POGO PRODUCING CO
Form 10-K
February 24, 2004

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PART III

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the transition period from to
Commission File No. 1-7792

Pogo Producing Company

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**74-1659398** (I.R.S. Employer Identification No.)
5 Greenway Plaza, P.O. Box 2504 **Houston, Texas** (Address of principal executive offices)	**77252-2504** (Zip Code)

Registrant's telephone number, including area code: **(713) 297-5000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, $1 par value	**New York Stock Exchange** **Pacific Exchange**
Preferred Stock Purchase Rights	**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 ý No o

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. ý

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant (treating all executive officers and directors of the registrant, for this purpose, as if they may be affiliates of the registrant) was approximately $2,648,832,750 as of June 30, 2003 (based on $42.75 per share, the last sale price of the Common Stock as reported on the New York Stock Exchange Composite Tape on such date).

63,812,824 shares of the registrant's Common Stock were outstanding as of February 13, 2004.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement respecting the annual meeting of shareholders to be held on April 27, 2004 (to be filed not later than 120 days after December 31, 2003) are incorporated by reference in Part III of this Form 10-K.

FORWARD LOOKING STATEMENTS

The statements included or incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 2003 (this "Annual Report") include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included or incorporated by reference herein, other than statements of historical fact, are forward-looking statements. In some cases, you can identify the Company's forward-looking statements by the words "anticipate," "estimate," "expect," "objective," "projection," "forecast," "goal," and similar expressions. Such forward-looking statements include, without limitation, the statements herein and therein regarding the timing of future events regarding the operations of Pogo Producing Company (the "Company") and its subsidiaries, and the statements under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the Company's anticipated future financial position and cash requirements. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") are disclosed in this Annual Report and in other filings by the Company with the Securities and Exchange Commission (the "Commission"). All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and other factors set forth in or incorporated by reference in this Annual Report. These factors include:

- the cyclical nature of the oil and natural gas industries
- the Company's ability to successfully and profitably find, produce and market oil and gas
- uncertainties associated with the United States and worldwide economies
- current and potential governmental regulatory actions in countries where the Company operates
- substantial competition from larger companies

- the Company's ability to implement cost reductions
- the Company's ability to acquire additional oil and gas reserves
- operating interruptions (including leaks, explosions, fires, mechanical failure, unscheduled downtime, transportation interruptions, and spills and releases and other environmental risks)
- fluctuations in foreign currency exchange rates in areas of the world where the Company conducts operations, particularly Southeast Asia
- covenant restrictions in the Company's debt agreements

Many of those factors are beyond the Company's ability to control or predict. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels.

All subsequent written and oral forward-looking statements attributable to the Company and persons acting on the Company's behalf are qualified in their entirety by the Cautionary Statements contained in this section and elsewhere in this Annual Report.

CERTAIN DEFINITIONS

As used in this Annual Report, "Mcf" means thousand cubic feet, "MMcf" means million cubic feet, "Bcf" means billion cubic feet, "Bbl" means barrel, "MBbls" means thousand barrels and "MMBbls" means million barrels. "BOE" means barrel of oil equivalent, "Mcfe" means thousand cubic feet of natural gas equivalent, "MMcfe" means million cubic feet of natural gas equivalent and "Bcfe" means billion cubic feet of natural gas equivalent. Natural gas equivalents and crude oil equivalents are determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids ("NGL"). References to "$" and "dollars" refer to United States dollars. All estimates of reserves contained in this Annual Report, unless otherwise noted, are reported on a "net" basis. Information regarding production, acreage and numbers of wells are set forth on a gross basis, unless otherwise noted.

PART I

ITEM 1. *Business.*

The Company was incorporated in 1970 and is engaged in oil and gas exploration, development, acquisition and production activities on its properties located offshore in the Gulf of Mexico, onshore in selected areas including Texas, New Mexico, Wyoming and Louisiana, and internationally, primarily in the Gulf of Thailand and in Hungary. As of December 31, 2003, the Company had interests in 78 lease blocks offshore Louisiana and Texas, approximately 484,000 gross acres onshore in the United States, approximately 734,000 gross acres offshore in the Kingdom of Thailand, approximately 81,000 gross acres in the Danish sector of the North Sea, approximately 764,000 gross acres in Hungary. On February 4, 2004, the Company acquired interests in approximately 1,014,000 gross acres in New Zealand.

The Company organizes its exploration and production activities principally into five operating regions and a New Ventures Group. The operating regions are its Gulf of Mexico region, which is responsible for the Company's operations offshore Texas and Louisiana in the Gulf of Mexico; its Western U.S. region, which is active in the Permian Basin area in New Mexico and West Texas, in the San Juan Basin in New Mexico and in the Madden Field in Wyoming; its Gulf Coast region, which includes the Company's onshore operations principally in South Texas and Louisiana; the Asia and Pacific region, which has responsibility for the Company's operations on its Block B8/32 Concession in the Kingdom of Thailand (the "Thailand Concession") and in New Zealand; and its Europe region, which is currently active principally in Hungary and the North Sea. The Company's New Ventures Group is primarily responsible for identifying new projects and opportunities for the Company outside the United States.

Domestic Offshore Operations

Gulf of Mexico Region. Historically, the Company's interests have been concentrated in the Gulf of Mexico, where approximately 21% of the Company's proved reserves were located as of December 31, 2003. During 2003, approximately 23% of the Company's natural gas production and 53% of its oil and condensate production came from the Company's domestic offshore properties, contributing approximately 42% of the Company's consolidated oil and gas revenues. The Company's exploration and development efforts are primarily focused in the shallower waters of the continental shelf.

Exploration and Development

The scope of exploration and development programs relating to the Company's offshore interests is affected by prices for oil and gas, and by federal, state and local legislation, regulations and ordinances applicable to the petroleum industry. The Company's domestic offshore capital and exploration expenditures for 2003 were approximately $60,500,000, or 54% lower than the Company's domestic offshore capital and exploration expenditures of approximately $130,265,000 for 2002, and 65% lower than the Company's domestic offshore capital and exploration expenditures of approximately $170,800,000 (excluding approximately $87,700,000 of net property acquisitions principally related to the North Central

Oil Corporation acquisition) for 2001. The decrease in the Company's domestic offshore capital and exploration expenditures for 2003, compared with 2002, resulted primarily from decreased expenditures for facilities construction. During 2003, the Company invested approximately $9,495,000 on facilities construction for its Gulf of Mexico operations. The Company has currently budgeted approximately $80,000,000 for capital and exploration expenditures during 2004 in the Gulf of Mexico, of which approximately $17,000,000 is budgeted for facilities construction.

The Company maintains a significant presence in the Gulf of Mexico where it participated in drilling 10 wells during 2003, 80% of which were considered successful. At December 31, 2003, the Company held varying interests in 209 producing oil and gas wells in the Gulf of Mexico.

Leases acquired by the Company and other participants in its bidding groups are customarily committed, on a block-by-block basis, to separate operating agreements under which the appointed operator supervises exploration and development operations for the account and at the expense of the group. These agreements usually contain terms and conditions that have become relatively standardized in the industry. Major decisions regarding development and operations typically require the consent of at least a majority (in working interest) of the participants. Because the Company generally has a meaningful working interest position, the Company believes it can significantly influence (but not always control) decisions regarding development and operations on most of the leases in which it has a working interest even though it may not be the operator of a particular lease. The Company is the operator on all or a portion of 41 of the 78 offshore leases in which it had an interest as of December 31, 2003.

Platforms and related facilities are installed on an offshore lease block when, in the judgment of the lease interest owners, the necessary capital expenditures are justified. A decision to install a platform generally is made after the drilling of one or more exploratory wells with contracted drilling equipment. Platform costs vary depending on, among other factors, the number of well slots, water depth, currents, and sea floor conditions.

Lease Acquisitions

The Company has participated, either on its own or with other companies, in bidding on and acquiring interests in federal and state leases offshore in the Gulf of Mexico since 1970. As a result of such purchases and subsequent activities, as of December 31, 2003, the Company owned interests in 66 federal leases and 12 state leases offshore Louisiana and Texas. Federal leases generally have primary terms of five, eight or ten years, depending on water depth, and state leases generally have terms of three or five years, depending on location, in each case subject to extension by development and production operations.

As part of its strategy, the Company intends to continue an active lease evaluation program in the Gulf of Mexico in order to identify exploration and exploitation opportunities. The Company acquires leases through participation in federal and state lease sales, farmouts and by acquisition. For example, the Company acquired 10 offshore leases at the lease sale conducted by the Minerals Management Service of the Department of the Interior (the "MMS") on March 19, 2003. The Company also acquired one state lease through sales conducted by the State of Louisiana in 2003. The Company also maintains an asset rationalization process through which it seeks to sell or farmout blocks that the Company believes have little or no remaining upside potential, or that face significant future expenditures that would likely result in a rate of return that does not meet the Company's internal criteria. As part of this process, the Company farmed out two leases in 2003. The extent to which the Company participates in future bidding on federal or state offshore lease sales or otherwise acquires additional lease blocks will depend on the availability of funds and its estimates of hydrocarbon deposits, operating expenses and future revenues that may reasonably be expected from available lease blocks. Such estimates typically take into account, among other things, estimates of future hydrocarbon prices, federal regulations and taxation policies applicable to the petroleum industry. It is also the Company's objective to acquire producing leasehold properties in

areas where additional low-risk exploration and development drilling or improved production methods can provide attractive rates of return.

Domestic Onshore Operations

The Company's Gulf Coast region is headquartered in Houston, Texas, with field offices in Laredo and Manvel, Texas. The Company's Western U.S. region has an office in Midland, Texas and two field offices in Southeastern New Mexico. The Company conducts its onshore operations in the United States directly and through its wholly owned subsidiaries, North Central Oil Corporation ("North Central") and Arch Petroleum Inc. Domestic onshore reserves as of December 31, 2003, accounted for approximately 56% of the Company's total proved reserves, with the Gulf Coast region and the Western U.S. region contributing approximately 19% and 37%, respectively, of the Company's total proved reserves. During 2003, approximately 48% of the Company's natural gas production and 14% of its oil and condensate production was from its domestic onshore properties, contributing approximately 31% of the Company's consolidated oil and gas revenues.

Exploration and Development

Western U.S. Region. The Company's Western U.S. region has actively explored West Texas and New Mexico for more than 24 years, and during this period has participated in the discovery or development of over 29 oil and gas fields. In 2003, the Company participated in the drilling of 97 wells (97% of which were successfully completed). The Company believes that during the past decade it has been one of the most active companies drilling for oil and natural gas in southeastern New Mexico (Lea and Eddy Counties), where the Company has interests in approximately 125,000 gross acres. The Company currently plans to drill approximately 106 wells in the Permian Basin during 2004 in various known fields and exploratory prospects. Drilling objectives of these wells range in depth from 1,700 feet to 15,700 feet below the surface and target numerous formations including, among others, the San Andres, Glorieta, San Angelo, Delaware (Brushy Canyon), Clearfork, Bone Springs, Spraberry, Wolfcamp, Canyon, Strawn, Atoka, Morrow and Devonian pay zones.

The Company's Western U.S. region also actively participates in the exploration and development of the Madden Deep Unit in central Wyoming, where the Company currently is credited with varying working interests that average approximately 14% across the unit area. Recent drilling activity in the Madden Deep Unit involves two principal producing horizons, the comparatively shallow Lower Fort Union formation (where productive zones are historically found from approximately 5,500 feet to 9,500 feet below the surface) and the Madison formation (which currently produces from zones located approximately 23,500 feet to 25,000 feet below the surface). The gas produced from the Lower Fort Union formation is comparatively dry sweet gas. Gas produced from the Madison formation, however, contains significant quantities (approximately one-third by volume) of carbon dioxide and hydrogen sulfide gases. Gas from the Madison zones must be processed through the Lost Cabin Gas Plant to remove the carbon dioxide and hydrogen sulfide gases prior to sale. An expansion of the Lost Cabin Gas Plant was completed in 2002, which increased the plant's processing capacity from 132 MMcf per day to approximately 313 MMcf per day. The Company owns a working interest of approximately 15% in this plant. The wells to the Madison formation are deep and technologically challenging to drill, taking up to 12 months from commencement to completion. One Madison test (the Bighorn 9-4) was successfully completed as a producing gas well during 2003. Additionally, a 20,800' Frontier test has recently commenced and is scheduled to be completed in 2004. This exploratory well is located in an area of established production from the Lower Fort Union and Madison formations. If this test is successful, development opportunities may extend over a portion of the Madden structure, with reservoir quality being the primary risk. An active Lower Fort Union drilling program is also anticipated for 2004.

In the second quarter of 2003, Burlington Resources, Inc., operator of the Madden Deep Unit, curtailed production from the Madison formation to evaluate and repair deformations found in the flow

lines transporting production from the wellheads to the Lost Cabin Gas Plant. At the time production was curtailed, Pogo's net share of sellable gas from the Madison formation was approximately 18.9 MMcf per day. Throughout the balance of 2003, production continued to be curtailed at varying rates. Pogo's net share of gas sales from the Madison formation at the beginning of January 1, 2004, was estimated to be approximately

16.7 MMcf per day (which includes volumes attributable to interests acquired through acquisitions).

Gulf Coast Region. The Company's Gulf Coast region is actively exploring for, acquiring and developing oil and gas reserves in the coastal onshore areas of Louisiana and Texas. During 2003, the Gulf Coast region participated in drilling 53 wells, 89% of which were successfully completed.

The Company's Gulf Coast region was most active during 2003 drilling on its 66,000 gross acres of leasehold in South Texas' Webb and Zapata Counties. The Company has been developing gas reserves primarily in its Los Mogotes, Hundido, South Hundido, Hereford Ranch, Mujeres Creek and Mancho Prado Fields that produce from Asche, Charco and Lobo members of the Wilcox formation, found at depths ranging from 7,000 to 14,000 feet below the surface. In its Los Mogotes Field, where its working interest averages 72%, the Company drilled 27 wells in 2003. The Company currently has three contract drilling rigs running in South Texas and those rigs are expected to spend the majority of their time working in the Los Mogotes Field drilling 34 wells budgeted in 2004. A total of four wells were drilled in the Company's 100%-owned South Hundido Fields in 2003 and six more wells have been scheduled for drilling in 2004.

During 2003, the Company participated in drilling three Miocene wells in South Louisiana. One well operated by an industry partner is a new field discovery that is expected to see additional development in 2004. In the Upper Texas Gulf Coast, a new Woodbine formation discovery well has been drilled by the Company and is anticipated to be followed up by drilling several appraisal wells in 2004. The Company undertook several new projects in the Wilcox trend along the Central Texas coastal area and is expanding its presence in this trend. The projects include participation in two wildcat wells operated by an industry partner and the acquisition of a producing property upon which additional Company-operated development drilling has commenced.

The Company's onshore capital and exploration expenditures for 2003 were approximately $142,400,000 (excluding approximately $177,700,000 of net property acquisitions), or 7% higher than comparable expenditures for 2002, and approximately equal to comparable expenditures for 2001. The increase in the Company's onshore capital and exploration expenditures for 2003, compared to 2002, resulted primarily from expenditures related to increased exploratory and development drilling. The Company has currently budgeted approximately $182,000,000 for capital and exploration expenditures during 2004 in its domestic onshore areas.

The Company generally conducts its onshore activities through joint ventures and other interest sharing arrangements with major and independent oil companies. The Company and its subsidiaries operate many of their onshore properties using both independent contractors and field personnel that are employed by the Company or its subsidiaries.

Property Acquisitions

In four transactions in 2003, the Company acquired interests in producing properties located primarily in Andrews, Schleicher and Irion Counties in West Texas, Wharton County in the Texas Gulf Coast area, and the San Juan Basin in New Mexico. In addition, in two additional transactions, the Company increased its working interest in the Madden Field from approximately 12.5% to 14%. The aggregate purchase price for these transactions was approximately $178 million and the aggregate reserves associated with these acquisitions were approximately 155 bcfe.

As it has in recent years, in 2003 the Company also successfully participated in various onshore federal and state lease sales and acquired interests in other prospective acreage. As of December 31, 2003, the Company held interests in approximately 484,000 (256,000 net) acres onshore in the United States.

International Operations

The Company has conducted international exploration activities since the late 1970's in numerous oil and gas areas throughout the world. The Company currently holds licenses in the Kingdom of Thailand, Hungary, the Danish sector of the North Sea and New Zealand. In addition, the Company's international explorationists continue to evaluate other international opportunities that are consistent with its international exploration strategy and expertise.

Substantial portions of the Company's international operations are grouped under its wholly owned Dutch subsidiary, Pogo Overseas Production B.V. Two subsidiaries of Pogo Overseas Production B.V., Thaipo Limited ("Thaipo") and Pogo Hungary Ltd. ("Pogo Hungary"), maintain offices in Bangkok, Thailand and in Budapest, Hungary, respectively.

Exploration and Development

The Company's international capital and exploration expenditures were approximately $138,000,000 for 2003, or 34% higher than comparable expenditures for 2002, and 97% higher than comparable expenditures for 2001. The increase in the Company's capital and exploration expenditures for 2003 resulted primarily from expenditures for facilities costs, including construction of eight platforms for installation in the Thailand Concession, increased drilling expenses resulting from having two rigs drilling in Thailand for a substantial portion of the year and the costs of the initial phase of drilling, all or a portion of, four wells in Hungary.

The Company has currently budgeted approximately $153,000,000 for capital and exploration expenditures during 2004 in areas outside the United States, including $115,000,000 in Thailand and $37,000,000 in Europe, of which approximately $5,700,000 is designated for the Danish sector of the North Sea and the remainder is primarily designated for the Company's operations in Hungary. In addition, the Company has budgeted approximately $1,000,000 for 2004 for its international new venture operations in New Zealand and elsewhere. Of this $153,000,000, approximately $63,400,000 is budgeted for facilities upgrades and additions in the Kingdom of Thailand, including the completion and installation of five platforms on the Thailand Concession, the ordering of steel for another five platforms that are projected to be installed on the Thailand Concession in late 2005, and facilities related to the development of Pogo Hungary's Szolnok No. 2 discovery.

Asia and Pacific Region

The Company currently owns, directly or indirectly, a 46.34% working interest in the entire Thailand Concession. The remainder of the working interest is primarily owned, directly or indirectly, by subsidiaries of ChevronTexaco Corporation, including Chevron Offshore (Thailand) Limited ("Chevron"), Palang Sophon Two Limited, and Palang Sophon Limited ("Palang"). Through its majority ownership of Palang, Chevron owns or controls, directly or indirectly, 53.66% of the working interests in the Thailand Concession and is currently the operator of the Thailand Concession. Through voting procedures in the joint operating agreement governing the Thailand Concession, and the close working relationship between Chevron's and Thaipo's exploration staffs, Thaipo exerts substantial influence over the development of the Thailand Concession. As of December 31, 2003, the Company's proved reserves located in the Kingdom of Thailand accounted for approximately 23% of the Company's total proved reserves. During 2003, approximately 29% of the Company's natural gas production and 33% of its oil and condensate production came from its operations on the Thailand Concession, contributing approximately 26% of the Company's consolidated oil and gas revenues.

Benchamas Field. A portion of the Thailand Concession comprising approximately 102,000 acres is designated as the Benchamas and Pakakrong production area or the "Benchamas Field." In January 2004, the government of Thailand designated approximately 31,000 additional acres as the North Benchamas area. This area is considered a part of, and is being developed in conjunction with, the remainder of the Benchamas Field. By the end of 2004, there are expected to be 14 production platforms installed in the Benchamas Field. Natural gas and oil from these platforms are delivered by undersea pipeline to a central processing and compression platform where the oil, condensate and natural gas is processed and separated. The natural gas is sold to PTT Public Company Limited ("PTT") and delivered into export pipelines for transportation to shore, while the crude oil and condensate produced from the field is stored on board a Floating Storage and Offloading system ("FSO") known as the "Benchamas Explorer" for sale and ultimate transfer to shore by oil tanker. (Please reference section entitled "2004 Production Outlook" for a description of temporary shut-in for the Benchamas Field.) The FSO is moored in the Benchamas Field. Its capacity is approximately 1,400,000 Bbls of crude oil and condensate. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Crude Oil and Condensate Production." Additional drilling is currently planned for the Benchamas Field during 2004. A temporary shutdown of the Benchamas Field to upgrade the Benchamas central processing platform commenced in January and was recently completed. Operations are currently underway to establish full production from all producing wells in the field. During 2003, an additional 24 productive development wells and one successful exploration well were drilled in the Benchamas Field. For 2004, an active drilling campaign is currently planned in the field.

Tantawan Field. A portion of the Thailand Concession comprising approximately 68,000 acres is designated as the Tantawan production area or the "Tantawan Field." Oil and gas production from the Tantawan Field is gathered through pipelines from the platforms into a Floating Production Storage and Offloading system (an "FPSO") named the "Tantawan Explorer." The FPSO is a converted oil tanker with a capacity of slightly less than 1,000,000 Bbls, and is moored in the Tantawan Field, on which hydrocarbon processing, separation, dehydration, compression, metering and other production-related equipment is installed. Following processing on board the FPSO, natural gas produced from the field is delivered to PTT through an export pipeline. Oil and condensate produced from the field is stored on board the FPSO until sold and transferred to shore by oil tanker. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." During 2003, a new platform was set on the western side of the Tantawan Field. In early 2004, eight productive wells were drilled from this platform. In addition, during 2003, ten development and two exploratory wells were drilled in the field. Currently, there is production from six platforms. Current plans call for additional development and exploratory drilling within the field during 2004. During the fourth quarter of 2003, an additional 20,000 acres, comprising the adjacent Block 9A, were assigned to Thaipo and its joint venture partners. Two successful exploration wells were promptly drilled and a production area designation has been applied for. If and when Block 9A is designated a production area, it will be developed from and through existing Tantawan Field facilities, but will require the setting of at least one additional platform.

Maliwan Field. Approximately 91,000 acres of the Thailand Concession are designated as the Maliwan production area or the "Maliwan Field." The Maliwan "A" platform was installed and commenced production on October 29, 2001. An additional seven development wells were drilled from this platform in late 2003. Production from this platform is delivered to the central Benchamas Field production handling facilities for processing and sale. During 2003, two appraisal wells were also drilled in the field and current plans call for additional appraisal drilling in the Maliwan Field during 2004 in connection with finalizing a development plan for the entire field.

Jarmjuree Field. Approximately 124,000 acres of the Thailand Concession, known as the Jarmjuree Field, are designated as a production area. The first platform in this field, the North Jarmjuree "A" platform, is anticipated to be set in the second quarter of 2004. Development drilling and initial production from the Jarmjuree Field is currently expected to occur in 2004. Production from this platform is planned

to be delivered to the central Benchamas Field production handling facilities for processing and sale. Development plans for the remainder of the field are still being formulated. Additional exploration and appraisal wells could be drilled in the Jarmjuree Field and surrounding areas during 2004.

Other Portions of the Thailand Concession. Thaipo and its joint venture partners have identified other potentially promising areas on the Thailand Concession and surrounding acreage. During 2003, Thaipo and its joint venture partners drilled six exploratory wells and have currently budgeted to drill an additional six exploratory wells during 2004. Interpretation of the data provided by these wells and 3-D seismic data covering the Thailand Concession is ongoing.

Platforms are installed on the Thailand Concession in fields where, in the judgment of Thaipo and its joint venture partners, the necessary capital expenditures are justified. A decision to install a platform generally is made after the drilling of one or more exploratory wells with contracted drilling equipment and the area where the platform would be located has been designated a production area by the government of the Kingdom of Thailand. See "Contractual Terms Governing the Thailand Concession and Related Production." Platforms are used to accommodate both development drilling and additional exploratory drilling. A key focus of Thaipo and its joint venture partners has been to reduce the average cost of the platforms installed to improve the overall economics of the project. The gross cost of the fourteen production platforms and related facilities installed in the Tantawan, Benchamas and Maliwan Fields first averaged approximately $17,400,000 per platform. The gross cost of "second generation" platforms, including the three that were installed in 2003 and the five that are under construction, is currently expected to average approximately $15,200,000 per platform. Efforts are currently underway to design and construct even less expensive platforms as part of the next generation to be ordered in 2004. Platform costs vary, and more (or less) expensive platforms could be required in the future depending on, among other factors, the number of slots, water depth, ocean currents and sea floor conditions and the amount of facilities required to be placed on the platform.

Contractual Terms Governing the Thailand Concession and Related Production

The Thailand Concession was granted in August 1991. The initial exploratory term for the Thailand Concession expired on July 31, 2000. However, through a series of one-year extensions, Thaipo and its joint venture partners have been granted an extension of the exploratory term through July 31, 2004. A similar one-year extension will also be applied for to extend the exploratory term of the Thailand Concession through July 31, 2005. This will be the last extension that can be obtained. On July 31, 2005, all acreage for which production area status has not been applied for will revert to the government of Thailand. For those portions of the Thailand Concession that have been designated as production areas, the initial production period term is 20 years, which is also subject to extension, generally for a term of ten years. In November 2003, Thaipo and its joint venture partners requested that the government designate Block 9A as a production area. To date, the Benchamas Field (including the North Benchamas area), Tantawan Field, Maliwan Field and North Jarmjuree Field have been designated as production areas. Subject to governmental approval, other portions of the Thailand Concession may be designated production areas in the future.

Production resulting from the Thailand Concession is generally subject to a royalty ranging from 5% to 15% of oil and gas sales. Slightly different terms apply to production from Block 9A, but the difference is not expected to be material to the results of operations of the Company. Profits from production in Thailand are also subject to a Special Remuneration Benefit ("SRB"). The SRB rate, which can range from 20% to 75%, is calculated based on a complex formula using discounted revenue, meters drilled and other factors specified in the Thailand Concession license agreement. This rate is then applied toward the net proceeds derived by each joint venture partner's Thailand subsidiaries. SRB payments are then treated as a deductible expense for Thailand income tax calculations by such subsidiaries. The Company began accruing SRB liabilities in 2003 on a portion of the net proceeds it derives from the Thailand Concession and currently expects to make significant SRB payments during 2004. See "Management's Discussion and

Analysis of Financial Condition and Results of Operations Results of Operations: Production and Other Taxes."

Thaipo and its joint venture partners have entered into a thirty-year Gas Sales Agreement with PTT (the "Gas Sales Agreement"), governing gas production from the Tantawan Field and the Benchamas Field. The terms of the Gas Sales Agreement currently include a minimum daily contract quantity ("DCQ") of 125 MMcf per day, subject to certain exceptions, and will in the future be based on a percentage of the remaining proved reserves, but in any event will not be less than 125 MMcf per day. In addition, the Gas Sales Agreement gives PTT the right to nominate in any given week 115% of DCQ or approximately 145 MMcf per day. The Gas Sales Agreement provides that PTT may take up to an additional approximate 177 billion cubic feet of gas through December 31, 2007 at production rates that, until the end of such supplemental period ("Supplemental DCQ"), equates to 85 MMcf per day or approximately 40 MMcf net to the Company. During 2003, gas production averaged approximately 224 MMcf per day (90 MMcf per day net to the Company).

Thaipo and its joint venture partners are subject to penalties if they are unable to meet the DCQ or the Supplemental DCQ under the Gas Sales Agreement. Failure to meet DCQ results in a decrease in the sales price for gas sold under the Gas Sales Agreement of up to 25% of the then-current sales price and failure to meet the Supplemental DCQ will result in a credit against the next month's supplemental production of 12% (6% from March 1, 2004 through January 1, 2006) of the then-current sales price of the gas not delivered. Thaipo currently meets the minimum DCQ and generally meets the Supplemental DCQ requirements, however, there can be no assurance that Thaipo will be able to continue to meet them in the future, in which case these penalty provisions would reduce the price received by Thaipo for its gas sold to PTT under the Gas Sales Agreement.

The sales price for the base DCQ production under the Gas Sales Agreement is subject to automatic semi-annual adjustments based upon a formula that takes into account changes in: Singapore fuel oil prices; the U.S. Bureau of Labor Statistics Oilfield Machinery and Tool Index; the Thai wholesale producer price index; and the U.S./Thai currency exchange rate. However, the Gas Sales Agreement provides for adjustment on a more frequent basis in the event that certain indices and factors on which the price is based fluctuate outside a given range. The sales price for Supplemental DCQ production is 88% of the then-current sales price for DCQ production. As of December 31, 2003, the Company was receiving a blended average price of approximately $2.59 per Mcf under the Gas Sales Agreement for DCQ and Supplemental DCQ production. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations" and "Liquidity and Capital Resources; Other Matters; Southeast Asia Economic Issues."

Other Areas of the World

Hungary. On April 20, 1999, the Company's subsidiary, Pogo Hungary, was awarded a license to explore for oil and gas in the Szolnok and Tompa areas of central and south central Hungary. This license area currently consists of approximately 764,000 acres. The exploration term of the license is currently set to expire on April 19, 2005, with further extension possible until April 19, 2007 with government approval. Areas where commercial accumulation of hydrocarbons are identified may then be designated as "mining plots" and held through the economic productive life of such reserves. One 3-D survey covers approximately 97,000 acres, a substantial portion of the Tompa area, and the other covers approximately 42,000 acres of the Szolnok area and is referred to as the Kenderes 3-D survey. Based upon detailed evaluation of this 3-D seismic data and extensive other data acquired from government sources, a number of prospects have been preliminarily identified. During 2003, Pogo Hungary drilled two wells in the Szolnok area, including the Szolnok No. 2 well that was successfully tested and another well that has been temporarily abandoned to allow for possible future testing. Pogo Hungary also drilled three wells in the Tompa area, which have been temporarily abandoned pending possible fracture stimulation or additional testing. Pogo Hungary currently intends to drill additional exploration wells during 2004, as well as

delineation wells on the Szolnok No. 2 discovery. Pogo Hungary also currently intends to acquire additional seismic data during 2004 in the Szolnok area and to continue analyzing its existing 2-D and 3-D seismic database.

Hungary imported approximately 80% of the crude oil and approximately 77% of the natural gas that it consumed in 2002. Most of the natural gas that is imported into Hungary comes from Russia. The remaining imported natural gas is delivered from Austria through the HAG pipeline. Historically, the domestic Hungarian oil and gas industry was entirely state-owned. Due to privatization of the industry, the Hungarian retail petroleum market was liberalized in 1991. The wholesale and retail prices for natural gas remained heavily regulated and partially subsidized until late 2003. Currently, the Company believes that crude oil produced in Hungary may be sold in Hungary or exported at a price based upon world market prices. The sale of natural gas in Hungary was recently liberalized under an amendment to the Hungarian Natural Gas Act. Effective January 1, 2004, industrial consumers are eligible to purchase gas in the free market. The residential consumer market is anticipated to continue to be served by a public utility wholesale provider at regulated prices until no later than 2007 in accordance with European Economic Union regulations. Pogo Hungary also currently believes that, in addition to supplying gas to eligible consumers in the domestic market, it has the ability to swap the natural gas it produces in Hungary for natural gas at the Baumgarten hub in Austria, which can then be sold at unregulated European spot prices, or to export the gas to surrounding countries.

North Sea. On August 5, 1999, the Danish government approved the assignment to the Company of a 40% working interest in License 13/98 covering approximately 81,000 acres in the Danish sector of the North Sea. This license interest is currently held by the Company's Danish subsidiary, Pogo Denmark ApS. The work commitment for this license requires the drilling of an exploratory well prior to the expiration of the license. The initial term of the license goes through June 14, 2004, unless otherwise extended or a production license is granted. Pogo Denmark ApS and its joint venture partners have scheduled and intend to drill a well during the first half of 2004 on one of the prospects that has been identified on the block.

During 2003, Pogo North Sea Limited, a British subsidiary of the Company, together with two joint venture partners, held a license governing approximately 113,000 acres in the British sector of the North Sea. Pending final government approval, and as of December 23, 2003, the joint venture has relinquished its interest in the license area back to the Department of Trade and Industry.

New Zealand. On February 4, 2004, the Company was granted three petroleum exploration licenses (the "Licenses") over approximately 1,014,000 acres in the offshore Northern Taranaki Basin. The primary exploration term of the Licenses is for five years, subject to extension up to an additional ten years, provided that at least half of the acreage under each license has been relinquished and the permit holder has substantially complied with the terms of its permits. The Company has committed to acquire 3-D seismic data over at least 1,000 square kilometers of the Licenses within the first two years of their primary term. Based upon an analysis of this data, the Company has a contingent commitment to drill one well on each of the three Licenses by the end of 2007. Production permits of up to 40 years may be applied for if a commercial field is discovered. The Company's current plans for 2004 consist of evaluating existing data and designing a 3-D seismic acquisition program over prospective portions of the Licenses.

Geographic Information

For financial information about geographic areas, see Note 6 Geographic Segment Information in the Notes to Consolidated Financial Statements, which is incorporated herein by reference.

Miscellaneous

Other Assets

The Company and a subsidiary, Pogo Offshore Pipeline Co., own interests in eight pipelines (excluding field gathering pipelines) through which offshore hydrocarbon production is transported. As previously discussed, the Company also owns an approximate 15% interest in the Lost Cabin Gas Plant located in the Madden Field, which currently has the capacity to process 313 MMcf of natural gas per day.

Sales

The marketing of all of the Company's onshore and offshore oil and gas production is subject to the availability of pipelines and other transportation, processing and refining facilities, as well as the existence of adequate markets. As a result, even if hydrocarbons are discovered in commercial quantities, a substantial period of time could elapse before commercial production commences. If pipeline facilities in an area are insufficient, the Company may have to await the construction or expansion of pipeline capacity before production from that area can be marketed. The Company's domestic onshore and offshore properties are generally located in areas where a pipeline infrastructure or other transportation alternatives are well developed and there is adequate availability in such pipelines or other transportation alternatives to transport the Company's current and projected future production.

The Company may not be able to successfully market all of the oil and natural gas found and produced on the Thailand Concession. Currently, the only purchaser of natural gas is PTT, which maintains a monopoly over gas transmission and distribution in Thailand, including ownership of the two major natural gas pipelines (34 inches and 36 inches in diameter, respectively) that traverse the Thailand Concession. All oil and condensate production from the Tantawan Field is initially stored aboard the FPSO and then sold to various third parties, including PTT, on a tanker load by tanker load basis at prices based on then-current world oil prices, typically with reference to the Malaysian Tapis Blend crude oil benchmark price. Crude oil and condensate production from the Benchamas Field and the first platform located in the northern portion of the Maliwan Field is initially stored aboard the FSO. A portion of this production is sold under a term sales agreement with China International United Petroleum & Chemical Company Ltd. that expires in March 2004. This term sales agreement is for a total of 3,600,000 Bbls (1,668,000 Bbls net to Thaipo) at a price equal to Malaysian TAPIS less $0.40 per Bbl. Another portion of this production is sold under a term sales agreement with Pacific Petroleum and Trading Co., Ltd. that expires in August 2004. This term sales agreement is for 600,000 Bbls per month, subject to seller's availability, at an agreed price each month. The remaining production from the Benchamas Field is sold on a tanker load by tanker load basis, similar to the way Tantawan Field crude oil is currently marketed.

The prices that the Company receives for crude oil sales from its Thailand Concession are influenced by a number of factors including, among others, tanker availability, world-wide crude oil demand, size of the lifting and the perceived quality of crude oil produced. For example, crude oil produced from the Gulf of Thailand is generally perceived as having high mercury levels. The crude oil from the Benchamas Field has high wax content. Therefore, it is sought after by some refineries and is less desirable to others. These factors and others have led to significant fluctuations in the price that the Company receives for its Thai crude oil production in comparison to the Malaysian Tapis Blend benchmark price. During 2003, the price that the Company received for its crude oil production from the Thailand Concession ranged between a $0.75 per Bbl premium and a $1.25 per Bbl discount to the Malaysian Tapis Blend benchmark price. The Company and its joint venture partners continue to examine ways to improve the price received for crude oil, including the possibility of entering into further long-term contracts for a portion of its production. In addition, because much of the oil produced from the Thailand Concession is associated with natural gas, limitations on Thaipo's ability to produce natural gas could limit crude oil production as well. The crude oil purchaser is generally responsible for sending a tanker to offload the oil and condensate it has purchased.

See "International Operations; Contractual Terms Governing the Thailand Concession and Related Production."

Most of the Company's North American natural gas sales are currently made in the "spot market" for no more than one month at a time at then-currently available prices or under longer-term contracts with prices that are based on, and fluctuate with, spot market prices. Prices on the spot market fluctuate with supply and demand. Crude oil and condensate production is also generally sold one month at a time at the price that is then-currently available or under longer-term contracts with prices that also fluctuate in relationship to published market price. Other than any oil and natural gas forward sales contracts that may exist from time to time, and are referred to in "Miscellaneous; Competition and Market Conditions," and the Gas Sales Agreement with PTT for production from the Thailand Concession (see "International Operations; Contractual Terms Governing the Thailand Concession and Related Production") and the crude oil contracts discussed above, the Company has no existing contracts that require the delivery of fixed quantities of oil or natural gas, other than on a best efforts basis. In 2003, crude oil sales to one customer (China International United Petroleum & Chemical Company Ltd.) constituted more than 10% of the Company's consolidated revenues.

Risks Associated with Acquisitions

From time to time the Company acquires, and may acquire in the future, additional interests in oil and gas properties, either through acquisition of the properties themselves or, as in the case of the North Central acquisition, indirectly through the purchase of an equity interest in the entity owning such properties. The successful acquisition of such properties requires an assessment of several factors, including recoverable reserves, development and exploratory potential, projected future cash flows that are, in part, based upon future oil and gas prices, current and projected operating, general and administrative and other costs, and contingent liabilities associated with the properties or entities acquired, including potential environmental and other liabilities.

The accuracy of the Company's assessment of these factors is inherently uncertain. To the extent reasonably practicable under the specific circumstances of each acquisition, the Company performs a review of the properties or entities prior to an acquisition. The Company believes that its review procedures are generally consistent with current industry practices. The Company's review and assessment process will not reveal all existing or potential problems nor will it permit the Company to become sufficiently familiar with the properties or entities to fully assess their deficiencies and capabilities. Even when problems are identified, the other party may be unwilling or unable to provide effective contractual protection against all or part of the problems. Occasionally, the Company may not be entitled to contractual indemnification for certain liabilities, acquiring the properties on an "as is, where is" basis. In addition, successful acquisitions frequently require the successful integration of operations, equipment and personnel. There can be no assurance that the Company will be able to successfully integrate operations and properties that it acquires and still achieve the anticipated synergies, cost savings and efficiencies.

Competition and Market Conditions

The Company experiences competition from other oil and gas companies in all phases of its operations, as well as competition from other energy-related industries. The Company's profitability and cash flow are highly dependent upon the prices of oil and natural gas, which historically have been seasonal, cyclical and volatile. In general, prices of oil and gas are dependent upon numerous factors beyond the control of the Company, including various weather, economic, political and regulatory conditions. In addition, the decisions of the Organization of Petroleum Exporting Countries relating to export quotas also affect the price of crude oil. A future drop in oil or gas prices could have a material adverse effect on the Company's cash flow and profitability. Sustained periods of low prices could cause the Company to shut in existing production and also have a material adverse effect on its operations and financial condition. It could also result in a reduction of funds available under the Company's bank credit

facilities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources; Credit Facility."

Because it is impossible to predict future oil and gas price movements with any certainty, the Company from time to time enters into contracts to hedge against future market price changes on a portion of its production. Such hedging transactions, historically, have never exceeded 50% of the Company's total oil and gas production on an energy equivalent basis for any given period. While intended to limit the negative effect of price declines, some forms of hedging transactions could effectively limit the Company's participation in price increases, which could be significant, for the covered period. As of December 31, 2003, the Company was not a party to any natural gas or crude oil option contracts. When the Company does engage in certain types of hedging activities, it may satisfy its obligations with its own production or by the purchase (or sale) of third-party production. The Company may also offset delivery obligations under these hedging transactions requiring physical delivery with equivalent agreements, thereby effecting a purely cash transaction.

Operating and Uninsured Risks

The Company's operations are subject to risks inherent in the exploration for and production of oil and natural gas, such as blowouts, cratering, explosions, uncontrollable flows of oil, natural gas or well fluids, fires, pollution and other environmental risks. Offshore oil and gas operations are subject to the additional hazards of marine and helicopter operations, such as capsizing, collision and adverse weather and sea conditions. These hazards could result in substantial losses to the Company due to injury or loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage and suspension of operations. The Company carries insurance that it believes is in accordance with customary industry practices, but is not fully insured against all risks incident to its business.

Drilling activities are subject to numerous risks, including the risk that no commercially productive hydrocarbon reserves will be encountered. The cost of drilling, completing and operating wells and of installing production facilities and pipelines is often uncertain. The Company's drilling operations may be curtailed, delayed or canceled as a result of numerous factors, including title problems, weather conditions, compliance with governmental requirements and shortages or delays in the delivery or availability of material, equipment and fabrication yards. In periods of increased drilling activity resulting from high commodity prices, demand exceeds availability for drilling rigs, drilling vessels, supply boats and personnel experienced in the oil and gas industry in general, and the offshore oil and gas industry in particular. For example, the Company is currently experiencing some difficulty in obtaining additional drilling rigs for its Thailand operations due to the lack of suitable rigs in the region. This may lead to difficulty and delays in consistently obtaining certain services and equipment from vendors, obtaining drilling rigs and other equipment at favorable rates and scheduling equipment fabrication at factories and fabrication yards. This, in turn, may lead to projects being delayed or experiencing increased costs.

In periods during which the industry experiences a substantial decline in oil and gas prices, many of the Company's partners, particularly the smaller ones, can experience liquidity and cash flow problems. These problems may lead to the smaller companies' attempts to delay or slow down the pace of drilling or project development in order to conserve cash, to a point that the Company believes is detrimental to the project. In most cases, the Company has the ability to influence the pace of development through joint operating agreements. Some partners may be unwilling or unable to pay their share of the costs of projects as they become due. At worst, a partner may declare bankruptcy and refuse or be unable to pay its share of the costs of a project. The Company would then be required to pay this partner's share of the project costs. In most instances, the Company believes that it is contractually protected from such an event through its ability to take over the non-paying partner's share of the project and by applicable oil and gas lien laws and bankruptcy laws. The Company believes that it would ultimately recover any sums that it is owed by non-paying partners that do not meet their share of the costs of a project in a timely fashion.

Risks of Foreign Operations

Ownership of property interests and production operations in Thailand, Hungary, the North Sea, New Zealand and in any other areas outside the United States in which the Company may choose to do business are subject to the various risks inherent in foreign operations. These risks may include, among other things, currency restrictions and exchange rate fluctuations, loss of revenue, property and equipment as a result of hazards such as expropriation, nationalization, war, insurrection and other political risks, risks of increases in taxes and governmental royalties, renegotiation of contracts with governmental entities, changes in laws and policies governing operations of foreign-based companies and other uncertainties arising out of foreign government sovereignty over the Company's international operations. See "Management's

Discussion and Analysis of Financial Condition and Results of Operations," and "Liquidity and Capital Resources; Other Matters; Southeast Asia Economic Issues." The Company's international operations may also be adversely affected by laws and policies of the United States affecting foreign trade, taxation and investment. In addition, in the event of a dispute arising from foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of the courts of the United States. The Company seeks to manage these risks by concentrating its international exploration efforts in areas where the Company believes that the existing government is stable and favorably disposed towards United States exploration and production companies.

Exploration and Production Data

In the following data, "gross" refers to the total acres or wells in which the Company has an interest and "net" refers to gross acres or wells multiplied by the percentage working interest owned by the Company.

Acreage

The Company owns interests in developed and undeveloped oil and gas acreage in various parts of the world. These ownership interests generally take the form of "working interests" in oil and gas leases that

have varying terms. The following table shows the Company's interest in developed and undeveloped oil and gas acreage under lease as of December 31, 2003:

	Developed Acreage(a)		**Undeveloped Acreage(b)**	
	Gross	**Net**	**Gross**	**Net**
Domestic Offshore				
Louisiana	142,126	52,498	137,604	101,324
Texas	17,280	6,141	23,040	5,904
Total Domestic Offshore	159,406	58,639	160,644	107,228
Domestic Onshore				
Louisiana	9,407	2,577	9,334	3,279
Mississippi	1,280	26		
New Mexico	54,357	38,505	74,879	57,510
Texas	185,262	85,950	63,523	41,909
Wyoming	29,205	3,700	50,614	20,287
Other	6,120	2,211	80	15
Total Domestic Onshore	285,631	132,969	198,430	123,000
Total Domestic	445,037	191,608	359,074	230,228
International				
Gulf of Thailand	415,824	192,698	318,444	147,572
North Sea			81,000	32,400
Hungary			764,315	764,315
Total International	415,824	192,698	1,163,759	944,287
Total Company	860,861	384,306	1,522,833	1,174,515

	Developed Acreage(a)		Undeveloped Acreage(b)	

(a)

"Developed acreage" consists of lease acres spaced or assignable to production (including acreage held by production) on which wells have been drilled or completed to a point that would permit the production of commercial quantities of oil or natural gas. "Developed acreage" in Thailand includes all acreage designated as a production area by the Thai government, which currently includes Benchamas, North Benchamas Tantawan, Maliwan and Jarmjuree production licenses.

(b)

Approximately 3.4% of the Company's total domestic offshore net undeveloped acreage is under leases that have minimum terms expiring in 2004 and another 1% expires in 2005. Approximately 21% of the Company's total domestic onshore net undeveloped acreage is under leases with minimum terms expiring in 2004 and another 12% expires in 2005. All of the Company's undeveloped acreage in the Kingdom of Thailand has an exploratory term expiring July 31, 2004, subject to one further one-year lease extension that may be applied for to extend the exploratory term through July 31, 2005. See "International Operations; Contractual Terms Governing the Thailand Concession and Related Production."

In addition, the Company holds a 100% interest in 1,014,000 undeveloped acres in New Zealand that were granted in February 2004, as well as certain other types of mineral interests, including fee interests (which never expire) and royalty interests (which generally terminate when the underlying mineral lease expires). The Company owns varying fee and royalty interests in approximately 1,190,600 gross acres (26,875 net acres) in various parts of the United States, principally as a result of the North Central acquisition.

Average Production (Lifting) Costs per Unit of Production

The following table shows the average production (lifting) costs per unit of production during the periods indicated. For a discussion of the Company's average daily production and the average sales prices received by the Company for such production, see "Selected Financial Data Production (Sales) Data" and

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"Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations; Oil and Gas Revenues."

	2003	2002	2001
Average Production (Lifting) Costs per Mcfe(a)(b):			
Located in the United States	$ 0.68	$ 0.69	$ 0.81
Located in the Kingdom of Thailand	$ 0.67	$ 0.59	$ 0.65
Total Company	$ 0.68	$ 0.66	$ 0.76

(a)

Production costs were converted to common units of measure on the basis of relative energy content. Such production costs exclude all depletion, depreciation and amortization associated with property and equipment. Production costs for the Company's Canadian operations, which were sold effective August 31, 2001 as part of an asset rationalization process, are included in United States production costs for the year. Average production (lifting) costs in Canada, prior to the sale, were $1.37 in 2001.

(b)

Reclassifications of certain product transportation costs have been made to prior year amounts to conform with current year presentation.

Productive Wells and Drilling Activity

The following table shows the Company's interest in productive oil and natural gas wells as of December 31, 2003. For purposes of this table "productive wells" are defined as wells producing hydrocarbons and wells "capable of production" (e.g., natural gas wells waiting for pipeline connections or necessary governmental certification to commence deliveries and oil wells waiting to be connected to currently installed production facilities). "Net wells" for purposes of this table are defined to mean the sum of the Company's working interest net of royalties and other burdens. This table does not include exploratory or development wells which have located commercial quantities of oil or natural gas but which are not capable of commercial production without the installation of material production facilities or which, for a variety of reasons, the Company does not currently believe will be placed on production.

	Oil Wells(a)(b)		Natural Gas Wells(a)(b)	
	Gross	Net	Gross	Net
Domestic Offshore	143	45.80	66	22.45
Domestic Onshore	937	658.90	944	457.07
Kingdom of Thailand	87	40.30	55	25.50
Hungary			1	1.00
Total	1,167	745.00	1,066	506.02

(a) One or more completions in the same bore hole are counted as one well. The data in the above table includes 9 gross (3.66 net) oil wells and 22 gross (10.50 net) natural gas wells with multiple completions.

(b) The Company was in the process of drilling a total of 4 gross (0.34 net) oil wells and 17 gross (10.61 net) natural gas wells as of December 31, 2003.

The following table shows the number of successful gross and net exploratory and development wells in which the Company has participated and the number of gross and net wells abandoned as dry holes during the periods indicated. An onshore well is considered successful upon the installation of permanent equipment for the production of hydrocarbons or when electric logs run to evaluate such wells indicate the presence of commercially producible hydrocarbons and the Company currently intends to complete such

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wells. Successful offshore wells consist of exploratory or development wells that have been completed or are "suspended" pending completion (which has been determined to be feasible and economic) and exploratory test wells that were not intended to be completed and that encountered commercially producible hydrocarbons. A well is considered a dry hole when the Company decides to report permanent abandonment to the appropriate agency.

	2003		2002		2001	
	Productive	Dry	Productive	Dry	Productive	Dry
Gross Wells:						
Offshore United States						
Exploratory	5.0	2.0	5.0	2.0	2.0	3.0
Development	3.0		13.0		22.0	
Onshore North America(a)						
Exploratory	9.0	3.0	1.0	4.0	7.0	3.0

	2003		2002		2001	
Development	169.0	9.0	83.0	5.0	61.0	3.0
Offshore Kingdom of Thailand						
Exploratory	5.0	1.0	6.0		11.0	
Development	40.0	1.0	51.0	2.0	18.0	
Europe						
Exploratory	1.0					
Development						
Total	232.0	16.0	159.0	13.0	121.0	9.0
Net Wells:						
Offshore United States						
Exploratory	2.3	2.0	5.0	2.0	2.0	1.7
Development	2.2		8.8		8.3	
Onshore North America(a)						
Exploratory	5.9	2.0	0.8	3.2	5.0	1.3
Development	75.9	3.5	54.7	3.4	38.0	1.6
Offshore Kingdom of Thailand						
Exploratory	2.3	0.5	2.8		5.1	
Development	18.5	0.5	23.5	0.9	8.3	
Europe						