UNOCAL CORP
Form 10-K405
March 16, 2001

UNITED STATES
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 31,200O or

[_] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from___________ to _________

Commission file number 1-8483

UNOCAL CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE<br>(State or other jurisdiction of incorporation or organization) | 95-3825062<br>(I.R.S. Employer Identification No.) |

| | |
|---|---|
| 2141 Rosecrans Avenue, Suite 4000, El Segundo, California<br>(Address of principal executive offices) | 90245<br>(Zip Code) |

Registrant's telephone number, including area code: (310) 726-7600

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value $1.00 per share | New York Stock Exchange |
| Preferred Share 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 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]

The aggregate market value of the common stock held by non-affiliates of the registrant as of February 28, 2001 (based upon the average of the high and low prices of these shares reported in the New York Stock Exchange Composite Transactions listing for that date) was approximately $8.5 billion.

Shares of common stock outstanding as of February 28, 2001: 243,105,407

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission on or about April 9, 2001) are incorporated by reference into Part III.

TABLE OF CONTENTS



PART I

ITEMS 1 AND 2 - BUSINESS AND PROPERTIES.

Unocal Corporation was incorporated in Delaware on March 18, 1983, to operate as the parent of Union Oil Company of California (Union Oil), which was incorporated in California on October 17, 1890. Virtually all operations are conducted by Union Oil and its subsidiaries. The terms "Unocal" and "the

Company" as used in this report mean Unocal Corporation and its subsidiaries, except where the text indicates otherwise.

Unocal is one of the world's largest independent oil and gas exploration and production companies, with major activities in Asia and the United States Gulf of Mexico. Unocal is also a leading producer of geothermal energy and a provider of electrical power in Asia and a manufacturer and marketer of petroleum coke and specialty minerals. Other activities include energy project development, ownership in proprietary and common carrier pipelines, the marketing and trading of hydrocarbon commodities and real estate.

The following discussion of the Company's business and properties should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this report on pages 26 through 49, including the Cautionary Statement on pages 47 through 49.

STRATEGIC FOCUS

Unocal's strategy is focused on growth through crude oil and natural gas exploration and pursuit of market-to-resource project developments with the goal of creating value for its stockholders.

The Company has actively managed its portfolio of assets by divesting its lower-return or non-strategic assets and re-investing in potentially high-return exploration and production assets, primarily in North America and Asia. The Company has also taken investment positions with advantaged regional competitors in the Permian and San Juan Basins and Rocky Mountain areas of the U.S.

The Company is focused on maintaining and growing its existing sustaining businesses in the Gulf of Mexico continental shelf, the Gulf of Thailand and the Indonesian East Kalimantan shelf, through its low-cost drilling and operating capabilities. Unocal is also looking to create value from its exploration portfolio in four deepwater potential growth areas- offshore East Kalimantan, Indonesia, the Gulf of Mexico, offshore Brazil and offshore Gabon. These areas have similar geological environments that should allow the Company to leverage its expertise in drilling and operating activities.

The Company is pursuing value-adding midstream opportunities, which include pipelines, terminals, gas storage facilities and power plants.

The Company is focused on developing markets for the abundant "stranded" natural gas in Bangladesh, Thailand, Vietnam and Indonesia. The Company, through its gas advocacy effort, is engaged in these countries in communicating the economic and environmental benefits of natural gas and in developing cross-border energy solutions to accelerate the overall market growth of natural gas usage.

The Company now stands ready to pursue and negotiate licensing agreements for its cleaner burning gasoline patents with refiners, blenders and importers after the U.S. Supreme Court declined to hear the petition for certiorari with respect to the decisions of lower courts upholding the validity of one of the patents.

-1-

STRATEGIC MERGERS AND ACQUISITIONS

The Company, in 2000, acquired additional interests in the Makassar Strait and Rapak Production Sharing Contract (PSC) areas located offshore East Kalimantan. The Company now holds 90 percent and 80 percent working interests in the Makassar Strait and Rapak PSCs, respectively. The Makassar Strait PSC area is the location of the West Seno oil and gas field and a portion of the Merah Besar discovery, which have been approved for development by Pertamina, the state-owned oil and gas company. The Rapak PSC area is adjacent to the Makassar Strait PSC area.

In 2000, the Company also acquired the remaining 52 percent of the common shares of Northrock Resources Ltd. (Northrock), which the Company did not already own. The acquisition is part of Unocal's continued commitment to increasing its North American natural gas position.

The Company completed the merger of its oil and gas exploration and production assets in the Permian and San Juan basins with Titan Exploration, Inc. (Titan) in 2000, when Pure Resources, Inc. (Pure) acquired all of the outstanding common shares of Titan. The new publicly traded company has approximately 50 million common shares outstanding. Unocal holds approximately 65 percent of the shares, and the remainder is publicly held.

## DISPOSITION OF NON-STRATEGIC COMPANY ASSETS

In 2000, the Company sold its Poco Graphite subsidiary to an investor group for approximately $80 million. The Company recorded an after-tax gain of approximately $7 million on the sale.

The Company also sold its agricultural products business to Agrium Inc. (Agrium) for approximately $323 million in 2000. The sale included the Company's Prodica LLC and Alaska Nitrogen Products LLC (ANP) subsidiaries. Net proceeds received from the sale totaled approximately $242 million in cash. The Company also received $50 million principal amount of Agrium six percent junior convertible subordinated debentures and approximately 2.6 million shares of Agrium common stock, which were valued at approximately $27 million at the close of the sale. The Company recorded an after-tax gain of approximately $23 million on the sale. The Company subsequently sold the Agrium subordinated debentures and common stock for approximately $71 million. In addition, Unocal retained an interest in the form of participation payments if ammonia and urea prices rise above pre-determined levels over the next six years.

-2-

## SEGMENT AND GEOGRAPHIC INFORMATION

Financial information relating to the Company's business segments, geographic areas of operations, and sales revenues by classes of products is presented in note 29 to the Consolidated Financial Statements and Selected Financial Data on pages 99 through 103 and 116 through 117, respectively, of this report.

Information regarding oil and gas financial data, oil and gas reserve data and the related present value of future net cash flows from oil and gas operations is presented on pages 106 through 115 of this report. During 2000, certain estimates of the Company's U.S. underground oil and gas reserves as of December 31, 1999, were filed with the U.S. Department of Energy and State agencies under the name of Union Oil. Such estimates were essentially identical to the corresponding estimates of such reserves at December 31, 1999, included in this report.

## EXPLORATION AND PRODUCTION

Unocal's primary activities are oil and gas exploration, development and production. These activities are carried out by the Company's North America operations in the U.S. Lower 48, Alaska and Canada and by its International operations in over a dozen countries around the world.

In 2000, the Company's average production was approximately 175,000 barrels per day (b/d) of crude oil and condensate and 2,007 million cubic feet per day (mmcf/d) of natural gas, primarily from onshore and offshore in the U.S. Gulf of Mexico, in the Gulf of Thailand, and offshore East Kalimantan, Indonesia (net daily production is detailed on page 5). Exploration and production operations accounted for approximately 90 percent of Unocal's net properties, at December 31, 2000. Approximately 43 percent of the Company's exploration and production assets were in the U.S.



Net Proved Reserves

Estimated net quantities of the Company's proved oil and gas reserves at December 31, 2000, including its proportional shares of the reserves of equity investees, were as follows:

| | 2000 | 1999 |
|---|---|---|
| Crude oil and condensate - million barrels (a) | | |
| North America | | |
| Lower 48 | 137 | 113 |
| Alaska | 72 | 62 |
| Canada | 47 | 55 |
| International | | |
| Far East | 251 | 193 |
| Other | 119 | 123 |
| Equity investees | 6 | 4 |
| Worldwide | 632 | 550 |
| Natural gas - billion cubic feet (a) (b) | | |
| North America | | |
| Lower 48 | 1,565 | 1,368 |
| Alaska | 228 | 296 |
| Canada | 280 | 356 |
| International | | |
| Far East | 4,020 | 4,171 |
| Other | 328 | 330 |
| Equity investees | 119 | 97 |
| Worldwide | 6,540 | 6,618 |

| | 2000 | 1999 |
|---|---|---|
| (a) Includes host countries' shares under certain production sharing contracts of: | | |
| Crude oil and condensate - million barrels | 75 | 46 |
| Natural gas - billion cubic feet | 454 | 441 |
| (b) Natural gas is reported on a wet-gas basis | | |

At year-end 2000, oil and gas proved reserves included minority interest shares of approximately 27 million barrels of oil and 253 billion cubic feet of gas in the U.S. Lower 48. At year-end 1999, oil and gas proved reserves included minority interest shares of approximately 7 million barrels of oil and 100 billion cubic feet of gas in the U.S. Lower 48 and 18 million barrels of oil and 176 billion cubic feet of gas in Canada.



Net Daily Production

Net quantities of the Company's daily crude oil and condensate, natural gas and natural gas liquids production, including its proportional shares of production of equity investees, were as follows:

| | 2000 | 1999 | 199 |
|---|---|---|---|
| Crude oil and condensate - thousand barrels (a) | | | |
| North America | | | |
| Lower 48 | 45 | 40 | 4 |
| Alaska | 26 | 27 | 2 |
| Canada | 15 | 12 | 1 |
| International | | | |
| Far East | 70 | 73 | 8 |
| Other | 19 | 23 | 2 |
| Worldwide | 175 | 175 | 18 |
| Natural gas - million cubic feet (a) (b) | | | |
| North America | | | |
| Lower 48 | 786 | 747 | 79 |
| Alaska | 128 | 133 | 13 |
| Canada | 99 | 70 | 2 |
| International | | | |
| Far East | 936 | 847 | 85 |
| Other | 58 | 39 | 2 |
| Worldwide | 2,007 | 1,836 | 1,82 |
| Natural gas liquids - thousand barrels (c) | | | |
| North America | | | |
| Lower 48 | 8 | 12 | 1 |
| Alaska | 1 | 1 | |
| Canada | 1 | 1 | |
| International | | | |
| Far East | 5 | 5 | |
| Other | 0 | 0 | |
| Worldwide | 15 | 19 | 1 |
| (a) Includes host countries' shares under certain production sharing contracts of: Crude oil | 26 | 24 | 1 |
| Natural gas | 107 | 82 | 4 |

(b) Natural gas is reported on a wet gas basis and excludes gas consumed on lease.

(c) Host countries' shares of natural gas liquids production is insignificant.



Natural Gas Production Available for Sale

Daily quantities of natural gas production available for sale were as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Natural gas - million cubic feet | | | |
| North America | | | |
| Lower 48 | 722 | 690 | 757 |
| Alaska | 19 | 1 | 1 |
| Canada | 97 | 68 | 9 |
| International | | | |
| Far East | 799 | 759 | 798 |
| Other | 55 | 38 | 20 |
| Worldwide | 1,692 | 1,556 | 1,585 |

Amounts will differ from production volumes due to host countries' shares, shrinkage, processing plant retention and volumes produced in Alaska, which were used in the Company's former fertilizer manufacturing facility in Kenai, Alaska, before the sale of those assets in September 2000. Natural gas production in Alaska is now primarily sold to Agrium, the purchaser of the fertilizer manufacturing operation.

Oil and Gas Acreage

As of December 31, 2000, the Company's holdings of oil and gas rights acreage were as follows:

| | (Thousands of acres) | | | |
|---|---|---|---|---|
| | Proved Acreage | | Prospective Acreage | |
| | Gross | Net | Gross | Net |
| North America | | | | |
| Lower 48 | 1,273 | 643 | 3,345 | 2,199 |
| Alaska | 87 | 58 | 332 | 221 |
| Canada | 457 | 215 | 2,391 | 1,285 |
| International | | | | |
| Far East | 479 | 299 | 30,882 | 14,505 |
| Other | 50 | 25 | 11,110 | 6,172 |
| Worldwide | 2,346 | 1,240 | 48,060 | 24,382 |

-6-

Producible Oil and Gas Wells

The number of producible wells at December 31, 2000 were as follows:

| | Oil | | Gas | |
|---|---|---|---|---|
| | Gross | Net | Gross | Net |
| North America | | | | |
| Lower 48 | 4,228 | 2,144 | 1,485 | 685 |
| Alaska | 703 | 148 | 31 | 23 |
| Canada | 1,266 | 606 | 536 | 287 |
| International | | | | |
| Far East | 230 | 179 | 747 | 515 |
| Other | 104 | 43 | 12 | 8 |

| | | | | |
|---|---|---|---|---|
| Worldwide (a) | 6,531 | 3,120 | 2,811 | 1,518 |

(a) The company has 153 gross and 71 net producible wells with multiple completions.

Drilling in Progress

The number of oil and gas wells in progress at December 31, 2000 were as follows:

| | Gross | Net |
|---|---|---|
| North America | | |
| Lower 48 | 44 | 32 |
| Alaska | 3 | 1 |
| Canada | 7 | 3 |
| International | | |
| Far East | 33 | 19 |
| Other | 1 | 0 |
| Worldwide (a) (b) | 88 | 55 |

(a) Excludes service wells in progress (1 gross, 0 net).

(b) The company had no waterflood projects under development at December 31, 2000.



Net Oil and Gas Wells Completed and Dry Holes

The following table shows the number of net wells drilled to completion:

| | Productive | | | Dry | | |
|---|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| Exploratory | | | | | | |
| North America | | | | | | |
| Lower 48 | 26 | 15 | 20 | 11 | 8 | 18 |
| Alaska | 0 | 0 | 0 | 2 | 0 | 0 |
| Canada | 19 | 15 | 1 | 14 | 7 | 0 |
| International | | | | | | |
| Far East | 17 | 23 | 15 | 13 | 9 | 13 |
| Other | 0 | 1 | 1 | 0 | 3 | 3 |
| Worldwide | 62 | 54 | 37 | 40 | 27 | 34 |
| Development | | | | | | |
| North America | | | | | | |
| Lower 48 | 67 | 60 | 58 | 0 | 4 | 2 |
| Alaska | 3 | 3 | 18 | 0 | 0 | 0 |
| Canada | 68 | 39 | 19 | 9 | 5 | 1 |
| International | | | | | | |
| Far East | 104 | 71 | 119 | 0 | 0 | 7 |
| Other | 2 | 1 | 4 | 0 | 0 | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Worldwide | 244 | 174 | 218 | 9 | 9 | 10 |



NORTH AMERICA

U.S. LOWER 48

The U.S. Lower 48 business is primarily comprised of the Company's exploration and production operations in the onshore area of the Gulf of Mexico region located in Texas, Louisiana and Alabama, and the continental shelf and deepwater areas of the Gulf of Mexico. The U.S. Lower 48 also includes Pure, the Company's 65 percent-owned consolidated subsidiary, which conducts its activities primarily in Texas and New Mexico. The U.S. Lower 48 also currently includes an approximate 15 percent equity interest in Tom Brown, Inc., which conducts its activities primarily in Colorado, Utah, Wyoming, New Mexico and Texas, and an approximate 34 percent equity interest in Matador Petroleum Corporation, which conducts its activities in southeastern New Mexico.

The Company holds approximately 2.2 million net acres of prospective land in the Lower 48 onshore and the continental shelf and deepwater areas of the Gulf of Mexico region. Nearly 69 percent of the prospective acreage is located offshore in the Gulf of Mexico. Onshore prospective lands are primarily located in Texas. The Company holds approximately 643,000 net acres of proved lands. Approximately 46 percent of these lands are located offshore in the Gulf of Mexico. Onshore proved acreage is primarily located in Texas, Louisiana, Alabama and New Mexico.

In 2000, net crude oil production averaged 45,000 b/d, which was produced from fields offshore the Gulf of Mexico (43 percent) and onshore (54 percent), primarily in Louisiana, Texas, New Mexico and Alabama. The remaining three percent was from the Company's equity interest holdings.

Net natural gas production averaged 786 mmcf/d, which was principally from fields in the offshore Gulf of Mexico (65 percent) and onshore (29 percent), primarily in Louisiana, Texas, New Mexico and Alabama. The remaining six percent was from the Company's equity interest holdings.

Unocal has various ownership interests in 11 natural gas processing plants located near major gas fields in the U.S. The Company's Pure subsidiary has interests in seven out of the eleven plants and operates one of them. None of the 11 plants are 100 percent owned and all plants were active in 2000.

Most of the Company's U.S. Lower 48 production, except for Pure's production, is sold to the Company's Global Trade business segment. A small portion is sold to third parties at spot market prices or under long-term contracts. Pure's production is sold mostly to third parties at spot market prices.

## Gulf of Mexico Shelf and U.S. Onshore

The Gulf of Mexico shelf and U.S. onshore areas, excluding Pure's operations, include assets that are primarily located in South Louisiana, East Texas, Mississippi and Alabama.

Production in 2000 averaged 145,000 barrels of oil equivalent per day (boe/d) which included approximately 72 percent from the Gulf of Mexico shelf and 22 percent from onshore the Gulf of Mexico. The remaining six percent was from the Company's equity interest holdings. The Company has 116 producing properties and 102 exploration blocks in the Gulf of Mexico shelf area. Production is heavily weighted toward natural gas which makes up approximately 85 percent of the total

Gulf of Mexico shelf production.

The Company added to its natural gas production base by the development of its Muni field located on Ship Shoal Block 295 offshore Louisiana. The Muni field is one of the largest natural gas discoveries made in the Gulf of Mexico shelf in recent years. The field reached a peak of 120 mmcf/d of natural gas production in 2000 and is expected to exceed that peak in 2001. The Company holds a 100 percent working interest in this field.



## Deepwater Gulf of Mexico

Over the past three years, the Company has acquired acreage positions in the deepwater Gulf of Mexico, with interests in 226 exploration leases. The Company's acreage is primarily in the Subsalt/Foldbelt trend, which lies outboard of the Primary Basin deepwater trend. The Primary Basin, where water depths are under 5,000 feet, has been heavily explored in the 1980s and 1990s by the industry.

The Company has drilled or participated in nine Primary Basin wells, with two discoveries on the Lady Bug and Mirage prospects. The Company committed to development of Lady Bug, which is located on Garden Banks Block 409. Initial production from Lady Bug is anticipated in the second half of 2001, with expected initial crude oil production of 8,000 b/d (gross). This will be the Company's first deepwater development in the Gulf of Mexico. The Company's working interest is 50 percent. The Company is continuing its evaluation of the Mirage discovery, located on Mississippi Canyon Block 941, where the Company has a 25 percent working interest.

Further offshore in the Subsalt/Foldbelt trend, sometimes referred to as the ultra-deep, the Company has a number of high-potential prospects in water depths of 5,000 feet and greater. The Company was an early entrant in the ultra-deep area and has interests in 145 blocks.

The Company has participated in the discoveries made on the Mad Dog and K2 prospects. The Company has a 15.6 percent working interest in the Mad Dog prospect after it consolidated its holdings with the other owners over the entire field, which covers several blocks. The Company continues to move toward commercialization of Mad Dog. The K2 exploration well is located on Green Canyon Block 562, and the Company has a 12.5 percent working interest in the K2 prospect.

The Company drilled its first operated well in the ultra-deep at the Dana Point prospect in late 2000, utilizing the state-of-the-art deepwater drillship Discoverer Spirit. The well was a dry hole. The Company is operator and holds an 80 percent working interest.

In January 2001, the Company began drilling its first well on the Dendara prospect, located on Green Canyon Blocks 785 and 786. While the well reached its objectives and encountered hydrocarbon-bearing sands it was plugged and abandoned as a dry hole in the first quarter. The Company is operator and holds a 75 percent working interest. The Company plans to drill an additional four or five exploratory wells in 2001 in the ultra-deep area of the Gulf of Mexico.

## Pure Resources, Inc.

Pure is engaged in the exploration, development and production of oil and natural gas primarily in the Permian Basin of West Texas and southeastern New

Mexico. Pure is also engaged in activities in the San Juan Basin area of New Mexico and Colorado, the Brenham Dome area of south central Texas and the Central Gulf Coast region of Texas. In the first quarter of 2001, Pure completed an acquisition which has expanded its business areas (see note 30 to the Consolidated Financial Statements in Item 8 of this report on page 103) into the Gulf Coast region and offshore in the Gulf of Mexico. Pure's net production in 2000 averaged 31 mboe/d, which is included in the Company's total U.S. Lower 48 production reported above. Production is weighted toward natural gas, which made up over 55 percent of the total production in 2000.



ALASKA

The Company's Alaska oil and gas operations are primarily located in the Cook Inlet. The Company operates ten platforms in the Cook Inlet and five of eleven producing natural gas fields. In 2000, natural gas production averaged 128 mmcf/d. Pursuant to agreements with Agrium, most of the Company's natural gas production is sold, at an agreed price, for feedstock at Agrium's agricultural products fertilizer operation in Kenai, Alaska.

The Company's Alaskan assets also include working interests in two North Slope fields. The Company has a 10.52 percent working interest in the Endicott field and a 4.95 percent working interest in the Kuparuk field. The Kuparuk Unit expanded in 2000 to include a new satellite field, named Meltwater.

In 2000, crude oil production averaged approximately 26,000 b/d of which about 48 percent was from the Cook Inlet and 52 percent was from the North Slope. All of the Company's Alaska crude oil production is currently sold to a third party at spot market prices.

CANADA

In 2000, the Company acquired all of the remaining outstanding Northrock common shares, which it did not already own. In 1999, the Company acquired an approximate 48 percent controlling interest in Northrock. Northrock has been fully consolidated in the Company's financial results since its initial acquisition in May 1999. Canadian production in 2000 averaged approximately 15,000 b/d of crude oil and condensate and 99 mmcf/d of natural gas.

Northrock is a Calgary-based oil and gas exploration and production company which focuses on three core areas in West Central Alberta (O'Chiese, Garrington, Caroline and Pass Creek areas), Northwest Alberta (Red Rock and Knopcik areas), and the Williston Basin (Southwestern Saskatchewan and Southwestern Manitoba).

The Company, through other subsidiaries, also has interests in the Aitken Creek Gas Storage Project in British Columbia, the Cal Ven Pipeline and the Alberta Hub natural gas storage facility in Alberta. The Company in 2000 began to expand its natural gas capacity at Aitken Creek through the acquisition of a new reservoir at Aitken North and the purchase of new compression and processing facilities.



INTERNATIONAL

The Company produces crude oil and natural gas in seven countries outside of North America. The Company, through its International subsidiaries, currently operates or participates in production operations in Thailand, Indonesia, Myanmar, Bangladesh, The Netherlands, Azerbaijan, and the Democratic Republic of Congo. In 2000, Unocal's International operations accounted for 50 percent and 51 percent of the Company's natural gas and crude oil production, respectively. International operations also include the Company's exploration activities outside of North America and the development of energy projects primarily in Asia, Latin America and West Africa.

## Thailand

The Company, through its Unocal Thailand, Ltd., subsidiary, currently operates 13 producing natural gas and condensate fields in four gas sales contract areas offshore in the Gulf of Thailand. Unocal's average working interest (net of royalty) for three of the contract areas is 64 percent, while for the fourth contract area, Pailin, it is 31 percent. The Thailand operation, producing since 1981 has installed 100 platforms in the Gulf of Thailand. The Company had 1,065 employees in its Thailand operations at year-end 2000. Approximately 92 percent of these employees were Thai nationals.

Gross natural gas production from Unocal-operated fields averaged 1,051 mmcf/d in 2000 (619 mmcf/d net to the Company). The natural gas is used mainly in power generation, but also in the industrial and transportation sectors and the petrochemical industry. Gross condensate production, which averaged 39,000 b/d in 2000 (22,000 b/d net to the Company), is used as a blending stock in oil refineries, as a chemical solvent and as a petrochemical feedstock. The Company's production supports approximately one-third of Thailand's electricity generation. In 2000, power consumption in Thailand increased between 10 and 15 percent from 1999 levels.

The Company sells all of its natural gas production to the Petroleum Authority of Thailand (PTT) under long-term contracts. The contract prices are based on formulas that allow prices to fluctuate with market prices for crude oil and refined products and are indexed to the U.S. dollar. In 2000, $697 million, or approximately eight percent, of the Company's total external sales and operating revenues were attributable to PTT. The Company has typically supplied substantially more natural gas to PTT than the minimum daily contract quantity provision of its sales contracts. New gas supplies coming into Thailand from the Yadana project in neighboring Myanmar are expected to displace some of the gas volumes that PTT has taken from the Company's Thailand operations. The Company views Thailand as the hub of a growing regional market and expects that future decreases of gas sales in its Gulf of Thailand operations will be partially offset by increased production from the Yadana project.

Unocal Thailand strengthened its resource base during 2000 with a successful exploration program. Unocal Thailand participated in six successful delineation wells on the Arthit prospect in the Gulf of Thailand, helping to strengthen the Company's position as a long-term gas supplier in Thailand. The Company holds a 16 percent working interest in the Arthit prospect which encompasses three blocks over 1.5 million acres.

Unocal Thailand also drilled seven successful delineation wells in 2000 on the Yala, Surat and Plamuk prospects, located in the Pattani Basin in the Gulf of Thailand. The wells encountered an average of 200 feet of hydrocarbon-bearing pay. Six drill-stem tests in five of the wells averaged over 1,000 b/d of crude oil. Based on the successful delineation program, the Company submitted an application for commercial development. This development will provide a major boost to Thailand's crude oil production, increasing it by 15,000 b/d (gross). The Company expects to begin production from these three prospects later in 2001. The Company has a 71.25 percent working interest in these prospects.

## Myanmar

The Company, through subsidiaries, has a 28.25 percent non-operating working interest in natural gas production from the Yadana field, offshore Myanmar in the Andaman Sea. The Yadana project includes the Yadana field (four offshore platforms with 14 wells) and a pipeline extending from the field across Myanmar's remote southern panhandle to Ban-I-Tong at the Myanmar-Thailand border.

The gas is purchased by PTT to fuel a portion of the power plant which is operated by the Electric Generating Authority of Thailand (EGAT) at Ratchaburi, located southwest of Bangkok. Production from the Yadana field began in late 1999. Gross natural gas production averaged 177 mmcf/d in 2000. The completion of the Ratchaburi-to-Wang Noi pipeline and the partial commercial operation of the Ratchaburi power plant complex has allowed production to increase to an average 459 mmcf/d in December 2000 compared with the contract rate of 525 mmcf/d. In 2001, the Yadana sales are expected to be at or near the daily contract rate.

The gas sales agreement with PTT includes a "take-or-pay" provision, which requires PTT to purchase and pay for a specified annual contract quantity of natural gas. In January 2001, PTT was billed for the 2000 "take-or-pay" obligation, of which the Company's share is approximately $72 million. Under the terms of the contract, PTT was obligated to pay this amount by March 1, 2001. The obligation remains outstanding, but the Company expects to receive full payment, as it did in 2000 for the 1999 obligation.

## Indonesia

The Company, through Unocal Indonesia Company and other subsidiaries, holds varying interests in 11 offshore PSC areas. Five PSC areas, East Kalimantan, Ganal, Sesulu, Rapak and Makassar, are located on the Borneo, or western, side of the Makassar Strait, offshore East Kalimantan, and cover more than 4.6 million acres. Two PSC areas, Sangkarang and Lompa, are on the eastern side of the Makassar Strait, offshore Sulawesi, and cover nearly 4.4 million acres. Two PSC areas, Bukat and Ambalat, are located in the Tarakan Basin offshore Northeast Kalimantan and cover nearly 1.7 million acres. The Company had 1,660 employees in its Indonesian operations at year-end 2000 of which approximately 94 percent were Indonesian nationals.

Shelf - The Company currently operates nine producing oil and gas fields offshore East Kalimantan, including Indonesia's largest offshore oil and gas field, Attaka, which the Company discovered in 1970. The Company has a 100 percent working interest in eight of the fields, and a 50 percent working interest in the Attaka field. Oil and associated gas production from its northern fields are processed at the Company-operated Santan terminal and liquids extraction plant, and the dry gas is transported by pipelines to a liquefied natural gas (LNG) plant, located nearby at Bontang, East Kalimantan. Dry gas is also transported by pipelines to a fertilizer, ammonia and methanol complex, located north of Bontang. LNG is currently sold to Japan, Korea and Taiwan and the extracted liquefied petroleum gas (LPG) is exported to Japan. Oil and gas from its southern fields are sent to the Company-operated Lawe-Lawe terminal located onshore south of Balikpapan. The stored oil is either exported by tanker or transported by pipeline to a refinery in Balikpapan owned by Pertamina. The gas is transported by pipeline and sold as fuel gas to the

Pertamina refinery.

Company-operated fields averaged gross production of 61,000 b/d of crude oil and condensate and 361 mmcf/d of gas in 2000. Average net production, including the host country share, was 48,000 b/d of crude oil and condensate and 284 mmcf/d of gas in 2000. Six small discoveries and extensions enabled the Company to rapidly place new production on stream in 2000. The continuing goal of the shelf operations is to optimize production with minimal capital spending.



Deep Water - The Company, through Unocal Indonesia and other subsidiaries, is operator of the East Kalimantan, Ganal, Sesulu, Rapak and Makassar Strait PSCs. The Company holds working interests of 100 percent in the East Kalimantan, 90 percent in the Makassar Strait and 80 percent in the Rapak, Ganal and Sesulu PSCs.

The Company received approvals from Pertamina to begin development activities on the West Seno and Merah Besar oil and gas fields in the deepwater Kutei Basin, offshore East Kalimantan. The West Seno field is located in the Makassar Strait PSC area while the Merah Besar field straddles the East Kalimantan PSC and the northern portion of the Makassar Strait PSC areas. Development activity is planned in three phases, with phase one production from the West Seno field expected to begin in late 2002. The second phase of development will seek to expand the West Seno production plateau. The third phase of development is expected to include the Merah Besar field. Production from the West Seno field is anticipated to reach approximately 60,000 b/d and 150 mmcf/d (gross) by 2004. The two fields qualify to supply gas for the latest package of LNG, LPG and domestic gas sales.

In 2000, the Company discovered natural gas in both the Gula and Gada prospects in the Ganal PSC area. The Gula discovery is located 35 miles north of the Gendalo discovery, which was made early in 2000, and the well encountered more than 260 feet of net gas pay. The Gada discovery is located 8 miles north of the Gula #1 well, and the well encountered 70 feet of net gas pay. These discoveries confirm that the well-defined Central Delta Play contains world-class gas resources. Unocal has now drilled four straight discoveries in the Central Delta Play fairway.

In early 2001, the Company had a natural gas and crude oil discovery on the Ranggas prospect in the southern portion of the Rapak PSC area. The Ranggas-1 well was drilled to a total depth of 11,845 feet in 5,303 feet of water. The well encountered 250 feet of gas pay and 40 feet of oil pay. The discovery well is located on a new geologic structure approximately 28 miles southeast of West Seno, Indonesia's first deepwater field. The Company expects to conduct delineation drilling through several appraisal wells on the structure, with additional results expected in the first quarter of 2001. The Company will target its exploration program on four oil prospects in 2001.

## Bangladesh

The Company holds interests in three PSCs in Bangladesh. Two PSCs cover Blocks 12, 13 and 14, which total more than 3 million acres. The Company has a 98 percent working interest in these three blocks. Production from the Jalalabad field on Block 13 began in February 1999. The field, with average gross production of 85 mmcf/d in 2000, supplies approximately 12 percent of the country's gas demand. In December 1999, the Company discovered the Moulavi Bazar gas field on Block 14. The discovery was Unocal's third major gas field discovered in Bangladesh. The Bibiyana field, a major gas field located on

Block 12, was discovered in 1998. In 2000, the Company was awarded a third PSC covering Block 7 in the Southwest of Bangladesh, which covers more than 2 million acres. The Company has a 90 percent working interest in Block 7.

## Azerbaijan

Unocal has an approximate 10 percent working interest in the Azerbaijan International Operating Company (AIOC) consortium that is developing offshore oil reserves in the Caspian Sea from the Azeri and Chirag fields and the deepwater portions of the Gunashli field. In 2000, AIOC's gross oil production averaged 102,000 b/d. AIOC has access to two pipelines to export its oil production: a northern pipeline route, which connects in Russia to an existing pipeline system and a western pipeline route from Baku in Azerbaijan through Georgia. In 2000, the majority of the production from the consortium was exported through the western pipeline route. Both pipelines connect with ports on the Black Sea.



## The Netherlands

The Company has interests in several blocks in the Netherlands sector of the North Sea. Average gross oil production in 2000 was approximately 7,000 b/d and 23 mmcf/d of natural gas. The Company is the operator and has an average 70 percent working interest.

## Democratic Republic of Congo

The Company, through one of its subsidiaries, has a 17.7 percent non-operating working interest in the rights to explore and produce hydrocarbons in the entire offshore area of the country. Gross production averaged about 17,000 b/d from seven fields in 2000.

## Gabon

Unocal is a member of the Vanco Gabon Group, a consortium of French and U.S. oil and gas exploration companies that has PSCs for two exploration blocks located in deep water offshore Gabon, West Africa. A drilling program of four exploration wells is expected to start in the first half of 2001. The Company holds a 25 percent working interest.

## Brazil

Brazil is part of Unocal's strategic growth portfolio, and the Company is active in several projects in the country.

In 1999, the Company acquired a 40.5 percent working interest in Block BM-ES-2. The 593,000-acre offshore deepwater block is located in Brazil's Espirito Santo Basin in water depths of 5,000 to 8,000 feet. The Company is the operator. Seismic data for the block is being evaluated, and the consortium hopes to drill one or more wells in the next two years, depending on the results of the seismic interpretation.

The Company signed a participation agreement for Block BC-9, where it is the operator with a 35 percent working interest. Block BC-9 encompasses 346,000 acres and is located offshore in the Campos Basin, which accounts for about 75 percent of the country's hydrocarbon production. The consortium plans to drill at least one well during the first half of 2001.

The Company also farmed into Block BES-2. This offshore block covers 630,000 acres and is located in water depths ranging from 1,200 to 4,500 feet. The Company is a non-operator and holds a 30 percent working interest. Seismic data is being evaluated with exploration drilling scheduled to commence in 2001.

In addition, the Company, through an affiliate, holds a 50 percent interest in a company which signed a participation agreement with Petrobras in June 2000 to acquire an interest in the Pescada-Arabaiana oil and gas project in the Potiguar basin, offshore Brazil. The agreement covers the acquisition of an initial 79 percent participation interest from Petrobras in five concession areas containing five proven oil and gas reservoirs, plus a 35 percent interest in a 55,000-acre exploration block. The project currently consists of six production platforms and a 43-mile long, 26-inch diameter multi-phase pipeline already in operation. An exploratory well in the BPOT-1 block will be drilled prior to August 2001. Annual gross production from the project is expected to reach 5,000 b/d of oil and 55 mmcf/d of natural gas by 2003.



## Vietnam

The Company holds interests in two PSCs offshore Vietnam in the northern part of the Malay Basin. Unocal is the operator and has an approximate 50 percent working interest in a PSC, which includes Block B and Block 48/95. This PSC covers more than 3.6 million acres. The Company made the initial gas discovery on the Kim Long prospect on Block B in late 1997. The Company also holds an interest in a PSC for exploration of Block 52/97, which covers more than 500,000 acres.

In 2000, the Company drilled four successful wells which confirmed the natural gas resource in the Kim Long trend. Based on this drilling, the Kim Long trend appears to be gas-bearing for more than 21 miles over Blocks B and 52/97. The successful wells drilled on the Kim Long trend so far have averaged net pay of 136 feet. Three wells in the trend have been tested: the B-KL-1X well flowed 53 mmcf/d from two zones, the B-AQ-1X well had a maximum calculated flow of 39 mmcf/d from three zones and the 52/97-AQ-3X well flowed 54 mmcf/d from five zones.

Another well drilled on the Ca Voi prospect in Block 52/97 resulted in a significant natural gas discovery. The 52/97-CV-1X well encountered 107 feet of net gas pay. This discovery is located 10 miles west of the Kim Long trend and could be developed in tandem with the Kim Long field, taking advantage of shared facilities.

## GLOBAL TRADE

The Global Trade segment conducts most of the Company's worldwide crude oil, condensate, natural gas and refined products trading and marketing activities, excluding those of Pure and Northrock. It is also responsible for commodity-specific risk management activities on behalf of most of the Company's Exploration and Production segment, excluding Pure. Global Trade also purchases crude oil, condensate and natural gas from certain of the Company's royalty owners, joint venture partners and other unaffiliated oil and gas producing and trading companies for resale. In addition, Global Trade takes pricing positions in hydrocarbon derivative instruments.

## PIPELINES

The Pipelines business segment principally includes the Company's equity interests in affiliated petroleum pipeline companies and wholly-owned pipeline systems throughout the U.S. Included in Unocal's pipeline investments is the Colonial Pipeline Company, in which the Company holds a 23.44 percent equity interest. The Colonial Pipeline system runs from Texas to New Jersey and transports a significant portion of all petroleum products consumed in its 13-state market area. Also included is the Unocal Pipeline Company, a wholly-owned subsidiary of Unocal, which holds a 1.36 percent participation interest in the TransAlaska Pipeline System (TAPS). TAPS transports crude oil from the North Slope of Alaska to the port of Valdez. In addition, the Company holds a 27.75 percent interest in the Trans-Andean oil pipeline, which transports crude oil from Argentina to Chile.



## GEOTHERMAL AND POWER OPERATIONS

Unocal is a producer of geothermal energy, with more than 30 years experience in geothermal resource exploration, reservoir delineation, and management. Unocal also has proven experience in planning, designing, building and operating private power projects and related project finance and economics.

The Company operates major geothermal electricity projects at Tiwi and Mak-Ban in the Philippines and Gunung Salak in Indonesia. In January 2001, the Company began to operate the Wayang Windu geothermal power project near Bandung, West Java, Indonesia, on behalf of its affiliate, which owns 50 percent in the project. The project, which includes a 110 megawatt power plant and geothermal steam field, is currently operating at full capacity. Philippine Geothermal, Inc. (PGI), a wholly-owned subsidiary, is still operating under an interim agreement with the National Power Company of the Philippines (NPC). NPC and PGI are still negotiating to settle their long-standing contract dispute. These negotiations involve only the Tiwi and Mak-Ban steam fields.

The Company also has various equity interests in three power plant projects in Thailand. Two of the power projects began commercial operations in 2000, while the third is scheduled to come on line in the third quarter of 2001.

The Company's geothermal reserves and operating data are summarized in the following table:

| | 2000 | 1999 (b) | 1998 |
|---|---|---|---|
| Net proved geothermal reserves at year end: (a) | | | |
| billion kilowatt-hours | 114 | 120 | 157 |
| million equivalent oil barrels | 170 | 179 | 235 |
| Net daily production | | | |
| million kilowatt-hours | 16 | 17 | 21 |
| thousand equivalent oil barrels | 25 | 25 | 32 |
| Net geothermal lands in thousand acres | | | |
| proved | 9 | 9 | 20 |
| prospective | 314 | 314 | 338 |
| Net producible geothermal wells | 83 | 79 | 287 |

(a) Includes reserves underlying a service fee arrangement in the Philippines.

(b) The Company sold The Geysers in Northern California in early 1999.



## CARBON AND MINERALS

The Carbon and Minerals business unit produces and markets petroleum coke and specialty minerals, including lanthanides, molybdenum and niobium.

Green petroleum coke, a by-product of refining operations, is calcined by the Company's Chicago Carbon Company subsidiary for use in the production of aluminum and titanium and is also used in other industrial applications. Green coke is also sold in the U.S. and overseas as fuel.

The Company owns a 75 percent interest in The Needle Coker Company. The operation produces calcined needle coke at facilities adjacent to the Citgo refinery outside of Chicago. Needle coke is a high quality petroleum coke used to make graphite electrodes for the production of steel in electric arc furnaces.

Molycorp, Inc., a wholly-owned subsidiary of the Company, mines, produces and markets lanthanide and molybdenum products. Its mines are located at Mountain Pass, California, and Questa, New Mexico. Molycorp also has a 45 percent equity interest in Companhia Brasileira de Metalurgia e Mineracao, a niobium operation in Brazil.

Operations at Molycorp's molybdenum and lanthanide facilities are planned to continue with the mills operating periodically to maintain inventory levels to meet customer demand. This operating plan will continue until Molycorp determines that continuous milling operations are appropriate.

## COMPETITION

The energy resource industry is highly competitive around the world. As an independent oil and gas exploration and production company, Unocal competes against integrated companies, independent companies, individual producers, trading companies and operators for finding, developing, producing, transporting, marketing, and trading oil and gas resources. The Company believes that it is in a position to compete effectively. Competition occurs in bidding for U.S. prospective leases or international exploration rights, acquisition of geological, geophysical and engineering knowledge, and the cost-efficient exploration, development, production, transportation, and marketing of oil and gas. The future availability of prospective U.S. leases is subject to competing land uses and federal, state and local statutes and policies. The principal factors affecting competition for the energy resource industry are oil and gas sales prices, demand, worldwide production levels, alternative fuels and government and environmental regulations. The Company's geothermal and power operations are in competition with producers of other energy resources.

## EMPLOYEES

As of December 31, 2000, Unocal, including its subsidiaries, had approximately 6,800 employees, as compared to 7,550 and 7,880 in 1999 and 1998, respectively. Of the total Unocal employees at year-end 2000, 265 in the U.S. were represented by various labor unions and 353 in Thailand were represented by a trade union.

## GOVERNMENT REGULATIONS

Certain interstate crude oil pipeline subsidiaries of Unocal are regulated (as common carriers) by the Federal Energy Regulatory Commission. As a lessee from the U.S. government, Unocal is subject to Department of the Interior regulations covering activities onshore and on the Outer Continental Shelf (OCS). In addition, state regulations impose strict controls on both state-owned and privately-owned lands.

Some federal and state bills would, if enacted, significantly and adversely affect Unocal and the petroleum industry. These include the imposition of additional taxes, land use controls, prohibitions against operating in certain foreign countries and restrictions on exploration and development.

Regulations promulgated by the Environmental Protection Agency (EPA), the Department of the Interior, the Department of Energy, the State Department, the Department of Commerce and other government agencies are complex and subject to change. New regulations may be adopted. The Company cannot predict how existing regulations may be interpreted by enforcement agencies or court rulings, whether amendments or additional regulations will be adopted, or what effect such changes may have on its current or future business or financial condition.

## ENVIRONMENTAL REGULATIONS

Federal, state and local laws and provisions regulating the discharge of materials into the environment or otherwise relating to environmental protection have continued to impact the Company's operations. Significant federal legislation applicable to the Company's operations includes the following: the Clean Water Act, as amended in 1977; the Clean Air Act, as amended in 1977 and 1990; the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 (RCRA), as amended in 1984; the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended in 1986; the Toxic Substances Control Act of 1976, as amended in 1986; and the Oil Pollution Act of 1990, and laws governing low level radioactive materials. Various foreign, state and local governments have adopted or are considering the adoption of similar laws and regulations. The Company believes that it can continue to meet the requirements of existing environmental laws and regulations.

The Company has been a party to a number of administrative and judicial proceedings under federal, state and local provisions relating to environmental protection. These proceedings include actions for civil penalties or fines for alleged environmental violations, orders to investigate and/or cleanup past environmental contamination under CERCLA or other laws, closure of waste management facilities under RCRA or decommissioning of facilities under radioactive materials licenses, permit proceedings and variance requests under air, water or waste management laws and similar matters.

For information regarding the Company's environment-related capital expenditures, charges to earnings and possible future environmental exposure, see Item 3 - Legal Proceedings on pages 20 through 23, the Environmental Matters section of Management's Discussion and Analysis in Item 7 of this report on pages 41 through 43 and notes 18 and 19 to the Consolidated Financial Statements in Item 8 of this report on pages 78 through 80.



ITEM 3 - LEGAL PROCEEDINGS.

There is incorporated by reference the information regarding environmental remediation reserves in note 18 to the consolidated financial statements in Item 8 of this report on page 78, the discussion of such reserves in the Environmental Matters section of Management's Discussion and Analysis in Item 7 of this report on pages 41 through 43, and the information regarding certain legal proceedings and other contingent liabilities in note 19 to the consolidated financial statements in Item 8 of this report on pages 79 and 80. Information with respect to certain specific legal proceedings pending or threatened against the Company is set forth below:

1. The U.S. Department of Interior Minerals Management Service (the "MMS") announced in 1996 that it would pursue claims against several oil companies for their alleged underpayment of royalties for crude oil produced from federal leases in California covering the period from 1980 forward. Following that announcement, the Company received from the MMS three orders to pay additional royalties, penalties and interest, covering periods from January 1980 through April 1996, and totaling in excess of $75 million. The Company initiated appropriate administrative appeals.

   In 1999, the Company also filed an action in the U.S. District Court for the Northern District of Oklahoma (*Union Oil Company of California v. Bruce Babbitt, et al.*) seeking a declaratory judgment that the applicable statute of limitations bars amounts claimed by the MMS for periods prior to July 22, 1991.

   In August 2000, the Company reached agreement in principle with the MMS and the U.S. Department of Justice to settle administrative claims and litigation involving federal oil royalty valuation issues. (See paragraph 2 below.) Once finalized, the settlement will bring to an end the matters described above.

2. In 1998, the Company was served with a lawsuit brought by private plaintiffs on behalf of the U.S. government against the Company and numerous other oil companies (*United States, ex rel. Johnson v. Shell Oil Company et al.*, in the U.S. District Court for the Eastern District of Texas, Lufkin Division). The lawsuit alleges intentional underpayment of royalties for oil produced from federal and Indian land leases in violation of the federal False Claims Act (the "FCA") from 1986 forward. In 1999, the U.S. Department of Justice intervened in the lawsuit against the Company. The plaintiffs seek recovery of $52 million in damages and prejudgment interest, to be trebled as provided by the FCA, plus attorneys' fees and civil penalties authorized by the act. In August 2000, the Company reached an agreement in principle to settle this lawsuit and the administrative claims described in paragraph 1 above. By agreement of the parties, the terms of the settlement are to remain confidential pending completion of the settlement process. State governments and certain Native American Indian tribes must consent to the settlement, a process that could take several more months.

3. The Company has been named a defendant in two additional FCA proceedings brought by private plaintiffs on behalf of the United States alleging underpayment of royalties on natural gas production from federal and Indian land leases since the mid-1980s. The first action (*United States, ex rel. Harrold E. (Gene) Wright v. Amerada Hess Corporation, et al.*, in the U.S. District Court for the Eastern District of Texas, Lufkin Division) was filed in 1996 against the Company and 130 other energy industry companies

and seeks damages collectively from all defendants of $3 billion, which, to the extent awarded, would be trebled pursuant to the FCA. In March 2000, the U.S. Department of Justice intervened in the lawsuit against four of the defendants, but has not intervened against the remaining defendants, including the Company.



The second action (*United States, ex rel. Jack Grynberg v. Unocal*, in the U.S. District Court for the District of Wyoming) was filed in 1997, as one of 77 separate cases filed by the plaintiff, and seeks damages of approximately $200 million from the Company, which, to the extent awarded, would be trebled pursuant to the FCA. In 1999, the U.S. Department of Justice notified the courts in the *Grynberg* litigation of its election not to intervene in these actions.

The *Wright* and *Grynberg* cases have been consolidated by the Judicial Panel on Multi-District Litigation as MDL Docket No. 1293 and subsequently transferred for pre-trial proceedings to the U.S. District Court for the District of Wyoming. The Company believes the allegations in *Wright* and *Grynberg* are without merit and is vigorously defending both cases.

4. The Company is a defendant in lawsuits by anonymous representatives purportedly on behalf of a class of plaintiffs consisting of residents and former residents of the Tenasserim region of Myanmar. The lawsuits were initially filed in 1996 in the U.S. District Court for the Central District of California. (*John Doe I, et al. v. Unocal Corporation, et al.*, Case No. CV 96-6959-RWSL, referred to as the "*Doe*" action; and *John Roe III, et al. v. Unocal Inc. [sic], et al.*, Case No. CV 96-6112-RWSL, referred to as the "*Roe*" action). The plaintiffs alleged acts of mistreatment and forced labor by the government of Myanmar allegedly in connection with the construction of the Yadana natural gas pipeline, which transports natural gas from fields in the Andaman Sea across Myanmar to Thailand.

The complaints contained numerous counts and alleged violations of several U.S. and California laws and U.S. treaties. The plaintiffs sought compensatory and punitive damages on behalf of the named plaintiffs, as well as disgorgement of profits. Injunctive and declaratory relief was also requested on behalf of the named plaintiffs and the purported class to direct the defendants to cease payments to the Myanmar government and to cease participation in the Yadana project.

In its answers to amended complaints in both actions, the Company denied that it was either properly named as a party or subject to joint venture, partnership or other liability with respect to the Yadana pipeline. In August 2000, the court granted the Company's motions for summary judgment in the two proceedings, ordered the federal law claims dismissed and, after declining to exercise jurisdiction over the pendant state law claims, ordered them dismissed without prejudice. Subsequently, the plaintiffs in both actions appealed the final judgments to the U.S. Court of Appeals for the Ninth Circuit (Nos. 00-56603 and 00-56628, respectively).

In September and October 2000, the plaintiffs in the Roe case and the Doe case, respectively, filed actions against the Company in the Superior Court of the State of California for the County of Los Angeles, Central District (John Roe III, et al. v. Unocal Corporation, et al., No. B C237679; and John Doe I, et al. v. Unocal Corp., et al., No. B C237980). The complaints allege that, by virtue of the Company's participation in the Yadana project, it is liable under California law for alleged acts of mistreatment and forced labor by the government of Myanmar. The complaints contain numerous counts alleging various violations by the defendants of the constitution, statutes and common law of California. With respect to liability for alleged unfair business practices, the Doe action is also styled as a purported class action on behalf of two classes of plaintiffs: all affected residents and former residents of the Tenasserim region of Myanmar and all California residents and the general public within the State of California. The plaintiffs seek compensatory and punitive damages on behalf of the named plaintiffs and the purported classes, as well as injunctive relief, disgorgement of profits and other equitable relief.

-21-

In November 2000, the Company removed the two state court actions to the U.S. District Court for the Central District of California on the basis that the state law claims are so intertwined with federal concerns, particularly the federal common law of foreign relations, that a federal forum is appropriate. Thereafter, the Company moved to dismiss the actions and the plaintiff moved to have them remanded to the California Superior Court. On March 5, 2000, the federal court denied the Company's motions and granted the plaintiff's motions, thereby remanding the actions to the state court. The Company intends to move to dismiss the actions from the state court.

5. In 1998, the Attorney General of Hawaii filed an action (Anzai [formerly Bronster] (State of Hawaii) v. Unocal Corporation, et al., in the U.S. District Court for the District of Hawaii) on behalf of both the people of Hawaii and the state itself against the Company and six other major Hawaii oil refiners, two of which have since settled. The amended complaint alleges that the defendants conspired to restrict the production and fix the price of gasoline and diesel fuel in Hawaii in violation of the federal Sherman Act and various state laws. The state seeks damages from all defendants in an amount exceeding $450 million covering a period starting in 1990, together with civil penalties in excess of $200 million. If liability were established, the Company would be jointly and severally liable for any damages awarded. If a Sherman Act violation were found, any damages awarded would be trebled and attorneys' fees and costs would also be awarded. Any such damages would be allocated among the defendants according to their respective market shares.

The Company and its co-defendants believe that there is no merit to the Attorney General's claim that there was a conspiracy to fix prices or restrict the supply of gasoline or diesel fuel. Moreover, even if such an agreement did exist among some of the defendants, the Company believes that there is no evidence linking it to such an agreement. Further, the Company believes that the sale of its marketing and refining assets to Tosco Corporation ("Tosco") in March 1997 would be deemed to constitute an effective withdrawal from any alleged conspiracy. Pretrial discovery is continuing.

6. In 1998, a purported class action was filed (Cal-Tex Citrus Juice, Inc., et al. v. Unocal Corporation, et al., in the California Superior Court for Sacramento County) by direct and indirect purchasers of diesel fuel in the state of California from March 19, 1996, through 1997, against the Company and eight major California oil refiners. The complaint alleges that the defendants conspired to restrict the production and fix the price of "CARB" diesel fuel in violation of the California Cartwright and Unfair Competition Acts. The total amount of damages sought by the plaintiffs is unknown. If liability were established, the Company would be jointly and severally liable for any damages awarded. Any such damages would be trebled if a Cartwright Act violation were found and attorneys' fees and costs would also be recoverable. "Fluid recovery" and cy pres restitution would be available under the Unfair Competition Act if a violation of that act were found. Any damages awarded would be allocated among the defendants according to their market shares.

The Company and its co-defendants believe that there is no merit to the plaintiffs' claim that there was a conspiracy to fix prices or restrict the supply of CARB diesel fuel. Moreover, even if such an agreement did exist among some of the defendants, the Company believes that there is no evidence linking it to such an agreement. Further, the Company believes that the sale of its marketing and refining assets to Tosco in March 1997 would be deemed to constitute an effective withdrawal from any alleged conspiracy. Pretrial discovery has commenced; however, in September 2000, the court entered a stay in this case pending the decision of the California Supreme Court in the case of Aguilar v. Atlantic Richfield Company.



7. In 1999, the lawsuit captioned The Sweet Lake Land & Oil Company, Inc., et al. v. Union Oil Company of California (No. CV 99-1226 in the U.S. District Court for the Western District of Louisiana) was filed against the Company. The plaintiffs seek damages for land loss and erosion allegedly resulting from oil and gas operations in the Sweet Lake Field by the Company and its predecessor in interest, The Pure Oil Company. The plaintiffs' estimated cost of restoring the damaged property is between approximately $86 million and $142 million. The plaintiffs have also asserted a claim for loss of agricultural revenues, which they estimate at approximately $8 million. The plaintiffs additionally seek unspecified damages for the plugging and abandonment of wells alleged to have no future utility and the removal of associated flowlines and facilities.

The Company has answered the complaint and asserted numerous defenses that, if successful, would, in whole or in part, dispose of the plaintiff's claims or substantially limit the amount of any damages. Although the Company intends to continue its vigorous defense, the Company and the plaintiffs have suspended discovery and pre-trial motions and are discussing settlement.

Certain Environmental Matters Involving Civil Penalties

8. In December 2000, the Company settled issues raised in 1999 by the District

Attorney of Yolo County, California, regarding past releases of chemicals at the Company's former West Sacramento agricultural products plant. The settlement included the payment of $230,000 of civil penalties.

9. The Company's Molycorp, Inc., subsidiary is continuing to negotiate with the Office of the California Attorney General and the Lahontan Regional Water Quality Control Board with respect to the settlement of alleged violations of water quality discharge permits issued under the California Water Code for its Mountain Pass, California, lanthanide facility. The settlement of these matters could result in the payment of civil penalties exceeding $100,000.

10. The Company has received a Notice of Violation from the U.S. Environmental Protection Agency (the "EPA") alleging violations of the Clean Air Act at the Company's former Los Angeles refinery marine terminal during the 1995-97 time frame. Attempts to settle the matter have been unsuccessful. The EPA is expected to initiate litigation against the Company in March of 2001, which will likely involve claims for civil penalties exceeding $100,000.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS: None.

-23-

EXECUTIVE OFFICERS OF THE REGISTRANT

| Name, age and present positions with Unocal | Business experience |
|---|---|
| CHARLES R. WILLIAMSON, 52<br>Chief Executive Officer<br>Director since January 2000<br>Chairman of Company Management Committee | Mr. Williamson has been Chief Executive Officer since 2001. He was Executive Vice President, International Operations, from March 1999 to December 2000. He ser Vice President, Asia Operations, from February 1998 t having previously served as Group Vice President, Int Operations, since 1996. He was Vice President, Plann Economics, from 1995 to 1996. |
| TIMOTHY H. LING, 43<br>President and Chief Operating Officer<br>Director since January 2000<br>Member of Company Management Committee | Mr. Ling has been President and Chief Operating Offic January 1, 2001. He was Executive Vice President, No Energy Operations, from March 1999 to December 2000, Financial Officer from October 1997 to May 2000. He of McKinsey & Company, Inc. from 1994 to October 1997 a director of Pure Resources, Inc. |
| TERRY G. DALLAS, 50<br>Executive Vice President and Chief Financial Officer<br>Member of Company Management Committee | Mr. Dallas has been Executive Vice President since Fe 2001. He joined Unocal in June 2000 as Chief Financi He was Senior Vice President and Treasurer of Atlanti Company (Arco), where he worked for 21 years. He als variety of financial assignments at Arco in planning, analysis, project evaluation and mergers and acquisit |

| | |
|---|---|
| DENNIS P.R. CODON, 52<br>Senior Vice President, Chief Legal<br>Officer and General Counsel | Mr. Codon has been Senior Vice President since August<br>Chief Legal Officer and General Counsel since 1992.<br>as Corporate Secretary from 1990 to 1996. |
| JOE D. CECIL, 52<br>Vice President and Comptroller | Mr. Cecil has been Vice President and Comptroller sin<br>1997. From March 1997 to December 1997, he was Compt<br>International Operations. He was Comptroller of the<br>Company from 1995 until the sale of the West Coast re<br>marketing and transportation assets in March 1997. |
| DOUGLAS M. MILLER, 41<br>Vice President, Corporate Development | Mr. Miller has been Vice President, Corporate Develop<br>January 2000. From 1998 until 2000 he was General Ma<br>Planning and Development, International Energy Operat<br>1996 to 1998, he was Resident Manager, Philippine Geo<br>and prior to that in 1996 he was General Manager, Pla<br>Development, Geothermal and Power Operations. |

The bylaws of the Company provide that each executive officer shall hold office until the annual organizational meeting of the Board of Directors, to be held May 21, 2001, and until his successor shall be elected and qualified, unless he shall resign or shall be removed or otherwise disqualified to serve.



PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

| | 2000 Quarters | | | | |
|---|---|---|---|---|---|
| | 1st | 2nd | 3rd | 4th | 1st |
| Market price per share of common stock | | | | | |
| - High | $ 35 5/16 | $ 39 | $ 38 3/16 | $ 40 1/8 | $ 37 3/4 |
| - Low | $ 25 | $ 28 1/16 | $ 28 1/4 | $ 32 1/2 | $ 27 1/2 |
| Cash dividends paid per share of common stock | $ 0.20 | $ 0.20 | $ 0.20 | $ 0.20 | $ 0.20 |

Prices in the foregoing table are from the New York Stock Exchange Composite Transactions listing. On February 28, 2001, the high price per share was $36.20 and the low price per share was $34.82.

Unocal common stock is listed for trading on the New York Stock Exchange in the United States, and on the Stock Exchange of Switzerland.

As of February 28, 2001, the approximate number of holders of record of Unocal common stock was 24,625 and the number of shares outstanding was 243,105,407. Unocal's quarterly dividend declared has been $0.20 per common share since the third quarter of 1993. The Company has paid a quarterly dividend for 85 consecutive years.

ITEM 6 - SELECTED FINANCIAL DATA: see pages 116 and 117.



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

The following discussion and analysis of the consolidated financial condition and results of operations of Unocal should be read in conjunction with the historical financial information provided in the consolidated financial statements and accompanying notes, as well as the business and property descriptions in Items 1 and 2.

CONSOLIDATED RESULTS

| | Years ended December 31, | | |
|---|---|---|---|
| Millions of dollars | 2000 | 1999 | 1998 |
| Earnings from continuing operations (a) | $ 723 | $ 113 | $ 93 |
| Earnings from discontinued operations | 37 | 24 | 37 |
| Net earnings | $ 760 | $ 137 | $ 130 |
| (a) Includes minority interests of: | $ (16) | $ (16) | $ (7) |

Continuing operations

2000 vs. 1999 - Earnings from continuing operations totaled $723 million in 2000, which was an increase of $610 million from 1999. Higher worldwide average crude oil and natural gas prices were the primary factors for the increase. The Company's worldwide average crude oil price, including hedging activities, was $26.55 per barrel in 2000, which was an increase of $11.17 per barrel, or 73 percent, from a year ago. The Company's worldwide average natural gas price, including hedging activities, was $2.96 per mcf in 2000, which was an increase of 92 cents per mcf, or 45 percent, from a year ago. The positive impact of prices was partially offset by higher depreciation, depletion and amortization expense and higher losses related to non-hedging commodity derivative positions. Earnings from continuing operations included net after-tax special charges of $75 million in 2000 compared to net after-tax special charges of $36 million in 1999 (special items are detailed in a table on page 28).

1999 vs. 1998 - The Company's 1999 earnings from continuing operations increased $20 million compared to 1998. The increase resulted from higher worldwide crude oil prices, lower depreciation, depletion, and amortization expense, lower operating expenses and lower exploration expenses. Compared to 1998, the Company's worldwide average crude oil prices, including hedging activities, increased by $3.71 per barrel, or 32 percent. These positive factors were partially offset by lower net oil and gas sales volumes, reduced earnings from non-exploration and production businesses and higher net interest expense. The Company's corporate hedge program lowered after-tax earnings by $29 million in 1999. Earnings from continuing operations included net after-tax special charges of $36 million for both 1999 and 1998.



## Discontinued Operations

| Millions of dollars | Years ended December 31, 2000 | 1999 | |
|---|---|---|---|
| Agricultural products | | | |
| Earnings (loss) from operations(net of tax) | $ - | $ (1) | $ |
| Gain on disposal (net of tax) | 37 | - | |
| Refining, marketing and transportation | | | |
| Gain on disposal (net of tax) | - | 25 | |
| Earnings from discontinued operations | $ 37 | $ 24 | $ |

Earnings from discontinued operations in 2000, including the sale of the agricultural products business, increased $13 million from 1999. The 2000 gain on disposal amount included $14 million from the sale of the business and $23 million from the operation of the agricultural products business prior to the sale. Higher agricultural products commodity prices in 2000 as compared to 1999 were the major factor for the improved results over 1999.

The agricultural products business earnings were a loss of $1 million in 1999, which was a decrease of $38 million from 1998. The decrease was principally due to lower agricultural products commodity prices and a $6 million after-tax special charge related to an accident at the Alaska fertilizer manufacturing facility.

The results of operations of the refining, marketing and transportation business have been classified as discontinued operations since 1996. The sale of the assets was completed in 1997. In 1999, the Company recorded a $25 million net gain, which included a $32 million after-tax gain from a settlement with the purchaser to resolve certain contingent payment issues related to gasoline margins, partially offset by an additional $11 million after-tax charge on the disposal of assets.

For more information on Discontinued Operations, see note 9 to the Consolidated Financial Statements in Item 8 of this report on page 70.



## Special Items

Special items represent certain significant transactions, presented in net earnings, that management determines to be unrelated to or not representative of the Company's ongoing operations.

The following table summarizes the benefits or (charges), on an after-tax basis, from special items included in the Company's reported net earnings for the years presented:

| Millions of dollars | Years ended December 31, 2000 | 1999 | 199 |
|---|---|---|---|
| Continuing operations | | | |
| Asset sales | $ 49 | $ (10) | $ 120 |
| Asset write-downs | (33) | (12) | (65 |
| Deferred tax adjustments | 28 | - | (29 |
| Environmental, litigation and other provisions | (99) | (19) | (101 |
| Executive stock purchase program | (9) | - | - |
| Insurance benefits related to environmental issues | 21 | 16 | 56 |
| Trading derivatives -- non-hedging | (48) | - | - |
| Provision for prior years income tax issues (Other) | (28) | - | - |
| Reformulated gasoline patent case | 55 | - | - |
| Restructuring costs | (11) | (11) | (17 |
| Total special items from continuing operations | (75) | (36) | (36 |
| Discontinued operations | | | |
| Agricultural products | | | |
| Gain on disposal | 37 | - | - |
| Fertilizer plant accident in Kenai, Alaska | - | (6) | - |
| Refining, marketing and transportation | | | |
| Loss on disposal | - | (11) | - |
| Tosco settlement net of adjustments | - | 32 | - |
| Total special items from discontinued operations | 37 | 15 | - |
| Total special items | $ (38) | $ (21) | $ (36 |

## Restructuring Costs

In the first quarter of 2000, the Company adopted a restructuring plan that resulted in the accrual of an $11 million after-tax restructuring charge, which was reflected in the Company's 2000 results. This amount included the estimated costs of terminating approximately 195 employees. The plan involved simplifying the organizational structure to align it with the Company's portfolio requirements and business needs. The charge was recorded in the aggregate in Corporate and Unallocated. Approximately $7 million of the charge was related to the Exploration and Production segment.

Approximately 125 of the affected employees were from various exploration and production business units and 70 were from other organizations, including corporate staff. At December 31, 2000, 167 employees (87 percent) had been terminated or had received termination notices as a result of the plan. Cash expenditures before taxes related to the plan were approximately $14 million in 2000 and are estimated to be $5 million in 2001. The Company expects the plan to reduce annualized salaries and benefits by an estimated $22 million pre-tax.

The restructuring plans adopted in 1998 and 1999 have been completed. For more information on the restructuring charges, see note 7 to the Consolidated Financial Statements in Item 8 of this report on page 67.

| Operating Highlights | 2000 | |
|---|---|---|
| **North America Net Daily Production** | | |
| Crude oil (thousand barrels) | | |
| Lower 48 (a) | 45 | |
| Alaska | 26 | |
| Canada (a) | 15 | |
| Total North America crude oil | 86 | |
| Natural gas - wet basis (million cubic feet) | | |
| Lower 48 (a) | 786 | |
| Alaska | 128 | |
| Canada (a) | 99 | |
| Total North America natural gas | 1,013 | |
| **North America Average Prices (b)** | | |
| Crude oil (per barrel) | | |
| Lower 48 | $ 28.69 | $ 1 |
| Alaska | $ 24.94 | $ 1 |
| Canada | $ 22.75 | $ 1 |
| Average North America crude oil prices | $ 26.48 | $ 1 |
| Natural gas (per mcf) | | |
| Lower 48 | $ 3.93 | $ |
| Alaska | $ 1.20 | $ |
| Canada | $ 2.30 | $ |
| Average North America natural gas prices | $ 3.40 | $ |
| **International Net Daily Production (c)** | | |
| Crude oil (thousand barrels) | | |
| Far East | 70 | |
| Other | 19 | |
| Total International crude oil | 89 | |
| Natural gas - wet basis (million cubic feet) | | |
| Far East | 936 | |
| Other | 58 | |
| Total International natural gas | 994 | |
| **International Average Prices (b)** | | |
| Crude oil (per barrel) | | |
| Far East | $ 26.17 | $ 1 |
| Other | $ 27.84 | $ 1 |
| Average International crude oil prices | $ 26.64 | $ 1 |
| Natural gas (per mcf) | | |
| Far East | $ 2.46 | $ |
| Other | $ 2.81 | $ |
| Average International natural gas prices | $ 2.48 | $ |
| **Worldwide Net Daily Production (a) (c)** | | |
| Crude oil (thousand barrels) | 175 | |
| Natural gas - wet basis (million cubic feet) | 2,007 | 1 |
| Barrels oil equivalent (thousands) | 509 | |

| | | |
|---|---|---|
| Worldwide Average Prices (b) | | |
| Crude oil (per barrel) | $ 26.55 | $ 1 |
| Natural gas (per mcf) | $ 2.96 | $ |

(a) Production includes 100 percent of production of consolidated subsidiaries and proportional shares of production of equity investees.

(b) Average prices include hedging gains and losses but exclude gains or losses on derivative positions not accounted for as hedges and other Global Trade margins.

(c) Production includes certain host countries' shares of:

| | |
|---|---|
| Crude oil | 26 |
| Natural gas | 107 |

-29-

Revenues
--------

| Millions of dollars | 2000 | 1999 | 1998 |
|---|---|---|---|
| Sales and operating revenues | $8,914 | $5,842 | $4,627 |
| Interest, dividends and miscellaneous income | 203 | 105 | 169 |
| Gain on sales of assets | 85 | 14 | 211 |
| Total revenues | $9,202 | $5,961 | $5,007 |

2000 vs. 1999 - Revenues in 2000 were $9,202 million, which was an increase of $3,241 million from 1999. The increase was primarily due to higher worldwide average crude oil and natural gas prices. During 2000 and 1999, approximately 54 percent and 52 percent, respectively, of sales and operating revenues were attributable to the resale of crude oil, natural gas and natural gas liquids purchased from others in connection with trading and marketing activities. An increase in natural gas sales volumes also contributed to the higher level of sales revenues as compared to 1999. Interest, dividends and miscellaneous income in 2000 included an $87 million pre-tax benefit (net of related costs) related to the payments received for infringement of one of the Company's five reformulated gasoline patents during a five-month period in 1996. The year 2000 results also included $33 million for an insurance recovery related to environmental issues, which was $8 million higher than the amount of a similar recovery in 1999.

1999 vs. 1998 - Revenues in 1999 were $5,961 million, an increase of $954 million from 1998. The increase was primarily due to higher worldwide average crude oil prices and increased activities related to the marketing and trading of crude oil and condensate by the Company's Global Trade segment. The increase was partially offset by decreased activities related to the marketing and trading of natural gas by Global Trade and lower gains on asset sales. During 1998, approximately 39 percent of total sales and operating revenues were attributable to the resale of crude oil, natural gas and natural gas liquids purchased from others in connection with trading and marketing activities. Interest, dividends and miscellaneous income in 1998 included $70 million for a global insurance recovery related to past environmental remediation issues.

Selected Costs and Other Deductions

| Millions of dollars | 2000 | 1999 | 1998 |
|---|---|---|---|
| Pre-tax costs and other deductions: | | | |
| Crude oil, natural gas and product purchases | $5,158 | $3,296 | $2,036 |
| Operating expense | 1,200 | 952 | 1,171 |
| Depreciation, depletion and amortization | 971 | 818 | 849 |
| Dry hole costs | 156 | 148 | 184 |
| Exploration expense | 175 | 176 | 203 |
| Interest expense | 210 | 199 | 177 |

2000 vs. 1999 - Crude oil, natural gas and product purchases expense increased by $1,862 million in 2000. This increase was principally due to higher worldwide crude oil and natural gas prices. Operating expense increased by $248 million principally due to higher environmental and litigation provisions and the inclusion of Pure Resources, Inc. (Pure), since May 2000, and Northrock Resources Ltd. (Northrock), for the full year 2000, compared with only seven months following the initial acquisition of Northrock common shares in May 1999. Depreciation, depletion and amortization expense increased by $153 million in 2000, primarily due to a write-down of a mining operation at Questa, New Mexico, higher charges in the U.S. due to increases in natural gas production volumes combined with higher investment costs associated with offshore production, and the inclusion of Pure for a partial year and Northrock for a full year in 2000. For more information on asset acquisitions, see note 3 to the Consolidated Financial Statements in Item 8 of this report on page 65.

1999 vs. 1998 - Crude oil, natural gas and product purchases expense increased by $1,260 million in 1999 principally due to increased activities related to the marketing and trading of crude oil and condensate by the Company's Global Trade segment and higher worldwide crude oil and natural gas prices. Operating expense decreased by $219 million principally due to lower environmental and litigation provisions and decreased mining-related expenses from the Carbon and Minerals segment. Depreciation, depletion and amortization expense decreased $31 million primarily due to lower asset impairments and lower domestic crude oil and natural gas production volumes in 1999, partially offset by higher exploratory land provisions in 1999. Dry hole costs decreased $36 million principally due to a reduction in exploratory drilling activity in the Gulf of Mexico. Exploration expense decreased 13 percent principally due to reduced international exploratory activities. Interest expense increased by $22 million due to higher long-term debt, primarily due to the consolidation of Northrock debt, following the initial acquisition of Northrock common shares in May 1999, and lower capitalized interest.



BUSINESS SEGMENT RESULTS

North America Exploration and Production

Included in this category are the U.S. Lower 48, Alaska and Canada oil and gas operations. The emphasis of the U.S. Lower 48 operations is on the onshore, continental shelf and deepwater areas of the Gulf of Mexico region. The U.S. Lower 48 also includes the consolidated results of Pure, which operates primarily in the Permian and San Juan Basins in West Texas and New Mexico. A substantial portion of the crude oil and natural gas produced in the U.S. Lower 48 operations is sold to the Company's Global Trade segment. The remainder of North America production, including the production of Northrock and Pure, is sold to third parties. In Alaska, natural gas production, pursuant to agreements with Agrium, Inc. (Agrium), is sold to Agrium's fertilizer plant in Kenai. In addition, Northrock and Pure take pricing positions in hydrocarbon derivative instruments in support of their oil and gas operations.

| | Years ended Decembe | |
|---|---|---|
| Millions of dollars | 2000 | 1999 |
| Adjusted after-tax earnings (before special items) | | |
| Lower 48 (a) | $ 408 | $ 50 |
| Alaska | 92 | 36 |
| Canada (b) | 17 | 14 |
| Adjusted after-tax earnings (before special items) (a) (b) | 517 | 100 |
| Special items: | | |
| Asset sales (Lower 48) | 42 | - |
| Asset write-downs (Lower 48) | - | (12) |
| Litigation provisions/settlements (Lower 48) | - | 7 |
| Asset write-downs (Alaska) | - | - |
| Litigation provisions (Alaska) | - | (5) |
| Asset sales (Canada) | - | - |
| Deferred tax adjustment (Canada) | 46 | - |
| Trading derivatives- non-hedging (Canada) | (48) | - |
| Total special items | 40 | (10) |
| After-tax earnings (a) (b) | $ 557 | $ 90 |
| (a) Includes minority interests of: | $ (39) | $ (11) |
| (b) Includes minority interests of: | $ 20 | $ (5) |

2000 vs. 1999 - After-tax earnings in 2000 increased by $467 million from 1999. This increase was primarily due to higher North America average crude oil prices and higher U.S. Lower 48 average natural gas prices. The average North America crude oil price, including hedging activities, was $26.48 per barrel for 2000, which was an increase of $11.49 per barrel, or 77 percent, from 1999. The average natural gas price in the U.S. Lower 48, including hedging activities, was $3.93 per mcf for 2000, which was an increase of $1.76 per mcf, or 81 percent, from 1999. In addition to higher prices, the U.S. Lower 48 operations benefited from higher natural gas production in 2000 as compared to 1999. This increase in production came primarily from the Company's Pure subsidiary, the Gulf of Mexico shelf production and the Company's proportional share of production from equity investees. The positive impact of prices was partially offset by higher depreciation, depletion and amortization expense for the Lower 48 and Canada. In 2000, after-tax earnings included $40 million in special item benefits while 1999 included special item net charges of $10 million. For more information on asset acquisitions, see note 3 to the Consolidated Financial

Statements in Item 8 of this report on page 65.



1999 vs. 1998 - After-tax earnings in 1999 decreased by $34 million from 1998. In 1998, after-tax earnings included $83 million in special item benefits, while in 1999 the results included special item net charges of $10 million. In addition, in 1999 the U.S. Lower 48 crude oil and natural gas sales volumes were lower than in 1998 and the Company recorded $19 million in losses related to its corporate hedge program. These negative results were partially offset by higher North America average crude oil prices and U.S. Lower 48 average natural gas prices as compared to 1998. The average North America crude oil price, including hedging activities, increased $3.82 per barrel, or 34 percent. The average natural gas prices in the U.S. Lower 48, including hedging activities, increased by 10 cents per mcf, or 5 percent. In addition to the higher commodity prices, dry hole costs and depreciation, depletion and amortization expense were both lower in 1999 than in 1998.

International Exploration and Production

Unocal's International operations include oil and gas exploration and production activities outside of North America. The Company operates or participates in production operations in Thailand, Indonesia, Myanmar, Bangladesh, the Netherlands, Azerbaijan, and the Democratic Republic of Congo. International operations also include the Company's exploration activities and the development of energy projects primarily in Asia, Latin America and West Africa.

| | Years ended December 31, | | |
|---|---|---|---|
| Millions of dollars | 2000 | 1999 | 1 |
| Adjusted after-tax earnings (before special items) | | | |
| Far East | $ 417 | $ 222 | $ |
| Other | 46 | (26) | |
| Adjusted after-tax earnings (before special items) | 463 | 196 | |
| Special items: | | | |
| Deferred tax adjustment (Far East) | - | - | |
| Litigation proceeds (Far East) | - | 2 | |
| Deferred tax adjustment (Other) | - | - | |
| Asset write-downs (Other) | - | - | |
| Total special items | - | 2 | |
| After-tax earnings | $ 463 | $ 198 | $ |

2000 vs. 1999 - After-tax earnings totaled $463 million in 2000, which was an increase of $265 million from 1999. The increase was primarily due to higher average International crude oil and natural gas prices. International's average crude oil price, including hedging activities, was $26.64 per barrel for 2000, which was an increase of $10.83 per barrel, or 69 percent, from 1999. International's average natural gas price, including hedging activities, was $2.48 per mcf for 2000, which was an increase of 44 cents per mcf, or 22 percent, from 1999. The results in 2000 also benefited from higher Far East natural gas volumes, primarily from the Yadana field in Myanmar due to the ramp up of operations at the Ratchaburi power plant in Thailand. These positive results were partially offset by higher depreciation, depletion and amortization expense, primarily in Thailand and Indonesia. In 1999, after-tax earnings included $2 million in special item benefits.

1999 vs. 1998 - After-tax earnings totaled $198 million in 1999, which was an increase of $82 million from 1998. The increase was primarily due to higher average International crude oil prices, which increased 29 percent to $15.81 per barrel, including hedging activities, from $12.24 per barrel in 1998. After-tax earnings benefited from lower income taxes in Thailand, primarily related to currency exchange rate fluctuations, and lower income tax rates in Indonesia and Myanmar. After-tax earnings also benefited from lower exploration expenses, principally from decreased geological and geophysical expense in Indonesia, Brunei and Argentina, which were partially offset by higher exploration expenses in Brazil and Gabon. The Company's corporate hedge program in 1999 also decreased after-tax earnings by $10 million. In 1999, after-tax earnings included $2 million in special item benefits while 1998 after-tax earnings included special item net charges of $33 million.

-33-

Global Trade

The Global Trade segment conducts most of the Company's worldwide crude oil, condensate, natural gas and refined products trading and marketing activities, excluding those of Pure and Northrock. It is also responsible for commodity-specific risk management activities on behalf of most of the Company's Exploration and Production segment, excluding Pure. Global Trade also purchases crude oil, condensate and natural gas from certain of the Company's royalty owners, joint venture partners and other unaffiliated oil and gas producing and trading companies for resale. In addition, Global Trade takes pricing positions in hydrocarbon derivative instruments. The Pipelines business segment has been segregated from the Global Trade segment.

| | Years ended December 31, | | |
|---|---|---|---|
| Millions of dollars | 2000 | 1999 | 1998 |
| After-tax earnings (loss) | $ 5 | $ (2) | $ 21 |

2000 vs. 1999 - After-tax results totaled $5 million in 2000, which was an increase of $7 million from 1999 The increase was primarily due to improved results from non-hedging natural gas derivative positions, which were partially offset by lower results for non-hedging crude oil derivative positions.

1999 vs. 1998 - After-tax earnings decreased by $23 million in 1999 compared to 1998. This decrease was primarily due to lower margins on domestic natural gas and crude oil trading.

Pipelines

The Pipelines business segment principally includes the Company's worldwide interests in petroleum pipeline companies accounted for by the equity method and wholly-owned pipeline systems throughout the U.S.

| Millions of dollars | Years ended December 31, 2000 | 1999 | 1998 |
|---|---|---|---|
| Adjusted after-tax earnings (before special items) | $ 53 | $ 62 | $ 62 |
| Special items: | | | |
| Asset sales | - | - | 5 |
| Total special items | - | - | 5 |
| After-tax earnings | $ 53 | $ 62 | $ 67 |

2000 vs. 1999 - After-tax earnings in 2000 totaled $53 million, which was a decrease of $9 million from 1999. The decrease was due primarily to an asset write-down related to a Colonial Pipeline Company investment.

1999 vs. 1998 - After-tax earnings decreased by $5 million in 1999 compared to 1998. In 1998, after-tax earnings included a $5 million gain from asset sales.

-34-

Geothermal and Power Operations

This business segment produces geothermal steam for power generation, with operations in the Philippines and Indonesia. The segment's current activities also include the operation of power plants in Indonesia and equity interests in gas-fired power plants in Thailand. The Company's non-exploration and production business development activities, primarily power-related, are also included in this segment.

| Millions of dollars | Years ended December 2000 | 1999 | |
|---|---|---|---|
| Adjusted after-tax earnings (before special items) | $ 24 | $ 24 | $ |
| Special items: | | | |
| Asset sales | - | (10) | |
| Total special items | - | (10) | |
| After-tax earnings | $ 24 | $ 14 | $ |

2000 vs. 1999 - After-tax earnings totaled $24 million for 2000, which was an increase of $10 million from the same period a year ago. During 2000, higher electricity generation and steam sales in Indonesia were offset by higher foreign exchange losses in Indonesia and the Philippines and higher provisions on accounts receivable in Indonesia (see the Outlook discussion on page 44 through 46), as compared to 1999. In 1999, after-tax earnings included a loss of $10 million from the sale of the Company's interest in a geothermal steam production operation at The Geysers in Northern California, which was partially offset by the recognition of a fee earned related to the construction of the Salak power plant units 4 through 6 in Indonesia.

1999 vs. 1998 - After-tax earnings decreased by $16 million in 1999 from 1998, which was primarily due to the $10 million after-tax loss from The Geysers asset sale, a larger fee recorded in 1998 compared to 1999, related to the construction of the Salak power plant units 4 through 6, lower earnings from equity investments and the loss of earnings from The Geysers operations. Offsetting these negative factors in 1999 were higher Philippine earnings, which were primarily a result of a 1998 receivable provision, and lower non-exploration and production business development activities in 1999 as compared to 1998.



Carbon and Minerals

The Carbon and Minerals business segment produces and markets petroleum coke and specialty minerals, including lanthanides, molybdenum and niobium. In 2000, the graphites business was sold.

| | Years ended December 31, | | |
|---|---|---|---|
| Millions of dollars | 2000 | 1999 | 1 |
| Adjusted after-tax earnings (before special items) (a) | $ 25 | $ 23 | $ |
| Special items: | | | |
| Asset sales | 7 | - | |
| Asset write-downs | (33) | - | |
| Environmental, litigation and other provisions | (28) | (2) | |
| Total special items | (54) | (2) | |
| After-tax earnings (loss) (a) | $ (29) | $ 21 | $ |
| (a) Includes minority interests of: | $ - | $ (2) | $ |

2000 vs. 1999 - After-tax results for 2000 were a $29 million loss, which was a decrease of $50 million from the 1999 profit. The write-down of the Company's Molycorp, Inc. (Molycorp) property investment in its Questa, New Mexico, molybdenum mining operation and higher environmental provisions for both the lanthanide and molybdenum operations were the primary reasons for the decrease. These negative factors were partially offset by a gain from the sale of the Company's graphite business and improved earnings from the lanthanide
oper