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UNOCAL CORP
Form 8-K
October 28, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

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

Date of report (Date of earliest event reported) October 28, 2004

UNOCAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation)

1-8483

95-3825062

(Commission File Number)

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

2141 Rosecrans Avenue, Suite 4000, El Segundo, California 90245

(Address of Principal Executive Offices)

(Zip Code)

(310) 726-7600

(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act

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Item 2.02. Results of Operations and Financial Condition;
Item 7.01. Regulation FD Disclosure.

In accordance with General Instructions B.2 and B.6 of Form 8-K, the information in this Form 8-K, including in Exhibits 99.1 and 99.2 hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such a filing.

On October 28, 2004, we issued a news release announcing our preliminary earnings for the third quarter and nine months ended September 30, 2004 and containing other information set forth therein. A copy of the news release is furnished with this report as Exhibit 99.1 and shall be deemed a part of and incorporated by reference into this Item 2.02 and Item 7.01 for all purposes.

On October 28, 2004, we distributed for reference during our quarterly earnings call held on October 28, 2004 a summary of the significant variances in adjusted after-tax earnings by business segment between the third quarter of 2004 and the second quarter of 2004. A copy of this summary is furnished with this report as Exhibit 99.2 and shall be deemed a part of and incorporated by reference into this Item 2.02 and Item 7.01 for all purposes.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits.

99.1 Press Release dated October 28, 2004.

99.2 Summary of Significant Variances dated October 28, 2004.

Signature

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

UNOCAL CORPORATION
(Registrant)

Date: October 28, 2004

By: /s/Joe D. Cecil

Joe D. Cecil
Vice President and Comptroller

Unocal
2141 Rosecrans Avenue, Suite 4000
El Segundo, California 90245

[UNOCAL LOGO]

NEWS RELEASE

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Contact: Barry Lane (Media)
310-726-7731
Robert Wright (Investors)
310-726-7665

Unocal announces net earnings for third quarter 2004

El Segundo, Calif., Oct. 28, 2004 - Unocal Corporation (NYSE: UCL) today reported preliminary net earnings for the third quarter 2004 of \$330 million, or \$1.23 per share (diluted), 117 percent above the \$152 million, or 58 cents per share (diluted), reported in the same period a year ago. The earnings included a number of special items discussed below in connection with Unocal's adjusted after-tax earnings.

Unocal's preliminary adjusted after-tax earnings for the third quarter 2004 were \$294 million, or \$1.09 per share (diluted). This compares with the Thomson/First Call mean of analyst estimates (published Oct. 25, 2004) of 96 cents per share. Unocal's adjusted after-tax earnings were \$190 million, or 72 cents per share (diluted), in the third quarter 2003, and \$231 million, or 86 cents per share (diluted), in the second quarter 2004. Adjusted after-tax earnings are net earnings excluding special items (discussed below) and the cumulative effect of accounting changes.

CONSOLIDATED RESULTS (UNAUDITED)	3rd Q	2nd Q	3rd Q
Millions of dollars except per share amounts	2004	2004	2003
Earnings from continuing operations	\$ 329	\$ 282	\$ 150
Earnings from discontinued operations	1	59	2
Net earnings	330	341	152
Less: Special items in continuing operations	35	54	(38)
Less: Special items in discontinued operations	1	56	-
Adjusted after-tax earnings	\$ 294	\$ 231	\$ 190
=====			
DILUTED EARNINGS PER SHARE DATA (UNAUDITED)			
Net earnings per share:			
Continuing operations	\$ 1.22	\$ 1.04	\$ 0.57
Discontinued operations	0.01	0.21	0.01
Total net earnings per share	\$ 1.23	\$ 1.25	\$ 0.58
Adjusted after-tax earnings per share	\$ 1.09	\$ 0.86	\$ 0.72
=====			
REVENUES FROM CONTINUING OPERATIONS (UNAUDITED)	\$ 1,993	\$ 1,980	\$ 1,535
=====			

"We recorded another outstanding quarter, with the results driven by continued high commodity prices," said Charles R. Williamson, Unocal chairman and chief executive officer. "We continued to execute on our major development programs in the Caspian Sea, Thailand,

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Bangladesh and deepwater Gulf of Mexico - programs that we believe will contribute to production growth in 2005 and 2006."

Recent operational and financial highlights

Some of Unocal's operational highlights and other developments during the third quarter include:

- Completed the buyback of \$150 million of common stock, redemption of one-half of Unocal Capital Trust's outstanding preferred convertible securities and a contribution of \$100 million to Unocal's qualified U.S. pension plan
- Ramped-up gross production at the deepwater West Seno project in Indonesia to 39,000 barrel-of-oil equivalent (BOE) per day at the end of the quarter; Unocal is operator of the production-sharing contract (PSC) with a 90% working interest
- Signed a resolution with other investors sanctioning the Phase 3 development of the Azeri-Chirag-Deepwater Gunashli (ACG) field in the Azerbaijan sector of the Caspian Sea (Unocal, 10.28% working interest)
- Progressed with construction on the Phase 1 and 2 developments of the Azerbaijan International Operating Company (AIOC) project in the Caspian Sea (Unocal, 10.28% working interest); first oil at the wellhead expected in early 2005 for Phase 1
- Approximately 85 percent of construction completed on the Baku-Tbilisi-Ceyhan export pipeline from the Caspian Sea (Unocal, 8.9% equity interest)
- Received approximately \$67 million cash from the sale of Unocal's indirect interest in its last remaining oil and natural gas assets in Brazil; possible future payments contingent on achieving certain natural gas prices and/or volume thresholds
- Deepwater appraisal wells encountered hydrocarbons on the St. Malo prospect in the Gulf of Mexico (Unocal operator, 28.75% working interest) and on the deepwater Ranggas, Gehem and Gula prospects in Indonesia (Unocal operator of PSCs, 80% working interest)
- Completed deepwater Gulf of Mexico Sardinia well as dry hole, but encountered significant porous sandstones (Unocal operator, 40% working interest; 3Q dry hole expense of about \$1 million)
- Completed successful delineation drilling in the South Gomin operating area in the Gulf of Thailand; first gas production expected in 2006 (Unocal operator, 71.25% working interest)
- Elected not to proceed with its participation in five contracts to explore for, develop, and market natural gas resources in the Xihu Trough of the East China Sea

3Q 2004 financial and operating details

In the third quarter 2004, after-tax special items included \$38 million in tax benefits from prior-year audit settlements with federal and state tax authorities and a \$16 million gain from the sale of some non-oil and gas properties. These were offset partially by \$17 million in environmental and litigation provisions. All of the special items are detailed in the Adjusted After-tax Earnings Reconciliation table included at the end of this news release.

Unocal's third quarter 2004 adjusted after-tax earnings (compared with 3Q 2003) reflected higher worldwide crude oil and natural gas prices and lower net interest expense and litigation costs. These positive factors were partially offset by lower North America natural gas and liquids production, Xihu Trough (China) exit costs and power generation impairments.

Worldwide hydrocarbon liquids and natural gas production for the third quarter 2004 averaged 407,000 BOE per day, compared with 441,000 BOE per day in the same period a year ago. The production decline was due primarily to the sale of oil and gas producing assets in North America, which accounted for nearly

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27,000 BOE per day during 2003, Gulf of Mexico storms that reduced production by 2,400 BOE per day, natural production declines in North America, and lower contractor's cost recovery barrels from certain PSCs in Asia, as a result of higher commodity prices and recovery of sunk costs, which reduced production by about 7,200 BOE per day. Higher liquids production in Thailand and from the West Seno field in Indonesia partially offset these negative factors.

Third-quarter 2004 worldwide price realizations (including hedging activities) for natural gas averaged \$3.90 per thousand cubic feet (mcf), up from \$3.60 during the prior year's third quarter. The company's third quarter 2004 worldwide liquids price realizations (including hedging activities) were \$38.85 per barrel, up from \$27.28 in the third quarter 2003. Hedging activities in the 2004 third quarter decreased worldwide liquids realizations by \$1.51 per barrel and decreased worldwide natural gas realizations by 3 cents per mcf.

Unocal's preliminary EBITDAX for the third quarter 2004 was \$884 million, or \$3.22 per share (diluted). This compares with \$709 million, or \$2.60 per share (diluted), for the same period in 2003. EBITDAX is net earnings before interest, taxes, depreciation, depletion and amortization, impairments, exploration expenses, dry hole costs, special items, and the cumulative effect of accounting changes.

The company's total consolidated long-term debt (including current maturities) was \$3.1 billion at Sept. 30, 2004. Because of an accounting rule change, in the first quarter 2004 the \$522 million obligation for the Unocal Capital Trust convertible preferred securities was removed from the balance sheet and replaced by a debt liability of \$538 million in 6-1/4-percent junior subordinated debentures of Unocal payable to Unocal Capital Trust. Approximately \$269 million of this debt liability was repaid or converted to common stock in the third quarter 2004 in connection with Unocal's partial redemption of the trust's convertible preferred securities.

Unocal's cash and cash-equivalents were \$780 million at Sept. 30, 2004.

Nine-months results

Preliminary net earnings for the first nine months of 2004 were \$940 million, or \$3.48 per share (diluted), compared with \$463 million, or \$1.78 per share (diluted), reported for the same period a year ago.

Unocal's preliminary adjusted after-tax earnings for the nine months 2004 were \$764 million, or \$2.84 per share (diluted). Unocal's adjusted after-tax earnings were \$610 million, or \$2.32 per share (diluted), for the nine months 2003.

CONSOLIDATED RESULTS (UNAUDITED)	For the Nine Months Ended September 30,	
Millions of dollars except per share amounts	2004	2003
Earnings from continuing operations	\$ 877	\$ 529
Earnings from discontinued operations	63	17
Cumulative effect of accounting changes	-	(83)
Net earnings	940	463
Less: Special items in continuing operations	119	(72)
Less: Special items in discontinued operations	57	8
Less: Cumulative effect of accounting changes	-	(83)

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Adjusted after-tax earnings	\$ 764	\$ 610
=====		
DILUTED EARNINGS PER SHARE DATA (UNAUDITED)		
Net earnings per share:		
Continuing operations	\$ 3.25	\$ 2.02
Discontinued operations	0.23	0.06
Cumulative effect of accounting changes	-	(0.30)

Total net earnings per share	\$ 3.48	\$ 1.78

Adjusted after-tax earnings per share	\$ 2.84	\$ 2.32

REVENUES FROM CONTINUING OPERATIONS (UNAUDITED)	\$ 5,858	\$ 4,930
=====		

4Q 2004 earnings outlook

For the fourth quarter 2004, Unocal is forecasting adjusted after-tax earnings of \$1.15 to \$1.30 per share (diluted). This forecast compares with the Thomson/First Call mean of analyst estimates (published Oct. 25, 2004) of 99 cents per share for the fourth quarter 2004. Unocal's fourth quarter forecast assumes average NYMEX benchmark prices of \$53.00 per barrel of crude oil and \$7.30 per million British thermal units (mmBtu) for North America natural gas for the period.

Unocal's fourth quarter 2004 adjusted after-tax earnings are expected to change \$8 million for every \$1 change in its average worldwide realized price for crude oil and \$3 million for every 10-cent change in its average realized North America natural gas price, excluding the effect of hedging activities.

The forecast also assumes pretax dry hole costs in the fourth quarter of \$50 to \$75 million.

The fourth-quarter adjusted after-tax earnings forecast excludes special items and accounting changes. Because of the inherent uncertainty related to determining whether or when these items will occur and quantifying their dollar impact, Unocal does not believe it is able to provide a meaningful forecast of fourth-quarter net earnings.

2004 production outlook

Unocal currently expects worldwide production for the full-year 2004 to exceed 405,000 BOE per day.

The company's updated 2004-2005 net production outlook can be found in the Data Warehouse section of Unocal's Investor Relations web site, www.unocal.com. This document provides additional detailed ranges of the numerous areas of production, which describe the company's lowest and highest production estimates in those areas. In locations where Unocal is limited by market demand or pipeline capacity, the range is between the contract minimum and the highest past production or the estimated capacity limits of the producing assets. A sensitivity factor is provided to adjust future production for the impacts of PSC adjustments due to changes in oil prices.

About Unocal Corporation

Unocal is one of the world's leading independent natural gas and crude oil exploration and production companies. The company's principal oil and gas activities are in Asia and North America.

Conference call/financial database

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Unocal will webcast its quarterly earnings conference call today at 1 p.m. PDT (4 p.m. EDT) over the Internet. To listen to the live webcast, go to the Investor Relations section of the Unocal web site, www.unocal.com. Replays of the conference call, including questions and answers, will be available.

Additional financial tables for the third quarter 2004 and the comparable prior periods are available in the company's "Quarterly Fact Book," which is posted in the Data Warehouse in the Investor Relations section of the company's web site. The Quarterly Fact Book is also available upon request from Unocal Investor Relations.

* * * * *

Forward-Looking Statements; Preliminary 2004 Third Quarter Results This news release contains forward-looking statements about matters such as drilling and development plans and operations; dry hole costs; production rates, timing and growth; commodity prices; contingent payments pursuant to completed transactions; and adjusted after-tax earnings. Although these statements are based upon Unocal's current expectations and beliefs, they are subject to known and unknown risks and uncertainties that could cause actual results and outcomes to differ materially from those described in, or implied by, the forward-looking statements, including volatility in commodity prices; the company's ability to find or acquire commercially productive oil and gas reservoirs and to develop and produce deepwater fields and other complex projects in a timely and cost-effective manner; local demand, infrastructure and the distance to markets for the company's hydrocarbon production; the accuracy of the company's estimates and judgments regarding hydrocarbon resources and formations; decline rates of producing properties; adverse geological and other operational factors; the extent of the company's operating cash flow and other capital resources available to fund its capital expenditures; international and domestic regulatory, political, and economic considerations; negotiations with, and performance by, foreign government entities, joint venture partners, independent contractors, equipment suppliers, operators of properties in which the company has an interest, and other third parties; competition within the company's highly competitive industry; and other factors discussed in Unocal's 2003 Annual Report on Form 10-K, as amended, and subsequent reports filed by Unocal with the U.S. Securities and Exchange Commission (SEC).

Copies of the company's SEC filings are available from the company by calling 800-252-2233 or from the SEC by calling 800-SEC-0330. The reports are also available on the Unocal web site, www.unocal.com. Unocal undertakes no obligation to update the forward-looking statements in this news release to reflect future events or circumstances. All such statements are expressly qualified by this cautionary statement.

In addition, disclosures in this news release, including in the attached tables, regarding Unocal's third quarter 2004 financial results are preliminary. These disclosures are subject to change in connection with Unocal's preparation and filing of its Form 10-Q for the third quarter 2004.

Supplemental Non-GAAP Financial Measures

The news release includes certain "non-GAAP financial measures" as defined under SEC regulations. Specifically, Unocal has referred to (1) adjusted after-tax earnings and (2) EBITDAX. Adjusted after-tax earnings are defined as net earnings excluding special items and cumulative effects of accounting changes. EBITDAX is defined as net earnings before interest, taxes, depreciation, depletion and amortization, asset impairments, exploration expenses, dry hole costs, special items and cumulative effects of accounting changes.

Special items represent certain significant matters which positively or negatively impact net earnings and that management determines to be not representative of the company's ongoing operations. Examples include: gain/loss

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from major asset sales; environmental remediation costs related primarily to inactive, closed or previously owned company facilities and third party sites; costs or settlements associated with major restructuring plans; litigation settlement costs primarily associated with former company operations or closed/inactive facilities; significant impairments due to changes in commodity prices; material damage to company facilities or operations due to fire, explosion, earthquakes, storms or other "acts of god" not covered by insurance; certain costs associated with major acquisitions including litigation and significant trading derivatives; and insurance recoveries associated with former company operations or for costs incurred in prior years.

Unocal's management believes that adjusted after-tax earnings is a useful supplemental financial measure to investors and analysts because it facilitates a focus on the company's ongoing operations and allows for convenient comparisons to the company's prior reporting periods. Adjusted after-tax earnings is also used as a factor in calculating various performance measures in connection with payments under the company's annual bonus plan, and it is used by management as a factor in reviewing business unit performance. Unocal's management believes that EBITDAX is helpful to investors and analysts because it facilitates a comparison of companies like Unocal that use the "successful efforts" accounting method with other companies in the exploration and production industry that utilize the "full-cost" method of accounting.

Adjusted after-tax earnings and EBITDAX are not substitutes for net earnings determined in accordance with GAAP as a measure of profitability or other GAAP financial measures. Special items excluded from these non-GAAP measures do in fact positively or negatively impact net earnings. Other companies may define special items differently, and the Thomson/First Call mean of analyst estimates may not use a similar definition. Hence, these measures may not be comparable with similarly titled amounts reported by other companies or analyst estimates reported by Thomson/First Call.

A quantitative historical reconciliation of adjusted after-tax earnings and EBITDAX to GAAP net earnings is found in this news release, including certain of the tables accompanying the text.

* * * * *

CONSOLIDATED EARNINGS (UNAUDITED)

UNOCAL CORPORATION

	For the Three Months Ended September 30,		For the Ended Sep
	2004	2003	2004
Millions of dollars except per share amounts			
<hr style="border-top: 1px dashed black;"/>			
Revenues			
Sales and operating revenues	\$ 1,961	\$ 1,472	\$ 5,712
Interest, dividends and miscellaneous income	6	(2)	36
Gain on sales of assets	26	65	110
<hr style="border-top: 1px dashed black;"/>			
Total revenues	1,993	1,535	5,858
Costs and other deductions			
Crude oil, natural gas and product purchases	772	447	2,288
Operating expense	316	344	978
Administrative and general expense	35	61	144
Depreciation, depletion and amortization	248	231	720
Impairments	28	83	42

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Dry hole costs	12	14	77
Exploration expense	51	39	149
Interest expense	40	45	127
Property and other operating taxes	19	18	61
Distributions on convertible preferred securities of subsidiary trust	-	8	-

Total costs and other deductions	1,521	1,290	4,586

Earnings from equity investments	31	54	106

Earnings from continuing operations before income taxes and minority interests	503	299	1,378

Income taxes	172	145	495
Minority interests	2	4	6

Earnings from continuing operations	329	150	877
Earnings from discontinued operations (a)	1	2	63
Cumulative effect of accounting changes (b)	-	-	-

Net earnings	\$ 330	\$ 152	\$ 940
=====			
Basic earnings per share of common stock (c)			
Continuing operations	\$ 1.25	\$ 0.58	\$ 3.34
Discontinued operations	0.01	0.01	0.24
Cumulative effect of accounting changes	-	-	-

Net earnings	\$ 1.26	\$ 0.59	\$ 3.58
=====			
Diluted earnings per share of common stock (d)			
Continuing operations	\$ 1.22	\$ 0.57	\$ 3.25
Discontinued operations	0.01	0.01	0.23
Cumulative effect of accounting changes	-	-	-

Net earnings	\$ 1.23	\$ 0.58	\$ 3.48
=====			
Cash dividends declared per share of common stock	\$ 0.20	\$ 0.20	\$ 0.60

(a) Net of tax (benefit)	\$ 1	\$ 2	\$ 33
(b) Net of tax (benefit)	\$ -	\$ -	\$ -
(c) Basic weighted average shares outstanding (in thousands)	262,628	258,525	262,839
(d) Diluted weighted average shares outstanding (in thousands)	274,287	272,691	276,292

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

UNOCA

Millions of dollars	At September 30, 2004	At D

Assets		
Cash and cash equivalents	\$ 780	
Other current assets - net	1,699	
Investments and long-term receivables - net	827	
Properties - net	8,639	
Goodwill	133	
Other assets	442	

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Total assets	\$ 12,520
=====	
Liabilities and Stockholders' Equity	
Current liabilities (a)	\$ 2,163
Long-term debt and capital leases	2,842
Deferred income taxes	737
Accrued abandonment, restoration and environmental liabilities	891
Other deferred credits and liabilities	1,016
Minority interests	37
Convertible preferred securities of a subsidiary trust	-
Stockholders' equity	4,834

Total liabilities and stockholders' equity	\$ 12,520
=====	
(a) Includes current portion of Long-term debt and capital leases of:	235

CONSOLIDATED CASH FLOWS (UNAUDITED)

UNOCAL

For the Ni
Ended Sept

Millions of dollars	2004

Cash Flows from Operating Activities	
Net earnings	\$ 940
Adjustments to reconcile net earnings to net cash provided by operating activities	
Depreciation, depletion and amortization	720
Impairments	42
Dry hole costs	77
Amortization of exploratory leasehold costs	47
Deferred income taxes	13
Gain on sales of assets	(110)
Gain on disposal of discontinued operations	(86)
Pension expense net of contributions	(35)
Restructuring provisions net of payments	(18)
Cumulative effect of accounting changes	-
Other	(13)
Working capital and other changes related to operations	
Accounts and notes receivable	41
Inventories	(57)
Accounts payable	54
Taxes payable	29
Other	48

Net cash provided by operating activities	1,692

Cash Flows from Investing Activities	
Capital expenditures (includes dry hole costs)	(1,243)
Proceeds from sales of assets	278
Proceeds from sales of discontinued operations	123
Return of capital from affiliate company	48

Net cash used in investing activities	(794)

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Cash Flows from Financing Activities	
Long-term borrowings	137
Reduction of long-term debt and capital lease obligations	(247)
Minority interests	(2)
Repurchases of common stock	(170)
Repurchases of preferred securities	(253)
Proceeds from issuance of common stock	149
Dividends paid on common stock	(158)
Loans to key employees	24
Other	(2)

Net cash used in financing activities	(522)

Net increase in cash and cash equivalents	376

Cash and cash equivalents at beginning of year	404

Cash and cash equivalents at end of period	\$ 780
=====	

NET EARNINGS AND ADJUSTED AFTER-TAX EARNINGS
BY BUSINESS SEGMENT (UNAUDITED)

	3rd Q 2004		
	Net	Adjusted	Net
	Earnings	After-Tax	Earnings
		(a)	
Millions of dollars			

Exploration and Production			
North America			
U.S.	\$ 97	\$ 99	\$
Canada	15	15	
Total North America	112	114	
International			
Asia	189	189	
Other	31	31	
Total International	220	220	
Total Exploration and Production	332	334	

Midstream and Marketing	12	12	
Geothermal	3	3	
Corporate and Other			
Administrative and General	(19)	(19)	
Interest Expense - Net	(26)	(26)	
Environmental and Litigation	(20)	(3)	
Other	47	(7)	

After-tax earnings from continuing operations	329	294	
After-tax earnings from discontinued operations	1	-	

After-tax earnings	\$ 330	\$ 294	\$
=====			

(a) For a reconciliation to net earnings, see the Adjusted After-Tax Earnings Reconciliation table

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NET EARNINGS AND ADJUSTED AFTER-TAX EARNINGS
BY BUSINESS SEGMENT (UNAUDITED)

		3rd Q 2004	
Millions of dollars		Net Earnings	Adjusted After-Tax Earnings (a)
Exploration and Production			
North America			
U.S.		\$ 97	\$ 99
Canada		15	15
Total North America		112	114
International			
Asia		189	189
Other		31	31
Total International		220	220
Total Exploration and Production		332	334
Midstream and Marketing			
Geothermal		12	12
Corporate and Other		3	3
Administrative and General		(19)	(19)
Interest Expense - Net		(26)	(26)
Environmental and Litigation		(20)	(3)
Other		47	(7)
After-tax earnings from continuing operations		329	294
After-tax earnings from discontinued operations		1	-
After-tax earnings		\$ 330	\$ 294

(a) For a reconciliation to net earnings, see the Adjusted After-Tax Earnings Reconciliation table

NET EARNINGS AND ADJUSTED AFTER-TAX EARNINGS
BY BUSINESS SEGMENT (UNAUDITED)

		For the Nine Months Ended	
Millions of dollars		2004	2004
		Net Earnings	Adjusted After-Tax Earnings (a)
Exploration and Production			
North America			
U.S.		\$ 318	\$ 277
Canada		43	43
Total North America		361	320
International			
Asia		484	484
Other		77	77

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Total International	561	561
Total Exploration and Production	922	881
Midstream and Marketing	53	53
Geothermal	97	30
Corporate and Other		
Administrative and General	(67)	(67)
Interest Expense - Net	(91)	(91)
Environmental and Litigation	(47)	(11)
Other	10	(37)
After-tax earnings from continuing operations	877	758
After-tax earnings from discontinued operations	63	6
Cumulative effect of accounting changes	-	-
After-tax earnings	\$ 940	\$ 764

(a) For a reconciliation to net earnings, see the Adjusted After-Tax Earnings Reconciliation table

OPERATING HIGHLIGHTS

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
North America Net Daily Production				
Liquids (thousand barrels)				
U.S. (a)	51	63	54	67
Canada	16	17	16	17
Total liquids	67	80	70	84
Natural gas - dry basis (million cubic feet)				
U.S. (a)	486	644	503	709
Canada	83	90	83	91
Total natural gas	569	734	586	800
North America Average Prices (excluding hedging activities) (b)				
Liquids (per barrel)				
U. S.	\$ 40.37	\$ 28.41	\$ 35.77	\$ 28.64
Canada	\$ 35.43	\$ 24.02	\$ 31.22	\$ 25.37
Average	\$ 39.23	\$ 27.47	\$ 34.75	\$ 27.96
Natural gas (per mcf)				
U. S.	\$ 5.13	\$ 4.52	\$ 5.12	\$ 5.03
Canada	\$ 5.23	\$ 4.96	\$ 5.32	\$ 5.24
Average	\$ 5.14	\$ 4.57	\$ 5.15	\$ 5.05
North America Average Prices (including hedging activities) (b)				
Liquids (per barrel)				
U. S.	\$ 35.97	\$ 28.27	\$ 31.63	\$ 28.18
Canada	\$ 35.43	\$ 24.02	\$ 31.22	\$ 25.37
Average	\$ 35.85	\$ 27.36	\$ 31.54	\$ 27.59
Natural gas (per mcf)				
U. S.	\$ 5.06	\$ 4.56	\$ 5.19	\$ 4.78
Canada	\$ 5.01	\$ 4.64	\$ 5.04	\$ 4.93
Average	\$ 5.05	\$ 4.57	\$ 5.17	\$ 4.79

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- (a) Includes proportional interests in production of equity investees.
 (b) Excludes gains/losses on derivative positions not accounted for as hedges and ineffective portions of hedges.

OPERATING HIGHLIGHTS (CONTINUED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
<hr/>				
International Net Daily Production (c)				
Liquids (thousand barrels)				
Asia	70	59	66	58
Other (a)	18	20	19	20
<hr/>				
Total liquids	88	79	85	78
Natural gas - dry basis (million cubic feet)				
Asia	927	934	888	956
Other (a)	15	23	24	23
<hr/>				
Total natural gas	942	957	912	979
International Average Prices (d)				
Liquids (per barrel)				
Asia	\$ 41.04	\$ 26.64	\$ 35.58	\$ 26.92
Other	\$ 42.33	\$ 29.25	\$ 36.63	\$ 27.76
Average	\$ 41.27	\$ 27.20	\$ 35.80	\$ 27.11
Natural gas (per mcf)				
Asia	\$ 3.19	\$ 2.86	\$ 3.09	\$ 2.79
Other	\$ 4.21	\$ 4.57	\$ 4.18	\$ 4.45
Average	\$ 3.20	\$ 2.87	\$ 3.10	\$ 2.80
<hr/>				
Worldwide Net Daily Production (a) (c)				
Liquids (thousand barrels)	155	159	155	162
Natural gas - dry basis (million cubic feet)	1,511	1,691	1,498	1,779
Barrels oil equivalent (thousands)	407	441	405	458
Worldwide Average Prices (excluding hedging activities) (b)				
Liquids (per barrel)	\$ 40.36	\$ 27.34	\$ 35.32	\$ 27.55
Natural gas (per mcf)	\$ 3.93	\$ 3.60	\$ 3.91	\$ 3.79
Worldwide Average Prices (including hedging activities) (b)				
Liquids (per barrel)	\$ 38.85	\$ 27.28	\$ 33.85	\$ 27.36
Natural gas (per mcf)	\$ 3.90	\$ 3.60	\$ 3.92	\$ 3.68
<hr/>				

- (a) Includes proportional interests in production of equity investees.
 (b) Excludes gains/losses on derivative positions not accounted for as hedges and ineffective portions of hedges.
 (c) International production is presented utilizing the economic interest method.
 (d) International did not have any hedging activities.

ADJUSTED AFTER-TAX EARNINGS RECONCILIATION (UNAUDITED)

Millions of dollars except per share amounts

3rd Q

2004

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Net earnings	\$ 330
Less: Special items from continuing operations	
E&P - North America - U.S.	
Asset sales	(2)
Impairment	-
Midstream & Marketing	
Impairment	-
Geothermal	
PGI settlement	-
Corporate and Other	
Asset sales	16
Environmental and litigation provisions	(17)
Net tax adjustments for settlements / assessments	38
Restructuring provisions	-
Provision related to Agrium arbitration settlement	.
Less: Special items from discontinued operations	
Gain on asset disposals	1
Adjusted after-tax earnings	\$ 294
Adjusted after-tax earnings per share (diluted)	\$ 1.09

ADJUSTED AFTER-TAX EARNINGS (UNAUDITED)

For the N
Ended Sep

Millions of dollars except per share amounts

2004

Net earnings	\$ 940
Less: Special items from continuing operations	
E&P - North America - U.S.	
Asset sales	26
Impairment	-
Litigation provisions / settlements	15
E&P - North America - Canada	
Derivatives -- non-hedging	-
Midstream & Marketing	
Impairment	-
Geothermal	
Asset sales	21
PGI settlement	46
Corporate and Other	
Asset sales	16
Environmental and litigation provisions	(42)
Net tax adjustments for settlements / assessments	65
Restructuring provisions	1
Provision related to Agrium arbitration settlement	(29)
Less: Special items from discontinued operations	
Gain on asset disposals	57
Less: Cumulative effect of accounting changes	-
Adjusted after-tax earnings	\$ 764
Adjusted after-tax earnings per share (diluted)	\$ 2.84

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EBITDAX RECONCILIATION (UNAUDITED)	For the Three Months Ended September 30,		For t Ended
Millions of dollars except per share amounts	2004	2003	
Net Earnings	\$ 330	\$ 152	\$
Less:			
Special items from continuing operations	35	(38)	
Special items from discontinued operations	1	-	
Cumulative effect of accounting changes	-	-	
Adjusted after-tax earnings	294	190	
Add-backs to adjusted after-tax earnings:			
Depreciation, depletion and amortization (a)	248	231	
Impairments	28	31	
Dry hole costs	12	14	
Exploration expenses (including amortization of undeveloped leasehold costs)	51	39	
Current income taxes	145	62	
Deferred income taxes	66	97	
Interest expense (b)	40	45	
EBITDAX	\$ 854	\$ 705	
EBITDAX per share (diluted)	\$ 3.22	\$ 2.60	\$
(a) Includes DD&A from discontinued operations of:	-	-	
(b) Net of capitalized interest of:	18	11	

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