



# FORM 10-K

**UNOCAL CORP – ucl**

**Filed: March 16, 1999 (period: December 31, 1998)**

Annual report which provides a comprehensive overview of the company for the past year

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1998 or  
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Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-8483

UNOCAL CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

95-3825062  
(I.R.S. Employer  
Identification No.)

2141 Rosecrans Avenue, Suite 4000, El Segundo, California  
(Address of principal executive offices)

90245  
(Zip Code)

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

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

Title of each class -----	Name of each exchange on which registered -----
Common Stock, par value \$1.00 per share	New York Stock Exchange Pacific Exchange Chicago Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange Pacific Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No  
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the common stock held by non-affiliates of the registrant as of February 28, 1999 (based upon the average of the high and low prices of these shares reported in the New York Stock Exchange Composite Transactions listing for that date) was approximately \$6.74 billion.

Shares of common stock outstanding as of February 28, 1999: 241,518,668

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 1999 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission on or about April 12, 1999) are incorporated by reference into Part III.

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## PART I

### ITEMS 1 AND 2 - BUSINESS AND PROPERTIES

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

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

### STRATEGIC FOCUS

In 1998, Unocal continued to focus on its strategy of growth through crude oil and natural gas exploration and the pursuit of market-to-resource project developments with the goal of creating value for its stockholders. Since the inception of this strategy in 1994, the company has transformed itself in three distinct phases. First, Unocal sold its low-return refining and marketing assets to concentrate on its exploration and production operations. Second, the company has been concentrating its exploration and production activities in distinct geographic regions where it has a strong competitive advantage, sees a growing energy market, and has the opportunity to leverage its technical skills, relationships, and low cost structure. Third, the company's management is strengthening its focus on the financial returns of its operations in an effort to maximize values.

In carrying out this strategy, the company has actively managed its portfolio of assets by divesting its lower-return or non-strategic assets and re-investing in potentially high-return exploration and production assets primarily in Asia and the Gulf of Mexico. Activity in 1998 included the divestiture of most of the company's Canadian properties, the announcement of plans to reorganize or divest most of the Diversified Business Group's assets, and the acquisition of additional blocks in the deepwater areas of the Gulf of Mexico, Indonesia and Gabon. Activity in early 1999 included an agreement for the sale of United States geothermal assets at The Geysers in Northern California and an agreement for the exchange of most of the company's Rocky Mountain oil and gas assets.

Unocal's potential growth areas include Indonesia, Thailand, the Gulf of Mexico, Bangladesh, Brazil, and West Africa. These areas have similar geological environments that the company understands well. This should allow the company to leverage its drilling expertise and lower operating costs. Conversely, the company is withdrawing from non-strategic areas, mostly in Central Asia (except Azerbaijan), where there are lower potential returns, heightened political risks, questionable market development, or unacceptable payout timelines.

### DEPRESSED COMMODITY PRICES

Crude oil and natural gas prices were severely depressed in 1998. This was especially true of the company's worldwide average crude oil price, which finished the year approximately 34 percent below the average for 1997. The company's worldwide average natural gas price in 1998 was approximately 14 percent below the 1997 average. These depressed prices were primarily the result of an oversupply of crude oil on world markets, a drop in demand in Southeast Asia, a warm winter in the Northern Hemisphere, and a build-up of United States natural gas inventories.

This low commodity price environment produces both challenges and opportunities. The challenge for the company is to deliver earnings, maintain production, and maintain a manageable level of debt without

sacrificing key growth projects. The company will reduce capital spending over the short-term, and leverage its strengths to capture the opportunities. Unocal will focus on its highest-potential growth assets, withdraw from or suspend projects in other areas, adjust capital expenditures with available cash flows and implement targeted cost reductions to weather this depressed price environment.

#### ASIAN ECONOMIC CRISIS

Unocal has major operations in Thailand and Indonesia, two of the countries affected by the current economic downturn afflicting Asia. Although the economic situation in Asia indirectly impacts the company as well as other oil and gas companies in terms of a worldwide commodity price decline, currently the company's oil and gas operations in Thailand and Indonesia remain largely unaffected by the economic crisis.

The primary risks for the company in these countries are foreign currency fluctuations, declining demand for contractual commodity deliveries, and political instability. Most of the company's operating revenues are largely protected from foreign currency fluctuations through existing contracts and, in Indonesia, oil and liquefied natural gas exports are sold in dollar-based world markets. In Thailand, increased usage of indigenous natural gas as an alternative fuel for power generation has kept natural gas demand strong even as the demand for electricity has declined. To date, no oil and gas production or sales contracts have been nullified or significantly altered as a consequence of political turmoil or financial crises in these countries.

The company's geothermal operations agreements at Gunung Salak, in Indonesia, are also designed to insulate the company from foreign currency fluctuations. The energy sales agreement calls for payments in U.S. dollars and is guaranteed by the government of Indonesia. However, only partial payments have been received. As of December 31, 1998, the company's geothermal operations in Indonesia had a gross receivable balance of approximately \$100 million, most of which was for steam sales from the Gunung Salak field. The company is vigorously pursuing collection of the outstanding receivables.

The company has been developing resources and energy projects that have strengthened Asian economies for more than three decades. The company is monitoring the crisis and will continue to work closely with host governments and business associates through this difficult period.

#### DISPOSITION OF COMPANY ASSETS

In April 1998, the company received shares of common stock and debentures of Tarragon Oil and Gas Limited (Tarragon) valued at approximately \$212 million for the exchange of its Alberta, Canada, exploration and production assets. In the third quarter of 1998, the company converted the debentures and common stock to cash as a result of a tender offer from USX-Marathon for the purchase of Tarragon's outstanding common stock. The total after-tax gain recorded for these transactions was \$101 million and the proceeds from the sale were \$261 million. Also in 1998, the company received proceeds from the sales of its interests in the Alliance Pipeline project and its Oklahoma oil and gas assets of \$52 million and \$34 million, respectively.

In January 1999, the company reached an agreement to sell its interest in a geothermal steam venture at The Geysers in Northern California for \$101 million. The transaction is expected to close by the end of the first quarter of 1999.

In March 1999, the company signed a letter of intent to trade most of its Rocky Mountain oil and gas assets for 5.8 million shares of a domestic oil and gas exploration and production company and \$5 million in cash. The total value of the exchange is approximately \$76 million. The exchange is expected to close in the second quarter of 1999.

SEGMENT AND GEOGRAPHIC INFORMATION

Financial information relating to the company's business segments, geographic areas of operations, and sales revenues by classes of products is presented under Note 26 to the Consolidated Financial Statements and Selected Financial Data on Pages 74 and 88, respectively, of this report.

Information regarding oil and gas financial data, oil and gas reserve data and the related present value of future net cash flows from oil and gas operations is presented on pages 81 through 87 of this report. During 1998, certain estimates of underground oil and gas reserves were filed with the Department of Energy under the name of Union Oil. Such estimates were consistent with reserve data filed with the Securities and Exchange Commission.

EXPLORATION AND PRODUCTION

Unocal's primary activities are oil and gas exploration, development, and production. Spirit Energy 76, Alaska, New Ventures, and International Operations conducts the company's exploration and production activities. Spirit Energy 76, Alaska and International Operations are engaged in the exploration, development, production, and sale of crude oil and natural gas in ten countries around the world.

In 1998, the company produced approximately 184 thousand barrels of crude oil and condensate per day and 1,826 million cubic feet of natural gas per day primarily from the United States Gulf Coast, Thailand, and Indonesia. Exploration and production operations accounted for approximately 62 percent of Unocal's total assets at December 31, 1998. Approximately 49 percent of the company's exploration and production assets are in the United States.

Unocal has focused its growth efforts on exploration and production projects in the Gulf of Mexico and Southeast Asia. In addition, Unocal is pursuing potential high-value, market-to-resource project opportunities in other key growth areas.

Net Proved Reserves at Year End

Estimated net quantities of the company's proved oil and gas reserves at December 31, 1998 were as follows:

	1998	1997	1996
-----			
Crude oil and condensate - million barrels (a)			
United States	184	209	236
Far East	190	158	166
Other International	158	166	111
Worldwide	532	533	513
Natural gas - billion cubic feet (a) (b)			
United States	1,941	2,120	2,575
Far East	3,955	4,189	4,057
Other International	226	241	163
Worldwide	6,122	6,550	6,795
(a) Includes host countries' shares under certain production sharing contracts of:			
Crude oil and condensate - million barrels	52	59	70
Natural gas - billion cubic feet	389	444	530

(b) Natural gas is reported on a wet-gas basis.

Net Daily Production

Net quantities of crude oil and condensate, natural gas, and natural gas liquid produced by the company per day were as follows:

	1998	1997	1996
-----			
Crude oil and condensate - thousand barrels (a)			
United States	73	76	96
Far East	80	95	84
Other International	31	26	27
Worldwide	184	197	207
Natural gas - million cubic feet (a) (b)			
United States	928	993	1,075
Far East	853	795	669
Other International	45	60	68
Worldwide	1,826	1,848	1,812
Natural gas liquids - thousand barrels (c)			
United States	14	12	14
Far East	5	6	6
Worldwide	19	18	20
(a) Includes host country share in Indonesia of:			
Crude oil and condensate - thousand barrels	10	28	28
Natural gas - million cubic feet	49	28	27
(b) Natural gas is reported on a wet gas basis and excludes gas consumed on lease.			
(c) Host country share of natural gas liquids production is insignificant.			

Natural Gas Production Available for Sale

Quantities of natural gas production available for sale were as follows:

Million cubic feet per day	1998	1997	1996
-----			
United States	758	813	891
International	827	820	705
Worldwide	1,585	1,633	1,596

Oil and Gas Acreage

As of December 31, 1998, the company's holdings of oil and gas rights acreage were as follows:

	As of December 31, 1998 (thousands of acres)			
	Proved Acreage		Prospective Acreage	
	Gross	Net	Gross	Net
-----				
United States	852	551	2,691	1,879
Far East	334	242	37,432	20,167
Other International	114	51	13,677	5,014
Worldwide	1,300	844	53,800	27,060

Producible Oil and Gas Wells

The approximate numbers of producible wells at December 31, 1998 were as follows:

	As of December 31, 1998			
	Oil		Gas	
	Gross	Net	Gross	Net
United States	2,736	1,621	974	610
Far East	202	153	705	490
Other International	872	295	34	24
Worldwide	3,810	2,069	1,713	1,124

The company had 260 gross and 191 net producible wells with multiple completions.

Drilling in Progress

The numbers of wells in progress at December 31, 1998 were as follows:

	As of December 31, 1998 Oil and Gas Wells *	
	Gross	Net
United States	27	11
Far East	46	25
Other International	3	1
Worldwide	76	37

\* Excludes service wells in progress (6 gross, 2 net).

The company had no waterflood projects in progress at December 31, 1998.

Net Oil and Gas Wells Completed and Dry Holes

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

	Productive			Dry		
	1998	1997	1996	1998	1997	1996
Exploratory						
United States	20	14	13	18	7	11
Far East	15	7	2	13	17	14
Other International	2	1	2	3	1	5
Worldwide	37	22	17	34	25	30
Development						
United States	76	48	76	2	-	4
Far East	119	124	90	7	1	-
Other International	23	64	26	1	6	2
Worldwide	218	236	192	10	7	6

UNITED STATES - Spirit Energy 76 is Unocal's United States lower 48 exploration and production unit. Spirit Energy 76 is active in exploration, development, and production activities in the onshore, shelf, and deepwater areas of the Gulf of Mexico region. Onshore operations are located in Texas, Louisiana, Michigan, New Mexico, Alabama, and Utah. On December 31, 1998, the company sold substantially all of its oil and gas assets in Oklahoma.

The company's Alaska upstream oil and gas operations are managed by the Agricultural Products business unit. Most of the natural gas produced by the company's Alaska fields is used for feedstock at the company's fertilizer manufacturing facility in Kenai.

The company holds approximately 1,879 thousand net acres of prospective land in the United States. Nearly 71 percent of the prospective acreage is located offshore in the Gulf of Mexico. Onshore prospective lands are primarily located in Alaska, Texas, Colorado, New Mexico, and Louisiana.

The company holds approximately 551 thousand net acres of proved lands in 19 states. Approximately 37 percent of these lands are located offshore in the Gulf of Mexico. Onshore proved acreage is primarily located in Texas, Louisiana, Alaska, New Mexico, and Alabama.

Unocal's 1998 United States crude oil was produced from fields in Alaska (40 percent), the offshore Gulf of Mexico (24 percent), Texas (24 percent), and Louisiana (7 percent). Various other states contributed the remaining amount (5 percent). The company's United States natural gas production in 1998 principally came from fields in the offshore Gulf of Mexico (52 percent), Louisiana (14 percent), Alaska (14 percent), Texas (9 percent), and New Mexico (5 percent). Various other states contributed the remaining amount (6 percent).

Unocal has various ownership interests in 13 natural gas processing plants located near major gas fields in the United States. The company operates six of these plants, none of which were 100 percent owned. Twelve plants were active in 1998.

Most of the company's United States crude oil and natural gas production is sold to the company's Global Trade segment. A small portion is sold to third parties at spot market prices or under long-term contracts.

#### Onshore and Shelf Gulf of Mexico

Spirit Energy 76 recorded a 64 percent success rate in its core Gulf of Mexico shelf exploration program during 1998. The latest discoveries included Mobile 918 No.1 in the Norphlet play offshore Alabama, marking the beginning of a multi-year drilling program on this trend. The well encountered 250 feet of gas pay. Production is expected to begin in March 1999 at a gross flow rate of 25 to 35 million cubic feet per day (mmcf/d). Spirit Energy 76 is the operator and has a 45.65 percent working interest.

Another discovery was the West Cameron 278 LeMans well, offshore Louisiana, which encountered 53 feet of gas pay. The well is planned to be placed on production in late March 1999 at a rate exceeding 25 mmcf/d. Spirit Energy 76 is the operator with a 70 percent working interest.

During 1998, Spirit Energy 76 had 21 discoveries on the shelf. The company ended 1998 with an onshore and shelf Gulf of Mexico inventory of more than 130 drilling prospects, about 2 1/2 times the number that Spirit Energy 76 had two years ago.

#### Deepwater Gulf of Mexico

In 1998, Spirit Energy 76 acquired interests in 53 additional deepwater tracts in United States federal lease sales bringing the total inventory of deepwater Gulf of Mexico blocks in which it has interests to 213. The company currently has plans to drill or participate in four to six deepwater exploratory wells in 1999.

Spirit Energy 76 is currently participating in two deepwater exploration wells and expects to spud its first operated well in the second quarter of 1999. Through its exploration efforts in the Far East, the company

has developed cost-effective drilling design and techniques that it believes can reduce the cost of Gulf of Mexico deepwater exploration wells by 50 percent or more, compared with conventional drilling approaches.

INTERNATIONAL - Unocal produces oil and gas in nine countries outside of the United States. The company, through its International Operations and subsidiaries, currently operates or participates in production operations in Thailand, Indonesia, Canada, The Netherlands, Azerbaijan, Myanmar, Yemen, the Democratic Republic of Congo, and Bangladesh. Unocal's international operations in 1998 accounted for 49 percent of the company's natural gas production and 60 percent of its oil production.

International Operations also includes the exploration activities of the company's New Ventures group. The New Ventures group is involved in developing energy projects primarily in Asia, Latin America and West Africa.

#### Thailand

The company currently operates eleven natural gas and condensate fields in the Gulf of Thailand with an average 64 percent net working interest. The Thailand operation, producing since 1981, has drilled over 1,100 wells and has installed 78 platforms in the Gulf of Thailand. The newest offshore Thailand gas field, Pailin, is expected to commence production in the second half of 1999. The company had 1,138 employees in its Thailand operations at year-end 1998. Approximately 91 percent of these employees were Thai nationals.

Gross natural gas production from all the Unocal operated fields averaged nearly one billion cubic feet per day in 1998, nearly two-thirds of the natural gas used by Thailand. The natural gas is mainly used in power generation, but also in the transportation sector and the petrochemical industry. Natural gas produced by the company yields about one quarter of the electricity consumed in Thailand. Natural gas production growth in Thailand has averaged 18 percent per year since 1981 but production is expected to decline in 1999. Gross condensate production averaged nearly 34 thousand barrels per day in 1998, and is used as a blending stock in oil refineries, as a chemical solvent, and as a petrochemical feedstock.

The company sells substantially all of its natural gas production to the Petroleum Authority of Thailand (PTT) under long-term contracts. The contract prices are based on formulas that allow prices to fluctuate with market prices for crude oil and refined products and are indexed to the U.S. dollar. In 1998, \$561 million, or approximately 11 percent, of the company's total external sales and operating revenues were attributable to PTT. The company has typically supplied more natural gas to PTT than is called for in the daily contract quantity provisions of its sales contracts. In 1998, the company, through its subsidiaries, began initial delivery of gas to Thailand from the Yadana field, offshore Myanmar. The company's obligation to deliver gas to PTT is limited to the available economic production from its properties in Thailand and Myanmar.

In 1998, successful delineation wells confirmed the commerciality of the Pakarang gas field in the Gulf of Thailand. Pakarang is located in concession block 11, north of Unocal's Erawan field. Also in 1998, the company discovered another new natural gas field in the Gulf of Thailand. The South Gomin field lies in concession block 13, southeast of Unocal's Erawan field and south of the Funan field, which are among the eleven fields in the Gulf of Thailand that are operated by the company. Both new fields are covered under a company sales contract with PTT.

In 1998, the company also signed a farm-in agreement with PTT Exploration and Production Plc covering blocks B-14, B-15, and B-16 on the Thai side of the Thai-Vietnam overlap area in the Gulf of Thailand. These blocks adjoin the company's established contract areas in Thailand.

#### Indonesia

The company currently operates nine producing oil and gas fields offshore East Kalimantan, including Indonesia's largest offshore oil and gas field, Attaka, which the company discovered in 1970. Oil

production from its northern fields is processed at the Santan terminal liquid extraction plant and the dry gas is transported by pipelines to a fertilizer plant and liquefied natural gas (LNG) plant, both located nearby at Bontang, East Kalimantan. LNG is currently sold to Japan, Korea and Taiwan and the extracted liquefied petroleum gas is exported to Japan. Oil and gas from its southern fields are sent to the Unocal operated Lawe-Lawe terminal located near the fields. The stored oil is either exported by tanker or transported by pipeline to a refinery in Balikpapan owned by Pertamina, the state-owned oil and gas company. The gas is sent by pipeline to the refinery and utilized as fuel. Company operated fields averaged gross production of 76 thousand barrels of crude oil and condensate per day and 337 million cubic feet of natural gas per day in 1998. The company holds varying interests in more than 5.2 million acres offshore East Kalimantan.

The discovery in 1998 of a significant new oil field in the deepwater Kutei Basin area offshore East Kalimantan opens up a new hydrocarbon province for the company. The first successful exploration well drilled on the Seno prospect, West Seno #2, is located on the Makassar Strait production-sharing contract (PSC) area. The latest delineation well on the Seno prospect, West Seno #4, tested at over 19,000 barrels of oil and 18 million cubic feet of gas per day from three zones. The company plans on submitting its plan of development to Pertamina early in the second quarter of 1999.

The company also drilled successful wells in the deepwater Merah Besar area, in the Kutei Basin, further delineating a 1997 discovery. The wells encountered shallow gas on the East Kalimantan PSC area. The company plans on submitting a plan of development to Pertamina for the Merah Besar area. The Merah Besar area is located on the East Kalimantan PSC and northern portion of the Makassar Strait PSC and could be developed as a cost-efficient satellite development to the West Seno field. Production from the West Seno and Merah Besar fields is expected to begin in 2001.

In Indonesia, the company had 1,476 employees at year-end 1998. Approximately 93 percent were Indonesian nationals.

#### Myanmar

The company, through subsidiaries, has a 28 percent non-operating interest in a project to produce natural gas from the Yadana field, offshore Myanmar in the Andaman Sea, and transport it by pipeline to Thailand for power generation. Yadana is the first cross-border energy project in Southeast Asia.

The Yadana project included development of the Yadana field (four offshore platforms with 14 wells) and construction of a pipeline extending from the offshore field across Myanmar's remote southern panhandle to Ban-I-Trong at the Myanmar-Thailand border.

The gas will be used to fuel a 2,800-megawatt power plant currently under construction and to be operated by the Electric Generating Authority of Thailand at Ratchaburi, located southwest of Bangkok. Limited production began in 1998 and is expected to increase in 1999. Commercial production is beginning later than originally expected due to construction delays at the power plant.

#### Vietnam

The company has tested a significant gas discovery in its first exploration well on Block B offshore southwestern Vietnam. In 1998, two drill stem tests on the exploration well, B-KL-1X, yielded a combined rate of 52.9 million cubic per day of gas on the Kim Long prospect. Block B, which contains identified natural gas prospects, covers more than 1.3 million acres. Unocal has a 45 percent working interest and is operator.

In 1998, the company increased its acreage position in the Vietnam portion of the Gulf of Thailand. The company signed an agreement with PetroVietnam, the Vietnam government's oil and gas company, to acquire more than two million acres directly north of Block B. The company also acquired exclusive negotiating rights to Block 52/97, south of Block B, on the Vietnam side of the Thai-Vietnam overlap area in the Gulf of Thailand.

#### Canada

The company exchanged most of its Alberta, Canada, exploration and production assets for shares of common stock and debentures of Tarragon, which were subsequently converted into cash as a result of a tender offer by USX-Marathon. The company retained its interests in the Aitken Creek Gas Storage Project in British Columbia, the Cal Ven Pipeline, and oil and gas producing properties located in Southwest Saskatchewan.

#### The Netherlands

Average gross oil production in 1998 was approximately eight thousand barrels per day. Unocal also produced an average 46 million cubic feet of natural gas per day from the L11/B and Halfweg fields. In total, the company has interests in seven producing fields.

#### Azerbaijan

Unocal has a ten percent working interest in the Azerbaijan International Oil Company (AIOC) consortium that is developing offshore oil reserves in the Caspian Sea from the Azeri and Chirag fields and the deepwater portions of the Gunashli field. In 1998, AIOC averaged 48 thousand gross barrels of oil per day of early production through the northern pipeline route, which connects in Russia to an existing pipeline system. A western pipeline route from Baku through Georgia to the Black Sea is now operating.

#### Yemen

The company has been involved in oil exploration in Yemen since 1987 when the company signed the East Shabwa Production Sharing Agreement (PSA) with its co-venturers and the government of Yemen. Gross production started from the East Shabwa PSA in December 1997, and averaged 16 thousand barrels of oil per day in 1998. Unocal is a non-operator with 28.57 percent working interest.

#### Democratic Republic of Congo

The company has been active in the Democratic Republic of Congo (formerly Zaire) since 1984 when the company acquired a 17.72 percent non-operating working interest in the rights to explore and produce hydrocarbons in the entire offshore area of the country. Gross production averaged about 20 thousand barrels of oil per day from seven producing fields in 1998.

#### Gabon

Unocal is a member of the Vanco Gabon Group, a consortium of French and U.S. oil and gas exploration companies that has entered into production-sharing contracts for two exploration blocks located in deep water offshore Gabon, West Africa. Unocal holds a 25 percent working interest in the venture. A 3D seismic program is scheduled to begin in 1999, followed by the drilling of several exploration wells starting in 2000.

#### Bangladesh

The company's involvement in the Bangladesh energy sector includes interests in two PSCs. The PSCs cover Blocks 12, 13 and 14, which total more than three million acres. The Jalalabad field is being developed on Block 13. Gas began flowing from the Jalalabad field in February 1999 and will soon increase to 100 million cubic feet per day. The company has a 50 percent working interest in these blocks.

The Bibiyana field, a major new gas field located on Block 12, was discovered in the summer of 1998. The Bibiyana discovery is currently being delineated and appraisal work will continue throughout 1999.

## Brunei

In 1997, the company signed a farm-in agreement covering Blocks A and CD, offshore Brunei. One well was drilled in late 1997, and drilling is expected to resume in late 1999 or early 2000. Unocal holds a 50 percent working interest in both blocks.

## Argentina

Unocal has a 47.5 percent and a 50 percent working interest in Blocks CNQ7 and CNQ7A, respectively, in the Neuquen Basin of Argentina. The company is the operator for Block CNQ7A.

The company also has a 50 percent working interest in two offshore blocks in the San Jorge Basin. In 1999, the joint venture plans to evaluate recently acquired seismic data.

## India

Unocal has acquired a 26 percent equity interest in the Hindustan Oil Exploration Company (HOEC). Unocal also is evaluating the size and commercial viability of gas resources in Tripura.

Changing political climates and relationships between international oil companies and host governments in the above-mentioned countries and other parts of the world, including changes in posted or tax-reference prices for crude oil, increases in tax rates (sometimes retroactive) and demands for increased participation in the ownership of operations, could lead to changes in the status of Unocal's exploration and production activities in these and other foreign countries during the coming years. In addition, circumstances could arise that may have a material adverse impact on the company's future operations. These circumstances may include, but not be limited to, further devaluation of Asian currencies, decreased demand for energy products in areas where the company has operations, civil unrest, increased inflation and any prolonged international economic slowdowns.

## CRUDE OIL AND NATURAL GAS MARKETING AND TRADING

The company formed the Global Trade segment to consolidate its worldwide crude oil, condensate and natural gas marketing and trading and commodity risk management activities. Most of the company's United States crude oil and natural gas production is sold to the Global Trade segment. Global Trade also purchases crude oil, condensate and natural gas from the company's joint venture partners, royalty owners and other unaffiliated oil and gas producers for resale.

Effective January 1, 1999, the Pipelines business unit, previously part of the Diversified Business segment, and the Global Trade segment were combined into a new organization. This new organization will help the company compete more effectively in the midstream sector by bringing the company's energy trading, risk management, and asset optimization skills under a single management structure. Global Trade is responsible for trading and marketing most of the company's crude oil and gas production worldwide as well as managing the pipeline and midstream assets. Global Trade also supports the New Ventures group through a newly formed International Gas Marketing Group, which will focus on adding value in new markets where the company has or is developing a presence, and in the company's fuel management and international pipeline support activities.

## GEOHERMAL AND POWER OPERATIONS

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

The company operates major geothermal electricity projects at Tiwi and Mak-Ban in the Philippines, Gunung Salak in Indonesia, and The Geysers in Santa Rosa, California. In January 1999, the company

reached an agreement to sell its interest in a geothermal steam venture at The Geysers in Northern California for \$101 million. The transaction is expected to close by the end of the first quarter of 1999.

Philippine Geothermal, Inc. (PGI), Unocal's Philippine subsidiary, entered into a provisional agreement with National Power Company of the Philippines (NPC) as a result of arbitration over the service contract renewal. This provisional agreement was in effect until December 31, 1997, when the arbitration court issued an interlocutory order requiring both parties to maintain status quo beyond December 31, 1997. On June 22, 1998, PGI entered into an interim service agreement with NPC with terms similar to the previous provisional agreement signed in September 1996 respecting the status quo. For as long as the parties are negotiating in good faith, the term of the interim service agreement is open-ended. The term will end six months after either NPC or PGI resumes its arbitration or court cases. NPC and PGI continue to negotiate in good faith for a possible settlement.

The company's geothermal reserves and operating data are summarized below:

	1998	1997	1996
Net proved geothermal reserves at year end: (a)			
billion kilowatt-hours	157	149	155
million equivalent oil barrels	235	223	232
Net daily production			
million kilowatt-hours	21	18	18
thousand equivalent oil barrels	32	27	26
Net geothermal lands in thousand acres			
proved	20	16	16
prospective	338	384	384
Net producible geothermal wells	287	241	208

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

#### DIVERSIFIED BUSINESS GROUP

##### Agricultural Products

Unocal is a major manufacturer and marketer of nitrogen-based fertilizers serving the western United States and southeast Asian markets. The company's primary fertilizer manufacturing plants, located in Kenai, Alaska, supply nitrogen-based ammonia and urea fertilizer products to export markets in southeast Asia and to Unocal's West Coast U.S. terminals. Natural gas from the company's southern Alaska operations is the feedstock for the Kenai facilities. The company also produces ammonia at its Finley, Washington, facility and manufactures upgraded nitrogen-based fertilizer products at its Kennewick, Washington, and West Sacramento, California, facilities.

##### Carbon and Minerals

The Carbon and Minerals business unit produces and markets petroleum coke, graphites, and specialty minerals.

Green petroleum coke, a by-product of refining operations, is calcined for use in aluminum production and other industrial applications. Green coke is also sold in the United States and overseas as fuel. A calcining plant, owned and operated by a subsidiary of the company, is located adjacent to the Citgo refinery in Lemont, Illinois.

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

Through its wholly-owned subsidiary, Poco Graphite, Inc., the company manufactures premium graphite and silicon carbide materials for use in electrodes, semiconductors, biomedical products, and other advanced technologies.

Unocal's mineral operations are carried out by Molycorp, Inc., a wholly-owned subsidiary. Molycorp mines, processes, and markets lanthanide and molybdenum products. Its mines are located in Mountain Pass, California and Questa, New Mexico. Molycorp also has an interest in Companhia Brasileira de Metalurgia e Mineracao, a niobium operation in Brazil.

Due to persistent low lanthanide prices, a temporary suspension of all mining and manufacturing operations occurred at the Molycorp's Mountain Pass, California facilities in 1998. The suspension of operations will last until prices improve and resolution of certain regulatory and legal issues occurs.

Also, due to the low molybdenum prices realized during the second half of 1998, operations at Molycorp's Questa, New Mexico, molybdenum facility were partially curtailed in January 1999. The mining operations are planned to continue at a reduced rate with the mill operating periodically, as deemed necessary, to maintain inventory levels to meet customer demands. This operating plan will continue until prices improve enough to support full-time operations.

#### Pipelines

The Pipelines business unit principally includes the company's equity interests in petroleum pipeline companies and wholly-owned pipeline systems throughout the United States.

Included in Unocal's pipeline investments is the Colonial Pipeline Company, in which the company holds a 20.75 percent equity interest. The Colonial Pipeline system runs from Texas to New Jersey and transports a significant portion of all petroleum products consumed in its 13-state market area. Also included is the Unocal Pipeline Company, a wholly-owned subsidiary of Unocal, which holds a 1.36 percent participation interest in the TransAlaska Pipeline System (TAPS). TAPS transports crude oil from the North Slope of Alaska to the port of Valdez in Alaska. In addition, the company holds a 27.75 percent interest in the Trans-Andean oil pipeline, which transports crude oil from Argentina to Chile. In December 1998, the company sold its 9.078 percent interest in the Canadian Alliance Pipeline project.

#### COMPETITION

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

#### EMPLOYEES

As of December 31, 1998, Unocal had 7,880 employees down from 8,394 in 1997. Of the total Unocal employees at year-end 1998, 575 were represented by various U.S. labor unions.

#### GOVERNMENT REGULATIONS

Certain interstate crude oil pipeline subsidiaries of Unocal are regulated (as common carriers) by the Federal Energy Regulatory Commission. As a lessee from the United States government, Unocal is

subject to Department of the Interior regulations covering activities onshore and on the Outer Continental Shelf (OCS). In addition, state regulations impose strict controls on both state-owned and privately-owned lands.

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

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

#### ENVIRONMENTAL REGULATION

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

The company has been a party to a number of administrative and judicial proceedings under federal, state and local provisions relating to environmental protection. These proceedings include actions for civil penalties or fines for alleged environmental violations, permit proceedings including hearing requests into the issuance or modification of National Pollution Discharge Elimination System (NPDES) permits, requests for temporary variances from air pollution regulations for manufacturing and/or production facilities, and similar matters.

For information regarding the company's environment-related capital expenditures, charges to earnings and possible future environmental exposure, see Item 3 - Legal Proceedings below, the Environmental Matters section of Management's Discussion and Analysis in Item 7 of this report on pages 35 through 38 and notes 16 and 17 to the consolidated financial statements in Item 8 of this report on pages 65 and 66.

#### ITEM 3 - LEGAL PROCEEDINGS

There is incorporated by reference the information regarding environmental remediation reserves in note 16 to the consolidated financial statements in Item 8 of this report on page 65, the discussion thereof in the Environmental Matters section of Management's Discussion and Analysis in Item 7 of this report on pages 35 through 38, and the information regarding certain legal proceedings and other contingent liabilities in note 17 to the consolidated financial statements in Item 8 of this report on pages 65 and 66. Information with respect to certain additional legal proceedings is set forth below:

##### General

1. In April 1995, Atlantic Richfield Company (Arco), Chevron U.S.A., Inc., Exxon Corporation, Mobil Oil Corporation, Shell Oil Products Company and Texaco Refining and Marketing, Inc., filed a lawsuit against the company in the U.S. District Court for the Central District of California regarding U.S. Letters Patent No. 5,288,393 issued to the company containing several patent claims for the composition of reformulated gasolines (Atlantic

Richfield Company, et al. v. Unocal

Corporation, et al., No. CV-95-2379-RG). The plaintiffs alleged that the

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company's patent was invalid and unenforceable. In the first phase of the trial, the jury, in October 1997, upheld all of the claims of the patent and found that Arco and the five other oil companies had infringed the patent with respect to approximately 29 percent, or 1.2 billion gallons, of the gasolines produced by them for California markets during the five-month period ended July 31, 1996. In the subsequent damage phase, the jury, in November 1997, awarded the company 5.75 cents per infringing gallon, or \$69 million for the five-month period. Following a third phase of the trial, the court, in August 1998, found that the company had not engaged in alleged "inequitable conduct" in obtaining the patent, with the result that the patent is valid and enforceable. In September 1998, the court entered a judgment in favor of the company against the six oil companies for \$84 million, including interest and attorneys' fees. The court also ordered an accounting for infringement by the companies since July 1996, but stayed the order pending appeal of the judgment. In October 1998, the companies appealed to the Federal Circuit Court of Appeals in Washington, D.C.

In a related matter, Talbert Fuel Systems Patents Company (Talbert) filed suit against the company in January 1998, in the U.S. District Court for the Central District of California, alleging that Talbert had a prior patent covering reformulated gasolines (Talbert Fuel Systems Patents

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Company v. Unocal Corp., Union Oil Company of California and Tosco Corporation, CV-98-0412). The suit seeks to have Unocal's Patent No.

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5,288,393 invalidated as interfering with Talbert's prior patent and seeks damages for the company's alleged infringement for the period through March 1997. In December 1998, the court dismissed Talbert's interference claim.

2. In October 1995, the State of Texas and several individuals filed a class action lawsuit in the District Court of Lee County, Texas (State of Texas, et al. v. Amerada Hess Corporation, et al.), alleging that the defendants, including the company, had engaged in a conspiracy to fix posted prices for crude oil at artificially low levels and had also discriminated against the class of Texas royalty owners by purchasing oil "attributable" to the plaintiff class at prices lower than the prices realized by the defendants for their own production from the same fields. Since that time, the company has been named a defendant in ten additional class action lawsuits alleging oil royalty and working interest underpayments. Eight of these cases were filed in federal courts in Alabama, Louisiana, Mississippi, and Texas and subsequently were transferred by The Multi-District Panel to the U.S. District Court for the Southern District of Texas, Corpus Christi Division, as MDL-1206. The other three cases remain on file in state courts in Alabama and Texas.

As a group, the lawsuits allege that crude oil postings have been lower than true value and assert claims of breach of contract, fraud, conversion, and violations of federal and state antitrust laws and the federal Racketeer Influenced and Corrupt Organizations (RICO) statute. Putative state-wide and nation-wide class representatives seek recovery of unspecified actual and punitive damages, including treble damages for antitrust and RICO violations from 1986 forward, as well as attorneys' fees and costs.

In December 1998, the company and twenty-five other oil companies signed a supplement to a previously announced settlement agreement in one of the above-described federal lawsuits (The McMahon Foundation, et al. v. Amerada

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Hess Corporation, et al., in the U.S. District Court for the Southern

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District of Texas). Under this supplemental agreement, the defendants agreed to pay \$164 million to settle all private non-state-wide-entity oil royalty and working interest claims nation-wide. In December 1998, the settlement was given preliminary approval by the court. Final approval is scheduled for consideration in April 1999. Except as noted below, if finally approved, the settlement will bring to an end all of the class action litigation described above. The company is aware, however, that some royalty and working interest owners could elect to opt out of the settlement.

One of the lawsuits (The State of Texas et al v. Amerada Hess Corporation, et al., in the 53rd District Court of Travis County, Texas), alleges that

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the underpayment of royalties constituted a violation of the Texas Common Purchaser Act and seeks recovery of monetary penalties in an unspecified amount on behalf of the State of Texas and a state-wide class of private royalty

owners. These claims have been excluded from the claims settled in the McMahon action. The company is vigorously contesting these claims.

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In litigation related to the above-described posted price class actions, various state taxing authorities are pursuing attempts to collect additional severance taxes on the theory that oil companies have undervalued the crude oil they produced within those states. To date, two states have initiated lawsuits. (State of Louisiana and Secretary of the Department of Revenue and Taxation v. Union Oil Company of California, in the Fifteenth Judicial Court of Lafayette Parish, Louisiana; and State of Alabama and State of Alabama Department of Revenue v. Amerada Hess Corporation, et al., in the Circuit Court of Mobile County, Alabama.) The company believes it has paid all state severance tax obligations correctly and is vigorously contesting these lawsuits. In the Alabama proceeding, the trial judge recently granted the defendants' motion to dismiss for the State of Alabama's failure to follow Alabama laws pertaining to assessment and collection of state taxes. The company has been informed the State of Alabama intends to appeal this dismissal.

3. The U.S. Department of Interior Minerals Management Service (MMS) announced in July 1996 that it would pursue claims against several oil companies for their alleged underpayment of royalties for crude oil produced from federal leases in California covering the period from 1980 forward. Following that announcement, the company has received from the MMS three orders to pay additional royalties, penalties and interest, covering periods from January 1980 through April 1996 and totaling in excess of \$75 million. The company vigorously disputes the validity of these orders and is pursuing appropriate administrative appeals. In January 1999, the company filed an action in the U.S. District Court for the Northern District of Oklahoma

(Union Oil Company of California v. Bruce Babbitt, et al.) seeking a declaratory judgment that the applicable statute of limitations bars amounts claimed by the MMS for periods prior to July 22, 1991.

4. In March 1998, the company was served with a lawsuit brought by private plaintiffs on behalf of the United States against the company and numerous other oil companies (United States, ex rel. Johnson v. Shell Oil Company et al., in the U.S. District Court for the Eastern District of Texas, Lufkin Division). The lawsuit alleges intentional underpayment of royalties for oil produced from federal and Indian land leases in violation of the federal False Claims Act (FCA) from 1986 forward. The plaintiffs seek recovery of unspecified monetary damages, to be trebled as provided by the FCA, plus attorneys' fees and civil penalties authorized by the act. On February 12, 1999, the U.S. Department of Justice intervened in the lawsuit by filing an amended complaint naming the company. The Department had previously intervened against a number of other defendants. The company believes its royalty payments on federal and Indian land leases have been made correctly. Accordingly, it does not believe it engaged in conduct that violated the FCA and is vigorously contesting this lawsuit.

5. The company was recently made aware that it has been named a defendant in two additional FCA proceedings brought by private plaintiffs on behalf of the United States alleging underpayment of royalties on natural gas production from federal and Indian land leases since the mid-1980's. The first action (United States, ex rel. Harrold E. (Gene) Wright v. Amerada Hess Corporation, et al., in the U.S. District Court for the Eastern District of Texas, Lufkin Division) was filed in August 1996 against the company and 130 other energy industry companies and seeks damages collectively from all defendants of \$3 billion, which, to the extent awarded, would be trebled under the FCA. The second action (United States, ex rel. Jack Grynberg v. Unocal, in the U.S. District Court for the District of Wyoming) was filed in September 1997, as one of 77 separate cases filed by the plaintiff, and seeks damages of approximately \$200 million from the company, which, to the extent awarded, would be trebled under the FCA. To date, the U.S. Department of Justice has not elected to intervene in either action. The company believes the allegations are without merit and intends to vigorously defend both cases.

6. Since December 1997, the company has received from the MMS a number of notices of Preliminary Determination of Underpaid Royalties in connection with various gas contract settlements entered

into by the company during the period 1984 through 1992. The total amount of the alleged underpaid royalties, together with interest, claimed by the MMS totals approximately \$35 million.

7. In June 1996, the case captioned Aguilar, et al. v. Atlantic Richfield, et al. (Civil No. 00700810), was filed in the California Superior Court for

San Diego County against nine California oil companies, including the company, which refined and marketed Phase 2 gasoline mandated by the California Air Resources Board (CARB). The plaintiffs allege that the defendants conspired to limit the supply and increase the price of CARB gasoline in violation of California antitrust and unfair competition laws. The plaintiffs seek treble damages and injunctive relief on behalf of all purchasers of CARB gasoline at retail since March 1, 1996. In May 1997, the court certified the case as a class action. In October 1997, the court granted the defendants' motion for summary judgment. However in January 1998, the court granted the plaintiffs' motion for a new trial, effectively reversing the earlier grant of summary judgment. The company and its co-defendants have appealed to the California Court of Appeals the court's orders which certified the class and granted a new trial.

In February 1998, Unocal and the co-defendants in Aguilar were served with a new action in the U.S. District Court for the Southern District of California (Gilley, et al. v. Atlantic Richfield, et al., Case No. 98 CV

0123 BTM (RRB)). This case was filed on behalf of a purported class consisting of lessee gasoline dealers who purchased gasoline at the wholesale level from the defendants during the period from January 1, 1996 to the present. The complaint alleges that Unocal and the co-defendants conspired to restrict the supply of CARB gasoline in violation of the Sherman Act, 15 U.S.C. Section 1. This case is also being vigorously defended.

8. In September 1996, a criminal investigation was commenced by the Office of the District Attorney of San Bernardino County, California (District Attorney), arising from wastewater pipeline incidents occurring at the Mountain Pass, California, lanthanide facility of the company's Molycorp, Inc., subsidiary in July and August 1996. Molycorp has been engaged in extensive settlement negotiations with the District Attorney in an effort to achieve an appropriate civil resolution of this matter.

In May 1998, the District Attorney filed a civil complaint against Molycorp in the California Superior Court for San Bernardino County - Barstow Division for alleged violations of California's Proposition 65 law and Hazardous Waste Control law (People of the State of California v. Molycorp,

Inc., No. BCV 03740). In July 1998, an amended complaint was filed,

withdrawing the Hazardous Waste Control Law cause of action. The complaint is now limited to alleged violations of Proposition 65. Molycorp filed its answer to the complaint in September 1998.

9. The company is a defendant in a lawsuit, filed in October 1996, by anonymous representatives purportedly on behalf of an alleged class of plaintiffs consisting of all residents of the Tenasserim region of Myanmar allegedly affected by alleged acts of mistreatment and forced labor by the government of Myanmar allegedly in connection with the construction of the Yadana natural gas pipeline, which transports natural gas from fields in the Andaman Sea to Thailand through a pipeline crossing Myanmar (John Doe

I, et al. v. Unocal Corp., et al., in the U.S. District Court for the

Central District of California, Civil No. 96-6959-RAP). Other named defendants included the French oil company Total S.A., John F. Imle and Roger C. Beach.

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

In March and April 1997, the court granted in part and denied in part the company's motion to dismiss the action. In its answer to an amended complaint, the company denied that it was either properly named as a party or subject to joint venture, partnership or other liability with respect to

the Yadana pipeline. In January 1998, the court heard argument on the class certification question and took the matter under advisement. In February 1998, the court denied the plaintiffs' motion for a preliminary injunction. In November 1998, the court dismissed Total as a defendant, finding that it lacked jurisdiction over that company.

The company has also been served with a lawsuit, filed in September 1996, making similar claims but without the class action allegations (National -----  
Coalition Government of the Union of Burma, et al. v. Unocal Inc. and the -----  
Yadana Natural Gas Project, in the U.S. District Court for the Central -----  
District of California, Civil No. 96-6112-RAP).

The court, in November 1997, granted in part and denied in part the company's motion to dismiss the action. Among other things, the court's order dismissed the National Coalition Government of the Union of Burma as a plaintiff in the action. The remaining plaintiffs thereafter filed a second amended complaint. In its answer, the company denied that it was either properly named as a party or subject to joint venture, partnership or other liability with respect to the Yadana pipeline. In March 1998, the court entered an order dismissing the Federation of Trade Unions of Burma as a plaintiff. The remaining plaintiffs have recently filed a motion to amend further their complaint, seeking to dismiss certain individual plaintiffs, add other individual plaintiffs and allege with greater detail the relationship between Unocal and certain of its subsidiaries.

10. In August 1998, a jury hearing the Group 5 trial in Judicial Council Coordination Proceedings No. 2967 (Lockheed Litigation Cases, in the -----

California Superior Court for Los Angeles County) awarded approximately \$760 million in punitive damages against five defendants, including the company. The company's share of the award was \$81.3 million. The defendants supplied petrochemicals to the former Lockheed Corporation "Skunkworks" plant in Burbank, California. The Group 5 trial involved 42 current and former employees of Lockheed who claimed personal injuries as the result of exposure to these chemicals. In the compensatory damage phase of the trial, the company was found liable to eight plaintiffs for a total of approximately \$750,000 as a consequence of its delivery of two drums of naphtha to the plant in 1984. In November 1998, the court reduced the punitive damages award by 50 percent. The company and the other defendants are appealing the judgment to the California Court of Appeal. The company is highly confident that the punitive damage award will be substantially reduced or completely reversed.

11. In October 1998, the Attorney General of Hawaii filed an action (Bronster -----  
(State of Hawaii) v. Unocal, et al., in the U.S. District Court for the -----

District of Hawaii) on behalf of both the people of Hawaii and the state itself against the company and six other major Hawaii oil refiners. The complaint alleges that the defendants conspired to restrict the production and fix the price of gasoline in violation of the federal Sherman Act and various state laws. The state seeks damages in an amount exceeding \$150 million covering a period starting in 1995, together with civil penalties in excess of \$70 million. If liability were established, the company would be jointly and severally liable for any damages awarded. If a Sherman Act violation were found, any damages awarded would be trebled and attorneys' fees and costs would also be awarded. Any such damages would be allocated among the defendants according to their respective market shares.

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

12. In October 1998, a purported class action was filed by direct and indirect purchasers of diesel fuel in the state of California from March 19, 1996, through December 1997, against the company and eight other major California oil refiners (Cal-Tex Citrus Juice, et al. v. Unocal, et al., in the -----

California Superior Court for Sacramento County). The complaint alleges that the defendants conspired to restrict the production and fix the price of CARB diesel fuel in violation of the California Cartwright

and Unfair Competition Acts. The total amount of damages sought by the plaintiffs is unknown. If liability were established, the company would be jointly and severally liable for any damages awarded. Any such damages would be trebled if a Cartwright Act violation were found and attorneys' fees and costs would also be recoverable. Fluid recovery and cy pres restitution would be available under the Unfair Competition Act if a violation of that act were found. Any damages awarded would be allocated among the defendants according to their market shares.

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

Certain Additional Environmental Matters Involving Possible Civil Penalties

13. In June 1997, the State of Arizona filed a lawsuit against the company

(State of Arizona v. Union Oil Company of California, Superior Court of

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Maricopa County, No. CV97-10829) alleging that it has not diligently pursued the investigation of the extent of contamination resulting from a release of petroleum from underground storage tanks at a service station formerly operated by the company in Tempe, Arizona. The state has informed the company that it is seeking civil penalties in excess of \$1.5 million, as well as other payments. The company intends to vigorously contest the state's allegations.

14. The South Coast Air Quality Management District (SCAQMD) has notified the company concerning past Notices of Violation and emission fees that remain outstanding regarding the company's former Los Angeles Refinery Wilmington and Carson Plants (which were subsequently sold to Tosco Corporation in March 1997). In the aggregate, penalties concerning these matters could exceed \$100,000. The company is working with the SCAQMD towards a resolution of these matters.

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

EXECUTIVE OFFICERS OF THE REGISTRANT

Name, age and present  
positions with Unocal

Business experience

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ROGER C. BEACH, 62  
Chairman of the Board and Chief  
Executive Officer  
Director since 1988  
Chairman of Executive Committee and  
Board and Company Management Committees

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Mr. Beach has been Chairman of the Board since 1995 and Chief  
Executive Officer since 1994. He served as President and Chief  
Operating Officer from 1992 to 1994.

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JOHN F. IMLE, JR., 58  
Vice Chairman of the Board  
Director since 1988  
Member of Board and Company  
Management Committees

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Mr. Imle has been Vice Chairman of the Board since March 3, 1999.  
He served as President from 1994 to March 1999. From 1992 to 1994,  
he served as Executive Vice President and President of the Energy  
Resources Division, which encompassed the company's worldwide oil,  
gas, and geothermal businesses.

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TIMOTHY H. LING, 41  
Executive Vice President,  
and North American Energy Operations,  
Chief Financial Officer  
Member of Company Management Committee

Mr. Ling has been Executive Vice President, North American Energy Operations, since March 3, 1999, and Chief Financial Officer since October 1997. He was a partner of McKinsey & Company, Inc. (McKinsey) from 1994 to October 1997 and an employee of the firm from 1989 to 1994. From 1990 to 1997, Mr. Ling was a leader of the McKinsey consulting team working with the company, focusing on development of the company's new corporate strategies and the improvement of the company's asset and growth portfolios.

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CHARLES R. WILLIAMSON, 50  
Executive Vice President,  
International Energy Operations  
Member of Company Management Committee

Mr. Williamson has been Executive Vice President, International Energy Operations, since March 3, 1999. He served as Group Vice President, Asia Operations, from February 1998 to March 1999, having previously served as Group Vice President, International Operations, since 1996. He was Vice President, Planning and Economics, from 1995 to 1996 and served as Vice President, Technology, from 1992 to 1994.

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L. E. (ED) SCOTT, 56  
Group Vice President,  
Diversified Business Group

Mr. Scott has been Group Vice President of the company's Diversified Business Group since 1994. From 1990 to 1994, he was Vice President, Petroleum Supply and Transportation.

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DENNIS P.R. CODON, 50  
Vice President, Chief Legal Officer  
and General Counsel

Mr. Codon has been Vice President, Chief Legal Officer and General Counsel since 1992. He also served as Corporate Secretary from 1990 to 1996.

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JOE D. CECIL, 50  
Vice President and Comptroller

Mr. Cecil has been Vice President and Comptroller since December 1997. From March 1997 to December 1997, Mr. Cecil was Comptroller of International Operations. He was Comptroller of the 76 Products Company from 1995 until the sale of the West Coast refining, marketing and transportation assets in March 1997. From 1994 to 1995, Mr. Cecil was Assistant Comptroller, New Ventures, and from 1992 to 1994, he was Comptroller of the Energy Resources Division.

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JOSEPH A. HOUSEHOLDER, 43  
Vice President, Corporate Development, and  
Assistant Chief Financial Officer

Mr. Householder has been Vice President, Corporate Development since December 1997, and was appointed Assistant Chief Financial Officer on March 3, 1999. He was Vice President, Tax and Comptroller, from June 1997 until December 1997. He was Vice President, Tax, from 1994 until 1997, and General Tax Counsel from 1990 to 1994.

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WILLIAM T. WILSON, 44  
Vice President, Commodity Trading and Risk  
Management, and President, Unocal Global  
Trade

Mr. Wilson was named Vice President, Commodity Trading and Risk Management, in September 1995, and became President of the newly formed Unocal Global Trade unit in 1997. In January 1999, the responsibility for pipelines and related midstream operations was consolidated into that unit. Mr. Wilson joined the company in March 1995 as General Manager of Risk Management. From 1990 to early 1995, he was employed by the British Petroleum Company in various oil and gas exploration and production management positions. His last assignment at that company was Manager of North American Gas Marketing.

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The bylaws of the company provide that each executive officer shall hold office until the annual organizational meeting of the Board of Directors, to be held May 24, 1999, and until his successor shall be elected and qualified, unless he shall resign or shall be removed or otherwise disqualified to serve.

## PART II

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

	1998 Quarters				1997 Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Market price per share of common stock								
- High	\$ 42 1/8	\$ 42 1/8	\$38 3/16	\$ 37	\$45 7/8	\$ 44	\$45 7/8	\$ 45 1/4
- Low	\$33 1/16	\$34 13/16	\$30 3/16	\$28 5/16	\$ 38	\$36 1/4	\$36 1/8	\$37 9/16
Cash dividends paid per share of common stock	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20

Prices in the foregoing table are from the New York Stock Exchange Composite Transactions listing. On February 28, 1999, the high price per share was \$ 28 1/4 and the low price per share was \$27 5/8.

Unocal common stock is listed for trading on the New York, Pacific, and Chicago Stock Exchanges in the United States, and on the Stock Exchange of Switzerland. The company is in the process of delisting the common stock from the Pacific and Chicago Stock Exchanges.

As of February 28, 1999, the approximate number of holders of record of Unocal common stock was 29,329 and the number of shares outstanding was 241,518,668.

Unocal's quarterly dividend declared has been \$.20 per common share since the third quarter of 1993. The company has paid a quarterly dividend for 83 consecutive years.

ITEM 6 - SELECTED FINANCIAL DATA: see page 88.

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

The following discussion and analysis of the consolidated financial condition and results of operations of Unocal should be read in conjunction with the historical financial information provided in the consolidated financial statements and accompanying notes, as well as the business and property descriptions in Items 1 and 2. Unless otherwise specified, the following discussion pertains to the company's continuing operations.

CONSOLIDATED RESULTS

Millions of dollars	1998	1997	1996
Earnings from continuing operations before discontinued operations and extraordinary item	\$ 130	\$ 669	\$ 456
Less: special items (net of tax)			
Asset sales	120	43	70
Asset write-downs	(65)	(43)	(46)
Bangladesh well blowout	-	(8)	-
Deferred tax adjustments	(29)	207	-
Environmental and litigation provisions	(101)	(84)	(123)
Insurance benefits	56	-	-
Restructuring costs	(17)	-	-
UNO-VEN restructuring	-	40	-
Other	-	(1)	(7)
Total special items	(36)	154	(106)
Adjusted after-tax earnings from continuing operations	\$ 166	\$ 515	\$ 562

1998 vs. 1997 - The company's 1998 adjusted after-tax earnings from continuing operations decreased \$349 million, or 68 percent, as compared to 1997, primarily due to depressed worldwide crude oil and natural gas sales prices. Compared to 1997, the company's worldwide average crude oil sales price decreased by \$6.04 per barrel, or 34 percent, and its worldwide average natural gas sales price decreased by \$.32 per thousand cubic feet, or 14 percent. Also contributing to the decline in adjusted after-tax earnings were lower agricultural products sales prices, lower United States natural gas and crude oil production, increased United States dry hole expense, and higher current taxes in Thailand primarily related to foreign currency fluctuations. Partially offsetting these negative factors was lower worldwide depreciation expense.

1997 vs. 1996 - The 1997 after-tax earnings from continuing operations reflected a lower average worldwide crude oil sales price and decreased United States crude oil and natural gas production. In addition, the 1997 results were impacted by higher worldwide exploration expense, higher international depreciation and substantially lower average sales prices for agricultural products. These conditions were partially offset by a higher average worldwide natural gas sales price, increased international crude oil and natural gas production, and lower interest expense.

Revenues

1998 vs. 1997 - The company's 1998 revenues decreased \$585 million from 1997, principally due to lower worldwide crude oil and natural gas sales prices. Lower agricultural products sales prices and decreased United States natural gas and crude oil production also contributed to the decline. Partially offsetting the decrease were increased activities related to the marketing and trading of crude oil, condensate and natural gas, increased natural gas production in the Far East, increased crude oil sales in Indonesia, Azerbaijan and Yemen, gains on certain international and United States asset sales, and a global insurance recovery related to past environmental remediation issues.

1997 vs. 1996 - In 1997, higher revenues primarily were due to increased activities related to the marketing and trading of crude oil, condensate and natural gas. Also contributing to increased revenues were higher affiliate earnings, higher average worldwide natural gas prices, increased international crude oil and natural gas production and transactions related to the UNO-VEN restructuring. Partially offsetting these positive factors were lower United States crude oil, condensate and natural gas production and lower average worldwide crude oil and condensate prices.

#### Costs and Other Deductions

Millions of dollars	1998	1997	1996
-----			
Pre-tax costs and other deductions:			
Crude oil, natural gas and product purchases	\$2,165	\$2,246	\$1,502
Operating expense	1,352	1,389	1,386
Special items:			
Environmental and litigation provisions	(170)	(135)	(196)
Other	(5)	-	(11)
-----			
Adjusted crude oil, natural gas and product purchases and operating expense	\$3,342	\$3,500	\$2,681
-----			
Selling, administrative and general expense	\$ 136	\$ 107	\$ 151
Special item:			
Restructuring costs	(27)	-	-
-----			
Adjusted selling, administrative and general expense	\$ 109	\$ 107	\$ 151
-----			
Depreciation, depletion and amortization	\$ 867	\$ 962	\$ 914
Special item:			
Asset write-downs	(95)	(69)	(75)
-----			
Adjusted depreciation, depletion and amortization expense	\$ 772	\$ 893	\$ 839
-----			
Dry hole costs	\$ 184	\$ 110	\$ 139
-----			
Interest expense	\$ 177	\$ 183	\$ 279
-----			

1998 vs. 1997 - Crude oil, natural gas and product purchase expenses were lower in 1998 principally due to lower worldwide commodity prices. Partially offsetting this decrease was increased activities related to the marketing and trading of crude oil, condensate, and natural gas by the company's Global Trade group.

Dry hole costs increased 67 percent over the 1997 amount due to the company's expanded exploratory drilling program in 1998, which focused primarily on the onshore Gulf Coast and offshore Gulf of Mexico areas.

1997 vs. 1996 - In 1997, higher adjusted crude oil, natural gas and product purchases were primarily due to marketing activities by the company's Global Trade group and by transactions related to the UNO-VEN restructuring. Lower dry hole costs during 1997 were due to delays in exploratory drilling. Decreased interest expense in 1997 was the result of lower debt and increased capitalized interest.

#### Restructuring Costs

In response to depressed commodity prices, the company adopted a restructuring plan during the fourth quarter of 1998 that resulted in the accrual of a \$17 million after-tax restructuring charge. This amount included the estimated costs of terminating approximately 475 employees. The plan involves the suspension of mining and manufacturing operations at the Mountain Pass, California, lanthanide facility, a change in mining operations at the Questa, New Mexico, molybdenum facility, the withdrawal from non-strategic activities in Central Asia and a reduction in activities of various business units.

The restructuring charge was recorded in aggregate in Corporate and Unallocated. Approximately \$4 million and \$7 million of the after-tax charge relates to the Exploration and Production and Diversified Businesses segments, respectively.

Approximately 240 of the affected employees are from the company's mining operations, 95 are from various exploration and production business units and 140 are support personnel at various locations. At December 31, 1998, approximately 210 employees were terminated or had received termination notices as a result of the plan. Cash expenditures related to the restructuring of approximately \$12 million and \$4 million are expected for the years 1999 and 2000, respectively.

The company expects the plan to reduce future annualized salaries and benefits by an estimated \$21 million after-tax. In addition, the company is currently evaluating additional initiatives to improve the efficiency and alignment of support services to reduce costs. This evaluation could result in another restructuring program in 1999.

For further information, see note 6 to the consolidated financial statements.

#### Discontinued Operations

In March 1997, the company completed the sale of its West Coast petroleum refining, marketing and transportation assets. The results of operations and assets of the refining, marketing and transportation segment were classified as discontinued operations. In 1996, the company reported a net loss of \$420 million and, in 1997, the company reported an additional \$50 million net loss on these assets. For additional information related to the discontinued operations see note 8 to the consolidated financial statements.

#### Extraordinary Item

In 1997, the company recorded a \$38 million after-tax charge related to the purchase of approximately \$507 million in aggregate principal amount of three of its outstanding issues of debt securities. For further information, see note 9 to the consolidated financial statements.

#### Outlook

Key issues for the company going into 1999 center around the current low commodity price environment and the economic situation in Asia.

#### Depressed Commodity Prices

Energy prices were severely depressed in 1998, particularly in the latter part of the year. This situation has continued into the first quarter of 1999. These depressed prices are primarily the result of an oversupply of crude oil on world markets, a drop in demand in Southeast Asia, a warm winter in the Northern Hemisphere, and a build-up of United States natural gas inventories. The company's worldwide average crude oil price was 34 percent below the 1997 average and lower than they have been since 1986. The company's worldwide average natural gas price in 1998 was approximately 14 percent below the 1997 average.

The company believes that commodity prices will continue to be depressed in 1999. The company's annual operating plan for 1999 assumes that its average sales prices will be slightly lower than in 1998. Actual prices may differ materially, and the company may adjust its operating activities accordingly.

The company's goal is to operate in the current depressed commodity price environment without sacrificing growth. The company plans to limit capital expenditures, implement targeted cost reductions, and withdraw from or suspend projects in non-strategic or non-core areas while focussing on the highest-value growth assets and capturing value-adding opportunities. The company intends to keep the total debt-to-capital ratio in its current range. Current production levels are expected to be maintained or

decline slightly.

In 1999, capital expenditures are expected to be approximately \$1.0 billion, compared to a total of \$1.7 billion for 1998. Spending will be focused on a project-by-project approach, with higher-return growth projects in the company's core asset areas taking precedence. Specifically, the reduction will be achieved by a reduction in Gulf of Mexico lease acquisition activity and reduced capital spending in most project areas except deepwater areas in Indonesia and in the Gulf of Mexico.

The company has also targeted \$150 to \$200 million in cash expense reductions for 1999. The company expects to accomplish this through lower new venture expenses as a result of a more narrow geographic focus, the deferral of geological and geophysical activities in selected areas, lower operating costs due to lower service contractor costs, and lower operating and overhead costs as a result of a reduced workforce, suspension of certain mining activities, and other cost-saving initiatives.

The company has withdrawn from or has suspended projects in Central Asia (except Azerbaijan). Under the current circumstances, the company believes that projects in these areas may have lower potential returns, heightened political risk, questionable market development, or unacceptable payout timelines and, therefore, no longer meet the company's more focused criteria for inclusion in its portfolio of higher-growth prospects.

In 1999, the company plans to focus on its highest-potential growth areas: the Gulf of Mexico, Thailand, Indonesia, Bangladesh, Brazil, and West Africa. These areas are geographically diverse but have similar geological features that the company understands well, and one which will allow the company to leverage its drilling expertise.

In a "down cycle", opportunities present themselves that would not otherwise be available. The company is looking to acquire attractive assets, but only if they complement its existing portfolio, enhance leverage in selected areas, or help build scale in places where it wants to grow. In addition, the company is evaluating opportunities to leverage its exploration acreage for swaps or farm-ins that have current production and upside growth potential.

#### Asian Economic Outlook

Much of the company's international activity is centered in Southeast Asia, where the company has been a major presence for more than 35 years. The region is going through a difficult economic period at this time. Since the company began investing in the region, it has weathered many economic downturns. The company believes that the governments in the region are committed to undertaking the reforms and restructuring necessary to enable their nations to recover from the current downturn. Energy development should play an important role in the region's economic recovery.

Some signs of recovery are becoming apparent in Thailand and Indonesia. Thailand's recession seems to be easing somewhat, with the baht stabilizing and interest rates coming down. The nation has worked closely with the International Monetary Fund and has shown discipline and determination in adopting economic reforms. The improved picture in Thailand is reflected in recent gross domestic product (GDP) forecasts. In 1998, Thailand's GDP declined by eight percent. A recent consensus forecast has GDP remaining flat in 1999. Forecasters predict the economy could show moderate growth as early as 2000. This should translate into growth in demand for electricity, which is key to the company's gas sales in Thailand. (For more information, please refer to the Outlook section for International Exploration and Production.)

Indonesia continues to face serious economic problems, but conditions may be stabilizing. Parliament recently passed a political reform package, and new elections are scheduled for June 1999. Indonesia recognizes that oil and gas development is critical to the nation's economic recovery. (For more information, please refer to the Outlook section for International Exploration and Production.)

UNITED STATES EXPLORATION AND PRODUCTION

Included in this category are Spirit Energy 76 and Alaska oil and gas operations. Spirit Energy 76 is responsible for oil and gas operations in the Lower 48 United States, with emphasis on the shelf and deepwater areas in the Gulf of Mexico and on the Permian Basin in West Texas. A substantial portion of Spirit Energy 76's crude oil and natural gas production is sold to the company's Global Trade segment. The remainder is sold under contract to third parties, sold in the spot market or, in the case of Alaska natural gas production, sold to the company's agricultural products operations.

Millions of dollars	1998	1997	1996
After-tax earnings			
Spirit Energy 76	\$ -	\$ 191	\$ 276
Alaska	6	60	122
Total after-tax earnings	6	251	398
Less: special items (net of tax)			
Asset sales (Spirit Energy 76) (a)	14	7	65
Asset write-downs (Spirit Energy 76)	(27)	(41)	(12)
Asset write-downs (Alaska)	(12)	-	(20)
Litigation (Spirit Energy 76)	7	-	-
Other (Spirit Energy 76)	-	-	4
Total special items	(18)	(34)	37
Adjusted after-tax earnings	\$ 24	\$ 285	\$ 361

(a) 1998 includes the sale of the Oklahoma oil and gas properties. 1996 includes the sale of California oil and gas properties.

1998 vs. 1997 - Adjusted after-tax earnings in 1998 decreased by 92 percent from 1997 principally due to lower average crude oil and natural gas sales prices. The average crude oil sales price declined \$5.96 per barrel, or 35 percent, from 1997 while the average natural gas sales price declined \$.39 per thousand cubic feet (mcf), or 17 percent. Additionally, crude oil and natural gas production declined by an average of three thousand barrels per day and 66 million cubic feet (mmcf) per day, respectively. The production declines were principally attributable to the postponement of certain development drilling projects and natural production declines. Dry hole expense increased by \$58 million as a result of increased exploratory drilling activity in the Gulf of Mexico. Partially offsetting these negative factors was decreased depreciation expense.

1997 vs. 1996 - Adjusted after-tax earnings for 1997 decreased 21 percent from the 1996 results primarily due to lower crude oil, condensate and natural gas production, lower average crude oil and condensate sales prices, and higher exploration expense. During 1997, crude oil production decreased 20 percent to approximately 76 thousand barrels per day from 96 thousand barrels per day. Natural gas production decreased eight percent to 993 mmcf per day from 1,075 mmcf per day. The average crude oil sale price decreased to \$17.13 per barrel in 1997 from \$18.51 per barrel in 1996. Exploration expense, excluding dry hole costs, increased to \$60 million in 1997 from \$26 million in 1996 due to increased geological and geophysical activities in the Gulf Coast shelf and deepwater exploration areas. Partially offsetting these factors were increased average natural gas sales prices. The average natural gas sales price increased to \$2.36 per mcf in 1997 from \$2.27 per mcf in 1996.

Outlook

Currently, Spirit Energy 76 has more than 130 drilling prospects in the shelf inventory, which is more than double the number of prospects from two years ago. In the deepwater, the company now has interests in 213 blocks, more than a five-fold increase in just two years. Spirit Energy 76 has interests in two deepwater wells that are currently being drilled and evaluated and is expected to participate in four to six deepwater wells in 1999.

In March 1999, the company signed a letter of intent to trade most of its Rocky Mountain oil and gas assets for 5.8 million shares of Tom Brown, Inc., a domestic oil and gas exploration company, and \$5 million in cash. Based upon the closing price on March 9, 1999 of Tom Brown, Inc. shares, the total value of the exchange is approximately \$76 million. The stock holding in Tom Brown, Inc. is subject to certain restrictions. The exchange is expected to close in the second quarter of 1999.

To optimize the company's deepwater drilling program in the Gulf of Mexico, the company recently transferred some key employees from its highly successful Indonesian deepwater drilling team to Spirit Energy 76. The goal is to drill deepwater Gulf of Mexico wells for 50 percent of the industry's average cost.

As part of its strategy to enter the deep waters in the Gulf of Mexico, the company signed a letter agreement with Transocean Offshore, Inc. to contract for the deepwater drill ship, the Discoverer Spirit, with a minimum daily rate of \$210 thousand for five years. The new drill ship will be capable of operating in water depths of up to 10,000 feet and is designed with dual drilling activity capabilities. The company is scheduled to take delivery of the drill ship in 2000. In order to accelerate the deepwater drilling program, the company also contracted the semi-submersible drilling unit, the Transocean Richardson, for six months. The first well to be drilled from the Transocean Richardson is expected to spud in April 1999.

#### INTERNATIONAL EXPLORATION AND PRODUCTION

Unocal's international operations include the company's oil and gas exploration and production activities outside of the United States. Major areas of operations include Thailand, Indonesia, Myanmar, and Azerbaijan. The company is also involved in oil and gas activities in Yemen, Canada, The Netherlands, the Democratic Republic of Congo, Bangladesh, Brunei, Gabon, India, Brazil, Argentina, and Vietnam.

Millions of dollars	1998	1997	1996
After-tax earnings/(loss)			
Far East	\$ 195	\$ 392	\$ 237
Other	41	(45)	77
Total after-tax earnings	236	347	314
Less: special items (net of tax)			
Asset sales (Other) (a)	101	(16)	41
Asset write-downs (Other)	(4)	(2)	-
Bangladesh well blowout (Other)	-	(8)	-
Deferred tax adjustment (Far East)	(20)	94	-
Deferred tax adjustment (Other)	(9)	-	-
Total special items	68	68	41
Adjusted after-tax earnings	\$ 168	\$ 279	\$ 273

(a) The 1998 amount represents the exchange of Canadian assets for common shares and debentures of Tarragon Oil and Gas Limited and the subsequent conversion of the Tarragon securities into cash.

In April 1998, the company received shares of common stock and debentures of Tarragon Oil and Gas Limited (Tarragon) valued at approximately \$212 million for the exchange of its Alberta, Canada, exploration and production assets. In the third quarter 1998, the company converted the debentures and common stock to cash as the result of a tender offer by USX-Marathon for the purchase of Tarragon's outstanding common stock. The total after-tax gain recorded for these transactions was \$101 million and the proceeds from the sale were \$261 million.

1998 vs. 1997 - The 1998 adjusted after-tax earnings declined primarily due to substantially lower average sales prices for crude oil and natural gas. The average crude oil and condensate sales price decreased 34 percent to \$12.04 per barrel, while the average natural gas sales price declined ten percent to \$2.07 per mcf. Also contributing to the decrease in adjusted after-tax earnings were higher current

taxes in Thailand primarily related to currency exchange rate fluctuations. The decrease in adjusted after-tax earnings was partially offset by higher natural gas production in Thailand and Indonesia, higher Indonesia crude oil liftings, higher crude oil production in 1998 in Azerbaijan and Yemen, and lower depreciation expense.

During 1998, average daily natural gas production increased over 1997 by five percent to 898 mmcf per day, primarily due to improved production levels in Thailand and Indonesia. Average daily crude oil and condensate production decreased eight percent to 111 thousand barrels per day primarily due to the disposition of the company's Alberta, Canada, oil and gas properties in the Tarragon transaction and natural production declines in Indonesia.

1997 vs. 1996 - International adjusted after-tax earnings increased \$32 million in 1997 due primarily to increased Far East crude oil and natural gas production and a higher average natural gas sales price. Partially offsetting these positive factors were a lower average crude oil and condensate sales price and increased depreciation and exploration expenses.

In 1997, crude oil and condensate production increased to 121 thousand barrels per day from 111 thousand barrels per day. Natural gas production increased 16 percent to 855 mmcf per day from 737 mmcf per day. These positive factors were mainly the result of increased production in Indonesia and Thailand.

The average crude oil and condensate price decreased to \$18.21 per barrel from \$19.18 per barrel. The average natural gas sales price increased to \$2.30 per mcf from \$2.23 per mcf.

In 1997, exploration expense increased 30 percent as a result of the company's increased exploration programs in Indonesia, Thailand, Brunei, Azerbaijan and Bangladesh.

#### Outlook

##### Thailand

The company's Thailand operations continued its strong performance despite the Asian economic downturn. Gas demand has remained firm as Thailand continues to convert power plants that run on imported fuel oil to indigenous natural gas. This fuel switching enabled the company to maintain gross gas production at just under one billion cubic feet per day in 1998. The company's gas sales price remained relatively stable, averaging \$2.11 per thousand cubic feet in 1998, but this could decline in 1999 by about ten percent.

The company expects to maintain current production levels of just under one billion cubic feet per day for the first half of 1999. The company anticipates some declines from the current production levels in the second half of the year based on forecasts of 1999 power and gas demand. The extent of the decline will depend on the timing and pace of economic recovery in Thailand, the level of additional fuel switching, and the additional production of competitive gas. The company estimates full-year production in Thailand to fall seven to ten percent from its 1998 average, and will continue to have some volumes at risk above the contract minimums, which aggregate to approximately 740 gross mmcf per day. The Pailin field, expected to commence production in the second half of 1999, has additional separate contract minimums of approximately 330 gross mmcf per day. Longer term, the company has a positive outlook for gas sales growth as power demand increases with the economic recovery and fuel switching continues.

##### Indonesia

The company is optimistic about its oil and gas future growth prospects in Indonesia. The company has a substantial acreage position offshore East Kalimantan and is one of the most active explorers in the region. Nearly half of this acreage is in Indonesia's new deepwater exploration frontier where there is excellent potential. The company has also recently signed two new production sharing contracts (PSCs) for the Sangkarang and Lompa contract areas in another deepwater section of the Makassar Strait. In

total, the company has interests in nearly ten million undeveloped gross acres. The company also remains optimistic due to other factors: the government of Indonesia is encouraging accelerated oil and gas development; the company's revenues remain relatively secure as most of its oil and gas production is sold to the export markets for payment in U.S. dollars; and the company's operations are located in areas that have not experienced civil unrest.

The company is preparing a development program for the deepwater West Seno oil and gas field and expects to submit its plan of development to Pertamina, the Indonesian government's oil and gas company, in the second quarter of 1999. The West Seno field is the first deepwater oil and gas field offshore East Kalimantan that the company and its partner plan to develop and one of several prospective areas on the greater Seno structure in the Kutei Basin. In addition, the company anticipates submitting a plan of development for the deepwater Merah Besar field in 1999. Production from both of these deepwater fields is expected to begin in 2001.

The company plans to continue its drilling program in the Kutei Basin throughout 1999, with 20 to 25 deepwater exploration and delineation wells. The company has also identified five attractive prospects within nine miles of the Seno discovery on the adjacent Rapak PSC area and northern portion of the Makassar Strait PSC area.

#### Myanmar

The company's subsidiaries are awaiting completion of the Ratchaburi power plant in Thailand for commercial production from the Yadana field to begin. The current expectation is for commercial production in the third quarter of 1999, increasing to full capacity in 2000.

The gas sales agreement with the Petroleum Authority of Thailand (PTT) includes a "Take or Pay" provision, which requires PTT to purchase a contract quantity of natural gas. Due to the delay in the completion of the Ratchaburi power plant, PTT could not meet their contract minimum volume obligation for 1998. Therefore, the joint venture billed PTT for the 1998 "Take or Pay" obligation. Payment, which was due March 1, 1999, is currently outstanding. The joint venture partners are in discussions with PTT to resolve the "Take or Pay" issue.

#### Bangladesh

In northeast Bangladesh, the company and its partner are jointly exploring three blocks and developing the Jalalabad natural gas field. Gas began flowing from the Jalalabad field in February 1999 and will soon increase to 100 million cubic feet per day. The company maintains a 50 percent working interest.

The Bibiyana field, a major new gas field, was discovered in mid-1998. The Bibiyana discovery is currently being delineated and appraisal work will continue throughout 1999.

The company is looking to significantly expand its activity in Bangladesh. Last year the company submitted bids with partners on additional blocks. Pending the outcome of bids, the company is currently in discussions with the other companies and Bangladesh government officials to explore the possibility of cross-assigning interests in all of the affected blocks.

#### Azerbaijan

The company has a ten percent working interest in the Azerbaijan International Operating Company (AIOC) oil development project offshore Azerbaijan in the Caspian Sea. Although the company is curtailing other activity elsewhere in this part of the world, it is retaining its interest in AIOC. Early oil production, which began in the fourth quarter of 1997, is now averaging above 100,000 gross barrels per day. The oil is moving through the northern pipeline route through Russia to the Black Sea port of Novorossiysk. The western line to the Georgian port of Supsa on the Black Sea has been completed and is now taking crude. First oil delivery at Supsa is expected early in the second quarter of 1999.

## Latin America

Latin America is one of the company's newest growth focus areas, presenting a number of opportunities to leverage its exploration and production skills, technical competencies, and international experience. In Brazil, political and economic reforms are expanding access and improving commercial terms. The company is focusing on four emerging basins in Brazil: Campos, Santos, Potiguar, and Espirito Santo. The depositional environment in these areas is very similar to the Gulf of Mexico, Indonesia, and West Africa, and is well suited to the company's experience and drilling expertise.

The company's goals for entry into Brazil are to establish solid, long-term relationships with Petrobras, the Brazilian national oil and gas company, and others and to build a strong exploration and production portfolio with shelf as well as deepwater prospects.

In Argentina and elsewhere in Latin America, the company has joint venture operations and is exploring additional joint venture opportunities.

## West Africa

In November 1998, the company acquired a 25 percent working interest in two deepwater blocks offshore Gabon, Anton and Astrid. Exploration of these two blocks has begun. First drilling is expected to begin in late 2000 or early 2001. The company is in charge of drilling and logistics.

## GLOBAL TRADE

The Global Trade segment is responsible for most of the company's worldwide crude oil, condensate and natural gas marketing, trading, and commodity risk management activities. Global Trade also purchases crude oil, condensate and natural gas from the company's joint venture partners, royalty owners and other unaffiliated oil and gas producers for resale.

1998 vs. 1997 - In 1998, adjusted after-tax earnings increased \$5 million to \$21 million as compared to 1997. Average gross margins on total natural gas volumes also increased to 4.2 cents per million Btu (MMBtu) over the IFERC index price in 1998. The IFERC index price is a standard price reference point in the natural gas industry that is published in the trade newsletter "Inside FERC". This index price is a combination of prices, at particular locations, for gas sold on the first day of the month and is used as a reference point in negotiating the purchase or sales price of natural gas. Global Trade averaged 1.5 billion cubic feet of gas traded daily in 1998. Average crude oil gross margins increased three percent over 1997 margins. Total 1998 revenues declined 13 percent from 1997 to \$3.06 billion primarily due to lower crude oil and natural gas sales prices.

1997 vs. 1996 - In 1997, after-tax earnings were \$16 million compared with \$16 million in 1996. Gross margins on total natural gas volumes averaged 3.8 cents per MMBtu over the IFERC index price in 1997. Global Trade averaged 1.3 billion cubic feet of gas traded daily in 1997. Gross margins on crude oil trading averaged \$0.40 per barrel over the applicable indices, a 14 percent increase over the 1996 average margin. Total revenues were \$3.5 billion, up nearly seven percent from 1996.

## Outlook

In October 1998, the company signed a 10-year natural gas sales agreement to supply 72 billion cubic feet of gas to the Public Energy Authority of Kentucky Trust (PEAK), a Kentucky municipal joint action agency. PEAK made a nonrefundable advance payment to the company of \$120 million on January 1, 1999. The company will also receive a fixed monthly reservation fee from PEAK over the life of the contract. The company is investigating the possibility of more forward sale arrangements in the future.

On January 1, 1999, the Pipelines business unit, previously part of the Diversified Business segment, was combined with the Global Trade segment. The Global Trade segment is now responsible for trading and

marketing the company's crude oil and gas production worldwide as well as managing the pipeline and midstream assets.

#### GEOHERMAL AND POWER OPERATIONS

This business segment explores for, produces and sells geothermal resources, and constructs and operates electrical generating plants.

Millions of dollars	1998	1997	1996
After-tax earnings (loss)	\$ 52	\$ 26	\$ (55)
Less: special items (net of tax)			
Asset sales	-	-	(57)
Asset write-downs	-	-	(14)
Deferred tax adjustment - Sarulla	-	10	-
Other	-	-	2
Total special items	-	10	(69)
Adjusted after-tax earnings	\$ 52	\$ 16	\$ 14

1998 vs. 1997 - 1998 adjusted after-tax earnings increased by \$36 million over 1997 principally as the result of an increase in power generation and the related sale of electricity from the Indonesian Gunung Salak generating Units 3 through 6, which came on line at various times during the second half of 1997. The increase in 1998 adjusted after-tax earnings was partially offset by accounts receivable provisions in Indonesia related mostly to the steam sales at Salak and an accounts receivable write-off in the Philippines.

1997 vs. 1996 - Adjusted 1997 earnings reflected lower depreciation expense due to the sale of certain United States geothermal assets in 1996. In Indonesia, at the Salak field, three new 55-megawatt power units came on line in 1997, which contributed to the improved results. Offsetting these positive factors was decreased earnings in the Philippines due to a contract dispute between the company and the National Power Company (NPC) of the Philippines. In addition, earnings were negatively impacted by foreign exchange translation losses and increased dry hole expense.

#### Outlook

In 1998, Philippine Geothermal, Inc. (PGI) entered into an interim service agreement with NPC. For as long as the parties are negotiating in good faith, the term of the interim service agreement is open-ended. The term will end six months after either NPC or PGI resumes its arbitration or court cases. NPC and PGI continue to negotiate in good faith for a possible settlement.

As of December 31, 1998, the company's geothermal operations in Indonesia had a gross receivable balance of approximately \$100 million, most of which was for steam sales from the Salak field. Approximately \$35 million was due by March 1, 1999, of which \$26 million represents a shortfall in payments for March through October 1998 steam deliveries to the Gunung Salak electric generating Units 1, 2 and 3. Partial payments have been received on a timely basis. Agreements allow for payments over the next several years. The company is vigorously pursuing collection of the outstanding receivables. Provisions covering a portion of these receivables were recorded in 1998. In February 1999, PLN, the state-owned electricity company, announced that a team would begin meeting with independent power producers to discuss outstanding contract issues.

In January 1999, the company reached an agreement to sell its interest in a geothermal steam venture at The Geysers in Northern California for \$101 million. The transaction is expected to close at the end of the first quarter of 1999. The company anticipates that the proceeds will be used in worldwide oil and gas exploration and production activities.

DIVERSIFIED BUSINESS GROUP

The Agricultural Products business unit manufactures and markets nitrogen-based products for wholesale agricultural and industrial markets supplying the western United States and the Pacific Rim. The Carbon and Minerals business unit produces and markets petroleum coke, graphites and specialty minerals. The Pipelines business unit principally includes the company's equity interests in petroleum pipeline companies. The Other category includes the company's equity interest in The UNO-VEN Company prior to its May 1, 1997 restructuring.

Millions of dollars	1998	1997	1996
-----			
After-tax earnings			
Agricultural Products	\$ 37	\$ 54	\$ 98
Carbon and Minerals	(9)	76	47
Pipelines	67	59	69
Other	-	38	14
-----			
Total after-tax earnings	95	227	228
Less: special items (net of tax)			
Asset sales (Carbon and Minerals)	-	41	-
Asset sales (Pipelines)	5	-	9
Asset write-downs (Carbon and Minerals)	(22)	-	-
Environmental and litigation provisions (Carbon and Minerals)	(17)	(6)	(1)
Other (Carbon and Minerals)	-	(1)	-
UNO-VEN restructuring (Other)	-	40	-
-----			
Total special items	(34)	74	8
-----			
Adjusted after-tax earnings	\$ 129	\$ 153	\$ 220
-----			

1998 vs. 1997 - Adjusted after-tax earnings in 1998 decreased 16 percent from 1997 primarily due to depressed average sales prices for agricultural products and lower United States fertilizer sales volumes. The decrease in United States sales volumes was due, in part, to inclement weather during the first four months of 1998. Earnings were also down in the Carbon and Minerals group due to losses incurred in the company's lanthanide and molybdenum operations. The temporary shutdown of the separations plant and wastewater pipeline at the company's Mountain Pass, California, mining facility was the principal cause. Higher export fertilizer sales volume and lower maintenance related expenses at the company's Kenai, Alaska, fertilizer plant due to a plant turnaround in 1997 partially offset this earnings decline. Partial-year results from the Unocal Hydrocarbon Sales business unit before its disposition and for UNO-VEN before its restructuring were included in 1997.

1997 vs. 1996 - Adjusted after-tax earnings decreased 30 percent from 1996 due primarily to lower Agricultural Products sales prices and volumes and lower production levels at the Kenai, Alaska manufacturing plant. Worldwide nitrogen fertilizer prices were significantly lower in 1997. Agricultural Products' production rates were lower in 1997 due to scheduled maintenance and a production curtailment due to low margins on urea at the Kenai manufacturing plant. Carbon and Minerals results were lower in 1997 due to lower margins on lanthanide products and lower operating earnings from its Unocal Hydrocarbon Sales business unit as a consequence of its sale. Partially offsetting these negative results were higher operating earnings from petroleum coke operations.

Outlook

In June 1998, the company commenced a review of various reorganization options for the Diversified Business segment. The move was envisioned as part of a continuing transformation of the company. However, depressed commodity prices have stalled the company's efforts to obtain full value for its Agricultural Products and Carbon and Minerals businesses. The company has temporarily suspended its plans to sell these assets. In addition, the company has decided to retain its remaining pipeline interests and combine them with its Global Trade segment.

Due to persistent low lanthanide prices, a temporary suspension of all mining and manufacturing operations occurred at the company's Mountain Pass, California, facilities. The suspension of operations will last until prices improve and resolution of certain regulatory and legal issues occurs.

Also, due to the low molybdenum prices realized during the second half of 1998, operations at the company's Questa, New Mexico, molybdenum facilities were partially curtailed in January 1999 to control costs and supply. The mining operations are planned to continue at a reduced rate with the mill operating periodically, as deemed necessary, to maintain inventory levels to meet customer demand. This operating plan will continue until prices improve enough to support full-time operations.

#### CORPORATE AND UNALLOCATED

Corporate and Unallocated expense includes general corporate overhead, the non-exploration and production related activities of the New Ventures group and other unallocated costs. Net interest expense represents interest expense, net of interest income and capitalized interest.

Millions of dollars	1998	1997	1996
After-tax earnings effect			
Administrative and general expense	\$ (79)	\$ (81)	\$ (99)
Net interest expense	(113)	(106)	(175)
Environmental and litigation expense	(102)	(91)	(143)
New Ventures (non-exploration and production)	(22)	(33)	(23)
Other	36	113	(5)
Total after-tax earnings effect	(280)	(198)	(445)
Less: special items (net of tax)			
Asset sales (Other)	-	11	11
Environmental and litigation provisions	(91)	(78)	(122)
Deferred tax adjustment (Other)	-	103	-
Insurance benefits (Other)	56	-	-
Miscellaneous (Other)	-	-	(12)
Restructuring costs (Other)	(17)	-	-
Total special items	(52)	36	(123)
Adjusted after-tax earnings effect	\$ (228)	\$ (234)	\$ (322)

1998 vs. 1997 - The adjusted after-tax earnings effect was reduced by three percent as compared to 1997 essentially due to lower non-exploration and production project expenditures by the company's New Ventures group. Higher interest expense due to higher debt levels in 1998 partially offset the lower adjusted after-tax earnings impact (see note 15 to the consolidated financial statements).

1997 vs. 1996 - Net interest expense for 1997 decreased 39 percent over 1996 as a result of a decreased debt level and increased capitalized interest.

#### FINANCIAL CONDITION

Millions of dollars	At December 31		
	1998	1997	1996
Current ratio (a)	1.0:1	1.3:1	2.0:1
Total debt and capital lease obligations	\$2,558	\$2,170	\$3,058
Trust convertible preferred securities	522	522	522
Stockholders' equity	2,202	2,314	2,275
Capitalization	5,282	5,006	5,855
Total debt/capitalization	48%	43%	52%
Floating-rate debt/total debt	26%	12%	17%

(a) 1998 includes liabilities associated with a pre-paid crude oil sale.  
1996 includes net assets of discontinued operations.

## Cash Flows from Operating Activities

Cash flows from operating activities, including discontinued operations and working capital and other changes, were \$1,003 in 1998, \$1,133 million in 1997 and \$1,684 million in 1996.

1998 vs. 1997 - The 1998 decrease was primarily attributable to the effect of lower crude oil, natural gas and fertilizer product prices and increased receivables in Indonesia. These negative factors were partially offset by lower foreign income tax payments than in 1997, the receipt of a \$100 million advance payment for a crude oil sales contract (see note 24 to the consolidated financial statements), and the receipt of \$88 million related to insurance settlements and benefits.

1997 vs. 1996 - The 1997 amount reflects a payment of \$80 million for the settlement of the Catacarb civil lawsuits and the cash effects of the UNO-VEN restructuring. Lower average worldwide sales prices for crude oil, condensate and nitrogen-based agricultural products also impacted cash flows. Cash flows from working capital decreased in 1997 largely due to cash payments for accounts payable relating to the company's discontinued operations (see note 8 to the consolidated financial statements).

## Capital Expenditures For Continuing Operations

Millions of dollars	Estimated 1999	1998	1997	1996
Exploration and Production				
United States	\$ 433	\$ 810	\$ 367	\$ 418
International	433	762	801	509
Total	866	1,572	1,168	927
Geothermal and Power Operations	24	26	102	114
Diversified Business Group				
Agricultural Products	21	8	18	12
Carbon and Minerals	18	42	30	16
Pipelines	7	28	11	54
Corporate and Unallocated	14	28	49	51
Total	\$ 950	\$1,704	\$1,378	\$1,174

Forecasted 1999 capital expenditures for the company are expected to be reduced by approximately 44 percent from 1998 levels. The capital spending reduction will primarily come from a reduction in Gulf of Mexico lease acquisition activity and reduced capital spending in most project areas except deepwater areas in Indonesia and in the Gulf of Mexico.

The company's capital spending plans are reviewed and adjusted periodically depending on current economic conditions.

1998 vs. 1997 - Capital expenditures for continuing operations in 1998 increased by 24 percent. The increase was primarily due to increased drilling activities and lease acquisitions in the Gulf of Mexico partially offset by lower geothermal expenditures.

1997 vs. 1996 - International oil and gas exploration and production capital spending in 1997 increased 57 percent from 1996, reflecting increased expenditures in Thailand, Indonesia, Myanmar, Azerbaijan, Bangladesh and Canada. Geothermal energy projects in 1997 included expenditures at the Gunung Salak field.

#### Asset Sale Proceeds

Pre-tax proceeds from asset sales in 1998 were \$435 million and consisted of \$261 million from the sales of the company's Tarragon investments, \$52 million from the sale of the company's interest in the Alliance Pipeline project, \$34 million from the sale of Oklahoma oil and gas properties, \$41 million from the sale of other United States oil and gas assets, and \$47 million from the sale of miscellaneous real estate and other assets.

In 1997, the company realized \$1,889 million in pre-tax proceeds from asset sales. The sale of the company's West Coast refining, marketing and transportation assets contributed \$1,789 million (see note 8 to the consolidated financial statements). The remaining proceeds consisted of \$29 million from the sale of miscellaneous real estate properties, \$29 million from certain oil and gas properties, \$25 million from the sale of Unocal Hydrocarbon Sales and \$17 million from the sale of miscellaneous corporate assets and pipeline interests.

In 1996, the company generated \$609 million in pre-tax proceeds from asset sales. The 1996 amount included \$472 million in proceeds from the sale of California oil and gas properties, \$28 million from the sale of certain United States geothermal assets and \$23 million from the sale of exploration blocks in the United Kingdom.

#### Long-term Debt

The company's debt at year-end 1998, including the current portion, increased by 18 percent from 1997. The increase included \$550 million borrowed under the company's \$1.0 billion Bank Credit Agreement, \$200 million from the issuance of 7 percent debentures due May 1, 2028, and \$100 million from the issuance of 6 1/2 percent notes due May 1, 2008. The proceeds of the new borrowings were primarily used to refinance scheduled long-term debt maturities, retire \$160 million outstanding under a \$250 million revolving credit facility, and for general corporate purposes. The revolving credit facility had been established in 1993 for the purpose of funding certain oil and gas developments in Thailand. In February 1999, the revolving credit facility was terminated.

The company's debt at year-end 1997, including the current portion and capital lease obligations, decreased \$888 million from year-end 1996 to \$2,170 million. The principal decrease was due to the company's purchase of approximately \$507 million in debt securities, pursuant to its tender offer in May 1997. The debt securities were purchased at an aggregate price of approximately \$555 million, including a pre-tax premium of \$48 million over their total carrying value. The premium and related costs were recorded as an extraordinary item in the company's consolidated statement of earnings (see note 9 to the consolidated financial statements). Cash flows associated with the premium were reported in the Other category of cash flows from financing activities in the consolidated statement of cash flows. The remaining \$381 million in debt reduction principally consisted of scheduled maturities and bank credit agreement prepayments.

#### Other Financing Activities

During 1998 and 1997, the company repurchased 1,360,678 and 9,262,100 shares, respectively, of its common stock at a cost of approximately \$411 million, primarily with proceeds received from the sale of its West Coast refining, marketing and transportation assets in 1997 (see note 3 to the consolidated financial statements).

Lower dividend payments in 1997 principally reflected the effects of the company's completed trust preferred securities exchange offer of 1996. In September 1996, the company exchanged 10,437,873 new 6 1/4 percent trust convertible preferred securities of Unocal Capital Trust for 9,352,962 shares of Unocal's outstanding \$3.50 convertible preferred stock. Following the exchange offer, the company called for redemption of the 897,038 unexchanged shares of \$3.50 convertible preferred stock. All of the unexchanged shares of preferred stock were converted into Unocal common stock by the redemption date (see note 19 to the consolidated financial statements).

## Outlook

On January 1, 1999, the company received a non-refundable payment of \$120 million from the Public Energy Authority of Kentucky Trust (PEAK) for the delivery of 72 billion cubic feet of gas over the next ten years. The natural gas sales contract also entitles the company to receive a fixed monthly reservation fee from PEAK over the life of the contract.

In February 1999, the company issued \$350 million of 30 year, 7 1/2 percent debentures under its \$1,439 million universal shelf registration statement. Proceeds from this issuance are being used to retire a portion of long-term debt as it matures. After issuance of the \$350 million of debentures, the total amount available for future issuance of medium term notes, other debt and/or equity securities under the company's universal shelf registration statement was approximately \$1,089 million. The company's floating rate debt as a percentage of its total debt outstanding decreased to 18 percent at the end of February 1999, as a result of the debenture issuance.

The company signed a letter agreement relating to the use for six months of the Transocean Richardson deepwater semi-submersible drilling unit and expects to take delivery of the drilling unit in the Gulf of Mexico in April 1999. Estimated 1999 capital expenditure amounts have been included in the United States Exploration and Production category of the Capital Expenditures for Continuing Operations table. The company has also signed a letter agreement regarding the Transocean Discoverer Spirit deepwater drill ship, scheduled for delivery in the Gulf of Mexico in 2000, with a minimum daily rate of \$210 thousand for five years.

The company expects cash generated from operating activities, asset sales, and cash on hand to be sufficient to cover most of its operating requirements, capital spending and dividend payments in 1999. Any shortfalls are expected to be covered by increases in debt and other financing activities. The company has substantial borrowing capacity to meet unanticipated cash requirements. At December 31, 1998, the company had approximately \$600 million of undrawn credit facilities available with major banks in addition to the balance remaining under its universal shelf registration statement.

## ENVIRONMENTAL MATTERS

The company continues to incur substantial capital and operating expenditures for environmental protection and to comply with federal, state and local laws and provisions regulating the discharge of materials into the environment. In many cases, investigatory or remedial work is now required at various sites even though past operations followed practices and procedures that were considered acceptable under environmental laws and regulations, if any, existing at the time.

Millions of dollars	Estimated 1999	1998	1997	1996
Environment-related capital expenditures				
Continuing operations	\$ 23	\$ 11	\$ 40	\$ 15
Discontinued operations	\$ -	\$ -	\$ 16	\$ 57

Environment-related capital expenditures include additions and modifications to company facilities to mitigate and/or eliminate emissions and waste generation. Most of these capital expenditures are required to comply with federal, state and local laws and regulations.

Amounts recorded for environment-related expenses were approximately \$200 million in 1998, \$180 million in 1997 and \$230 million in 1996. The increase in 1998 was primarily due to higher provisions for remediation costs as described below. The reduction in 1997 reflects the sale of the refining, marketing and transportation assets. Environmental expenses include remediation costs and operating, maintenance and administrative costs related to environmental compliance. These expenses include provisions for future remediation costs that were identified during the company's ongoing review of its

environmental obligations. Provisions in 1998 primarily consisted of remediation costs for the Guadalupe, Avila Beach and Mountain Pass sites in California. The provisions are discussed in more detail below.

At December 31, 1998, the company's reserves for environmental remediation obligations totaled \$312 million, of which \$142 million was included in current liabilities. The total amount is grouped into the following five categories:

Environmental Reserve Summary

Millions of dollars	Year end 1998
-----	-----
Superfund and similar sites	\$ 16
Former company-operated sites	16
Company facilities sold with retained liabilities	64
Inactive or closed company facilities	166
Active company facilities	50
-----	-----
Total reserves	\$ 312
-----	-----

Superfund and similar sites - At year end 1998, Unocal had received notification from the U.S. Environmental Protection Agency that the company may be a potentially responsible party (PRP) at 38 sites and may share certain liabilities at these sites. In addition, various state agencies and private parties had identified 42 other similar PRP sites that may require investigation and remediation. Of the total, the company has denied responsibility at five sites and at another eight sites the company's liability, although unquantified, appears to be de minimis. The total also includes 28 sites, which are under investigation or in litigation, for which the company's potential liability is not presently determinable. At another two sites, the company has made settlement payments and is in the final process of resolving its liabilities. Of the remaining 37 sites, where probable costs can be estimated, reserves of \$16 million have been established for future remediation and settlement costs.

These 80 sites exclude 68 sites where the company's liability has been settled, or where the company has no evidence of liability and there has been no further indication of liability by government agencies or third parties for at least a 12-month period.

Unocal does not consider the number of sites for which it has been named a PRP as a relevant measure of liability. Although the liability of a PRP is generally joint and several, the company is usually just one of several companies designated as a PRP. The company's ultimate share of the remediation costs at those sites often is not determinable due to many unknown factors as discussed in note 17 to the consolidated financial statements. The solvency of other responsible parties and disputes regarding responsibilities may also impact the company's ultimate costs.

Former company-operated sites - Reserves of \$16 million have been established for this category of sites. Included are service station sites on leased properties at which operations have ceased and which the company is obligated to remediate before returning the properties to the owners. Also included are service station sites that the company previously owned or leased. The current owners of such properties are holding the company responsible for environmental remediation costs. This reserve also includes estimated remediation costs for oil and gas fields in California that were previously operated by the company.

Company facilities sold with retained liabilities - This category has reserves of \$64 million for environmental liabilities related to former company businesses and assets that have been sold. Included are the company's former West Coast refining, marketing and transportation assets sold to Tosco Corporation in March 1997. Also included are the auto/truckstop facilities, a former mine site in Wyoming,

California oil and gas properties, industrial chemical and polymer sites and agricultural chemical sites. In each sale, the company retained a contractual remediation or indemnification obligation and is responsible only for certain environmental problems associated with its past operations. The reserves represent presently estimated future costs for investigation/feasibility studies and identified remediation work as a result of claims made by buyers of the properties.

Inactive or closed company facilities - Reserves of \$166 million have been established for these types of facilities. The major sites in this category are the Guadalupe and Avila beach sites and oil and gas properties in California's Santa Maria Valley. Also included in this category is the former Beaumont refinery in Texas. In 1998, the company added approximately \$105 million to the remediation reserve for updated cost estimates related to cleanup and other costs associated with this category of sites. Most of the additional reserve was for estimated costs associated with settlement agreements that the company entered into with regulatory agencies and other third parties for cleanup of the Avila Beach and Guadalupe sites.

Active company facilities - The company has provided \$50 million for estimated future costs of remedial orders, corrective actions and other investigation, remediation and monitoring obligations at certain operating facilities and producing oil and gas fields. Also included in this category are the Questa molybdenum mine in New Mexico and the Mountain Pass, California, lanthanide facility, both operated by the company's Molycorp, Inc. (Molycorp) subsidiary.

During 1998, the company added \$27 million to the reserve for this category of sites. The additional reserve included estimated costs for the cleanup of wastewater pipeline spills, pipeline reclamation, groundwater monitoring, and pond closures.

The company is subject to federal, state and local environmental laws and regulations, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, and the Resource Conservation and Recovery Act (RCRA). Under these laws, the company is subject to possible obligations to remove or mitigate the environmental effects of the disposal or release of certain chemical and petroleum substances at various sites. Corrective investigations and actions pursuant to RCRA are being performed at the company's Beaumont facility, the company's closed shale oil project and the company's Washington, Pennsylvania, molybdenum roasting facility. The company also must provide financial assurance for future closure and post-closure costs of its RCRA-permitted facilities. Because these costs will be incurred at different times and over a period of many years, the company believes that these obligations are not likely to have a material adverse effect on the company's results of operations or financial condition.

The total environmental remediation reserves recorded on the consolidated balance sheet represent the company's estimates of assessment and remediation costs based on currently available facts, existing technology, and presently enacted laws and regulations. The remediation cost estimates, in many cases, are based on plans recommended to the regulatory agencies for approval and are subject to future revisions. The ultimate costs to be incurred will likely exceed the total amounts reserved, since many of the sites are relatively early in the remedial investigation or feasibility study phases. Additional liabilities may be accrued as the assessment work is completed and formal remedial plans are formulated.

The company has estimated, to the extent that it was able to do so, that it could incur approximately \$190 million of additional costs in excess of the \$312 million accrued at December 31, 1998. The amount of such possible additional costs reflects, in most cases, the high end of the range of costs of feasible alternatives identified by the company for those sites with respect to which investigation or feasibility studies have advanced to the stage of analyzing such alternatives. However, such estimated possible additional costs are not an estimate of the total remediation costs beyond the amounts reserved, because at a large number of sites the company is not yet in a position to estimate all, or in some cases any possible additional costs. Both the amounts reserved and estimates of possible additional costs may

change in the near term, in some cases, substantially, as additional information becomes available regarding the nature and extent of site contamination, required or agreed-upon remediation methods, and other actions by government agencies and private parties.

See notes 16 and 17 to the consolidated financial statements for additional information.

#### FUTURE ACCOUNTING CHANGES

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". The statement establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Accounting for changes in the fair value of a derivative depends upon the intended use of the derivative and the resulting designation. Unless designated as a hedge, changes in the fair value of a derivative are to be accounted for as gains or losses in the period of change. In the case of certain hedging activities, changes in the fair value of derivative instruments are to be deferred and reported as a separate component of other comprehensive income.

The statement applies to all entities and is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The company is planning to adopt the statement in the first quarter of the year 2000 and is currently evaluating the impact the statement will have on its reporting for derivative instruments and hedging activities.

#### YEAR 2000 ISSUE

The company is actively addressing the Year 2000 (Y2K) issue. Many existing computer programs were designed and developed to use only two digits to identify a year in the date field. If not addressed, these programs could result in system failures with possible material adverse effects on the company's operations at the beginning of the year 2000.

The company's Y2K efforts can be divided into three general categories: information technology (IT) systems and applications, non-IT embedded systems in process controls, and its relationships with critical business partners. The company has appointed a program manager and has assembled various teams of professionals, principally at the business unit level, which have developed plans to implement these efforts. The plans establish a methodology and schedules to identify, assess, correct and test the company's IT systems and applications, its non-IT embedded systems (such as microcontrollers and other devices used for process control), and its system interfaces with vendors, suppliers, customers and other outside parties, as well as to assess the Y2K readiness of such third parties. The company has contracted with systems consulting firms to assist with the assessment, correction and testing of the company's internal systems and their interfaces with third parties. To ensure independent review and validation of the implementation of the company's Y2K plans, internal auditors, assisted by contract auditors, are auditing the Y2K projects of key business units within the company and reporting their findings to senior management.

A company-wide initial awareness campaign was completed in June 1998. The identification, assessment, and corrections-planning phases of the internal systems portion of the project have been completed. The company is in the process of preparing business contingency and recovery plans for its "mission critical" systems, applications and processes. These systems, applications and processes, if not operable, could materially adversely impact cash flow, operations, safety or the environment. The company's Y2K project work includes the writing and updating of existing contingency plans to address material Y2K issues. The company has existing processes for managing emergency situations and intends to have its Crisis Management Center operating at the time of the century rollover to assist with implementing any contingency plans if required.

As of December 31, 1998, the company had completed the inventory and assessment of its IT and embedded systems and detailed planning to correct or work around the anticipated problems in these

systems. The repair and testing of its IT and embedded systems was approximately 30 percent complete as of December 31, 1998.

The following schedule sets forth the company's estimated timetable for achieving Y2K readiness of its IT and embedded systems:

Project Phases - -----	Target Completion Dates -----
Worldwide inventory of systems	Completed
Worldwide assessment	Completed
Initial plan for corrections/work arounds	Completed
Remediation/renovation	Second quarter 1999
Contingency planning	Third quarter 1999
Validation/testing	Third quarter 1999
Implementation	Third quarter 1999
Continuous system review	Ongoing - through fourth quarter 1999

The company has identified approximately 400 "critical business partners" and contacted 75 percent of these companies regarding their Y2K readiness. As of December 31, 1998, the company had received responses from about 160 of the critical business partners. Work in this area will continue and contingency plans will incorporate the possibility of performance failures by multiple critical business partners.

The company estimates the total expenditures on its Y2K project will approximate \$30 to \$35 million. These expenditures are recorded at the business unit and corporate levels and are funded from cash provided by operating activities. Expenditures as of December 31, 1998, were approximately \$12 million. Most of the remaining expenditures are expected to be incurred in 1999.

The Corporate Information Services group is not aware of any IT projects that have been delayed due to the Y2K project.

The Y2K problem is real and there is a risk of Y2K related failures. These failures could result in an interruption in, or a failure of, certain business activities or functions. Such failures could materially and adversely affect the company's results of operations, liquidity or financial condition. Due to the uncertainty surrounding the Y2K problem, including the uncertainty of the Y2K readiness of the company's customers, suppliers, and partners, the company is unable at this time to determine the true impact of the Y2K problem to Unocal. The principal areas of risk are thought to be oil and gas production control systems, other embedded operations control systems and third party Y2K readiness. The company's Y2K project is expected to reduce this uncertainty. The company believes that with the completion of the project as planned, the possibility of significant interruptions of normal operations should be reduced. There can be no assurance, however, that there will not be a delay in, or increased costs associated with the implementation of such changes or that such changes will prove 100 percent effective in resolving all Y2K related issues. Furthermore, there can be no assurance that critical business partners will not experience failures, irrespective of the Y2K readiness representations they may have made. A likely worst case scenario is that despite the company's efforts, there could be failures of control systems, which might cause some processes to be shut down. Such failures could have a material adverse impact on the company's operations. The company is particularly concerned about the status of key critical business partners' Y2K readiness in Indonesia, Thailand, and the Gulf of Mexico. Their failure due to a Year 2000 problem could prevent Unocal from delivering product and cause a material impact to company cash flow.

CAUTIONARY STATEMENT FOR PURPOSES OF  
THE "SAFE HARBOR" PROVISIONS OF  
THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Unocal desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, as embodied in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and is including this statement in this report in order to do so.

This report contains forward-looking statements and from time to time in the future the company's management or other persons acting on the company's behalf may make, in both written publications and oral presentations, additional forward-looking statements to inform investors and other interested persons of the company's estimates and projections of, or increases or decreases in, amounts of future revenues, prices, costs, earnings, cash flows, capital expenditures, assets, liabilities and other financial items. Certain statements may also contain estimates and projections of future levels of, or increases or decreases in, crude oil and natural gas reserves and related finding and development costs, potential resources, production and related lifting costs, sales volumes and related prices, and other statistical items; plans and objectives of management regarding the company's future operations, projects, products and services; and certain assumptions underlying such estimates, projections, plans and objectives. Such forward-looking statements are generally accompanied by words such as "estimate", "projection", "plan", "target", "goal", "forecast", "believes", "expects", "anticipates" or other words that convey the uncertainty of future events or outcomes.

While such forward-looking statements are made in good faith, forward-looking statements and their underlying assumptions are by their nature subject to certain risks and uncertainties and their outcomes will be influenced by various operating, market, economic, competitive, credit, environmental, legal and political factors. Certain of such factors set forth elsewhere in this report are important factors that could cause actual results to differ materially from those expressed in the forward-looking statements. Set forth below are additional important factors (but not necessarily all of the important factors) that could cause actual results to differ materially from those expressed in the forward-looking statements.

#### Commodity Prices

An extended continuation of current low prices for crude oil, natural gas or other commodities sold by the company and/or further declines in such prices could have a material adverse effect on the company's results of operations, on the quantities of crude oil and natural gas that could be economically produced from its fields, and on the quantities and economic values of its proved reserves and potential resources. Such adverse pricing scenarios could result in write-downs of the carrying values of the company's properties and materially adversely affect the company's financial condition, as well as its results of operations.

#### Exploration and Production Risks

The company's exploration and production activities are subject to all of the risks and uncertainties normally associated with such activities, including, but not limited to, such hazards as explosions, fires, blowouts, leaks and spills, some of which may be very difficult and expensive to control and/or remediate, and damages from hurricanes, typhoons, monsoons and other severe weather conditions.

The process of estimating quantities of oil and natural gas reserves and potential resources is inherently uncertain and involves subjective geological, engineering and economic judgments. Hence, changes in operating conditions, such as unforeseen geological complexities and drilling and production difficulties, and changes in economic conditions, such as finding and development and production costs and sales prices, could cause material downward revisions in the company's estimated proved reserves and potential resources.

Projections of future amounts of crude oil and natural gas production are also imprecise because they rely on assumptions about the future levels of prices and costs, field decline rates, market demand and supply, the political, economic and regulatory climates and, in the case of the company's foreign production, the terms of the contracts under which the company operates, which could result in mandated production cutbacks from existing or projected levels.

The amounts of the company's future crude oil and natural gas reserves and production will also be affected by its ability to replace declining reservoirs in existing fields with new reserves through its exploration and development programs and through acquisitions. The ability of the company to replace reserves will depend not only on its ability to obtain acreage and contracts in the countries in which it currently operates, as well as in new countries, and to delineate prospects which prove to be successful geologically, but also to drill, find, develop and produce recoverable quantities of oil and gas economically in the price environment prevailing at the time.

A significant portion of the company's expectation for future oil and gas development involves large projects, primarily offshore in increasingly deeper waters. The timing and amounts of production from such projects will be dependent upon, among other things, the formulation of development plans and their approval by foreign governmental authorities and other working interest partners, the receipt of necessary permits and other approvals from governmental agencies, the obtaining of adequate financing, either internally or externally, the availability and costs of drilling rigs and other equipment, and the timely construction of platforms, pipelines and other necessary infrastructure by specialized contractors.

#### Certain Political and Economic Risks

The company's operations outside of the United States are subject to risks inherent in foreign operations, including, without limitation, the loss of revenues, property and equipment from hazards such as expropriation, nationalization, war, insurrection and other political risks, increases in taxes and governmental royalties or other takes, abrogation or renegotiation of contracts by governmental entities, changes in laws and policies governing operations of foreign-based companies, currency conversion and repatriation restrictions and exchange rate fluctuations, and other uncertainties arising out of foreign government sovereignty over the company's international operations. Laws and policies of the U.S. government affecting foreign trade and taxation may also adversely affect the company's international operations.

The company's ability to market crude oil, natural gas and other commodities produced in foreign countries, and the prices the company will be able to obtain for such production, will depend on many factors which are often beyond the company's control, such as the existence or development of markets for its discoveries, the proximity and capacity of pipelines and other transportation facilities or the timely construction thereof, fluctuating demand for oil and natural gas, the availability and costs of competing fuels, and the effects of foreign governmental regulation of production and sales.

The company's operations in the United States are also subject to political, regulatory and economic conditions.

In light of the foregoing, investors should not place undue reliance on forward-looking statements, which reflect management's views only as of the date they are published or presented. Although the company from time to time may voluntarily revise its forward-looking statements to reflect subsequent events or circumstances, it undertakes no obligation to do so.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk generally represents the risk that losses may occur in the values of financial instruments as a result of movements in interest rates, foreign currency exchange rates and commodity prices. As part of its overall risk management strategies, the company uses derivative financial instruments to manage and reduce risks associated with these factors. The company also pursues outright pricing positions in certain hydrocarbon derivative financial instruments, such as futures contracts.

Interest Rate Risk - From time to time the company temporarily invests its excess cash in interest-bearing temporary investments of high-quality issuers. Company policies limit the amount of investment to any one financial institution. Due to the short time the investments are outstanding and their general liquidity, these instruments are classified as cash equivalents in the consolidated balance sheet and do not represent a material interest rate risk to the company. The company's primary market risk exposure for changes in interest rates relates to the company's long-term debt obligations. The company manages its exposure to changing interest rates principally through the use of a combination of fixed and floating rate debt (see note 23 to the consolidated financial statements). Interest rate sensitive derivative financial instruments, such as swaps, options, floors, caps, and collars may also be used depending upon market conditions.

In 1998, the company changed its quantitative disclosure method for risks associated with interest-rate-sensitive financial instruments from the tabular method to sensitivity analysis. This change provides the required information to the readers and allows the company to decrease the length of its disclosure. Prior year disclosures have been restated for comparative purposes. The company evaluated the potential effect that near term changes in interest rates would have had on the fair value of its interest rate risk sensitive financial instruments at year-end 1998. Assuming a ten percent decrease in the company's weighted average borrowing costs at year-end 1998, the potential increase in the fair value of the company's debt obligations and associated derivative instruments would have been approximately \$69 million at December 31, 1998. Assuming a ten percent decrease in the company's weighted average borrowing costs at year-end 1997, the potential increase in the fair value of the company's debt obligations and associated derivative instruments would have been approximately \$53 million at December 31, 1997.

Foreign Exchange Rate Risk - The company conducts business in various parts of the world and in various foreign currencies. To limit the company's foreign currency exchange rate risk related to operating income, foreign sales agreements generally contain price provisions designed to insulate the company's sales revenues against adverse foreign exchange rates. In most countries, energy products are valued and sold in U.S. dollars and foreign currency operating cost exposures have not been significant. In other countries, the company is paid for product deliveries in local currencies but at prices indexed to the U.S. dollar. These funds, less amounts retained for operating costs, are converted to U.S. dollars as soon as practicable. The company's Canadian subsidiary is paid in Canadian dollars for its crude oil and natural gas sales. Excess Canadian funds generally have been invested in other Unocal foreign operations rather than remitted to the U.S. parent.

In 1998, the company changed its quantitative disclosure method for risks associated with foreign-currency-sensitive financial instruments from the tabular method to sensitivity analysis. This change provides the required information to the readers and allows the company to decrease the length of its disclosure. Prior year disclosures have been restated for comparative purposes. From time to time the company may purchase foreign currency options or enter into foreign currency exchange contracts to limit the exposure related to its foreign currency obligations. At year-end 1998, the company had various foreign currency forward exchange contracts outstanding to hedge scheduled tax payments to be paid in local currencies to entities in Canada and Thailand in 1999. At year-end 1998, the company evaluated the effect that near term changes in foreign exchange rates would have had on the fair value of the company's combined foreign currency position related to its outstanding foreign currency forward exchange contracts. Assuming an adverse change of ten percent in foreign exchange rates at year-end 1998, the potential decrease in fair value of the company's foreign currency forward exchanges contracts would have been approximately \$14 million at December 31, 1998. At year-end 1997, a portion of the company's

borrowings were denominated in foreign currencies and the company had offsetting foreign currency swap agreements in place to mitigate the associated exchange rate risk (all foreign denominated debt and associated swap agreements were retired during 1998). Assuming an adverse change of ten percent in foreign exchange rates at year-end 1997, the potential decrease in fair value of the company's foreign currency position related to its foreign currency denominated debt and associated foreign currency swap agreements at December 31, 1997 would have been approximately \$13 million.

Commodity Price Risk - The company is a producer, purchaser, marketer and trader of certain hydrocarbon commodities such as crude oil and condensate, natural gas and petroleum-based products and is subject to the associated price risks. The company generally uses hydrocarbon derivative financial instruments, such as futures contracts, swaps and options with maturities of 24 months or less, to mitigate its exposure to fluctuations in hydrocarbon commodity prices. The company may also enter into swaps, options, or other contracts to hedge contractual delivery commitments and future crude oil and natural gas production against price exposure. In certain cases, the company enters into longer-term derivative instruments, such as swap contracts, to hedge its exposure to long-term fixed price commitments. The company also takes pricing positions in hydrocarbon derivative financial instruments (primarily exchange regulated futures and options contracts) subject to internal policy limitations.

The company uses a value at risk model to assess the market risk of its hydrocarbon-price-sensitive derivative instruments. Value at risk represents the potential loss in fair value the company would experience on its hydrocarbon price sensitive derivative instruments, using calculated volatilities and correlations over a specified time period with a given confidence level. The company's model is based on historical data and uses a one-week time interval with a 95 percent confidence level. Based upon the company's model, the value at risk related to hydrocarbon-price-sensitive derivative financial instruments held for purposes other than trading was approximately \$16 million at December 31, 1998. The value at risk related to hydrocarbon-price-sensitive derivative financial instruments held for trading purposes was approximately \$6 million at December 31, 1998. Value at risk related to hydrocarbon-price-sensitive derivative financial instruments at December 31, 1997 was immaterial.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other financial statement schedules have been omitted as they are not applicable, not material or the required information is included in the financial statement or notes thereto.

REPORT ON MANAGEMENT'S RESPONSIBILITIES

To the Stockholders of Unocal Corporation:

Unocal's management is responsible for the integrity and objectivity of the financial information contained in this Annual Report. The financial statements included in this report have been prepared in accordance with generally accepted accounting principles and, where necessary, reflect the informed judgments and estimates of management.

The financial statements have been audited by the independent accounting firm of PricewaterhouseCoopers LLP. Management has made available to PricewaterhouseCoopers LLP all the company's financial records and related data, minutes of the meetings of the board and its executive and management committees and all internal audit reports. The independent accountants conduct a review of internal accounting controls to the extent required by generally accepted auditing standards and perform such tests and procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements presented herein.

Management maintains and is responsible for systems of internal accounting controls designed to provide reasonable assurance that the company's assets are properly safeguarded, transactions are executed in accordance with management's authorization and the books and records of the company accurately reflect all transactions. The systems of internal accounting controls are supported by written policies and procedures and by an appropriate segregation of responsibilities and duties. The company maintains an extensive internal auditing program that independently assesses the effectiveness of these internal controls with written reports and recommendations issued to the appropriate levels of management. Management believes that the existing systems of internal controls are achieving the objectives discussed herein.

Unocal's Accounting and Auditing Committee, consisting solely of directors who are not employees of Unocal, is responsible for: reviewing the company's financial reporting, accounting and internal control practices; recommending the selection of independent accountants (which in turn are approved by the Board of Directors and annually ratified by the stockholders); monitoring compliance with applicable laws and company policies; and initiating special investigations as deemed necessary. The independent accountants and the internal auditors have full and free access to the Accounting and Auditing Committee and meet with it, with and without the presence of management, to discuss all appropriate matters.

Roger C. Beach  
Chairman of the Board  
and Chief Executive Officer

John F. Imle, Jr.  
Vice Chairman of the  
Board

Timothy H. Ling  
Executive Vice President,  
North American Energy  
Operations, and  
Chief Financial Officer

Joe D. Cecil  
Vice President and  
Comptroller

March 15, 1999

To the Stockholders of Unocal Corporation:

We have audited the accompanying consolidated balance sheets of Unocal Corporation and its subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of earnings, cash flows and stockholders' equity and comprehensive income for each of the three years in the period ended December 31, 1998 and the related financial statement schedule. These financial statements and financial statement schedule are the responsibility of Unocal Corporation's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, which appear on pages 47 through 82 of this Annual Report on Form 10-K, present fairly, in all material respects, the consolidated financial position of Unocal Corporation and its subsidiaries as of December 31, 1998 and 1997 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements, taken as a whole, presents fairly, in all material respects, the information required to be included therein.

PricewaterhouseCoopers LLP  
February 12, 1999, except as to note 27,  
which is as of March 10, 1999  
Los Angeles, California

CONSOLIDATED EARNINGS

Millions of dollars except per share amounts	Years ended December 31		
	1998	1997	1996
<b>Revenues</b>			
Sales and operating revenues	\$5,003	\$5,781	\$5,101
Interest, dividends and miscellaneous income	169	49	49
Equity in earnings of affiliated companies	96	154	106
Gain on sales of assets	211	80	72
<b>Total revenues</b>	<b>5,479</b>	<b>6,064</b>	<b>5,328</b>
<b>Costs and other deductions</b>			
Crude oil, natural gas and product purchases	2,165	2,246	1,502
Operating expense	1,352	1,389	1,386
Selling, administrative and general expense	136	107	151
Depreciation, depletion and amortization	867	962	914
Dry hole costs	184	110	139
Exploration expense	203	193	117
Interest expense (a)	177	183	279
Property and other operating taxes	57	70	72
Distributions on convertible preferred securities of subsidiary trust	33	33	10
<b>Total costs and other deductions</b>	<b>5,174</b>	<b>5,293</b>	<b>4,570</b>
<b>Earnings from continuing operations before income taxes</b>	<b>305</b>	<b>771</b>	<b>758</b>
<b>Income taxes</b>	<b>175</b>	<b>102</b>	<b>302</b>
<b>Earnings from continuing operations before discontinued operations and extraordinary item</b>	<b>130</b>	<b>669</b>	<b>456</b>
<b>Discontinued operations</b>			
Earnings from operations (b)	-	-	71
Loss on disposal (c)	-	(50)	(491)
<b>Loss from discontinued operations</b>	<b>-</b>	<b>(50)</b>	<b>(420)</b>
<b>Extraordinary item</b>			
Early extinguishment of debt (d)	-	(38)	-
<b>Net earnings</b>	<b>\$ 130</b>	<b>\$ 581</b>	<b>\$ 36</b>
Dividends on preferred stock	-	-	18
Non-cash charge related to exchange of preferred securities	-	-	54
<b>Net earnings (loss) applicable to common stock</b>	<b>\$ 130</b>	<b>\$ 581</b>	<b>\$ (36)</b>
<b>Basic earnings (loss) per share of common stock:</b>			
Continuing operations	\$ 0.54	\$ 2.69	\$ 1.54
Net earnings (loss)	\$ 0.54	\$ 2.34	\$(0.15)
<b>Diluted earnings (loss) per share of common stock:</b>			
Continuing operations	\$ 0.54	\$ 2.65	\$ 1.53
Net earnings (loss)	\$ 0.54	\$ 2.31	(0.07)
(a) Net of capitalized interest of :	\$ (26)	\$ (35)	\$ (15)
(b) Net of tax expense of :	\$ -	\$ -	\$ 44
(c) Net of tax benefit of :	\$ -	\$ (31)	\$ (301)
(d) Net of tax benefit of :	\$ -	\$ (14)	\$ -

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

Millions of dollars	At December 31	
	1998	1997
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 238	\$ 338
Accounts and notes receivable	807	897
Inventories	179	172
Deferred income taxes	142	71
Other current assets	22	23
<b>Total current assets</b>	<b>1,388</b>	<b>1,501</b>
Investments and long-term receivables	1,143	1,113
Properties - net	5,276	4,816
Deferred income taxes	23	7
Other assets	122	93
<b>Total assets</b>	<b>\$ 7,952</b>	<b>\$ 7,530</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 709	\$ 785
Taxes payable	260	126
Interest payable	52	54
Current portion of environmental liabilities	142	100
Other current liabilities	213	95
<b>Total current liabilities</b>	<b>1,376</b>	<b>1,160</b>
Long-term debt	2,558	2,169
Deferred income taxes	132	137
Accrued abandonment, restoration and environmental liabilities	622	627
Other deferred credits and liabilities	540	601
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely parent debentures	522	522
Common stock (\$1.00 par value)		
Shares authorized: 750,000,000 (a)	252	252
Capital in excess of par value	460	452
Unearned portion of restricted stock issued	(24)	(31)
Retained earnings	1,959	2,021
Accumulated other comprehensive loss	(34)	(18)
Treasury stock - at cost (b)	(411)	(362)
<b>Total stockholders' equity</b>	<b>2,202</b>	<b>2,314</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 7,952</b>	<b>\$ 7,530</b>
(a) Number of shares outstanding	241,378,280	242,526,174
(b) Number of shares	10,622,778	9,262,100

The company follows the successful efforts method of accounting for its oil and gas activities.

See Notes to the Consolidated Financial Statements.

CONSOLIDATED CASH FLOWS

Millions of dollars	Years ended December 31		
	1998	1997	1996
<b>Cash Flows from Operating Activities</b>			
Net earnings	\$ 130	\$ 581	\$ 36
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation, depletion and amortization	867	962	1,059
Dry hole costs	184	110	139
Deferred income taxes	(72)	(249)	(332)
Gain on sales of assets (pre-tax)	(211)	(80)	(77)
Loss on disposal of discontinued operations (pre-tax)	-	81	743
Extraordinary item - early extinguishment of debt (pre-tax)	-	52	-
Other	35	(162)	113
Working capital and other changes related to operations			
Accounts and notes receivable	42	142	(130)
Inventories	(7)	(60)	10
Accounts payable	(76)	(223)	208
Taxes payable	134	(107)	38
Other	(23)	86	(123)
Net cash provided by operating activities	1,003	1,133	1,684
<b>Cash Flows from Investing Activities</b>			
Capital expenditures (includes dry hole costs)	(1,704)	(1,427)	(1,398)
Proceeds from sales of assets	435	100	609
Proceeds from sale of discontinued operations	-	1,789	-
Net cash provided by (used in) investing activities	(1,269)	462	(789)
<b>Cash Flows from Financing Activities</b>			
Proceeds from issuance of common stock	5	14	33
Long-term borrowings	891	470	375
Reduction of long-term debt and capital lease obligations	(472)	(1,336)	(943)
Dividends paid on preferred stock	-	-	(27)
Dividends paid on common stock	(193)	(199)	(199)
Repurchases of common stock	(48)	(362)	-
Other	(17)	(61)	(11)
Net cash provided by (used in) financing activities	166	(1,474)	(772)
Increase (decrease) in cash and cash equivalents	(100)	121	123
Cash and cash equivalents at beginning of year	338	217	94
Cash and cash equivalents at end of year	\$ 238	\$ 338	\$ 217
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the period for:			
Interest (net of amount capitalized)	\$ 182	\$ 187	\$ 276
Income taxes (net of refunds)	\$ 172	\$ 313	\$ 332

See Notes to the Consolidated Financial Statements.

CONSOLIDATED STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Millions of dollars except per share amounts	1998	1997	1996
<hr/>			
Preferred stock			
Balance at beginning of year	\$ -	\$ -	\$ 513
Exchange of preferred stock for convertible preferred securities	-	-	(468)
Conversion of preferred stock to common stock	-	-	(45)
<hr/>			
Balance at end of year	-	-	-
Common stock			
Balance at beginning of year	252	251	247
Issuance of common stock	-	1	4
<hr/>			
Balance at end of year	252	252	251
Capital in excess of par value			
Balance at beginning of year	452	412	319
Issuance of common stock	8	40	93
<hr/>			
Balance at end of year	460	452	412
Unearned portion of restricted stock issued			
Balance at beginning of year	(31)	(14)	(13)
Issuance of restricted stock	(3)	(26)	(5)
Current year amortization	10	9	4
<hr/>			
Balance at end of year	(24)	(31)	(14)
Retained earnings			
Balance at beginning of year	2,021	1,639	1,874
Net earnings for year	130	581	36
Cash dividends declared			
Preferred stock (\$1.75 per share in 1996)	-	-	(18)
Common stock (\$.80 per share)	(192)	(199)	(199)
Exchange of 6-1/4% convertible preferred securities of Unocal Capital Trust for Unocal's \$3.50 preferred stock	-	-	(54)
<hr/>			
Balance at end of year	1,959	2,021	1,639
Treasury stock			
Balance at beginning of year	(362)	-	-
Purchased at cost	(49)	(362)	-
<hr/>			
Balance at end of year	(411)	(362)	-
Accumulated other comprehensive loss			
Balance at beginning of year	(18)	(13)	(10)
Current year adjustment	(16)	(5)	(3)
<hr/>			
Balance at end of year (a)	(34)	(18)	(13)
<hr/>			
Total stockholders' equity	\$2,202	\$2,314	\$2,275

(a) At year end 1998, other comprehensive loss was comprised of unrealized translation losses of \$25 and minimum pension liability adjustments of \$9. Year-end 1997 and 1996 balances consisted entirely of unrealized translation losses.

Comprehensive income	1998	1997	1996
<hr/>			
Net income	\$130	\$581	\$36
Unrealized translation adjustments (no tax effect)	(7)	(5)	(3)
Minimum pension liability adjustment (net of \$5 tax effect)	(9)	-	-
<hr/>			
Total comprehensive income	\$114	\$576	\$33

See Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - For the purpose of this report, Unocal Corporation (Unocal) and its consolidated subsidiaries, including Union Oil Company of California (Union Oil), will be referred to as the company.

The consolidated financial statements of the company include the accounts of subsidiaries more than 50 percent owned. Investments in affiliates owned 50 percent or less are accounted for by the equity method. Under the equity method, the investments are stated at cost plus the company's equity in undistributed earnings and losses after acquisition. Income taxes estimated to be payable when earnings are distributed are included in deferred income taxes.

Use of Estimates - The consolidated financial statements are prepared in conformity with generally accepted accounting principles, which require management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent liabilities as of the financial statement date and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories - Inventories are valued at lower of cost or market. The costs of crude oil, other petroleum products and agricultural products inventories are determined using the last-in, first-out (LIFO) method. The costs of other inventories are determined by using various methods. Cost elements primarily consist of raw materials and production expenses.

Impairment of Assets - Oil and gas producing properties are regularly assessed for possible impairment on a field-by-field basis using the estimated undiscounted future cash flows of each field. Generally, impairment loss is charged to depreciation, depletion and amortization expense when the estimated undiscounted future cash flows are less than the current net book values of the properties in a field.

Impairment charges are also made for other long-lived assets when it is determined that the carrying values of the assets may not be recoverable. A long-lived asset is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

Oil and Gas Exploration and Development Costs - The company follows the successful-efforts method of accounting for its oil and gas activities.

Acquisition costs of exploratory acreage are capitalized. Full amortization of such costs related to the portion of unproved properties is provided over the shorter of the exploratory period or the lease holding period. Costs of successful leases are transferred to proved properties. Exploratory drilling costs are initially capitalized. If exploratory wells are determined to be commercially unsuccessful, the related costs are expensed. Geological and geophysical costs for exploration and leasehold rentals for unproved properties are expensed.

Development costs of proved properties, including unsuccessful development wells, are capitalized.

Depreciation, Depletion and Amortization - Depreciation, depletion and amortization related to proved oil and gas properties and estimated future abandonment and removal costs for onshore and offshore producing facilities are calculated at unit-of-production rates based upon estimated proved reserves. Depreciation of other properties is generally on a straight-line method using various rates based on estimated useful lives.

Maintenance and Repairs - Expenditures for maintenance and repairs are expensed. In general, improvements are charged to the respective property accounts.

Retirement and Disposal of Properties - Upon retirement of facilities depreciated on an individual basis, remaining book values are charged to depreciation expense. For facilities depreciated on a group basis, remaining book values are charged to accumulated allowances. Gains or losses on sales of properties are included in current earnings.

Income Taxes - The company uses the liability method for reporting income taxes, under which current and deferred tax liabilities and assets are recorded in accordance with enacted tax laws and rates. Under this method, the amounts of deferred tax liabilities and assets at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not.

Deferred income taxes are provided for the estimated income tax effect of temporary differences between financial and tax bases in assets and liabilities. Deferred tax assets are also provided for certain tax credit carryforwards. A valuation allowance to reduce deferred tax assets is established when deemed appropriate.

Foreign Currency Translation - Foreign exchange translation adjustments as a result of translating a foreign entity's financial statements from its functional currency into U.S. dollars are included as a separate component of stockholders' equity. The functional currency for all operations, except Canada and equity investments in Thailand and Brazil, is the U.S. dollar. Gains or losses incurred on currency transactions in other than a country's functional currency are included in net earnings.

Environmental Expenditures - Expenditures that relate to existing conditions caused by past operations are expensed. Environmental expenditures that create future benefits or contribute to future revenue generation are capitalized.

Liabilities related to environmental assessments and future remediation costs are recorded when such liabilities are probable and the amounts can be reasonably estimated. The company considers a site to present a probable liability when an investigation has identified environmental remediation requirements for which the company is responsible. The timing of accruing for remediation costs generally coincides with the company's completion of investigation or feasibility work and its recommendation of a remedy or commitment to an appropriate plan of action.

Environmental liabilities are not discounted or reduced by possible recoveries from third parties. However, accrued liabilities for Superfund and similar sites reflect anticipated allocations of liabilities among settling participants.

Environmental remediation expenditures required for properties held for sale are capitalized. A valuation allowance is established when the aggregate book values of the properties, including capitalized remediation costs, exceed net aggregate realizable values.

Risk Management - The primary objectives of the company's risk management policies are to reduce the overall volatility of the company's cash flows and to preserve revenues. As part of its overall risk management strategy, the company enters into various derivative instrument contracts to protect its exposures to changes in interest rates, changes in foreign currency exchange rates, and fluctuations in crude oil and natural gas prices. The company also pursues outright pricing positions in certain hydrocarbon derivative financial instruments, such as futures contracts.

Interest Rates - The company enters into interest rate swap contracts to manage the interest cost of its debt with the objective of minimizing the volatility and magnitude of the company's borrowing costs. Net amounts under the swap contracts are recorded on the accrual basis as interest expense. Net related counterparty amounts are included in interest payable. Associated cash flows are presented in the operating activities section of the consolidated cash flows statement.

From time to time, the company may purchase interest rate options to protect its interest rate positions. These purchases are designated as hedges of future transactions and gains or losses on the options are

deferred until the underlying transactions occur. Option costs are recognized as part of the underlying transactions unless the transactions do not occur, at which time, the option costs are recognized in earnings. Related cash flows are presented in the operating activities section of the consolidated cash flows statement.

Foreign Currency - Various foreign currency forward, option and swap contracts are entered into by the company to manage its exposures to adverse impacts of foreign currency fluctuations under debt and other obligations. Generally, gains and losses on the outstanding contracts are recognized in earnings and offset the foreign currency gains or losses of the underlying obligations. Net related counterparty amounts are included in accounts receivable. Associated cash flows at settlement are presented in the financing activities section of the consolidated cash flows statement for contracts related to debt obligations. Cash flows related to other foreign currency obligations are presented in the operating activities section of the consolidated cash flows statement.

Commodities - The company enters into futures, swaps, and other hydrocarbon derivative contracts to mitigate the company's overall exposure to fluctuations in crude oil and natural gas prices. Generally, the company uses hydrocarbon derivative contracts to establish price protection for its forecasted oil and gas transactions; however, market conditions may arise causing certain positions to be closed out prior to their scheduled maturity dates. The company also pursues outright pricing positions in certain hydrocarbon derivative financial instruments, such as futures contracts. Accordingly, hydrocarbon derivative financial instruments related to the enterprise's general risk management and trading activities are marked to market, and gains and losses are recognized on a current basis in the underlying commodity revenues. Net related counterparty amounts are included in accounts receivable.

The company may hedge a portion of an operating group's future crude oil or natural gas production against price exposure and may also use hydrocarbon derivative financial instruments to hedge certain firm delivery commitments. These agreements are designated as hedges for accounting purposes. To qualify for hedge accounting the item must be designated as a hedge at the inception of the derivative contract, the hedged item must expose the company to price risk, the derivative instrument must reduce the company's price risk exposure, and there must be a high correlation of changes in the fair value of the derivative instrument and the fair value of the underlying item being hedged. Gains or losses in the fair value of the derivative are deferred and recognized as part of the underlying commodity revenue when the designated item is sold, extinguished or terminated. If a designated transaction is no longer expected to occur or if correlation no longer exists, then a gain or loss is recognized to the extent the future results are not offset by the changes on the hedged item since the inception of the hedge. Net related counterparty amounts are included in accounts receivable. Cash flows related to derivative contracts settled during the period are reported in the operating activities section of the consolidated cash flows statement.

Stock-Based Compensation - The company accounts for its stock-based compensation plans using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees". Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", allows companies to record stock-based employee compensation plans at fair value. The company has elected to continue accounting for stock-based compensation in accordance with APB No. 25, but complies with the required disclosures under SFAS No. 123 (see note 22).

Earnings Per Share - Basic earnings per share (EPS) was computed by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted EPS is similar to basic EPS except that the denominator was increased to include the number of additional common shares that would have been outstanding if potential dilutive common shares had been issued. The numerator was also adjusted for convertible securities by adding back any convertible preferred distributions. Each group of potential dilutive common shares must be ranked and included in the diluted EPS calculation by first including the most dilutive, then the next dilutive, and so on, to the least dilutive shares. The process stops when the resulting diluted EPS is the lowest figure obtainable.

Capitalized Interest - Interest is capitalized on certain construction and development projects as part of the costs of the assets.

Other - The company considers cash equivalents to be all highly liquid investments purchased with a maturity of three months or less.

Certain items in prior year financial statements have been reclassified to conform to the 1998 presentation.

#### NOTE 2 - ACCOUNTING CHANGES

Effective in the first quarter of 1998, the company adopted SFAS No. 130, "Reporting Comprehensive Income", which established standards for reporting and displaying comprehensive income and its components. The company has chosen to display its comprehensive income in the Consolidated Stockholders' Equity and Comprehensive Income statement. Prior period data presented has been restated to conform to the new standard.

The company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" in the fourth quarter of 1998. This statement requires the disclosure of certain financial information by operating segments. Operating segments are based on the way that management organizes segments within an enterprise for making operating decisions and assessing performance. Adoption of this statement did not materially impact the company's prior segment disclosures.

During the fourth quarter of 1998, the company adopted SFAS No. 132, "Employers Disclosures about Pensions and Other Postretirement Benefits". This statement requires the disclosure of reconciliations of beginning and ending balances of plan benefit obligations as well as the fair value of plan assets. It also requires the disclosure of the effect a one percentage-point change (increase and decrease) in the health-care trend rate on the service and interest cost components of net periodic postretirement-health care benefit costs and on the accumulated postretirement benefit obligation for health care benefits. It eliminates the disclosures for plan descriptions, types of benefit formulas and funding policies. The company has restated prior period information to conform to the required disclosures.

#### NOTE 3 - DISPOSITIONS OF ASSETS

During 1998, the company received proceeds totaling \$435 million from the sale of assets and recorded a total pre-tax gain of \$211 million. of the total proceeds, \$261 million was from the sale of Tarragon Oil and Gas Limited (Tarragon) common stock and debentures acquired earlier in the year in exchange for the company's Alberta, Canada, exploration and production assets. The asset exchange and subsequent sale of the Tarragon securities resulted in a total pre-tax gain of \$155 million. The company received proceeds of \$52 million from the sale of its interests in the Alliance Pipeline project and recorded a pretax gain of \$8 million. Proceeds of \$34 million from the sale of the company's Oklahoma oil and gas properties resulted in a pre-tax gain of \$22 million. Proceeds from the sale of other United States oil and gas assets were \$41 million, with pre-tax gains of \$12 million. The company also received proceeds of \$47 million from the sale of miscellaneous real estate and other assets that generated pre-tax gains of \$14 million.

In 1997, the company's proceeds from asset sales were \$100 million, with pre-tax gains of \$80 million. The proceeds consisted of: \$29 million for miscellaneous real estate properties, with pre-tax gains of \$13 million; \$29 million for the sale of miscellaneous oil and gas assets, with a pre-tax loss of \$4 million; \$25 million for the sale of Unocal Hydrocarbon Sales, with a pre-tax gain of \$66 million; and \$17 million for miscellaneous assets, with pre-tax gains of \$5 million. The company also received proceeds of \$1,789 million from the sale of its West Coast refining, marketing and transportation assets, resulting in a pre-tax loss on disposal of \$792 million recognized in 1996.

Proceeds received from asset sales during 1996 were \$609 million with recorded pre-tax gains of \$77 million. The total proceeds from the sale of oil and gas assets included \$472 million from the sale of

California oil and gas properties with a pre-tax gain of \$109 million. Proceeds and a note receivable totaling \$28 million from the sale of geothermal assets were received resulting in a pre-tax loss of \$92 million. The company also received \$23 million from the sale of exploration blocks in the United Kingdom with a pre-tax gain of \$18 million, and \$30 million from the sale of miscellaneous real estate assets, with a pre-tax gain of \$17 million.

NOTE 4 - LEASE RENTAL OBLIGATIONS

Future minimum rental payments for operating leases having initial or remaining noncancelable lease terms in excess of one year are as follows:

Millions of dollars	
1999	\$119
2000	69
2001	26
2002	22
2003	19
Balance	96
-----	
Total minimum lease rental payments	\$351
-----	

Net operating lease rental expense for continuing operations was as follows:

Millions of dollars	1998	1997	1996
Fixed rentals	\$53	\$61	\$73
Contingent rentals (based primarily on sales and usage)	8	9	11
Sublease rental income	(5)	(7)	(3)
-----			
Net Rental Expense	\$56	\$63	\$81
-----			

NOTE 5 - IMPAIRMENT OF ASSETS

As a result of recent price declines and the forecasted continuation of a low-price environment for crude oil, natural gas, certain ores and minerals, and other commodity prices, the company reviewed its oil and gas properties, mining facilities and other long-lived assets in 1998 for possible impairment. In accordance with its accounting policy regarding asset impairment, the company recorded pre-tax charges of \$66 million to depreciation, depletion and amortization expense for the impairment of certain United States and international oil and gas properties. The company recorded a pre-tax charge of \$2 million to equity in the earnings of an affiliate for impairment related to an investment in a United States oil and gas affiliate. A pre-tax charge of \$29 million was also recorded to depreciation, depletion and amortization expense for the impairment of the company's Mountain Pass, California, mining operations.

In 1997, the company recorded pre-tax charges of \$69 million to depreciation, depletion and amortization expense for the impairment of certain United States and international oil and gas properties.

In 1996, the company recorded pre-tax charges of \$52 million to depreciation, depletion and amortization expense for the impairment of certain United States oil and gas properties and \$23 million to depreciation, depletion and amortization expense for the impairment of certain United States geothermal properties.

NOTE 6 - RESTRUCTURING COSTS

The company adopted a restructuring plan during the fourth quarter of 1998 that resulted in the accrual of a \$27 million pre-tax restructuring charge. This amount included the costs of terminating approximately 475 employees. The charge was included in selling, administrative and general expense on the consolidated earnings statement. The plan involves the suspension of mining and manufacturing operations at the Mountain Pass, California, lanthanide facility, a change in mining operations at the

Questa, New Mexico, molybdenum facility, the withdrawal from non-strategic activities in Central Asia and a reduction in the activities of various business units.

Approximately 240 of the affected employees are from the company's mining operations, 95 are from various exploration and production business units and 140 are support personnel at various locations. The restructuring charge included approximately \$23 million for termination costs to be paid to the employees over time, about \$2 million in benefit plan curtailment costs and about \$2 million related to outplacement and other costs.

At December 31, 1998, about 210 employees had been terminated or had received termination notices as a result of the plan, with most of the terminations occurring at year-end. The amount of unpaid benefits remaining on the consolidated balance sheet at year-end 1998 was \$25 million.

NOTE 7 - INCOME TAXES

The components of the income tax provision for continuing operations were as follows:

Millions of dollars	1998	1997	1996
Earnings (loss) from continuing operations before income taxes (a)			
United States	\$ (220)	\$ 397	\$ 268
Foreign	525	374	490
Total	\$ 305	\$ 771	\$ 758
Income taxes			
Current			
Federal	\$ (33)	\$ 87	\$ 76
State	6	12	30
Foreign	274	285	277
Total	247	384	383
Deferred			
Federal	(137)	(168)	(70)
State	(4)	5	(13)
Foreign	69	(119)	2
Total	(72)	(282)	(81)
Total income taxes	\$ 175	\$ 102	\$ 302

(a) Amounts attributable to the Corporate and Unallocated segment are allocated.

The following table is a reconciliation of income taxes at the federal statutory income tax rates to income taxes as reported in the consolidated earnings statement.

Millions of dollars	1998	1997	1996
Federal statutory rate	35%	35%	35%
Taxes on earnings from continuing operations at statutory rate	\$107	\$ 270	\$265
Taxes on foreign earnings in excess of (less than) statutory rate	89	(45)	75
U.S. deferred tax adjustment	-	(126)	(11)
Dividend exclusion	(14)	(13)	(15)
Other	(7)	16	(12)
Total	\$175	\$ 102	\$302

The significant components of deferred income tax assets and liabilities included in the consolidated balance sheet at December 31, 1998 and 1997 were as follows:

Millions of dollars	1998	1997
-----		
Deferred tax assets (liabilities):		
Depreciation and intangible drilling costs	\$(765)	\$(696)
Pension assets	(168)	(166)
Other deferred tax liabilities	(199)	(240)
Exploratory costs	273	236
Federal alternative minimum tax credits	202	188
Litigation and environmental costs	137	146
Future abandonment costs	130	144
Depletion	88	98
Postretirement benefit costs	83	84
Other deferred tax assets	252	147
-----		
Total	\$ 33	\$ (59)
-----		

No deferred U.S. income tax liability has been recognized on the undistributed earnings of foreign subsidiaries that have been retained for reinvestment. If distributed, no additional U.S. tax is expected due to the availability of foreign tax credits. The undistributed earnings for tax purposes, excluding previously taxed earnings, were estimated at \$1.2 billion as of December 31, 1998.

The company estimates that approximately \$95 million of unused foreign tax credits will be available after the filing of the 1998 consolidated tax return, with various expiration dates through the year 2002. No deferred tax asset for these foreign credits has been recognized for financial statement purposes. The federal alternative minimum tax credits are available to offset future U.S. federal income taxes on an indefinite basis.

#### NOTE 8 - DISCONTINUED OPERATIONS

In March 1997, the company sold its West Coast refining, marketing and transportation assets to Tosco Corporation (Tosco) for total cash proceeds of \$1.8 billion. A participation agreement also provides for up to \$250 million in possible additional payments, which are contingent upon increased refining premiums and gasoline marketing margins in the years through 2003.

The 1996 consolidated earnings statement reflected the results for the refining, marketing and transportation operations as a \$420 million loss from discontinued operations. Estimated operating losses during the phase-out period of November 17, 1996 to March 31, 1997 were \$72 million net of income tax benefits of \$43 million which was included in the \$420 million loss. See note 10 for earnings per share information. At December 31, 1996, the assets held for sale were reclassified in the consolidated balance sheet from their historical classifications to separately reflect them as net assets of discontinued operations. Cash flows related to discontinued operations have not been segregated in the consolidated statement of cash flows. Consequently, amounts on the consolidated earnings statements may not agree with certain captions on the consolidated statement of cash flows.

In 1997, the company recorded an additional loss on disposal of \$50 million (net of a \$31 million tax benefit). The additional provision was primarily due to adjustments in closing inventory amounts and higher than anticipated termination costs.

#### NOTE 9 - EXTRAORDINARY ITEM

In May 1997, the company purchased approximately \$507 million in aggregate principal amount of three of its outstanding issues of debt securities. The debt securities consisted of \$161 million in debentures with an interest rate of 9 1/4 percent and \$346 million in notes with interest rates of 8 3/4 percent and 9 3/4 percent. The debt securities were purchased for an aggregate price of \$555 million, including a pre-tax

premium of approximately \$48 million over their aggregate carrying value. The premium, together with related costs of \$4 million, was recorded as an extraordinary item on the company's consolidated statement of earnings.

NOTE 10 - EARNINGS PER SHARE

The following table includes reconciliations of the numerators and denominators of the basic and diluted EPS computations for earnings from continuing operations.

Not included in the computation of diluted EPS were options to purchase approximately 5.3 million shares of common stock. These options were not included in the computation because the exercise prices were greater than the average market prices of the common shares at year-end. The exercise prices of these options range from \$35.94 to \$51.01 per share. The options were outstanding at December 31, 1998, and will expire periodically up to and in 2008.

Millions of dollars except per share amounts	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
<hr/>			
Year ended December 31, 1998			
Earnings from continuing operations	\$ 130	241	
Basic EPS			\$ 0.54
			=====
Effect of Dilutive Securities			
Options/common stock equivalents		1	
		-----	
Diluted EPS	130	242	\$ 0.54
			=====
Distributions on subsidiary trust preferred securities (after-tax)	24	12	
	-----	-----	
Antidilutive	\$ 154	254	\$ 0.61 (a)
<hr/>			
Year ended December 31, 1997			
Earnings from continuing operations	\$ 669	248	
Basic EPS			\$ 2.69
			=====
Effect of Dilutive Securities			
Options/common stock equivalents		1	
		-----	
Distributions on subsidiary trust preferred securities (after-tax)	669 24	249 13	\$ 2.68
	-----	-----	
Diluted EPS	\$ 693	262	\$ 2.65
			=====
<hr/>			
Year ended December 31, 1996			
Earnings from continuing operations	\$ 456		
Less:			
Dividends on preferred stock	18		
Non-cash charge related to exchange of preferred stock for subsidiary trust preferred securities	54		
	-----		
Earnings from continuing operations applicable to common stock	384	249	
Basic EPS			\$ 1.54
			=====
Effect of Dilutive Securities			
Options/common stock equivalents		1	
		-----	
Convertible preferred stock	384 18	250 13	\$ 1.54
	-----	-----	
Diluted EPS	402	263	\$ 1.53
			=====
Distributions on subsidiary trust preferred securities (after-tax)	8	3	
	-----	-----	
Antidilutive	\$ 410	266	\$ 1.54 (a)
<hr/>			

(a) The effect of assumed conversion of preferred securities on earnings per share is antidilutive.

Basic and diluted earnings per common share for discontinued operations and the extraordinary item related to the early extinguishment of debt were as follows:

Millions of dollars except per share amounts	Years ended December 31		
	1998	1997	1996
Basic earnings (loss) per share of common stock:			
Discontinued operations:			
Earnings (loss) from discontinued operations	\$ -	\$ (50)	\$ (420)
Weighted average common shares outstanding	-	248	249
Earnings (loss) from discontinued operations	\$ -	\$ (0.20)	\$ (1.69)
Extraordinary item:			
Early extinguishment of debt (net of tax)	\$ -	\$ (38)	\$ -
Weighted average common shares outstanding	-	248	249
Loss from extraordinary item	\$ -	\$ (0.15)	\$ -
Dilutive earnings (loss) per share of common stock:			
Discontinued operations:			
Earnings (loss) from discontinued operations	\$ -	\$ (50)	\$ (420)
Weighted average common shares outstanding	-	262	263
Earnings (loss) from discontinued operations	\$ -	\$ (0.19)	\$ (1.60)
Extraordinary item:			
Early extinguishment of debt (net of tax)	\$ -	\$ (38)	\$ -
Weighted average common shares outstanding	-	262	263
Loss from extraordinary item	\$ -	\$ (0.15)	\$ -

NOTE 11 - INVENTORIES

Millions of dollars	1998	1997
Crude oil and other petroleum products	\$ 34	\$ 34
Agricultural products	46	43
Carbon and mineral products	66	56
Materials, supplies and other	33	39
Total	\$ 179	\$ 172

The current replacement cost of inventories exceeded the LIFO inventory values included in the table above by \$11 million and \$18 million at December 31, 1998 and 1997, respectively.

NOTE 12 - INVESTMENTS IN AFFILIATES

Investments in affiliated companies accounted for by the equity method were \$479 million, \$413 million and \$578 million at December 31, 1998, 1997 and 1996, respectively. These investments are reported as a component of investments and long-term receivables on the consolidated balance sheet. Dividends or cash distributions received from these affiliates were \$94 million, \$83 million and \$89 million for the same years, respectively.

Unamortized excesses of the company's investments in these affiliated companies have been excluded from the table below. The unamortized excess of the company's investments in Colonial Pipeline Company, Inc., West Texas Gulf Pipeline Company and various other pipeline companies was approximately \$109 million at December 31, 1998.

At December 31, 1998, 1997 and 1996, the company's shares of the net capitalized costs of affiliates engaged in oil and gas exploration and production activities were \$208 million, \$158 million and \$75 million, respectively.

Summarized financial information for these investments and the company's equity shares are shown below.

Millions of dollars	1998		1997		1996	
	Total	Unocal's Share	Total	Unocal's Share	Total	Unocal's Share
Revenues	\$1,396	\$458	\$1,764	\$620	\$2,786	\$1,155
Costs and other deductions	1,079	362	1,453	536	2,440	1,049
Net earnings	\$ 317	\$ 96	\$ 311	\$ 84 (a)	\$ 346	\$ 106
Current assets	\$ 499	\$172	\$ 493	\$176	\$ 792	\$ 334
Noncurrent assets	2,555	711	2,295	610	2,546	800
Current liabilities	571	182	506	160	711	266
Noncurrent liabilities	1,310	372	1,157	325	1,228	366
Net equity	1,173	329	1,125	301	1,399	502

(a) 1997 excludes approximately \$70 million recorded to equity in earnings related to the Uno-Ven partnership restructuring.

NOTE 13 - PROPERTIES AND CAPITAL LEASES

Investments in owned and capitalized leased properties at December 31, 1998 and 1997 are shown below. Accumulated depreciation, depletion, and amortization for continuing operations was \$10,193 million and \$9,896 million at December 31, 1998 and 1997, respectively.

Millions of dollars	1998		1997	
	Gross	Net	Gross	Net
Owned properties (at cost)				
Oil and gas operations:				
Exploration				
United States				
Spirit Energy 76	\$ 418	\$ 386	\$ 165	\$ 140
Other	1	-	8	4
International				
Far East	248	213	145	132
Other	109	93	83	31
Production				
United States				
Spirit Energy 76	5,502	1,539	5,474	1,582
Other	1,235	302	1,189	335
International				
Far East	4,012	1,178	3,668	1,029
Other	1,207	474	1,369	506
-----				
Total oil and gas operations	12,732	4,185	12,101	3,759
Global Trade	4	3	3	2
Geothermal and Power Operations	937	437	846	375
Diversified Business Group				
Agricultural Products	681	203	679	216
Carbon & Minerals	330	144	303	160
Pipelines	344	100	337	99
Corporate and Unallocated	426	203	428	204
-----				
Total owned properties	15,454	5,275	14,697	4,815
Capitalized leased properties	15	1	15	1
-----				
Total	\$ 15,469	\$ 5,276	\$ 14,712	\$ 4,816
-----				

NOTE 14 - POSTEMPLOYMENT BENEFIT PLANS

The company has several retirement plans covering substantially all of its employees. The company also has medical plans that provide health care benefits for eligible employees and many of its retired employees. The following table sets forth the postretirement benefit obligation recognized in the consolidated balance sheet at December 31, 1998 and 1997. Pre-paid pension costs are reported as a component of investments and long-term receivables on the consolidated balance sheet. Postemployment benefit liabilities, including pensions, postretirement medical benefits and other postemployment benefits, are reported as a component of other deferred credits and liabilities on the consolidated balance sheet.

Millions of dollars	Pension Benefits		Other Post-retirement Benefits	
	1998	1997	1998	1997
Change in benefit obligation:				
Projected benefit obligation at January 1	\$ 900	\$ 887	\$ 192	\$ 201
Service cost	27	27	3	3
Interest cost	67	69	13	13
Employee contributions	-	-	3	3
Disbursements	(99)	(146)	(18)	(17)
Actuarial losses/(gains)	60	96	(1)	6
Plan amendments	1	1	-	-
Curtailments/settlements	(4)	1	(1)	(17)
Divestitures	(2)	-	-	-
Effect of foreign exchange rates	3	(35)	-	-
Projected benefit obligation at December 31	\$ 953	\$ 900	\$ 191	\$ 192
Change in plan assets:				
Fair value of plan assets at January 1	\$ 1,213	\$ 1,174	\$ -	\$ -
Actual return on plan assets	183	203	-	-
Employer contributions	(14)	(14)	-	-
Employee contributions	-	-	-	-
Disbursements	(91)	(137)	-	-
Administrative expenses	(7)	(7)	-	-
Settlements	-	-	-	-
Divestiture	(2)	-	-	-
Effect of foreign exchange rates	(1)	(6)	-	-
Fair value of plan assets at December 31	\$ 1,281	\$ 1,213	\$ -	\$ -
Net amount recognized:				
Funded status	\$ 328	\$ 313	\$ (191)	\$ (192)
Unrecognized net (asset)/obligation at transition	2	(15)	-	-
Unrecognized prior service cost	23	27	11	13
Unrecognized net actuarial losses/(gains)	62	81	(28)	(31)
Net amount recognized	\$ 415	\$ 406	\$ (208)	\$ (210)
Amounts recognized in the balance sheet consist of:				
Prepaid pension cost	\$ 459	\$ 446	\$ -	\$ -
Accrued benefit liability	(62)	(40)	(208)	(210)
Intangible asset	4	-	-	-
Accumulated other comprehensive income	9	-	-	-
Deferred taxes	5	-	-	-
Net amount recognized	\$ 415	\$ 406	\$ (208)	\$ (210)

The assumed rates to measure the benefit obligation and the expected earnings on plan assets were as follows:

Weighted-average assumptions as of December 31	Pension Benefits			Other Post-retirement Benefits		
	1998	1997	1996	1998	1997	1996
Discount rates	7.18%	7.47%	7.61%	7.00%	7.00%	7.25%
Rate of salary increases	4.25%	4.54%	4.50%	4.00%	4.00%	4.00%
Expected return on plan assets	9.41%	9.46%	9.50%	N/A	N/A	N/A

The health care cost trend rates used in measuring the 1998 benefit obligations were 5.4 percent prior to age 65 and 5.3 percent following age 65, both decreasing ratably to five percent in 2001. A one-percentage-point change in the assumed health care cost trend rates would have had the following effects on 1998 service and interest cost and the accumulated postretirement benefit obligation at December 31, 1998:

Millions of dollars	One percent Increase	One percent Decrease
Effect on total of service and interest cost components of net periodic expense	\$2	\$(2)
Effect on postretirement benefit obligation	21	(17)

Net periodic and postretirement benefits cost are comprised of the following components:

Millions of dollars	Pension Benefits			Other Post-retirement Benefits		
	1998	1997	1996	1998	1997	1996
Service cost (net of employee contributions)	\$ 27	\$ 27	\$ 33	\$ 3	\$ 3	\$ 5
Interest cost	67	69	65	13	13	15
Expected return on plan assets	(102)	(105)	(102)	-	-	-
Amortization of:						
Transition (asset)/obligation	(17)	(22)	(22)	-	-	-
Prior service cost	4	3	5	1	2	2
Net actuarial (gains)/losses	2	-	2	(1)	(2)	-
Curtailement/settlement (gains)/losses	-	1	12	-	(17)	-
Cost of special separation benefits	4	1	2	-	-	-
Net periodic pension cost/(credit)	\$ (15)	\$ (26)	\$ (5)	\$ 16	\$ (1)	\$ 22

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were approximately \$101 million, \$58 million and \$1 million, respectively as of December 31, 1998 and approximately \$72 million, \$42 million and \$1 million, respectively as of December 31, 1997.

In 1998, the company completed the transfer of pension assets and liabilities from retirement plans from a subsidiary to the Unocal Retirement Plan. The company also recorded additional separation costs for those employees displaced as a result of asset sales and the company's restructuring program. During 1997, the company completed the sale of substantially all of its West Coast petroleum refining, marketing and transportation assets and retained the postretirement benefit obligation and related plan assets for the employees affected by this transaction. Also during 1997, the company terminated a defined benefit pension plan in the United Kingdom. Many of the affected employees were transferred to a new plan that also provides coverage to foreign country nationals employed by the company outside the U.S.

The company has a 401 (k) defined contribution savings plan designed to supplement retirement income for U.S. employees. The plan received company contributions of \$16 million, \$18 million and \$23 million in 1998, 1997 and 1996 respectively. The company also provides benefits such as workers' compensation and disabled employees' medical care to former or inactive employees after employment but before

retirement. The accumulated postemployment benefit obligation was \$21 million and \$18 million at December 31, 1998 and 1997 respectively.

NOTE 15 - LONG-TERM DEBT AND CREDIT AGREEMENTS

The following table summarizes the company's long-term debt:

Millions of dollars	1998	1997
Bonds and debentures		
9-1/4% Debentures due 2003	\$ 89	\$ 89
9-1/8% Debentures due 2006	200	200
6-1/5% Industrial Development Revenue		
Bonds due 1999 to 2008	23	23
7% Debentures due 2028	200	-
Deutsche Mark Bonds due 1998	-	139
Notes		
Commercial paper (5.92%) (a) (b)	60	99
Medium-term notes due 1999 to 2015 (8.21%) (a) (b)	790	952
Bank Credit Agreement (5.73%) (a) (b)	550	-
Revolving credit facilities	-	160
9-3/4% Notes due 2000	65	65
8-3/4% Notes due 2001	39	39
6-3/8% Notes due 2004	200	200
7-1/5% Notes due 2005	200	200
6-1/2% Notes due 2008	100	-
Azerbaijan Limited Recourse Loans	44	-
Other miscellaneous debt	2	4
Bond (discount)/premium	(4)	-
Total debt	2,558	2,170
Less current portion of capital leases	-	1
Total long-term debt	\$ 2,558	\$ 2,169

(a) The company has the intent and the ability to refinance current maturities.

(b) Weighted average interest rate at December 31, 1998

At December 31, 1998, the amounts of long-term debt maturing in 2000, 2001, 2002, and 2003 were \$121 million, \$106 million, \$783 million and \$100 million, respectively.

During 1998, the company repaid \$160 million under a \$250 million revolving credit facility that was established in 1993 for the purpose of funding certain oil and gas developments in Thailand. This revolving credit facility was terminated in February 1999. The balance of commercial paper outstanding at year-end 1997 was reduced \$39 million to \$60 million at December 31, 1998. Additional debt repayments included the retirement at maturity of the \$110 million Deutsche Mark bonds, together with a related currency swap agreement, and the retirement of \$162 million in medium-term notes.

In May 1998, the company issued \$100 million of 6 1/2 percent notes due May 1, 2008 and \$200 million of 7 percent debentures due May 1, 2028. Proceeds from the issuances were used to repay a portion of the maturing debt described above, to retire the \$250 million revolving credit facility and for general corporate purposes.

In December 1998, the company completed a limited recourse project financing for its separate share of the Azerbaijan International Operating Company Early Oil Project in Azerbaijan under an International Finance Corporation and European Bank for Reconstruction and Development loan structure. The financing is for up to \$77 million, with an initial draw down of \$44 million. The borrowing bears interest at a

margin above London Interbank Offered Rates (LIBOR). The company has guaranteed the loan through project completion. Following completion, the company's guarantee will terminate and the lenders' principal and interest payments will be payable only out of the Early Oil Project's cash flow. The pre-completion guarantee excludes certain political events including, but not limited to, cancellations or material adverse modifications to the relevant Production Sharing Contract, Joint Operating Agreement, Pipeline Operating or Construction Agreements and material breaches by any Government or Governmental Agency of any Project Country.

The company borrowed \$550 million under its \$1.0 billion Bank Credit Agreement during the year and had \$450 million in additional borrowings available under the agreement at December 31, 1998. The company had other undrawn letters of credit available at year-end 1998 that approximated \$156 million. The majority of these letters of credit are maintained for operational needs. Borrowings under credit facilities bear interest at different margins above LIBOR and the agreements call for facility fees on either the total or undrawn commitment. The Bank Credit Agreement and certain of the other revolving credit facilities provide for the termination of the commitments and require the prepayment of all outstanding borrowings in the event that any person or group becomes the beneficial owner of more than 30 percent of the then outstanding voting stock of Unocal other than in a transaction having the approval of the company's Board of Directors, at least a majority of which are continuing directors, or continuing directors shall cease to constitute at least a majority of the Board.

In July 1998, the company filed a new \$1.2 billion universal shelf registration statement with the Securities and Exchange Commission. The unissued \$239 million balance of securities available for issuance under the company's prior shelf registration statement was combined with the amount of securities under the new registration statement resulting in a total amount of \$1.439 billion available at year-end 1998. This amount was initially dedicated to the company's medium-term note program but was also available for the future issuance of other debt or equity securities.

#### NOTE 16 - ACCRUED ABANDONMENT, RESTORATION AND ENVIRONMENTAL LIABILITIES

At December 31, 1998, the company had accrued \$452 million for the estimated future costs to abandon and remove wells and production facilities. The total costs for abandonments are predominantly accrued for on a unit-of-production basis and are estimated to be approximately \$679 million. This estimate was derived in large part from abandonment cost studies performed by outside firms and is used to calculate the amount to be amortized.

At December 31, 1998, the company's reserve for environmental remediation obligations totaled \$312 million, of which \$142 million was included in current liabilities. The reserve included estimated probable future costs of \$16 million for federal Superfund and comparable state-managed multi-party disposal sites; \$16 million for formerly-operated sites for which the company has remediation obligations; \$64 million for sites related to businesses or operations that have been sold with contractual remediation or indemnification obligations; \$166 million for company-owned or controlled sites where facilities have been closed or operations shut down; and \$50 million for active sites owned and/or controlled by the company and utilized in its present operations.

#### NOTE 17 - CONTINGENT LIABILITIES

The company has contingent liabilities with respect to material existing or potential claims, lawsuits and other proceedings, including those involving environmental, tax and other matters, certain of which are discussed more specifically below. The company accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, the company's estimates of the outcomes of these matters and its experience in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there will be changes in the estimates of future costs, which could have a material effect on the company's future results of operations and financial condition or liquidity.

Environmental matters - The company is subject to loss contingencies pursuant to federal, state and local environmental laws and regulations. These include existing and possible future obligations to investigate the effects of the release or disposal of certain petroleum, chemical and mineral substances at various sites; to remediate or restore these sites; to compensate others for damage to property and natural resources, for remediation and restoration costs and for personal injuries; and to pay civil penalties and, in some cases, criminal penalties and punitive damages. These obligations relate to sites owned by the company or others and are associated with past and present operations, including sites at which the company has been identified as a potentially responsible party (PRP) under the federal Superfund laws and comparable state laws.

Liabilities are accrued when it is probable that future costs will be incurred and such costs can be reasonably estimated. However, in many cases, investigations are not yet at a stage where the company is able to determine whether it is liable or, even if liability is determined to be probable, to quantify the liability or estimate a range of possible exposure. In such cases, the amounts of the company's liabilities are indeterminate due to the potentially large number of claimants for any given site or exposure, the unknown magnitude of possible contamination, the imprecise and conflicting engineering evaluations and estimates of proper clean-up methods and costs, the unknown timing and extent of the corrective actions that may be required, the uncertainty attendant to the possible award of punitive damages, the recent judicial recognition of new causes of action, the present state of the law, which often imposes joint and several and retroactive liabilities on PRPs, the fact that the company is usually just one of a number of companies identified as a PRP, or other reasons.

As disclosed in note 16, at year-end 1998 the company had accrued \$312 million for estimated future environmental assessment and remediation costs at various sites where liabilities for such costs are probable. At those sites where investigations or feasibility studies have advanced to the stage of analyzing feasible alternative remedies and/or ranges of costs, the company estimates that it could incur possible additional remediation costs aggregating approximately \$190 million.

Tax matters - In 1994, the company received a Notice of Proposed Deficiency (Notice) from the Internal Revenue Service (IRS) related to the years 1985 through 1987. In 1995, the company filed a protest of the proposed tax deficiency with the Appeals section of the IRS. A proposed settlement was reached for all open taxable years prior to 1988 and was approved by the Joint Committee on Taxation of the U.S. Congress in 1998. The settlement entitles the company to a refund for overpayment of tax or interest, but the company will not receive actual payment until a final resolution of losses carried back from 1993 to pre-1988 taxable years occurs.

The company believes it has adequately provided in its accounts for tax items and issues not yet resolved.

Other matters - The company has signed a letter agreement regarding the Transocean Discoverer Spirit deepwater drill ship with a minimum daily rate of \$210 thousand for five years. The drill ship is scheduled for delivery in the Gulf of Mexico in 2000.

In February 1996, Bridas Corporation filed a petition against the company and others in the District Court of Fort Bend County, Texas, alleging that the defendants conspired to and did tortiously interfere with Bridas' rights under agreements with the government of Turkmenistan to develop the Yashlar Field and to transport gas from that field to Pakistan. The petition also alleged that the defendants interfered with Bridas' exclusive right to lay a gas pipeline in Afghanistan. Bridas sought actual damages, as well as punitive damages, plus interest. Bridas' expert witnesses stated in pre-trial discovery that Bridas' total actual damages for loss of future profits were approximately \$1.7 billion. In the alternative, Bridas was expected to seek an award of approximately \$430 million with respect to its total expenditures in Turkmenistan. In October 1998, the court granted the defendants' motion for summary judgement and dismissed the action. In March 1999, Bridas filed a notice of appeal of the dismissal.

The company also has certain other contingent liabilities with respect to litigation, claims and contractual agreements arising in the ordinary course of business. Although these contingencies could result in

expenses or judgments that could be material to the company's results of operations for a given reporting period, on the basis of management's best assessment of the ultimate amount and timing of these events, such expenses or judgments are not expected to have a material adverse effect on the company's consolidated financial condition or liquidity.

NOTE 18 - OTHER FINANCIAL INFORMATION

The consolidated balance sheet at December 31 includes the following:

Millions of dollars	1998	1997
Other deferred credits and liabilities:		
Postretirement medical benefits obligation	\$ 208	\$ 210
Reserve for litigation and other claims	139	181
Other employee benefits	93	70
Advances related to future production	29	47
Minority interest	26	29
Other	45	64
<b>Total</b>	<b>\$ 540</b>	<b>\$ 601</b>
Allowances for doubtful accounts and notes receivable	\$ 78	\$ 35
Allowances for investments and long-term receivables	\$ 34	\$ 32

NOTE 19 - TRUST CONVERTIBLE PREFERRED SECURITIES

In September 1996, Unocal exchanged 10,437,873 newly issued 6 1/4 percent trust convertible preferred securities of Unocal Capital Trust, a Delaware business trust (the Trust), for 9,352,962 shares of Unocal's \$3.50 convertible preferred stock which were tendered in response to Unocal's exchange offer. Unocal acquired the convertible preferred securities, which have an aggregate liquidation value of \$522 million, from the Trust, together with 322,821 common securities of the Trust, which have an aggregate liquidation value of \$16 million, in exchange for \$538 million principal amount of 6 1/4 percent convertible junior subordinated debentures of Unocal. The convertible preferred securities and common securities of the Trust represent undivided beneficial interests in the debentures, which are the sole assets of the Trust.

In 1996, a charge to retained earnings of \$54 million was recorded for the exchange to reflect the excess of the \$522 million carrying value of the convertible preferred securities issued (which amount was based on the market value of the shares of Unocal common stock into which the tendered shares of \$3.50 convertible preferred stock could have been converted) over the \$468 million carrying value of the tendered shares.

The convertible preferred securities have a liquidation value of \$50 per security and are convertible into shares of Unocal common stock at a conversion price of \$42.56 per share, subject to adjustment upon the occurrence of certain events. Distributions on the convertible preferred securities are cumulative at an annual rate of 6 1/4 percent of their liquidation amount and are payable quarterly in arrears on March 1, June 1, September 1 and December 1 of each year to the extent that the Trust receives interest payments on the debentures, which payments are subject to deferral by Unocal under certain circumstances.

Upon repayment of the debentures by Unocal, whether at maturity, upon redemption or otherwise, the proceeds thereof must immediately be applied to redeem a corresponding amount of the convertible preferred securities and the common securities of the Trust.

The debentures mature on September 1, 2026, and may be redeemed, in whole or in part, at the option of Unocal, at any time on or after September 3, 2000, at a redemption price initially equal to 103.75 percent of the principal amount redeemed, declining annually to 100 percent of the principal amount redeemed in 2006, plus accrued and unpaid interest thereon to the redemption date. The debentures, and hence the convertible preferred securities, may become redeemable at the option of Unocal upon the occurrence of certain special events or restructuring transactions.

The Trust is accounted for as a consolidated subsidiary of Unocal, with the debentures and payments thereon by Unocal to the Trust eliminated in the consolidated financial statements. The exchange of outstanding shares of \$3.50 convertible preferred stock for convertible preferred securities and the conversion of the remaining shares of \$3.50 convertible preferred stock to common stock were non-cash transactions and, therefore, were excluded from the 1996 cash flow statement. The payment obligations of the Trust under the convertible preferred securities are unconditionally guaranteed on a subordinated basis by Unocal. Such guarantee, when taken together with Unocal's obligations under the debentures and the indenture pursuant to which the debentures were issued and its obligations under the amended and restated declaration of trust governing the Trust, provides a full and unconditional guarantee by Unocal of the Trust's obligations under the convertible preferred securities.

Following the exchange offer, Unocal called the 897,038 unexchanged shares of the \$3.50 convertible preferred stock for redemption. All of these shares were converted by the holders into 1,458,575 shares of Unocal common stock prior to the redemption date.

The numbers of convertible preferred securities outstanding on December 31, 1998 and December 31, 1997 were 10,437,137 and 10,437,212, respectively.

#### NOTE 20 - CAPITAL STOCK

##### Common Stock

Authorized - 750,000,000  
\$1.00 Par value per share  
Thousands of shares

	1998	1997	1996
Outstanding at beginning of year	242,526	250,671	247,310
Issuances of common stock (a)	213	1,117	3,361
Purchase of treasury stock	(1,361)	(9,262)	-
Outstanding at end of year	241,378	242,526	250,671

##### (a) net of cancellations

At December 31, 1998, there were approximately 12.3 million shares reserved for the conversion of Unocal Capital Trust convertible preferred securities, 19.8 million shares for the company's employee benefit plans and Directors' Restricted Stock Plan and 3.4 million shares for the company's Dividend Reinvestment and Common Stock Purchase Plan.

Treasury Stock - In December 1996, the company established a common stock repurchase program. The Board of Directors authorized the repurchase of up to \$400 million of the common stock outstanding. The program was completed in January 1998. In January 1998, the Board of Directors extended the repurchase program and authorized management to repurchase up to an additional \$200 million of common stock. At December 31, 1998, the company held 10,622,778 common shares as treasury stock, which is shown at a cost of \$411 million.

Preferred Stock - The company has authorized 100,000,000 shares of preferred stock with a par value of \$0.10 per share. In July 1992, the company issued 10,250,000 shares of \$3.50 convertible preferred stock. The preferred stock accrued annual dividends of \$3.50. During 1996, all outstanding shares of convertible preferred stock were exchanged for 6 1/4 percent Trust convertible preferred securities of Unocal Capital Trust or were converted into Unocal common stock (see note 19).

Stockholder Rights Plan - In January 1990, the Board of Directors adopted a stockholder rights plan (Rights Plan) and declared a dividend of one preferred stock purchase right (Right) for each share of common stock outstanding. The Board also authorized the issuance of one Right for each common share issued after February 12, 1990, and prior to the earlier of the date on which the rights become exercisable, the redemption date or the expiration date.

The Board of Directors has designated 3,000,000 shares of preferred stock as Series A Junior Participating cumulative preferred stock (Series A preferred stock) in connection with the Rights Plan. The Rights Plan provides that in the event any person, or group of affiliated persons, becomes, or commences a tender offer or exchange offer pursuant to which such person or group would become the beneficial owner of 15 percent or more of the outstanding common shares, each Right (other than Rights held by the 15 percent stockholder) will be exercisable, on and after the close of business on the tenth business day following such event, unless the Rights are redeemed by the Board of Directors of the company, to purchase units of Series A preferred stock (each consisting of one one-hundredth of a share) having a market value equal to two times the then-current exercise price (initially \$75). The Rights Plan further provides that if, on or after the occurrence of such event, the company is merged into any other corporation, or 50 percent or more of the company's assets or earning power are sold, each Right (other than Rights held by the 15 percent stockholder) will be exercised to purchase shares of the acquiring corporation having a market value equal to two times the exercise price.

The Rights expire on January 29, 2000, unless previously redeemed by the Board of Directors. The Rights do not have voting or dividend rights and, until they become exercisable, have no diluting effect on the earnings of the company. As of December 31, 1998, none of the Series A preferred stock had been issued nor had the Rights become exercisable.

NOTE 21 - OTHER COMPREHENSIVE INCOME

In April 1998, the company exchanged its Canadian oil and gas assets for common stock and debentures of Tarragon. In the third quarter of 1998, the company sold its interests in Tarragon's common stock and debentures as a result of a tender-offer for Tarragon common stock by USX-Marathon. During the year, these transactions along with other equity affiliate transactions impacted other comprehensive income as follows:

Millions of dollars

Accumulated unrealized translation adjustment losses at December 31, 1997	\$ (18)
Adjustment for gain on exchange	7
Adjustment for gain on sale	5
Unrealized translation adjustments	(19)
	-----
Accumulated unrealized translation adjustment losses at December 31, 1998	\$ (25)
	-----

There were no income tax effects related to unrealized translation adjustments.

NOTE 22 - STOCK-BASED COMPENSATION PLANS

Under the company's Special Stock Option Plan of 1996, the Unocal Stock Option Plan, the Management Incentive Programs of 1998, 1991 and 1985, and the Directors' Restricted Stock Units Plan, non-qualified stock options, restricted stock, performance shares and other common stock-based awards are granted to executives, directors and certain employees to provide incentives and rewards to strengthen their commitment to maximizing the profitability of the company and increasing shareholder value. The 1998 Management Incentive Program authorized up to 8.25 million shares of common stock for stock options, restricted stock and performance share awards. The Unocal Stock Option Plan, the Special Stock Option Plan of 1996, the 1991 and 1985 programs authorized up to 2 million, 1.1 million, 11 million and 9 million shares of common stock, respectively for stock options, restricted stock and performance share awards. The Directors' Plan authorized the issuance of up to 300,000 shares of common stock.

Stock options generally have a maximum term of ten years and generally vest over a three-year period at a rate of 50 percent the first year and 25 percent per year in each of the two succeeding years. Under the Performance Stock Option Plan included in the Management Incentive Program of 1998, three million performance stock options were awarded to eight senior executives at \$51.01 per share. These options vest in March 2001, subject to certain additional vesting requirements. These performance stock options

were granted in combination with approximately 1.6 million limited stock appreciation rights at the price of \$38.69 per share, which become fully vested and payable following certain change in control events as defined in the Performance Stock Option Plan.

The option price may not be less than the fair market value of the common stock on the date the option is granted. Restrictions may be imposed for a period of five years on certain shares acquired through the exercise of options granted after 1990 under the Management Incentive Programs of 1985, 1991, and 1998. Generally, restricted stock awards are based on the average closing price of the common stock for the last 30 trading days of the year prior to the grant date or on the average price of the common stock on the trading day that the stock is awarded. Restricted shares are not delivered until the end of the restricted period, which does not exceed ten years. Performance share awards have four-year terms and are generally paid out 50 percent in shares of common stock and 50 percent in cash. The amount of the payout is based on the return of the company's common stock relative to the total average return on the common stocks of a peer group of companies subject to further downward adjustments by the Management Development and Compensation Committee.

A summary of the company's stock plans for the last three years is presented below:

	Number of Options/Shares	Weighted Average Option Exercise Price Per Share	Weighted Average Grant Date Fair Value Per Share
Options outstanding at January 1, 1996	4,473,235	\$26	\$ -
Options granted during year	2,011,983	33	33
Options exercised during year	(1,328,954)	24	-
Options canceled/forfeited during year	(47,060)	30	-
Options outstanding at December 31, 1996	5,109,204	29	-
Options exercisable at December 31, 1996	2,747,611	27	-
Restricted stock awarded during year	152,169	-	33
Performance shares awarded during year	306,713	-	33
Options outstanding at January 1, 1997	5,109,204	\$29	\$ -
Options granted during year	872,720	39	39
Options exercised during year	(605,430)	28	-
Options canceled/forfeited during year	(454,466)	31	-
Options outstanding at December 31, 1997	4,922,028	31	-
Options exercisable at December 31, 1997	3,370,712	29	-
Restricted stock awarded during year	642,187	-	38
Performance shares awarded during year	197,505	-	40
Options outstanding at January 1, 1998	4,922,028	\$31	\$ -
Options granted during year	4,754,518	46	46
Options exercised during year	(214,343)	27	-
Options canceled/forfeited during year	(187,281)	37	-
Options outstanding at December 31, 1998	9,274,922	39	-
Options exercisable at December 31, 1998	4,310,814	31	-
Restricted stock awarded during year	110,334	-	38
Performance shares awarded during year	215,177	-	39

Under the Management Incentive Program of 1998, the Unocal Stock Option Plan, and the Directors' Restricted Stock Units Plan, there were 5,157,652 shares, 1,855,503 shares, and 159,598 shares respectively, available at year-end 1998 for stock option grants as well as other awards. No additional grants may be awarded under the Management Incentive Program of 1985 or the Special Stock Option Plan of 1996. No additional grants may be awarded under the Management Incentive Program of 1991, except for shares to be issued for existing elections by employees to defer all or a portion of their 1998 cash awards into restricted stock, which will be issued in 1999. The balance of shares under the program is 1,234,450 shares. The company expects to issue less than 100,000 shares for the 1998 awards.

Significant option groups outstanding at December 31, 1998 and related weighted average price and life information follows:

Options Outstanding				Options Exercisable	
Range of Exercise prices	Number Outstanding at 12/31/98	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable at 12/31/98	Weighted Average Exercise Price
\$21 - \$24	610,243	1.8	\$22	610,243	\$22
\$26 - \$29	1,583,235	5.2	\$28	1,583,235	\$28
\$30 - \$33	1,630,565	7.8	\$32	1,291,973	\$32
\$34 - \$38	127,374	9.4	\$35	20,091	\$36
\$39 - \$45	2,323,505	8.8	\$39	805,272	\$39
\$46 - \$51	3,000,000	9.2	\$51	-	-

The fair value of options at date of grant was estimated using the Black-Scholes model with the following weighted-average assumptions:

	1998	1997	1996
Expected life (years)	4	4	4
Interest rate	5.2%	6.4%	6.1%
Volatility	34.7%	28.1%	23.8%
Dividend yield	2.2%	2.0%	2.4%

The company applies APB Opinion No. 25 and related interpretations in accounting for stock-based compensation. Stock-based compensation expense recognized in the company's consolidated earnings statement was \$42 million in 1998, \$32 million in 1997, and \$36 million in 1996. These amounts include expenses related to the company's various cash incentive plans that are paid to certain employees based upon the return of the company's common stock relative to the average return on the common stock of a peer group of companies. Had the company recorded compensation expense using the accounting method recommended by SFAS No. 123, net income and earnings per share would have been reduced to the pro-forma amounts indicated below:

Millions of dollars except per share amounts	1998	1997	1996
Net earnings			
As reported	\$ 130	\$ 581	\$ 36
Pro forma	118	575	32
Net basic earnings (loss) per share			
As reported	\$0.54	\$2.34	\$(0.15)
Pro forma	0.49	2.32	(0.16)

#### NOTE 23 - FINANCIAL INSTRUMENTS

The company does not hold or issue financial instruments for trading purposes other than those that are hydrocarbon based.

Notional amounts are not included on the consolidated balance sheet and generally exceed the future cash requirements relating to the instruments.

The counterparties to the company's financial instruments include regulated exchanges, international and domestic financial institutions and other industrial companies. All of the counterparties to the company's financial instruments must pass certain credit requirements deemed sufficient by management before trading physical commodities or financial instruments with the company. Even though the company may be exposed to losses in the event of non-performance by these counterparties, it does not anticipate that

such losses will be realized. In the opinion of management, the off-balance-sheet credit risk associated with these instruments is immaterial.

Interest rate contracts - The company enters into interest rate swap contracts to manage its debt with the objective of minimizing the company's borrowing costs. Net payments or receipts under the contracts are recorded in interest expense on a current basis. The related amounts payable to, or receivable from, the counterparties are included in interest payable on the consolidated balance sheet. The company had no interest rate swaps outstanding at year-end 1998.

The company may also enter into interest rate option contracts to protect its interest rate positions, depending on market conditions. At December 31, 1998, the company had an interest rate option outstanding which effectively capped a portion of the company's effective borrowing rate for a period of ten years. This option was designed to cap the U.S. Treasury interest rate component for an expected \$200 million, ten-year debt issuance. The fair value of the option at December 31, 1998 was not material.

Foreign currency contracts - Unocal enters into various foreign currency contracts such as forwards, swaps, and option contracts to manage its exposures to adverse impacts of foreign currency fluctuations under debt and other obligations. Foreign currency gains or losses on the outstanding contracts essentially offset the foreign currency gains or losses of the underlying obligations.

During 1986, the company entered into a currency swap agreement to hedge foreign currency exchange exposures related to the interest and principal payments on the company's Deutsche Mark bonds due in 1998. In May 1998, the company retired the Deutsche Mark bonds and the related swap agreement. The company also had two currency swap agreements outstanding on borrowings of its Canadian subsidiary, with notional amounts totaling \$250 million at year-end 1997. In 1998, the borrowings were repaid and the swap agreements were terminated.

At December 31, 1998, the company had 13 forward foreign currency exchange contracts outstanding to purchase Thai baht and Canadian dollars. The contracts are designed to hedge the company's exposures for estimated income tax payments and other foreign currency denominated obligations due to be paid in 1999. Ten of the contracts require the company to purchase 3,946 million Thai baht in exchange for \$101 million. The fair value of the Thai baht contracts at December 31, 1998 was approximately \$107 million. The other three contracts call for the company to purchase 82 million Canadian dollars for \$53 million. The fair value of the Canadian dollar contracts at December 31, 1998 approximated the notional amount. Fair value was derived by comparing the contract rates to the forward rates in effect at year-end 1998.

Other commodity-based contracts - The company generally uses hydrocarbon futures contracts, swaps and options with maturities of 24 months or less to mitigate the impact of fluctuations in prices of crude oil and natural gas. Realized and unrealized changes in the market values of futures contracts used for general risk management purposes are recorded currently in sales and operating revenues of the underlying class of commodity. The company may also enter into swaps, options and other contracts to hedge contractual delivery commitments and future crude oil and natural gas production against price exposure. In certain cases, the company enters into longer-term derivative instruments, such as swap contracts, to hedge its exposure to long-term fixed price commitments. Realized and unrealized changes in the market values of the contracts related to the hedges are deferred until the hedged transactions are recognized.

At December 31, 1998, the company had \$86 million of futures contracts outstanding to purchase 7,040 thousand barrels of crude oil and \$9 million of futures contracts outstanding to sell 855 thousand barrels of crude oil. The purchase contracts primarily offset the fixed price risk associated with the company's pre-paid crude oil sale delivery obligations (see note 24). The fair value of the purchase contracts at year-end 1998 was approximately \$90 million. The fair value of the sale contracts at year-end 1998 approximated the notional amounts. Natural gas futures contracts outstanding at December 31, 1998 were immaterial. The fair values of the contracts are based on quoted market prices at December 31, 1998. At December 31, 1997, the company had \$31 million of futures contracts outstanding for the purchase of 1,580 thousand barrels of crude oil and \$2 million of futures contracts outstanding for the purchase of 900 million

cubic feet of natural gas. Differences between the contract notional amounts and the fair values of the contracts, based on quoted market prices, were immaterial.

As of December 31, 1998 and 1997, the carrying amounts of certain financial instruments employed by the company, including cash, cash equivalents, and trade receivables and payables were representative of fair values because of the short-term maturity of those instruments.

The estimated fair value of the company's long-term debt was \$2,674 million and \$2,284 million at year-end 1998 and 1997, respectively. Fair value was based on the discounted amounts of future cash outflows using the rates offered to the company for debt with similar remaining maturities.

The estimated fair values of Unocal Capital Trust's 6 1/4 percent convertible preferred securities were \$511 million and \$519 million at year-end 1998 and 1997, respectively. Fair value was based on the trading prices of the preferred securities on December 31, 1998 and 1997.

Concentrations of credit risks - Financial instruments that potentially subject the company to concentrations of credit risks primarily consists of temporary cash investments and trade receivables. The company places its temporary cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. The concentration of trade receivable credit risk is generally limited due to the company's customers being spread across industries in several countries. The company's management has established certain credit requirements that its customers must meet before sales credit is extended. The company monitors the financial condition of its customers to help ensure collections and to minimize losses.

The majority of the company's trade receivables balance at December 31, 1998 is attributable to the sale of crude oil and natural gas produced by the company or purchased by the company for resale. The company has receivable concentrations for its crude oil and natural gas sales in certain Asian countries that are subject to currency fluctuations and other factors affecting the region. No individual crude oil and natural gas customer made up ten percent or more of the company's consolidated trade receivable balance outstanding at December 31, 1998.

The company had gross geothermal and power trade receivables of approximately \$100 million, or 12 percent of its consolidated trade receivable balance, outstanding from various Indonesian entities at December 31, 1998. The company is receiving partial payments for some of these receivables on a timely basis. Agreements provide for a portion of the outstanding receivables to be paid over the next several years. The company is working closely with the Indonesian government to resolve this issue.

#### NOTE 24 - ADVANCE SALE OF CRUDE OIL

In December 1998, Unocal entered into a pre-paid crude oil sales contract to deliver 8.5 million barrels of crude oil in 1999. The delivery period runs from January 1999 through November 1999. In exchange for the crude oil to be provided, Unocal received an advance payment of approximately \$100 million in December 1998. The company did not dedicate a portion of its oil reserves to the contract and it has the option to satisfy contract delivery requirements with crude oil purchased from third parties. Accordingly, the obligation associated with the future delivery of the crude oil has been recorded as deferred revenue and will be amortized into revenue as scheduled deliveries of crude oil are made through out 1999. The obligation is included in other current liabilities on the consolidated balance sheet.

NOTE 25 - SUMMARIZED FINANCIAL DATA OF UNION OIL

Unocal Corporation is the parent of Union Oil Company of California. Virtually all operations are conducted by Union Oil and its subsidiaries.

Summarized financial information for Union Oil and its consolidated subsidiaries is presented below:

Millions of dollars	Years Ended December 31		
	1998	1997	1996
Total revenues	\$5,479	\$6,064	\$5,328
Total costs and other deductions, including income taxes	5,327	5,377	4,860
Earnings from continuing operations before discontinued operations and extraordinary item	\$ 152	\$ 687	\$ 468
Discontinued operations			
Earnings from operations (net of taxes)	-	-	71
Loss on disposal (net of taxes)	-	(50)	(491)
Extraordinary item - early extinguishment of debt (net of taxes)	-	(38)	-
Net earnings	\$ 152	\$ 599	\$ 48

Millions of dollars	At December 31	
	1998	1997
Current assets	\$1,388	\$1,576
Noncurrent assets	6,583	6,053
Current liabilities	1,374	1,124
Noncurrent liabilities	3,852	3,534
Shareholder's equity	2,745	2,971

NOTE - 26 SEGMENT AND GEOGRAPHIC DATA

The company's reportable segments are as follows:

Exploration and Production Segment

The company's Spirit Energy 76 business unit is responsible for oil and gas operations in the Lower 48 United States. The Other United States category consists primarily of Alaska oil and gas operations. A substantial portion of crude oil and natural gas produced in the United States is sold to the company's Global Trade segment. The remainder is sold to third parties or, in the case of the company's Alaska natural gas production, used in the company's agricultural products operations.

The company's International Operations includes the company's international exploration and production activities and the exploration activities performed by the company's New Ventures group. The company is currently engaged in oil and gas production activities in nine foreign countries: Thailand, Indonesia, Canada, The Netherlands, Azerbaijan, Yemen, Myanmar, the Democratic Republic of Congo and Bangladesh. In 1998, approximately \$561 million, or 11 percent, of the company's total external sales and operating revenues were attributable to the Petroleum Authority of Thailand. Crude oil is primarily sold to third parties at spot market prices.

Global Trade Segment

This segment conducts most of the company's worldwide crude oil, condensate, and natural gas trading and marketing activities and is responsible for the company's commodity-specific risk management activities. Global Trade also may purchase crude oil, condensate and natural gas from the company's joint venture partners, royalty owners and other unaffiliated oil and gas producers for resale. In January 1999, the Pipelines business unit was transferred to the company's Global Trade segment.

#### Geothermal and Power Operations Segment

The Geothermal and Power Operations segment supplies geothermal steam for power generation, with operations in California, the Philippines and Indonesia. The segment's current activities also include operating power plants in Indonesia and an interest in the construction of a gas-fired power plant in Thailand.

#### Diversified Business Segment

The Agricultural Products business unit manufactures and markets nitrogen-based products for wholesale agricultural and industrial markets supplying the western United States and the Pacific Rim. The Carbon and Minerals business unit produces and markets petroleum coke, graphites and specialty minerals. The Pipelines business unit principally includes the company's equity interests in affiliated pipeline companies. The Other category primarily included the company's equity interest in the UNO-VEN partnership, prior to its restructuring in May 1997.

#### Corporate and Unallocated

Corporate and Unallocated includes all unallocated corporate administrative and general items, miscellaneous operations including real estate, and non-exploration and production activities of the New Ventures group, such as the new project development of common carrier pipelines, liquefied petroleum gas plants and electrical power generating plants. Financial data for businesses that were sold or being phased-out, particularly for prior years, are also included in the Corporate and Unallocated segment.

The following tables presents the company's financial data by business segments and geographic areas of operations. Intersegment revenues in business segment data are primarily sales from the exploration and production segment to the Global Trade segment. Intersegment sales prices approximate market prices. Geographic revenues primarily represent sales of crude oil and natural gas produced within the countries or regions shown.

SEGMENT DATA

1998 Segment Information Millions of dollars	Exploration & Production United States		International		Global Trade	Geothermal &Power Operations	Diversified Business	
	Spirit		Far				Agricultural	Carbon &
External sales & operating revenues	\$ 106	\$ 110	\$ 723	\$ 161	\$3,057	\$ 168	\$ 376	\$ 207
Other revenue (loss)	30	1	(24)	179	-	47	1	32
Inter-segment revenues	918	74	250	11	1	-	-	-
<b>Total</b>	<b>1,054</b>	<b>185</b>	<b>949</b>	<b>351</b>	<b>3,058</b>	<b>215</b>	<b>377</b>	<b>239</b>
Income (loss) from equity affiliates	(2)	-	(4)	1	-	10	-	26
Depreciation, depletion & amortization	410	71	212	68	1	21	18	44
Dry hole expense	121	-	42	21	-	-	-	-
Operating profit (loss) before income taxes and minority interest in earnings	-	9	443	53	33	77	44	(28)
Income taxes (benefit)	-	3	248	12	12	25	7	(19)
Minority interest in earnings	2	-	-	-	-	-	-	5
<b>Net earnings (loss)</b>	<b>(2)</b>	<b>6</b>	<b>195</b>	<b>41</b>	<b>21</b>	<b>52</b>	<b>37</b>	<b>(14)</b>
Capital expenditures	767	43	472	290	2	26	8	42
Assets	2,094	329	1,848	641	317	598	305	419
Investment in equity affiliates	6	-	197	22	(3)	23	-	47

  

	Diversified Business (cont.)		Corporate & Unallocated				Totals	
	Pipelines	Other	Administrative & General	Net Interest Expense	Environmental & Litigation	New Ventures	Other (a)	
External sales & operating revenues	\$ 40	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55	\$5,003
Other revenue (loss)	68	-	-	33	-	(1)	110	476
Inter-segment revenues	9	-	-	-	-	-	(1,263)	-
<b>Total</b>	<b>117</b>	<b>-</b>	<b>-</b>	<b>33</b>	<b>-</b>	<b>(1)</b>	<b>(1,098)</b>	<b>5,479</b>
Income from equity affiliates	63	-	-	-	-	-	2	96
Depreciation, depletion & amortization	10	-	6	-	-	-	6	867
Dry hole expense	-	-	-	-	-	-	-	184
Operating profit (loss) before income taxes and minority interest in earnings	81	-	(114)	(144)	(161)	(33)	52	312
Income taxes (benefit)	14	-	(35)	(31)	(59)	(11)	9	175
Minority interest in earnings	-	-	-	-	-	-	-	7
<b>Net earnings (loss)</b>	<b>67</b>	<b>-</b>	<b>(79)</b>	<b>(113)</b>	<b>(102)</b>	<b>(22)</b>	<b>43</b>	<b>130</b>
Capital expenditures	28	-	-	-	-	1	25	1,704
Assets	298	-	-	-	-	-	1,103	7,952
Investment in equity affiliates	183	-	-	-	-	-	4	479

(a) Includes eliminations and consolidation adjustments.

SEGMENT DATA (Continued)

1997 Segment Information

Millions of dollars	Exploration & Production		Global Trade	Geothermal & Power Operations	Diversified Business			
	United States	International			Agricultural	Carbon &		
	Spirit	Far						
External sales & operating revenues	\$ 138	\$ 136	\$ 798	\$ 229	\$ 3,427	\$ 121	\$ 439	\$ 371
Other revenue (loss)	11	-	(13)	(3)	-	(4)	-	167
Inter-segment revenues	1,279	138	356	30	25	-	-	-
<b>Total</b>	<b>1,428</b>	<b>274</b>	<b>1,141</b>	<b>256</b>	<b>3,452</b>	<b>117</b>	<b>439</b>	<b>538</b>
Income (loss) from equity affiliates	-	-	-	1	-	(7)	-	47
Depreciation, depletion & amortization	468	53	303	69	-	20	18	12
Dry hole expense	29	-	69	1	-	11	-	-
Operating profit (loss) before income taxes and minority interest in earnings	305	96	503	(33)	27	31	83	109
Income taxes (benefit)	114	36	111	12	11	5	29	33
Minority interest in earnings	5	-	-	-	-	-	-	4
After-tax operating profit (loss)	186	60	392	(45)	16	26	54	72
Discontinued operations (net)	-	-	-	-	-	-	-	-
Early extinguishment of debt (net)	-	-	-	-	-	-	-	-
<b>Net earnings (loss)</b>	<b>186</b>	<b>60</b>	<b>392</b>	<b>(45)</b>	<b>16</b>	<b>26</b>	<b>54</b>	<b>72</b>
Capital expenditures	331	36	609	192	-	102	18	30
Assets	1,878	388	1,534	658	357	511	316	376
Investment in equity affiliates	-	-	155	12	(4)	5	-	51

	Diversified Business (cont.)				Corporate & Unallocated			Totals	
	Pipelines	Other	Administrative & General	Net Interest Expense	Environmental & Litigation	New Ventures	Other (a)		
External sales & operating revenues	\$ 33	\$ 58	\$ -	\$ -	\$ -	\$ -	\$ 31	\$ 5,781	
Other revenue (loss)	60	-	-	42	-	-	23	283	
Inter-segment revenues	14	-	-	-	-	-	(1,842)	-	
<b>Total</b>	<b>107</b>	<b>58</b>	<b>-</b>	<b>42</b>	<b>-</b>	<b>-</b>	<b>(1,788)</b>	<b>6,064</b>	
Income from equity affiliates	58	53	-	-	-	-	2	154	
Depreciation, depletion & amortization	7	-	-	-	-	-	12	962	
Dry hole expense	-	-	-	-	-	-	-	110	
Operating profit (loss) before income taxes and minority interest in earnings	70	45	(121)	(133)	(146)	(49)	(7)	780	
Income taxes (benefit)	11	7	(40)	(27)	(55)	(16)	(129)	102	
Minority interest in earnings	-	-	-	-	-	-	-	9	
After-tax operating profit (loss)	59	38	(81)	(106)	(91)	(33)	122	669	
Discontinued operations (net)	-	-	-	-	-	-	(50)	(50)	
Early extinguishment of debt (net)	-	-	-	-	-	-	(38)	(38)	
<b>Net earnings (loss)</b>	<b>59</b>	<b>38</b>	<b>(81)</b>	<b>(106)</b>	<b>(91)</b>	<b>(33)</b>	<b>34</b>	<b>581</b>	
Capital expenditures	11	-	-	-	-	-	49	1,378	
Assets	308	-	-	-	-	-	1,204	7,530	
Investment in equity affiliates	192	-	-	-	-	-	2	413	

(a) Includes eliminations and consolidation adjustments.

SEGMENT DATA (Continued)

1996 Segment Information  
Millions of dollars

	Exploration & Production			
	United States		International	
	Spirit Energy 76	Other	Far East	Other
External sales & operating revenues	\$ 79	\$ 12	\$ 618	\$ 258
Other revenue (loss)	1	107	(2)	39
Inter-segment revenues	1,380	475	341	25
<b>Total</b>	<b>1,460</b>	<b>594</b>	<b>957</b>	<b>322</b>
Income (loss) from equity affiliates	-	-	-	1
Depreciation, depletion & amortization	398	128	208	69
Dry hole expense	62	5	50	14
Operating profit (loss) before income taxes and minority interest in earnings	449	197	469	74
Income taxes (benefit)	173	75	232	(3)
Minority interest in earnings	2	-	-	-
After-tax operating profit (loss)	274	122	237	77
Discontinued operations (net)	-	-	-	-
Net earnings (loss)	274	122	237	77
Capital expenditures	371	47	407	102
Assets	1,998	416	1,257	495
Investment in equity affiliates	-	-	76	10

	Global Trade	Geothermal & Power Operations	Diversified Business	
			Agricultural Products	Carbon & Minerals
	External sales & operating revenues	\$3,176	\$133	\$ 519
Other revenue	-	(88)	-	28
Inter-segment revenues	64	-	-	-
<b>Total</b>	<b>3,240</b>	<b>45</b>	<b>519</b>	<b>293</b>
Income from equity affiliates	-	(2)	27	24
Depreciation, depletion & amortization	-	49	21	7
Dry hole expense	-	8	-	-
Operating profit (loss) before income taxes and minority interest in earnings	26	(76)	152	59
Income taxes (benefit)	10	(21)	54	12
Minority interest in earnings	-	-	-	-
After-tax operating profit (loss)	16	(55)	98	47
Discontinued operations (net)	-	-	-	-
Net earnings (loss)	16	(55)	98	47
Capital expenditures	-	114	12	16
Assets	356	439	302	265
Investment in equity affiliates	(2)	10	196	93

	Diversified Business (cont.)		Corporate & Unallocated		
	Pipelines	Other	Administrative & General	Net Interest Expense	Environmental & Litigation
	External sales & operating revenues	\$ 33	\$ -	\$ -	\$ -
Other revenue	73	27	-	23	-
Inter-segment revenues	14	-	-	-	-
<b>Total</b>	<b>120</b>	<b>27</b>	<b>-</b>	<b>23</b>	<b>-</b>

Income from equity affiliates	56	-	-	-	-
Depreciation, depletion & amortization	7	-	-	-	-
Dry hole expense	-	-	-	-	-
Operating profit (loss) before income taxes and minority interest in earnings	86	22	(157)	(256)	(230)
Income taxes (benefit)	17	8	(58)	(81)	(87)
Minority interest in earnings	-	-	-	-	-
After-tax operating profit (loss) Discontinued operations (net)	69	14	(99)	(175)	(143)
Net earnings (loss)	69	14	(99)	(175)	(143)
Capital expenditures	54	-	-	-	-
Assets	314	196	-	-	-
Investment in equity affiliates	195	-	-	-	-

	Corporate & Unallocated		Totals
	New Ventures	Other (a)	
External sales & operating revenues	\$ -	\$ 8	\$ 5,101
Other revenue	-	19	227
Inter-segment revenues	-	(2,299)	-
Total	-	(2,272)	5,328
Income from equity affiliates	-	-	106
Depreciation, depletion & amortization	-	27	914
Dry hole expense	-	-	139
Operating profit (loss) before income taxes and minority interest in earnings	(36)	(19)	760
Income taxes (benefit)	(13)	(16)	302
Minority interest in earnings	-	-	2
After-tax operating profit (loss) Discontinued operations (net)	(23)	(3)	456
Net earnings (loss)	(23)	(423)	36
Capital expenditures	-	51	1,174
Assets	-	1,311	7,349
Investment in equity affiliates	-	-	578

(a) Includes eliminations and consolidation adjustments.

GEOGRAPHIC INFORMATION

1998 Geographic Disclosures  
Millions of dollars

	United States	Thailand	Indonesia	Other Far East
Sales and operating revenues	\$ 3,359	\$ 614	\$ 531	\$ 158
Long lived assets:				
Gross	8,823	2,537	1,928	491
Net	2,792	982	582	186

1998 Geographic Disclosures  
Millions of dollars

	Other International	Corporate & Unallocated	Total
Sales and operating revenues	\$ 287	\$ 54	\$ 5,003
Long lived assets:			
Gross	1,271	419	15,469
Net	535	199	5,276

1997 Geographic Disclosures  
Millions of dollars

	United States	Thailand	Indonesia	Other Far East
Sales and operating revenues	\$ 3,736	\$ 701	\$ 679	\$ 157
Long lived assets:				
Gross	8,429	2,390	1,685	360
Net	2,622	944	412	111

1997 Geographic Disclosures  
Millions of dollars

	Other International	Corporate & Unallocated	Total
Sales and operating revenues	\$ 476	\$ 32	\$ 5,781
Long lived assets:			
Gross	1,419	429	14,712
Net	522	205	4,816

1996 Geographic Disclosures  
Millions of dollars

	United States	Thailand	Indonesia	Other Far East
Sales and operating revenues	\$ 3,160	\$ 574	\$ 612	\$ 162
Long lived assets:				
Gross	8,271	2,174	1,467	286
Net	2,716	896	322	47

1996 Geographic Disclosures

Other Corporate &

Millions of dollars	International	Unallocated	Total
	-----		
Sales and operating revenues	\$ 585	\$ 8	\$ 5,101
Long lived assets:			
Gross	1,491	403	14,092
Net	394	215	4,590
	-----		

NOTE 27 - SUBSEQUENT EVENTS

On January 26, 1999, Unocal and Calpine Corporation signed an asset purchase agreement for the sale of the company's interests in a geothermal steam venture at The Geysers in Northern California. Under the terms of the agreement, the company will receive approximately \$101 million from the sale of the properties. The sale is expected to close by the end of the first quarter 1999.

On February 18, 1999, the company issued \$350 million of 30 year, 7 1/2 percent debentures under its \$1.439 billion universal shelf registration statement. Proceeds from this issuance are being used to retire a portion of long-term bank debt as it matures and for general corporate purposes. After issuance of the debentures, the total amount available for future issuance of medium term notes, other debt and/or equity securities under the company's universal shelf registration statement was approximately \$1.089 billion.

On March 10, 1999, the company signed a letter of intent to exchange most of its Rocky Mountain oil and gas assets for cash and common shares of a domestic oil and gas exploration and production company. Under the terms of the agreement, the company will receive approximately 5.8 million common shares of Tom Brown, Inc. and \$5 million in cash in exchange for most of its Rocky Mountain oil and gas properties. The exchange is valued at approximately \$76 million and is expected to close in the second quarter of 1999.

QUARTERLY FINANCIAL DATA (Unaudited)

Millions of dollars except per share amounts	1998 Quarters			
	1st	2nd	3rd	4th
Total revenues	\$1,207	\$1,397	\$1,394	\$1,481
Total costs and other deductions, including income taxes	1,189	1,292	1,358	1,510
Net earnings (loss) (a)	\$ 18	\$ 105	\$ 36	\$ (29)
Basic earnings (loss) per share of common stock (b)	\$ 0.07	\$ 0.43	\$ 0.15	\$ (0.12)
Diluted earnings (loss) per share of common stock (b)	\$ 0.07	\$ 0.43	\$ 0.15	\$ (0.12)
Net sales and operating revenues	\$1,171	\$1,226	\$1,286	\$1,320
Gross margin (c)	\$ 110	\$ 43	\$ 23	\$ (137)
(a) Includes after-tax special items increase/(decrease) of	\$ 54	\$ (43)	\$ (32)	\$ 57
(b) Due to changes in the number of weighted average common shares outstanding each quarter, the earnings per share amounts by quarter may not be additive.				
(c) Gross margin equals sales and operating revenues less crude oil, natural gas and product purchases, operating and selling expenses, depreciation, depletion and amortization, dry hole costs, exploration, and other operating taxes.				

Millions of dollars except per share amounts	1997 Quarters			
	1st	2nd	3rd	4th
Total revenues	\$1,456	\$1,654	\$1,397	\$1,557
Total costs and other deductions, including income taxes	1,268	1,498	1,220	1,409
After-tax earnings from continuing operations	188	156	177	148
Loss on disposal of discontinued operations	(44)	-	-	(6)
Extraordinary charge - extinguishment of debt (net of tax)	-	(38)	-	-
Net earnings (a)	\$ 144	\$ 118	\$ 177	\$ 142
Basic earnings (loss) per share of common stock (b)				
Continuing operations	0.75	0.62	0.71	0.60
Discontinued operations	(0.18)	-	-	(0.02)
Extraordinary item	-	(0.15)	-	-
Basic earnings per share of common stock	\$ 0.57	\$ 0.47	\$ 0.71	\$ 0.58
Diluted earnings (loss) per share of common of stock (b)				
Continuing operations	0.73	0.61	0.70	0.59
Discontinued operations	(0.17)	-	-	(0.02)
Extraordinary item	-	(0.14)	-	-
Diluted earnings per share of	\$ 0.56	\$ 0.47	\$ 0.70	\$ 0.57
Net sales and operating revenues	\$1,408	\$1,494	\$1,370	\$1,509
Gross margin (c)	\$ 378	\$ 166	\$ 41	\$ 199
(a) Includes after-tax special items increase/(decrease) of	\$ 46	\$ (21)	\$ (83)	\$ (8)
(b) Due to changes in the number of weighted average common shares outstanding each quarter, the earnings per share amounts by quarter may not be additive.				
(c) Gross margin equals sales and operating revenues less crude oil, natural gas and product purchases, operating and selling expenses, depreciation, depletion and amortization, dry hole costs, exploration, and other operating taxes.				

SUPPLEMENTAL INFORMATION ON OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES

Results of Operations - Results of operations of oil and gas exploration and production activities are shown below. Sales revenues are shown net of purchases. Other revenues primarily include gains or losses on sales of oil and gas properties and miscellaneous rental income.

Production costs include lifting costs and taxes other than income. Exploration expenses consist of geological and geophysical costs, leasehold rentals and dry hole costs. Other operating expenses primarily include administrative and general expense. Income tax expense is based on the tax effects arising from the operations. Results of operations do not include general corporate overhead, interest costs, or Global Trade activities.

Millions of dollars	Spirit Energy 76	Other U.S.	Far East	Other International	Total
Year 1998					
Sales					
To public	\$ 67	\$ 93	\$ 709	\$113	\$ 982
Intercompany	737	73	246	14	1,070
Other revenues	52	11	(6)	177	234
Total	856	177	949	304	2,286
Production costs	187	82	123	66	458
Exploration expenses	196	2	101	77	376
Depreciation, depletion and amortization	410	71	212	68	761
Other operating expenses	63	13	70	40	186
Pre-tax results of operations	-	9	443	53	505
Income tax	-	3	248	12	263
Results of operations	\$ -	\$ 6	\$ 195	\$ 41	\$ 242
Year 1997					
Sales					
To public	\$ 114	\$111	\$ 773	\$187	\$1,185
Intercompany	996	138	347	24	1,505
Other revenues	21	6	5	8	40
Total	1,131	255	1,125	219	2,730
Production costs	193	93	130	74	490
Exploration expenses	88	1	142	52	283
Depreciation, depletion and amortization	468	53	303	69	893
Other operating expenses	77	12	47	57	193
Pre-tax results of operations	305	96	503	(33)	871
Income tax	114	36	111	12	273
Results of operations	\$ 191	\$ 60	\$ 392	\$(45)	\$ 598
Year 1996					
Sales					
To public	\$ 125	\$161	\$ 615	\$213	\$1,114
Intercompany	1,089	201	326	21	1,637
Other revenues	24	109	-	51	184
Total	1,238	471	941	285	2,935
Production costs	178	122	127	81	508
Exploration expenses	88	5	91	58	242
Depreciation, depletion and amortization	398	128	208	69	803
Other operating expenses	125	19	46	3	193
Pre-tax results of operations	449	197	469	74	1,189
Income tax (benefit)	173	75	232	(3)	477
Results of operations	\$ 276	\$122	\$ 237	\$ 77	\$ 712

Costs Incurred - Costs incurred in oil and gas property acquisition, exploration and development activities, both capitalized and charged to expense, are shown below. Data for the company's capitalized costs related to oil and gas exploration and production activities are presented in note 13.

Millions of dollars	Spirit Energy 76	Other U.S.	Far East	Other International	Total
-----					
1998					
Property acquisition					
Proved	\$ 53	\$ -	\$ -	\$ 10	\$ 63
Unproved	223	-	4	49	276
Exploration	358	3	205	98	664
Development	207	42	351	116	716
Costs incurred of equity affiliates (a)	-	-	27	20	47
-----					
1997					
Property acquisition					
Proved	\$ 4	\$ -	\$ -	\$ (1)	\$ 3
Unproved	61	-	17	1	79
Exploration	182	7	186	67	442
Development	144	30	399	200	773
Costs incurred of equity affiliates (a)	-	-	83	-	83
-----					
1996					
Property acquisition					
Proved	\$ 6	\$ 3	\$ -	\$ 7	\$ 16
Unproved	15	-	2	14	31
Exploration	123	5	102	44	274
Development	278	43	297	81	699
Costs incurred of equity affiliates (a)	-	-	66	-	66
-----					

(a) Represents Unocal's share of costs incurred of investees accounted for by the equity method.

Average Sales Price and Production Costs per Unit (Unaudited) - The average sales price is based on sales revenues and volumes attributable to net working interest production. Where intersegment sales occur, intersegment sales prices approximate market prices. The average production costs per barrel are based on equivalent petroleum barrels, including natural gas converted at a ratio of 6.0 mcf to one barrel of oil, which represents the approximate energy content of the wet gas.

	Spirit Energy 76	Other U.S.	Far East	Other International	Total
-----					
1998					
Average sales price: (a)					
Crude oil and condensate - per barrel	\$12.41	\$ 9.35	\$12.55	\$10.73	\$11.67
Natural gas - per mcf	2.07	1.33	2.06	2.29	2.01
Natural gas liquids - per barrel	8.63	10.21	10.05	7.78	8.97
Average production costs per barrel (b)	2.91	4.40	1.52	4.75	2.57
-----					
1997					
Average sales price: (a)					
Crude oil and condensate - per barrel	\$18.47	\$15.25	\$18.52	\$17.39	\$17.71
Natural gas - per mcf	2.51	1.41	2.30	2.25	2.33
Natural gas liquids - per barrel	13.53	15.67	16.20	13.35	14.28
Average production costs per barrel (b)	2.81	4.75	1.58	5.62	2.66
-----					
1996					
Average sales price: (a)					
Crude oil and condensate - per barrel	\$19.96	\$16.83	\$19.17	\$19.20	\$18.82
Natural gas - per mcf	2.43	1.40	2.28	1.85	2.26
Natural gas liquids - per barrel	15.41	19.41	13.48	14.12	15.09
Average production costs per barrel (b)	2.39	4.69	1.78	5.76	2.73
-----					

(a) Excludes Global Trade margins.

(b) Includes host country shares of production in Indonesia, Yemen and the Democratic Republic of Congo.

Oil and Gas Reserve Data (Unaudited) - Estimates of physical quantities of oil and gas reserves, determined by company engineers, for the years 1998, 1997 and 1996 are shown below. As defined by the Securities and Exchange Commission, proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Accordingly, these estimates do not include probable or possible reserves. Estimated oil and gas reserves are based on available reservoir data and are subject to future revision. Significant portions of the company's undeveloped reserves, principally in offshore areas, require the installation or completion of related infrastructure facilities such as platforms, pipelines, and the drilling of development wells. Proved reserve quantities exclude royalty interests owned by others; however, foreign reserves held under certain production-sharing contracts, principally in Indonesia, are reported on a gross basis. The gross basis includes the company's net working interest and host country's interest. These estimated quantities are subject to fluctuations in the price of oil. If oil prices increase, reserve quantities attributable to recovery of operating costs decline. This reduction would be partially offset by an increase in the company's net equity share. However, the overall effect would be a reduction of reserves attributable to the company. The reserve quantities also include barrels of oil that the company is contractually obligated to sell in Indonesia at prices substantially below market.

Natural gas reserves are reported on a wet gas basis, which includes natural gas liquids. For informational purposes, natural gas liquids reserves in the U.S. are estimated to be 49, 54 and 65 million barrels at December 31, 1998, 1997 and 1996, respectively. They are derived from the natural gas reserves by applying a national average shrinkage factor obtained from the Department of Energy published statistics. International natural gas liquids reserves were insignificant for the above periods.

Estimated Proved Reserves of Crude Oil and Condensate

Millions of barrels	Spirit Energy 76	Other U.S.	Far East	Other International	Worldwide
As of December 31, 1995 (a)	161	226	169	111	667
Revisions of estimates	(7)	-	(3)	(10)	(20)
Improved recovery	-	1	1	2	4
Discoveries and extensions	6	-	30	16	52
Purchases	-	-	-	2	2
Sales	(1)	(115)	-	-	(116)
Production	(19)	(16)	(31)	(10)	(76)
As of December 31, 1996 (a)	140	96	166	111	513
Revisions of estimates	(10)	(6)	(3)	(7)	(26)
Improved recovery	2	2	-	-	4
Discoveries and extensions	11	2	29	71	113
Purchases	-	-	-	2	2
Sales	-	-	-	(1)	(1)
Production	(17)	(11)	(34)	(10)	(72)
As of December 31, 1997 (a)	126	83	158	166	533
Revisions of estimates	(7)	(14)	-	12	(9)
Improved recovery	4	-	1	1	6
Discoveries and extensions	13	5	60	3	81
Purchases	7	-	-	-	7
Sales	(6)	-	-	(13)	(19)
Production	(16)	(11)	(29)	(11)	(67)
As of December 31, 1998 (a)	121	63	190	158	532
Proved Developed Reserves					
December 31, 1995	120	178	96	64	458
December 31, 1996	109	75	96	51	331
December 31, 1997	97	63	91	63	314
December 31, 1998	90	47	81	56	274
(a) Includes hosts countries' shares at:					
December 31, 1995 of:	-	-	63	8	71
December 31, 1996 of:	-	-	64	6	70
December 31, 1997 of:	-	-	52	7	59
December 31, 1998 of:	-	-	47	5	52

Estimated Proved Reserves of Natural Gas

Billions of cubic feet	Spirit Energy 76	Other U.S.	Far East	Other International	Worldwide
As of December 31, 1995 (a)	2,522	739	3,255	249	6,765
Revisions of estimates	(151)	(13)	(150)	(62)	(376)
Discoveries and extensions	67	-	1,213	17	1,297
Purchases	20	-	-	-	20
Sales	(41)	(157)	-	(13)	(211)
Production	(347)	(64)	(261)	(28)	(700)
As of December 31, 1996 (a)	2,070	505	4,057	163	6,795
Revisions of estimates	(151)	(2)	92	4	(57)
Improved Recovery	1	-	4	-	5
Discoveries and extensions	102	-	351	6	459
Purchases	29	1	-	91	121
Sales	(52)	-	-	-	(52)
Production	(322)	(61)	(315)	(23)	(721)
As of December 31, 1997 (a)	1,677	443	4,189	241	6,550
Revisions of estimates	25	(21)	(71)	1	(66)
Improved Recovery	11	7	-	2	20
Discoveries and extensions	191	3	159	84	437
Purchases	52	-	-	-	52
Sales	(90)	-	-	(91)	(181)
Production	(299)	(58)	(322)	(11)	(690)
As of December 31, 1998 (a)	1,567	374	3,955	226	6,122
Proved Developed Reserves					
December 31, 1995	1,721	473	1,807	188	4,189
December 31, 1996	1,540	289	1,715	148	3,692
December 31, 1997	1,251	243	2,002	149	3,645
December 31, 1998	1,215	211	2,394	152	3,972
(a) Includes host countries' shares at:					
December 31, 1995 of:	-	-	457	-	457
December 31, 1996 of:	-	-	530	-	530
December 31, 1997 of:	-	-	444	-	444
December 31, 1998 of:	-	-	389	-	389

Present Value of Future Net Cash Flow (Unaudited)

The present value of future net cash flows from proved oil and gas reserves for the years 1998, 1997, and 1996 are presented below. Revenues are based on estimated production of proved reserves from existing and planned facilities and on average prices of oil and gas at year end. Development and production costs related to future production are based on year end cost levels and assume continuation of existing economic conditions. Income tax expense is computed by applying the appropriate year end statutory tax rates to pre-tax future cash flows less recovery of the tax basis of proved properties, and reduced by applicable tax credits.

The company cautions readers that the data on the present value of future net cash flow of oil and gas reserves are based on many subjective judgments and assumptions. Different, but equally valid, assumptions and judgments could lead to significantly different results. Additionally, estimates of physical quantities of oil and gas reserves, future rates of production and related prices and costs for such production are subject to extensive revisions and a high degree of variability as a result of economic and political changes. Any subsequent price changes will alter the results and the indicated present value of

oil and gas reserves. It is the opinion of the company that this data can be highly misleading and may not be indicative of the value of underground oil and gas reserves.

Millions of dollars	Spirit Energy 76	Other U.S.	Far East	Other International	Total
1998					
Revenues (a)	\$ 4,203	\$ 802	\$7,029	\$1,664	\$13,698
Production costs	1,545	499	2,731	865	5,640
Development costs (b)	698	208	1,614	585	3,105
Income tax expense	536	(2)	768	68	1,370
Future net cash flow	1,424	97	1,916	146	3,583
10% annual discount	415	(2)	697	99	1,209
Present value of future net cash flows	1,009	99	1,219	47	2,374
Present value of future net cash flows of equity companies (c)	-	-	202	-	202
Total	\$ 1,009	\$ 99	\$1,421	\$ 47	\$ 2,576
1997					
Revenues (a)	\$ 5,849	\$1,530	\$8,928	\$2,748	\$19,055
Production costs	2,092	656	2,913	854	6,515
Development costs (b)	741	228	1,385	559	2,913
Income tax expense	899	210	1,785	292	3,186
Future net cash flow	2,117	436	2,845	1,043	6,441
10% annual discount	681	118	979	499	2,277
Present value of future net cash flows	1,436	318	1,866	544	4,164
Present value of future net cash flows of equity companies (c)	-	-	254	-	254
Total	\$ 1,436	\$ 318	\$2,120	\$ 544	\$ 4,418
1996					
Revenues (a)	\$11,464	\$2,541	\$9,812	\$2,424	\$26,241
Production costs	2,445	866	2,549	921	6,781
Development costs (b)	808	356	1,389	261	2,814
Income tax expense	2,757	501	2,377	361	5,996
Future net cash flow	5,454	818	3,497	881	10,650
10% annual discount	1,966	261	1,453	342	4,022
Present value of future net cash flows	3,488	557	2,044	539	6,628
Present value of future net cash flows of equity companies (c)	-	-	118	-	118
Total	\$ 3,488	\$ 557	\$2,162	\$ 539	\$ 6,746
(a) Weighted-average prices used in this calculation are based upon year-end prices and are as follows:					
Crude oil per barrel					
	1998	\$ 8.31	\$ 7.49	\$10.53	\$ 8.49
	1997	16.04	13.05	18.14	13.21
	1996	23.81	20.06	22.55	19.89
Natural gas per mcf					
	1998	\$ 2.10	\$ 1.20	\$ 1.66	\$ 1.58
	1997	2.39	1.47	2.22	2.28
	1996	3.97	1.35	2.58	2.14
(b) Includes dismantlement and abandonment costs.					
(c) Represents Unocal's share of investees accounted for on the equity method.					

Changes in Present Values of Future Net Cash Flows (Unaudited)

Millions of dollars	1998	1997	1996
Present value at beginning of year	\$ 4,418	\$ 6,746	\$ 4,969
Discoveries and extensions, net of estimated future costs	503	606	1,005
Net purchases and sales of proved reserves (a)	(239)	(16)	(128)
Revisions to prior estimates:			
Prices net of estimated changes in production costs	(1,931)	(2,939)	4,518
Future development costs	(498)	(312)	(317)
Quantity estimates	(53)	(204)	(755)
Production schedules and other	(495)	(581)	(549)
Accretion of discount	538	865	617
Development costs related to beginning of year reserves	711	790	663
Sales of oil and gas, net of production costs of \$458 million in 1998, \$490 million in 1997 and \$508 million in 1996	(1,594)	(2,200)	(2,243)
Net change in income taxes	1,216	1,663	(1,034)
Present value at end of year	\$ 2,576	\$ 4,418	\$ 6,746

(a) Purchases of reserves were valued at \$17 million, \$52 million and \$64 million in 1998, 1997 and 1996, respectively. Sales of reserves were valued at \$256 million, \$68 million and \$192 million for the same years, respectively.

SELECTED FINANCIAL DATA (Unaudited)

Millions of dollars except per share amounts	1998	1997	1996	1995	1994
<b>Revenue Data</b>					
<b>Sales</b>					
Crude oil and condensate	\$ 2,208	\$ 2,707	\$ 2,495	\$ 1,964	\$ 1,996
Natural gas	1,823	1,857	1,482	1,031	1,109
Agricultural products	375	435	514	486	373
Geothermal steam	166	119	131	120	135
Natural gas liquids	66	105	95	97	96
Petroleum products	32	13	16	84	89
Minerals	67	106	97	95	79
Other	143	319	161	58	100
<b>Total sales revenues</b>	<b>4,880</b>	<b>5,661</b>	<b>4,991</b>	<b>3,935</b>	<b>3,977</b>
Operating revenues	123	120	110	176	141
Other revenues	476	283	227	278	154
<b>Total revenues from continuing operations</b>	<b>5,479</b>	<b>6,064</b>	<b>5,328</b>	<b>4,389</b>	<b>4,272</b>
Discontinued operations (a)	-	-	4,271	4,036	3,693
<b>Total revenues</b>	<b>\$ 5,479</b>	<b>\$ 6,064</b>	<b>\$ 9,599</b>	<b>\$ 8,425</b>	<b>\$ 7,965</b>
<b>Earnings Data</b>					
Earnings from continuing operations	\$ 130	\$ 669	\$ 456	\$ 249	\$ 110
Discontinued operations (net of tax)	-	(50)	(420)	11	14
Extraordinary item - early extinguishment of debt (net of tax)	-	(38)	-	-	-
Cumulative effect of accounting change (net of tax)	-	-	-	-	(277)
<b>Net earnings (loss)</b>	<b>\$ 130</b>	<b>\$ 581</b>	<b>\$ 36</b>	<b>\$ 260</b>	<b>\$ (153)</b>
<b>Basic earnings (loss) per common share:</b>					
Continuing operations	\$ 0.54	\$ 2.69	\$ 1.54	\$ 0.87	\$ 0.30
Discontinued operations (net of tax)	-	(0.20)	(1.69)	0.04	0.06
Extraordinary item - extinguishment of debt (net of tax)	-	(0.15)	-	-	-
Cumulative effect of accounting change (net of tax)	-	-	-	-	(1.14)
<b>Net earnings (loss) per share</b>	<b>\$ 0.54</b>	<b>\$ 2.34</b>	<b>\$ (0.15)</b>	<b>\$ 0.91</b>	<b>\$ (0.78)</b>
<b>Share Data</b>					
Cash dividends declared on preferred stock	\$ -	\$ -	\$ 18	\$ 36	\$ 36
Per share	-	-	1.75	3.50	3.50
Cash dividends declared on common stock	192	199	199	197	194
Per share	0.80	0.80	0.80	0.80	0.80
Number of common stockholders of record at year end	29,567	31,919	32,924	33,028	37,622
Weighted average common shares - thousands	241,332	248,190	248,767	246,112	242,640
<b>Balance Sheet Data</b>					
Current assets (b)	\$ 1,388	\$ 1,501	\$ 3,228	\$ 1,576	\$ 1,528
Current liabilities (d)	1,376	1,160	1,622	1,316	1,257
Working capital	12	341	1,606	260	271
Ratio of current assets to current liabilities	1.0:1	1.3:1	2.0:1	1.2:1	1.2:1
Total assets	7,952	7,530	9,123	9,891	9,337
Long-term debt	2,558	2,169	2,940	3,692	3,452
Trust convertible preferred securities of subsidiary	522	522	522	-	-
Total stockholders' equity	2,202	2,314	2,275	2,930	2,815
Per common share	9.13	9.32	9.14	9.87	9.54
<b>Return on average stockholders' equity and preferred securities:</b>					
Continuing operations	4.7%	23.8%	15.9%	8.7%	(5.6)%
Including discontinued operations and extraordinary item	4.7%	20.6%	1.3%	9.1%	(5.1)%
<b>General Data</b>					
Salaries, wages and employee benefits (c)	\$ 596	\$ 640	\$ 806	\$ 797	\$ 811
Number of regular employees at year end	7,880	8,394	11,658	12,509	13,127

(a) 1996 excludes \$609 million for November 17, 1996 - December 31, 1996 which was included in loss on disposal

in the Consolidated Earnings Statement.

(b) 1996 Includes net assets of discontinued operations (see Note 8).

(c) Employee benefits are net of pension income recognized in accordance with current accounting standards for pension costs.

(d) 1998 includes liabilities associated with a pre-paid crude oil sale.

OPERATING SUMMARY (Unaudited)

	1998	1997	1996	1995	1994
-----					
Oil and Gas					
Net exploratory wells completed:					
Oil	19	10	4	13	7
Gas	18	12	13	12	13
Net development wells completed:					
Oil	113	118	84	116	129
Gas	105	118	108	67	77
Net dry holes:					
Exploratory	34	25	30	23	19
Development	10	7	6	6	10
-----					
Total net wells	299	290	245	237	255
Net producible wells at year end (a)	3,193	3,884	3,640	5,639	6,190
Net undeveloped acreage at year end - thousands of acres:					
United States					
Spirit Energy 76	1,664	1,257	711	919	1,118
Other	215	174	182	299	503
International					
Far East	20,167	14,688	11,929	6,930	6,941
Other	5,014	4,320	5,418	1,834	2,702
-----					
Total	27,060	20,439	18,240	9,982	11,264
Net proved reserves at year end:					
Crude oil and condensate - million barrels					
United States	184	209	236	387	419
International	348	324	277	280	278
-----					
Total	532	533	513	667	697
Natural gas - billion cubic feet					
United States	1,941	2,120	2,575	3,261	3,580
International	4,181	4,430	4,220	3,504	3,331
-----					
Total	6,122	6,550	6,795	6,765	6,911
Net daily production (b):					
Crude oil and condensate - thousand barrels					
United States					
Spirit Energy 76	44	45	52	56	63
Other	29	31	44	69	74
International					
Far East	80	95	84	85	88
Other	31	26	27	30	35
-----					
Total	184	197	207	240	260

(a) Beginning in 1993, producible wells exclude suspended wells that are not expected to be producing within a year and wells awaiting abandonment.

(b) Natural gas is reported on a wet gas basis: production excludes gas consumed on lease. Far East production includes host country share in Indonesia of:

Crude oil and condensate (thousand barrels)	10	28	28	30	30
Natural gas (million cubic feet)	49	28	27	22	26

OPERATING SUMMARY (continued)

	1998	1997	1996	1995	1994
-----					
Natural gas liquids - thousand barrels					
Leasehold (a)	16	15	16	19	17
Plant	3	3	4	2	5
Total	19	18	20	21	22
-----					
Natural gas production available for sale - million cubic feet daily					
United States	758	813	891	882	873
International	827	820	705	631	656
Total	1,585	1,633	1,596	1,513	1,529
-----					
Geothermal and Power					
Net wells completed:					
Exploratory	3	3	3	4	-
Development	8	7	16	9	4
Total	11	10	19	13	4
-----					
Net producible wells at year end	287	241	208	260	261
Net undeveloped acreage at year end - thousands of acres	338	384	384	457	457
Net proved reserves at year end: (b)					
Billion kilowatt-hours	157	149	155	144	143
Million equivalent oil barrels	235	223	232	216	215
Net daily production:					
Million kilowatt-hours	21	18	18	16	21
Thousand equivalent oil barrels	32	27	26	24	31
-----					
Agricultural Products Sales - thousand tons					
Ammonia	889	769	708	654	686
Urea	1,096	975	1,122	997	913
-----					

(a) Net of plant retentions.

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

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE: None

### PART III

The information required by Items 10 through 12 (except for information regarding the company's executive officers) is incorporated by reference to Unocal's Proxy Statement for its 1999 Annual Meeting of Stockholders (the "1999 Proxy Statement") (File No. 1-8483), as indicated below. The 1999 Proxy Statement is expected to be filed with the Securities and Exchange Commission on or about April 12, 1999.

#### ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See the information regarding Unocal's directors and nominees for election as directors to appear in the 1999 Proxy Statement under the captions "Election of Directors" and "Board and Committee Meetings". Also, see the list of Unocal's executive officers and related information under the caption "Executive Officers of the Registrant" in Part I of this report on pages 18 and 19.

See the information to appear in the 1999 Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance".

#### ITEM 11 - EXECUTIVE COMPENSATION

See the information regarding executive compensation to appear in the 1999 Proxy Statement under the captions "Summary Compensation Table," "Option/SAR Grants in 1998," "Aggregated Option/SAR Exercises in 1998 and December 31, 1998 Option/SAR Values," "Long-Term Incentive Plan - Awards in 1998," "Pension Plan Benefits - Estimated Annual Retirement Benefits," "Employment Contracts, Termination of Employment and Change of Control Arrangements" and for information regarding directors' compensation to appear under the caption "Directors' Compensation."

#### ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See the information regarding security ownership to appear in the 1999 Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management."

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS: Not required.

### PART IV

#### ITEM 14 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial statements, financial statement schedules and exhibits filed as part of this annual report:

(1) Financial Statements: See the Index to Consolidated Financial Statements and Financial Statement Schedule under Item 8 on page 44 of this report.

(2) Financial Statement Schedule: See the Index to Consolidated Financial Statements and Financial Statement Schedule under

Item 8 on page 44 of this report.

(3) Exhibits: The Exhibit Index on pages 96 through 98 of this report lists the exhibits that are filed as part of this report and identifies each management contract and compensatory plan or arrangement required to be filed.

(b) Reports filed on Form 8-K:

During the fourth quarter of 1998:

- (1) Current Report on Form 8-K dated October 27, 1998, and filed October 29, 1998, for the purpose of reporting, under Item 5, the company's third quarter and nine-month 1998 earnings and related information.
- (2) Current Report on Form 8-K dated November 11, 1998, and filed November 17, 1998, for the purpose of reporting, under Item 5, the company's announcement of its intentions to reduce 1998 capital and expense spending from 1997 levels in response to depressed commodity prices.
- (3) Current Report on Form 8-K dated December 7, 1998, and filed December 22, 1998, for the purpose of reporting, under Item 5, the election of two additional directors to the company's board of directors and related corporate bylaw amendments.

During the first quarter of 1999 to the date hereof:

- (1) Current Report on Form 8-K dated January 26, 1999, and filed January 27, 1999, for the purpose of reporting, under Item 5, the planned sale of the company's Northern California geothermal assets to Calpine Corporation.
- (2) Current Report on Form 8-K dated January 27, 1999, and filed January 29, 1999, for the purpose of reporting, under Item 5, the company's fourth quarter and full-year 1998 earnings and related information.
- (3) Current Report on Form 8-K dated February 8, 1999 and filed February 10, 1999, for the purpose of reporting, under Item 5, the company's 1998 crude oil and natural gas reserve data.
- (4) Current Report on Form 8-K dated and filed March 3, 1999, for the purpose of reporting, under Item 5, certain key executive appointments.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNOCAL CORPORATION  
(Registrant)

Dated:  
March 15, 1999  
-----

By: /s/ TIMOTHY H. LING  
-----

Timothy H. Ling  
Executive Vice President,  
North American Energy Operations,  
and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 15, 1999.

Signature	Title
----- /s/ ROGER C. BEACH ----- Roger C. Beach	Chairman of the Board of Directors and Chief Executive Officer
----- /s/ JOHN F. IMLE, JR. ----- John F. Imle, Jr.	Vice Chairman of the Board of Directors
----- /s/ TIMOTHY H. LING ----- Timothy H. Ling	Executive Vice President, North American Energy Operations, and Chief Financial Officer
----- /s/ JOE D. CECIL ----- Joe D. Cecil	Vice President and Comptroller
----- /s/ JOHN W. AMERMAN ----- John W. Amerman	Director
----- /s/ JOHN W. CREIGHTON, JR. ----- John W. Creighton, Jr.	Director
----- /s/ JAMES W. CROWNOVER ----- James W. Crownover	Director
----- /s/ MALCOLM R. CURRIE ----- Malcolm R. Currie	Director

Signature	Title
----- /s/ FRANK C. HERRINGER ----- Frank C. Herringer	Director
----- Donald B. Rice	Director
----- /s/ KEVIN W. SHARER ----- Kevin W. Sharer	Director
----- /s/ CHARLES R. WEAVER ----- Charles R. Weaver	Director
----- /s/ MARINA V.N. WHITMAN ----- Marina v.N. Whitman	Director

UNOCAL CORPORATION AND CONSOLIDATED SUBSIDIARIES  
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
 (Millions of dollars)

Description	Balance at beginning of period	Additions		Deductions from reserves (a)	Balance at end of period
		Charged or (credited) to costs & expenses	Charged or (credited) to other accounts		
YEAR 1998					
Amounts deducted from applicable assets:					
Accounts and notes receivable	\$ 35	\$ 53	\$ (1)	\$ (9)	\$ 78
Investments and long-term receivables	\$ 32	\$ 3	\$ -	\$ (1)	\$ 34
YEAR 1997					
Amounts deducted from applicable assets:					
Accounts and notes receivable	\$ 35	\$ 7	\$ 1	\$ (8)	\$ 35
Investments and long-term receivables	\$ 13	\$ 1	\$ 31	\$ (13)	\$ 32
YEAR 1996					
Amounts deducted from applicable assets:					
Accounts and notes receivable	\$ 28	\$ 19	\$ (1)	\$ (11)	\$ 35
Investments and long-term receivables	\$ 15	\$ (3)	\$ 1	\$ -	\$ 13

(a) Represents receivables written off, net of recoveries, reinstatement and losses sustained.

## UNOCAL CORPORATION

## EXHIBIT INDEX

Exhibit 2.1	Sale and Purchase Agreement for 76 Products Company, dated December 14, 1996, between Union Oil Company of California and Tosco Corporation (without attachments or schedules) (incorporated by reference to Exhibit 2.1 to Unocal's Current Report on Form 8-K dated December 16, 1996, and filed January 3, 1997, File No. 1-8483).
Exhibit 2.2	Stock Purchase and Shareholder Agreement, dated as of January 15, 1997, by and between Tosco Corporation and Union Oil Company of California, together with form of Supplement No. 1 thereto (incorporated by reference to Exhibit 2.2 to Unocal's Current Report on Form 8-K dated December 16, 1996, and filed January 3, 1997, File No. 1-8483).
Exhibit 2.3	Amendment No. 1 and Supplement, dated as of March 31, 1997, to Stock Purchase and Shareholder Agreement, dated as of January 15, 1997, by and between Tosco Corporation and Union Oil Company of California (incorporated by reference to Exhibit C to Unocal's and Union Oil Company of California's statement on Schedule 13D relating to Tosco Corporation, dated and filed April 10, 1997, File No. 1-7910).
Exhibit 2.4	Environmental Agreement, dated as of March 31, 1997, by and between Union Oil Company of California and Tosco Corporation (without schedules) (incorporated by reference to Exhibit 2.3 to Unocal's Current Report on Form 8-K dated December 16, 1996, and filed January 3, 1997, File No. 1-8483).
Exhibit 3.1	Certificate of Incorporation of Unocal, as amended through July 23, 1992, and currently in effect (incorporated by reference to Exhibit 3.1 to Amendment No. 2 on Form 10-K/A to Unocal's Annual Report on Form 10-K for the year ended December 31, 1993, File No. 1-8483).
Exhibit 3.2	Bylaws of Unocal, as amended through March 3, 1999, and currently in effect.
Exhibit 3.3	Bylaws of Unocal, as amended to be effective May 24, 1999.
Exhibit 4.1	Standard Multiple-Series Indenture Provisions, January 1991, dated as of January 2, 1991 (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-3 of Union Oil Company of California and Unocal (File Nos. 33-38505 and 33-38505-01)).
Exhibit 4.2	Form of Indenture, dated as of January 30, 1991, among Union Oil Company of California, Unocal and The Bank of New York (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-3 of Union Oil Company of California and Unocal (File Nos. 33-38505 and 33-38505-01)).
Exhibit 4.3	Form of Indenture, dated as of February 3, 1995, among Union Oil Company of California, Unocal and Chase Manhattan Bank and Trust Company, National Association, as successor Trustee (incorporated by reference to Exhibit 4.6 to the Registration Statement on Form S-3 of Union Oil Company of California and Unocal (File Nos. 33-54861 and 33-54861-01)).  Other instruments defining the rights of holders of long term debt of Unocal and its subsidiaries are not being filed since the total amount of securities authorized under each of such instruments does not exceed 10 percent of the total assets of Unocal and its subsidiaries on a consolidated basis. Unocal agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
Exhibit 10.1	Rights Agreement, dated as of January 29, 1990, between the Unocal and The Chase Manhattan Bank, as successor Rights Agent (incorporated by reference to Exhibit 4.9 to Unocal's Registration Statement on Form S-4 (File Nos. 333-09137 and 333-09137-01)).

The following Exhibits 10.2 through 10.23 are management contracts or compensatory plans, contracts or arrangements required to be filed by Item 14 (c) of Form 10-K and Item 601 (b) (10) (iii) (A) of Regulation S-K.

Exhibit 10.2	1991 Management Incentive Program (incorporated by reference to Exhibit A to Unocal's Proxy Statement dated March 18, 1991, for its 1991 Annual Meeting of Stockholders, File No. 1-8483).
Exhibit 10.3	Unocal Revised Incentive Compensation Plan Cash Deferral Program (incorporated by reference to Exhibit 10.3 to Unocal's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 1-8483).
Exhibit 10.4	Long-Term Incentive Plan of 1985 (incorporated by reference to Unocal's Proxy Statement dated March 24, 1984, for its 1984 Annual Meeting of Stockholders, File No. 1-8483).
Exhibit 10.5	Amendments to 1985 and 1991 Incentive Plan Awards (incorporated by reference to Exhibit 10 to Unocal's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998, File No. 1-8483.)
Exhibit 10.6	1998 Management Incentive Program, consisting of the Revised Incentive Compensation Plan, the Long-Term Incentive Plan of 1998 and the 1998 Performance Stock Option Plan (incorporated by reference to Exhibit A to Unocal's Proxy Statement dated April 20, 1998, for its 1998 Annual Meeting of Stockholders, File No. 1-8483).
Exhibit 10.7	Forms of Notice of Grant of Performance Stock Option and Tandem Limited Stock Appreciation Right and Grant Agreement, effective as of March 30, 1998, between Unocal and each of Roger C. Beach, John F. Imle, Jr., Timothy H. Ling, John W. Schanck, Lucius E. (Ed) Scott, Charles R. Williamson and Dennis P.R. Codon (incorporated by reference to Exhibit 10.2 to Unocal's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, File No. 1-8483).
Exhibit 10.8	Unocal Supplement Retirement Plan for Key Management Personnel, effective as of January 1, 1998 (incorporated by reference to Exhibit 10.3 to Unocal's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, File No. 1-8483).
Exhibit 10.9	Unocal Supplemental Savings Plan, effective January 1, 1997 (incorporated by reference to Exhibit 10.6 to Unocal's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 1-8483).
Exhibit 10.10	Other Compensatory Arrangements (incorporated by reference to Exhibit 10.4 to Unocal's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 1-8483).
Exhibit 10.11	Directors' Restricted Stock Plan of 1991 (incorporated by reference to Exhibit B to Unocal's Proxy Statement dated March 18, 1991, for its 1991 Annual Meeting of Stockholders, File No. 1-8483).
Exhibit 10.12	Amendments to Directors Restricted Stock Plan, effective February 8, 1996 (incorporated by reference to Exhibit 10.7 to Unocal's Annual Report on Form 10-K for the year ended December 31, 1995, File No. 1-8483).
Exhibit 10.13	Amendments to the Director's Restricted Stock Plan, effective June 1, 1998 (incorporated by reference to Exhibit 10.4 to Unocal's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, File No. 1-8483).
Exhibit 10.14	Form of Director Indemnity Agreement between Unocal and each of its directors.
Exhibit 10.15	Form of Director Insurance Agreement between Unocal and each of its directors.
Exhibit 10.16	Form of Officer Indemnity Agreement between Unocal and each of its officers.
Exhibit 10.17	Employment Agreement, effective as of July 28, 1998, between Unocal and Roger C. Beach (incorporated by reference to Exhibit 10.5 to Unocal's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, File No. 1-8483).
Exhibit 10.18	Employment Agreement, effective as of July 28, 1998, between Unocal and John F. Imle, Jr. (incorporated by reference to Exhibit 10.6 to Unocal's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, File No. 1-8483).

Exhibit 10.19	Change of Control Agreement, effective as of July 28, 1998, between Unocal and Timothy H. Ling (incorporated by reference to Exhibit 10.7 to Unocal's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, File No. 1-8483).
Exhibit 10.20	Employment Agreement, effective as of July 28, 1998, between Unocal and John W. Schanck (incorporated by reference to Exhibit 10.9 to Unocal's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, File No. 1-8483).
Exhibit 10.21	Employment Agreement, effective as of July 28, 1998, between Unocal and Lucius E. (Ed) Scott (incorporated by reference to Exhibit 10.10 to Unocal's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, File No. 1-8483).
Exhibit 10.22	Employment Agreement, effective as of July 28, 1998, between Unocal and Charles R. Williamson (incorporated by reference to Exhibit 10.11 to Unocal's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, File No. 1-8483).
Exhibit 10.23	Employment Agreement, effective as of July 28, 1998, between Unocal and Dennis P.R. Codon (incorporated by reference to Exhibit 10.12 to Unocal's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, File No. 1-8483).
Exhibit 12.1	Statement regarding computation of ratio of earnings to fixed charges of Unocal for the five years ended December 31, 1998.
Exhibit 12.2	Statement regarding computation of ratio of earnings to combined fixed charges and preferred stock dividends of Unocal for the five years ended December 31, 1998.
Exhibit 12.3	Statement regarding computation of ratio of earnings to fixed charges of Union Oil Company of California for the five years ended December 31, 1998.
Exhibit 21	Subsidiaries of Unocal Corporation.
Exhibit 23	Consent of PricewaterhouseCoopers LLP
Exhibit 27	Financial data schedule for the period ended December 31, 1998 (included only in the copy of this report filed electronically with the Commission).
Exhibit 99.1	Restated and Amended Articles of Incorporation of Union Oil Company of California, as amended through October 24, 1996, and currently in effect (incorporated by reference to Exhibit 99.1 to Unocal's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 1-8483).
Exhibit 99.2	Bylaws of Union Oil Company of California, as amended through March 3, 1999, and currently in effect.

Copies of exhibits will be furnished upon request. Requests should be addressed to the Corporate Secretary.

BYLAWS  
OF  
UNOCAL CORPORATION  
a Delaware corporation  
(Effective March 3, 1999)

ARTICLE I  
FISCAL YEAR

Section 1. The fiscal year of Unocal Corporation (hereinafter called the "Corporation") shall end on the thirty-first (31st) day of December of each year.

ARTICLE II  
OFFICES

Section 1. Principal Office. The principal office for the transaction of business of the Corporation is hereby fixed and located at 2141 Rosecrans Avenue, Suite 4000, in the City of El Segundo, County of Los Angeles, State of California. The Board of Directors (hereinafter sometimes called the "Board") is hereby granted full power and authority to change said principal office from one location to another.

ARTICLE III  
STOCKHOLDERS

Section 1. Annual Meetings. The annual meetings of the stockholders shall be held at 10:00 o'clock A.M. on the fourth (4th) Monday in May of each year if not a legal holiday, for the purpose of electing directors and for the transaction of any other business which is within the powers of the stockholders and properly brought before the meeting. If the fourth (4th) Monday in May is a legal holiday, the annual meeting of the stockholders shall be held at 10:00 o'clock A.M. on the subsequent Monday.

Section 2. Notice of Meetings. Written notice of each annual or special meeting of stockholders shall be given to each stockholder entitled to vote thereat not less than ten (10) nor more than sixty (60) days before the meeting.

Section 3. Place of Meetings. All meetings of stockholders, whether annual or special, shall be held at the principal office of the Corporation or at such other place, within or without the State of Delaware, as the Board may from time to time designate pursuant to authority hereinafter granted it. In the absence of any such designation stockholders' meetings shall be held at the principal office of the Corporation.

Section 4. Voting Rights. Stockholders entitled to vote at stockholder meetings shall be entitled to one (1) vote for each full share. A fraction of a share or a fractional interest in a share shall not be entitled to any voting rights whatsoever.

Section 5. Conduct of Meetings. The decisions of the Chairman of the Board or officer presiding at all stockholders' meetings shall govern in all matters relating to the conduct of the meeting.

Section 6. Voting. Directors shall be divided into three (3) classes. At each annual meeting, all directors of one (1) class shall be elected in accordance with, and subject to, the provisions of ARTICLE SEVENTH of the Corporation's Certificate of Incorporation by the holders of shares entitled to vote in the election.

Section 7. Nominations and Other Stockholder Business. At any meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting in accordance with the procedures set forth herein.

Only such business shall be conducted at an annual meeting of the stockholders as shall have been properly brought before the meeting (a) pursuant to the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) by or at the direction of the Board of Directors, or (c) by a stockholder or a beneficial owner of the Corporation's stock ("Proponent") in compliance with all of the following provisions:

(1) such business must be a proper matter for stockholder action under the General Corporation Law of the State of Delaware;

(2) the Corporate Secretary must have timely received (as described below) written notice by the Proponent containing (a) a brief description of each matter desired to be brought before the meeting, (b) the Proponent's name and address (if Proponent is a stockholder of record, as they appear on the Corporation's books), (c) the class and the number of shares of the Corporation which are beneficially owned by the Proponent and, if the Proponent is not a stockholder of record, proof of beneficial ownership, (d) a description of any material interest of the Proponent in such business, (e) a statement as to whether the Proponent intends to deliver a proxy statement and form of proxy to holders of a sufficient number of shares, in the case of a nomination, to elect such nominee, and in the case of a proposal of other business, to carry such proposal (an affirmative statement of such intent, a "Solicitation Notice"), and (f) as to each person whom the Proponent proposes to nominate for election or re-election as a director, (i) all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such person as a director pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and (ii) such person's written consent to serve as a director if elected;

(3) if the Proponent has provided the Corporation with a Solicitation Notice, the Proponent must have delivered a proxy statement and form of proxy to holders of a sufficient number of shares, in the case of a nomination, to elect such nominee, and in the case of a proposal of other business, to carry such proposal; and

(4) if the Proponent has not provided the Corporation with a Solicitation Notice, the Proponent must not have delivered a proxy statement and a form of proxy to holders of a sufficient number of shares, in the case of a nomination, to elect such nominee, and in the case of a proposal of other business, to carry such proposal.

The Corporate Secretary shall be deemed to have timely received a Proponent's notice under clause (c)(2) of the preceding paragraph if it is delivered at the Corporation's principal office to the attention of the Corporate Secretary at least ninety (90) days prior to the annual meeting of stockholders; provided, however, that if there has been an amendment to the bylaws since the last annual meeting changing the date of the annual meeting, a Proponent's notice shall be deemed to have been timely received if it is delivered not later than the close of business on the later of the ninetieth (90th) day prior to the annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made; provided further, however, that if the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased board of directors at least one hundred (100) days prior to the annual meeting, a Proponent's notice shall be deemed to have been timely received, but only with respect to nominees for any new positions created by such increase, if it is delivered not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made.

Only such business shall be conducted at a special meeting of the stockholders as shall have been brought before the meeting pursuant to the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors. Nominations of persons for election to the Board of Directors may be made at a special meeting of the stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) by a Proponent who

delivers the notice described in clause (c)(2) of the second paragraph of this Section at the Corporation's principal office to the attention of the Corporate Secretary not later than the close of business on the later of the ninetieth (90th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the number of directors proposed by the Board of Directors to be elected at such meeting.

Only persons nominated in accordance with the procedures set forth in this section shall be eligible to serve as Directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this section. The chairman of the meeting shall have the power to determine whether a nomination or any other business is in compliance with this section, and to declare that any defective nomination or other business not be presented for stockholder action at the meeting and be disregarded.

For purposes of this section, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News service, Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

Notwithstanding the foregoing provisions of this section, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this section. Nothing in this section shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Notwithstanding anything in the Bylaws to the contrary, no business shall be conducted at a meeting except in accordance with the procedures set forth herein.

Section 8. Quorum. The holders of one-third (1/3) of all of the outstanding shares of the stock of the Corporation entitled to vote at a meeting of stockholders, present in person or by proxy, shall constitute a quorum for the transaction of any business at such meeting.

#### ARTICLE IV BOARD OF DIRECTORS

Section 1. Powers. Subject to the limitations of the Certificate of Incorporation of the Corporation and of the Delaware General Corporation Law as to action which shall be authorized or approved by the stockholders, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed by, the Board of Directors.

Section 2. Number. The exact number of directors of the Corporation shall be eleven (11) until changed in the manner provided by law.

Section 3. Chairman and Vice Chairman of the Board. The Board shall appoint a Chairman, who shall preside at all meetings of the Board of Directors and shall have such other powers and duties as may from time to time be assigned by the Board of Directors or prescribed by the Bylaws. The Board may also appoint a Vice Chairman, who shall preside at all meetings of the Board of Directors in the absence of the Chairman and shall have such other powers and duties as may from time to time be assigned by the Board of Directors or prescribed by the Bylaws.

Section 4. Annual Meetings. Immediately following each annual meeting of stockholders, the Board shall hold its annual meeting for the purpose of organization, election of officers and the transaction of any other business.

Section 5. Regular Meetings. Regular meetings of the Board shall be held at the times and on the dates fixed by resolution of the Board.

Section 6. Special Meetings. Special meetings of the Board for any purpose or purposes whatsoever may be called by the Chairman of the Board or the Chief Executive Officer or, in the absence or inability of either of them, by the Vice Chairman, the Chief Financial Officer, or by at least two (2) of the directors at the time in office.

Section 7. Notice of Meetings. Notice of annual meetings and of regular meetings of the Board is hereby dispensed with. Notice of special meetings must be given at least two (2) days in advance if given by mail, or at least twenty-four (24) hours in advance if delivered personally or given by telephone or telegram.

Section 8. Place of Meetings. All meetings of the Board, whether annual, regular or special meetings, shall be held at any place within or without the State of Delaware which has been designated from time to time by resolution of the Board or in the notice of the meeting. In the absence of such designation all directors' meetings shall be held at the principal office of the Corporation.

Section 9. Quorum. A majority of the exact number of directors specified in Section 2 of ARTICLE IV of the Bylaws shall constitute a quorum of the Board of Directors for the transaction of business; provided, however, that vacancies on the Board may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, each such director to hold office until a successor is elected at an annual or special meeting of the stockholders.

Section 10. Compensation of Directors. Directors and members of committees appointed by the Board shall receive such compensation, if any, for their services, and such reimbursement for their expenses, as may be fixed or determined by resolution of the Board. The Board may, however, in any such resolution provide that directors who are also employees of the Corporation or any of its subsidiaries shall not receive additional compensation for services as a director or member of a committee appointed by the Board.

Section 11. Indemnification of Directors, Officers, Employees and Other Agents.

(a) Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or involved in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative ("Proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, trustee, or fiduciary, or in a similar capacity (collectively, "Agent") of another foreign or domestic corporation, limited liability company, partnership, joint venture, trust, or any other enterprise or entity whatsoever, including without limitation employee benefit plans (collectively, "Affiliate"), whether the basis of such Proceeding is alleged action in an official capacity, or in any other capacity while serving as a director or officer of the Corporation or as an Agent of an Affiliate, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability, and loss, including without limitation, attorneys' fees, judgments, fines, ERISA excise taxes, penalties, amounts paid or to be paid in settlement, and any other amounts actually incurred or suffered by such person in connection with any Proceeding; and such indemnification shall continue as to a person who has ceased to be a director or officer of the Corporation or Agent of an Affiliate and shall inure to the benefit of his or her heirs, executors, and administrators; provided, however, that, except as provided in paragraph (b) hereof with respect to Proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such person seeking indemnification in connection with a Proceeding (or part thereof) initiated by such person only if such Proceeding (or part thereof) was authorized by the board of directors of the Corporation. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such Proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including without limitation, service to an employee benefit plan) in advance of the final disposition of a Proceeding, shall be made only upon

delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section or otherwise. The Corporation may, to the extent authorized from time to time by its board of directors, either on a general basis or as to specific employees or agents, provide indemnification to employees and agents of the Corporation with similar scope and effect as the foregoing indemnification of directors and officers.

(b) Right to Bring Suit. If a claim under paragraph (a) of this Section is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, except in the case of a claim for expenses incurred in a Proceeding in advance of its final disposition in which case the applicable period shall be twenty (20) days, the person seeking indemnification (the "Party to be Indemnified") may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Party to be Indemnified shall be entitled to be paid also the expense of prosecuting or defending such claim. The Corporation's sole defense to an action seeking indemnification (other than an action brought to enforce a claim for expenses incurred in defending a Proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) shall be that the Party to be Indemnified has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the Corporation to indemnify the Party to be Indemnified for the amount claimed, and the burden of providing such defense shall be on the Corporation. Neither the failure of the Corporation (including its board of directors, its independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the Party to be Indemnified is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its board of directors, its independent legal counsel, or its stockholders) that the Party to be Indemnified has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the Party to be Indemnified has not met the applicable standard of conduct.

(c) Non-Exclusivity of Rights. The right to indemnification and the payment of expenses incurred in defending a Proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaw, agreement, vote of stockholders or disinterested directors, or otherwise.

(d) Insurance. The Corporation shall maintain in full force and effect, at its own expense, director and officer liability insurance ("Insurance") coverage for each director and officer in amounts and scope at least as favorable as that maintained by the Corporation on September 30, 1996, or, to the extent more favorable, any Insurance policy entered into or renewed by the Corporation following such date. Notwithstanding the foregoing, if the Corporation, after using its best efforts, cannot obtain and purchase such coverage for an amount no more than what it paid for the most recent expiring Insurance policy plus a reasonable additional amount, the Corporation shall only be required to purchase such Insurance coverage for any act or omission occurring at or prior to the time of such date.

(e) Enforceability; Amendment. The rights provided to any person by this bylaw shall be enforceable against the Corporation by such person, who shall be presumed to have relied upon it in serving or continuing to serve as an Agent, as provided above. No amendment of this bylaw shall impair the rights of any person arising at any time with respect to events occurring prior to such amendment, including, without limitation, any right of a director or officer to Insurance for any act or omission occurring at or prior to the time of such amendment.

Section 12. Authority to Designate Place of Stockholders' Meetings. The Board is hereby granted full power and authority to designate from time to time any place within or without the State of Delaware for the holding of any stockholders' meeting.

Section 13. Committees. The Board may, by resolution, appoint one (1) or more committees, in addition to an Executive Committee and a Board Management Committee, to consist of two (2) or more of the directors of the Corporation, and prescribe their duties and powers. A majority of the members of any such committee may determine its action and fix the time and place of its meetings unless the Board shall otherwise provide. The Board shall have the power at any time to fill vacancies in, to change the membership of, or to dissolve any such committee.

Section 14. Action by Written Consent. Any action required or permitted to be taken by the Board or any committee thereof may be taken without a meeting, if all members of the Board or such committee, as the case may be, shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board.

Section 15. Conference Calls. Members of the Board or any committee thereof may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another.

#### ARTICLE V EXECUTIVE COMMITTEE

Section 1. Number and Composition. The Board of Directors shall appoint from its membership, annually, an Executive Committee of three (3) or more directors. Included on the Executive Committee shall be the Chief Executive Officer of the Corporation. Each member of the Executive Committee shall hold membership at the pleasure of the Board, which shall have the exclusive power to fill vacancies thereon as they may occur. The Chairman of the Executive Committee shall be the Chief Executive Officer of the Corporation.

Section 2. Powers. The Executive Committee, during the intervals between meetings of the Board, shall have and there is hereby granted to it all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, except that the Executive Committee shall not be permitted to fill vacancies on the Board or on any committee, approve any action for which stockholder approval is also required by the Delaware General Corporation Law, amend or repeal any resolution of the Board which by its express terms is not so amendable or repealable, or appoint other committees of the Board or the members thereof and shall not have any powers restricted by Section 141(c) of the Delaware General Corporation Law unless the Board shall have specifically delegated authority to the Executive Committee to take action with respect to a matter listed in such Section as permitted to be so delegated.

Section 3. Procedure. Two (2) members of the Executive Committee shall constitute a quorum of the Executive Committee for the transaction of business. The Executive Committee, by vote of a majority of its members, shall fix its own times and places of meetings and shall prescribe its own rules of procedure; no change in which shall be made save by a majority vote of its members.

Section 4. Records and Reports. The Executive Committee shall keep regular minutes of all business transacted at its meetings, and all action of the Executive Committee shall be reported to the Board at its next ensuing meeting.

Section 5. Compensation. Members of the Executive Committee may receive such compensation, if any, for their services, and such reimbursement for their expenses, as may be fixed or determined by the Board.

#### ARTICLE VI BOARD MANAGEMENT COMMITTEE

Section 1. Number and Composition. The Board of Directors shall appoint from its membership, annually, a Board Management Committee composed of the directors who are salaried officers of the Corporation. The Chairman of the Board Management Committee shall be the Chief Executive Officer of the Corporation.

Section 2. Powers. The Board Management Committee, during the intervals between meetings of the Board, shall have and there is hereby granted to it all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, subject to approval limits established by resolution of the Board of Directors as deemed appropriate from time to time, but the Board Management Committee shall not be permitted to fill vacancies on the Board or on any committee, appoint the Chief Executive Officer or the Chief Financial Officer, approve any action for which stockholder approval is also required by the Delaware General Corporation Law, amend or repeal any resolution of the Board or of the Executive Committee, which by its express terms is not so amendable or repealable, or appoint other committees of the Board or the members thereof and shall not have any powers restricted by Section 141(c) of the Delaware General Corporation Law unless the Board shall have specifically delegated authority to the Board Management Committee to take action with respect to a matter listed in such Section as permitted to be so delegated.

Section 3. Procedure. Two (2) members of the Board Management Committee shall constitute a quorum of the Board Management Committee for the transaction of business. The Board Management Committee, by vote of a majority of its members, shall fix its own times and places of meetings, and shall prescribe its own rules of procedure; no change in which shall be made save by a majority vote of its members.

Section 4. Records. The Board Management Committee shall keep regular minutes of all business transacted at its meetings.

#### ARTICLE VII OFFICERS

Section 1. Officers. The officers of the Corporation shall be a Chairman, a Chief Executive Officer, a Chief Financial Officer, a Vice President, a Secretary, a Comptroller, a Treasurer, and a Chief Legal Officer. The Corporation may also have, at the discretion of the Board, one (1) Vice Chairman, one (1) or more Vice Presidents, who may be designated as Executive Vice Presidents, Group Vice Presidents, Senior Vice Presidents or Vice Presidents, one (1) or more Assistant Chief Financial Officers, one (1) or more Assistant Secretaries, one (1) or more Assistant Treasurers, and one (1) or more Assistant Comptrollers, and the Board may appoint such other officers as it may deem necessary or advisable, who shall have such authority and perform such duties as from time to time may be prescribed by the Board, the Chairman of the Board, or the Chief Executive Officer. Any two (2) or more offices may be held by the same person.

Section 2. Election and Removal. The officers of the Corporation shall be chosen annually by the Board at its annual meeting and each shall hold office until the corresponding annual meeting of the Board in the next year and until a successor shall be elected and qualified unless such officer shall theretofore resign or shall be removed or otherwise disqualified to serve. The Board may remove any officer either with or without cause or under such other terms or conditions as it may prescribe. Vacancies may be filled by the Board as they may occur.

#### Section 3. Powers and Duties.

(a) Chief Executive Officer. The Chief Executive Officer shall be the officer, reporting directly to the Board, responsible for overall management of the Corporation and shall have general supervision, direction and control over the business and affairs of the Corporation and its officers. The Chief Executive Officer shall be a member of the Executive Committee and of the Board Management Committee and in general shall perform all duties incident to the office of Chief Executive Officer and shall have such powers and duties as may from time to time be assigned by the Board of Directors or prescribed by the Bylaws.

(b) Executive Vice Presidents. The Executive Vice Presidents in general shall perform all duties incident to the office of Executive Vice President, and shall have such powers and duties as may from time to time be assigned by the Board of Directors, the Chief Executive Officer or prescribed by the Bylaws.

(c) Other Vice Presidents. Other Vice Presidents, who may be designated as Group Vice Presidents, Senior Vice Presidents or Vice Presidents, shall have such authority and shall perform such

duties as shall from time to time be assigned by the Board of Directors, the Chief Executive Officer, the Executive Vice Presidents or prescribed by the Bylaws.

(d) Chief Financial Officer. The Chief Financial Officer shall have such authority and shall perform such duties as shall from time to time be assigned by the Board, the Chief Executive Officer or prescribed by the Bylaws.

(e) Assistant Chief Financial Officer. Each Assistant Chief Financial Officer shall assist the Chief Financial Officer and shall perform such duties as shall from time to time be assigned by the Board, the Chief Executive Officer or the Chief Financial Officer.

(f) Secretary. The Secretary shall keep, or cause to be kept, a book of minutes, at the principal office and/or such other place or places as the Board may order, of all meetings of directors and stockholders, with the time and place of holding, whether regular or special, and if special how authorized, the notice thereof given, the names of those present at directors' meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The Secretary shall keep or cause to be kept at the principal office, or at the office of the Corporation's transfer agent, a stock register, which may be an electronic database, showing the names of the stockholders of record and their addresses, the number and classes of shares held by each, the numbers and dates of the certificates issued for those shares, and the numbers and dates of cancellation of every certificate surrendered for cancellation.

The Secretary shall give or cause to be given notice of all meetings of the stockholders and the Board required to be given by the Bylaws or by law. The Secretary shall have charge of and be custodian of the seal of the Corporation and the minute books and documents relating to the existence and governance of the Corporation.

The Secretary shall have such other powers and perform such other duties as may from time to time be prescribed by the Board, the Chairman of the Board, the Chief Executive Officer or the Bylaws, and shall in general, subject to control of the Board, the Chairman of the Board and the Chief Executive Officer, perform all the duties usually incident to the office of secretary of a corporation.

(g) Assistant Secretaries. Each Assistant Secretary shall assist the Secretary and, in the absence or disability of the Secretary, may perform the duties of the Secretary unless and until the contrary is expressed by the Board, and may perform such other duties as may be prescribed by the Board or the Secretary.

(h) Treasurer. The Treasurer shall have custody of and be responsible for all the monies and funds of the Corporation. The Treasurer shall deposit or cause to be deposited all Corporation monies, funds and other valuables in the name and to the credit of the Corporation in such bank or banks as shall be judged proper or as shall be directed by the Board, the Chief Executive Officer, or the Chief Financial Officer, and shall disburse the funds of the Corporation which have been duly approved for disbursement. The Treasurer shall enter or cause to be entered regularly in the books of the Corporation full and accurate accounts of all monies received and paid out on account of the Corporation.

The Treasurer shall have such other powers and perform such other duties as may from time to time be prescribed by the Board, the Chief Executive Officer, the Chief Financial Officer or the Bylaws, and shall in general, subject to control of the Board, the Chief Executive Officer, and the Chief Financial Officer, perform all the duties usually incident to the office of treasurer of a corporation.

(i) Assistant Treasurers. Each Assistant Treasurer shall assist the Treasurer and, in the absence or disability of the Treasurer, may perform the duties of the Treasurer unless and until the contrary is expressed by the Board, and shall perform such other duties as may be prescribed by the Board or the Treasurer.

(j) Comptroller. The Comptroller shall be the principal officer in charge of the general accounting books, accounting records and forms of the Corporation and shall see that all monies and obligations due the Corporation and all properties and assets are properly accounted for. The Comptroller shall prepare the Corporation's balance sheets, income accounts and other financial statements and reports, and render to the Board, the Chief Executive Officer, and the Chief Financial Officer, such periodic reports covering the results of operations of the Corporation as may be required by them or any of them.

The Comptroller shall have such other powers and perform such other duties as may from time to time be prescribed by the Board, the Chief Executive Officer, the Chief Financial Officer or the Bylaws and shall in general, subject to control of the Board, the Chief Executive Officer, and the Chief Financial Officer, perform all the duties usually incident to the office of comptroller of a corporation.

(k) Assistant Comptrollers. Each Assistant Comptroller shall assist the Comptroller and, in the absence or disability of the Comptroller, may perform the duties of the Comptroller unless and until the contrary is expressed by the Board, and shall perform such other duties as may be prescribed by the Board or the Comptroller.

(l) Chief Legal Officer. The Chief Legal Officer shall be in charge of the Corporation's legal affairs. The Chief Legal Officer shall advise the Board, the Chairman of the Board and/or the officers of the Corporation on such legal matters and prepare such reports as may be required by them or any of them.

#### ARTICLE VIII MISCELLANEOUS

Section 1. Execution of Documents. Unless otherwise authorized by or pursuant to a resolution of the Board of Directors, all contracts, leases, deeds, deeds of trust, mortgages, bonds, indentures, endorsements, assignments, powers of attorney, and other documents and instruments of whatsoever kind shall be executed for and on behalf of the Corporation by the Chairman and Chief Executive Officer, the Vice Chairman, the Chief Financial Officer, a Vice President, the Treasurer, the Comptroller, or by any such officer and shall be attested by the Secretary or an Assistant Secretary, who shall have authority to affix the corporate seal to the same.

Section 2. Undertakings and Commitments. No undertaking, commitment, contract, instrument or document shall be binding upon the Corporation unless previously authorized or subsequently ratified by the Board or executed by an officer or officers, an employee or employees or an agent or agents of the Corporation acting under powers conferred by the Board or by these Bylaws.

Section 3. Checks, Drafts, etc. All checks, notes and other obligations for collection, deposit or transfer, and all checks and drafts for disbursement from Corporation funds, and all bills of exchange and promissory notes, and all acceptances, obligations and other instruments for the payment of money, shall be endorsed or signed by such officer or officers, employee or employees or agent or agents as shall be authorized from time to time to do so by or pursuant to a resolution of the Board of Directors.

Section 4. Representation of Shares of Other Corporations. Shares standing in the name of the Corporation may be voted or represented and all rights incident thereto may be exercised on behalf of the Corporation by the Chairman and Chief Executive Officer, the Vice Chairman, the Chief Financial Officer, a Vice President, the Secretary, the Treasurer or the Comptroller, or by such other officers upon whom the Board of Directors may from time to time confer like powers

#### ARTICLE IX AMENDMENTS TO BYLAWS

Section 1. Power of Stockholders. New Bylaws may be adopted or these Bylaws may be amended or repealed by the vote of seventy-five (75) percent of the outstanding stock of the Corporation entitled to vote thereon.

Section 2. Power of Directors. Subject to the right of stockholders as provided in Section 1 of this ARTICLE IX to adopt, amend or repeal Bylaws, Bylaws may be adopted, amended or repealed by the Board of Directors as provided or permitted by law; however, any Bylaw amendment adopted by the Board of Directors increasing or reducing the authorized number of directors or amending this Section shall require a resolution adopted by the affirmative vote of not less than seventy-five (75) percent of the directors.

ARTICLE X  
EMERGENCY

Section 1. "Emergency" as used in this Article means disorder, disturbance or damage caused by war, enemy attack, other warlike acts or by catastrophe, disaster or other similar emergency condition, which prevents the conduct and management of the affairs and business of the Corporation by the Board of Directors and officers in the manner provided for in other Articles of these Bylaws. The powers and duties conferred and imposed by this Article, and any resolutions adopted pursuant hereto, shall be effective only during an emergency. This Article may be implemented from time to time by resolutions adopted by the Board of Directors before or during an emergency, or during an emergency by the emergency Board of Directors constituted and then acting pursuant hereto. An emergency, once commenced, shall be deemed to continue until terminated by resolutions adopted for that purpose by the Board of Directors.

Section 2. If, during an emergency, a majority of the Board of Directors cannot be found or is unable to act, one-third (1/3) of the exact number of the Board of Directors shall constitute a quorum thereof.

Section 3. During any emergency, the officers and employees of the Corporation shall continue, so far as possible, to conduct the Corporation's affairs and business under the guidance of the Board of Directors acting pursuant to this Article and in accordance with known orders of governmental authorities.

Section 4. If, during any emergency, a quorum of the Board of Directors, as provided in Section 3 of this Article, cannot be found or is unable to act, any three (3) available members of the Executive Committee, including the Chief Executive Officer, shall be and constitute the Board of Directors, with two (2) thereof constituting a quorum, and as such shall have and exercise the fullest power of the Board of Directors for the conduct and management of the affairs and business of the Corporation, permitted by law, without the limitations set forth in Section 2 of ARTICLE V of these Bylaws, provided that such emergency Board of Directors as so constituted shall comply to the extent practicable under the circumstances with the provisions of ARTICLE III of these Bylaws relating to annual and special meetings of stockholders. If three (3) members of the Executive Committee, including the Chief Executive Officer, are not able to serve, any three (3) available directors shall be and constitute such emergency Board of Directors, with two (2) thereof constituting a quorum, for the exercise of the powers conferred and performance of the duties imposed by this Section 4.

Section 5. If, during any emergency, neither a quorum of the Board of Directors, as provided in Section 3 of this Article, nor a quorum of the emergency Board of Directors, as provided for in Section 4 of this Article is available to serve, then the powers conferred and duties imposed by Section 4 shall vest in and devolve upon any three (3) of (in the following order of priority) available directors, Executive Vice Presidents, the Chief Financial Officer, and as many other Vice Presidents (or, in case of their inability, any other officers), in order of seniority, as may be necessary from time to time to constitute a total of three (3) emergency directors. The Chief Executive Officer and any other one (1) emergency director shall constitute a quorum of such emergency Board of Directors for exercise of the powers conferred and performance of the duties imposed hereunder, but if the Chief Executive Officer is not available, any two (2) of such emergency directors shall constitute a quorum.

BYLAWS  
OF  
UNOCAL CORPORATION  
a Delaware corporation  
(Effective the date of the Annual Stockholders Meeting, scheduled May 24 ,1999)

ARTICLE I  
FISCAL YEAR

Section 1. The fiscal year of Unocal Corporation (hereinafter called the "Corporation") shall end on the thirty-first (31st) day of December of each year.

ARTICLE II  
OFFICES

Section 1. Principal Office. The principal office for the transaction of business of the Corporation is hereby fixed and located at 2141 Rosecrans Avenue, Suite 4000, in the City of El Segundo, County of Los Angeles, State of California. The Board of Directors (hereinafter sometimes called the "Board") is hereby granted full power and authority to change said principal office from one location to another.

ARTICLE III  
STOCKHOLDERS

Section 1. Annual Meetings. The annual meetings of the stockholders shall be held at 10:00 o'clock A.M. on the fourth (4th) Monday in May of each year if not a legal holiday, for the purpose of electing directors and for the transaction of any other business which is within the powers of the stockholders and properly brought before the meeting. If the fourth (4th) Monday in May is a legal holiday, the annual meeting of the stockholders shall be held at 10:00 o'clock A.M. on the subsequent Monday.

Section 2. Notice of Meetings. Written notice of each annual or special meeting of stockholders shall be given to each stockholder entitled to vote thereat not less than ten (10) nor more than sixty (60) days before the meeting.

Section 3. Place of Meetings. All meetings of stockholders, whether annual or special, shall be held at the principal office of the Corporation or at such other place, within or without the State of Delaware, as the Board may from time to time designate pursuant to authority hereinafter granted it. In the absence of any such designation stockholders' meetings shall be held at the principal office of the Corporation.

Section 4. Voting Rights. Stockholders entitled to vote at stockholder meetings shall be entitled to one (1) vote for each full share. A fraction of a share or a fractional interest in a share shall not be entitled to any voting rights whatsoever.

Section 5. Conduct of Meetings. The decisions of the Chairman of the Board or officer presiding at all stockholders' meetings shall govern in all matters relating to the conduct of the meeting.

Section 6. Voting. Directors shall be divided into three (3) classes. At each annual meeting, all directors of one (1) class shall be elected in accordance with, and subject to, the provisions of ARTICLE SEVENTH of the Corporation's Certificate of Incorporation by the holders of shares entitled to vote in the election.

Section 7. Nominations and Other Stockholder Business. At any meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting in accordance with the procedures set forth herein.

Only such business shall be conducted at an annual meeting of the stockholders as shall have been properly brought before the meeting (a) pursuant to the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) by or at the direction of the Board of Directors, or (c) by a stockholder or a beneficial owner of the Corporation's stock ("Proponent") in compliance with all of the following provisions:

(1) such business must be a proper matter for stockholder action under the General Corporation Law of the State of Delaware;

(2) the Corporate Secretary must have timely received (as described below) written notice by the Proponent containing (a) a brief description of each matter desired to be brought before the meeting, (b) the Proponent's name and address (if Proponent is a stockholder of record, as they appear on the Corporation's books), (c) the class and the number of shares of the Corporation which are beneficially owned by the Proponent and, if the Proponent is not a stockholder of record, proof of beneficial ownership, (d) a description of any material interest of the Proponent in such business, (e) a statement as to whether the Proponent intends to deliver a proxy statement and form of proxy to holders of a sufficient number of shares, in the case of a nomination, to elect such nominee, and in the case of a proposal of other business, to carry such proposal (an affirmative statement of such intent, a "Solicitation Notice"), and (f) as to each person whom the Proponent proposes to nominate for election or re-election as a director, (i) all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such person as a director pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and (ii) such person's written consent to serve as a director if elected;

(3) if the Proponent has provided the Corporation with a Solicitation Notice, the Proponent must have delivered a proxy statement and form of proxy to holders of a sufficient number of shares, in the case of a nomination, to elect such nominee, and in the case of a proposal of other business, to carry such proposal; and

(4) if the Proponent has not provided the Corporation with a Solicitation Notice, the Proponent must not have delivered a proxy statement and a form of proxy to holders of a sufficient number of shares, in the case of a nomination, to elect such nominee, and in the case of a proposal of other business, to carry such proposal.

The Corporate Secretary shall be deemed to have timely received a Proponent's notice under clause (c)(2) of the preceding paragraph if it is delivered at the Corporation's principal office to the attention of the Corporate Secretary at least ninety (90) days prior to the annual meeting of stockholders; provided, however, that if there has been an amendment to the bylaws since the last annual meeting changing the date of the annual meeting, a Proponent's notice shall be deemed to have been timely received if it is delivered not later than the close of business on the later of the ninetieth (90th) day prior to the annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made; provided further, however, that if the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased board of directors at least one hundred (100) days prior to the annual meeting, a Proponent's notice shall be deemed to have been timely received, but only with respect to nominees for any new positions created by such increase, if it is delivered not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made.

Only such business shall be conducted at a special meeting of the stockholders as shall have been brought before the meeting pursuant to the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors. Nominations of persons for election to the Board of Directors may be made at a special meeting of the stockholders at which directors are to be elected pursuant to the

Corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) by a Proponent who delivers the notice described in clause (c)(2) of the second paragraph of this Section at the Corporation's principal office to the attention of the Corporate Secretary not later than the close of business on the later of the ninetieth (90th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the number of directors proposed by the Board of Directors to be elected at such meeting.

Only persons nominated in accordance with the procedures set forth in this section shall be eligible to serve as Directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this section. The chairman of the meeting shall have the power to determine whether a nomination or any other business is in compliance with this section, and to declare that any defective nomination or other business not be presented for stockholder action at the meeting and be disregarded.

For purposes of this section, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News service, Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

Notwithstanding the foregoing provisions of this section, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this section. Nothing in this section shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Notwithstanding anything in the Bylaws to the contrary, no business shall be conducted at a meeting except in accordance with the procedures set forth herein.

Section 8. Quorum. The holders of one-third (1/3) of all of the outstanding shares of the stock of the Corporation entitled to vote at a meeting of stockholders, present in person or by proxy, shall constitute a quorum for the transaction of any business at such meeting.

#### ARTICLE IV BOARD OF DIRECTORS

Section 1. Powers. Subject to the limitations of the Certificate of Incorporation of the Corporation and of the Delaware General Corporation Law as to action which shall be authorized or approved by the stockholders, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed by, the Board of Directors.

Section 2. Number. The exact number of directors of the Corporation shall be nine (9) until changed in the manner provided by law.

Section 3. Chairman and Vice Chairman of the Board. The Board shall appoint a Chairman, who shall preside at all meetings of the Board of Directors and shall have such other powers and duties as may from time to time be assigned by the Board of Directors or prescribed by the Bylaws. The Board may also appoint a Vice Chairman, who shall preside at all meetings of the Board of Directors in the absence of the Chairman and shall have such other powers and duties as may from time to time be assigned by the Board of Directors or prescribed by the Bylaws.

Section 4. Annual Meetings. Immediately following each annual meeting of stockholders, the Board shall hold its annual meeting for the purpose of organization, election of officers and the transaction of any other business.

Section 5. Regular Meetings. Regular meetings of the Board shall be held at the times and on the dates fixed by resolution of the Board.

Section 6. Special Meetings. Special meetings of the Board for any purpose or purposes whatsoever may be called by the Chairman of the Board or the Chief Executive Officer or, in the absence or inability of either of them, by the Vice Chairman, the Chief Financial Officer, or by at least two (2) of the directors at the time in office.

Section 7. Notice of Meetings. Notice of annual meetings and of regular meetings of the Board is hereby dispensed with. Notice of special meetings must be given at least two (2) days in advance if given by mail, or at least twenty-four (24) hours in advance if delivered personally or given by telephone or telegram.

Section 8. Place of Meetings. All meetings of the Board, whether annual, regular or special meetings, shall be held at any place within or without the State of Delaware which has been designated from time to time by resolution of the Board or in the notice of the meeting. In the absence of such designation all directors' meetings shall be held at the principal office of the Corporation.

Section 9. Quorum. A majority of the exact number of directors specified in Section 2 of ARTICLE IV of the Bylaws shall constitute a quorum of the Board of Directors for the transaction of business; provided, however, that vacancies on the Board may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, each such director to hold office until a successor is elected at an annual or special meeting of the stockholders.

Section 10. Compensation of Directors. Directors and members of committees appointed by the Board shall receive such compensation, if any, for their services, and such reimbursement for their expenses, as may be fixed or determined by resolution of the Board. The Board may, however, in any such resolution provide that directors who are also employees of the Corporation or any of its subsidiaries shall not receive additional compensation for services as a director or member of a committee appointed by the Board.

Section 11. Indemnification of Directors, Officers, Employees and Other Agents.

(a) Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or involved in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative ("Proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, trustee, or fiduciary, or in a similar capacity (collectively, "Agent") of another foreign or domestic corporation, limited liability company, partnership, joint venture, trust, or any other enterprise or entity whatsoever, including without limitation employee benefit plans (collectively, "Affiliate"), whether the basis of such Proceeding is alleged action in an official capacity, or in any other capacity while serving as a director or officer of the Corporation or as an Agent of an Affiliate, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability, and loss, including without limitation, attorneys' fees, judgments, fines, ERISA excise taxes, penalties, amounts paid or to be paid in settlement, and any other amounts actually incurred or suffered by such person in connection with any Proceeding; and such indemnification shall continue as to a person who has ceased to be a director or officer of the Corporation or Agent of an Affiliate and shall inure to the benefit of his or her heirs, executors, and administrators; provided, however, that, except as provided in paragraph (b) hereof with respect to Proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such person seeking indemnification in connection with a Proceeding (or part thereof) initiated by such person only if such Proceeding (or part thereof) was authorized by the board of directors of the Corporation. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such Proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including without limitation, service

to an employee benefit plan) in advance of the final disposition of a Proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section or otherwise. The Corporation may, to the extent authorized from time to time by its board of directors, either on a general basis or as to specific employees or agents, provide indemnification to employees and agents of the Corporation with similar scope and effect as the foregoing indemnification of directors and officers.

(b) Right to Bring Suit. If a claim under paragraph (a) of this Section is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, except in the case of a claim for expenses incurred in a Proceeding in advance of its final disposition in which case the applicable period shall be twenty (20) days, the person seeking indemnification (the "Party to be Indemnified") may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Party to be Indemnified shall be entitled to be paid also the expense of prosecuting or defending such claim. The Corporation's sole defense to an action seeking indemnification (other than an action brought to enforce a claim for expenses incurred in defending a Proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) shall be that the Party to be Indemnified has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the Corporation to indemnify the Party to be Indemnified for the amount claimed, and the burden of providing such defense shall be on the Corporation. Neither the failure of the Corporation (including its board of directors, its independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the Party to be Indemnified is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its board of directors, its independent legal counsel, or its stockholders) that the Party to be Indemnified has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the Party to be Indemnified has not met the applicable standard of conduct.

(c) Non-Exclusivity of Rights. The right to indemnification and the payment of expenses incurred in defending a Proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaw, agreement, vote of stockholders or disinterested directors, or otherwise.

(d) Insurance. The Corporation shall maintain in full force and effect, at its own expense, director and officer liability insurance ("Insurance") coverage for each director and officer in amounts and scope at least as favorable as that maintained by the Corporation on September 30, 1996, or, to the extent more favorable, any Insurance policy entered into or renewed by the Corporation following such date. Notwithstanding the foregoing, if the Corporation, after using its best efforts, cannot obtain and purchase such coverage for an amount no more than what it paid for the most recent expiring Insurance policy plus a reasonable additional amount, the Corporation shall only be required to purchase such Insurance coverage for any act or omission occurring at or prior to the time of such date.

(e) Enforceability; Amendment. The rights provided to any person by this bylaw shall be enforceable against the Corporation by such person, who shall be presumed to have relied upon it in serving or continuing to serve as an Agent, as provided above. No amendment of this bylaw shall impair the rights of any person arising at any time with respect to events occurring prior to such amendment, including, without limitation, any right of a director or officer to Insurance for any act or omission occurring at or prior to the time of such amendment.

Section 12. Authority to Designate Place of Stockholders' Meetings. The Board is hereby granted full power and authority to designate from time to time any place within or without the State of Delaware for the holding of any stockholders' meeting.

Section 13. Committees. The Board may, by resolution, appoint one (1) or more committees, in addition to an Executive Committee and a Board Management Committee, to consist of two (2) or more of the directors of the Corporation, and prescribe their duties and powers. A majority of the members of any such committee may determine its action and fix the time and place of its meetings unless the Board shall otherwise provide. The Board shall have the power at any time to fill vacancies in, to change the membership of, or to dissolve any such committee.

Section 14. Action by Written Consent. Any action required or permitted to be taken by the Board or any committee thereof may be taken without a meeting, if all members of the Board or such committee, as the case may be, shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board.

Section 15. Conference Calls. Members of the Board or any committee thereof may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another.

#### ARTICLE V EXECUTIVE COMMITTEE

Section 1. Number and Composition. The Board of Directors shall appoint from its membership, annually, an Executive Committee of three (3) or more directors. Included on the Executive Committee shall be the Chief Executive Officer of the Corporation. Each member of the Executive Committee shall hold membership at the pleasure of the Board, which shall have the exclusive power to fill vacancies thereon as they may occur. The Chairman of the Executive Committee shall be the Chief Executive Officer of the Corporation.

Section 2. Powers. The Executive Committee, during the intervals between meetings of the Board, shall have and there is hereby granted to it all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, except that the Executive Committee shall not be permitted to fill vacancies on the Board or on any committee, approve any action for which stockholder approval is also required by the Delaware General Corporation Law, amend or repeal any resolution of the Board which by its express terms is not so amendable or repealable, or appoint other committees of the Board or the members thereof and shall not have any powers restricted by Section 141(c) of the Delaware General Corporation Law unless the Board shall have specifically delegated authority to the Executive Committee to take action with respect to a matter listed in such Section as permitted to be so delegated.

Section 3. Procedure. Two (2) members of the Executive Committee shall constitute a quorum of the Executive Committee for the transaction of business. The Executive Committee, by vote of a majority of its members, shall fix its own times and places of meetings and shall prescribe its own rules of procedure; no change in which shall be made save by a majority vote of its members.

Section 4. Records and Reports. The Executive Committee shall keep regular minutes of all business transacted at its meetings, and all action of the Executive Committee shall be reported to the Board at its next ensuing meeting.

Section 5. Compensation. Members of the Executive Committee may receive such compensation, if any, for their services, and such reimbursement for their expenses, as may be fixed or determined by the Board.

#### ARTICLE VI BOARD MANAGEMENT COMMITTEE

Section 1. Number and Composition. The Board of Directors shall appoint from its membership, annually, a Board Management Committee composed of the directors who are salaried officers of the Corporation. The Chairman of the Board Management Committee shall be the Chief Executive Officer of the Corporation.

Section 2. Powers. The Board Management Committee, during the intervals between meetings of the Board, shall have and there is hereby granted to it all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, subject to approval limits established by resolution of the Board of Directors as deemed appropriate from time to time, but the Board Management Committee shall not be permitted to fill vacancies on the Board or on any committee, appoint the Chief Executive Officer or the Chief Financial Officer, approve any action for which stockholder approval is also required by the Delaware General Corporation Law, amend or repeal any resolution of the Board or of the Executive Committee, which by its express terms is not so amendable or repealable, or appoint other committees of the Board or the members thereof and shall not have any powers restricted by Section 141(c) of the Delaware General Corporation Law unless the Board shall have specifically delegated authority to the Board Management Committee to take action with respect to a matter listed in such Section as permitted to be so delegated.

Section 3. Procedure. Two (2) members of the Board Management Committee shall constitute a quorum of the Board Management Committee for the transaction of business. The Board Management Committee, by vote of a majority of its members, shall fix its own times and places of meetings, and shall prescribe its own rules of procedure; no change in which shall be made save by a majority vote of its members.

Section 4. Records. The Board Management Committee shall keep regular minutes of all business transacted at its meetings.

#### ARTICLE VII OFFICERS

Section 1. Officers. The officers of the Corporation shall be a Chairman, a Chief Executive Officer, a Chief Financial Officer, a Vice President, a Secretary, a Comptroller, a Treasurer, and a Chief Legal Officer. The Corporation may also have, at the discretion of the Board, one (1) Vice Chairman, one (1) or more Vice Presidents, who may be designated as Executive Vice Presidents, Group Vice Presidents, Senior Vice Presidents or Vice Presidents, one (1) or more Assistant Chief Financial Officers, one (1) or more Assistant Secretaries, one (1) or more Assistant Treasurers, and one (1) or more Assistant Comptrollers, and the Board may appoint such other officers as it may deem necessary or advisable, who shall have such authority and perform such duties as from time to time may be prescribed by the Board, the Chairman of the Board, or the Chief Executive Officer. Any two (2) or more offices may be held by the same person.

Section 2. Election and Removal. The officers of the Corporation shall be chosen annually by the Board at its annual meeting and each shall hold office until the corresponding annual meeting of the Board in the next year and until a successor shall be elected and qualified unless such officer shall theretofore resign or shall be removed or otherwise disqualified to serve. The Board may remove any officer either with or without cause or under such other terms or conditions as it may prescribe. Vacancies may be filled by the Board as they may occur.

#### Section 3. Powers and Duties.

(m) Chief Executive Officer. The Chief Executive Officer shall be the officer, reporting directly to the Board, responsible for overall management of the Corporation and shall have general supervision, direction and control over the business and affairs of the Corporation and its officers. The Chief Executive Officer shall be a member of the Executive Committee and of the Board Management Committee and in general shall perform all duties incident to the office of Chief Executive Officer and shall have such powers and duties as may from time to time be assigned by the Board of Directors or prescribed by the Bylaws.

(n) Executive Vice Presidents. The Executive Vice Presidents in general shall perform all duties incident to the office of Executive Vice President, and shall have such powers and duties as may from time to time be assigned by the Board of Directors, the Chief Executive Officer or prescribed by the Bylaws.

(o) Other Vice Presidents. Other Vice Presidents, who may be designated as Group Vice Presidents, Senior Vice Presidents or Vice Presidents, shall have such authority and shall perform such

duties as shall from time to time be assigned by the Board of Directors, the Chief Executive Officer, the Executive Vice Presidents or prescribed by the Bylaws.

(p) Chief Financial Officer. The Chief Financial Officer shall have such authority and shall perform such duties as shall from time to time be assigned by the Board, the Chief Executive Officer or prescribed by the Bylaws.

(q) Assistant Chief Financial Officer. Each Assistant Chief Financial Officer shall assist the Chief Financial Officer and shall perform such duties as shall from time to time be assigned by the Board, the Chief Executive Officer or the Chief Financial Officer.

(r) Secretary. The Secretary shall keep, or cause to be kept, a book of minutes, at the principal office and/or such other place or places as the Board may order, of all meetings of directors and stockholders, with the time and place of holding, whether regular or special, and if special how authorized, the notice thereof given, the names of those present at directors' meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The Secretary shall keep or cause to be kept at the principal office, or at the office of the Corporation's transfer agent, a stock register, which may be an electronic database, showing the names of the stockholders of record and their addresses, the number and classes of shares held by each, the numbers and dates of the certificates issued for those shares, and the numbers and dates of cancellation of every certificate surrendered for cancellation.

The Secretary shall give or cause to be given notice of all meetings of the stockholders and the Board required to be given by the Bylaws or by law. The Secretary shall have charge of and be custodian of the seal of the Corporation and the minute books and documents relating to the existence and governance of the Corporation.

The Secretary shall have such other powers and perform such other duties as may from time to time be prescribed by the Board, the Chairman of the Board, the Chief Executive Officer or the Bylaws, and shall in general, subject to control of the Board, the Chairman of the Board and the Chief Executive Officer, perform all the duties usually incident to the office of secretary of a corporation.

(s) Assistant Secretaries. Each Assistant Secretary shall assist the Secretary and, in the absence or disability of the Secretary, may perform the duties of the Secretary unless and until the contrary is expressed by the Board, and may perform such other duties as may be prescribed by the Board or the Secretary.

(t) Treasurer. The Treasurer shall have custody of and be responsible for all the monies and funds of the Corporation. The Treasurer shall deposit or cause to be deposited all Corporation monies, funds and other valuables in the name and to the credit of the Corporation in such bank or banks as shall be judged proper or as shall be directed by the Board, the Chief Executive Officer, or the Chief Financial Officer, and shall disburse the funds of the Corporation which have been duly approved for disbursement. The Treasurer shall enter or cause to be entered regularly in the books of the Corporation full and accurate accounts of all monies received and paid out on account of the Corporation.

The Treasurer shall have such other powers and perform such other duties as may from time to time be prescribed by the Board, the Chief Executive Officer, the Chief Financial Officer or the Bylaws, and shall in general, subject to control of the Board, the Chief Executive Officer, and the Chief Financial Officer, perform all the duties usually incident to the office of treasurer of a corporation.

(u) Assistant Treasurers. Each Assistant Treasurer shall assist the Treasurer and, in the absence or disability of the Treasurer, may perform the duties of the Treasurer unless and until the contrary is expressed by the Board, and shall perform such other duties as may be prescribed by the Board or the Treasurer.

(v) Comptroller. The Comptroller shall be the principal officer in charge of the general accounting books, accounting records and forms of the Corporation and shall see that all monies and obligations due the Corporation and all properties and assets are properly accounted for. The Comptroller shall prepare the Corporation's balance sheets, income accounts and other financial statements and reports, and render to the Board, the Chief Executive Officer, and the Chief Financial Officer, such periodic reports covering the results of operations of the Corporation as may be required by them or any of them.

The Comptroller shall have such other powers and perform such other duties as may from time to time be prescribed by the Board, the Chief Executive Officer, the Chief Financial Officer or the Bylaws and shall in general, subject to control of the Board, the Chief Executive Officer, and the Chief Financial Officer, perform all the duties usually incident to the office of comptroller of a corporation.

(w) Assistant Comptrollers. Each Assistant Comptroller shall assist the Comptroller and, in the absence or disability of the Comptroller, may perform the duties of the Comptroller unless and until the contrary is expressed by the Board, and shall perform such other duties as may be prescribed by the Board or the Comptroller.

(x) Chief Legal Officer. The Chief Legal Officer shall be in charge of the Corporation's legal affairs. The Chief Legal Officer shall advise the Board, the Chairman of the Board and/or the officers of the Corporation on such legal matters and prepare such reports as may be required by them or any of them.

#### ARTICLE VIII MISCELLANEOUS

Section 1. Execution of Documents. Unless otherwise authorized by or pursuant to a resolution of the Board of Directors, all contracts, leases, deeds, deeds of trust, mortgages, bonds, indentures, endorsements, assignments, powers of attorney, and other documents and instruments of whatsoever kind shall be executed for and on behalf of the Corporation by the Chairman and Chief Executive Officer, the Vice Chairman, the Chief Financial Officer, a Vice President, the Treasurer, the Comptroller, or by any such officer and shall be attested by the Secretary or an Assistant Secretary, who shall have authority to affix the corporate seal to the same.

Section 2. Undertakings and Commitments. No undertaking, commitment, contract, instrument or document shall be binding upon the Corporation unless previously authorized or subsequently ratified by the Board or executed by an officer or officers, an employee or employees or an agent or agents of the Corporation acting under powers conferred by the Board or by these Bylaws.

Section 3. Checks, Drafts, etc. All checks, notes and other obligations for collection, deposit or transfer, and all checks and drafts for disbursement from Corporation funds, and all bills of exchange and promissory notes, and all acceptances, obligations and other instruments for the payment of money, shall be endorsed or signed by such officer or officers, employee or employees or agent or agents as shall be authorized from time to time to do so by or pursuant to a resolution of the Board of Directors.

Section 4. Representation of Shares of Other Corporations. Shares standing in the name of the Corporation may be voted or represented and all rights incident thereto may be exercised on behalf of the Corporation by the Chairman and Chief Executive Officer, the Vice Chairman, the Chief Financial Officer, a Vice President, the Secretary, the Treasurer or the Comptroller, or by such other officers upon whom the Board of Directors may from time to time confer like powers.

#### ARTICLE IX AMENDMENTS TO BYLAWS

Section 1. Power of Stockholders. New Bylaws may be adopted or these Bylaws may be amended or repealed by the vote of seventy-five (75) percent of the outstanding stock of the Corporation entitled to vote thereon.

Section 2. Power of Directors. Subject to the right of stockholders as provided in Section 1 of this ARTICLE IX to adopt, amend or repeal Bylaws, Bylaws may be adopted, amended or repealed by the Board of Directors as provided or permitted by law; however, any Bylaw amendment adopted by the Board of Directors increasing or reducing the authorized number of directors or amending this Section shall require a resolution adopted by the affirmative vote of not less than seventy-five (75) percent of the directors.

ARTICLE X  
EMERGENCY

Section 1. "Emergency" as used in this Article means disorder, disturbance or damage caused by war, enemy attack, other warlike acts or by catastrophe, disaster or other similar emergency condition, which prevents the conduct and management of the affairs and business of the Corporation by the Board of Directors and officers in the manner provided for in other Articles of these Bylaws. The powers and duties conferred and imposed by this Article, and any resolutions adopted pursuant hereto, shall be effective only during an emergency. This Article may be implemented from time to time by resolutions adopted by the Board of Directors before or during an emergency, or during an emergency by the emergency Board of Directors constituted and then acting pursuant hereto. An emergency, once commenced, shall be deemed to continue until terminated by resolutions adopted for that purpose by the Board of Directors.

Section 2. If, during an emergency, a majority of the Board of Directors cannot be found or is unable to act, one-third (1/3) of the exact number of the Board of Directors shall constitute a quorum thereof.

Section 3. During any emergency, the officers and employees of the Corporation shall continue, so far as possible, to conduct the Corporation's affairs and business under the guidance of the Board of Directors acting pursuant to this Article and in accordance with known orders of governmental authorities.

Section 4. If, during any emergency, a quorum of the Board of Directors, as provided in Section 3 of this Article, cannot be found or is unable to act, any three (3) available members of the Executive Committee, including the Chief Executive Officer, shall be and constitute the Board of Directors, with two (2) thereof constituting a quorum, and as such shall have and exercise the fullest power of the Board of Directors for the conduct and management of the affairs and business of the Corporation, permitted by law, without the limitations set forth in Section 2 of ARTICLE V of these Bylaws, provided that such emergency Board of Directors as so constituted shall comply to the extent practicable under the circumstances with the provisions of ARTICLE III of these Bylaws relating to annual and special meetings of stockholders. If three (3) members of the Executive Committee, including the Chief Executive Officer, are not able to serve, any three (3) available directors shall be and constitute such emergency Board of Directors, with two (2) thereof constituting a quorum, for the exercise of the powers conferred and performance of the duties imposed by this Section 4.

Section 5. If, during any emergency, neither a quorum of the Board of Directors, as provided in Section 3 of this Article, nor a quorum of the emergency Board of Directors, as provided for in Section 4 of this Article is available to serve, then the powers conferred and duties imposed by Section 4 shall vest in and devolve upon any three (3) of (in the following order of priority) available directors, Executive Vice Presidents, the Chief Financial Officer, and as many other Vice Presidents (or, in case of their inability, any other officers), in order of seniority, as may be necessary from time to time to constitute a total of three (3) emergency directors. The Chief Executive Officer and any other one (1) emergency director shall constitute a quorum of such emergency Board of Directors for exercise of the powers conferred and performance of the duties imposed hereunder, but if the Chief Executive Officer is not available, any two (2) of such emergency directors shall constitute a quorum.

Unocal Corporation Director  
Indemnity Agreement

This Agreement is made as of [Insert Date of Appt] by and among Unocal Corporation, a Delaware corporation (the "Corporation"), and [Insert Name of Unocal Director] (the "Director") with reference to the following facts:

RECITALS

A. The Director is currently a member of the Board of Directors of the Corporation and of certain subsidiaries of the Corporation and is performing valuable services for the Corporation. The Corporation wishes the Director to continue in such capacity, and the Director is willing, under certain circumstances, to continue in such capacity.

B. The Corporation's Certificate of Incorporation, as permitted by Section 102(b)(7) of the Delaware General Corporation Law, has been amended to eliminate the Director's liability to the Corporation and its shareholders for monetary damages for certain breaches of fiduciary duty.

C. The Bylaws of the Corporation provide for the indemnification of the officers, directors, agents, and employees of the Corporation to the maximum extent authorized by Section 145 of the Delaware General Corporation Law, as amended or as may be amended, revised, or superseded.

D. In addition to the indemnification to which the Director is entitled pursuant to the Bylaws of the Corporation and as additional consideration for the Director's services, the Corporation has, in the past, furnished at its expense directors and officers liability insurance protecting the Director in connection with such services. The Corporation is continuing to furnish such insurance at its expense and will continue to do so, subject to the availability of such insurance at a reasonable cost. Moreover, insurance carriers, as a condition of issuing director and officer liability insurance policies, are requiring that corporations protect directors from liability to the maximum extent permitted by the Delaware General Corporation Law.

E. The Director has indicated that he does not regard the Certificate of Incorporation (as amended to incorporate the protections permitted by Section 102(b)(7) of the Delaware General Corporation Law), the indemnities available under the Corporation's Bylaws, and the directors and officers liability insurance in effect as adequate to protect him against the risks associated with his services to the Corporation. The Director may not be willing to continue in office in the absence of the further lawful protections afforded by the instant Agreement.

AGREEMENT

NOW, THEREFORE, in order to induce the Director to continue to serve as a Director of the Corporation and of certain subsidiaries of the Corporation, in consideration for his continued services, and in order to do everything possible to procure and maintain adequate director and officer liability insurance policies, the Corporation hereby agrees to indemnify the Director as follows:

1. The Corporation will pay on behalf of the Director and his executors, administrators, or assigns, any amount which he is or becomes legally obligated to pay because of any claim or claims made against him because of any act or omission or neglect or breach of duty, including any actual or alleged error or misstatement or misleading statement, which he commits or suffers while acting in his capacity as a Director of the Corporation or of certain subsidiaries of the Corporation and solely because of his being a Director. The payments which the Corporation will be obligated to make hereunder shall include, inter alia, damages, judgments, settlements and costs, costs of investigation (excluding salaries of officers or employees of the Corporation), and costs of defense of legal actions, claims, or proceedings and appeals

therefrom, and costs of attachment or similar bonds; provided, however, that the

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Corporation shall not be obligated to pay fines or other obligations or fees imposed by law or otherwise which it is prohibited from paying as indemnity by applicable law or public policy or for any other reason.

2. If a claim under this Agreement is not paid by the Corporation, or on its behalf, within sixty (60) days after a written claim has been received by the Corporation, the Director may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim; and, if successful in whole or in part, circumstance Director shall also be entitled to be paid the expense of prosecuting such claim.

3. In the event of payment under this Agreement, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Director, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Corporation effectively to bring suit to enforce such rights.

4. The Corporation shall not be liable under this Agreement to make any payment in connection with any claim made against the Director:

(a) for which payment is actually made to the Director under a valid and collectible insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(b) for which the Director is entitled to indemnity and/or payment by reason of having given notice of any circumstance which might give rise to a claim under any policy of insurance, the terms of which have expired prior to the effective date of this Agreement;

(c) for which the Director is indemnified by the Corporation otherwise than pursuant to this Agreement;

(d) based upon or attributable to the Director gaining in fact any personal profit or advantage to which he was not legally entitled;

(e) for an accounting or profits made from the purchase or sale by the Director of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law;

(f) brought about or contributed to by the dishonesty of the Director seeking payment hereunder; however, notwithstanding the foregoing, the Director shall be protected under this Agreement as to any claims upon which suit may be brought against him by reason of any alleged dishonesty on his part, unless a judgment or other final adjudication thereof adverse to the Director shall establish that he committed (i) acts of active and deliberate dishonesty (ii) with actual dishonest purpose and intent, which acts were material to the cause of action so adjudicated; or

(g) if a court holds that such payment is prohibited by applicable law or is against public policy.

5. No costs, charges, or expenses for which indemnity shall be sought hereunder shall be incurred without the Corporation's consent, which consent shall not be unreasonably withheld.

6. The Director, as a condition precedent to his right to be indemnified under this Agreement, shall give to the Corporation notice in writing as soon as practicable of any claim made against him for which indemnity will or could be sought under this Agreement. Notice to the Corporation shall be directed to Unocal Corporation, Attention: Corporate Secretary, 2141 Rosecrans Avenue, Suite 4000, El Segundo, California 90245 (or such other address as to the Corporation shall designate in writing to Director); notice shall be deemed received if sent by prepaid mail properly addressed, the date of such notice being the date postmarked. In addition, the Director shall give the Corporation such information and cooperation as it may reasonably require and as shall be within the Director's power.

7. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one instrument.

8. Nothing herein shall be deemed to diminish or otherwise restrict the Director's right to indemnification under any provision of the Certificate of Incorporation or Bylaws of the Corporation or under Delaware law.

9. This Agreement shall be governed by and construed in accordance with Delaware law .

10. This Agreement shall be binding upon all successors and assigns of the Corporation (including any transferee of all or substantially all of its assets and any successor by merger, consolidation, or operation of law) and shall inure to the benefit of the heirs, personal representatives and estate of the Director.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and signed as of the day and year first above written.

DIRECTOR:

UNOCAL CORPORATION

By \_\_\_\_\_  
Dennis P.R. Codon, Vice President, Chief Legal  
Officer and General Counsel

\_\_\_\_\_  
[Insert Director's Name]

By \_\_\_\_\_  
Brigitte M. Dewez, Corporate Secretary

Unocal Corporation Director  
Insurance Agreement

This Unocal Corporation Director Insurance Agreement ("Agreement") is made  
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as of [Insert Date of Agreement], by and between Unocal Corporation, a Delaware  
corporation (the "Corporation"), and [Insert Name of Unocal Director] (the  
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"Director") with reference to the following facts:  
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RECITALS  
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A. The Director is currently a member of the Board of Directors of the Corporation, as well as of certain subsidiaries and affiliates of the Corporation, and is performing valuable services for the Corporation. The Corporation wishes the Director to continue in such capacities, and the Director is willing, under certain circumstances, to continue in such capacities.

B. The Corporation's Certificate of Incorporation, as permitted by Section 102(b)(7) of the Delaware General Corporation Law, has been amended to eliminate the Director's liability to the Corporation and its stockholders for monetary damages for certain breaches of fiduciary duty.

C. The Bylaws of the Corporation provide for the indemnification of the officers, directors, agents, and employees of the Corporation to the maximum extent authorized by Section 145 of the Delaware General Corporation Law, as amended or as may be amended, revised, or superseded.

D. The Corporation and Director have entered into a Unocal Corporation Director Indemnification Agreement ("Indemnification Agreement") whereby the  
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Corporation has agreed to indemnify the Director under certain circumstances.

E. The Director has indicated that he or she does not regard the Corporation's Certificate of Incorporation, the indemnities available under the Corporation's Bylaws, and the Indemnification Agreement as adequate to protect him or her against the risks associated with his or her services to the Corporation. The Director may not be willing to continue in office in the absence of the further lawful protection afforded by the instant Agreement.

AGREEMENT  
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NOW, THEREFORE, in order to induce the Director to continue to serve as a director of the Corporation and of certain subsidiaries and affiliates of the Corporation, in consideration for his or her continued services, the parties hereby agree as follows:

1. The Corporation shall maintain in full force and effect, at its own expense, director and officer liability insurance ("Insurance") coverage for the  
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Director in amounts and scope at least as favorable as that maintained by the Corporation on September 30, 1996, or, to the extent more favorable, any Insurance policy entered into or renewed by the Corporation following such date. Notwithstanding the foregoing, if (a) the Corporation, after using its best efforts, cannot obtain and purchase such coverage for an amount no more than what it paid for the most recent expiring Insurance policy plus a reasonable additional amount, and (b) the Corporation has so notified the Director at the most recent address the Corporate Secretary has for the Director, then the Corporation shall only be required to purchase such Insurance coverage for any act or omission occurring at or prior to the time of such date. Such obligation shall continue for so long as the Director may be subject to any possible claim which might be covered under such Insurance coverage. The Corporation agrees that money damages would not be a sufficient remedy for any breach of this provision and that the Director shall be entitled to specific performance and injunctive or other equitable relief as remedies for any such breach. Such remedies shall not be deemed

to be the exclusive remedies of the Director, and shall be in addition to all other remedies available at law or in equity to the Director. The Corporation waives any requirement for the securing or posting of any bond in connection with any such remedy.

2. The Director shall give to the Corporation notice as soon practicable of any action, suit, or proceeding, whether civil, criminal, administrative or investigative, for which Insurance coverage could be available ("Proceeding").  
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3. The Director shall give the Corporation and any insurance company providing Insurance coverage, such information and cooperation in the defense of a Proceeding as they may reasonably require and as shall be within the Director's power; provided, however, that if a Proceeding is brought by the Corporation, or if the Corporation is assisting or cooperating in the prosecution of a Proceeding against the Director, the Director shall only be required to provide information to and cooperate with any insurance company providing Insurance coverage.

4. Nothing herein shall be deemed to diminish or otherwise restrict the Director's right to indemnification under any provision of the Certificate of Incorporation or Bylaws of the Corporation, the Indemnification Agreement, under Delaware law, or under any other obligation whatsoever of the Corporation to indemnify the Director.

5. This Agreement shall be binding upon all successors and assigns of the Corporation (including any transferee of all or substantially all of its assets and any successor by merger, consolidation, or operation of law) and shall inure to the benefit of the heirs, personal representatives and estate of the Director.

6. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one instrument.

7. This Agreement shall be governed by and construed in accordance with Delaware law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and signed as of the day and year first above written.

UNOCAL CORPORATION

DIRECTOR:

By \_\_\_\_\_  
Dennis P.R. Codon, Vice President, Chief Legal  
Officer and General Counsel

\_\_\_\_\_  
[Insert Director's Name]

By \_\_\_\_\_  
Brigitte M. Dewez, Corporate Secretary

Unocal Corporation Officer  
Indemnity Agreement

This Unocal Corporation Officer Indemnity Agreement ("Agreement") is made as  
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of [Insert Date of Appt] by and between Unocal Corporation, a Delaware  
corporation (the "Corporation"), and [Insert Name of Unocal Officer] (the  
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"Officer") with reference to the following facts:  
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RECITALS  
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A. The Officer is currently an officer of the Corporation, as well as of  
certain subsidiaries and affiliates of the Corporation, and is performing  
valuable services for the Corporation. The Corporation wishes the Officer to  
continue in such capacities, and the Officer is willing, under certain  
circumstances, to continue in such capacities.

B. The Bylaws of the Corporation provide for the indemnification of the  
officers of the Corporation to the maximum extent authorized by Section 145 of  
the Delaware General Corporation Law, as amended or as may be amended, revised,  
or superseded.

C. In addition to the indemnification to which the Officer is entitled  
pursuant to the Bylaws of the Corporation and as additional consideration for  
the Officer's services, the Corporation has, in the past, furnished at its  
expense director and officer liability insurance ("Insurance"). Many such  
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insurance carriers, as a condition of issuing Insurance policies, are requiring  
that corporations protect directors and officers from liability to the maximum  
extent permitted by law.

D. The Officer has indicated that he does not regard the Certificate of  
Incorporation, the indemnities available under the Corporation's Bylaws, and the  
Insurance currently in effect as adequate to protect him or her against the  
risks associated with his or her services to the Corporation. The Officer may  
not be willing to continue in office in the absence of the further lawful  
protection afforded by the instant Agreement.

AGREEMENT  
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NOW, THEREFORE, in order to induce the Officer to continue to serve as an  
Officer of the Corporation and of certain subsidiaries and affiliates of the  
Corporation, in consideration for his or her continued services, and in order to  
do everything possible to procure and maintain adequate Insurance policies, the  
parties hereby agree as follows:

1. The Corporation will pay on behalf of the Officer and his or her heirs,  
executors, administrators, or assigns, any amount which he or she is or becomes  
legally obligated to pay because of any action, suit, or proceeding, whether  
civil, criminal, administrative or investigative, the Officer is made or is  
threatened to be made a party to or involved in ("Proceeding") because of any  
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act or omission or neglect or breach of duty, including any actual or alleged  
error or misstatement or misleading statement, which he or she commits or  
suffers while in his or her capacity as an Officer of the Corporation, or at the  
request of the Corporation, acting as a director, officer, trustee, fiduciary,  
employee, or agent (collectively, "Agent") of another foreign or domestic  
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corporation, limited liability company, partnership, joint venture, trust, or  
any other enterprise or entity whatsoever, including without limitation,  
employee benefit plans (collectively, "Affiliate"), or by reason of the fact  
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that the Officer is or was an Officer of the Corporation or is or was serving at  
the request of the Corporation as an Agent of an Affiliate, whether the basis of  
such Proceeding is alleged action in an official capacity, or in any other  
capacity, to the fullest extent authorized by the Delaware General Corporation  
Law, as the same exists on the date hereof or as may hereafter be amended (but,  
in the case of any such amendment, only to the extent that such amendment  
permits the Corporation to provide broader indemnification rights than said law  
permitted the Corporation to provide

prior to such amendment); provided, however, that except with respect to Proceedings seeking to enforce rights to indemnification hereunder, the Corporation shall indemnify the Officer with respect to Proceedings initiated by the Officer only if such Proceeding was authorized by the Board of Directors of the Corporation. The indemnification provided for herein shall continue after the Officer has ceased to be an Officer of the Corporation or an Agent of an Affiliate.

2. The payments which the Corporation will be obligated to make hereunder shall include any expense, liability or loss of the Officer, including without limitation, damages, judgments, fines, ERISA excise taxes, penalties, amounts paid or to be paid in settlement or in costs, costs of investigation, attorneys' fees and any other costs of defense of legal actions, claims or proceedings and appeals therefrom, and costs of attachment or similar bonds, and any other amounts actually incurred or suffered by the Officer in connection with any Proceeding. The Corporation shall advance to the Officer as soon as practicable any and all attorneys' fees and any other costs of investigation or defense upon receipt by the Corporation of an undertaking, if such undertaking is required by law, by or on the behalf of the Officer to repay all amounts so advanced if a final adjudication shall establish that the Officer was not entitled to be indemnified.

3. The Corporation shall not be liable under this Agreement to make any payment in connection with any Proceeding:

(a) for which payment is actually made to the Officer under a valid and collectible insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(b) for which the Officer is indemnified by the Corporation otherwise than pursuant to this Agreement;

(c) based upon or attributable to the Officer gaining in fact any personal profit or advantage to which he was not legally entitled; or

(d) if a judgment or other final adjudication shall establish that such payment is prohibited by applicable law or is against public policy.

4. If a claim under this Agreement is not paid by the Corporation, or on its behalf, within sixty (60) days after a written claim has been received by the Corporation (except in the case of a claim for expenses incurred in a Proceeding in advance of its final disposition in which case the applicable period shall be twenty (20) days), the Officer may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim; and, if successful in whole or in part in such suit or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Officer shall also be entitled to be paid the expense of prosecuting or defending such claim.

5. The Corporation shall maintain in full force and effect, at its own expense, Insurance coverage for the Officer in amounts and scope at least as favorable as that maintained by the Corporation on September 30, 1996, or, to the extent more favorable, any Insurance policy entered into or renewed by the Corporation following such date. Notwithstanding the foregoing, if (a) the Corporation, after using its best efforts, cannot obtain and purchase such coverage for an amount no more than what it paid for the most recent expiring Insurance policy plus a reasonable additional amount, and (b) the Corporation has so notified the Officer at the most recent address the Corporate Secretary has for the Officer, then the Corporation shall only be required to purchase such Insurance coverage for any act or omission occurring at or prior to the time of such date. Such obligation shall continue for so long as the Officer may be subject to any possible claim which might be covered under such Insurance coverage. The Corporation agrees that money damages would not be a sufficient remedy for any breach of this provision and that the Officer shall be entitled to specific performance and injunctive or other equitable relief as remedies for any such breach. Such remedies shall not be deemed to be the exclusive remedies of the Officer, and shall

be in addition to all other remedies available at law or in equity to the Officer. The Corporation waives any requirement for the securing or posting of any bond in connection with any such remedy.

6. The Officer shall give to the Corporation notice as soon practicable of any Proceeding for which indemnity will or could be sought under this Agreement, the Corporation's Bylaws, or any other obligation whatsoever of the Corporation to indemnify the Officer or for which Insurance coverage could be available.

7. The Officer shall give the Corporation and any insurance company providing Insurance coverage, such information and cooperation in the defense of a Proceeding as they may reasonably require and as shall be within the Officer's power; provided, however, that if a Proceeding is brought by the Corporation, or if the Corporation is assisting or cooperating in the prosecution of a Proceeding against the Officer, the Officer shall only be required to provide information to and cooperate with any insurance company providing Insurance coverage.

8. Nothing herein shall be deemed to diminish or otherwise restrict the Officer's right to indemnification under any provision of the Certificate of Incorporation or Bylaws of the Corporation, under Delaware law, or under any other obligation whatsoever of the Corporation to indemnify the Officer.

9. In the event of payment under this Agreement, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Officer, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Corporation effectively to bring suit to enforce such rights.

10. The provisions of this Agreement shall be severable in the event that any of the provisions hereof are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent permitted, the provisions of this Agreement shall be construed so as to give effect to the intent manifested by any provision held invalid, void or otherwise unenforceable.

11. This Agreement shall be binding upon all successors and assigns of the Corporation (including any transferee of all or substantially all of its assets and any successor by merger, consolidation, or operation of law) and shall inure to the benefit of the heirs, personal representatives and estate of the Officer.

12. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one instrument.

13. This Agreement shall be governed by and construed in accordance with Delaware law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and signed as of the day and year first above written.

UNOCAL CORPORATION

OFFICER:

By \_\_\_\_\_  
Dennis P.R. Codon, Vice President, Chief Legal  
Officer and General Counsel

-----  
[Insert Officer's Name]

By \_\_\_\_\_  
Brigitte M. Dewez, Corporate Secretary

## EXHIBIT 12.1

UNOCAL CORPORATION AND CONSOLIDATED SUBSIDIARIES  
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

Millions of dollars	Year ended December 31				
	1998	1997	1996	1995	1994
Earnings from continuing operations	\$ 130	\$ 669	\$ 456	\$ 249	\$ 110
Provision for income taxes	175	102	302	226	161
Earnings subtotal (a)	305	771	758	475	271
Fixed charges included in earnings:					
Interest expense	177	183	279	291	275
Distribution on convertible preferred securities	33	33	10	-	-
Interest portion of rentals (b)	20	23	40	41	50
Fixed charges subtotal	230	239	329	332	325
Earnings from continuing operations available before fixed charges	\$ 535	1,010	\$1,087	\$ 807	\$ 596
Fixed charges:					
Fixed charges included in earnings	230	239	329	332	325
Capitalized interest	26	35	15	35	30
Total fixed charges	\$ 256	\$ 274	\$ 344	\$ 367	\$ 355
Ratio of earnings from continuing operations to fixed charges	2.1	3.7	3.2	2.2	1.7
(a) Includes pre-tax impairment of:	102	69	75	105	71
The ratio of earnings, excluding impairment, to fixed charges would be:	2.5	3.9	3.4	2.5	1.9
(b) Calculated as one-third of operating rental expense.					

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## EXHIBIT 12.2

UNOCAL CORPORATION AND CONSOLIDATED SUBSIDIARIES  
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES  
 AND PREFERRED STOCK DIVIDENDS

Millions of dollars	Year ended December 31				
	1998	1997	1996	1995	1994
Earnings from continuing operations	\$ 130	\$ 669	\$ 456	\$ 249	\$ 110
Provision for income taxes	175	102	302	226	161
Earnings subtotal (a)	305	771	758	475	271
Fixed charges included in earnings:					
Interest expense	177	183	279	291	275
Distribution on convertible preferred securities	33	33	10	-	-
Interest portion of rentals (b)	20	23	40	41	50
Fixed charges subtotal	230	239	329	332	325
Earnings from continuing operations available before fixed charges	\$ 535	\$1,010	\$1,087	\$ 807	\$ 596
Fixed charges:					
Fixed charges included in earnings	230	239	329	332	325
Capitalized interest	26	35	15	35	30
Preferred stock dividends, pre-tax basis	-	-	29	58	58
Total fixed charges	\$ 256	\$ 274	\$ 373	\$ 425	\$ 413
Ratio of earnings from continuing operations to fixed charges	2.1	3.7	2.9	1.9	1.4
(a) Includes pre-tax impairment of:	102	69	75	105	71
The ratio of earnings, excluding impairment, to fixed charges would be:	2.5	3.9	3.1	2.1	1.6

(b) Calculated as one-third of operating rental expense.

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## EXHIBIT 12.3

UNION OIL COMPANY OF CALIFORNIA AND CONSOLIDATED SUBSIDIARIES  
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

Millions of dollars	Year ended December 31				
	1998	1997	1996	1995	1994
Earnings from continuing operations	\$ 152	\$ 687	\$ 468	\$ 251	\$ 111
Provision for income taxes	188	119	302	226	161
Earnings subtotal	340	806	770	477	272
Fixed charges included in earnings:					
Interest expense	177	183	279	291	275
Interest portion of rentals	20	23	40	41	50
Fixed charges subtotal	197	206	319	332	325
Earnings from continuing operations available before fixed charges	\$ 537	\$1,012	\$1,089	\$ 809	\$ 597
Fixed charges:					
Fixed charges included in earnings	197	206	319	332	325
Capitalized interest	26	35	15	35	30
Total fixed charges	\$ 223	\$ 241	\$ 334	\$ 367	\$ 355
Ratio of earnings from continuing operations to fixed charges	2.4	4.2	3.3	2.2	1.7
(a) Includes pre-tax impairment of:	102	69	75	105	71
The ratio of earnings, excluding impairment, to fixed charges would be:	2.9	4.5	3.5	2.5	1.9

(b) Calculated as one-third of operating rental expense.

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## SUBSIDIARIES OF UNOCAL CORPORATION

Name of Company (a)	Organized under Law of
Union Oil Company of California, dba "UNOCAL"	California
Molycorp, Inc.	Delaware
Philippine Geothermal, Inc.	California
Unocal Foreign Investments Inc.	Delaware
Unocal Geothermal of Indonesia, Ltd.	Bermuda
Unocal International Corporation	Nevada
Unocal Bangladesh Exploration, Ltd. (b)	Bermuda
Unocal Bangladesh, Ltd. (c)	Bermuda
Unocal Canada Limited	Alberta
Unocal Canada Resources (d)	Alberta
Unocal Canada Exploration Limited	Alberta
Unocal Canada International Company	Nova Scotia
Unocal Canada Management Limited	Alberta
Unocal Global Ventures, Ltd. (e)	Bermuda
Unocal Asia-Pacific Ventures, Ltd.	Bermuda
Unocal Indonesia, Ltd.	Bermuda
Unocal Indonesia Company (f)	Bermuda
Unocal Khazar Holdings, Ltd. (e)	Bermuda
Unocal Khazar, Ltd. (g)	Bermuda
Unocal Myanmar Offshore Co., Ltd.	Bermuda
Unocal Netherlands B.V.	Netherlands
Unocal Thailand, Ltd.	Bermuda
Unocal Capital Trust	Delaware

- (a) The indented companies are subsidiaries of Union Oil Company of California. The names of approximately 250 subsidiaries are omitted inasmuch as such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.
- (b) Owned 94.48 percent by Unocal International Corporation and 5.52 percent by Unocal Foreign Investments Inc.
- (c) Owned 93.02 percent by Unocal International Corporation and 6.98 percent by Unocal Foreign Investments Inc.
- (d) Owned 89.499 percent by Unocal Canada Limited, 5.650 percent by Unocal Canada Exploration Limited and 4.851 percent by Unocal Canada Management Limited.
- (e) Owned 95 percent by Unocal International Corporation and 5 percent by Unocal Foreign Investments Inc.
- (f) Owned 53.1 percent by Unocal Indonesia, Ltd. and 46.9 percent by Unocal Canada International Company.
- (g) Owned 65 percent by Unocal Khazar Holdings, Ltd., and 35 percent by Unocal Global Ventures, Ltd.

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CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the following Registration Statements of Unocal Corporation, Registration Statements on Form S-3 (Nos. 33-63719 and 333-58415-01) and Registration Statements on Form S-8 (Nos. 33-43231, 33-43232, 33-65461, 333-09685, 333-25039, 333-36987 and 333-62199) of our report dated February 12, 1999, except as to note 27, which is as of March 10, 1999, on our audits of the consolidated financial statements and financial statement schedule of Unocal Corporation as of December 31, 1998 and 1997, and for the years ended December 31, 1998, 1997, and 1996, which report is included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP  
Los Angeles, California  
March 15, 1999  
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BYLAWS  
OF

UNION OIL COMPANY OF CALIFORNIA  
a California Corporation  
(Effective March 3, 1999)

ARTICLE I  
FISCAL YEAR

Section 1. The fiscal year of Union Oil Company of California (hereinafter called the "Company") shall end on the thirty-first day of December of each year.

ARTICLE II  
OFFICES

Section 1. Principal Office. The principal office for the transaction of business of the Company is hereby fixed and located at 2141 Rosecrans Avenue, Suite 4000, in the City of El Segundo, County of Los Angeles, State of California. The Board of Directors (hereinafter sometimes called the "Board") is hereby granted full power and authority to change said principal office from one location to another in said county.

ARTICLE III  
SHAREHOLDERS

Section 1. Annual Meetings. The annual meetings of the shareholders shall be held at 10:00 o'clock A.M. on the fourth Monday in May of each year if not a legal holiday, for the purpose of electing directors, consideration of reports of the affairs of the Company, and for the transaction of any other business which is within the powers of the shareholders and properly brought before the meeting. If the fourth Monday in May is a legal holiday, the annual meeting of the shareholders shall be held at 10:00 o'clock A.M. on the preceding or subsequent Monday as fixed by resolution of the Board.

Section 2. Special Meetings. Special meetings of the shareholders for any purpose whatsoever may be called at any time by the Chairman of the Board, the Chief Executive Officer, the Board, or by one or more shareholders holding not less than ten percent of the voting power of the Company upon request in writing to the Chairman of the Board, the Chief Executive Officer, the Vice Chairman, a Vice President or the Secretary. The business transacted at special meetings shall be confined to the purpose or purposes stated in the notice of such meetings.

Section 3. Notice of Meetings. Written notice of each annual or special meeting of shareholders shall be given to each shareholder entitled to vote thereat not less than ten nor more than sixty days before the meeting.

Section 4. Place of Meetings. All meetings of shareholders, whether annual or special, shall be held at the principal office of the Company or at such other place, within or without the State of California, as the Board may from time to time designate pursuant to authority hereinafter granted it. In the absence of any such designation, shareholders' meetings shall be held at the principal office of the Company.

Section 5. Voting Rights. Shareholders entitled to vote at shareholder meetings shall be entitled to one vote for each full share. A fraction of a share or a fractional interest in a share shall not be entitled to any voting rights whatsoever.

Section 6. Conduct of Meetings. The decisions of the Chairman of the Board or officer presiding at all shareholders' meetings shall govern in all matters relating to the conduct of the meeting.

Section 7. Voting. Directors shall be elected in accordance with the provisions of the California Corporations Code by holders of shares entitled to vote in the election; provided, however, a nomination shall be accepted, and votes cast for a nominee shall be counted by the inspectors of election, only if the Secretary of the Company has received at least twenty-four hours prior to the meeting a statement over the signature of the nominee that such person consents to being a nominee and, if elected, intends to serve as a director.

Section 8. Action Without a Meeting. Any action which may be taken at any annual or special meeting may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, shall be signed by the holders of the outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Directors may not be elected by written consent except by unanimous written consent of all shares entitled to vote for the election of directors.

#### ARTICLE IV BOARD OF DIRECTORS

Section 1. Powers. Subject to the limitations of the Restated Articles of Incorporation of the Company and of the California General Corporation Law as to action required or authorized to be approved by the shareholders, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed by, the Board of Directors.

Section 2. Number. The exact number of directors of the Company, within the limits specified in Article Fourth of the Company's Restated Articles of Incorporation, shall be eleven (11) until changed in the manner provided by law.

Section 3. Chairman and Vice Chairman of the Board. The Board shall appoint a Chairman, who shall preside at all meetings of the Board of Directors and shall have such other powers and duties as may from time to time be assigned by the Board of Directors or prescribed by the Bylaws. The Board may also appoint a Vice Chairman, who shall preside at all meetings of the Board of Directors in the absence of the Chairman and shall have such other powers and duties as may from time to time be assigned by the Board of Directors or prescribed by the Bylaws.

Section 4. Annual Meetings. Immediately following each annual meeting of shareholders, the Board shall hold its annual meeting for the purpose of organization, election of officers and the transaction of any other business.

Section 5. Regular Meetings. Regular meetings of the Board shall be held at the times and on the dates fixed by resolution of the Board.

Section 6. Special Meetings. Special meetings of the Board for any purpose or purposes whatsoever may be called by the Chairman of the Board or the Chief Executive Officer or, in the absence or inability of either of them, by the Vice Chairman, the Chief Financial Officer, or by at least two (2) of the directors at the time in office.

Section 7. Notice of Meetings. Notice of annual meetings and of regular meetings of the Board is hereby dispensed with. Notice of special meetings must be given at least two days in advance if given by mail, or at least twenty-four hours in advance if delivered personally or given by telephone or telegram.

Section 8. Place of Meetings. All meetings of the Board, whether annual, regular or special meetings, shall be held at any place within or without the State of California which has been designated from time to time by resolution of the Board or in the notice of the meeting. In the absence of such designation all directors' meetings shall be held at the principal office of the Company.

Section 9. Quorum. A majority of the exact number of directors specified in Section 2 of ARTICLE IV of the Bylaws shall constitute a quorum of the Board of Directors for the transaction of business; provided, however, that vacancies on the Board may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, each such director to hold office until a successor is elected at an annual or special meeting of the shareholders.

Section 10. Compensation of Directors. Directors and members of committees appointed by the Board shall receive such compensation, if any, for their services, and such reimbursement for their expenses as may be fixed or determined by resolution of the Board. The Board may, however, in any such resolution provide that directors who are also employees of the Company or any of its subsidiaries shall not receive additional compensation for services as a director or member of a committee appointed by the Board.

Section 11. Indemnification of Directors, Officers, Employees and Other Agents.

(a) The Company shall, to the maximum extent permitted by the General Corporation Law of California, indemnify each of its directors and officers against all expense, liability, and loss, including without limitation, attorneys' fees, judgments, fines, ERISA excise taxes, penalties, amounts paid or to be paid in settlement, and any other amounts actually incurred in connection with any proceeding arising by reason of the fact any such person is or was a director or officer of the Company and shall advance to such director or officer expenses incurred in defending any such proceeding to the maximum extent permitted by such law. For purposes of this section, a "director" or "officer" of the Company includes any person who is or was a director or officer of the Company, or is or was serving at the request of the Company as a director, officer, trustee, or fiduciary, or in a similar capacity, of another foreign or domestic corporation, limited liability company, partnership, joint venture, trust, or any other enterprise or entity whatsoever, including without limitation service with respect to employee benefit plans.

(b) The Board of Directors may in its discretion provide by resolution, either on a general basis or as to specific employees or agents, for similar indemnification of, or advance of expenses to, other employees or agents of the Company, and likewise may refuse to provide for such indemnification or advance of expenses except to the extent such indemnification is mandatory under the California General Corporation Law.

(c) The Company shall maintain in full force and effect, at its own expense, director and officer liability insurance ("Insurance") coverage for each  
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director and officer in amounts and scope at least as favorable as that maintained by the Corporation on September 30, 1996, or, to the extent more favorable, any Insurance policy entered into or renewed by the Company following such date. Notwithstanding the foregoing, if the Company, after using its best efforts, cannot obtain and purchase such coverage for an amount no more than what it paid for the most recent expiring Insurance policy plus a reasonable additional amount, the Company shall only be required to purchase such Insurance coverage for any act or omission occurring at or prior to the time of such date.

(d) The rights provided to any person by this bylaw shall be enforceable against the Company by such person, who shall be presumed to have relied upon it in serving or continuing to serve as a director or officer, as provided above. No amendment of this bylaw shall impair the rights of any person arising at any time with respect to events occurring prior to such amendment, including, without limitation, any right of a director or officer to Insurance for any act or omission occurring at or prior to the time of such amendment.

Section 12. Authority to Designate Place of Shareholders' Meetings. The Board is hereby granted full power and authority to designate from time to time any place within or without the State of California for the holding of any shareholders' meeting, whether annual or special.

Section 13. Committees. The Board may, by resolution, appoint one or more committees, in addition to an Executive Committee and a Board Management Committee, to consist of two or more of the directors of the Company, and prescribe their duties and powers. A majority of the members of any such committee may

determine its action and fix the time and place of its meetings unless the Board shall otherwise provide. The Board shall have the power at any time to fill vacancies in, to change the membership of, or to dissolve any such committee.

Section 14. Action by Written Consent. Any action required or permitted to be taken by the Board or any committee thereof may be taken without a meeting, if all members of the Board or such committee, as the case may be, shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board.

Section 15. Conference Calls. Members of the Board or any committee thereof may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another.

#### ARTICLE V EXECUTIVE COMMITTEE

Section 1. Number and Composition. The Board of Directors shall appoint from its membership, annually, an Executive Committee of three or more directors. Included on the Executive Committee shall be the Chief Executive Officer of the Company. Each member of the Executive Committee shall hold membership at the pleasure of the Board, which shall have the exclusive power to fill vacancies thereon as they may occur. The Chairman of the Executive Committee shall be the Chief Executive Officer of the Company.

Section 2. Powers. The Executive Committee, during the intervals between meetings of the Board, shall have and there is hereby granted to it all the powers and authority of the Board of Directors in the management of the business and affairs of the Company, except that the Executive Committee shall not be permitted to fill vacancies on the Board or on any committee, approve any action for which approval of the shareholders is also required by the California General Corporation Law, amend or repeal any resolution of the Board which by its express terms is not so amendable or repealable, or appoint other committees of the Board or the members thereof or take any other action which may not be delegated to a committee of the Board under the California General Corporation Law.

Section 3. Procedure. Two members of the Executive Committee shall constitute a quorum of the Executive Committee for the transaction of business. The Executive Committee, by vote of a majority of its members, shall fix its own times and places of meetings and shall prescribe its own rules of procedure; no change in which shall be made save by a majority vote of its members.

Section 4. Records and Reports. The Executive Committee shall keep regular minutes of all business transacted at its meetings, and all action of the Executive Committee shall be reported to the Board at its next ensuing meeting.

Section 5. Compensation. Members of the Executive Committee may receive such compensation, if any, for their services, and such reimbursement for their expenses, as may be fixed or determined by the Board.

#### ARTICLE VI BOARD MANAGEMENT COMMITTEE

Section 1. Number and Composition. The Board of Directors shall appoint from its membership, annually, a Board Management Committee composed of the directors who are employee officers of the Company. The Chairman of the Board Management Committee shall be the Chief Executive Officer of the Company.

Section 2. Powers. The Board Management Committee, during the intervals between meetings of the Board, shall have and there is hereby granted to it all the powers and authority of the Board of Directors in the management of the business and affairs of the Company, subject to approval limits established by resolution of the Board of Directors as deemed appropriate from time to time, but the Board Management

Committee shall not be permitted to fill vacancies on the Board or on any committee, appoint the Chief Executive Officer or the Chief Financial Officer, approve any action for which shareholders' approval or approval of the outstanding shares is also required by the California General Corporation Law, to amend or repeal any resolution of the Board or of the Executive Committee which by its express terms is not so amendable or repealable, or to appoint other committees of the Board or the members thereof or take any other action which may not be delegated to a committee of the Board under Section 311 of the California General Corporation Law.

Section 3. Procedure. Two members of the Board Management Committee shall constitute a quorum of the Board Management Committee for the transaction of business. The Board Management Committee, by vote of a majority of its members, shall fix its own times and places of meetings and shall prescribe its own rules of procedure; no change in which shall be made save by a majority vote of its members.

Section 4. Records. The Board Management Committee shall keep regular minutes of all business transacted at its meetings.

#### ARTICLE VII OFFICERS

Section 1. Officers. The officers of the Company shall be a Chairman, a Chief Executive Officer, a Chief Financial Officer, a Vice President, a Secretary, a Comptroller, a Treasurer, and a Chief Legal Officer. The Company may also have, at the discretion of the Board, one (1) Vice Chairman, one (1) or more Vice Presidents, who may be designated as Executive Vice Presidents, Group Vice Presidents, Senior Vice Presidents or Vice Presidents, one (1) or more Assistant Chief Financial Officers, one (1) or more Assistant Secretaries, one (1) or more Assistant Treasurers, and one (1) or more Assistant Comptrollers, and the Board may appoint such other officers as it may deem necessary or advisable, who shall have such authority and perform such duties as from time to time may be prescribed by the Board, the Chairman of the Board, or the Chief Executive Officer. Any two (2) or more offices may be held by the same person.

Section 2. Election and Removal. The officers of the Company shall be chosen annually by the Board at its annual meeting and each shall hold office until the corresponding annual meeting of the Board in the next year and until a successor shall be elected and qualified unless such officer shall theretofore resign or shall be removed or otherwise disqualified to serve. The Board may remove any officer either with or without cause or under such other terms or conditions as it may prescribe. Vacancies may be filled by the Board as they may occur.

Section 3. Powers and Duties.

(a) Chief Executive Officer. The Chief Executive Officer shall be the officer, reporting directly to the Board, responsible for overall management of the Company and shall have general supervision, direction and control over the business and affairs of the Company and its officers. The Chief Executive Officer shall be a member of the Executive Committee and of the Board Management Committee and in general shall perform all duties incident to the office of Chief Executive Officer and shall have such powers and duties as may from time to time be assigned by the Board of Directors or prescribed by the Bylaws.

(b) Executive Vice Presidents. The Executive Vice Presidents in general shall perform all duties incident to the office of Executive Vice President, and shall have such powers and duties as may from time to time be assigned by the Board of Directors, the Chief Executive Officer or prescribed by the Bylaws.

(c) Other Vice Presidents. Other Vice Presidents, who may be designated as Group Vice Presidents, Senior Vice Presidents or Vice Presidents, shall have such authority and shall perform such duties as shall from time to time be assigned by the Board of Directors, the Chief Executive Officer, the Executive Vice Presidents or prescribed by the Bylaws.

(d) Chief Financial Officer. The Chief Financial Officer shall have such authority and shall perform such duties as shall from time to time be assigned by the Board, the Chief Executive Officer or prescribed by the Bylaws.

(e) Assistant Chief Financial Officer. Each Assistant Chief Financial Officer shall assist the Chief Financial Officer and shall perform such duties as shall from time to time be assigned by the Board, the Chief Executive Officer or the Chief Financial Officer.

(f) Secretary. The Secretary shall keep, or cause to be kept, a book of minutes, at the principal office and/or such other place or places as the Board may order, of all meetings of directors and shareholders, with the time and place of holding, whether regular or special, and if special how authorized, the notice thereof given, the names of those present at directors' meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof.

The Secretary shall keep or cause to be kept at the principal office, or at the office of the Company's transfer agent, a share register, which may be an electronic database, showing the names of the shareholders of record and their addresses, the number and classes of shares held by each, the numbers and dates of the certificates issued for those shares, and the numbers and dates of cancellation of every certificate surrendered for cancellation.

The Secretary shall give or cause to be given notice of all meetings of the shareholders and the Board required to be given by the Bylaws or by law. The Secretary shall have charge of and be custodian of the seal of the Company and the minute books and documents relating to the existence and governance of the Company.

The Secretary shall have such other powers and perform such other duties as may from time to time be prescribed by the Board, the Chairman of the Board, the Chief Executive Officer or the Bylaws, and shall in general, subject to control of the Board, the Chairman of the Board and the Chief Executive Officer, perform all the duties usually incident to the office of secretary of a corporation.

(g) Assistant Secretaries. Each Assistant Secretary shall assist the Secretary and, in the absence or disability of the Secretary, may perform the duties of the Secretary unless and until the contrary is expressed by the Board, and shall perform such other duties as may be prescribed by the Board or the Secretary.

(h) Treasurer. The Treasurer shall have custody of and be responsible for all the monies and funds of the Company. The Treasurer shall deposit or cause to be deposited all Company monies, funds and other valuables in the name and to the credit of the Company in such bank or banks as shall be proper or as shall be directed by the Board, the Chief Executive Officer, or the Chief Financial Officer, and shall disburse the funds of the Company which have been duly approved for disbursement. The Treasurer shall enter or cause to be entered regularly in the books of the Company full and accurate accounts of all monies received and paid out on account of the Company.

The Treasurer shall have such other powers and perform such other duties as may from time to time be prescribed by the Board, the Chief Executive Officer, the Chief Financial Officer or the Bylaws, and shall in general, subject to control of the Board, the Chief Executive Officer, and the Chief Financial Officer, perform all the duties usually incident to the office of treasurer of a corporation.

(i) Assistant Treasurers. Each Assistant Treasurer shall assist the Treasurer and, in the absence or disability of the Treasurer, may perform the duties of Treasurer unless and until the contrary is expressed by the Board, and shall perform such other duties as may be prescribed by the Board or the Treasurer.

(j) Comptroller. The Comptroller shall be the principal officer in charge of the general accounting books, accounting records and forms of the Company and shall see that all monies and obligations due the Company and all properties and assets are properly accounted for. The Comptroller shall prepare the Company's balance sheets, income accounts and other financial statements and reports, and render to the

Board, the Chief Executive Officer, and the Chief Financial Officer, such periodic reports covering the results of operations of the Company as may be required by them or any of them.

The Comptroller shall have such other powers and perform such other duties as may from time to time be prescribed by the Board, the Chief Executive Officer, the Chief Financial Officer or the Bylaws, and shall in general, subject to control of the Board, the Chief Executive Officer, and the Chief Financial Officer, perform all the duties usually incident to the office of comptroller of a corporation.

(k) Assistant Comptrollers. Each Assistant Comptroller shall assist the Comptroller and, in the absence or disability of the Comptroller, may perform the duties of the Comptroller unless and until the contrary is expressed by the Board, and shall perform such other duties as may be prescribed by the Board or the Comptroller.

(l) Chief Legal Officer. The Chief Legal Officer shall be in charge of the Company's legal affairs. The Chief Legal Officer shall advise the Board, the Chairman of the Board and/or the officers of the Company on such legal matters and prepare such reports as may be required by them or any of them.

#### ARTICLE VIII MISCELLANEOUS

Section 1. Execution of Documents. Unless otherwise authorized by or pursuant to a resolution of the Board of Directors, all contracts, leases, deeds, deeds of trust, mortgages, bonds, indentures, endorsements, assignments, powers of attorney to transfer stock or for other purposes, and other documents and instruments of whatsoever kind shall be executed for and on behalf of the Company by the Chairman and Chief Executive Officer, the Vice Chairman, the Chief Financial Officer, a Vice President, the Treasurer, the Comptroller, or by any such officer and shall be attested by the Secretary or an Assistant Secretary, who shall have authority to affix the corporate seal to the same.

Section 2. Undertakings and Commitments. No undertaking, commitment, contract, instrument or document shall be binding upon the Company unless previously authorized or subsequently ratified by the Board or executed by an officer or officers, an employee or employees or an agent or agents of the Company acting under powers conferred by the Board or by these Bylaws.

Section 3. Checks, Drafts, etc. All checks, notes and other obligations for collection, deposit or transfer, and all checks and drafts for disbursement from Company funds, and all bills of exchange and promissory notes, and all acceptances, obligations and other instruments for the payment of money, shall be endorsed or signed by such officer or officers, employee or employees or agent or agents as shall be authorized from time to time to do so by or pursuant to a resolution of the Board of Directors.

Section 4. Representation of Shares of Other Corporations. Shares standing in the name of the Company may be voted or represented and all rights incident thereto may be exercised on behalf of the Company by the Chairman and Chief Executive Officer, the Vice Chairman, the Chief Financial Officer, a Vice President, the Secretary, the Treasurer or the Comptroller, or by such other officers upon to whom the Board of Directors may from time to time confer like powers.

#### ARTICLE IX REPEAL OF BYLAWS

Section 1. All existing Bylaws of the Company and all amendments thereto are hereby repealed.

#### ARTICLE X AMENDMENTS

Section 1. Power of Shareholders. New Bylaws may be adopted or these Bylaws may be amended or repealed by the vote or written assent of shareholders entitled to exercise a majority of the voting power of the Company.

Section 2. Power of Directors. Subject to the right of shareholders as provided in Section 1 of this ARTICLE X to adopt, amend or repeal Bylaws, Bylaws may be adopted, amended or repealed by the Board of Directors as provided or permitted by law.

ARTICLE XI  
EMERGENCY

Section 1. "Emergency" as used in this Article means disorder, disturbance or damage caused by war, enemy attack, other warlike acts or by catastrophe, disaster or other similar emergency condition, which prevents the conduct and management of the affairs and business of the Company by the Board of Directors and officers in the manner provided for in other Articles of these Bylaws. The powers and duties conferred and imposed by this Article, and any resolutions adopted pursuant hereto, shall be effective only during an emergency. This Article may be implemented from time to time by resolutions adopted by the Board of Directors before or during an emergency, or during an emergency by the emergency Board of Directors constituted and then acting pursuant hereto. An emergency, once commenced, shall be deemed to continue until terminated by resolutions adopted for that purpose by the Board of Directors.

Section 2. If, during an emergency, a majority of the Board of Directors cannot be found or is unable to act, one-third of the exact number of the Board of Directors shall constitute a quorum thereof.

Section 3. During any emergency, the officers and employees of the Company shall continue, so far as possible, to conduct the Company's affairs and business under the guidance of the Board of Directors acting pursuant to this Article and in accordance with known orders of governmental authorities.

Section 4. If, during any emergency, a quorum of the Board of Directors, as provided in Section 3 of this Article, cannot be found or is unable to act, any three available members of the Executive Committee, including the Chief Executive Officer, shall be and constitute the Board of Directors, with two thereof constituting a quorum, and as such shall have and exercise the fullest power of the Board of Directors for the conduct and management of the affairs and business of the Company, permitted by law, without the limitations set forth in Section 2 of ARTICLE V of these Bylaws, provided that such emergency Board of Directors as so constituted shall comply to the extent practicable under the circumstances with the provisions of ARTICLE III of these Bylaws relating to annual and special meetings of shareholders. If three members of the Executive Committee, including the Chief Executive Officer, are not able to serve, any three available directors shall be and constitute such emergency Board of Directors, with two thereof constituting a quorum, for the exercise of the powers conferred and performance of the duties imposed by this Section 4.

Section 5. If, during any emergency, neither a quorum of the Board of Directors, as provided in Section 3 of this Article, nor a quorum of the emergency Board of Directors, as provided for in Section 4 of this Article is available to serve, then the powers conferred and duties imposed by Section 4 shall vest in and devolve upon any three of (in the following order of priority) available directors, Executive Vice Presidents, the Chief Financial Officer, and as many other Vice Presidents (or, in case of their inability, any other officers), in order of seniority, as may be necessary from time to time to constitute a total of three emergency directors. The Chief Executive Officer and any other one emergency director shall constitute a quorum of such emergency Board of Directors for exercise of the powers conferred and performance of the duties imposed hereunder, but if the Chief Executive Officer is not available, any two of such emergency directors shall constitute a quorum.