividends received deduction set forth in Section 243(a)(1) of the Code or any successor provision prior to 18 months after the Date of Original Issue of the Shares, will give rise to an adjustment. Notwithstanding the foregoing provisions, in the event that, with respect to any such amendment, the Corporation shall receive either (1) an unqualified opinion of independent recognized tax counsel based upon the legislation amending or establishing the DRP or upon a published pronouncement of the IRS addressing such legislation or (2) a private letter ruling or similar form of assurance from the IRS, in either

case to the effect that such an amendment would not apply to dividends payable on the Shares, then any such amendment shall not result in the adjustment provided for pursuant to the DRD Formula. The Corporation's calculation of the dividends payable, as so adjusted and as certified accurate as to calculation and reasonable as to method by the independent certified public accountants then regularly engaged by the Corporation, shall be final and not subject to review. Notwithstanding the foregoing, in no event shall the Applicable Rate for any Dividend Period, if and as adjusted from time to time as set forth above, be more than the Maximum Applicable Rate as of the Date of Original Issue of the Shares or the date of the preceding Auction, as the case may be.

If any such amendment to the Code which reduces the Dividends Received Percentage is enacted after a dividend payable on a Dividend Payment Date has been declared but before such dividend has been paid, the amount of dividends payable on such Dividend Payment Date shall not be increased; but instead, an amount equal to the excess, if any, of (x) the product of the dividends paid by the Corporation on such Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the reduced Dividends Received Percentage and 0.50) over (y) the dividends paid by the Corporation on such Dividend Payment Date, will be payable (if declared) on the next succeeding Dividend Payment Date to Holders of the Shares for such succeeding Dividend Payment Date, in addition to any other amounts payable on such Dividend Payment Date.

If the Applicable Rate shall have been adjusted pursuant to the provisions of this paragraph 3(e) (the "DRD Gross-Up Provisions"), the Corporation shall send notice of such adjustment to each Holder of the Shares and the Auction Agent the date ending 18 months after





the Date of Original Issue of the Shares on or prior to the next succeeding Dividend Payment Date for the Shares.

Unless otherwise required by the context, any reference in this Certificate of Designations to dividends shall mean dividends adjusted pursuant to the DRD Gross-Up Provisions. The DRD Gross-Up Provisions shall apply at any time prior to the date ending 18 months after the Date of Original Issue of the Shares. After such date, the DRD Gross-Up Provisions shall not apply to any Regular Dividend Period and shall only apply to any Special Dividend Period for the Shares if so designated by the Board of Directors in the applicable Notice of Special Dividend Period.

In addition, if any such amendment to the Code is enacted that reduces the Dividends Received Percentage and such reduction retroactively applies to a Dividend Payment Date as to which the Corporation previously paid dividends on the Shares (each, an "Affected Dividend Payment Date"), the Corporation will pay (if declared) additional dividends (the "Retroactive Dividends") on the immediately succeeding Dividend Payment Date (or if such amendment is enacted after the dividend payable on such Dividend Payment Date has been declared, on the second immediately succeeding Dividend Payment Date following the date of enactment), to Holders of the Shares for such succeeding Dividend Payment Date, in an amount equal to the excess, if any, of (x) the product of the dividends paid by the Corporation on each Affected Dividend Payment Date and the DRD Formula (where the DRP used in the DRD Formula would be equal to the greater of the reduced Dividends Received Percentage and 0.50, applied to each Affected Dividend Payment Date) over (y) the dividends paid by the Corporation on each Affected Dividend Payment Date.

Retroactive Dividends will not be paid in respect of the enactment of any amendment to the Code if such amendment would not result in an adjustment due to the Corporation having received either an opinion of counsel or tax ruling referred to above. The Corporation will only make one payment of Retroactive Dividends.

No adjustments in the dividends payable by the Corporation will be made, and no Retroactive Dividends will be payable by the Corporation, because of any amendment to the Code at any time beginning 18 months after the Date of Original Issue of the Shares that reduces the Dividends Received Percentage.

In the event that the amount of dividends payable per share of the Shares shall be adjusted pursuant to the DRD Formula and/or Retroactive Dividends are to be paid, the Corporation will cause notice of each such adjustment and, if applicable, any Retroactive Dividends, to be sent to each Holder of the Shares.

(f) No fractional Share shall be issued.

4. Liquidation Preference. (a) Upon the dissolution, liquidation or winding up of the Corporation, voluntary or involuntary, the Holders of the then outstanding Shares shall be entitled to receive and be paid out of the assets of the Corporation available for distribution to its stockholders, before any payment or distribution of assets shall be made on the Common Stock or any other class of capital stock of the Corporation ranking junior to the Shares as to dividends





and upon liquidation, the amount of $100,000 per share, plus an amount equal to the sum of all accumulated and unpaid dividends (whether or not earned or declared) on such Shares to the date of final distribution.

(b) Neither the sale of all or substantially all the property or business of the Corporation nor the merger or consolidation of the Corporation into or with any other corporation or the merger or consolidation of any other corporation into or with the Corporation, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this paragraph 4.

(c) After the payment to the Holders of the Shares of the full preferential amounts provided for in this paragraph 4, such Holders shall have no right or claim to any of the remaining assets of the Corporation.

(d) In the event the assets of the Corporation available for distribution to the holders of the Shares and any Parity Preferred shall be insufficient to pay in full all preferential amounts to which such holders are entitled, no such distribution shall be made on account of such Shares and Parity Preferred, unless proportionate distributive amounts shall be paid on account of such Shares and Parity Preferred ratably, in proportion to the full distributable amounts for which holders of all such parity shares are respectively entitled upon dissolution, liquidation or winding up of the Corporation.

5. Redemption. (a) The Shares shall be redeemable by the Corporation as provided below:

(i) Upon giving a Notice of Redemption with respect to an Optional Redemption to the Auction Agent, the Securities Depository and each holder of record of the Shares, the Corporation at its option may redeem the Shares, in whole or from time to time in part, out of funds legally available therefor, at a redemption price per Share of $100,000, on an Optional Redemption Date; provided that the Board of Directors shall have declared and shall pay on the redemption date all accumulated and unpaid dividends in respect of such Shares through the redemption date (whether earned or declared); and provided, further, that subject to Section 5(a)(ii) below, no Share may be redeemed at the option of the Corporation during (A) the Initial Dividend Period for the Shares or (B) a Non-Call Period to which such Shares are subject. Pursuant to such right of Optional Redemption, the Corporation may elect to redeem all or less than all of the Shares without redeeming remaining Shares. Notwithstanding the foregoing, the Corporation may not give a Notice of Redemption relating to, or redeem

pursuant to, an Optional Redemption as described in this paragraph 5(a)(i) if any dividend on any Share is in arrears unless all outstanding Shares are simultaneously redeemed. So long as any dividend on any Share in arrears remains unpaid, the Corporation shall not purchase or otherwise acquire any Shares; provided that the foregoing shall not prevent the purchase or acquisition of Shares pursuant to an otherwise lawful purchase or exchange offer made on the same terms to the holders of all outstanding Shares.

(ii) If at any time prior to 18 months after the Date of Original Issue of the Shares, and, during any Special Dividend Period, if designated by the Corporation and specified in the applicable Special Dividend Period Notice, one or more amendments to the Code are enacted





that reduce the Dividends Received Percentage to 50% or less, and, as a result, the amount of dividends on the Shares payable on any Dividend Payment Date may be adjusted upwards pursuant to paragraph 3(e) hereof, the Corporation at its option may redeem all, but not less than all, of the outstanding shares of the Shares, provided that, within 60 days of the date on which an amendment to the Code is enacted that reduces the Dividends Received Percentage to 50% or less, the Corporation sends notice to the holders of the Shares of such redemption. Any redemption of the Shares pursuant to this paragraph 5(a)(ii) will take place on the date specified in the notice, which will be not less than 30 nor more than 60 days from the date such notice is sent to the holders of the Shares. Any such redemption of the Shares will be at a redemption price of $105,000 per share, plus all accumulated and unpaid dividends (whether or not declared and including any increase in dividends payable due to changes in the Dividends Received Percentage).

(b) In the event that less than all the Outstanding Shares are to be redeemed and there is more than one Holder, the number of Shares to be redeemed shall be determined by the Board of Directors and communicated to the Auction Agent, and, if the Securities Depository or its nominee is the Holder of all such Shares, each Agent Member will determine the number of Shares to be redeemed from the account of each Holder for which it acts as agent and, if neither the Securities Depository nor its nominee is the Holder of all such Shares, the particular Shares to be redeemed shall be selected by the Corporation by lot or by such other method as the Corporation shall deem fair and equitable, provided that adjustments may be made by the Corporation with respect to the number of Shares to be redeemed from each Holder to avoid redemption of fractional Shares.

(c) Whenever Shares are to be redeemed pursuant to an Optional Redemption, the Notice of Redemption shall be mailed by first-class mail, postage prepaid, not less than 10 nor more than 45 days prior to the date fixed for such Optional Redemption, to each Holder of such Shares to be redeemed and the Auction Agent.

The Notice of Redemption shall set forth (i) the redemption date, (ii) the amount of the redemption price, (iii) the aggregate number of Shares to be redeemed, (iv) the place where Shares are to be surrendered for payment of the redemption price, (v) a statement that dividends on the Shares to be redeemed shall cease to accumulate on such date that the Corporation pays the full amount payable upon redemption of such Shares, and (vi) the provision of this Certificate of Designations pursuant to which such redemption is being made. A Notice of Redemption, once given, is irrevocable. No defect in the Notice of Redemption or in the mailing thereof shall affect the validity of the redemption proceedings, except as required by applicable law.

If the Corporation gives or causes to be given a Notice of Redemption, timely pays to the Auction Agent a sum sufficient to redeem the Shares as to which such Notice of Redemption has been given and gives the Auction Agent irrevocable instructions and authority to pay the full amount payable on redemption of such Shares to the Holders of such Shares, then on the date of

such payment, all rights of the Holders of the Shares to be redeemed, as such, will terminate (except the right of the Holders of such Shares to receive the full amount payable upon redemption thereof upon surrender of the certificate or certificates therefor, but without interest) and such Shares will no longer be deemed to be outstanding for any purpose (including, without limitation, the right of Holders of such Shares to vote on any matter or to participate, with





respect to such Shares, in any subsequent Auction for the outstanding Shares). In addition, any Shares as to which a Notice of Redemption has been given by the Corporation will be deemed to be not outstanding for purposes of any Auction for the Shares held subsequent to the date of such Notice of Redemption. The Corporation will be entitled to receive from time to time from the Auction Agent the income, if any, derived from the investment of monies or other assets paid to it (to the extent that such income is not required to pay the redemption price of the Shares to be redeemed), and the holders of any Shares to be redeemed will not have any claim to such income. Any funds so paid to the Auction Agent which are unclaimed at the end of two years from the redemption date will be returned to the Corporation, after which the holders of the Shares so called for redemption will look only to the Corporation for payment or the redemption price of such Shares.

(d) So long as the Shares are held of record by the nominee of the Securities Depository, the amounts payable upon an Optional Redemption shall be paid to such nominee of the Securities Depository on the Optional Redemption Date for the Shares.

6. Voting Rights. The Shares shall not have any voting powers, either general or special, except as required by applicable law and as stated herein.

(a) Unless the vote or consent of the holders of a greater number of shares shall then be required by law, the consent of the Holders of at least 66 2/3% of all of the Shares at the time outstanding, given in person or by proxy, either in writing or by a vote at a meeting called for the purpose at which the Holders of the Shares shall vote together as a separate class, shall be necessary for authorizing, effecting or validating the amendment, alteration or repeal of any of the provisions of the Certificate, of the applicable Certificate of Designation, Preferences and Rights or of any other certificate amendatory of or supplemental to the Certificate (including any certificate of designation, preferences and rights or any similar document relating to any series of Parity Preferred or any series of Preferred Stock of the Corporation ranking junior to the Shares as to dividends and upon liquidation) or of the By-laws of the Corporation which would adversely affect the preferences, rights, powers or privileges of the Shares;

(b) Unless the vote or consent of the holders of a greater number of shares shall then be required by law, the consent of the Holders of at least 66 2/3% of all of the of all of the Shares at the time outstanding and all other series of Parity Preferred for which dividends are cumulative ("Cumulative Parity Preferred Stock"), given in person or by proxy, either in writing or by a vote at a meeting called for the purpose at which the Holders of the Shares and such other series of Cumulative Parity Preferred Stock shall vote together as a single class without regard to series, shall be necessary for authorizing, effecting, increasing or validating the creation, authorization or issue of any shares of any class of capital stock of the Corporation ranking prior to the Shares as to dividends and upon liquidation, or the reclassification of any authorized capital stock of the Corporation into any such prior ranking shares, or the creation, authorization or issue of any obligation or security convertible into or evidencing the right to purchase any such prior ranking shares.

(c) If a default in preference dividends payable on any Shares or any other class or series of Cumulative Parity Preferred Stock upon which like voting rights have been conferred and are exercisable (excluding any other class

or series of Cumulative Parity Preferred Stock expressly





entitled to elect additional directors to the Board by a vote separate and distinct from the vote provided for in this paragraph (c), "Voting Cumulative Parity Preferred Stock") shall exist, the number of directors constituting the Board shall be increased by two (without duplication of any increase made pursuant to the terms of any other class or series of Voting Cumulative Parity Preferred Stock), and the holders of the Shares and the Voting Cumulative Parity Preferred Stock shall have the right, voting together as a single class without regard to class or series (to the exclusion of the holders of Common Stock, any shares of capital stock of the Corporation ranking junior to the Shares as to dividends and upon liquidation, and of any series of Parity Preferred which is not Voting Cumulative Parity Preferred Stock), to elect two directors of the Corporation to fill such newly created directorships. Each director elected by the holders of the Shares and any class or series of Voting Cumulative Parity Preferred Stock in an election provided for by this paragraph 6(c) (herein called a "Preferred Director") shall continue to serve as such director until all accumulated but unpaid dividends have been paid. Any Preferred Director may be removed by, and shall not be removed except by, the vote of the holders of record of the then outstanding Shares and Voting Cumulative Parity Preferred Stock entitled to have originally voted for such director's election, voting together as a single class without regard to class or series, at a meeting of the Corporation's stockholders, or of the holders of Shares and Voting Cumulative Parity Preferred Stock, called for that purpose. So long as a default in any preference dividends on the Shares or any class or series of Voting Cumulative Parity Preferred Stock shall exist, (A) any vacancy in the office of a Preferred Director may be filled (except as provided in the following clause (B)) by an instrument in writing signed by the remaining Preferred Director and filed with the Corporation and (B) in the case of the removal of any Preferred Director, the vacancy may be filled by the vote of the holders of the then outstanding Shares and Voting Cumulative Parity Preferred Stock entitled to have originally voted for the removed director's election, voting together as a single class without regard to class or series, at the same meeting at which such removal shall be voted. Each director appointed as aforesaid shall be deemed for all purposes hereto to be a Preferred Director.

(d) Whenever a default in preference dividends shall no longer exist, the number of directors constituting the Board shall be reduced by two. For purposes hereof, a "default in preference dividends" on the Shares or any class or series of Voting Cumulative Parity Preferred Stock shall be deemed to have occurred whenever dividends upon the Shares or such class or series of Voting Cumulative Parity Preferred Stock have not been paid or declared and set aside for payment for the equivalent of 540 days or more and, having so occurred, such default shall be deemed to exist thereafter until, but only until, all accumulated and unpaid dividends on the Shares or such other class or series of Voting Cumulative Parity Preferred Stock have been paid or declared and set apart for payment.

7. Auction Procedures. (a) Certain Definitions. As used in this paragraph 7, the following terms shall have the following meanings, unless the context otherwise requires:

(i) "Auction Date" means the first Business Day preceding the first day of each Subsequent Dividend Period for the Shares.

(ii) "Available Shares" has the meaning specified in paragraph 7(d)(i) below.

(iii) "Bid" has the meaning specified in paragraph 7(b)(i) below.

(iv) "Bidder" has the meaning specified in paragraph 7(b)(i) below.

(v) "Hold Order" has the meaning specified in paragraph 7(b)(i) below.

(vi) "Maximum Applicable Rate" for any Subsequent Dividend Period for the Shares will be the Applicable Percentage of the Reference Rate. The "Applicable Percentage" will be determined based on the lower of the credit rating or ratings assigned on such date to such Shares by Moody's and S&P (or if Moody's or S&P or both shall not make such rating available, the equivalent of either or both of such ratings by a Substitute Rating Agency or two Substitute Rating Agencies or, in the event that only one such rating shall be available, such rating) as follows:

| Credit Ratings | | Applicable Percentage of Reference Rate |
|---|---|---|
| Moody's | S&P | |
| "aa3" or higher | AA- or higher | 150% |
| "a3" to "a1" | A- to A+ | 200% |
| "baa3" to "baa1" | BBB- to BBB+ | 200% |
| Below "baa3" | Below BBB- | 275% |

provided, however, that, if at 9:00 A.M., New York City time, on any Auction Date, (i) the rating of any Shares by Moody's shall be on the "Corporate Credit Watch List" of Moody's with a designation of "downgrade" or "uncertain," (ii) the rating of any Shares by S&P shall be on the "CreditWatch" of S&P with a designation of "negative implications" or "developing" or (iii) if Moody's or S&P, or both, shall not make such a rating available, the rating of any Shares by any Substitute Rating Agency shall be on the substantial equivalent of clause (i) or (ii) above, then the Maximum Applicable Rate for the Shares to which such Auction Date relates will be determined pursuant to an Applicable Percentage based on the credit rating that is one full level lower in the above table.

The Corporation shall take all reasonable action necessary to enable S&P and Moody's (and, as appropriate, any Substitute Rating Agency or Substitute Rating Agencies) to provide a rating for the Shares. If either S&P or Moody's shall not make such a rating available, or neither S&P nor Moody's shall make such a rating available, the Corporation, after consultation with the Broker-Dealers or their affiliates and successors, shall select a nationally recognized statistical rating organization or two nationally recognized statistical rating organization to act as a Substitute Rating Agency or Substitute Rating Agencies, as the case may be.

(vii) "Order" has the meaning specified in paragraph 7(b)(i) below.

(viii) "Sell Order" has the meaning specified in paragraph 7(b)(i) below.

(ix) "Shares" means the Shares subject to the related Auction pursuant to this paragraph 7.





(x) "Submission Deadline" means 1:00 P.M., New York City time, on any Auction Date or such other time on the Auction Date as may be specified by the Auction Agent from time to time as the time by which each Broker-Dealer must submit to the Auction Agent in writing all Orders obtained by it for the Auction to be conducted on such Auction Date.

(xi) "Submitted Bid" has the meaning specified in paragraph 7(d)(i) below.

(xii) "Submitted Hold Order" has the meaning specified in paragraph 7(d)(i) below.

(xiii) "Submitted Order" has the meaning specified in paragraph 7(d)(i) below.

(xiv) "Submitted Sell Order" has the meaning specified in paragraph 7(d)(i) below.

(xv) "Sufficient Clearing Bids" has the meaning specified in paragraph 7(d)(i) below.

(xvi) "Winning Bid Rate" has the meaning specified in paragraph 7(d)(i) below.

(b) Orders by Existing Holders and Potential Holders. (i) Beneficial owners and potential beneficial owners may only participate in Auctions through their Broker-Dealers. Broker-Dealers will submit the Orders of their respective customers who are beneficial owners and potential beneficial owners to the Auction Agent, designating themselves (unless otherwise permitted by the Corporation) as Existing Holders in respect of Shares subject to Orders submitted or deemed submitted to them by beneficial owners and as Potential Holders in respect of Shares subject to Orders submitted to them by potential beneficial owners. A Broker-Dealer may also hold Shares in its own account as a beneficial owner or wish to purchase Shares for its own account as a potential owner. A Broker-Dealer may thus submit Orders to the Auction Agent as a beneficial owner or a potential beneficial owner and therefore participate in an Auction as an Existing Holder or Potential Holder on behalf of both itself and its customers.

Prior to the Submission Deadline on each Auction Date:

(A) each Existing Holder may submit to its Broker-Dealer information by telephone or otherwise as to:

(1) the number of Outstanding Shares, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Applicable Rate for the next succeeding Subsequent Dividend Period;

(2) the number of Outstanding Shares, if any, held by such Existing Holder which such Existing Holder desires to continue to hold, provided that the Applicable Rate for the next succeeding Subsequent Dividend Period shall not be less than the rate per annum specified by such Existing Holder; and/or

(3) the number of Outstanding Shares if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Applicable Rate for the next succeeding Subsequent Dividend Period; and





(B) each Broker-Dealer will contact Potential Holders by telephone or otherwise to determine whether such Potential Holders desire to submit Bids in which such Potential Holders will indicate the number of Outstanding Shares, if any, which each such Potential Holder offers to purchase, provided that the Applicable Rate for the next succeeding Subsequent Dividend Period shall not be less than the rate per annum specified by such Holder.

For the purposes hereof, the communication by an Existing Holder pursuant to clause (A) above or by a Potential Holder pursuant to clause (B) above to a Broker-Dealer, or the communication by a Broker-Dealer acting for its own account to the Auction Agent, of information referred to in clause (A) or (B) of this paragraph 7(b)(i) is hereinafter referred to as an "Order" and each Existing Holder and each Potential Holder placing an Order, including a Broker-Dealer acting in such capacity for its own account, is hereinafter referred to as a "Bidder"; an Order containing the information referred to in clause (A)(1) of this paragraph 7(b)(i) is hereinafter referred to as a "Hold Order"; an Order containing the information referred to in clause (A)(2) or (B) of this paragraph 7(b)(i) is hereinafter referred to as a "Bid"; and an Order containing the information referred to in clause (A)(3) of this paragraph 7(b)(i) is hereinafter referred to as a "Sell Order". Inasmuch as a Broker-Dealer participates in an Auction as an Existing Holder or a Potential Holder only to represent the interests of its customers or itself, the provisions herein relating to the consequences of an Auction for Existing Holders and Potential Holders also applies to the underlying beneficial ownership interests represented thereby.

(ii) (A) A Bid by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the number of Outstanding Shares specified in such Bid if the Applicable Rate determined on such Auction Date shall be less than the rate per annum specified in such Bid; or

(2) such number or a lesser number of Outstanding Shares to be determined as set forth in paragraph 7(e)(i)(D) if the Applicable Rate determined on such Auction Date shall be equal to the rate per annum specified therein; or

(3) a lesser number of Outstanding Shares to be determined as set forth in paragraph 7(e)(ii)(C) if such specified rate per annum shall be higher than the Maximum Applicable Rate and Sufficient Clearing Bids do not exist.

(B) A Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the number of Outstanding Shares specified in such Sell Order; or

(2) such number or a lesser number of Outstanding Shares to be determined as set forth in paragraph 7(e)(ii)(C) if Sufficient Clearing Bids do not exist.

(C) A Bid by a Potential Holder shall constitute an irrevocable offer to purchase:





(1) the number of Outstanding Shares specified in such Bid if the Applicable Rate determined on such Auction Date shall be higher than the rate per annum specified in such Bid; or

(2) such number or a lesser number of Outstanding Shares to be determined as set forth in paragraph 7(e)(i)(E) if the Applicable Rate determined on such Auction Date shall be equal to the rate per annum specified therein.

(c) Submission of Orders by Broker-Dealers to Auction Agent.

(i) Each Broker-Dealer shall submit in writing or through the Auction Agent's auction processing system to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer for the Auction to be conducted on such Auction Date, designating itself (unless otherwise permitted by the Corporation) as an Existing Holder or a Potential Holder in respect of Shares subject to such Orders, and specifying with respect to each Order:

(A) the name of the Bidder placing each Order (which shall be the Broker-Dealer unless otherwise permitted by the Corporation);

(B) the aggregate number of Outstanding Shares that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Holder:

(1) the number of Outstanding Shares, if any, subject to any Hold Order placed by such Existing Holder;

(2) the number of Outstanding Shares, if any, subject to any Bid placed by such Existing Holder and the rate per annum specified in such Bid; and

(3) the number of Outstanding Shares, if any, subject to any Sell Order placed by such Existing Holder; and

(D) to the extent such Bidder is a Potential Holder, the rate per annum specified in such Potential Holder's Bid.

(ii) If any rate per annum specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

(iii) If an Order or Orders covering in the aggregate all of the Outstanding Shares held by an Existing Holder are not submitted to the Auction Agent prior to the Submission Deadline for any reason (including the failure of a Broker-Dealer to contact any Existing Holder or to submit an Order covering such Existing Holder's Order or Orders), the Auction Agent shall deem a Hold Order (in the case of an Auction relating to a Regular Dividend Period) or a Sell Order (in the case of an Auction relating to a Special Dividend Period) to have been submitted on behalf of





such Existing Holder covering the number of Outstanding Shares held by such Existing Holder and not subject to Orders submitted to the Auction Agent.

(iv) If one or more Orders on behalf of an Existing Holder covering in the aggregate more than the number of Outstanding Shares held by such Existing Holder are submitted to the Auction Agent, such Order shall be considered valid as follows and in the following order of priority:

(A) any Hold Order submitted on behalf of such Existing Holder shall be considered valid up to and including the number of Outstanding Shares held by such Existing Holder; provided that if more than one Hold Order is submitted on behalf of such Existing Holder and the number of Shares subject to such Hold Orders exceeds the number of Outstanding Shares held by such Existing Holder, the number of Shares subject to each of such Hold Orders shall be reduced pro rata so that such Hold Orders, in the aggregate, will cover exactly the number of Outstanding Shares held by such Existing Holder;

(B) (I) any Bids submitted on behalf of such Existing Holder shall be considered valid up to and including the excess of the number of Outstanding Shares held by such Existing Holder over the number of

Shares subject to any Hold Order referred to in paragraph 7(c)(iv)(A) above; (II) if more than one Bid submitted on behalf of such Existing Holder specifies the same rate per annum and together they cover more than the remaining number of Shares that can be the subject of valid Bids after application of paragraph 7(c)(iv)(A) above and of subclause (I) of this paragraph 7(c)(iv)(B) to any Bid or Bids specifying a lower rate or rates per annum, the number of Shares subject to each of such Bids shall be reduced pro rata so that such Bids, in the aggregate, cover exactly such remaining number of Shares; and (III) subject to subclauses (I) and (II) above, if more than one Bid submitted on behalf of such Existing Holder specifies different rates per annum, such Bids shall be considered valid in the ascending order of their respective rates per annum and in any such event the number of Shares, if any, subject to Bids not valid under this paragraph 7(c)(iv)(B) shall be treated as the subject of a Bid by a Potential Holder; and

(C) any Sell Order shall be considered valid up to and including the excess of the number of Outstanding Shares held by such Existing Holder over the number of Shares subject to Hold Orders referred to in paragraph 7(c)(iv)(A) and valid Bids referred to in paragraph 7(c)(iv)(B); provided that if more than one Sell Order is submitted on behalf of any Existing Holder and the number of Shares subject to such Sell Orders is greater than such excess, the number of Shares subject to each of such Sell Orders shall be reduced pro rata so that such Sell Orders, in the aggregate, cover exactly the number of Shares equal to such excess.

(v) If more than one Bid is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate per annum and number of Shares specified.





(vi) Any Order submitted by a Existing Holder or a Potential Holder to its Broker-Dealer and any Order submitted by a Broker-Dealer to the Auction Agent, prior to the Submission Deadline on any Auction Date, shall be irrevocable.

(d) Determination of Sufficient Clearing Bids, Winning Bid Rate and Applicable Rate.

(i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order", a "Submitted Bid" or a "Submitted Sell Order", as the case may be, or as a "Submitted Order") and shall determine:

(A) the excess of the total number of Outstanding Shares over the number of Outstanding Shares that are the subject of Submitted Hold Orders (such excess being hereinafter referred to as the "Available Shares");

(B) from the Submitted Orders whether the number of Outstanding Shares that are the subject of Submitted Bids by Potential Holders specify one or more rates per annum equal to or lower than the Maximum Applicable Rate exceeds or is equal to the sum of:

(1) the number of Outstanding Shares that are the subject of Submitted Bids by Existing Holders specifying one or more rates per annum higher than the Maximum Applicable Rate, and

(2) the number of Outstanding Shares that are subject to Submitted Sell Orders (if such excess or such

equality exists (other than because the number of Outstanding Shares in clause (1) above and this clause (2) are each zero because all of the Outstanding Shares are the subject of Submitted Hold Orders), such Submitted Bids by Potential Holders being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the lowest rate per annum specified in the Submitted Bids (the "Winning Bid Rate") that, if:

(1) each Submitted Bid from Existing Holders specifying the Winning Bid Rate and all other Submitted Bids from Existing Holders specifying lower rates per annum were rejected, thus entitling such Existing Holders to continue to hold the Shares that are the subject of such Submitted Bids, and

(2) each Submitted Bid from Potential Holders specifying the Winning Bid Rate and all other Submitted Bids from Potential Holders specifying lower rates per annum were accepted, thus entitling the Potential Holders to purchase the Shares that are the subject of such Submitted Bids, would result in the number of Shares subject to all Submitted Bids specifying the Winning Bid Rate or a lower rate per annum being at least equal to the Available Shares.





(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph 7(d)(i), the Auction Agent shall advise the Corporation of the Maximum Applicable Rate and, based on such determinations, the Applicable Rate for the next succeeding Dividend Period for the Shares as follows:

(A) if Sufficient Clearing Bids exist, that the Applicable Rate for the next succeeding Subsequent Dividend Period shall be equal to the Winning Bid Rate;

(B) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding Shares are the subject of Submitted Hold Orders), that the Subsequent Dividend Period for such Shares next succeeding the Auction shall automatically be a Regular Dividend Period and the Applicable Rate for such next succeeding Subsequent Dividend Period shall be equal to the Maximum Applicable Rate; or

(C) if all of the Outstanding Shares are the subject of Submitted Hold Orders, that the Subsequent Dividend Period for such Shares next succeeding the Auction shall automatically be a Regular Dividend Period and the Applicable Rate for such next succeeding Subsequent Dividend Period shall be equal to 59% of the Reference Rate in effect on the date of such Auction.

(e) Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Shares. Based on the determinations made pursuant to paragraph 7(d)(i) the Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, subject to the provisions of paragraph 7(e)(iii) and paragraph 7(e)(iv), Submitted Bids and Submitted Sell Orders shall be accepted or rejected in the following order of priority and all other Submitted Bids shall be rejected:

(A) the Submitted Sell Orders of Existing Holders shall be accepted and the Submitted Bid of each of the Existing Holders

specifying any rate per annum that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the Outstanding Shares that are the subject of such Submitted Sell Order or Submitted Bid;

(B) the Submitted Bid of each of the Existing Holders specifying any rate per annum that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the Outstanding Shares that are the subject of such Submitted Bid;

(C) the Submitted Bid of each of the Potential Holders specifying any rate per annum that is lower than the Winning Bid Rate shall be accepted;

(D) the Submitted Bid of each of the Existing Holders specifying a rate per annum that is equal to the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the Outstanding Shares that are the subject of such Submitted Bid, unless the number of Outstanding Shares subject to all such Submitted Bids shall be greater than the excess (the "Remaining Excess") of the Available Shares





over the number of Outstanding Shares subject to Submitted Bids described in paragraph 7(e)(i)(B) and paragraph 7(e)(i)(C), in which event the Submitted Bids of each such Existing Holder shall be accepted, and each such Existing Holder shall be required to sell Outstanding Shares, but only in an amount equal to the difference between (1) the number of Outstanding Shares then held by such Existing Holder subject to such Submitted Bid and (2) the number of Shares obtained by multiplying (x) the number of Remaining Excess by (y) a fraction the numerator of which shall be the number of Outstanding Shares held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the number of Outstanding Shares subject to such Submitted Bids made by all such Existing Holders that specified a rate per annum equal to the Winning Bid Rate; and

(E) the Submitted Bid of each of the Potential Holders specifying a rate per annum that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the number of Outstanding Shares obtained by multiplying (x) the difference between the Available Shares and the number of Outstanding Shares subject to Submitted Bids described in paragraph 7(e)(i)(B), paragraph 7(e)(i)(C) and paragraph 7(e)(i)(D) by (y) a fraction the numerator of which shall be the number of Outstanding Shares subject to such Submitted Bid and the denominator of which shall be the sum of the number of Outstanding Shares subject to such Submitted Bids made by all such Potential Holders that specified rates per annum equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Shares are subject to Submitted Hold Orders), subject to the provisions of paragraph 7(e)(iii), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) the Submitted Bid of each Existing Holder specifying any rate per annum that is equal to or lower than the Maximum Applicable Rate shall be rejected, thus entitling such Existing Holder to continue to hold the Outstanding Shares that are the subject of such Submitted Bid;

(B) the Submitted Bid of each Potential Holder specifying any rate per annum that is equal to or lower than the Maximum Applicable

Rate shall be accepted, thus requiring such Potential Holder to purchase the Outstanding Shares that are the subject of such Submitted Bid; and

(C) the Submitted Bids of each Existing Holder specifying any rate per annum that is higher than the Maximum Applicable Rate shall be accepted and the Submitted Sell Orders of each Existing Holder shall be accepted, in both cases only in an amount equal to the difference between (1) the number of Outstanding Shares then held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and (2) the number of Shares obtained by multiplying (x) the difference between the Available Shares and the aggregate number of Outstanding Shares subject to Submitted Bids described in paragraph 7(e)(ii)(A) and paragraph 7(e)(ii)(B) by (y) a fraction the numerator of which shall be the number of Outstanding Shares held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of





which shall be the number of Outstanding Shares subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If, as a result of the procedures described in paragraph 7(e)(i) or paragraph 7(e)(ii), any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a fraction of a Share on any Auction Date, the Auction Agent shall, in such manner as it shall determine in its sole discretion, round up or down the number of Shares to be purchased or sold by any Existing Holder or Potential Holder on such Auction Date so that each Outstanding Share purchased or sold by each Existing Holder or Potential Holder on such Auction Date shall be a whole Share.

(iv) If, as a result of the procedures described in paragraph 7(e)(i), any Potential Holder would be entitled or required to purchase less than a whole Share on any Auction Date, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate Shares for purchase among Potential Holders so that only whole Shares are purchased on such Auction Date by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any Shares on such Auction Date.

(v) Based on the results of each Auction, the Auction Agent shall determine, with respect to each Broker-Dealer that submitted Bids or Sell Orders on behalf of Existing Holders or Potential Holders, the aggregate number of Outstanding Shares to be purchased and the aggregate number of the Outstanding Shares to be sold by such Potential Holders and Existing Holders and, to the extent that such aggregate number of Outstanding Shares to be purchased and such aggregate number of Outstanding Shares to be sold differ, the Auction Agent shall determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, Outstanding Shares.

(f) Suspension of Auction During Non-Payment Period. Upon occurrence and during the continuance of a Non-Payment Period with respect to the Shares that has not been duly cured by the Corporation pursuant to paragraph 3(b), Auctions of such Shares shall be suspended and shall not resume in each case until (A) in the case of a Dividend Non-Payment Period, all accumulated and unpaid dividends on such Shares for all past Dividend Periods shall have been paid to the Auction Agent, or (B) in the case of a Redemption Non-Payment Period in connection with an Optional Redemption of less than all of the Shares, all amounts payable upon such Optional Redemption of such Shares shall have been paid to the Auction Agent, in each case by 12:00 noon, New York City time, on the relevant Auction Date with respect to such Shares, provided that, at least two Business Days but no more than 30 days prior to such Auction Date, the Corporation shall have given the Auction Agent, the Securities Depository and the applicable holders of record written notice of such deposit or availability.

(g) Miscellaneous. The Corporation may interpret the provisions of this paragraph 7 to resolve any inconsistency or ambiguity, remedy any formal defect or make any other change or modification that does not substantially adversely affect the rights of Existing Holders of Shares. An Existing Holder (A) may sell, transfer or otherwise dispose of Shares only pursuant to a Bid or Sell Order in accordance with the procedures described in this paragraph 7 through a Broker-Dealer, except that transfers of Shares may also be effected through means other than pursuant to





Auctions provided that each such transfer shall be valid and accepted by the Auction Agent only if such Existing Holder or its Broker-Dealer or Agent Member, as applicable, shall have advised the Auction Agent in writing of such transfer by 3:00 P.M. on the Business Day next preceding the Auction Date with respect to such Shares, and (B) except as otherwise required by law, shall have the ownership of the Shares held by it maintained in book entry form by the Securities Depository in the account of its Agent Member, which in turn will maintain records of such Existing Holder's beneficial ownership. If an Existing Holder shall fail to comply with the restrictions contained in such Existing Holder's Purchaser's Letter, or if the representations and warranties contained in an Existing Holder's Purchaser's Letter cease to be accurate, the Corporation may require such Existing Holder to submit a Sell Order. Neither the Corporation nor any Affiliate shall submit an Order in any Auction. Any Existing Holder that is an Affiliate shall not sell, transfer or otherwise dispose of Shares to any Person other than the Corporation. All of the Outstanding Shares shall be represented by one or more certificates registered in the name of the nominee of the Securities Depository unless otherwise required by law or unless there is no Securities Depository. If there is no Securities Depository and during any Non-Payment Period for any Shares, at the Corporation's option and upon its receipt of such documents as it deems appropriate, such Shares may be registered in the stock register in the name of the Existing Holder thereof and such Existing Holder thereupon will be entitled to receive certificates therefor and required to deliver certificates therefor upon transfer or exchange thereof.

8. Conversion and Exchange. The Holders of the Shares shall not have any rights to convert such shares into, or to exchange such shares for, shares of Common Stock, any other class or classes of capital stock (or any other security) or any other series of any class or classes of capital stock (or any other security) of the Corporation.

9. Priority as to Certain Distributions. As a series of Preferred Stock, the Shares shall be entitled to such rights and priorities, and subject to such limitations, as to dividends as are set forth in these resolutions and in this Certificate of Designations.

10. Sinking Fund. No sinking fund shall be provided for the purchase or redemption of the Shares.

11. Exclusion of Other Rights. Unless otherwise required by law, the Shares shall not have any rights, including preemptive and subscription rights, or preferences other than those specifically set forth herein or as provided by applicable law.

12. Miscellaneous. The Board of Directors may interpret the provisions hereof to resolve any inconsistency or ambiguity which may arise or be revealed and if such inconsistency or ambiguity reflects an inaccurate provision hereof, the Board of Directors may, in appropriate circumstances, authorize the filing of a certificate of correction pursuant to Delaware law.

13. Change in Number of Shares. As provided in this Certificate of Designations, but subject to applicable law, the Board of Directors may increase or decrease the number of shares of this series of Preferred Stock subsequent to the issue of shares of this series, but not below the number of shares of

Preferred Stock then outstanding. Notices. All notices or communications to the Corporation, unless otherwise specified in the By-Laws of the Corporation or this Certificate





of Designations, shall be sufficiently given if in writing and delivered in person or mailed by first-class mail, postage prepaid, to the Corporation at its principal executive offices at 1200 Smith Street, Suite 300, Houston , Texas 77002, attention: Vice President, Finance. Notice shall be deemed given on the earlier of the date received or the date seven days after such notice is mailed.

14. Securities Depository; Stock Certificates. (a) If there is a Securities Depository, one or more certificates for all of the Shares shall be issued to the Securities Depository and registered in the name of the Securities Depository or its nominee. Additional certificates may be issued as necessary to represent Shares. All such certificates shall bear a legend to the effect that such certificates are issued subject to the provisions restricting the transfer of Shares contained in this Certificate of Designations. Unless the Corporation shall have elected, during a Non-Payment Period, to waive this requirement, the Corporation will also issue stop-transfer instructions to the Auction Agent for the Shares. Except as provided in paragraph (b) below, the Securities Depository or its nominee will be the holder, and no Existing Holder shall receive certificates representing its ownership interest in such SharesIf the Applicable Rate applicable to the Shares shall be the Non-Payment Period Rate or there is no Securities Depository, the Corporation may at its option issue one or more new certificates with respect to such Shares (without the legend referred to in paragraph 8(a) above) registered in the names of the Existing Holders or their nominees and rescind the stop-transfer instructions referred to in paragraph 14(a) above with respect to such Shares.

FURTHER RESOLVED, that the 500 Shares authorized for issuance pursuant to the resolutions of this duly authorized committee of the Board of Directors all constitute preferred stock within the 10,000,000 shares authorized pursuant to the Certificate of the Corporation.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be signed by David R. Looney, its Vice President, this 20th day of December, 1999.

EOG RESOURCES, INC.

By: /s/ DAVID R. LOONEY
---
David R. Looney, Vice President

EXHIBIT 3.3

INCORPORATED UNDER THE LAWS
OF THE STATE OF DELAWARE

COMMON STOCK
PAR VALUE $0.01

NUMBER
EOG-

EOG RESOURCES, INC.

SHARES

CUSIP 26875P 10 1
See Reverse For
Certain Definitions

THIS IS TO CERTIFY THAT

Is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES OF COMMON STOCK OF

EOG Resources, Inc. (hereinafter referred to as the "Corporation") transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This certificate and the shares represented hereby are issued and shall be valid, subject to all of the provisions of the Certificate of Incorporation, as amended, of the Corporation (a copy of which certificate is on file with the Transfer Agent), to all of which the holder by acceptance hereof assents. This certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

Witness the seal of the Corporation and the signatures of its duly authorized officers.

Dated:

[EOG CORPORATE SEAL]

Countersigned and Registered:

FIRST CHICAGO TRUST COMPANY OF
NEW YORK

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

Transfer Agent and
Registrar

By

/s/ PATRICIA L. EDWARDS
---
Patricia L. Edwards,
Vice President and Secretary

Authorized
Signature

EOG RESOURCES, INC.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common
TEN ENT - as tenants by the entireties
JT TEN - as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT -.....Custodian.....
(Cust) (Minor)

Under Uniform Gifts to Minors Act.....
(State)

Additional abbreviations may also be used though not in the above list.

THE DESIGNATIONS AND THE POWERS, PREFERENCES AND RIGHTS, AND THE QUALIFICATIONS, LIMITATIONS AND RESTRICTIONS THEREOF, OF THE SEVERAL CLASSES OF STOCK OF THE CORPORATION ARE SET FORTH IN THE CERTIFICATE OF INCORPORATION AND THE AMENDMENTS THERETO OF THE CORPORATION

_____

THE CORPORATION WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER WHO SO REQUESTS, THE DESIGNATIONS, POWERS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OR SERIES THEREOF OF THE CORPORATION AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND/OR RIGHTS. SUCH REQUEST MAY BE MADE TO THE OFFICE OF THE SECRETARY OF THE CORPORATION OR TO THE TRANSFER AGENT.

For Value Received, _____hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY _____
OR OTHER IDENTIFYING NUMBER OF ASSIGNEE _____

_____
PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE, OF ASSIGNEE

_____

_____ Shares
of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

_____ Attorney
to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated
---

NOTICE: THE SIGNATURE(S) TO THE ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGES WHATEVER.

X _____
(SIGNATURE)

X _____
(SIGNATURE)

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

.....

SIGNATURE(S) GUARANTEED BY:

EXHIBIT 10.64(c)

SECOND AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

This Agreement, entered into on this 8th of July, 1999, and made effective as of June 28, 1999, by and between ENRON OIL & GAS COMPANY ("Employer") and MARK G. PAPA ("Employee") is an amendment to that certain Employment Agreement made effective as of November 1, 1997 (the "Employment Agreement").

WHEREAS, the parties desire to amend the Employment Agreement as provided herein;

NOW, THEREFORE, in consideration thereof and of the mutual covenants contained herein, the parties agree as follows:

1. Article 3, Section 3.5 of the Employment Agreement is hereby deleted in its entirety and the following is substituted therefor:

"3.5 Upon an Involuntary Termination of the employment relationship by either Employer or Employee prior to the expiration of the Term, Employee shall be entitled, in consideration of Employee's continuing obligations hereunder after such termination (including, without limitation, Employee's non-competition obligations), to receive a severance benefit under this Agreement equal to the sum of (a) Employee's then current Monthly Base Salary times 24; plus (b) two times the Employee's annual bonus target award under Employer's annual bonus program for the year in which the termination occurs; plus (c) the value of unvested stock options granted under Employer's 1992 Stock Plan based on the difference between the average closing price of Employer's stock on the ten (10) trading days prior to the date of termination and the grant price. Notwithstanding any other provisions of this Agreement, a termination of the employment relationship by either the Employer or Employee which meets the definition of Involuntary Termination under Employer's Change of Control Severance Plan (the "Plan") shall constitute an Involuntary Termination under this Agreement. In the event of such Involuntary Termination which entitles Employee to severance benefits under the Plan but for the following severance payment by Employer to the Employee, rather than the severance benefit described above, Employee shall receive from Employer a severance benefit under this Agreement equal to the sum of Employee's then current Monthly Base Salary times 12 times 2.99 plus two times the Employee's annual bonus target award under Employer's annual bonus program for the year in which the Change of Control Date occurs. Employee's severance



benefit payable under the Plan, if any, shall be determined according to the provisions thereof. Employee shall not be under any duty or obligation to seek or accept other employment following Involuntary Termination and the amounts due Employee hereunder shall not be reduced or suspended if Employee accepts subsequent employment. Employee's rights under this Section 3.5 are Employee's sole and exclusive rights against Employer, Enron, or their affiliates, and Employer's sole and exclusive liability to Employee under this

Agreement, in contract, tort, or otherwise, for any Involuntary Termination of the employment relationship. Employee covenants not to sue or lodge any claim, demand or cause of action against Employer for any sums for Involuntary Termination other than those sums specified in this Section 3.5. If Employee breaches this covenant, Employer shall be entitled to recover from Employee all sums expended by Employer (including costs and attorneys fees) in connection with such suit, claim, demand or cause of action."

This Agreement is the Second Amendment to the Employment Agreement, and the parties agree that all other terms, conditions and stipulations contained in the Employment Agreement, and any amendments thereto, shall remain in full force and effect and without any change or modification, except as provided herein.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

ENRON OIL & GAS COMPANY

By: /s/ PATRICIA EDWARDS
---
Name: Patricia Edwards
Title: V.P. Human Resources & Administration
This 8th day of July, 1999

MARK G. PAPA

/s/ MARK G. PAPA
---
This 8th day of July, 1999

EXHIBIT 10.65(c)

SECOND AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

This Agreement, entered into on this 8th of July, 1999, and made effective as of June 28, 1999, by and between ENRON OIL & GAS COMPANY ("Employer") and EDMUND P. SEGNER, III ("Employee") is an amendment to that certain Employment Agreement made effective as of September 1, 1998 (the "Employment Agreement").

WHEREAS, the parties desire to amend the Employment Agreement as provided herein;

NOW, THEREFORE, in consideration thereof and of the mutual covenants contained herein, the parties agree as follows:

1. Article 3, Section 3.5 of the Employment Agreement is hereby deleted in its entirety and the following is substituted therefor:

"3.5 Upon an Involuntary Termination of the employment relationship by either Employer or Employee prior to the expiration of the Term, Employee shall be entitled, in consideration of Employee's continuing obligations hereunder after such termination (including, without limitation, Employee's non-competition obligations), to receive a severance benefit under this Agreement equal to the sum of (a) Employee's then current Monthly Base Salary times 24; plus (b) two times the Employee's annual bonus target award under Employer's annual bonus program for the year in which the termination occurs; plus (c) the value of unvested stock options granted under Employer's 1992 Stock Plan based on the difference between the average closing price of Employer's stock on the ten (10) trading days prior to the date of termination and the grant price. Notwithstanding any other provisions of this Agreement, a termination of the employment relationship by either the Employer or Employee which meets the definition of Involuntary Termination under Employer's Change of Control Severance Plan (the "Plan") shall constitute an Involuntary Termination under this Agreement. In the event of such Involuntary Termination which entitles Employee to severance benefits under the Plan but for the following severance payment by Employer to the Employee, rather than the severance benefit described above, Employee shall receive from Employer a severance benefit under this Agreement equal to the sum of Employee's then current Monthly Base Salary times 12 times 2.99 plus two times the Employee's annual bonus target award under Employer's annual bonus program for the year in which the Change of Control Date occurs. Employee's severance



benefit payable under the Plan, if any, shall be determined according to the provisions thereof. Employee shall not be under any duty or obligation to seek or accept other employment following Involuntary Termination and the amounts due Employee hereunder shall not be reduced or suspended if Employee accepts subsequent employment. Employee's rights under this Section 3.5 are Employee's sole and exclusive rights against Employer, Enron, or their affiliates, and

Employer's sole and exclusive liability to Employee under this Agreement, in contract, tort, or otherwise, for any Involuntary Termination of the employment relationship. Employee covenants not to sue or lodge any claim, demand or cause of action against Employer for any sums for Involuntary Termination other than those sums specified in this Section 3.5. If Employee breaches this covenant, Employer shall be entitled to recover from Employee all sums expended by Employer (including costs and attorneys fees) in connection with such suit, claim, demand or cause of action."

This Agreement is the Second Amendment to the Employment Agreement, and the parties agree that all other terms, conditions and stipulations contained in the Employment Agreement, and any amendments thereto, shall remain in full force and effect and without any change or modification, except as provided herein.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

ENRON OIL & GAS COMPANY

By: /s/ PATRICIA EDWARDS
---
Name: Patricia Edwards
Title: V.P. Human Resources & Administration
This 8th day of July, 1999

EDMUND P. SEGNER, III

/s/ EDMUND P. SEGNER, III
---
This 8th day of July, 1999

EXHIBIT 10.66(a)

# EXECUTIVE EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement"), including the attached Exhibit "A," is entered into between Enron Oil & Gas Company, a Delaware corporation, having offices at 1400 Smith Street, Houston, Texas 77002 ("Employer"), and Barry Hunsaker, Jr., an individual currently residing at 3730 Wickersham, Houston, Texas 77027 ("Employee"), to be effective as of September 1, 1998 (the "Effective Date").

WITNESSETH:

WHEREAS, Employer and Employee previously entered into a letter agreement dated April 2, 1996; and

WHEREAS, Employer is desirous of employing Employee pursuant to the terms and conditions and for the consideration set forth in this Agreement, and Employee is desirous of entering the employ of Employer pursuant to such terms and conditions and for such consideration.

NOW, THEREFORE, for and in consideration of the mutual promises, covenants, and obligations contained herein, Employer and Employee agree as follows:

ARTICLE 1: EMPLOYMENT AND DUTIES:

1.1 Employer agrees to employ Employee, and Employee agrees to be employed by Employer, beginning as of the Effective Date and continuing until the date set forth on Exhibit "A" (the "Term"), subject to the terms and conditions of this Agreement. This Agreement shall supercede and replace the letter agreement dated April 2, 1996.

1.2 Employee shall be employed in the position set forth on Exhibit A in the Company's headquarters location. Employee agrees to serve in the assigned position and to perform diligently and to the best of Employee's abilities the duties and services appertaining to such position as determined by Employer, as well as such additional or different duties and services appropriate to such position which Employee from time to time may be reasonably directed to perform by Employer. Employee shall at all times comply with and be subject to such policies and procedures as Employer may establish from time to time.

1.3 Employee shall, during the period of Employee's employment by Employer, devote Employee's full business time, energy, and best efforts to the business and affairs of Employer. Employee may not engage, directly or indirectly, in any other business, investment, or activity that interferes with Employee's performance of Employee's duties hereunder, is known to Employee to be contrary to the interests of Employer or Enron Corp. ("Enron"), or requires any significant portion of Employee's business time.





1.4 In connection with Employee's employment by Employer, Employer shall endeavor to provide Employee access to such confidential information pertaining to the business and services of Employer as is appropriate for Employee's employment responsibilities. Employer also shall endeavor to provide to Employee the opportunity to develop business relationships with those of Employer's clients and potential clients that are appropriate for Employee's employment responsibilities.

1.5 Employee acknowledges and agrees that, at all times during the employment relationship Employee owes fiduciary duties to Employer, including but not limited to the fiduciary duties of the highest loyalty, fidelity and allegiance to act at all times in the best interests of the Employer, to make full disclosure to Employer of all information that pertains to Employer's business and interests, to do no act which Employee knows or should know would injure Employer's business, its interests, or its reputation, and to refrain from using for Employee's own benefit or for the benefit of others any information or opportunities pertaining to Employer's business or interests that are entrusted to Employee or that he learned while employed by Employer. Employee acknowledges and agrees that upon termination of the employment relationship, Employee shall continue to refrain from using for his own benefit or the benefit of others any information or opportunities pertaining to Employer's business or interests that were entrusted to Employee during the employment relationship or that he learned while employed by Employer. Employee agrees that while employed by Employer and thereafter he shall not knowingly take any action which interferes with the internal relationships between Employer and its employees or representatives or interferes with the external relationships between Employer and third parties.

1.6 It is agreed that any direct or indirect interest in, connection with, or benefit from any outside activities, particularly commercial activities, which interest might in any way adversely affect Employer or any of its affiliates, involves a possible conflict of interest. In keeping with Employee's fiduciary duties to Employer, Employee agrees that during the employment relationship Employee shall not knowingly become involved in a conflict of interest with Employer or its affiliates, or upon discovery thereof, allow such a conflict to continue. Moreover, Employee agrees that Employee shall disclose to Employer's President any facts which might involve such a conflict of interest that has not been approved by Employer's President. Employer and Employee recognize that it is impossible to provide an exhaustive list of actions or interests which constitute a "conflict of interest." Moreover, Employer and Employee recognize there are many borderline situations. In some instances, full disclosure of facts by the Employee to Employer's President may be all that is necessary to enable Employer or its affiliates to protect its interests. In others, if no improper motivation appears to exist and the interests of Employer or its affiliates have not suffered, prompt elimination of the outside interest will suffice. In still others, it may be necessary for Employer to terminate the employment relationship. Employer and Employee agree that Employer's determination as to whether a conflict of interest exists shall be conclusive. Employer reserves the right to take such action as, in its judgment, will end the conflict.

1.7 Employee understands and acknowledges that the terms and conditions of this Agreement constitute confidential information. Employee shall keep confidential the terms of this Agreement and shall not disclose this confidential information to anyone other than Employee's attorneys, tax advisors, or as required by law. Employee acknowledges and understands that





disclosure of the terms of this Agreement constitutes a material breach of this Agreement and could subject Employee to disciplinary action, including without limitation, termination of employment.

ARTICLE 2: COMPENSATION AND BENEFITS:

2.1 Employee's monthly base salary during the Term shall be not less than the amount set forth under the heading "Monthly Base Salary" on Exhibit A, subject to increase at the sole discretion of the Employer, but consistent with increases provided to other similarly situated executives of Employer, which shall be paid in semimonthly installments in accordance with Employer's standard

payroll practice. Any calculation to be made under this Agreement with respect to Employee's Monthly Base Salary shall be made using the then current Monthly Base Salary in effect at the time of the event for which such calculation is made.

2.2 While employed by Employer (both during the Term and thereafter), Employee shall be allowed to participate, on the same basis generally as other employees of Employer, in all general employee benefit plans and programs, including improvements or modifications of the same, which on the effective date or thereafter are made available by Employer to all or substantially all of Employer's employees. Such benefits, plans, and programs may include, without limitation, medical, health, and dental care, life insurance, disability protection, and pension plans. Nothing in this Agreement is to be construed or interpreted to provide greater rights, participation, coverage, or benefits under such benefit plans or programs than provided to similarly situated employees pursuant to the terms and conditions of such benefit plans and programs. Notwithstanding, Employee shall be eligible for one week of vacation in addition to the vacation provided under Employer's annual vacation policy.

2.3 Employer shall not by reason of this Article 2 be obligated to institute, maintain, or refrain from changing, amending, or discontinuing, any such incentive compensation or employee benefit program or plan, so long as such actions are similarly applicable to covered employees generally. Moreover, unless specifically provided for in a written plan document adopted by the Board of Directors of either Employer or Enron, none of the benefits or arrangements described in this Article 2 shall be secured or funded in any way, and each shall instead constitute an unfunded and unsecured promise to pay money in the future exclusively from the general assets of Employer.

2.4 Employer may withhold from any compensation, benefits, or amounts payable under this Agreement all federal, state, city, or other taxes as may be required pursuant to any law or governmental regulation or ruling.

ARTICLE 3: TERMINATION PRIOR TO EXPIRATION OF TERM AND EFFECTS OF SUCH TERMINATION:

3.1. Notwithstanding any other provisions of this Agreement, Employer shall have the right to terminate Employee's employment under this Agreement at any time prior to the expiration of the Term for any of the following reasons:



(i) For "cause" upon the determination by the Employer's Board of Directors or management committee (or, if there is no management committee, the highest applicable level of Employer's management) that "cause" exists for the termination of the employment relationship. As used in this Section 3.1(i), the term "cause" shall mean [a] Employee's willful misconduct in the performance of the duties and services required of Employee pursuant to this Agreement; [b] Employee's final conviction of a felony involving moral turpitude; [c] Employee's willful refusal without proper legal reason to perform the duties and responsibilities required of Employee under this Agreement which remains uncorrected for thirty (30) days following written notice to Employee by Employer of such breach; [d] Employee's involvement in a conflict of interest as referenced in Section 1.6 for which Employer makes a determination to terminate the employment of Employee which remains uncorrected for thirty (30) days following written notice to Employee by Employer of such breach; [e] Employee's willful engagement in conduct that Employee knows or should know is materially injurious to Employer, Enron, or any of their respective subsidiaries; [f] Employee's material breach of any material provision of this

Agreement or corporate code or policy which remains uncorrected for thirty (30) days following written notice to Employee by Employer of such breach; or [g] Employee's violation of the Foreign Corrupt Practices Act or other applicable United States law as proscribed by Section 5.1. It is expressly acknowledged and agreed that the decision as to whether "cause" exists for termination of the employment relationship by Employer is delegated to the Employer's management committee (or, if there is no management committee, the highest applicable level of Employer's management) for determination. If Employee disagrees with the decision reached by Employer's management committee (or, if there is no management committee, the highest applicable level of Employer's management), the dispute will be limited to whether Employer's management committee (or, if there is no management committee, the highest applicable level of Employer's management) reached its decision in good faith;

(ii) for any other reason whatsoever, with or without cause, in the sole discretion of the management committee (or, if there is no management committee, the highest applicable level of management) of Employer;

(iii) upon Employee's death; or

(iv) upon Employee's becoming disabled so as to entitle Employee to benefits under Enron's long-term disability plan or, if Employee is not eligible to participate in such plan, then Employee is permanently and totally unable to perform Employee's duties for Employer as a result of any medically determinable physical or mental impairment as supported by a written medical opinion to the foregoing effect by a physician selected by Employer.

The termination of Employee's employment by Employer prior to the expiration of the Term shall constitute a "Termination for Cause" if made pursuant to Section 3.1(i); the effect of such termination is specified in Section 3.4. The termination of Employee's employment by Employer prior to the





expiration of the Term shall constitute an "Involuntary Termination" if made pursuant to Section 3.1(ii); the effect of such termination is specified in Section 3.5. The effect of the employment relationship being terminated pursuant to Section 3.1(iii) as a result of Employee's death is specified in Section 3.6. The effect of the employment relationship being terminated pursuant to Section 3.1(iv) as a result of the Employee becoming incapacitated is specified in Section 3.7.

3.2 Notwithstanding any other provisions of this Agreement except Section 8.6, Employee shall have the right to terminate the employment relationship under this Agreement at any time prior to the expiration of the Term of employment for any of the following reasons:

(i) a material breach by Employer of any material provision of this Agreement which remains uncorrected for 30 days following written notice of such breach by Employee to Employer; or

(ii) for any other reason whatsoever, in the sole discretion of Employee.

The termination of Employee's employment by Employee prior to the expiration of the Term shall constitute an "Involuntary Termination" if made pursuant to Section 3.2(i); the effect of such termination is specified in Section 3.5. The termination of Employee's employment by Employee prior to the expiration of the Term shall constitute a "Voluntary Termination" if made pursuant to Section 3.2(ii); the effect of such termination is specified in Section 3.3.

3.3 Upon a "Voluntary Termination" of the employment relationship by Employee prior to expiration of the Term, Employee shall be entitled to pro rata salary through the date of such termination, but Employee shall not be entitled to any individual bonuses or individual incentive compensation not yet paid at the date of such termination.

3.4 If Employee's employment hereunder shall be terminated by Employer for Cause prior to expiration of the Term, Employee shall be entitled to pro rata salary through the date of such termination, but Employee shall not be entitled to any individual bonuses or individual incentive compensation not yet paid at the date of such termination.

3.5 Upon an Involuntary Termination of the employment relationship by either Employer or Employee prior to the expiration of the Term, Employee shall be entitled, in consideration of Employee's continuing obligations hereunder after such termination (including, without limitation, Employee's non-competition obligations), to receive the greater of a) 12 months of the then current Monthly Base Salary or b) the then current Monthly Base Salary as if Employee's employment (which shall cease on the date of such Involuntary Termination) had continued for the full Term of this Agreement. If such Involuntary Termination occurs within two years after a Change of Control, as defined in Employer's Change of Control Severance Plan, Employee shall receive a minimum of twenty-four (24) months of the then current Monthly Base Salary. Employee shall not be under any duty or obligation to seek or accept other employment following Involuntary Termination and the amounts due Employee hereunder shall not be reduced or suspended if Employee accepts subsequent employment. Employee's rights under this Section 3.5 are Employee's sole and exclusive rights against Employer, Enron, or their affiliates, and Employer's sole and exclusive liability to Employee under this Agreement, in contract, tort, or otherwise, for any





Involuntary Termination of the employment relationship. Employee covenants not to sue or lodge any claim, demand or cause of action against Employer for any sums for Involuntary Termination other than those sums specified in this Section 3.5. If Employee breaches this covenant, Employer shall be entitled to recover from Employee all sums expended by Employer (including costs and attorneys fees) in connection with such suit, claim, demand or cause of action.

3.6 Upon termination of the employment relationship as a result of Employee's death, Employee's heirs, administrators, or legatees shall be entitled to Employee's pro rata salary through the date of such termination, but Employee's heirs, administrators, or legatees shall not be entitled to any individual bonuses or individual incentive compensation not yet paid to Employee at the date of such termination.

3.7 Upon termination of the employment relationship as a result of Employee's incapacity, Employee shall be entitled to his or her pro rata salary through the date of such termination, but Employee shall not be entitled to any individual bonuses or individual incentive compensation not yet paid to Employee at the date of such termination.

3.8 In all cases, the compensation and benefits payable to Employee under this Agreement upon termination of the employment relationship shall be offset against any amounts to which Employee may otherwise be entitled under any and all severance plans, and policies of Employer, Enron, or their affiliates.

3.9 Termination of the employment relationship does not terminate those obligations imposed by this Agreement which are continuing obligations, including, without limitation, Employee's obligations under Articles 6 and 7.

3.10 Upon termination of the employment relationship between Employee and Employer for any reason, Employee shall be entitled to receive compensation and benefits earned and accrued by Employee during his/her employment as are specifically provided in any applicable employee compensation and/or benefit plan document and any grant or award agreement thereunder.

ARTICLE 4: CONTINUATION OF EMPLOYMENT BEYOND TERM; TERMINATION AND EFFECTS OF TERMINATION:

4.1 Should Employee remain employed by Employer beyond the expiration of the Term specified on Exhibit "A," such employment shall convert to a month-to-month relationship terminable at any time by either Employer or Employee for any reason whatsoever, with or without cause. Upon such termination of the employment relationship by either Employer or Employee for any reason whatsoever, all future compensation to which Employee is entitled and all future benefits for which Employee is eligible shall cease and terminate. Employee shall be entitled to pro rata salary through the date of such termination, but Employee shall not be entitled to any individual bonuses or individual incentive compensation not yet paid at the date of such termination.



ARTICLE 5: UNITED STATES FOREIGN CORRUPT PRACTICES ACT AND OTHER LAWS:

5.1. Employee shall at all times comply with United States laws applicable to Employee's actions on behalf of Employer, including specifically, without limitation, the United States Foreign Corrupt Practices Act, generally codified in 15 USC 78 (FCPA), as the FCPA may hereafter be amended, and/or its successor statutes. If Employee pleads guilty to or nolo contendere or admits civil or criminal liability under the FCPA or other applicable United States law, or if a court finds that Employee has personal civil or criminal liability under the FCPA or other applicable United States law, or if a court finds that Employee committed an action resulting in any Enron entity having civil or criminal liability or responsibility under the FCPA or other applicable United States law with knowledge of the activities giving rise to such liability or knowledge of facts from which Employee should have reasonably inferred the activities giving rise to liability had occurred or were likely to occur, such action or finding shall constitute "cause" for termination under this Agreement unless Employer's management committee (or, if there is no management committee, the highest applicable level of Employer's management) determines that the actions found to be in violation of the FCPA or other applicable United States law were taken in good faith and in compliance with all applicable policies of Employer and Enron.

ARTICLE 6: OWNERSHIP AND PROTECTION OF INFORMATION; COPYRIGHTS:

6.1 All information, ideas, concepts, improvements, discoveries, and inventions, whether patentable or not, which are conceived, made, developed or acquired by Employee, individually or in conjunction with others, during Employee's employment by Employer (whether during business hours or otherwise and whether on Employer's premises or otherwise) which relate to Employer's business, products or services (including, without limitation, all such information relating to corporate opportunities, research, financial and sales data, pricing and trading terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or their requirements, the identity of key contacts within the customer's organizations or within the

organization of acquisition prospects, or marketing and merchandising techniques, prospective names, and marks) shall be disclosed to Employer and are and shall be the sole and exclusive property of Employer. Moreover, all drawings, memoranda, notes, records, files, correspondence, drawings, manuals, models, specifications, computer programs, maps and all other writings or materials of any type embodying any of such information, ideas, concepts, improvements, discoveries, and inventions are and shall be the sole and exclusive property of Employer.

6.2 Employee acknowledges that the business of Employer, Enron, and their affiliates is highly competitive and that their strategies, methods, books, records, and documents, their technical information concerning their products, equipment, services, and processes, procurement procedures and pricing techniques, the names of and other information (such as credit and financial data) concerning their customers and business affiliates, all comprise confidential business information and trade secrets which are valuable, special, and unique assets which Employer, Enron, or their affiliates use in their business to obtain a competitive advantage over their competitors. Employee further acknowledges that protection of such confidential business information and trade secrets against unauthorized disclosure and use is of critical importance to Employer, Enron, and their affiliates in maintaining their competitive position. Employee hereby agrees that Employee will not, at any time during or after his or her employment by Employer, make any unauthorized disclosure of any confidential business information or trade secrets of Employer, Enron, or their affiliates, or make any use thereof, except in the carrying out of his or her employment responsibilities hereunder.





Enron and its affiliates shall be third party beneficiaries of Employee's obligations under this Section. As a result of Employee's employment by Employer, Employee may also from time to time have access to, or knowledge of, confidential business information or trade secrets of third parties, such as customers, suppliers, partners, joint venturers, and the like, of Employer, Enron, and their affiliates. Employee also agrees to preserve and protect the confidentiality of such third party confidential information and trade secrets to the same extent, and on the same basis, as Employer's confidential business information and trade secrets. Employee acknowledges that money damages would not be sufficient remedy for any breach of this Article 6 by Employee, and Employer shall be entitled to enforce the provisions of this Article 6 by terminating any payments then owing to Employee under this Agreement and/or to specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for a breach of this Article 6, but shall be in addition to all remedies available at law or in equity to Employer, including the recovery of damages from Employee and his or her agents involved in such breach.

6.3 All written materials, records, and other documents made by, or coming into the possession of, Employee during the period of Employee's employment by Employer which contain or disclose confidential business information or trade secrets of Employer, Enron, or their affiliates shall be and remain the property of Employer, Enron, or their affiliates, as the case may be. Upon termination of Employee's employment by Employer, for any reason, Employee promptly shall deliver the same, and all copies thereof, to Employer.

6.4 If, during Employee's employment by Employer, Employee creates any original work of authorship fixed in any tangible medium of expression which is the subject matter of copyright (such as videotapes, written presentations on acquisitions, computer programs, drawings, maps, architectural renditions,

models, manuals, brochures, or the like) relating to Employer's business, products, or services, whether such work is created solely by Employee or jointly with others (whether during business hours or otherwise and whether on Employer's premises or otherwise), Employee shall disclose such work to Employer. Employer shall be deemed the author of such work if the work is prepared by Employee in the scope of his or her employment; or, if the work is not prepared by Employee within the scope of his or her employment but is specially ordered by Employer as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, or as an instructional text, then the work shall be considered to be work made for hire and Employer shall be the author of the work. If such work is neither prepared by the Employee within the scope of his or her employment nor a work specially ordered and is deemed to be a work made for hire, then Employee hereby agrees to assign, and by these presents does assign, to Employer all of Employee's worldwide right, title, and interest in and to such work and all rights of copyright therein.

6.5 Both during the period of Employee's employment by Employer and thereafter, Employee shall assist Employer and its nominee, at any time, in the protection of Employer's worldwide right, title, and interest in and to information, ideas, concepts, improvements, discoveries, and inventions, and its copyrighted works, including without limitation, the execution of all formal assignment documents requested by Employer or its nominee and the execution of all lawful oaths and applications for applications for patents and registration of copyright in the United States and foreign countries.



ARTICLE 7: POST-EMPLOYMENT NON-COMPETITION OBLIGATIONS:

7.1 As part of the consideration for the compensation and benefits to be paid to Employee hereunder, in keeping with Employee's duties as a fiduciary and in order to protect Employer's interests in the confidential information of Employer and the business relationships developed by Employee with the clients and potential clients of Employer, and as an additional incentive for Employer to enter into this Agreement, Employer and Employee agree to the non-competition provisions of this Article 7. Employee agrees that during the period of Employee's non-competition obligations hereunder, Employee will not, directly or indirectly for Employee or for others, in any geographic area or market where Employer or Enron or any of their affiliated companies are conducting any business as of the date of termination of the employment relationship or have during the previous twelve months conducted any business:

(i) engage in any business competitive with the business conducted by Employer;

(ii) render advice or services to, or otherwise assist, any other person, association, or entity who is engaged, directly or indirectly, in any business competitive with the business conducted by Employer;

(iii) induce any employee of Employer or Enron or any of their affiliates to terminate his or her employment with Employer, Enron, or their affiliates, or hire or assist in the hiring of any such employee by person, association, or entity not affiliated with Enron.

These non-competition obligations shall extend until the earlier of (a) expiration of the Term or (b) one year after termination of the employment relationship. For purposes of this Section, it is specifically understood that Employee may return to private legal practice, and may represent companies which compete with Employer in such private legal practice, without breaching the provisions of this Section.

7.2 Employee understands that the foregoing restrictions may limit his

or her ability to engage in certain businesses anywhere in the world during the period provided for above, but acknowledges that Employee will receive sufficiently high remuneration and other benefits (e.g., the right to receive compensation under Section 3.5 for the remainder of the Term upon Involuntary Termination) under this Agreement to justify such restriction. Employee acknowledges that money damages would not be sufficient remedy for any breach of this Article 7 by Employee, and Employer shall be entitled to enforce the provisions of this Article 7 by terminating any payments then owing to Employee under this Agreement and/or to specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for a breach of this Article 7, but shall be in addition to all remedies available at law or in equity to Employer, including, without limitation, the recovery of damages from Employee and his or her agents involved in such breach.

7.3 It is expressly understood and agreed that Employer and Employee consider the restrictions contained in this Article 7 to be reasonable and necessary to protect the proprietary information of Employer. Nevertheless, if any of the aforesaid restrictions are found by a court having jurisdiction to be unreasonable, or overly broad as to geographic area or time, or otherwise



unenforceable, the parties intend for the restrictions therein set forth to be modified by such courts so as to be reasonable and enforceable and, as so modified by the court, to be fully enforced.

ARTICLE 8: MISCELLANEOUS:

8.1 For purposes of this Agreement the terms "affiliates" or "affiliated" means an entity who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with Enron or Employer.

8.2 Employee shall refrain, both during the employment relationship and after the employment relationship terminates, from publishing any oral or written statements about Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' officers, employees, agents or representatives that are slanderous, libelous, or defamatory; or that disclose private or confidential information about Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' business affairs, officers, employees, agents, or representatives; or that constitute an intrusion into the seclusion or private lives of Employer, Enron, any of their respective subsidiaries or affiliates, or such entities' officers, employees, agents, or representatives; or that give rise to unreasonable publicity about the private lives of Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' officers, employees, agents, or representatives; or that place Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' or its officers, employees, agents, or representatives in a false light before the public; or that constitute a misappropriation of the name or likeness of Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' or its officers, employees, agents, or representatives. A violation or threatened violation of this prohibition may be enjoined by the courts. The rights afforded the Enron entities and affiliates under this provision are in addition to any and all rights and remedies otherwise afforded by law.

8.3 For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid,

addressed as follows:

If to Employer:

Enron Oil & Gas Company
1400 Smith Street
Houston, Texas 77002
Attention: Corporate Secretary

If to Employee, to the address shown on the first page hereof.

Either Employer or Employee may furnish a change of address to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.





8.4 This Agreement shall be governed in all respects by the laws of the State of Texas, excluding any conflict-of-law rule or principle that might refer the construction of the Agreement to the laws of another State or country.

8.5 No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

8.6 If a dispute arises out of or related to this Agreement, other than a dispute regarding Employee's obligations under Article 6, or Article 7, and if the dispute cannot be settled through direct discussions, then Employer and Employee agree to first endeavor to settle the dispute in an amicable manner by mediation, before having recourse to any other proceeding or forum. Whatever the means of dispute resolution, the prevailing party shall be reimbursed attorney fees and other reasonable costs by the other party.

8.7 Each of Employer and Employee is a citizen of the State of Texas. Employer's principal place of business is in Houston, Harris County, Texas. Employee resides in Harris County, Texas. This Agreement was negotiated and signed in Houston, Texas. This Agreement shall be performed in Houston, Texas. Any litigation that may be brought by either Employer or Employee involving the enforcement of this Agreement or the rights, duties, or obligations of this Agreement, shall be brought exclusively in the State or federal courts sitting in Houston, Harris County, Texas. In the event that service of process cannot be effected upon a party, each party hereby irrevocably appoints the Secretary of State for the State of Texas as its or his agent for service of process to receive the summons and other pleadings in connection with any such litigation.

8.8 It is a desire and intent of the parties that the terms, provisions, covenants, and remedies contained in this Agreement shall be enforceable to the fullest extent permitted by law. If any such term, provision, covenant, or remedy of this Agreement or the application thereof to any person, association, or entity or circumstances shall, to any extent, be construed to be invalid or unenforceable in whole or in part, then such term, provision, covenant, or remedy shall be construed in a manner so as to permit its enforceability under the applicable law to the fullest extent permitted by law. In any case, the remaining provisions of this Agreement or the application thereof to any person, association, or entity or circumstances other than those to which they have been held invalid or unenforceable, shall remain in full force and effect.

8.9 This Agreement shall be binding upon and inure to the benefit of Employer and any other person, association, or entity which may hereafter

acquire or succeed to all or substantially all of the business or assets of Employer by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise. Employee's rights and obligations under Agreement hereof are personal and such rights, benefits, and obligations of Employee shall not be voluntarily or involuntarily assigned, alienated, or transferred, whether by operation of law or otherwise, without the prior written consent of Employer.



8.10 There exist other agreements between Employer and Employee relating to the employment relationship between them, e.g., the agreement with respect to company policies contained in Employer's Conduct of Business Affairs booklet and agreements with respect to compensation and benefit plans. This Agreement replaces and merges previous agreements and discussions pertaining to the following subject matters covered herein: the nature of Employee's employment relationship with Employer and the term and termination of such relationship. This Agreement constitutes the entire agreement of the parties with regard to such subject matters, and contains all of the covenants, promises, representations, warranties, and agreements between the parties with respect such subject matters. Each party to this Agreement acknowledges that no representation, inducement, promise, or agreement, oral or written, has been made by either party with respect to such subject matters, which is not embodied herein, and that no agreement, statement, or promise relating to the employment of Employee by Employer that is not contained in this Agreement shall be valid or binding. Any modification of this Agreement will be effective only if it is in writing and signed by each party whose rights hereunder are affected thereby, provided that any such modification must be authorized or approved by the Board of Directors of Employer.

IN WITNESS WHEREOF, Employer and Employee have duly executed this Agreement in multiple originals to be effective on the date first stated above.

ENRON OIL & GAS COMPANY

By: /s/ PATRICIA EDWARDS
---
Name: Patricia Edwards
Title: V.P. Human Resources & Administration
This 8th day of October, 1998

BARRY HUNSAKER, JR.

/s/ BARRY HUNSAKER, JR.
---
This 7th day of October, 1998



EXHIBIT "A" TO
EXECUTIVE EMPLOYMENT AGREEMENT
BETWEEN ENRON OIL & GAS COMPANY AND BARRY HUNSAKER, JR.

| | |
|---|---|
| Employee Name: | Barry Hunsaker, Jr. |
| Term: | September 1, 1998 through August 31, 2001 |
| Position: | Senior Vice President and General Counsel |
| Location: | Houston, Texas |
| Reporting Relationship: | Reports to Edmund P. Segner, III, Vice Chairman and Chief of Staff |
| Monthly Base Salary: | Twenty-one thousand two hundred fifty dollars ($21,250) |
| Bonus: | Employee shall be eligible to participate in Employer's annual bonus program, under which bonuses may be paid in a combination of cash, stock options, and/or phantom stock units, as determined by the Compensation Committee of Employer's Board of Directors. Employee shall receive bonuses consistent with other similarly situated executives of Employer. |
| Long-Term Incentives: | Employee shall be eligible to receive long-term incentive grants consistent with similarly situated executives of Employer. |
| Stock Option Grant: | Employee shall receive a grant of 75,000 stock options, effective September 8, 1998, vesting 20% on the Grant Date and 20% on each of the first four anniversaries of the Grant Date, as evidenced by an Award Agreement, upon execution of this Agreement. |

ENRON OIL & GAS COMPANY

By: /s/ PATRICIA EDWARDS
---
Name: Patricia Edwards
Title: V.P. Human Resources & Administration
This 8th day of October, 1998

BARRY HUNSAKER, JR.

/s/ BARRY HUNSAKER, JR.
---
This 7th day of October, 1998

EXHIBIT 10.66(b)

FIRST AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

This Agreement, entered into on this 21st of December, 1998, and made effective as of December 21, 1998, by and between ENRON OIL & GAS COMPANY, a Delaware corporation ("Company") having its headquarters at 1400 Smith Street, Houston, Texas 77002, and BARRY HUNSAKER, JR. ("Employee"), an individual residing at 3730 Wickersham, Houston, Texas 77027, is an amendment to that certain Executive Employment Agreement between the Company and Employee entered into the 7th day of October, 1998, and made effective as of September 1, 1998 (the "Employment Agreement").

WHEREAS, the parties desire to amend the Employment Agreement as provided herein;

NOW, THEREFORE, in consideration thereof and of the mutual covenants contained herein, the parties agree as follows:

1. Article 3, Section 3.5 to the Employment Agreement is hereby deleted in its entirety and the following is inserted in its entirety:

"Upon an Involuntary Termination of the employment relationship be either Employer or Employee prior to the expiration of the Term, Employee shall be entitled, in consideration of Employee's continuing obligations hereunder after such termination (including, without limitation, Employee's non-competition obligations), to receive the greater of a) 12 months of the then current Monthly Base Salary or b) the then current Monthly Base Salary as if Employee's employment (which shall cease on the date of such Involuntary Termination) had continued for the full Term of this Agreement. If such Involuntary Termination occurs within two (2) years after a Change of Control, as defined in Employer's Change of Control Severance Plan, Employee shall receive a minimum of twenty-four (24) months of the then current Monthly Base Salary. Further, in the event of Involuntary Termination, if Employee's eligiblity for COBRA coverage expires, Employer shall provide to Employee the cost difference between COBRA coverage and a personal medical/dental policy paid by Employee for the six (6) months following the COBRA coverage or Employee's gainful employment, whichever comes first. Employee shall not be under any duty or obligation to seek or accept other employment following Involuntary Termination and the amount due Employee hereunder shall not be reduced or suspended if Employee accepts subsequent employment. Employee's rights under this Section 3.5





are Employee's sole and exclusive rights against Employer, Enron, or their affiliates, and Employer's sole and exclusive liability to Employee under this Agreement, in contract, tort,

or otherwise, for any Involuntary Termination of the employment relationship. Employee covenants not to sue or lodge any claim, demand or cause of action against Employer for any sums for Involuntary Termination other than those sums specified in this Section 3.5. If Employee breaches this covenant, Employer shall be entitled to recover from Employee all sums expended by Employer (including costs and attorneys fees) in connection with such suit, claim, demand or cause of action."

This Amendment is a First Amendment to the Employment Agreement, and the parties agree that all other terms, conditions and stipulations contained in the Employment Agreement, and any amendments thereto, shall remain in full force and effect and without any change or modification, except as provided herein.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

ENRON OIL & GAS COMPANY

By: /s/ PATRICIA EDWARDS
---
Name: Patricia Edwards
Title: V.P. Human Resources & Administration
This 21st day of December, 1998

BARRY HUNSAKER, JR.

/s/ BARRY HUNSAKER, JR.
---
This 21st day of December, 1998

EXHIBIT 10.66(c)

SECOND AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

This Agreement, entered into on this 15th of March, 1999, and made effective as of February 1, 1999, by and between ENRON OIL & GAS COMPANY ("Company" or "Employer") and BARRY HUNSAKER, JR. ("Employee") is an amendment to that certain Employment Agreement made effective as of September 1, 1998 (the "Employment Agreement").

WHEREAS, the parties desire to amend the Employment Agreement as provided herein;

NOW, THEREFORE, in consideration thereof and of the mutual covenants contained herein, the parties agree as follows:

1. Article 3, Section 3.5 of the Employment Agreement is hereby deleted in its entirety and the following is substituted therefor:

"3.5 Upon an Involuntary Termination of the employment relationship by either Employer or Employee prior to the expiration of the Term, Employee shall be entitled, in consideration of Employee's continuing obligations hereunder after such termination (including, without limitation, Employee's non-competition obligations), to receive the greater of a) 12 months of the then current Monthly Base Salary or b) the then current Monthly Base Salary as if Employee's employment (which shall cease on the date of such Involuntary Termination) had continued for the full Term of this Agreement. Notwithstanding any other provisions of this Agreement, a termination of the employment relationship by either the Employer or Employee which meets the definition of Involuntary Termination under the Company's Change of Control Severance Plan shall constitute an Involuntary Termination under this Agreement. In the event of such Involuntary Termination which entitles Employee to severance benefits under said Plan, but for the following severance payment by the Company to the Employee, Employee shall receive from the Company a severance benefit under this Agreement equal to the sum of Employee's then current Monthly Base Salary times 12 times 2.99 plus two times the Employee's annual bonus target award under the Company's annual bonus program for the year in which the Change of Control Date occurs. Employee's severance benefit payable under said Plan, if any, shall be determined according to the provisions thereof. Further, in the event of Involuntary Termination, if Employee's eligibility for COBRA coverage expires, Employer shall provide to Employee the



cost difference between COBRA coverage and a personal medical/dental policy paid by Employee for the six (6) months following the COBRA coverage or Employee's gainful employment, whichever comes first. Employee shall not be under any duty or

obligation to seek or accept other employment following Involuntary Termination and the amounts due Employee hereunder shall not be reduced or suspended if Employee accepts subsequent employment. Employee's rights under this Section 3.5 are Employee's sole and exclusive rights against Employer, Enron, or their affiliates, and Employer's sole and exclusive liability to Employee under this Agreement, in contract, tort, or otherwise, for any Involuntary Termination of the employment relationship. Employee covenants not to sue or lodge any claim, demand or cause of action against Employer for any sums for Involuntary Termination other than those sums specified in this Section 3.5. If Employee breaches this covenant, Employer shall be entitled to recover from Employee all sums expended by Employer (including costs and attorneys fees) in connection with such suit, claim, demand or cause of action."

2. The last paragraph of Article 7, Section 7.1 is hereby deleted in its entirety and the following is substituted therefor:

"These non-competition obligations shall extend until the earlier of (a) expiration of the Term or (b) one year after termination of the employment relationship; provided, however, that upon an Involuntary Termination as defined in the Company's Change of Control Severance Plan, which entitles Employee to severance benefits under said Plan, these non-competition obligations shall expire immediately and have no further force and effect. For purposes of this Section, it is specifically understood that Employee may return to private legal practice, and may represent companies which compete with Employer in such private legal practice, without breaching the provisions of this Section."

3. The following new Article 9 shall be inserted at the end of the Employment Agreement:

"ARTICLE 9: U.S. EXCISE TAX INDEMNIFICATION

9.1 Indemnification. In the event it shall be determined that any payment or distribution by the Company to or for the benefit of Employee (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement, the Company's Change of Control Severance Plan or otherwise, but determined without regard to any additional payments required under this Article 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the United States Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by Employee with respect to such excise tax



(such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Employee shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Employee of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income and employment taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

9.2 Determination of Amount. Subject to the provisions of Section 9.3, all determinations required to be made under this Article 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a public accounting firm chosen by the Company (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Employee if requested by either the Company or Employee. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and Employee. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9.3 and Employee thereafter is required to make a payment of any additional Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Employee.

9.3 Contest of Claims. If the Company elects to contest a claim by the Internal Revenue Service that Excise Tax is due from Employee, Employee shall cooperate fully with the Company in order to effectively contest such claim, including, but not limited to providing information reasonably requested by the Company relating to such claim, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company and permitting the Company to participate in any proceedings relating to such claim. The Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Employee harmless, on an after-tax basis, for any Excise Tax or other tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses.



9.4 Advances and Refunds. If the Company directs Employee to pay a claim by the Internal Revenue Service and sue for a refund, the Company shall advance the amount of such payment to Employee on an interest-free basis and shall indemnify and hold Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance. If, after the receipt by Employee of an amount advanced by the Company pursuant to this Section 9.4, Employee becomes entitled to receive, and receives, any refund with respect to such claim, Employee shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Employee of an amount advanced by the Company pursuant to this Section 9.4, a determination is made that Employee is not entitled to any refund with respect to such claim, then such advance shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid."

This Agreement is the Second Amendment to the Employment Agreement, and the parties agree that all other terms, conditions and stipulations contained in the Employment Agreement, and any amendments thereto, shall remain in full force and effect and without any change or modification, except as provided herein.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

ENRON OIL & GAS COMPANY

By: /s/ PATRICIA EDWARDS
---
Name: Patricia Edwards
Title: V.P. Human Resources & Administration
This 15th day of March, 1999

BARRY HUNSAKER, JR.

/s/ BARRY HUNSAKER, JR.
---
This 15th day of March, 1999

EXHIBIT 10.67(a)

# EXECUTIVE EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement"), including the attached Exhibit "A," is entered into between Enron Oil & Gas Company, a Delaware corporation, having offices at 1400 Smith Street, Houston, Texas 77002 ("Employer"), and Loren M. Leiker, an individual currently residing at 5730 Tanglecircle, Houston, Texas 77057 ("Employee"), to be effective as of March 1, 1998 (the "Effective Date").

WITNESSETH:

WHEREAS, Employer is desirous of employing Employee pursuant to the terms and conditions and for the consideration set forth in this Agreement, and Employee is desirous of entering the employ of Employer pursuant to such terms and conditions and for such consideration.

NOW, THEREFORE, for and in consideration of the mutual promises, covenants, and obligations contained herein, Employer and Employee agree as follows:

ARTICLE 1: EMPLOYMENT AND DUTIES:

1.1 Employer agrees to employ Employee, and Employee agrees to be employed by Employer, beginning as of the Effective Date and continuing until the date set forth on Exhibit "A" (the "Term"), subject to the terms and conditions of this Agreement.

1.2 Employee initially shall be employed in the position set forth on Exhibit A. Employer may subsequently assign Employee to a different position or modify Employee's duties and responsibilities. Employee agrees to serve in the assigned position and to perform diligently and to the best of Employee's abilities the duties and services appertaining to such position as determined by Employer, as well as such additional or different duties and services appropriate to such position which Employee from time to time may be reasonably directed to perform by Employer. Employee shall at all times comply with and be subject to such policies and procedures as Employer may establish from time to time.

1.3 Employee shall, during the period of Employee's employment by Employer, devote Employee's full business time, energy, and best efforts to the business and affairs of Employer. Employee may not engage, directly or indirectly, in any other business, investment, or activity that interferes with Employee's performance of Employee's duties hereunder, is contrary to the interests of Employer or Enron, or requires any significant portion of Employee's business time.

1.4 In connection with Employee's employment by Employer, Employer shall endeavor to provide Employee access to such confidential information pertaining to the business and services of Employer as is appropriate for Employee's employment responsibilities. Employer also shall endeavor to provide to Employee the opportunity to develop business relationships with those of





Employer's clients and potential clients that are appropriate for Employee's

employment responsibilities.

1.5 Employee acknowledges and agrees that, at all times during the employment relationship Employee owes fiduciary duties to Employer, including but not limited to the fiduciary duties of the highest loyalty, fidelity and allegiance to act at all times in the best interests of the Employer, to make full disclosure to Employer of all information that pertains to Employer's business and interests, to do no act which would injure Employer's business, its interests, or its reputation, and to refrain from using for Employee's own benefit or for the benefit of others any information or opportunities pertaining to Employer's business or interests that are entrusted to Employee or that he learned while employed by Employer. Employee acknowledges and agrees that upon termination of the employment relationship, Employee shall continue to refrain from using for his own benefit or the benefit of others any information or opportunities pertaining to Employer's business or interests that were entrusted to Employee during the employment relationship or that he learned while employed by Employer. Employee agrees that while employed by Employer and thereafter he shall not knowingly take any action which interferes with the internal relationships between Employer and its employees or representatives or interferes with the external relationships between Employer and third parties.

1.6 It is agreed that any direct or indirect interest in, connection with, or benefit from any outside activities, particularly commercial activities, which interest might in any way adversely affect Employer or any of its affiliates, involves a possible conflict of interest. In keeping with Employee's fiduciary duties to Employer, Employee agrees that during the employment relationship Employee shall not knowingly become involved in a conflict of interest with Employer or its affiliates, or upon discovery thereof, allow such a conflict to continue. Moreover, Employee agrees that Employee shall disclose to Employer's President any facts which might involve such a conflict of interest that has not been approved by Employer's President. Employer and Employee recognize that it is impossible to provide an exhaustive list of actions or interests which constitute a "conflict of interest." Moreover, Employer and Employee recognize there are many borderline situations. In some instances, full disclosure of facts by the Employee to Employer's President may be all that is necessary to enable Employer or its affiliates to protect its interests. In others, if no improper motivation appears to exist and the interests of Employer or its affiliates have not suffered, prompt elimination of the outside interest will suffice. In still others, it may be necessary for Employer to terminate the employment relationship. Employer and Employee agree that Employer's determination as to whether a conflict of interest exists shall be conclusive. Employer reserves the right to take such action as, in its judgment, will end the conflict.

ARTICLE 2: COMPENSATION AND BENEFITS:

2.1 Employee's monthly base salary during the Term shall be not less than the amount set forth under the heading "Monthly Base Salary" on Exhibit A, subject to increase at the sole discretion of the Employer, which shall be paid in semimonthly installments in accordance with Employer's standard payroll practice. Any calculation to be made under this Agreement with respect to Employee's Monthly Base Salary shall be made using the then current Monthly Base Salary in effect at the time of the event for which such calculation is made.



2.2 While employed by Employer (both during the Term and thereafter), Employee shall be allowed to participate, on the same basis generally as other employees of Employer, in all general employee benefit plans and programs, including improvements or modifications of the same, which on the effective date or thereafter are made available by Employer to all or substantially all of Employer's employees. Such benefits, plans, and programs may include, without limitation, medical, health, and dental care, life insurance, disability

protection, and pension plans. Nothing in this Agreement is to be construed or interpreted to provide greater rights, participation, coverage, or benefits under such benefit plans or programs than provided to similarly situated employees pursuant to the terms and conditions of such benefit plans and programs.

2.3 Employer shall not by reason of this Article 2 be obligated to institute, maintain, or refrain from changing, amending, or discontinuing, any such incentive compensation or employee benefit program or plan, so long as such actions are similarly applicable to covered employees generally. Moreover, unless specifically provided for in a written plan document adopted by the Board of Directors of either Employer or Enron, none of the benefits or arrangements described in this Article 2 shall be secured or funded in any way, and each shall instead constitute an unfunded and unsecured promise to pay money in the future exclusively from the general assets of Employer.

ARTICLE 3: TERMINATION PRIOR TO EXPIRATION OF TERM AND EFFECTS OF SUCH TERMINATION:

3.1. Notwithstanding any other provisions of this Agreement, Employer shall have the right to terminate Employee's employment under this Agreement at any time prior to the expiration of the Term for any of the following reasons:

(i) For "cause" upon the determination by the Employer's Board of Directors or Enron's management committee (or, if there is no Enron management committee, the highest applicable level of Enron management) that "cause" exists for the termination of the employment relationship. As used in this Section 3.1(i), the term "cause" shall mean [a] Employee's gross negligence or willful misconduct in the performance of the duties and services required of Employee pursuant to this Agreement; [b] Employee has been convicted of a felony; [c] Employee has willfully refused without proper legal reason to perform the duties and responsibilities required of Employee under this Agreement which remains uncorrected for thirty (30) days following written notice to Employee by Employer of such breach; [d] Employee's involvement in a conflict of interest as referenced in Section 1.6 for which Employer makes a determination to terminate the employment of Employee which remains uncorrected for thirty (30) days following written notice to Employee by Employer of such breach; [e] Employee has willfully engaged in conduct that Employee knows or should know is materially injurious to Employer, Enron, or any of their respective subsidiaries; [f] Employee's material breach of any material provision of this Agreement or corporate code or policy which remains uncorrected for thirty (30) days following written notice to Employee by Employer of such breach; or [g] Employee violates the Foreign Corrupt Practices Act or other applicable United States law as proscribed by Section 5.1. It is expressly acknowledged and agreed that the decision as to whether "cause" exists for termination of the employment





relationship by Employer is delegated to the Employer's management committee (or, if there is no management committee, the highest applicable level of Employer's management) for determination. If Employee disagrees with the decision reached

by Employer's management committee (or, if there is no management committee, the highest applicable level of Employer's management), the dispute will be limited to whether Employer's management committee (or, if there is no Enron management committee, the highest applicable level of Employer's management) reached its decision in good faith;

(ii) for any other reason whatsoever, with or without cause, in the sole discretion of the management committee (or, if there is no management committee, the highest applicable level of management) of Employer;

(iii) upon Employee's death; or

(iv) upon Employee's becoming disabled so as to entitle Employee to benefits under Enron's long-term disability plan or, if Employee is not eligible to participate in such plan, then Employee is permanently and totally unable to perform Employee's duties for Employer as a result of any medically determinable physical or mental impairment as supported by a written medical opinion to the foregoing effect by a physician selected by Employee from a list of five physicians provided by Employer. If Employee has not selected a physician within thirty (30) days, Employer may select one.

The termination of Employee's employment by Employer prior to the expiration of the Term shall constitute a "Termination for Cause" if made pursuant to Section 3.1(i); the effect of such termination is specified in Section 3.4. The termination of Employee's employment by Employer prior to the expiration of the Term shall constitute an "Involuntary Termination" if made pursuant to Section 3.1(ii); the effect of such termination is specified in Section 3.5. The effect of the employment relationship being terminated pursuant to Section 3.1(iii) as a result of Employee's death is specified in Section 3.6. The effect of the employment relationship being terminated pursuant to Section 3.1(iv) as a result of the Employee becoming incapacitated is specified in Section 3.7.

3.2 Notwithstanding any other provisions of this Agreement except Section 8.6, Employee shall have the right to terminate the employment relationship under this Agreement at any time prior to the expiration of the Term of employment for any of the following reasons:

(i) a material breach by Employer of any material provision of this Agreement which remains uncorrected for 30 days following written notice of such breach by Employee to Employer; or

(ii) for any other reason whatsoever, in the sole discretion of Employee.

The termination of Employee's employment by Employee prior to the expiration of the Term shall constitute an "Involuntary Termination" if made pursuant to Section 3.2(i); the effect of such termination is specified in Section 3.5. The termination of Employee's employment by Employee prior



to the expiration of the Term shall constitute a "Voluntary Termination" if made pursuant to Section 3.2(ii); the effect of such termination is specified in Section 3.3.

3.3 Upon a "Voluntary Termination" of the employment relationship by

Employee prior to expiration of the Term, all future compensation to which Employee is entitled and all future benefits for which Employee is eligible shall cease and terminate as of the date of termination. Employee shall be entitled to pro rata salary through the date of such termination, but Employee shall not be entitled to any individual bonuses or individual incentive compensation not yet paid at the date of such termination.

3.4 If Employee's employment hereunder shall be terminated by Employer for Cause prior to expiration of the Term, all future compensation to which Employee is entitled and all future benefits for which Employee is eligible shall cease and terminate as of the date of termination. Employee shall be entitled to pro rata salary through the date of such termination, but Employee shall not be entitled to any individual bonuses or individual incentive compensation not yet paid at the date of such termination.

3.5 Upon an Involuntary Termination of the employment relationship by either Employer or Employee prior to the expiration of the Term, Employee shall be entitled, in consideration of Employee's continuing obligations hereunder after such termination (including, without limitation, Employee's non-competition obligations), to receive one hundred twenty-five percent (125%) of the then current Monthly Base Salary as if Employee's employment (which shall cease on the date of such Involuntary Termination) had continued for the full Term of this Agreement Employee shall not be under any duty or obligation to seek or accept other employment following Involuntary Termination and the amounts due Employee hereunder shall not be reduced or suspended if Employee accepts subsequent employment. Employee's rights under this Section 3.5 are Employee's sole and exclusive rights against Employer, Enron, or their affiliates, and Employer's sole and exclusive liability to Employee under this Agreement, in contract, tort, or otherwise, for any Involuntary Termination of the employment relationship. Employee covenants not to sue or lodge any claim, demand or cause of action against Employer for any sums for Involuntary Termination other than those sums specified in this Section 3.5. If Employee breaches this covenant, Employer shall be entitled to recover from Employee all sums expended by Employer (including costs and attorneys fees) in connection with such suit, claim, demand or cause of action.

3.6 Upon termination of the employment relationship as a result of Employee's death, Employee's heirs, administrators, or legatees shall be entitled to Employee's pro rata salary through the date of such termination, but Employee's heirs, administrators, or legatees shall not be entitled to any individual bonuses or individual incentive compensation not yet paid to Employee at the date of such termination.

3.7 Upon termination of the employment relationship as a result of Employee's incapacity, Employee shall be entitled to his or her pro rata salary through the date of such termination, but Employee shall not be entitled to any individual bonuses or individual incentive compensation not yet paid to Employee at the date of such termination.





3.8 In all cases, the compensation and benefits payable to Employee under this Agreement upon termination of the employment relationship shall be offset against any amounts to which Employee may otherwise be entitled under any and all severance plans, and policies of Employer, Enron, or its affiliates.

3.9 Termination of the employment relationship does not terminate those obligations imposed by this Agreement which are continuing obligations, including, without limitation, Employee's obligations under Article 7.

ARTICLE 4: CONTINUATION OF EMPLOYMENT BEYOND TERM; TERMINATION AND EFFECTS OF TERMINATION:

4.1 Should Employee remain employed by Employer beyond the expiration of the Term specified on Exhibit "A," such employment shall convert to a month-to-month relationship terminable at any time by either Employer or Employee for any reason whatsoever, with or without cause. Upon such termination of the employment relationship by either Employer or Employee for any reason whatsoever, all future compensation to which Employee is entitled and all future benefits for which Employee is eligible shall cease and terminate. Employee shall be entitled to pro rata salary through the date of such termination, but Employee shall not be entitled to any individual bonuses or individual incentive compensation not yet paid at the date of such termination.

ARTICLE 5: UNITED STATES FOREIGN CORRUPT PRACTICES ACT AND OTHER LAWS:

5.1. Employee shall at all times comply with United States laws applicable to Employee's actions on behalf of Employer, including specifically, without limitation, the United States Foreign Corrupt Practices Act, generally codified in 15 USC 78 (FCPA), as the FCPA may hereafter be amended, and/or its successor statutes. If Employee pleads guilty to or nolo contendere or admits civil or criminal liability under the FCPA or other applicable United States law, or if a court finds that Employee has personal civil or criminal liability under the FCPA or other applicable United States law, or if a court finds that Employee committed an action resulting in any Enron entity having civil or criminal liability or responsibility under the FCPA or other applicable United States law with knowledge of the activities giving rise to such liability or knowledge of facts from which Employee should have reasonably inferred the activities giving rise to liability had occurred or were likely to occur, such action or finding shall constitute "cause" for termination under this Agreement unless Employer's management committee (or, if there is no management committee, the highest applicable level of Employer's management) determines that the actions found to be in violation of the FCPA or other applicable United States law were taken in good faith and in compliance with all applicable policies of Employer and Enron.

ARTICLE 6: OWNERSHIP AND PROTECTION OF INFORMATION; COPYRIGHTS:

6.1 All information, ideas, concepts, improvements, discoveries, and inventions, whether patentable or not, which are conceived, made, developed or acquired by Employee, individually or in conjunction with others, during Employee's employment by Employer (whether during business hours or otherwise and whether on Employer's premises or otherwise) which relate to Employer's





business, products or services (including, without limitation, all such information relating to corporate opportunities, research, financial and sales data, pricing and trading terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or their requirements, the identity of key contacts within the customer's organizations or within the organization of acquisition prospects, or marketing and merchandising techniques, prospective names, and marks) shall be disclosed to Employer and are and shall be the sole and exclusive property of Employer. Moreover, all drawings, memoranda, notes, records, files, correspondence, drawings, manuals, models, specifications, computer programs, maps and all other writings or materials of any type embodying any of such information, ideas, concepts, improvements, discoveries, and inventions are and shall be the sole and exclusive property of Employer.

6.2 Employee acknowledges that the business of Employer, Enron, and their affiliates is highly competitive and that their strategies, methods, books, records, and documents, their technical information concerning their products, equipment, services, and processes, procurement procedures and pricing techniques, the names of and other information (such as credit and financial

data) concerning their customers and business affiliates, all comprise confidential business information and trade secrets which are valuable, special, and unique assets which Employer, Enron, or their affiliates use in their business to obtain a competitive advantage over their competitors. Employee further acknowledges that protection of such confidential business information and trade secrets against unauthorized disclosure and use is of critical importance to Employer, Enron, and their affiliates in maintaining their competitive position. Employee hereby agrees that Employee will not, at any time during or after his or her employment by Employer, make any unauthorized disclosure of any confidential business information or trade secrets of Employer, Enron, or their affiliates, or make any use thereof, except in the carrying out of his or her employment responsibilities hereunder. Enron and its affiliates shall be third party beneficiaries of Employee's obligations under this Section. As a result of Employee's employment by Employer, Employee may also from time to time have access to, or knowledge of, confidential business information or trade secrets of third parties, such as customers, suppliers, partners, joint venturers, and the like, of Employer, Enron, and their affiliates. Employee also agrees to preserve and protect the confidentiality of such third party confidential information and trade secrets to the same extent, and on the same basis, as Employer's confidential business information and trade secrets. Employee acknowledges that money damages would not be sufficient remedy for any breach of this Article 6 by Employee, and Employer shall be entitled to enforce the provisions of this Article 6 by terminating any payments then owing to Employee under this Agreement and/or to specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for a breach of this Article 6, but shall be in addition to all remedies available at law or in equity to Employer, including the recovery of damages from Employee and his or her agents involved in such breach.

6.3 All written materials, records, and other documents made by, or coming into the possession of, Employee during the period of Employee's employment by Employer which contain or disclose confidential business information or trade secrets of Employer, Enron, or their affiliates shall be and remain the property of Employer, Enron, or their affiliates, as the case may be. Upon termination of Employee's employment by Employer, for any reason, Employee promptly shall deliver the same, and all copies thereof, to Employer.





6.4 If, during Employee's employment by Employer, Employee creates any original work of authorship fixed in any tangible medium of expression which is the subject matter of copyright (such as videotapes, written presentations on acquisitions, computer programs, drawings, maps, architectural renditions, models, manuals, brochures, or the like) relating to Employer's business, products, or services, whether such work is created solely by Employee or jointly with others (whether during business hours or otherwise and whether on Employer's premises or otherwise), Employee shall disclose such work to Employer. Employer shall be deemed the author of such work if the work is prepared by Employee in the scope of his or her employment; or, if the work is not prepared by Employee within the scope of his or her employment but is specially ordered by Employer as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, or as an instructional text, then the work shall be considered to be work made for hire and Employer shall be the author of the work. If such work is neither prepared by the Employee within the scope of his or her employment nor a work specially ordered and is deemed to be a work made for hire, then Employee hereby agrees to assign, and by these presents does assign, to Employer all of Employee's worldwide right, title, and interest in and to such work and all rights of copyright therein.

6.5 Both during the period of Employee's employment by Employer and

thereafter, Employee shall assist Employer and its nominee, at any time, in the protection of Employer's worldwide right, title, and interest in and to information, ideas, concepts, improvements, discoveries, and inventions, and its copyrighted works, including without limitation, the execution of all formal assignment documents requested by Employer or its nominee and the execution of all lawful oaths and applications for applications for patents and registration of copyright in the United States and foreign countries.

6.6 Information covered by this Article 6 does not include information (1) known to Employee prior to or independent of Employee's employment by Employer; (2) generally available to the public; or (3) made available to Employee without breaching the provisions of this Article 6.

ARTICLE 7: POST-EMPLOYMENT NON-COMPETITION OBLIGATIONS:

7.1 As part of the consideration for the compensation and benefits to be paid to Employee hereunder, in keeping with Employee's duties as a fiduciary and in order to protect Employer's interests in the confidential information of Employer and the business relationships developed by Employee with the clients and potential clients of Employer, and as an additional incentive for Employer to enter into this Agreement, Employer and Employee agree to the non-competition provisions of this Article 7. Employee agrees that during the period of Employee's non-competition obligations hereunder, Employee will not, directly or indirectly for Employee or for others, in any specific geologic trend area where Employer is conducting any exploration business as of the date of termination of the employment relationship or has during the previous twelve months conducted any exploration business:

(i) engage in any exploration business competitive with the exploration business conducted by Employer;



(ii) render advice or services to, or otherwise assist, any other person, association, or entity who is engaged, directly or indirectly, in any exploration business competitive with the exploration business conducted by Employer;

(iii) induce any employee of Employer or Enron or any of their affiliates to terminate his or her employment with Employer, Enron, or their affiliates, or hire or assist in the hiring of any such employee by person, association, or entity not affiliated with Enron.

These non-competition obligations shall extend until the earlier of (a) expiration of the Term or (b) one year after termination of the employment relationship. Further, Employee may exercise his right to voluntarily resign under Section 3.2(ii) upon the occurrence of any one of the events described below and these non-competition obligations shall expire immediately and have no further force and effect, and the Employer shall have no further obligations to Employee under this Agreement:

1. the Employer ceases to be an affiliate of Enron Corp. as defined at Section 8.1;

2. the Employer undergoes a reorganization or change in business circumstances such that Employee's duties and responsibilities are substantially reduced; or

3. the Employee is asked to relocate outside the Houston Metropolitan Area.

7.2 Employee understands that the foregoing restrictions may limit his or her ability to engage in certain businesses anywhere in the world during the

period provided for above, but acknowledges that Employee will receive sufficiently high remuneration and other benefits (e.g., the right to receive compensation under Section 3.5 for the remainder of the Term upon Involuntary Termination) under this Agreement to justify such restriction. Employee acknowledges that money damages would not be sufficient remedy for any breach of this Article 7 by Employee, and Employer shall be entitled to enforce the provisions of this Article 7 by terminating any payments then owing to Employee under this Agreement and/or to specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for a breach of this Article 7, but shall be in addition to all remedies available at law or in equity to Employer, including, without limitation, the recovery of damages from Employee and his or her agents involved in such breach.

7.3 It is expressly understood and agreed that Employer and Employee consider the restrictions contained in this Article 7 to be reasonable and necessary to protect the proprietary information of Employer. Nevertheless, if any of the aforesaid restrictions are found by a court having jurisdiction to be unreasonable, or overly broad as to geographic area or time, or otherwise unenforceable, the parties intend for the restrictions therein set forth to be modified by such courts so as to be reasonable and enforceable and, as so modified by the court, to be fully enforced.

ARTICLE 8: MISCELLANEOUS:

8.1 For purposes of this Agreement the terms "affiliates" or "affiliated" means an entity who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with Enron or Employer.





8.2 Employee shall refrain, both during the employment relationship and after the employment relationship terminates, from publishing any oral or written statements about Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' officers, employees, agents or representatives that are slanderous, libelous, or defamatory; or that disclose private or confidential information about Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' business affairs, officers, employees, agents, or representatives; or that constitute an intrusion into the seclusion or private lives of Employer, Enron, any of their respective subsidiaries or affiliates, or such entities' officers, employees, agents, or representatives; or that give rise to unreasonable publicity about the private lives of Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' officers, employees, agents, or representatives; or that place Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' or its officers, employees, agents, or representatives in a false light before the public; or that constitute a misappropriation of the name or likeness of Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' or its officers, employees, agents, or representatives. A violation or threatened violation of this prohibition may be enjoined by the courts. The rights afforded the Enron entities and affiliates under this provision are in addition to any and all rights and remedies otherwise afforded by law.

8.3 For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Employer:

Enron Oil & Gas Company
1400 Smith Street
Houston, Texas 77002
Attention: Corporate Secretary

If to Employee, to the address shown on the first page hereof.

Either Employer or Employee may furnish a change of address to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

8.4 This Agreement shall be governed in all respects by the laws of the State of Texas, excluding any conflict-of-law rule or principle that might refer the construction of the Agreement to the laws of another State or country.

8.5 No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.





8.6 If a dispute arises out of or related to this Agreement, other than a dispute regarding Employee's obligations under Article 6, or Article 7, and if the dispute cannot be settled through direct discussions, then Employer and Employee agree to first endeavor to settle the dispute in an amicable manner by mediation, before having recourse to any other proceeding or forum.

8.7 Each of Employer and Employee is a citizen of the State of Texas. Employer's principal place of business is in Houston, Harris County, Texas. Employee resides in Harris County, Texas. This Agreement was negotiated and signed in Houston, Texas. This Agreement shall be performed in Houston, Texas. Any litigation that may be brought by either Employer or Employee involving the enforcement of this Agreement or the rights, duties, or obligations of this Agreement, shall be brought exclusively in the State or federal courts sitting in Houston, Harris County, Texas.

8.8 It is a desire and intent of the parties that the terms, provisions, covenants, and remedies contained in this Agreement shall be enforceable to the fullest extent permitted by law. If any such term, provision, covenant, or remedy of this Agreement or the application thereof to any person, association, or entity or circumstances shall, to any extent, be construed to be invalid or unenforceable in whole or in part, then such term, provision, covenant, or remedy shall be construed in a manner so as to permit its enforceability under the applicable law to the fullest extent permitted by law. In any case, the remaining provisions of this Agreement or the application thereof to any person, association, or entity or circumstances other than those to which they have been held invalid or unenforceable, shall remain in full force and effect.

8.9 This Agreement shall be binding upon and inure to the benefit of Employer and any other person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Employer by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise. Employee's rights and obligations under Agreement hereof are personal and such rights, benefits, and obligations of Employee shall not be voluntarily or involuntarily assigned, alienated, or transferred, whether by operation of law or otherwise, without the prior written consent of Employer.

8.10 There exist other agreements between Employer and Employee relating to the employment relationship between them, e.g., the agreement with respect to company policies contained in Employer's Conduct of Business Affairs booklet and agreements with respect to benefit plans. This Agreement replaces

and merges previous agreements and discussions pertaining to the following subject matters covered herein: the nature of Employee's employment relationship with Employer and the term and termination of such relationship. This Agreement constitutes the entire agreement of the parties with regard to such subject matters, and contains all of the covenants, promises, representations, warranties, and agreements between the parties with respect such subject matters. Each party to this Agreement acknowledges that no representation, inducement, promise, or agreement, oral or written, has been made by either party with respect to such subject matters, which is not embodied herein, and that no agreement, statement, or promise relating to the employment of Employee by Employer that is not contained in this Agreement shall be valid or binding. Any modification of this Agreement will be effective only if it is in writing and signed by each party whose rights hereunder are affected thereby, provided that any such modification must be authorized or approved by the Board of Directors of Employer.



IN WITNESS WHEREOF, Employer and Employee have duly executed this Agreement in multiple originals to be effective on the date first stated above.

ENRON OIL & GAS COMPANY

By: /s/ PATRICIA EDWARDS
---
Name: Patricia Edwards
Title: V.P. Human Resources & Administration
This 26 day of May, 1998

LOREN M. LEIKER

/s/ LOREN M. LEIKER
---
This 14 day of May, 1998



EXHIBIT "A" TO
EXECUTIVE EMPLOYMENT AGREEMENT
BETWEEN ENRON OIL & GAS COMPANY AND LOREN M. LEIKER

| | |
|---|---|
| Employee Name: | Loren M. Leiker |
| Term: | March 1, 1998 through February 28, 2003 |
| Position: | Senior Vice President of Exploration. Effective May 5, 1998, Employee shall be promoted to the position of Executive Vice President of Exploration |
| Location: | Houston, Texas |
| Reporting Relationship: | Reports to Mark G. Papa, President & Chief Operating Officer |
| Monthly Base Salary: | Twenty Thousand Eight Hundred Thirty-Three and 33/100 Dollars ($20,833.33) per month. |
| Bonus: | Employee shall be eligible for Annual Bonus at 50% |

target level, but nothing guaranteed.

Long Term Incentives: Employee shall be eligible for:

a) grants of stock options and/or restricted stock, at a frequency comparable to similarly situated executives of Employer; and

b) a grant of 10,000 shares of restricted stock, effective February 11, 1998, vesting 100% five (5) years from date of grant.

ENRON OIL & GAS COMPANY

By: /s/ PATRICIA EDWARDS
---
Name: Patricia Edwards
Title: V.P. Human Resources & Administration
This 26 day of May, 1998

LOREN M. LEIKER

/s/ LOREN M. LEIKER
---
This 14 day of May, 1998

EXHIBIT 10.67(b)

FIRST AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

This Agreement, entered into on this 14th of March, 1999, and made effective as of February 1, 1999, by and between ENRON OIL & GAS COMPANY ("Company" or "Employer") and LOREN M. LEIKER ("Employee") is an amendment to that certain Employment Agreement made effective as of March 1, 1998 (the "Employment Agreement").

WHEREAS, the parties desire to amend the Employment Agreement as provided herein;

NOW, THEREFORE, in consideration thereof and of the mutual covenants contained herein, the parties agree as follows:

1. Article 3, Section 3.5 of the Employment Agreement is hereby deleted in its entirety and the following is substituted therefor:

"3.5 Upon an Involuntary Termination of the employment relationship by either Employer or Employee prior to the expiration of the Term, Employee shall be entitled, in consideration of Employee's continuing obligations hereunder after such termination (including, without limitation, Employee's non-competition obligations), to receive one hundred twenty-five percent (125%) of the then current Monthly Base Salary as if Employee's employment (which shall cease on the date of such Involuntary Termination) had continued for the full Term of this Agreement. Notwithstanding any other provisions of this Agreement, a termination of the employment relationship by either the Employer or Employee which meets the definition of Involuntary Termination under the Company's Change of Control Severance Plan shall constitute an Involuntary Termination under this Agreement. In the event of such Involuntary Termination which entitles Employee to severance benefits under said Plan, but for the following severance payment by the Company to the Employee, Employee shall receive from the Company a severance benefit under this Agreement equal to the greater of (a) one hundred twenty-five percent (125%) of the then current Monthly Base Salary as if Employee's employment (which shall cease on the date of such Involuntary Termination) had continued for the full Term of this Agreement, or (b) the sum of Employee's then current Monthly Base Salary times 12 times 2.99 plus two times the Employee's annual bonus target award under the Company's annual bonus program for the year in which the Change of Control Date occurs. Employee's severance benefit payable under said Plan, if any, shall be determined according to the provisions thereof. Employee shall not be under any duty or obligation to seek or accept other employment following Involuntary Termination and



the amounts due Employee hereunder shall not be reduced or suspended if Employee accepts subsequent employment. Employee's rights under this Section 3.5 are Employee's sole and exclusive rights against Employer, Enron, or their affiliates, and Employer's sole and exclusive liability to Employee under this Agreement, in contract, tort, or otherwise, for any Involuntary Termination of the employment relationship. Employee covenants not to sue or lodge any

claim, demand or cause of action against Employer for any sums for Involuntary Termination other than those sums specified in this Section 3.5. If Employee breaches this covenant, Employer shall be entitled to recover from Employee all sums expended by Employer (including costs and attorneys fees) in connection with such suit, claim, demand or cause of action."

2. The last paragraph of Article 7, Section 7.1 is hereby deleted in its entirety and the following is substituted therefor:

"These non-competition obligations shall extend until the earlier of (a) expiration of the Term or (b) one year after termination of the employment relationship; provided, however, that upon an Involuntary Termination as defined in the Company's Change of Control Severance Plan, which entitles Employee to severance benefits under said Plan, these non-competition obligations shall expire immediately and have no further force and effect. Further, notwithstanding a change of control of the Company, Employee may exercise his right to voluntarily resign under Section 3.2(ii) upon the occurrence of any one of the events described below and these non-competition obligations shall expire immediately and have no further force and effect, and the Employer shall have no further obligations to Employee under this Agreement:

1. the Employer ceases to be an affiliate of Enron Corp. as defined at Section 8.1;

2 the Employer undergoes a reorganization or change in business circumstances such that Employee's duties and responsibilities are substantially reduced; or

3. the Employee is asked to relocate outside the Houston Metropolitan Area."

3. The following new Article 9 shall be inserted at the end of the Employment Agreement:

"ARTICLE 9: U.S. EXCISE TAX INDEMNIFICATION

9.1 Indemnification. In the event it shall be determined that any payment or distribution by the Company to or for the benefit of



Employee (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement, the Company's Change of Control Severance Plan or otherwise, but determined without regard to any additional payments required under this Article 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the United States Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by Employee with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Employee shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Employee of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income and employment taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

9.2 Determination of Amount. Subject to the provisions of Section 9.3, all determinations required to be made under this Article 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a public accounting firm chosen by the Company (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Employee if requested by either the Company or Employee. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and Employee. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9.3 and Employee thereafter is required to make a payment of any additional Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Employee.

9.3 Contest of Claims. If the Company elects to contest a claim by the Internal Revenue Service that Excise Tax is due from Employee, Employee shall cooperate fully with the Company in order to effectively contest such claim, including, but not limited to providing information reasonably requested by the Company relating to such claim, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company and permitting the Company to participate in any proceedings relating to such claim. The Company shall



bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Employee harmless, on an after-tax basis, for any Excise Tax or other tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses.

9.4 Advances and Refunds. If the Company directs Employee to pay a claim by the Internal Revenue Service and sue for a refund, the Company shall advance the amount of such payment to Employee on an interest-free basis and shall indemnify and hold Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance. If, after the receipt by Employee of an amount advanced by the Company pursuant to this Section 9.4, Employee becomes entitled to receive, and receives, any refund with respect to such claim, Employee shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Employee of an amount advanced by the Company pursuant to this Section 9.4, a determination is made that Employee is not entitled to any refund with respect to such claim, then such advance shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid."

This Agreement is the First Amendment to the Employment Agreement, and the parties agree that all other terms, conditions and stipulations contained in the Employment Agreement, and any amendments thereto, shall remain in full force and effect and without any change or modification, except as provided herein.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

ENRON OIL & GAS COMPANY

By: /s/ PATRICIA EDWARDS

Name: Patricia Edwards
Title: V.P. Human Resources & Administration
This 15th day of March, 1999

LOREN M. LEIKER

/s/ LOREN M. LEIKER

This 14th day of March, 1999

EXHIBIT 10.68(a)

# EXECUTIVE EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement"), including the attached Exhibit "A," is entered into between Enron Oil & Gas Company, a Delaware corporation, having offices at 1400 Smith Street, Houston, Texas 77002 ("Employer"), and Gary L. Thomas, an individual currently residing at 2392 (E) Bering Drive, Houston, Texas 77057 ("Employee"), to be effective as of September 1, 1998 (the "Effective Date").

WITNESSETH:

WHEREAS, Employer is desirous of employing Employee pursuant to the terms and conditions and for the consideration set forth in this Agreement, and Employee is desirous of entering the employ of Employer pursuant to such terms and conditions and for such consideration.

NOW, THEREFORE, for and in consideration of the mutual promises, covenants, and obligations contained herein, Employer and Employee agree as follows:

ARTICLE 1: EMPLOYMENT AND DUTIES:

1.1 Employer agrees to employ Employee, and Employee agrees to be employed by Employer, beginning as of the Effective Date and continuing until the date set forth on Exhibit "A" (the "Term"), subject to the terms and conditions of this Agreement.

1.2 Employee initially shall be employed in the position set forth on Exhibit A. Employer may subsequently assign Employee to a different position or modify Employee's duties and responsibilities, provided that such assignment or modification is consistent with that of an officer of Employer. Employee agrees to serve in the assigned position and to perform diligently and to the best of Employee's abilities the duties and services appertaining to such position as determined by Employer, as well as such additional or different duties and services appropriate to such position which Employee from time to time may be reasonably directed to perform by Employer. Employee shall at all times comply with and be subject to such policies and procedures as Employer may establish from time to time.

1.3 Employee shall, during the period of Employee's employment by Employer, devote Employee's full business time, energy, and best efforts to the business and affairs of Employer. Employee may not engage, directly or indirectly, in any other business, investment, or activity that interferes with Employee's performance of Employee's duties hereunder, is contrary to the interests of Employer or Enron Corp. ("Enron"), or requires any significant portion of Employee's business time.

1.4 In connection with Employee's employment by Employer, Employer shall endeavor to provide Employee access to such confidential information pertaining to the business and services of Employer as is appropriate for Employee's employment responsibilities. Employer also shall





endeavor to provide to Employee the opportunity to develop business relationships with those of Employer's clients and potential clients that are appropriate for Employee's employment responsibilities.

1.5 Employee acknowledges and agrees that, at all times during the employment relationship Employee owes fiduciary duties to Employer, including but not limited to the fiduciary duties of the highest loyalty, fidelity and allegiance to act at all times in the best interests of the Employer, to make full disclosure to Employer of all information that pertains to Employer's business and interests, to do no act which would injure Employer's business, its interests, or its reputation, and to refrain from using for Employee's own benefit or for the benefit of others any information or opportunities pertaining to Employer's business or interests that are entrusted to Employee or that he learned while employed by Employer. Employee acknowledges and agrees that upon termination of the employment relationship, Employee shall continue to refrain from using for his own benefit or the benefit of others any information or opportunities pertaining to Employer's business or interests that were entrusted to Employee during the employment relationship or that he learned while employed by Employer. Employee agrees that while employed by Employer and thereafter he shall not knowingly take any action which interferes with the internal relationships between Employer and its employees or representatives or interferes with the external relationships between Employer and third parties.

1.6 It is agreed that any direct or indirect interest in, connection with, or benefit from any outside activities, particularly commercial activities, which interest might in any way adversely affect Employer or any of its affiliates, involves a possible conflict of interest. In keeping with Employee's fiduciary duties to Employer, Employee agrees that during the employment relationship Employee shall not knowingly become involved in a conflict of interest with Employer or its affiliates, or upon discovery thereof, allow such a conflict to continue. Moreover, Employee agrees that Employee shall disclose to Employer's President any facts which might involve such a conflict of interest that has not been approved by Employer's President. Employer and Employee recognize that it is impossible to provide an exhaustive list of actions or interests which constitute a "conflict of interest." Moreover, Employer and Employee recognize there are many borderline situations. In some instances, full disclosure of facts by the Employee to Employer's President may be all that is necessary to enable Employer or its affiliates to protect its interests. In others, if no improper motivation appears to exist and the interests of Employer or its affiliates have not suffered, prompt elimination of the outside interest will suffice. In still others, it may be necessary for Employer to terminate the employment relationship. Employer and Employee agree that Employer's determination as to whether a conflict of interest exists shall be conclusive. Employer reserves the right to take such action as, in its judgment, will end the conflict.

1.7 Employee understands and acknowledges that the terms and conditions of this Agreement constitute confidential information. Employee shall keep confidential the terms of this Agreement and shall not disclose this confidential information to anyone other than Employee's attorneys, tax advisors, or as required by law. Employee acknowledges and understands that disclosure of the terms of this Agreement constitutes a material breach of this Agreement and could subject Employee to disciplinary action, including without limitation, termination of employment.





ARTICLE 2: COMPENSATION AND BENEFITS:

2.1 Employee's monthly base salary during the Term shall be not less than the amount set forth under the heading "Monthly Base Salary" on Exhibit A, subject to increase at the sole discretion of the Employer, which shall be paid in semimonthly installments in accordance with Employer's standard payroll practice. Any calculation to be made under this Agreement with respect to Employee's Monthly Base Salary shall be made using the then current Monthly Base Salary in effect at the time of the event for which such calculation is made.

2.2 While employed by Employer (both during the Term and thereafter), Employee shall be allowed to participate, on the same basis generally as other

employees of Employer, in all general employee benefit plans and programs, including improvements or modifications of the same, which on the effective date or thereafter are made available by Employer to all or substantially all of Employer's employees. Such benefits, plans, and programs may include, without limitation, medical, health, and dental care, life insurance, disability protection, and pension plans. Nothing in this Agreement is to be construed or interpreted to provide greater rights, participation, coverage, or benefits under such benefit plans or programs than provided to similarly situated employees pursuant to the terms and conditions of such benefit plans and programs.

2.3 Employer shall not by reason of this Article 2 be obligated to institute, maintain, or refrain from changing, amending, or discontinuing, any such incentive compensation or employee benefit program or plan, so long as such actions are similarly applicable to covered employees generally. Moreover, unless specifically provided for in a written plan document adopted by the Board of Directors of either Employer or Enron, none of the benefits or arrangements described in this Article 2 shall be secured or funded in any way, and each shall instead constitute an unfunded and unsecured promise to pay money in the future exclusively from the general assets of Employer.

2.4 Employer may withhold from any compensation, benefits, or amounts payable under this Agreement all federal, state, city, or other taxes as may be required pursuant to any law or governmental regulation or ruling.

ARTICLE 3: TERMINATION PRIOR TO EXPIRATION OF TERM AND EFFECTS OF SUCH TERMINATION:

3.1. Notwithstanding any other provisions of this Agreement, Employer shall have the right to terminate Employee's employment under this Agreement at any time prior to the expiration of the Term for any of the following reasons:

(i) For "cause" upon the determination by the Employer's Board of Directors or management committee (or, if there is no management committee, the highest applicable level of Employer's management) that "cause" exists for the termination of the employment relationship. As used in this Section 3.1(i), the term "cause" shall mean [a] Employee's gross negligence or willful misconduct in the performance of the duties and services required of Employee pursuant to this Agreement; [b] Employee's final conviction of a felony involving moral turpitude; [c] Employee's willful refusal without proper legal reason to perform the duties and responsibilities required of Employee under this Agreement which remains uncorrected for thirty (30) days following written notice to Employee by Employer





of such breach; [d] Employee's involvement in a conflict of interest as referenced in Section 1.6 for which Employer makes a determination to terminate the employment of Employee which remains uncorrected for thirty (30) days following written notice to Employee by Employer of such breach; [e] Employee's willful engagement in conduct that Employee knows or should know is materially injurious to Employer, Enron, or any of their respective subsidiaries; [f] Employee's material breach of any material provision of this Agreement or corporate code or policy which remains uncorrected for thirty (30) days following written notice to Employee by Employer of such breach; or [g] Employee's violation of the Foreign Corrupt Practices Act or other applicable United States law as proscribed by Section 5.1. It is expressly acknowledged and agreed that the decision as to whether "cause" exists for termination of the employment relationship by Employer is

delegated to the Employer's management committee (or, if there is no management committee, the highest applicable level of Employer's management) for determination. If Employee disagrees with the decision reached by Employer's management committee (or, if there is no management committee, the highest applicable level of Employer's management), the dispute will be limited to whether Employer's management committee (or, if there is no management committee, the highest applicable level of Employer's management) reached its decision in good faith;

(ii) for any other reason whatsoever, with or without cause, in the sole discretion of the management committee (or, if there is no management committee, the highest applicable level of management) of Employer;

(iii) upon Employee's death; or

(iv) upon Employee's becoming disabled so as to entitle Employee to benefits under Enron's long-term disability plan or, if Employee is not eligible to participate in such plan, then Employee is permanently and totally unable to perform Employee's duties for Employer as a result of any medically determinable physical or mental impairment as supported by a written medical opinion to the foregoing effect by a physician selected by Employer.

The termination of Employee's employment by Employer prior to the expiration of the Term shall constitute a "Termination for Cause" if made pursuant to Section 3.1(i); the effect of such termination is specified in Section 3.4. The termination of Employee's employment by Employer prior to the expiration of the Term shall constitute an "Involuntary Termination" if made pursuant to Section 3.1(ii); the effect of such termination is specified in Section 3.5. The effect of the employment relationship being terminated pursuant to Section 3.1(iii) as a result of Employee's death is specified in Section 3.6. The effect of the employment relationship being terminated pursuant to Section 3.1(iv) as a result of the Employee becoming incapacitated is specified in Section 3.7.

3.2 Notwithstanding any other provisions of this Agreement except Section 8.6, Employee shall have the right to terminate the employment relationship under this Agreement at any time prior to the expiration of the Term of employment for any of the following reasons:





(i) a material breach by Employer of any material provision of this Agreement which remains uncorrected for 30 days following written notice of such breach by Employee to Employer; or

(ii) for any other reason whatsoever, in the sole discretion of Employee.

The termination of Employee's employment by Employee prior to the expiration of the Term shall constitute an "Involuntary Termination" if made pursuant to Section 3.2(i); the effect of such termination is specified in Section 3.5. The termination of Employee's employment by Employee prior to the expiration of the Term shall constitute a "Voluntary Termination" if made pursuant to Section 3.2(ii); the effect of such termination is specified in Section 3.3.

3.3 Upon a "Voluntary Termination" of the employment relationship by Employee prior to expiration of the Term, Employee shall be entitled to pro rata salary through the date of such termination, but Employee shall not be entitled to any individual bonuses or individual incentive compensation not yet paid at the date of such termination.

3.4 If Employee's employment hereunder shall be terminated by Employer for Cause prior to expiration of the Term, Employee shall be entitled to pro rata salary through the date of such termination, but Employee shall not be entitled to any individual bonuses or individual incentive compensation not yet paid at the date of such termination.

3.5 Upon an Involuntary Termination of the employment relationship by either Employer or Employee prior to the expiration of the Term, Employee shall be entitled, in consideration of Employee's continuing obligations hereunder after such termination (including, without limitation, Employee's non-competition obligations), to receive the then current Monthly Base Salary as if Employee's employment (which shall cease on the date of such Involuntary Termination) had continued for the full Term of this Agreement. If such Involuntary Termination occurs within two years after a Change of Control, as defined in Employer's Change of Control Severance Plan, Employee shall receive a minimum of twenty-four (24) months of the then current Monthly Base Salary. Employee shall not be under any duty or obligation to seek or accept other employment following Involuntary Termination and the amounts due Employee hereunder shall not be reduced or suspended if Employee accepts subsequent employment. Employee's rights under this Section 3.5 are Employee's sole and exclusive rights against Employer, Enron, or their affiliates, and Employer's sole and exclusive liability to Employee under this Agreement, in contract, tort, or otherwise, for any Involuntary Termination of the employment relationship. Employee covenants not to sue or lodge any claim, demand or cause of action against Employer for any sums for Involuntary Termination other than those sums specified in this Section 3.5. If Employee breaches this covenant, Employer shall be entitled to recover from Employee all sums expended by Employer (including costs and attorneys fees) in connection with such suit, claim, demand or cause of action.

3.6 Upon termination of the employment relationship as a result of Employee's death, Employee's heirs, administrators, or legatees shall be entitled to Employee's pro rata salary through the date of such termination, but Employee's heirs, administrators, or legatees shall not be entitled to any individual bonuses or individual incentive compensation not yet paid to Employee at the date of such termination.





3.7 Upon termination of the employment relationship as a result of Employee's incapacity, Employee shall be entitled to his or her pro rata salary through the date of such termination, but Employee shall not be entitled to any individual bonuses or individual incentive compensation not yet paid to Employee at the date of such termination.

3.8 In all cases, the compensation and benefits payable to Employee under this Agreement upon termination of the employment relationship shall be offset against any amounts to which Employee may otherwise be entitled under any and all severance plans, and policies of Employer, Enron, or their affiliates.

3.9 Termination of the employment relationship does not terminate those obligations imposed by this Agreement which are continuing obligations, including, without limitation, Employee's obligations under Articles 6 and 7.

3.10 Upon termination of the employment relationship between Employee and Employer for any reason, Employee shall be entitled to receive compensation and benefits earned and accrued by Employee during his/her employment as are specifically provided in any applicable employee compensation and/or benefit plan document and any grant or award agreement thereunder.

ARTICLE 4: CONTINUATION OF EMPLOYMENT BEYOND TERM; TERMINATION AND EFFECTS OF TERMINATION:

4.1 Should Employee remain employed by Employer beyond the expiration of the Term specified on Exhibit "A," such employment shall convert to a

month-to-month relationship terminable at any time by either Employer or Employee for any reason whatsoever, with or without cause. Upon such termination of the employment relationship by either Employer or Employee for any reason whatsoever, all future compensation to which Employee is entitled and all future benefits for which Employee is eligible shall cease and terminate. Employee shall be entitled to pro rata salary through the date of such termination, but Employee shall not be entitled to any individual bonuses or individual incentive compensation not yet paid at the date of such termination.

ARTICLE 5: UNITED STATES FOREIGN CORRUPT PRACTICES ACT AND OTHER LAWS:

5.1. Employee shall at all times comply with United States laws applicable to Employee's actions on behalf of Employer, including specifically, without limitation, the United States Foreign Corrupt Practices Act, generally codified in 15 USC 78 (FCPA), as the FCPA may hereafter be amended, and/or its successor statutes. If Employee pleads guilty to or nolo contendere or admits civil or criminal liability under the FCPA or other applicable United States law, or if a court finds that Employee has personal civil or criminal liability under the FCPA or other applicable United States law, or if a court finds that Employee committed an action resulting in any Enron entity having civil or criminal liability or responsibility under the FCPA or other applicable United States law with knowledge of the activities giving rise to such liability or knowledge of facts from which Employee should have reasonably inferred the activities giving rise to liability had occurred or were likely to occur, such action or finding shall constitute "cause" for termination under this Agreement





unless Employer's management committee (or, if there is no management committee, the highest applicable level of Employer's management) determines that the actions found to be in violation of the FCPA or other applicable United States law were taken in good faith and in compliance with all applicable policies of Employer and Enron.

ARTICLE 6: OWNERSHIP AND PROTECTION OF INFORMATION; COPYRIGHTS:

6.1 All information, ideas, concepts, improvements, discoveries, and inventions, whether patentable or not, which are conceived, made, developed or acquired by Employee, individually or in conjunction with others, during Employee's employment by Employer (whether during business hours or otherwise and whether on Employer's premises or otherwise) which relate to Employer's business, products or services (including, without limitation, all such information relating to corporate opportunities, research, financial and sales data, pricing and trading terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or their requirements, the identity of key contacts within the customer's organizations or within the organization of acquisition prospects, or marketing and merchandising techniques, prospective names, and marks) shall be disclosed to Employer and are and shall be the sole and exclusive property of Employer. Moreover, all drawings, memoranda, notes, records, files, correspondence, drawings, manuals, models, specifications, computer programs, maps and all other writings or materials of any type embodying any of such information, ideas, concepts, improvements, discoveries, and inventions are and shall be the sole and exclusive property of Employer.

6.2 Employee acknowledges that the business of Employer, Enron, and their affiliates is highly competitive and that their strategies, methods, books, records, and documents, their technical information concerning their products, equipment, services, and processes, procurement procedures and pricing techniques, the names of and other information (such as credit and financial data) concerning their customers and business affiliates, all comprise confidential business information and trade secrets which are valuable, special, and unique assets which Employer, Enron, or their affiliates use in their business to obtain a competitive advantage over their competitors. Employee

further acknowledges that protection of such confidential business information and trade secrets against unauthorized disclosure and use is of critical importance to Employer, Enron, and their affiliates in maintaining their competitive position. Employee hereby agrees that Employee will not, at any time during or after his or her employment by Employer, make any unauthorized disclosure of any confidential business information or trade secrets of Employer, Enron, or their affiliates, or make any use thereof, except in the carrying out of his or her employment responsibilities hereunder. Enron and its affiliates shall be third party beneficiaries of Employee's obligations under this Section. As a result of Employee's employment by Employer, Employee may also from time to time have access to, or knowledge of, confidential business information or trade secrets of third parties, such as customers, suppliers, partners, joint venturers, and the like, of Employer, Enron, and their affiliates. Employee also agrees to preserve and protect the confidentiality of such third party confidential information and trade secrets to the same extent, and on the same basis, as Employer's confidential business information and trade secrets. Employee acknowledges that money damages would not be sufficient remedy for any breach of this Article 6 by Employee, and Employer shall be entitled to enforce the provisions of this Article 6 by terminating any payments then owing to Employee under this Agreement and/or to specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for





a breach of this Article 6, but shall be in addition to all remedies available at law or in equity to Employer, including the recovery of damages from Employee and his or her agents involved in such breach.

6.3 All written materials, records, and other documents made by, or coming into the possession of, Employee during the period of Employee's employment by Employer which contain or disclose confidential business information or trade secrets of Employer, Enron, or their affiliates shall be and remain the property of Employer, Enron, or their affiliates, as the case may be. Upon termination of Employee's employment by Employer, for any reason, Employee promptly shall deliver the same, and all copies thereof, to Employer.

6.4 If, during Employee's employment by Employer, Employee creates any original work of authorship fixed in any tangible medium of expression which is the subject matter of copyright (such as videotapes, written presentations on acquisitions, computer programs, drawings, maps, architectural renditions, models, manuals, brochures, or the like) relating to Employer's business, products, or services, whether such work is created solely by Employee or jointly with others (whether during business hours or otherwise and whether on Employer's premises or otherwise), Employee shall disclose such work to Employer. Employer shall be deemed the author of such work if the work is prepared by Employee in the scope of his or her employment; or, if the work is not prepared by Employee within the scope of his or her employment but is specially ordered by Employer as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, or as an instructional text, then the work shall be considered to be work made for hire and Employer shall be the author of the work. If such work is neither prepared by the Employee within the scope of his or her employment nor a work specially ordered and is deemed to be a work made for hire, then Employee hereby agrees to assign, and by these presents does assign, to Employer all of Employee's worldwide right, title, and interest in and to such work and all rights of copyright therein.

6.5 Both during the period of Employee's employment by Employer and thereafter, Employee shall assist Employer and its nominee, at any time, in the protection of Employer's worldwide right, title, and interest in and to information, ideas, concepts, improvements, discoveries, and inventions, and its copyrighted works, including without limitation, the execution of all formal assignment documents requested by Employer or its nominee and the execution of all lawful oaths and applications for applications for patents and registration

of copyright in the United States and foreign countries.

ARTICLE 7: POST-EMPLOYMENT NON-COMPETITION OBLIGATIONS:

7.1 As part of the consideration for the compensation and benefits to be paid to Employee hereunder, in keeping with Employee's duties as a fiduciary and in order to protect Employer's interests in the confidential information of Employer and the business relationships developed by Employee with the clients and potential clients of Employer, and as an additional incentive for Employer to enter into this Agreement, Employer and Employee agree to the non-competition provisions of this Article 7. Employee agrees that during the period of Employee's non-competition obligations hereunder, Employee will not, directly or indirectly for Employee or for others, in any geographic area or market where Employer or Enron or any of their affiliated





companies are conducting any business as of the date of termination of the employment relationship or have during the previous twelve months conducted any business:

(i) engage in any business competitive with the business conducted by Employer;

(ii) render advice or services to, or otherwise assist, any other person, association, or entity who is engaged, directly or indirectly, in any business competitive with the business conducted by Employer;

(iii) induce any employee of Employer or Enron or any of their affiliates to terminate his or her employment with Employer, Enron, or their affiliates, or hire or assist in the hiring of any such employee by person, association, or entity not affiliated with Enron.

These non-competition obligations shall extend until the earlier of (a) expiration of the Term or (b) one year after termination of the employment relationship.

7.2 Employee understands that the foregoing restrictions may limit his or her ability to engage in certain businesses anywhere in the world during the period provided for above, but acknowledges that Employee will receive sufficiently high remuneration and other benefits (e.g., the right to receive compensation under Section 3.5 for the remainder of the Term upon Involuntary Termination) under this Agreement to justify such restriction. Employee acknowledges that money damages would not be sufficient remedy for any breach of this Article 7 by Employee, and Employer shall be entitled to enforce the provisions of this Article 7 by terminating any payments then owing to Employee under this Agreement and/or to specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for a breach of this Article 7, but shall be in addition to all remedies available at law or in equity to Employer, including, without limitation, the recovery of damages from Employee and his or her agents involved in such breach.

7.3 It is expressly understood and agreed that Employer and Employee consider the restrictions contained in this Article 7 to be reasonable and necessary to protect the proprietary information of Employer. Nevertheless, if any of the aforesaid restrictions are found by a court having jurisdiction to be unreasonable, or overly broad as to geographic area or time, or otherwise unenforceable, the parties intend for the restrictions therein set forth to be modified by such courts so as to be reasonable and enforceable and, as so modified by the court, to be fully enforced.

ARTICLE 8: MISCELLANEOUS:

8.1 For purposes of this Agreement the terms "affiliates" or

"affiliated" means an entity who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with Enron or Employer.

8.2 Employee shall refrain, both during the employment relationship and after the employment relationship terminates, from publishing any oral or written statements about Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' officers, employees, agents or representatives that are slanderous, libelous, or defamatory; or that disclose private or



confidential information about Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' business affairs, officers, employees, agents, or representatives; or that constitute an intrusion into the seclusion or private lives of Employer, Enron, any of their respective subsidiaries or affiliates, or such entities' officers, employees, agents, or representatives; or that give rise to unreasonable publicity about the private lives of Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' officers, employees, agents, or representatives; or that place Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' or its officers, employees, agents, or representatives in a false light before the public; or that constitute a misappropriation of the name or likeness of Employer, Enron, any of their respective subsidiaries or affiliates, or any of such entities' or its officers, employees, agents, or representatives. A violation or threatened violation of this prohibition may be enjoined by the courts. The rights afforded the Enron entities and affiliates under this provision are in addition to any and all rights and remedies otherwise afforded by law.

8.3 For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Employer:

Enron Oil & Gas Company
1400 Smith Street
Houston, Texas 77002
Attention: Corporate Secretary

If to Employee, to the address shown on the first page hereof.

Either Employer or Employee may furnish a change of address to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

8.4 This Agreement shall be governed in all respects by the laws of the State of Texas, excluding any conflict-of-law rule or principle that might refer the construction of the Agreement to the laws of another State or country.

8.5 No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

8.6 If a dispute arises out of or related to this Agreement, other than a dispute regarding Employee's obligations under Article 6, or Article 7, and if the dispute cannot be settled through direct discussions, then Employer and Employee agree to first endeavor to settle the dispute in an amicable manner by mediation, before having recourse to any other proceeding or forum.

8.7 Each of Employer and Employee is a citizen of the State of Texas. Employer's principal place of business is in Houston, Harris County, Texas. Employee resides in Harris County, Texas. This Agreement was negotiated and signed in Houston, Texas. This Agreement shall be performed in Houston, Texas. Any litigation that may be brought by either Employer or Employee involving the enforcement of this Agreement or the rights, duties, or obligations of this Agreement, shall be brought exclusively in the State or federal courts sitting in Houston, Harris County, Texas. In the event that service of process cannot be effected upon a party, each party hereby irrevocably appoints the Secretary of State for the State of Texas as its or his agent for service of process to receive the summons and other pleadings in connection with any such litigation.

8.8 It is a desire and intent of the parties that the terms, provisions, covenants, and remedies contained in this Agreement shall be enforceable to the fullest extent permitted by law. If any such term, provision, covenant, or remedy of this Agreement or the application thereof to any person, association, or entity or circumstances shall, to any extent, be construed to be invalid or unenforceable in whole or in part, then such term, provision, covenant, or remedy shall be construed in a manner so as to permit its enforceability under the applicable law to the fullest extent permitted by law. In any case, the remaining provisions of this Agreement or the application thereof to any person, association, or entity or circumstances other than those to which they have been held invalid or unenforceable, shall remain in full force and effect.

8.9 This Agreement shall be binding upon and inure to the benefit of Employer and any other person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Employer by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise. Employee's rights and obligations under Agreement hereof are personal and such rights, benefits, and obligations of Employee shall not be voluntarily or involuntarily assigned, alienated, or transferred, whether by operation of law or otherwise, without the prior written consent of Employer.

8.10 There exist other agreements between Employer and Employee relating to the employment relationship between them, e.g., the agreement with respect to company policies contained in Employer's Conduct of Business Affairs booklet and agreements with respect to compensation and benefit plans. This Agreement replaces and merges previous agreements and discussions pertaining to the following subject matters covered herein: the nature of Employee's employment relationship with Employer and the term and termination of such relationship. This Agreement constitutes the entire agreement of the parties with regard to such subject matters, and contains all of the covenants, promises, representations, warranties, and agreements between the parties with respect such subject matters. Each party to this Agreement acknowledges that no representation, inducement, promise, or agreement, oral or written, has been made by either party with respect to such subject matters, which is not embodied herein, and that no agreement, statement, or promise relating to the employment of Employee by Employer that is not contained in this Agreement shall be valid or binding. Any modification of this Agreement will be effective only if it is in writing and signed by each party whose rights hereunder are affected thereby, provided that any such modification must be authorized or approved by the Board of Directors of Employer.



IN WITNESS WHEREOF, Employer and Employee have duly executed this Agreement in multiple originals to be effective on the date first stated above.

ENRON OIL & GAS COMPANY

By: /s/ PATRICIA EDWARDS

Name: Patricia Edwards
Title: V.P. Human Resources & Administration
This 29th day of September, 1998

GARY L. THOMAS

/s/ GARY L. THOMAS

This 25 day of September, 1998





EXHIBIT "A" TO
EXECUTIVE EMPLOYMENT AGREEMENT
BETWEEN ENRON OIL & GAS COMPANY AND GARY L. THOMAS

| | |
|---|---|
| Employee Name: | Gary L. Thomas |
| Term: | September 1, 1998 through August 31, 2001 |
| Position: | Executive Vice President, North American Operations |
| Location: | Houston, Texas |
| Reporting Relationship: | Reports to Mark G. Papa, President and Chief Executive Officer |
| Monthly Base Salary: | Twenty thousand eight hundred thirty-five dollars ($20,835) |
| Bonus: | Employee shall be eligible to participate in Employer's annual bonus program, under which bonuses may be paid in a combination of cash, stock options, and/or phantom stock units, as determined by the Compensation Committee of Employer's Board of Directors. |
| Long-Term Incentives: | Employee shall be eligible to receive long-term incentive grants consistent with similarly situated executives of Employer. |
| Stock Option Grant: | Employee shall receive a grant of 125,000 stock options, effective September 8, 1998, vesting 20% on the Grant Date and 20% on each of the first four anniversaries of the Grant Date, as evidenced by an Award Agreement, upon execution of this Agreement. |

ENRON OIL & GAS COMPANY

By: /s/ PATRICIA EDWARDS

Name: Patricia Edwards
Title: V.P. Human Resources & Administration
This 29th day of September, 1998

GARY L. THOMAS

/s/ GARY L. THOMAS

---

This 25 day of September, 1998

EXHIBIT 10.68(b)

FIRST AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

This Agreement, entered into on this 12 of March, 1999, and made effective as of February 1, 1999, by and between ENRON OIL & GAS COMPANY ("Company" or "Employer") and GARY L. THOMAS ("Employee") is an amendment to that certain Employment Agreement made effective as of September 1, 1998 (the "Employment Agreement").

WHEREAS, the parties desire to amend the Employment Agreement as provided herein;

NOW, THEREFORE, in consideration thereof and of the mutual covenants contained herein, the parties agree as follows:

1. Article 3, Section 3.5 of the Employment Agreement is hereby deleted in its entirety and the following is substituted therefor:

"3.5 Upon an Involuntary Termination of the employment relationship by either Employer or Employee prior to the expiration of the Term, Employee shall be entitled, in consideration of Employee's continuing obligations hereunder after such termination (including, without limitation, Employee's non-competition obligations), to receive the then current Monthly Base Salary as if Employee's employment (which shall cease on the date of such Involuntary Termination) had continued for the full Term of this Agreement. Notwithstanding any other provisions of this Agreement, a termination of the employment relationship by either the Employer or Employee which meets the definition of Involuntary Termination under the Company's Change of Control Severance Plan shall constitute an Involuntary Termination under this Agreement. In the event of such Involuntary Termination which entitles Employee to severance benefits under said Plan, but for the following severance payment by the Company to the Employee, Employee shall receive from the Company a severance benefit under this Agreement equal to the sum of Employee's then current Monthly Base Salary times 12 times 2.99 plus two times the Employee's annual bonus target award under the Company's annual bonus program for the year in which the Change of Control Date occurs. Employee's severance benefit payable under said Plan, if any, shall be determined according to the provisions thereof. Employee shall not be under any duty or obligation to seek or accept other employment following Involuntary Termination and the amounts due Employee hereunder shall not be reduced or suspended if Employee



accepts subsequent employment. Employee's rights under this Section 3.5 are Employee's sole and exclusive rights against Employer, Enron, or their affiliates, and Employer's sole and exclusive liability to Employee under this Agreement, in contract, tort, or otherwise, for any Involuntary Termination of the employment relationship. Employee covenants not to sue

or lodge any claim, demand or cause of action against Employer for any sums for Involuntary Termination other than those sums specified in this Section 3.5. If Employee breaches this covenant, Employer shall be entitled to recover from Employee all sums expended by Employer (including costs and attorneys fees) in connection with such suit, claim, demand or cause of action."

2. The following sentence shall be inserted at the end of Article 7, Section 7.1:

"However, upon an Involuntary Termination as defined in the Company's Change of Control Severance Plan, which entitles Employee to severance benefits under said Plan, these non-competition obligations shall expire immediately and have no further force and effect."

3. The following new Article 9 shall be inserted at the end of the Employment Agreement:

"ARTICLE 9: U.S. EXCISE TAX INDEMNIFICATION

9.1 Indemnification. In the event it shall be determined that any payment or distribution by the Company to or for the benefit of Employee (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement, the Company's Change of Control Severance Plan or otherwise, but determined without regard to any additional payments required under this Article 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the United States Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by Employee with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Employee shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Employee of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income and employment taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

9.2 Determination of Amount. Subject to the provisions of Section 9.3, all determinations required to be made under this Article 9,



including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a public accounting firm chosen by the Company (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Employee if requested by either the Company or Employee. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and Employee. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial

determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9.3 and Employee thereafter is required to make a payment of any additional Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Employee.

9.3 Contest of Claims. If the Company elects to contest a claim by the Internal Revenue Service that Excise Tax is due from Employee, Employee shall cooperate fully with the Company in order to effectively contest such claim, including, but not limited to providing information reasonably requested by the Company relating to such claim, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company and permitting the Company to participate in any proceedings relating to such claim. The Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Employee harmless, on an after-tax basis, for any Excise Tax or other tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses.

9.4 Advances and Refunds. If the Company directs Employee to pay a claim by the Internal Revenue Service and sue for a refund, the Company shall advance the amount of such payment to Employee on an interest-free basis and shall indemnify and hold Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance. If, after the receipt by



Employee of an amount advanced by the Company pursuant to this Section 9.4, Employee becomes entitled to receive, and receives, any refund with respect to such claim, Employee shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Employee of an amount advanced by the Company pursuant to this Section 9.4, a determination is made that Employee is not entitled to any refund with respect to such claim, then such advance shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid."

This Agreement is the First Amendment to the Employment Agreement, and the parties agree that all other terms, conditions and stipulations contained in the Employment Agreement, and any amendments thereto, shall remain in full force and effect and without any change or modification, except as provided herein.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

ENRON OIL & GAS COMPANY

By: /s/ PATRICIA EDWARDS
---
Name: Patricia Edwards
Title: V.P. Human Resources & Administration
This 15th day of March, 1999

GARY L. THOMAS

/s/ GARY L. THOMAS
---
This 12 day of March, 1999

EXHIBIT 12

EOG RESOURCES, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS
(IN THOUSANDS)
(UNAUDITED)

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| EARNINGS AVAILABLE FOR FIXED CHARGES: | | | | | |
| Net Income | $ 569,094 | $ 56,171 | $ 121,970 | $ 140,008 | $ 142,118 |
| Less: Capitalized Interest Expense | (10,594) | (12,711) | (13,706) | (9,136) | (6,490) |
| Add: Fixed Charges | 72,413 | 61,290 | 41,423 | 21,997 | 18,414 |
| Income Tax Provision | (1,382) | 4,111 | 41,500 | 50,954 | 41,936 |
| EARNINGS AVAILABLE | $ 629,531 | $ 108,861 | $ 191,187 | $ 203,823 | $ 195,978 |
| FIXED CHARGES: | | | | | |
| Interest Expense | $ 61,819 | $ 48,463 | $ 27,369 | $ 12,370 | $ 11,310 |
| Capitalized Interest | 10,594 | 12,711 | 13,706 | 9,136 | 6,490 |
| Rental Expense Representative of Interest Factor | -- | 116 | 348 | 491 | 614 |
| TOTAL FIXED CHARGES | 72,413 | 61,290 | 41,423 | 21,997 | 18,414 |
| Preferred Dividends Amount Accrued | 535 | -- | -- | -- | -- |
| TOTAL FIXED CHARGES AND PREFERRED DIVIDENDS ACCRUED | $ 72,948 | $ 61,290 | $ 41,423 | $ 21,997 | $ 18,414 |
| RATIO OF EARNINGS TO FIXED CHARGES | 8.69 | 1.78 | 4.62 | 9.27 | 10.64 |
| RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS | 8.63 | 1.78 | 4.62 | 9.27 | 10.64 |

EXHIBIT 21

EOG RESOURCES, INC.
LISTING OF SUBSIDIARIES
AS OF JANUARY 20, 2000

| COMPANY NAME |
|---|
| EOG Resources, Inc. |
| EOG Resources - Carthage, Inc. |
| EOG Resources Investments, Inc. |
| EOG Resources Property Management, Inc. |
| EOG Resources Acquisitions L.P. |
| ERSO, Inc. |
| EOG Expat Services, Inc. |
| EOG Resources Marketing, Inc. |
| EOG - Canada, Inc. |
| EOG Company of Canada |
| EOG Canada Company Ltd. |
| EOG Resources Canada Inc. |
| Nilo Operating Company |
| EOG Resources - Callaghan, Inc. |
| Online Energy Solutions, Inc. |
| EOG Resources Properties LLC |
| EOG Resources Holdings LLC |
| OXY Willow Glade LLC |
| EOG Resources International, Inc. |
| EOGI Trinidad, Inc. |
| EOGI Trinidad Company |
| EOG Resources Trinidad Limited |
| EOG Resources Capital Management I, Ltd. |
| Wilsyx International Finance B.V. |
| EOGI Company of Trinidad |
| Harfin Capital and Finance Ltd. |
| OCC Investment Company Ltd. |
| Murrott Capital Ltd. |
| EOGI Trinidad - U(a) Block Company |
| EOG Resources Trinidad - U(a) Block Limited |
| EOGI-Australia, Inc. |
| EOGI-France, Inc. |
| EOG Resources  France S.A. |
| EOGI-Kazakhstan, Inc. |
| EOG Resources Kazakhstan Ltd. |
| EOGI-United Kingdom, Inc. |
| EOGI United Kingdom Company B.V. |
| EOG Resources UK Limited |
| EOGI - Venezuela, Inc. |
| EOGI Venezuela Company |
| EOG Resources Venezuela Ltd. |
| Administradora del Golfo de Paria Este, S.A. |
| Gulf of Paria East Operating Company |
| EOGI - Venezuela (Guarico), Inc. |
| EOGI - Mozambique, Inc. |
| EOG Resources Mozambique Ltd. |
| EOGI-Qatar, Inc. |
| EOGI-Uzbekistan, Inc. |
| EOGI - Abu Dhabi, Inc. |
| EOG Resources Abu Dhabi Ltd. |
| EOGI - Algeria, Inc. |
| EOG Resources Bangladesh Ltd. |

EXHIBIT 23.1

March 1, 2000

EOG Resources, Inc.
1200 Smith Street, Suite 300
Houston, Texas 77002

Gentlemen:

We hereby consent to the references to our firm and to the opinions delivered to EOG Resources, Inc., formerly Enron Oil & Gas Company, (the Company) regarding our comparison of estimates prepared by us with those furnished to us by the Company of the proved oil, condensate, natural gas liquids, and natural gas reserves of certain selected properties owned by the Company. The opinions are contained in our letter reports dated January 13, 1998, January 11, 1999, and February 8, 2000, for estimates as of December 31, 1997, December 31, 1998, and December 31, 1999, respectively. The opinions are referred to in the section "Supplemental Information to Consolidated Financial Statements-Oil and Gas Producing Activities" in the Company's Annual Report on Form 10-K for the year ended December 31, 1999, to be filed with the Securities and Exchange Commission on or about March 8, 2000. DeGolyer and MacNaughton also consents to the inclusion of our letter report, dated February 8, 2000, addressed to the Company as Exhibit (23.2) to the Company's Annual Report on Form 10-K for the year ended December 31, 1999, to be filed with the Securities and Exchange Commission. Additionally, we hereby consent to the incorporation by reference of such references to our firm and to our opinions included in the Company's Form 10-K in the Company's previously filed Registration Statement Nos. 33-42620, 33-48358, 33-52201, 33-58103, 33-62005, 33-64055, 333-09919, 333-20841, 333-18511, 333-31715, 333-44785, 333-69483, and 333-83533.

Very truly yours,

DeGOLYER and MacNAUGHTON

EXHIBIT 23.2

February 8, 2000

EOG Resources, Inc.
1200 Smith Street, Suite 300
Houston, Texas 77002

Gentlemen:

Pursuant to your request, we have prepared estimates of the proved oil, condensate, natural gas liquids, and natural gas reserves, as of December 31, 1999, of certain selected properties in the United States, Canada, and Trinidad owned by EOG Resources, Inc. (EOG). The properties consist of working and royalty interests located in New Mexico, Texas, Utah, and Wyoming and in the offshore waters of Texas, Louisiana, and Alabama; in Saskatchewan, Canada; and in the offshore waters of Trinidad. The estimates are reported in detail in our "Report as of December 31, 1999, on Proved Reserves of Certain Properties in the United States owned by EOG Resources, Inc. - Selected Properties," our "Report as of December 31, 1999, on Proved Reserves of Certain Properties in Canada owned by EOG Resources, Inc. - Selected Properties," and our "Report as of December 31, 1999, on Proved Reserves of the Kiskadee Field, Offshore Trinidad for EOG Resources, Inc." hereinafter collectively referred to as the "Reports." We also have reviewed information provided to us by EOG that it represents to be EOG's estimates of the reserves, as of December 31, 1999, for the same properties as those included in the Reports.

Proved reserves estimated by us and referred to herein are judged to be economically producible in future years from known reservoirs under existing economic and operating conditions and assuming continuation of current regulatory practices using conventional production methods and equipment. Proved reserves are defined as those that have been proved to a high degree of certainty by reason of actual completion, successful testing, or in certain cases by adequate core analyses and electrical-log interpretation when the producing characteristics of the formation are known from nearby fields. These reserves are defined areally by reasonable





geological interpretation of structure and known continuity of oil- or gas-saturated material. This definition is in agreement with the definition of proved reserves prescribed by the Securities and Exchange Commission.

EOG represents that its estimates of the proved reserves, as of December 31, 1999, net to its interests in the properties included in the Reports are as follows, expressed in thousands of barrels (Mbbl) or millions of cubic feet (MMcf):

| OIL, CONDENSATE, AND NATURAL GAS LIQUIDS (Mbbl) | NATURAL GAS (MMcf) | NET EQUIVALENT (MMcf) |
|---|---|---|
| 37,760 | 1,652,235 | 1,878,795 |

Note: Net equivalent million cubic feet is based on 1 barrel of oil, condensate, or natural gas liquids being equivalent to 6,000 cubic feet of gas.

EOG has advised us, and we have assumed, that its estimates of proved oil, condensate, natural gas liquids, and natural gas reserves are in accordance with the rules and regulations of the Securities and Exchange Commission.

Proved reserves net to EOG's interests estimated by us for the properties included in the Reports, as of December 31, 1999, are as follows, expressed in thousands of barrels (Mbbl) or millions of cubic feet (MMcf):

| OIL, CONDENSATE, AND NATURAL GAS LIQUIDS (Mbbl) | NATURAL GAS (MMcf) | NET EQUIVALENT (MMcf) |
|---|---|---|
| 36,110 | 1,627,906 | 1,844,566 |

Note: Net equivalent million cubic feet is based on 1 barrel of oil, condensate, or natural gas liquids being equivalent to 6,000 cubic feet of gas.

In making a comparison of the detailed reserves estimates prepared by us and by EOG of the properties involved, we have found differences, both positive and negative, in reserves estimates for individual properties. These differences appear to be compensating to a great extent when considering the reserves of EOG in the properties included in our reports, resulting in overall differences not being substantial. It is our opinion that the reserves estimates prepared by EOG on the properties reviewed by us and referred to above, when compared on the basis of net



equivalent million cubic feet of gas, do not differ materially from those prepared by us.

Submitted,

DeGOLYER and MacNAUGHTON

---

Vernon E. Pringle, Jr., P.E.
Senior Vice President
DeGolyer and MacNaughton

EXHIBIT 23.3

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into EOG Resources, Inc. (formerly Enron Oil & Gas Company) and subsidiaries' previously filed Registration Statement File Nos. 33-42620, 33-48358, 33-52201, 33-58103, 33-62005, 33-64055, 333-09919, 333-20841, 333-18511, 333-31715, 333-44785, 333-69483 and 333-83533.

Houston, Texas
March 8, 2000

1

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that in connection with the filing by EOG Resources, Inc., a Delaware corporation (the "Company") of its Annual Report on Form 10-K for the year ended December 31, 1999 with the Securities and Exchange Commission, the undersigned director of the Company hereby constitutes and appoints Walter C. Wilson, Barry Hunsaker, Jr. and Patricia L. Edwards, and each of them (with full power to each of them to act alone), his true and lawful attorney-in-fact and agent, for him and on his behalf and in his name, place and stead, in any and all capacities, to sign, execute and file such Annual Report on Form 10-K, together with any amendments or supplements thereto, with all exhibits and any and all documents required to be filed with respect thereto with any regulatory authority, granting unto said attorneys, and each of them, full power and authority to do and perform each and every act and action requisite and necessary to be done in and about the premises in order to effectuate the same as fully to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all the said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereto set his hand this 8th day of February, 2000.

/s/ FRED C. ACKMAN

---

Fred C. Ackman

2

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that in connection with the filing by EOG Resources, Inc., a Delaware corporation (the "Company") of its Annual Report on Form 10-K for the year ended December 31, 1999 with the Securities and Exchange Commission, the undersigned director of the Company hereby constitutes and appoints Walter C. Wilson, Barry Hunsaker, Jr. and Patricia L. Edwards, and each of them (with full power to each of them to act alone), his true and lawful attorney-in-fact and agent, for him and on his behalf and in his name, place and stead, in any and all capacities, to sign, execute and file such Annual Report on Form 10-K, together with any amendments or supplements thereto, with all exhibits and any and all documents required to be filed with respect thereto with any regulatory authority, granting unto said attorneys, and each of them, full power and authority to do and perform each and every act and action requisite and necessary to be done in and about the premises in order to effectuate the same as fully to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all the said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereto set his hand this 8th day of February, 2000.

/s/ EDWARD RANDALL, III

---

Edward Randall, III



POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that in connection with the filing by EOG Resources, Inc., a Delaware corporation (the "Company") of its Annual Report on Form 10-K for the year ended December 31, 1999 with the Securities and Exchange Commission, the undersigned director of the Company hereby constitutes and appoints Walter C. Wilson, Barry Hunsaker, Jr. and Patricia L. Edwards, and each of them (with full power to each of them to act alone), his true and lawful attorney-in-fact and agent, for him and on his behalf and in his name, place and stead, in any and all capacities, to sign, execute and file such Annual Report on Form 10-K, together with any amendments or supplements thereto, with all exhibits and any and all documents required to be filed with respect thereto with any regulatory authority, granting unto said attorneys, and each of them, full power and authority to do and perform each and every act and action requisite and necessary to be done in and about the premises in order to effectuate the same as fully to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all the said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereto set his hand this 8th day of February, 2000.

/s/ FRANK G. WISNER

---

Frank G. Wisner



POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that in connection with the filing by EOG Resources, Inc., a Delaware corporation (the "Company") of its Annual Report on Form 10-K for the year ended December 31, 1999 with the Securities and Exchange Commission, the undersigned director of the Company hereby constitutes and appoints Walter C. Wilson, Barry Hunsaker, Jr. and Patricia L. Edwards, and each of them (with full power to each of them to act alone), his true and lawful attorney-in-fact and agent, for him and on his behalf and in his name, place and stead, in any and all capacities, to sign, execute and file such Annual Report on Form 10-K, together with any amendments or supplements thereto, with all exhibits and any and all documents required to be filed with respect thereto with any regulatory authority, granting unto said attorneys, and each of them, full power and authority to do and perform each and every act and action requisite and necessary to be done in and about the premises in order to effectuate the same as fully to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all the said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereto set his hand this 8th

day of February, 2000.

/s/ EDMUND P. SEGNER, III

---

Edmund P. Segner, III

<ARTICLE> 5

| | | |
|---|---|---|
| <PERIOD-TYPE> | 12-MOS | |
| <FISCAL-YEAR-END> | | DEC-31-1999 |
| <PERIOD-END> | | DEC-31-1999 |
| <CASH> | | 24,836 |
| <SECURITIES> | | 0 |
| <RECEIVABLES> | | 148,189 |
| <ALLOWANCES> | | 0 |
| <INVENTORY> | | 18,816 |
| <CURRENT-ASSETS> | | 200,501 |
| <PP&E> | | 4,602,740 |
| <DEPRECIATION> | | (2,267,812) |
| <TOTAL-ASSETS> | | 2,610,793 |
| <CURRENT-LIABILITIES> | | 218,618 |
| <BONDS> | | 0 |
| <PREFERRED-MANDATORY> | | 0 |
| <PREFERRED> | | 147,190 |
| <COMMON> | | 201,247 |
| <OTHER-SE> | | 781,174 |
| <TOTAL-LIABILITY-AND-EQUITY> | | 2,610,793 |
| <SALES> | | 802,149 |
| <TOTAL-REVENUES> | | 801,406 |
| <CGS> | | 0 |
| <TOTAL-COSTS> | | 783,218 |
| <OTHER-EXPENSES> | | (611,343) |
| <LOSS-PROVISION> | | 0 |
| <INTEREST-EXPENSE> | | 61,819 |
| <INCOME-PRETAX> | | 567,712 |
| <INCOME-TAX> | | (1,382) |
| <INCOME-CONTINUING> | | 569,094 |
| <DISCONTINUED> | | 0 |
| <EXTRAORDINARY> | | 0 |
| <CHANGES> | | 0 |
| <NET-INCOME> | | 569,094 |
| <EPS-BASIC> | | 4.04<F1> |
| <EPS-DILUTED> | | 3.99 |

<FN>
<F1>BASIC
</FN>