FINAL TRANSCRIPT

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UCL - Q4 2004 Unocal Earnings Conference Call

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OVERVIEW

In 4Q04, UCL signed the Bangladesh gas sales agreement for Bibiyana field. In 4Q04, the hedging program had the effect of decreasing overall revenues by $53m, which resulted in a $0.57 per unit lower price for North American natural gas, and $1.56 per barrel price for worldwide liquids. UCL expects to spend around $1.9b in 2005. 2005 annual production is expected to exceed 425,000 BOE per day. Q&A Focus: Pipeline, foreign profits, and West Seno.

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PRESENTATION

Operator

Good afternoon and welcome to today's fourth quarter 2004 earnings conference call. Following today's presentation there will be a formal question-and-answer session. At that time instructions will be given. Until that time all lines will remain in a listen-only mode. At the request of Unocal today's teleconference will be recorded. Any objections, you may disconnect at this time. I would now like to turn the call over to Mr. Robert Wright. Sir, you may begin when you're ready.

Robert Wright - *Unocal - VP of Investor Relations*

Thanks, Anita, and welcome, everybody, to the fourth quarter conference call. Just some housekeeping things up front: a replay of this audio broadcast will be available through our website and over the telephone. Please call Investor Relations if you have any questions. There are also some slides available for you to view as a supplement to what is mentioned on the call. You can view the slides through the Unocal website at www.unocal.com. As we progress through the call some of the slides will be referenced by number. We're actually not going to show all the slides, but they're there for your use. And some are provided for backup purposes only-- most of them.

Our presentation today including these slides contains forward-looking statements and non-GAAP financial measures. Please refer to slide two for a cautionary note regarding the forward-looking statements and for the location of the reconciliation and other information regarding the non-GAAP financial measures.

Joining me on the call today is Chuck Williamson, our Chairman and CEO; Joe Bryant, our President and COO; and Terry Dallas, our Executive Vice President and CFO. Before I get into my portion of the call I'm going to turn the call over to Chuck Williamson.

Chuck Williamson - *Unocal - CEO & Chairman*

Thanks, Robert, and thanks to all of you for joining on the call today. We're going to cover three areas with our comments today. First some brief highlights of the fourth quarter. Secondly a summary of 2004, then we'll focus on what to expect from us in 2005.

As Robert said, Joe Bryant will hit the operational highlights and Terry Dallas will update you on the financial report and our 2004 reserves.

I hope you've all had a chance to look at the slides. As Robert said we're not going to go through each of the slides but I'll refer to them as we go ahead.

We certainly had a strong fourth quarter with our adjusted earnings of over $300 million aided by a five percent production increase over third quarter. Our fourth quarter production totaled 428,000 BOE per day, largely due to record gas sales in Thailand and increases in Indonesia at our West Seno field. And Joe will update you on that in moment.

We were very fortunate that none of our employees or operations were significantly impacted by the devastation and tragedy of the tsunami that struck Asia in late December. I was just in Thailand a couple weeks ago and met with the Thai Prime Minister and Energy Minister who were most grateful for the help that we were able to provide in Southern Thailand in the early hours of the disaster. We'll continue to work with those host governments but I thank all of you who expressed your concerns about our people and operations.

The strong price environment and volume increases in the fourth quarter enabled us to generate significant free cash flow and earnings despite a higher than usual dry hole expense. We've used the free cash flow to redeem our outstanding preferred shares and intend to do further stock repurchases, and Terry will give you some more detail on that.

Operationally we had a lot of highlights that were outlined in the press release, but I want to highlight particularly the Bangladesh gas sales agreement that we signed for the Bibiyana field. That's our largest field in Bangladesh; we've already started working on that for our first production in late 2006. This is our third gas sales agreement in Bangladesh, and this is a business that is rapidly becoming a significant part of our 2005/2008 growth in Asian gas.

We also resolved two long-running areas of litigation during the quarter: the Myanmar and Agrium cases. We're not going to comment today on the details of either case, but I'll say we're pleased to have these behind us.

2004 was a very strong year for us financially despite some set-backs, certainly in the earlier part of the year, including the loss of our President and COO Tim Ling. We continue to miss Tim and our thoughts are with his family.

I am delighted that we've been able to attract someone of Joe Bryant's caliber. He's already making a big impact and he'll tell you what he's focusing on over the next year or so in a moment.

If you look at slides three and four in the deck that we sent you can see some of our highlights. I'm not going to walk through all of those. As I said, we had a record year for earnings that allowed us to strengthen the balance sheet, contribute to the pension plan and do some stock repurchases.

We had some very important appraisal successes in the Gulf of Mexico and in Deepwater Indonesia that are allowing us to progress these projects towards sanction in the next year to two years. We've made significant progress in developing some major new gas projects in Thailand, Indonesia, and Bangladesh. I have to say I think our international portfolio of developments has probably never been stronger.

Importantly, our new production projects for 2005 stayed on or ahead of schedule and Joe will update you on those in just a moment. I think one of our biggest challenges ahead will be around managing the decline of our more mature assets, particularly in North America and in the Indonesia shallow water. We'll be managing these assets for margin; focusing on capital efficiency and the cost control issues in order to generate good returns.

I think in many ways we're fortunate compared to many of our other colleagues in the independent sector to have a very rich portfolio of high-return, large international projects and you'll see us dedicating increasing capital to those areas as we go forward. If you look at slide five that shows some of the priorities for 2005. We'll be discussing these in more detail in our April 13 analyst meeting in New York.

As I mentioned, we have the five new projects coming on line in 2005, and I am very confident that we will exceed what we call our "must-beat number" for annual production guidance that we put out in the release this morning. All these projects are in ramp-up mode throughout the year, and they'll provide an important platform for our production growth for many years to come.

We've reshaped our capital budget to dedicate more capital to the next tier of appraisal and development projects. We've considerably reduced the exploration capital this year and you'll see that in the highlights. But we still will be drilling several very high-impact wells, particularly in deep water Gulf of Mexico, and more to go still in deepwater Indonesia. A lot of those cuts have come from the deepwater Indonesia exploration program, where we're focusing more on monetizing what we've already found. This is an important year for us to move our deepwater discoveries in Indonesia and the Gulf of Mexico forward, and also to prepare for the third pipeline in Thailand and the big growth that we have coming in Bangladesh.

I have to say it feels pretty good to have as much confidence as we have in 2005, and be thinking about what we're working on -- the projects for 2006, 2007, 2008 and beyond. That's a high-level overview. I'm going to turn it over to Joe now, and he'll give you some of the more specific details on 2005 and some of our other 2004 activities.

Joe Bryant - *Unocal - COO & President*

Thanks, Chuck. I'll spend a bit more time going into detail on things you spoke to earlier. In terms of an operational update, I'd like to spend a few minutes on production including the outlook for 2005, then go around the world and give you some additional detail on the quarter and our plans for the year. Then, before I pass it on to Terry and because I'm sure many of you are curious about what I've been working on since I arrived, I'll outline some of my observations and priorities, and I'll tell you what I'm committed to delivering on going forward.

Firstly, let me say few words about production. You'll have no doubt noticed that we had an outstanding fourth quarter. Production was 428,000 barrels a day, as shown on slide six, up about five percent from our third quarter production of 407,000 barrels a day. This increase was driven by a number of factors, as Chuck mentioned, including West Seno volume which was up 17,000 barrels a day quarter over quarter, AIOC, and East Kalamantan, which was supported by a special ???? which resulted in approximately 3,000 barrels a day. This brought our 2004 annual average to 411,000 barrels a day, beating our "to exceed" number of 405,000.

So while we are pleased with the outstanding production in the quarter, we're cautious about assuming this exit rate from which we will build our 2005 guidance. It's probably more appropriate to look at our 2004 full year performance to do that.

On a like for like basis, our 2004 production was 407,000 barrels a day, considering asset sales particularly in Brazil and the Blackstone fee interest. As we announced today, our 2005 to-exceed number is 425,000 barrels a day, giving us a year on year growth rate on a like for like basis of at least 4 1/2 percent, which is supported by the five major projects coming on line in 2005.

We will offer a conservative view to reflect the uncertainty surrounding start-up dates and deliverabilities of these new projects. While we do not anticipate any issues related to our new projects, we're going to exercise judgment related to their full year production impact. As the year unfolds we will continue to update our guidance as events dictate. In addition, for the first time in a very long time at Unocal, we do not feel like we have to chase production, especially with undisciplined capital programs. We've waited a long time to be in a position to exercise quality through choice in our investment decisions.

Given that we are now on the verge of creating a world-class production portfolio, we can be much more selective in the production generating opportunities that we find. There are a few areas in our portfolio that are particularly vulnerable to decreased capital spending that may be impacted by this enforced discipline. We're just not going to continue to invest in marginal opportunities if they do not meet our quality standards. As the year unfolds we will monitor developments in all of our businesses and will fund opportunities as they arise.

So in summary on our production guidance, we believe the 425,000 barrels a day represents real growth on a like for like basis, up 4 1/2 percent and is certainly a number that we intend to beat.

Let me talk now about our operations around the world, beginning in North America with the deepwater Gulf of Mexico. Of course, the big news so far in 2005 is the start-up of Mad Dog, operated by BP. Mad Dog is already on line, producing about 7,800 barrels a day from one well. We expect to bring three more wells on line this year as we ramp up production. We're currently drilling an exploration well on the southwestern fault block of the Mad Dog field, and we expect to leave this site sometime in February. Also in the Mad Dog area, our partner and operator BP plans to reattempt to reach the Paleogene objective beneath Mad Dog at the drill and appraisal test at Puma.

K2 is operated by ENI, and we expect the field to come on stream in the second quarter with three wells ultimately on line. Together both K2 and Mad Dog will add 11,000 to 12,000 barrels a day, net, by the end of the year for Unocal. Our drill ship, the Discover Spirit, will leave Mad Dog and move to Knottyhead, the Miocene prospect on Green Canyon 512, which is one of the highest bid blocks in last spring's sale. After we drill the Knottyhead prospect we'll move to St. Malo sometime in the second quarter to appraise the western portion of that discovery. We're not ready to say what our plans for the rig are after St. Malo, but I will note that we will release the rig no later than September.

Let me say a few words about our plans at St. Malo. We've been evaluating data from both of our initial wells, which will help us understand our development options in more detail.

As part of our appraisal plan, we believe that we will add significant value by drilling a third well on the western half of the structure. This will also provide us a usable well bore to conduct a well test sometime in 2006, if that is what we decide is needed. I might add that a useful production test will take about 15 to 18 months to plan and to execute. We've not made that decision yet. But we are putting all of the pieces in place to go forward if we decide a production test is needed to determine commerciality.

I do want to mention the Champlain project, which we have decided to exit. We're in the process of negotiating the sale of our interest in the project because we believe our resources would be better employed on the larger projects in our portfolio that can create both scale and quality. Simply stated, we'll focus our efforts where they can have the biggest impact for our shareholders.

I'm not going to go into detail about the rest of our North America portfolio except to say that we're looking at some new opportunities in Pure. We expect production at Northrock to remain relatively flat this year. I think you should expect us to revisit the status of our Cook Inlet assets, once our commitments to Agrium are met on October 31st. However, overall, these businesses are going to be focused on defending and growing their margins, and we'll manage them for cash generation.

Let me touch on the other three big projects that complete our big five in '05 plan. The most significant of these is the start-up of the Phase I oil production at AIOC. Production should begin flowing there in March or April. The BTC pipeline should be completed sometime in the second or third quarter, and we should begin building our line fill volume of about 10 million barrels gross immediately upon start-up. First lifting at Ceyhan is now expected sometime later in the year.Beginning in the second quarter, the Moulavi Bazar field will come on line in Bangladesh, delivering some 70-100 million cubic feet of gas per day gross to the local market. Our net Bangladesh production for the second and third quarters will be significantly higher than it is today. However, because our cost basis is extremely low for Moulavi Bazar and we get cost recovery volumes not only from that field, but from Jalalabad as well, we will likely complete cost recovery in the early fourth quarter. This means that our net fourth quarter production will decline. While this may seem counter intuitive, this is great news in that we have controlled project costs and will be able to achieve cost recovery so quickly. That detail is contained in our production outlook disclosure.

Our final project in 2005 is the expansion of our Pattani oil production project in Thailand. This will come online mid-year, bringing oil production levels to about 40,000 barrels a day. Also in Thailand, PTT is progressing on schedule with the third gas pipeline and we have high confidence that it will be completed as planned in mid-2006.

Moving to Indonesia, we're moving forward on planning for a greater Gendalo development and hope to disclose some additional details at our investor meeting on April 13th.

We're also in the early stages of engineering for our greater Gehem development, which will come on line after Gendalo as our third major hub in deepwater Indonesia.

We've completed appraisal at Sadewa and are moving forward on conceptual design of a shelf-based project to commercialize this resource.

In exploration, our Tarakan Basin wells were disappointing with one dry hole, and one well with some pay, although we're still evaluating those results with our partners. Our Papalang well in the Kutei Basin was also a dry hole. We're currently drilling a well in the Dongala PSC. It's too early to discuss that result, but we'll share it with you as soon as we can.

Going forward, we expect to scale back our program in the Kutei Basin to be what I would describe as "just in time" exploration. This program will focus on three things: exploration; exploitation to keep our three hubs full for many years into the future, honoring our commitments in each of the PSCs; and lastly focusing on oil prospects in the deepest part of the basin. As we transition to this exploration model, we will spend less money in Indonesia in exploration this year, but I would not want to you get the impression that our prospect portfolio is wearing thin. This new approach will also allow us to get the entire organization focused on commercializing our current discoveries in a very disciplined way.

Let me close my remarks by talking about what I've been up to over the past few months. I spent most of my time on the road, getting to know our people and our assets. It's been a real pleasure to meet such talented people around the world, and I believe that Unocal has some of the most exciting growth assets of any Independent in the business. They're unique and they represent some amazing unrealized value.

I came here to help unlock that value and create additional wealth for shareholders by delivering performance that is a step-change from our historical mediocrity. We're going to do that by making some changes in how we run this business. There are four headline focus areas for our operations that we'll focus on this year. In summary, they are: executing on our Thailand growth strategy, achieving maximum value from our Indonesian assets, simplifying our North American businesses to ensure long-term profitability, and gaining clarity in our global exploration and growth strategy.

We've got to be very clear about the purposes for all of our existing businesses. As I alluded to earlier in my production discussion, we'll make very deliberate decisions about the trade-off between margin and volume growth in each one of our businesses. You know, let me be clear. We have to improve our metrics in each link of our value chain. I've not talked to you about Unocal's safety performance, but let me assure you we're going to improve that as well. In the short time I've been here I'm already starting to see renewed enthusiasm for safety. And I believe this will ultimately translate directly into a stronger bottom line. This is an exciting time to be at Unocal and I look forward to providing leadership in all of these areas. Thank you very much, and I'll turn it over to Terry for a few words.

Terry Dallas - *Unocal - CFO & EVP*

Thank you, Joe. I'm going to talk for a few moments about our 2004 oil and gas reserve performance. I'm going to talk a little bit about our 2005 capital budget, and I'm going to close with a discussion on the use of cash.

For 2004, Unocal added 150 million barrels equivalent of oil and gas which equates to a 96 percent reserve replacement ratio. Without our sales and purchases of reserves, we would have been at 105 percent. Our two biggest increases in reserves for 2004 would be the Bibiyana field, which we booked as a result of signing of the gas contract that Chuck spoke to, and the sanctioning of the project and the booking of AIOC Phase III, which was approved by the partnership in 2004.

Offsetting those increases were an adjustment due to price in our production sharing contracts. From 2003 year-end price to 2004 year-end price, we saw a $10 increase, which under our production sharing contracts , results in a decrease of reserves of about 39 million barrels in Indonesia, Bangladesh, and AIOC.

In addition, there was a $30 million reserve adjustment negative at West Seno -- $20 million for performance, and $10 million for the reduction in Phase II, which is now expected to be pursued with extended reach drilling. We will have to wait until we see the performance of those wells, and that should be in the next two years. Finally on reserves, I would comment that what we didn’t book in 2004 is just as important as what we did book.

We have not booked Unocal's percentage of the Arthit field in Thailand, the Sadewa field in Indonesia that Joe mentioned in his remarks, or the Gendalo field which we're working on as our first deepwater hub in Indonesia. Nor did our 2004 bookings include the gas reserves of Gehem. All of those reserves will be booked over the next few years.

As far as capital goes for 2005, we expect to spend around $1.9 billion dollars. This is the equivalent of roughly where we were for our budget for 2004, although our actual spending for 2004 was about $1.74 billion. The decrease in actual from the budget was a result of us exiting China and eliminating West Seno Phase II in 2004 because of the high bids that we got late in the year.

As Joe mentioned, we see a substantial shift from exploration to development as we focus on our major gas development projects in Indonesia, and we look to appraise the discoveries we've had in the Gulf of Mexico deepwater over the last year and a half. We'll see our exploration spending for 2005 at about $175 million, compared to about $250 million that we spent in 2004.

As far as the cash position of the company, we ended 2004 with a cash balance of about $1.1 billion. That cash balance includes money that was approved in our announced stock repurchase program, and our announced calling of our convertible preferred. We called the convertible preferred in early January, and because of the high stock price, almost all security owners converted it to common. So we have $459 million that has been authorized by the board to use to repurchase shares. We would expect that program to be completed by the end of the second quarter.

I feel comfortable, as I've said before in these calls, that our debt level is about right, and our balance sheet is strong enough to get us through a lot of variation both in the investment that we need to make and for commodity price. So we would anticipate that the debt that becomes due in 2005, which is about $250 million, that we would just refinance that debt.

We will discuss on a quarterly basis with the Board what the best use of any excess cash would be. I think the discussion, as it has over the last two quarters, would go down through the path of other investments that make sense, and our comfort level with our debt ratio. And then the last decision, of course, is how do we get any excess cash back to the shareholders in a shareholder friendly manner?

So as Chuck mentioned earlier in the call, if circumstances stay as we see them today, we would expect more stock repurchases as the year progresses. With that I'll turn it back over to Robert for questions.

Robert Wright - *Unocal - VP of Investor Relations*

I have a few extra remarks before we get to that, Terry. Just to review, the information that is relevant to the debt and the cash is on slide 7, , and the capital expenditure detail is on slide 8.. There's some detail on the reserves on slides 9 and 10.

One of the things I wanted to share with you, I did get some questions this morning and I thought I'd share them with everybody on the call, concerning our DD&A in the United States. We had a $26 million impairment that was included in the adjusted earnings, or the clean earnings, for the fourth quarter. It reduced our after-tax earnings by about six cents a share. It also had the impact on DD&A in the United States of increasing it by $2.15 per unit. The impact on North America was $1.76 per unit and the impact in the worldwide was 66 cents per unit. This impairment shouldn't be repeated. It related to some assets that Pure acquired from Hallwood several years ago, and so I didn't want you to think that was an ongoing rate for the company's DD&A.

The other major elements of the financial performance of the fourth quarter versus the third quarter were furnished this morning via e-mail. They were faxed, posted on our website, and we furnished them on Form 8-K to the SEC. So this information is very widely available. It's repeated on the last six slides, slides 15 through 20.

So unless there are any questions, I'm not going to discuss those variance factors or special items on the call. You may, of course, call Investor Relations for more information on those slides after the call ends.

I do want to talk about our latest outlook. The outlook for production, as Joe mentioned, in the first quarter of 2005 is available in the data warehouse section of our website, or you can contact Investor Relations and we'll e-mail you or send you a copy of the outlook. This outlook contains detailed ranges of expected first quarter production compared to fourth quarter actual figures. As stated in our news release, 2005 annual production is expected to exceed 425,000 BOE a day. The quarterly contribution in 2005 of the new large projects is also available on the last page of the production outlook file.

Today's press release also stated our consolidated adjusted earnings outlook for the first quarter, and you can review those elements on page 11, or slide 11. Since commodity prices are such an important driver of results, I want to remind listeners that forward-looking price assumptions are subject to significant change on a daily basis, and analysts should look to the changes in the latest NYMEX contract prices for oil and natural gas to adjust their earnings estimates accordingly during the remainder of the year.

As shown on slide 12, the outlook for non-E&P and Corporate e segments for adjusted after-tax results in the first quarter and the full year are shown. The midstream and marketing segment earnings expectation is between $23 and $27 million after tax for first quarter, and between $75 and $85 million for the full year 2005.

The outlook for Geothermal is for earnings between $15 and $18 million in the first quarter, and between $60 and $70 million for the full year. Total Corporate and Other expected range of after-tax costs are between $50 and $65 million for the first quarter, and between $255 and $290 for the full year 2005. The breakdown of the individual Corporate and Other segments are shown on slide 12.

Unocal's hedging program is dynami,c and volumes and prices associated with the hedges can change over time. In the fourth quarter, the hedging program had the effect of decreasing overall revenues by $53 million which resulted in a 57-cent per unit lower price for North American natural gas, and $1.56 price per barrel for worldwide liquid. We have put in place several future derivative positions that have the effect of fixed-price sales for natural gas and oil. In the first quarter we have fixed the price at $7.39 for 251 million units of gas per day. We also fixed the price at $48.14 for 25,000 barrels of liquids per day. You can see that detail on slide 13.

Hedge positions for the second and third quarters for 2005 are also shown on slide 13. Hedge position for the fourth quarter are not significant, but if you want to see those you can check on our website. Every time we update our hedges, we update our position on the website, and you can check in the Investor Relations section of the website for a work sheet that shows the most recent update on hedge volumes. Okay, Anita, we've now reached the Q and A section of the call, and so I'd ask to you begin that process.

QUESTIONS AND ANSWERS

Operator

Thank you. [Caller instructions] And our first question comes from Steve Enger, Petrie Parkman. You may ask your question, sir.

Steve Enger - *Petrie Parkman & Co. - Analyst*

Thank you. A few questions on Indonesia. Can you talk a bit about, one, the excellent production performance you've seen on West Seno, but more importantly your near-term outlook for production. Secondly, on Sadewa, is there a chance that project could result in some incremental gas sales ahead of Gendalo? And thirdly, how many deep oil targets might you drill in Indonesia this year? Thanks.

Chuck Williamson - *Unocal - CEO & Chairman*

Thanks, Steve. I'll let Joe address the West Seno production issues and we'll come back to Sadewa and exploration.

Joe Bryant - *Unocal - COO & President*

On West Seno, we continue to be pleasantly surprised with the production performance. We exited the year at 40,000 BOEs a day. We've got a couple things coming up here that we're thinking about when we try and project West Seno's production into 2005, one of which is that we've just released the rig at the end of the year and we're going to get that rig back probably later in the third or fourth quarter. So we won't have a rig on location now in the event production should start to decline. Secondly, we do have about a one-month turnaround plan for the West Seno facility in the second quarter, which we factored into our production estimate. So although we're pleasantly surprised and very pleased with the production so far, our forecast for this year is probably to end the year lower than where we started.

As to your question on Sadewa, certainly that's a possibility, because more than likely it will be a shelf development with extended reach wells. We would hope we could get some production from Sadewa before we get greater Gendalo on line. I'll let Chuck say a few words about the deep exploration targets.

Chuck Williamson - *Unocal - CEO & Chairman*

There's not a lot I can tell you, other than we have multiple prospects and leads out there. Those three outboard PSCs, outboard West Seno and Gendalo and that area, where we've only drilled a couple wells, is a huge area. We had, as Joe mentioned earlier, a couple dry holes in the region. We're on a well right now and we probably have -- I don't know the exact number, Steve, but I would guess we have three, four additional deep tests left before we release the rig sometime in the middle of this year.

So we will be continuing to prospect out there in the deep, and we're looking primarily for oil. There's huge targets, huge structures, but as I've said all along, we're never clear on the plumbing out there. That's the big issue. Whether it's oil and gas and whether it's adequately sourced.

So we say we're cutting back on exploration in Indonesia, and we are, in terms of our spend. But we still have some pretty big impact wells for those outboards, and I won't bore you with all the names, but they're on the Donggala and Papodi PSCs for the most part.

Steve Enger - *Petrie Parkman & Co. - Analyst*

Okay, thanks and Joe, just a couple of follow-ups: on Sadewa, what's the range of potential start-ups as you see it now?

Joe Bryant - *Unocal - COO & President*

I'm reluctant to say a range on that because we're just now getting through the concept stage. It certainly would be - not 2005. Beyond that, I don't want to speculate. Let the team actually put some plans together and then I can talk about it.

Steve Enger - *Petrie Parkman & Co. - Analyst*

Then on West Seno, in terms of individual well performance, maybe some of the older wells, how do those look now where you have a bit more history relative to your expectations as they've evolved over time?

Joe Bryant - *Unocal - COO & President*

That's a good question. Part of the issue at West Seno is that it's not one big tank of oil. As a matter of fact, it's several sands which contain both oil and gas. So part of the reason for our production increase in the fourth quarter and late third quarter has been multiple recompletions chasing sands up and down well bores as sands deplete. So, we haven't seen anything that's particularly surprising. But the point I would make is that some sands are bigger than others, and they deplete faster than others, and what we've been able to do is rapidly deplete the smaller sands and get on to other sands. The result of that has been higher overall production for the field.

Steve Enger - *Petrie Parkman & Co. - Analyst*

Just takes more work.

Joe Bryant - *Unocal - COO & President*

It takes more work, but that was in our initial estimate of what it took to produce the field. It's just getting organized to get it done, and that's what the team has done so very well.

Steve Enger - *Petrie Parkman & Co. - Analyst*

So could there be some downward pressure here on rate in the first half, as you said, because you're not going to have to a rig available to kind of help in that regard?

Joe Bryant - *Unocal - COO & President*

Yes, sir.

Operator

Our next question comes from Bob Morris from Banc of America. You may ask your question.

Bob Morris - *Banc of America - Analyst*

Good afternoon, Chuck, Joe, and everyone. North America seems -- or continues to be a challenge here. I know your finding costs, even though a lot of that was deepwater related, that you did booking and reserves for, but still was well above your long-term $8 per barrel target, and I know you've got some stuff that you said you planned for Pure Resources, but in looking at North America how do you address the production declines that you continue to face there? Will you look at some point to sell maybe some of those assets that you can hold production up on, or how do you kind of bolster things to get to your longer term goal of keeping production just flat in North America?

Chuck Williamson - *Unocal - CEO & Chairman*

Bob, I think I'll start and let Joe add to it. If you parse off North America, I look at it as Gulf of Mexico shelf that has higher declines and depletion than the rest of our North American portfolio.

Let's just start with kind of where we are on the Gulf of Mexico shelf. For 2004, our decline on the shelf was about roughly 18 percent with a $55 million capital spend, and essentially no exploration. So that's the Gulf of Mexico shelf piece, around 54 or 55,000 barrels a day, now declining into the 40s. So we treat the Gulf of Mexico shelf, I look at it quite differently than I do Pure or Northrock particularly that have longer R/Ps and less steep declines.

How are we going to deal with it? Just as Joe said in his opening remarks. I think that there is always going to be a time where we will consider selling some of those assets. I'm not saying it's imminent, but there will always be a time for end of life for those, for us to be the owner. So, I never say we're not going to sell more assets there, we certainly look at that on a regular basis. What we're more focused on is putting the right level of capital to them rather than holding production flat.

Now, in our forecast for '05, the guidance that we put out, we decline North America on round numbers between 5 and 10 percent in our forecast. But that's without the deepwater. With the new deepwater projects we roughly hold North America flat, which I think is what you referred to. So, North America is continuing to decline at the present level of capital without the deepwater, and that's just a capital efficiency question for us, just what Joe said in his remarks. So we're not planning on holding it flat at all costs. That's the message.

We happen to have new deepwater production – better return production -- that is helping, and, you know, that's kind of where we get to. Now, the F&D costs for North America were a big disappointment, even excluding deepwater for me, and you can look at them and back it out and I don't know the exact number, but it's on the order of around $14.20. That's not outrageously high, but it's not good. So I think that's the challenge Joe's talking about. It's getting the right level of capital to those avenues. I'd like to see our F&D more like $10. We know $8 is now unrealistic, with the escalation in services and rig costs, etc. But I think at $10 we can still make a lot of money in North America, and we're going to keep trying to push our capital to $10 F&D without deepwater.

Bob Morris - *Banc of America - Analyst*

What are the areas excluding deepwater that are still above $10 per barrel?

Chuck Williamson - *Unocal - CEO & Chairman*

I wish I could tell you. Let's see. All of them are, some higher than others. Gulf of Mexico shelf we didn't really add much in the way of reserves, so we knew it would be high. I'll let Joe address the others.

Joe Bryant - *Unocal - COO & President*

We look at Canada, I think Canada would be $10 to $12, and I think Pure can be under $10 a barrel. Those are the big pieces that Chuck hasn't talked about, so I would say an average of around $10 has got to be our target.

Bob Morris - *Banc of America - Analyst*

On a separate note here, on BP's Das Bump, looking at your La Jolla prospect, I know you were trying to negotiate some data swaps. Is there anything new that you've been able to do or that you can discuss with regard to that prospect?

Joe Bryant - *Unocal - COO & President*

This is Joe. The only thing I can say is that we have executed the data exchange with BP on Das Bump, and we do not expect to be drilling our La Jolla prospect at Das Bump this year. We don't think it would yield any incremental value beyond what we currently have. Beyond that I really can't say anything.

Bob Morris - *Banc of America - Analyst*

Thank you.

Operator

And our next question comes from Duane Grubert from Fulcrum.

Duane Grubert - *Fulcrum - Analyst*

In Thailand, where you've got the 2006 mid-year start up of the new third pipeline, can you talk a little bit about what signposts should we be watching for for the physical construction of that pipe, which I know you guys have nothing to do with the actual construction of, but for example by the next conference call, what should we be seeing having been accomplished to make you comfortable that the pace of getting that pipe is on schedule?

Chuck Williamson - *Unocal - CEO & Chairman*

I'll answer that. Having just come from Thailand, of course, it is PTT's project so we're just going to echo whatever PTT is saying, but the milestones we've been looking for; you heard us talk about procurement of the pipe, for the part from (inaudible) to Rayong, that part is done. PTT told me, I don't know if they have done it yet but they had made their decision on awarding the installation contract for the pipe, and, you know, there's been a lot in the press. I won't say who that is but they have made that decision.

That is a key milestone for us, Duane, and it's an important one, because a construction contract is either signed or will be signed in the next days, and they basically told me that. From thereforth, what I'd say is watch -- there will be a schedule for construction progress but frankly it's fairly straightforward, along the same trajectory as the other pipes so we don't anticipate a lot of problems.

Duane Grubert - *Fulcrum - Analyst*

Then just a quick one. The public announcement that Pogo is going to try and market its Thailand assets for sale -- is that something that you guys are openly going to be looking at, or maybe you can express whether you have a general interest in growing that way in the region?

Chuck Williamson - *Unocal - CEO & Chairman*

As you know, Duane, our policy is we just won't comment on any potential transaction like that, so I can't say anything else.

Duane Grubert - *Fulcrum - Analyst*

Thank you.

Operator

Our next question comes from John Herrlin from Merrill Lynch.

John Herrlin - *Merrill Lynch - Analyst*

Yeah, hi, couple quick ones: What do you see as Seno's exit rate by year end '05?

Chuck Williamson - *Unocal - CEO & Chairman*

That's a good question, but if I were going to pick a number out of the air it would be something that begins with a three and not a four, and probably in the low 30's.

John Herrlin - *Merrill Lynch - Analyst*

Okay. A lot of companies are talking about repatriating foreign profits. You haven't mentioned that. You have large foreign operations and is it something you've considered this year?

Terry Dallas - *Unocal - CFO & EVP*

We're not organized in a way that that really benefits us at all. I think that was for companies that had put their subsidiaries in place in a totally different way. We've always been bringing back our foreign profits all along, and we don't have any foreign profits that are offshore right now.

John Herrlin - *Merrill Lynch - Analyst*

Is that primarily through Canada, Terry?

Terry Dallas - *Unocal - CFO & EVP*

Some of is it through Canada, but some of it is direct as well.

John Herrlin - *Merrill Lynch - Analyst*

Okay. Last one for me. Indonesian shelf not necessarily a high priority for you? Is that something you would consider monetizing or swapping?

Chuck Williamson - *Unocal - CEO & Chairman*

Yeah, John, I'll say this, it's not a high priority in terms of growth, but it is a high priority in terms of monetizing what he have, including some shallow water exploration. Would we consider monetizing it? Not at this point. You know, you can imagine John, that's an integrated operation right now between the shelf and what we're doing in deepwater, and it's not that easy to separate.

John Herrlin - *Merrill Lynch - Analyst*

That's fine. Thank you.

Operator

And our next question comes from Mark Gilman , the Benchmark Company. You may ask your question.

Mark Gilman - *Benchmark Company - Analyst*

Guys, good afternoon. I had a couple things. Can you give me an idea what is now on the books for West Seno post the revision?

Terry Dallas - *Unocal - CFO & EVP*

We don't release that kind of detail, Mark.

Mark Gilman - *Benchmark Company - Analyst*

How about some data on the oil-gas production split, and any changes that you've observed over the past three, four months in that regard?

Joe Bryant - *Unocal - COO & President*

I've been watching that pretty closely, Mark. In the third quarter we had 78 percent oil, in the fourth quarter 74 percent oil. On a BOE basis.

Mark Gilman - *Benchmark Company - Analyst*

Expected to trend in that direction going forward, Joe?

Joe Bryant - *Unocal - COO & President*

Absolutely.

Mark Gilman - *Benchmark Company - Analyst*

Less oil more gas?

Joe Bryant - *Unocal - COO & President*

Less oil, more gas.

Mark Gilman - *Benchmark Company - Analyst*

I assume given the issues with respect to the development project that cost recovery is not an issue on West Seno anytime in '05 or potentially beyond?

Terry Dallas - *Unocal - CFO & EVP*

There's plenty of revenue for all cost recovery if that's your question.

Mark Gilman - *Benchmark Company - Analyst*

What I meant is, Terry, is plenty of cost to be recovered.

Terry Dallas - *Unocal - CFO & EVP*

Yes. Remaining costs, yes.

Mark Gilman - *Benchmark Company - Analyst*

Okay. Within the reserve report, it looks as if there must have been some fairly significant positive revisions offsetting those West Seno reductions, Terry, you spoke of. Can you provide a little more clarity on that?

Terry Dallas - *Unocal - CFO & EVP*

Yes, but ask your other question.

Mark Gilman - *Benchmark Company - Analyst*

Okay. Joe, could you possibly clarify that one-time special item? I think you called it. With respect to shelf production in the fourth quarter and what that was about.

Joe Bryant - *Unocal - COO & President*

Yeah, what that really was about was a catch-up on some of our cost recovery bins on the shelf, and we got those done in the fourth quarter. In fact, we added cost. The catch-up, which meant that we got more cost recovery production in the quarter.

Mark Gilman - *Benchmark Company - Analyst*

So that was a one-time thing.

Joe Bryant - *Unocal - COO & President*

That event was a one-time thing. Those kinds events, of course, can continue, but that was certainly a one-time significant event that was material.

Terry Dallas - *Unocal - CFO & EVP*

May I, Joe? That was the start of an accumulation of a pension plan that was already agreed and approved by Indonesia. It was just the first contribution. So it was a special. It will recur, but it was the start.

Mark Gilman - *Benchmark Company - Analyst*

My last one. I'm having trouble understanding and identifying exactly where I guess about the $75 million reduction in '05 exploration expenditure is going to occur if you're going to continue to drill, and I'm not sure I understand the reason why, deepwater Indonesia oil prospects. Regionally, where's that $75 million reduction?

Terry Dallas - *Unocal - CFO & EVP*

Yeah, I don't have the specifics, Mark, exactly, but I can tell you directionally. We're continuing -- first of all, one reason we're still drilling Indonesia is that we like the outboard prospects, and they haven't been explored. But secondly, we do have some commitment wells that we're trying to finish our commitment on, we will release that rig earlier, so a lot of that comes out of Indonesia. And as Joe said earlier, no later than September in the Gulf of Mexico, we will release the Discoverer Spirit drillship. We've had that for five continuous years, and so our working units are lower, and we won't be using it until the end of the year. So that capital program in the deepwater Gulf will come down as well. We have smaller programs in Canada, Pure, and Thailand, but they're not that great.

Joe Bryant - *Unocal - COO & President*

The only thing I would add is that the working interest for the wells we're drilling is less.

Terry Dallas - *Unocal - CFO & EVP*

Mark, this is Terry. The offset in performance was in Thailand [Myanmar].

Mark Gilman - *Benchmark Company - Analyst*

Any more specific than that, Terry?

Terry Dallas - *Unocal - CFO & EVP*

No.

Mark Gilman - *Benchmark Company - Analyst*

Thanks a lot, folks.

Operator

Our next question comes from Fadel Gheit from Oppenheimer and Company.

Fadel Gheit - *Oppenheimer - Analyst*

Good afternoon, gentlemen. I have three quick questions. What should we be looking for in 2005, Chuck, last year you said 2005 is going to be the turnaround year. What specifically should we be looking at this year?

Chuck Williamson - *Unocal - CEO & Chairman*

I'd say, Fadel, the most important thing, when I say turnaround, we're going to get renewed production growth. So as Joe said, these five new projects in Azerbaijan, deepwater Gulf of Mexico, Bangladesh, Thailand, all coming on, one is already on, but all coming on by the second quarter and begin to ramp production as the year goes on, I think we simply have to deliver that and we'll have a pretty good looking year just as we forecast.

Fadel Gheit - *Oppenheimer - Analyst*

How about any drilling prospects?

Chuck Williamson - *Unocal - CEO & Chairman*

Yeah, high-impact drilling what I would be watching for we touched on a little bit, Fadel, but I think we have some wells in the Gulf of Mexico that are going to be some exploration, some appraisal, that can be very important to the valuation of the company. Joe mentioned we're currently with BP on Mad Dog, Southwest Ridge we call it. If you remember on the Mad Dog field, BP had estimated 200-450 million barrels equivalent for reserves, a wide range. So this Southwest Ridge well is taking a downdip limit to the field and testing it. We're on that well right now.

There is also Mad Dog deep. We tried last year with BP to get to the Pre-Miocene, in other words, the older St. Malo reservoir, Paleogene at Mad Dog. BP will try that again, I think it's probably third quarter, plus or minus. Next to Mad Dog we participated with BP in a discovery called Puma. In the fourth quarter of this year we will probably be ready to go back and appraise that, which will drive it towards commerciality.

Then we've got some wildcat wells. We've got one called Knottyhead., which will come up after Mad Dog Southwest Ridge. It's a big four-way closure north of Tahiti and Tonga, Chevron's earlier discoveries along the salt face. We're all pretty excited about that. We have 25 percent working interest. It's a significant well, a deep well, over 30,000 feet deep.

So those are big-ticket impact exploration and appraisal wells in the Gulf of Mexico. The stuff we're drilling that Steve asked about earlier out in deepwater Indonesia is higher risk, but if it hits it will change our complexion there considerably and we have three or four of those wells left to go.

Fadel Gheit - *Oppenheimer - Analyst*

Then, Joe, you mentioned that you took a tour of the company and you're impressed about things you saw. What are the things that you are not very impressed with, if you are willing to share with us, that need to be fixed?

Joe Bryant - *Unocal - COO & President*

I think we've talked about those already. We -- the aged assets that we have both on the shelf in Indonesia and Gulf of Mexico are certainly a concern, about getting costs under control there. Also in the Cook inlet of Alaska, getting those costs under control.

You know, I think more than anything, the way I would describe it is simplifying our business model. We've got, I think, far more complexity than we need, and, you know, we'll get after that. We've already started to get after that. I think that can yield tremendous benefits for us if we just simplify how we do things.

Fadel Gheit - *Oppenheimer - Analyst*

Okay, last quarter, Chuck, you mentioned that you experienced cost pressure across the board. Are you seeing this easing or getting worse?

Chuck Williamson - *Unocal - CEO & Chairman*

Fadel, I'll let maybe Joe take a strand at that. My very distant observation is I'd like to think it's starting to ease off a little, that the lag has caught the run-up in commodity prices, but to be honest I'm not that close to it. Maybe Joe could add.

Joe Bryant - *Unocal - COO & President*

I think that that -- it's hard to measure, of course. It's kind of, how do you feel about it. When I have conversations with my folks, they do indicate that it feels like it's at least peaked, if not moderating, that the increases aren't coming through anymore. I would not go so far as to say we see any decreases, but there is a sense that maybe we have reached the peak.

Fadel Gheit - *Oppenheimer - Analyst*

Okay. And then a final question for Terry. On the share buyback program, how do you quantify your options, if you will? How do you decide, I have $200 million of free cash flow, I can do one of the following. One of them is share buyback. How do you decide that share buyback is the best way to create shareholders' value?

Terry Dallas - *Unocal - CFO & EVP*

Well, it is a discussion, an interactive discussion with the Board. And the first item we always look at is, are there incremental investments that increase value? That’s usually our first choice. Then we just go down the track -- is our debt ratio and our balance sheet in a state that will ensure that we can make the investments necessary to increase shareholder wealth?

Then when you get through those two areas, you know, you very quickly get into what is an efficient way to return the cash back to the shareholders. And our choices there, we try to keep it on a tax efficient basis. Our dividend is well in line with our peers, so we don't see that it makes any sense to get out of line on paying the dividend. And quite frankly, we only make this decision when we actually have the cash in our hands as opposed to projecting it.

So that's an interactive discussion with the Board, and each time, they came to a share buyback as the better alternative to, for example, increasing the dividend or giving a special dividend.

Fadel Gheit - *Oppenheimer - Analyst*

Thank you very much.

Operator

Our next question comes from William Fair from W. H. Reeves.

William Fair - *W.H. Reeves - Analyst*

Good afternoon, gentlemen. I have just two broader questions, if you will. One directed toward Joe, in his worldwide review. Could you comment specifically on the non-E&P assets that you might have reviewed from, say, A to Z, or Pipelines to Indonesia or to Geothermal to whatever, and your views on those assets? Separately, can you, and in turn will you, give us outlook for production volumes as you see it in 2006? Thanks very much.

Joe Bryant - *Unocal - COO & President*

I'll take a stab at the first one. Yes, I have looked at some of the closer-in non-E&P assets like Geothermal. While those businesses had great results last year, the conversation that I need to have with Chuck and Terry is about how core they are to us longer term, and we haven't had that conversation yet. It's important to say they're great businesses today and making a lot of money for us, so that's good. Whether or not they fit longer term is the conversation we'll have. I don't know if Terry wants to say a few words about other core businesses.

Terry Dallas - *Unocal - CFO & EVP*

My only comment is that we have divested many, many core assets over the last two years, and I think the ones that are left, the larger ones, are all pipeline businesses in the U.S., the BTC pipeline and Geothermal. And of those, as Joe says, I think Geothermal is one that we'll have discussions on where that fits in the company. But we certainly see our company going forward with considerable amounts of mid-stream assets in the U.S. and BTC.

Chuck Williamson - *Unocal - CEO & Chairman*

I think it's a fair question. It’s something that’s not just Geothermal, but we have a few other assets that we are not necessarily the rightful owners of. We are continually looking for ways to monetize those. —But we've tried to be judicious about when we divest things and get maximum value for them, and we'll continue to do that. Regarding 2006 production – Joe, do you want to comment? We were so happy with '05 that we hadn't gotten to '06.

William Fair - *W.H. Reeves - Analyst*

Don't get too thrilled with '05. It's not that great yet.

Chuck Williamson - *Unocal - CEO & Chairman*

That's my answer. I'm going to deliver '05, then later in the year we’ll have a conversation about '06.

William Fair - *W.H. Reeves - Analyst*

But as you add projects you have certain, as you mentioned, large types of projects that do have the ability to quantify, if you will, directionally. Would you say you could match this 4 1/2 % or so rise in '06, say, versus '05? Is that within your guidelines or benchmarks, if you will?

Chuck Williamson - *Unocal - CEO & Chairman*

I think we have enough sight to say we certainly expect at this point to at least match what the '04 to '05 gain is, and I hope certainly exceed it.

William Fair - *W.H. Reeves - Analyst*

Thank you.

Operator

And our next question comes from John Zaehringer from Loomis Sales.

John Zaehringer - *Loomis Sales - Analyst*

Thank you very much. You've been talking about being satisfied with the current debt level you're carrying. Is that a gross debt level, net debt level, net to BOE type of level, debt to EBITDA type of level? What are we relative to here, or is that just an absolute number?

Terry Dallas - *Unocal - CFO & EVP*

Actually, it's not any of those, it's actually a rating that we're satisfied with. We want to stay a strong triple B to make sure that we have the capacity to borrow down from that, and I think with the debt that we have on the books and our equity, that puts us in that strong triple B category. So we really focus more on the rating than on the debt level. As you know, there's a lot of other attributes that are considered in those ratings, but as a shorthand, you know, we're basically comfortable with the gross debt that we have.

John Zaehringer - *Loomis Sales - Analyst*

Have you met with the agencies to discuss your debt profile currently, and have they given you any kind of guidance as to what they think would be overstepping the use of cash if you were to buy back shares with the sizable cash drawer that you have on hand now?

Terry Dallas - *Unocal - CFO & EVP*

We meet with the rating agencies twice a year and we have wide- reaching and wide-ranging discussions on that point.

John Zaehringer - *Loomis Sales - Analyst*

You haven't met with them recently, then?

Terry Dallas - *Unocal - CFO & EVP*

We met with them at the end of 2004.

John Zaehringer - *Loomis Sales - Analyst*

Okay. Very recently. Okay. Thank you very much.

Operator

And our next question comes from Mark Gilman of the Benchmark Company.

Mark Gilman - *Benchmark Company - Analyst*

Guys, would it be fair to say that based on what you've seen from the data on Das Bump, that that triggered a somewhat greater degree of concern about reservoir quality at St. Malo, thus the idea of thinking about a long-term production test?

Joe Bryant - *Unocal - COO & President*

No, it wouldn't be fair to say that at all. We've got enough data out there that we've got a pretty clear idea of what to expect from the rocks and let me just leave it at a that.

Chuck Williamson - *Unocal - CEO & Chairman*

I'll add to that, Mark. I think Joe's comments are spot on. What we got when we traded the data is basically a well on our prospect.

Mark Gilman - *Benchmark Company - Analyst*

Okay. But it did not trigger the greater concern about reservoir quality?

Joe Bryant - *Unocal - COO & President*

No.

Chuck Williamson - *Unocal - CEO & Chairman*

It was on trend.

Mark Gilman - *Benchmark Company - Analyst*

Okay. One other one, if I could. The DD&A rate in Indonesia in the fourth quarter was high. Does that reflect some of the reserve adjustments at West Seno, or should we look for an even higher unit DD&A rate for Asia and, therefore, substantially Indonesia going forward?

Robert Wright - *Unocal - VP of Investor Relations*

A little bit of both, Mark. It's Robert Wright. There was a catch-up for the West Seno DD&A in the fourth quarter, but as a general rule, I think you can expect a little bit higher DD&A rate as West Seno becomes a bigger mix, although in the quarter it -- I don't have the number for what is one-time and what is recurring, but it will be higher than the quarters one, two, and three.

Mark Gilman - *Benchmark Company - Analyst*

Was the reserve reduction specifically included in the fourth quarter rate, Robert?

Robert Wright - *Unocal - VP of Investor Relations*

Yes.

Mark Gilman - *Benchmark Company - Analyst*

Was that a yes? I'm sorry.

Robert Wright - *Unocal - VP of Investor Relations*

Yes.

Mark Gilman - *Benchmark Company - Analyst*

Thank you.

Operator

Thank you. And our next question comes from Steve Enger, Petrie Parkman. You may ask your question, sir.

Steve Enger - *Petrie Parkman & Co. - Analyst*

Thanks. Several references to trade-off between margin and volume discussion of sensitivity to capital. I guess first, is this a meaningfully different approach going forward, and secondly, can you quantify perhaps in the form of capital expenditures in '05 or '04, previous years, what the changes may be in some of those areas?

Chuck Williamson - *Unocal - CEO & Chairman*

Let me start and I'll let Joe talk to the second point. I think the -- is it demonstratively different approach? I think it's shades. As these assets mature, it's getting harder and harder to fund some of the projects no, question.

The biggest difference we've seen, I think if you look at the Gulf this year, we basically held capital pretty tight, $55 million in the shallow water Gulf. And they had, as I said, an 18 percent decline and produced some very good returns out of that business. It will decline more, and there will be a little less capital. I don't see that changing, other than we may do a little more exploration this year in the shallow water part, just step-out wells, not deep shelf stuff.

I think the bigger challenges are in places like Canada, where it's just getting tougher, and so that's going to require probably a more capital efficient approach, and we did cut the capital in Canada by about $20 or $25 million. I don't have it exact.

We've cut the capital back in Alaska, where we were doing a fair amount of exploration, and an unsuccessful large development. The shelf I think looks pretty much the same. Joe has some other numbers here, but, the approach is similar. I think the discipline is going to be tougher. Let's just put it that way.

Joe Bryant - *Unocal - COO & President*

I don't have anything to add. I think my sense of what is meaningfully different is having real discipline around the investment. Deliver what we say they can deliver, and be that or not, we'd rather spend what capital we have on our growth assets and not our depleting assets.

Steve Enger - *Petrie Parkman & Co. - Analyst*

Consistent with that, Joe, you made a mention of the Cook Inlet. Did I understand correctly that all options for those assets would be open after you satisfy your obligation to Agrium?

Joe Bryant - *Unocal - COO & President*

First and foremost, we will deliver on our obligation with respect to the Agrium settlement. Then all options are on the table.

Steve Enger - *Petrie Parkman & Co. - Analyst*

Finally on Pure, a related follow-up, Chuck, you guys have talked with some optimism about some of the programs within Pure, going back I think at least a couple of years. I guess I'd say it's not obvious yet what's come from that. Is there still that optimism going forward, or have some of those things been tested and played out?

Chuck Williamson - *Unocal - CEO & Chairman*

No, Steve, that's a very fair question, and we haven't given you a lot of detail and here's what I'd say: We're still very optimistic about particularly a couple of programs. If you look at the capital that we dedicated to Pure last year, we're almost to a comparable level again this year, so we have a lot of confidence in it. One of their programs, the deep Devonian, has not been as good, and that's why you see some offset, and so we're not continuing to fund that. They have some other, I'll say more widespread programs, that I won't talk as much about. None of them are single big wells, but we are still very optimistic about that and continuing to fund it and invest.

Steve Enger - *Petrie Parkman & Co. - Analyst*

Great. Thanks, guys.

Joe Bryant - *Unocal - COO & President*

Pure's production this year is actually a bit up from 2004, and that should demonstrate confidence in the quality of their portfolio.

Steve Enger - *Petrie Parkman & Co. - Analyst*

Thanks.

Operator

Thank you. Once again, if you would like to ask a question, please press star 1. And our next question comes from Michael Prince of Blue Star Industries.

Michael Prince - *Blue Star Industries - Analyst*

Chuck, Joe, Robert, Terry, just wanted to say congratulations. I'm a longtime stockholder. I remember the lean years, and I think you've taken us a long way. I like the words you're using now with stockholder value, so on and so forth. I believe that was you, Joe. And I think it's a fantastic year and, Chuck, I wanted to ask you, is that a record, $1 billion in earnings?

Chuck Williamson - *Unocal - CEO & Chairman*

Thanks, Mike, first of all for your comments, because it sometimes seem like a long slug.

Michael Prince - *Blue Star Industries - Analyst*

It is true. Not too many people tell you that, and I think you deserve it, so give credit where credit is due.

Chuck Williamson - *Unocal - CEO & Chairman*

I appreciate it. Is it record year? By far it's a record year. Next closest is in 1981, '82?

Robert Wright - *Unocal - VP of Investor Relations*

1984.

Chuck Williamson - *Unocal - CEO & Chairman*

Robert is the only one old enough to remember that.

Michael Prince - *Blue Star Industries - Analyst*

Now I can buy my kids some shoes now Chuck. (laughter) Congratulations. Let's have another terrific year.

Operator

At this time I would like to turn the meeting back over to Mr. Robert Wright.

Robert Wright - *Unocal - VP of Investor Relations*

Well, thank you, Anita, and thanks everybody. We've been on the phone for an hour and ten minutes. I did want to point out something I should have said earlier. I had told a lot of you we were going to tentatively have our analyst day in New York on March 2nd. We have postponed that to April 13th, New York, we'll have it at the board room of the New York Stock Exchange, and we'll have a half-day analyst presentation with a lot more detail on some of the projects we've talked about here and more. Thank you very much for participating in the call and good-bye.

Operator

I would like to thank everyone for participating in today's Unocal teleconference call and have a great day.