



WORLDWIDE DRILLING EXPERTISE

WORLD-CLASS OPPORTUNITIES

99

ANNUAL REPORT

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Unocal's Worldwide Drilling Community

Drillers have been described as a "wild bunch — aggressive and opinionated," essential traits for those who dare to challenge the earth to give up its hydrocarbons.

But organization, innovation and focus are also required for true leadership in drilling — and that's where Unocal stands out. Unocal drillers have reduced drilling costs by 40 to 60 percent versus the industry average for comparable wells. They've set records for the fastest exploration wells drilled in Indonesia, Thailand, Bangladesh and the Gulf of Mexico. As a result, Unocal can save millions of dollars on a single exploration well compared to the competition — and strive to add even more value by leveraging this competitive advantage into new opportunities for the company.

One reason for Unocal's leadership in this area has been the formation over several years of a companywide drilling community based on a common dedication to a high-pressure profession and a shared commitment to results and excellent performance.

About a third of Unocal's 170 drillers travel the world on a regular basis to face new drilling challenges and lead innovation and knowledge-sharing throughout the community.

This report features a few of Unocal's drilling professionals. This community — and several others formed around other essential disciplines — are helping Unocal achieve its goal of becoming a New Breed of Energy Company.



Discoverer Spirit

This drillship, featured on our cover, will open up important new deepwater areas in the Gulf of Mexico to Unocal exploration. The 835-foot, 52,000-horsepower ship, one of the largest drillships in the world, is also one of the most technologically sophisticated drilling rigs ever constructed. To ensure stability during drilling operations, even in rough seas, the vessel is equipped with six 7,000-horsepower thrusters that are controlled by a triple redundant, dynamic positioning system. The Discoverer Spirit is nearing completion in Corpus Christi, Texas. It is scheduled for final sea trials and commissioning during the summer of 2000. Unocal has a five-year contract to lease the ship from the designer and builder, Transocean SedcoForex.

UNOCAL AT A GLANCE

Unocal explores for and/or produces oil and gas in more than a dozen countries worldwide. The company has a large base of sustaining businesses that are the foundation for near-term earnings and growth. We also have a group of high-potential emerging businesses, including a well-balanced, focused exploration portfolio and gas-to-power opportunities that are key to significant long-term growth.

SUSTAINING BUSINESSES (Oil and Gas Production)

- North America
 - Gulf of Mexico Shelf and Onshore
 - Alaska/Canada/Other U.S. Lower 48
- Thailand/Myanmar
- Indonesia Shelf
- Caspian Sea (Azerbaijan)
- Bangladesh
- Netherlands
- Congo (formerly Zaire)

EMERGING BUSINESSES

- Four major deepwater exploration plays
 - Gulf of Mexico
 - Indonesia
 - Brazil
 - Gabon (West Africa)
- Bangladesh (gas-to-power)
- Vietnam (gas-to-power)
- Brunei exploration

GLOBAL TRADE

- Markets and trades crude oil and natural gas
- Captures midstream asset opportunities
- Manages interests in more than 14,000 miles of oil, gas and product pipelines

GEOTHERMAL RESOURCES AND POWER PROJECTS

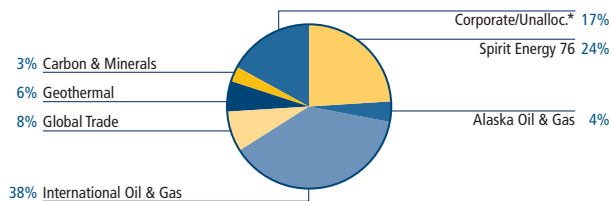
- Geothermal resource production in the Philippines
- Geothermal resource production and power generation in Indonesia
- Emerging power projects in China, India and Thailand

CARBON AND MINERALS

- Produces and markets petroleum coke, graphites and specialty minerals
- Manages an equity interest in a Brazilian niobium producer

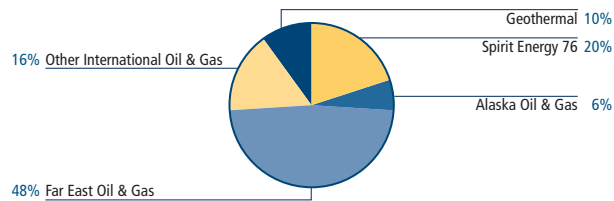
AGRICULTURAL PRODUCTS

The company announced in January its agreement to sell the U.S. West Coast and Alaska agricultural products businesses to Agrium, Inc., with closing expected by mid-year 2000.

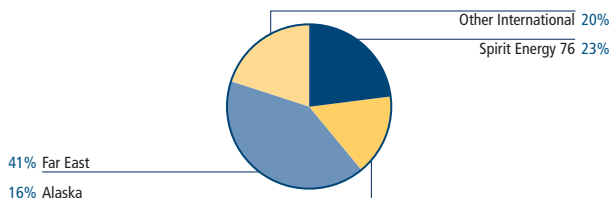


1999 ASSETS BY BUSINESS SEGMENT
(\$9.0 BILLION)

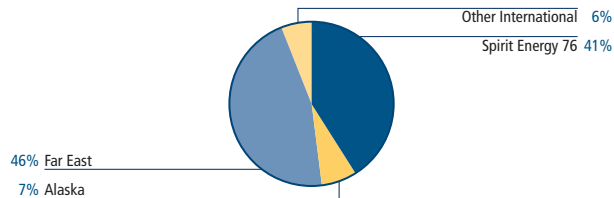
*INCLUDES \$289MM/3% OF DISCONTINUED OPERATIONS (AG. PRODUCTS)



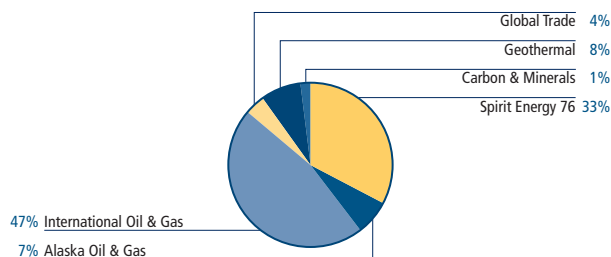
1999 ESTIMATED PROVED RESERVES BY GEOGRAPHIC AREA (MMBOE)
(1.8 BILLION BOE)



1999 WORLDWIDE OIL PRODUCTION
(175,508 BOE/D)

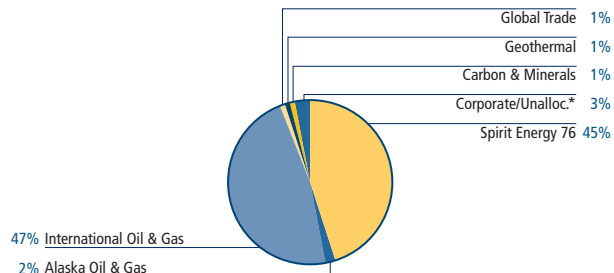


1999 WORLDWIDE GAS PRODUCTION
(306,002 BOE/D)



1999 OPERATING CASH FLOW FROM CONTINUING OPERATIONS* BY BUSINESS SEGMENT
(\$1.6 BILLION)

*EXCLUDES CORPORATE AND UNALLOCATED EXPENSES, INCOME TAXES, INTEREST AND WORKING CAPITAL CHANGES



1999 CAPITAL EXPENDITURES BY BUSINESS SEGMENT
(\$1.2 BILLION)

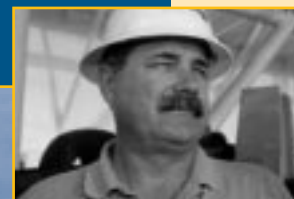
*INCLUDES \$10MM/1% OF DISCONTINUED OPERATIONS (AG. PRODUCTS)

"Unocal's deepwater exploration acreage in the Gulf of Mexico is in water depths between 6,000 and 10,000 feet. The total well depths will range from 25,000 to 30,000 feet. To efficiently execute our exploration drilling program, we must have a dynamically positioned drillship with the capability and capacity to operate under these difficult conditions. We fully expect that the Discoverer Spirit will be the flagship of the world's ultra-deepwater rig fleet. The old saying is still true, 'If you're going to be a bear, be a grizzly.'"

TEAM MEMBER

GLEN ANTHONY DEEP WATER, GULF OF MEXICO

Glen worked offshore California and Alaska and in the North Sea during his first 10 years with Unocal. In 1994, he moved to Indonesia to work on improving Shelf drilling performance. He was on the original SX (Saturation Exploration) team, which developed low-cost drilling techniques to allow rapid deepwater exploration. In 1998, Glen arrived in Texas as Deepwater Drilling Superintendent for Unocal's Gulf of Mexico operations.



HIGHLIGHTS

Millions of dollars except per share amounts	Years ended December 31		
	1999	1998	1997
FINANCIAL			
Total revenues from continuing operations	\$ 6,057	\$ 5,103	\$ 5,625
Earnings from continuing operations	\$ 113	\$ 93	\$ 615
Earnings from discontinued operations (net of tax)	\$ 24	\$ 37	\$ 4
Extraordinary charge — early extinguishment of debt (net of tax)	\$ —	\$ —	\$ (38)
Net earnings	\$ 137	\$ 130	\$ 581
Basic earnings (loss) per share of common stock:			
Continuing operations	\$ 0.47	\$ 0.39	\$ 2.47
Discontinued operations	\$ 0.10	\$ 0.15	\$ 0.02
Extraordinary item	\$ —	\$ —	\$ (0.15)
Net earnings (loss) per share of common stock	\$ 0.57	\$ 0.54	\$ 2.34
Diluted earnings (loss) per share of common stock:			
Continuing operations	\$ 0.46	\$ 0.39	\$ 2.44
Discontinued operations	\$ 0.10	\$ 0.15	\$ 0.02
Extraordinary item	\$ —	\$ —	\$ (0.15)
Net earnings (loss) per share of common stock	\$ 0.56	\$ 0.54	\$ 2.31
Adjusted earnings from continuing operations ^(a)	\$ 149	\$ 129	\$ 461
Adjusted basic earnings per share from continuing operations ^(a)	\$ 0.61	\$ 0.54	\$ 1.86
Return on average stockholders' equity			
Continuing operations	5.2%	4.1%	26.8%
Including discontinued operations and extraordinary item	6.2%	5.8%	25.3%
Cash dividends declared per common share	\$ 0.80	\$ 0.80	\$ 0.80
Capital expenditures from continuing operations	\$ 1,161	\$ 1,696	\$ 1,360
Total assets	\$ 8,967	\$ 7,952	\$ 7,530
Total debt and capital leases	\$ 2,854	\$ 2,558	\$ 2,170
Trust convertible preferred securities	\$ 522	\$ 522	\$ 522
Stockholders' equity	\$ 2,184	\$ 2,202	\$ 2,314
Per common share	\$ 9.01	\$ 9.13	\$ 9.32
OPERATIONS			
Net proved reserves			
Crude oil and condensate (million barrels) ^(b)	550	532	533
Natural gas (billion cubic feet) ^(b)	6,618	6,122	6,550
Geothermal (billion kilowatt-hours) ^(c)	121	157	149
Net daily production			
Crude oil and condensate (thousand barrels) ^(b)	175	184	197
Natural gas (million cubic feet) ^(b)	1,836	1,826	1,848
Natural gas liquids (thousand barrels)	19	19	18
Geothermal (million kilowatt-hours)	17	21	18

^(a)Special items are detailed in Management's Discussion and Analysis of Financial Condition and Results of Operations.

^(b)Includes certain host countries' shares, the company's proportionate shares of equity affiliates and 100% of consolidated subsidiaries. See the Supplemental Information on Oil and Gas Exploration and Production Activities and the Operating Summary for further information.

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

REPORT TO UNOCAL STOCKHOLDERS

UNOCAL IS ONE OF THE LARGEST, NON-STATE-OWNED EXPLORATION AND PRODUCTION (E&P) COMPANIES IN THE WORLD. WE HAVE THE ASSET BASE, FINANCIAL RESOURCES, AND TECHNICAL EXPERTISE TO COMPETE WITH THE “SUPER-MAJOR” OIL AND GAS COMPANIES. AT THE SAME TIME, WE’RE SMALL ENOUGH TO MAKE DECISIONS QUICKLY, OPERATE EFFICIENTLY AND INNOVATE RAPIDLY.

In 1999, Unocal turned in its best overall reserve replacement performance in the last ten years. We recorded significant exploration success, hit our overall production target for our key sustaining businesses, and proved that we could transfer our low-cost, deepwater drilling expertise from Indonesia to the Gulf of Mexico.

Nevertheless, our performance in terms of both earnings and total returns to stockholders did not live up to our potential — despite relatively high commodity prices and one of the best growth portfolios in the petroleum industry. We have learned some important lessons during this period and are taking decisive steps to improve our near-term performance. Going forward, our key financial goals include the following:

- Strike the right balance between generating near-term returns and capturing the long-term value of our exploration portfolio to improve our ROCE (return on capital employed)
- Balance our internal focus on financial as well as operating performance throughout the company, while reducing administrative costs
- Maintain capital discipline — even when crude oil and natural gas prices are high — to keep our balance sheet strong for maximum flexibility

STRIKING THE RIGHT BALANCE

Over the past three years, Unocal has put together one of the most exciting exploration portfolios in the entire industry. On a risked basis, the deepwater opportunities in this portfolio have a net resource potential that is about double the company’s current proved reserves.

By its very nature, however, a robust exploration program can put downward pressure on near-term earnings. Deepwater exploration is long term. It requires major capital expenditures and entails significant risk. A strategic priority is to strike the right balance between generating

near-term returns and capturing the long-term value in our exploration portfolio. It is a challenge to walk this line, but we are well positioned to do so.

- We operate a large base of profitable E&P assets that can sustain high levels of production.
- Our growth portfolio is balanced to include high-potential, higher-risk prospects and lower-risk opportunities that can quickly add to production.
- Unocal is a low-cost operator with recognized, industry-leading drilling expertise.

Since the 1997 sale of Unocal’s West Coast refining and marketing assets, the company has continued to transform itself into a “pure” E&P company. The most recent example is our agreement with Agrium, Inc., to sell our agricultural products businesses, based in Alaska, California, Oregon and Washington. We expect that this transaction, subject to clearance by the Federal Trade Commission, will close by mid-year 2000.

Our flagship E&P operations are located in and around the Gulf of Mexico, where we have a 50-year presence, and in Thailand and Indonesia, which we entered in the 1960s. These are “sustaining” businesses, generating near-term earnings — more than \$800 million pre-tax last year — and providing cash to fund future growth. These businesses also provide ongoing opportunities to improve operating efficiency, develop our employees, and build enduring business relationships.

We also have business fundamentals currently working in our favor. Worldwide demand for oil and gas is robust. The signs of economic recovery in Southeast Asia are increasingly evident. Thailand has





TEAM MEMBER

D. J. PONVILLE SHELF/ONSHORE, GULF OF MEXICO

D.J. has been with Unocal for 18 years, working in both drilling and reservoir engineering. He is experienced in the challenges presented onshore and offshore in the Gulf region, as well as in the Permian basin and Rocky Mountain producing areas.

"I believe our continuous improvement mindset is one of the main drivers behind the success we've achieved. Management provides us with the flexibility to be innovative. They support our commitment to keeping up with new technology, which is particularly evident within the mature region of our Gulf of Mexico operations. We've dedicated resources full time to focus on that effort and significantly boosted our production as we moved into the year 2000."

rebounded strongly from the economic crisis that began in 1997, and demand for natural gas is rising. While the economic rebound in Indonesia will take longer, as that country restructures its government, oil and natural gas production remain important sources of export revenues. Unocal, actively involved in the transition process, is viewed as a significant participant in the "New Indonesia."

Our global exploration portfolio balances potential "big hits" in world-class, emerging deepwater plays and smaller, lower-risk targets in our sustaining areas, such as the Gulf of Mexico shelf, Gulf of Thailand and the Indonesia shelf. In these well-developed areas, discoveries can get on production quickly and add to near-term earnings and cash flow.

In addition to an aggressive exploration program in our sustaining areas, we expect to be drilling by the end of this year in at least three, possibly all four of the key deepwater basins we are focused on for long-term growth: the U.S. Gulf of Mexico, and offshore Indonesia, Gabon and Brazil. On a risked basis, our total net resource potential in these four deepwater basins is close to 3 billion barrels of oil equivalent (BOE).

Unocal is a low-cost operator, with industry-leading drilling expertise — two critical elements for success in the E&P business. Equally important, Unocal's drilling performance greatly enhances the value of our assets, reducing average finding and development costs and improving project NPVs (net present value). That's because drilling is by far the largest cost component of both exploration and field development.

The company replaced 156 percent of net worldwide crude oil and natural gas production during 1999 with new proved reserves. At year-end, Unocal's net worldwide reserves totaled 1.65 billion BOE, up more than 6 percent from 1.55 billion BOE in 1998. (The 156 percent

replacement rate for 1999 includes purchases, sales, and the full consolidation of Northrock Resources Ltd., in which Unocal holds a major interest.)

Based on established discoveries with signed production contracts or approved plans of development, we are forecasting an annual production growth rate above 7 percent over the next five years. We believe this is a reasonable forecast, one we can meet or exceed, given the projects we already have in our portfolio.

We have also revised our hedging policy, following losses from our 1999 corporate hedging program of about \$29 million after-tax. As oil and gas prices plunged late in 1998, we put some "collar" hedges in place to protect the cash flow needed to invest in our most important exploration programs. When prices moved up significantly, these hedges reduced our ability to benefit fully. In the future, we will not employ corporate hedging programs that can limit our participation in rising commodity prices.

SUSTAINING BUSINESS POISED FOR GROWTH

Unocal is a major player in the Gulf of Mexico region, both onshore and offshore. Current net production is about 140,000 oil equivalent barrels per day (about 85 percent natural gas).

Unocal is successful in this area because our production costs are low — about \$2 per BOE, which puts us among the best in class for shelf operators. Our exploratory success rate on the shelf was close to 80 percent last year, including seven straight discoveries to close out 1999. These discoveries are close to existing production platforms and pipelines, so they can be brought on stream to add to our production and provide earnings quickly.

We're planning a stepped-up exploration program on the shelf in 2000, with 20 to 25 wells scheduled. Most of our targets are in the range of 5 to 20 billion cubic feet (BCF) of natural gas, but some have more than 100 BCF potential.



TEAM MEMBER

KEVIN O'DONNELL DEEP WATER, GULF OF MEXICO

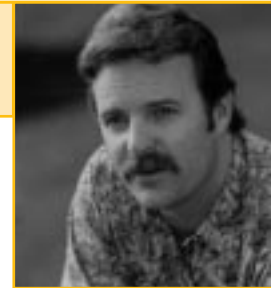
Kevin joined Unocal in 1990, helping to develop numerous techniques offshore Indonesia — including SX — that have given Unocal an edge worldwide in rapid, low-cost exploration. His current assignment is to transfer and adapt what the drilling teams learned in Indonesia to the deep water in the Gulf of Mexico.

"Our drilling community is built on good working relationships and a shared commitment to performance. We talk drilling all the time when we're together, or by e-mail and telephone — sharing ideas, successes and failures, always moving toward improved performance. We rotate people around the community to make sure that our good ideas get applied wherever they are needed."

TEAM MEMBER

JAMIE RESSLER DEEP WATER, GULF OF MEXICO

Jamie joined Unocal in his native Canada in 1981 and has worked in drilling since 1987. He moved to Louisiana in 1995. In 1997, he was first to join the Gulf of Mexico deepwater drilling team to design wells and provide engineering support.



“Our drilling success can be attributed to three fundamentals — attitude, commitment and focus. We have a ‘can do’ attitude. We commit to the extraordinary. We focus on the tasks at hand to be sure that we meet our commitments. Our profession is one of intense pressure. We are quick to band together to help each other. Those of us who are in drilling today want to exceed the standards set before us by other Unocal drillers and ‘push the envelope’ even further.”

Over the past two years, Unocal has captured an attractive acreage position in the deep water in the Gulf of Mexico, with interests in 220 exploration leases. Of these, more than half are in the largely unexplored Subsalt/Foldbelt trend, an area where water depths run to 5,000 feet or more. To date, four of the first five exploration wells drilled by the industry in the trend have made discoveries. Unocal participated in two of these wells drilled by others, Mad Dog and K2, with further appraisal pending.

We have so far identified more than a dozen high-potential prospects on Unocal’s Subsalt/Foldbelt acreage. We plan to drill up to three wells in the trend later this year, following delivery of our state-of-the-art deepwater drillship, the *Discoverer Spirit*. The rig is designed to drill in water depths of up to 10,000 feet.

BUILDING ON NORTH AMERICAN NATURAL GAS

A key element of Unocal’s North American strategy is to build on our already strong position in natural gas in our Gulf of Mexico properties. Gas demand is increasing and supplies are tightening. In 1999, we undertook three transactions to increase our natural gas reserves and production.

- In Canada, we acquired a major interest in Northrock Resources Ltd., based in Calgary, with a strong gas position. Unocal currently holds 47.8 percent of Northrock’s shares.
- In the U.S. Rocky Mountain area, we traded most of our assets for shares in Tom Brown, Inc., based in Denver, giving Unocal approximately 16 percent of the shares in a company with a substantial exploratory position that complements the former Unocal assets.
- In December 1999, we announced an agreement to merge our Permian and San Juan basin assets (in West Texas and New Mexico) with Titan Exploration, Inc. The intent is to form a new

company, Pure Resources, Inc., based in Midland, Texas, in which Unocal would hold approximately 65 percent of the shares. The transaction is expected to close in the second quarter, subject to certain regulatory clearances and the approval of Titan stockholders.

THAILAND’S ECONOMY ON THE REBOUND

Despite the Asian economic downturn that began in 1997, our business unit in Thailand has continued its strong performance, achieving a gas sales rate of nearly 1 billion cubic feet per day (gross) in 1999. Unocal’s net sales averaged 623 million cubic feet per day.

Although power consumption in Thailand was down through much of 1998 and the first half of 1999, gas sales have remained firm because power plants accelerated their conversions from using imported fuel oil to indigenous natural gas to generate power. Beginning in the second half of 1999, electricity demand has been running above pre-economic-crisis levels.

Our goal going forward is to continue developing gas resources for what we term “just-in-time” delivery — keeping pace with the market to supply future power demand. To that end, we expanded our operations in 1999 and raised the number of Unocal’s producing fields from 11 to 13. We replaced 162 percent of our production in Thailand with new reserves in 1999. We drilled more than 100 wells in the Gulf of Thailand in 1999. Of these, 14 were exploration wells drilled with a 93 percent success rate.

Unocal participated in a discovery that is opening up a new area of the gulf. The Arthit project, three blocks operated by Thailand’s public E&P company, lies adjacent to Unocal’s southernmost producing areas. The discovery well, which tested at more than 40 million cubic feet of natural gas and 1,600 barrels of condensate per day, greatly increases the prospectivity of the Arthit area, as well as the adjacent Block 52/97 in Vietnam waters. Unocal has a 70 percent working interest in Block 52/97, and a 16 percent working interest in Arthit.



TEAM MEMBER

CHUTIPHAN TOM POOKPAKDI GULF OF THAILAND

Tom joined Unocal Thailand in 1996 and moved into drilling in 1998. His current projects include “drill in casing” concepts designed to cut costs and save time in exploration drilling.

“The reservoirs in the Gulf of Thailand are small in comparison to most parts of the world. This means we have to drill more wells to keep production levels steady. Over many years, we have minimized our costs to the point where they will soon plateau. That’s why we must break away from conventional thinking and come up with some new ideas that we can explore — step by step using trial and error, to continue to reduce our costs. We frequently update our progress with our drilling team worldwide. We use their input to shorten our learning curve.”



TEAM MEMBER

EDDIE DORÉ DEEP WATER, BRAZIL

Eddie joined the company in 1990 in Indonesia, where he was a key member of the original SX team, then worked to apply the technique to deepwater drilling in the Andaman Sea, offshore Thailand. Next stop: Brazil's deep water.

"Unocal's drilling groups are successful due to the fact they are never satisfied with the results. They're always trying to reach the next level. We don't accept the saying, 'That's the way it's always been done.' We come up with innovative ideas. If a failure occurs, we don't give up. We work to improve the concept."

Thailand's Ratchaburi power plant, southwest of Bangkok, has begun commercial electricity generation. One gas turbine is operating; five more are in various stages of start-up commissioning. Myanmar's Yadana Project, in which Unocal has a 28 percent interest, is supplying natural gas to the plant, with production expected to increase to 525 million cubic feet per day by late 2001.

MOST ACTIVE EXPLORER IN INDONESIA

Unocal, Indonesia's sixth largest oil and gas producer, operates nine fields on the shelf offshore East Kalimantan. To keep our shelf production strong and mitigate natural production declines, we employ careful reservoir management to guide selective development. Unocal's shelf production in 1999 averaged 89,000 barrels of oil equivalent per day (including the host country's share).

In September 1999, Unocal received approval from Pertamina, the state oil and gas company, to develop two deepwater oil fields — West Seno and Merah Besar, discovered in 1998 and 1997, respectively. We expect to start production from West Seno in 2002.

Unocal is the most active explorer in Indonesia. Over the last four years, we've drilled about 80 deepwater exploration and appraisal wells offshore East Kalimantan using Unocal-developed techniques that have reduced our drilling costs by more than 60 percent. Two-thirds of our wells have encountered hydrocarbons. In 1999, we recorded three deepwater discoveries, one oil and two natural gas, and, in February 2000, announced two more natural gas discoveries. These gas finds are a likely source of future reserves for LNG (liquefied natural gas) production.

In 2000, we are targeting prospects with highly promising structures in deeper waters. These prospects were physically off-limits until recently, when we completed modifications to our drilling rig that allow operation in water depths beyond 5,000 feet.

DEEPWATER PROSPECTS IN THE ATLANTIC

We are very excited about our prospects in two deepwater areas that we plan to explore on opposite sides of the Atlantic Ocean. In late 1998, Unocal acquired a 25 percent working interest in the Anton and Astrid blocks offshore Gabon, West Africa. These blocks are in the Congo Fan basin, where more than 5 billion barrels of reserves have been discovered by other companies in the last four years. Unocal is the drilling manager for the joint venture operating these blocks. We expect to begin applying our efficient techniques when we spud the first well late this year or early in 2001.

Last year, Unocal gained entry into Brazil's offshore area, regarded in the industry as one of the world's great hydrocarbon provinces. We have interests in three blocks in the Campos and Espirito Santo basins, where Petrobras, Brazil's national petroleum company, has made significant discoveries. The first well on these blocks is scheduled to spud at the end of this year.

LONGER-TERM GAS-TO-POWER OPPORTUNITIES

Over the next several years, Unocal will focus on encouraging the development of gas-to-power markets for large resources discovered in Bangladesh and offshore Vietnam. Bangladesh represents a highly promising growth area, with demand for power growing in South Asia. We have discovered three major gas fields in Bangladesh, with a combined gross resource potential of over 5 trillion cubic feet.

Unocal announced its Kim Long gas discovery offshore Vietnam in 1997 and has acquired adjacent acreage since then. The company now has interests in three blocks covering approximately 4.15 million acres. Future development depends on the growth of electricity markets in Vietnam.



Timothy H. Ling

Executive Vice President, North American Energy Operations, and Chief Financial Officer



Charles R. Williamson

Executive Vice President, International Energy Operations

TEAM MEMBER

ROCKY SAWOLO SHELF/DEEP WATER, INDONESIA

Rocky joined Unocal in 1975 in Indonesia and has also worked in the Gulf of Mexico, Ecuador and Myanmar. He was a member of the team that developed SX, a key, low-cost drilling strategy.



“The need to explore our vast deepwater holdings economically, combined with our desire to reduce drilling costs, has set a fertile ground for innovation in Indonesia. A good example is the advance we’ve made in adapting a rig designed to drill in 600 feet of water so it can drill in more than 5,000 feet of water. Our drilling department has a good mix of experienced expatriates and strong Indonesian professionals. They all work together very well. We promote cross assignments for our engineers in other business units.”

WELCOME TO NEW DIRECTORS

Timothy H. Ling, executive vice president, North American Energy Operations, and chief financial officer, and Charles R. Williamson, executive vice president, International Energy Operations, joined Unocal’s Board of Directors in January of this year. Both men serve with me on the company’s Management Committee. These appointments provide for greater integration between company operations and our non-employee directors.

John F. Imle, Jr., vice chairman and director, left active service as of December 31, 1999, following a distinguished 36-year career with Unocal. He has been instrumental in expanding Unocal’s global energy resources growth portfolio. On behalf of the board, I would like to thank John for his past service and welcome him to a new role as an executive advisor providing counsel and support on various projects.

UNOCAL’S VALUES

Late last year, as part of our ongoing commitment to improving lives wherever we work, Unocal endorsed the Global Sullivan Principles at a ceremony at United Nations Plaza in New York. The principles serve as a framework for good corporate citizenship around the world and are well aligned with Unocal’s own Guiding Principles for doing business.

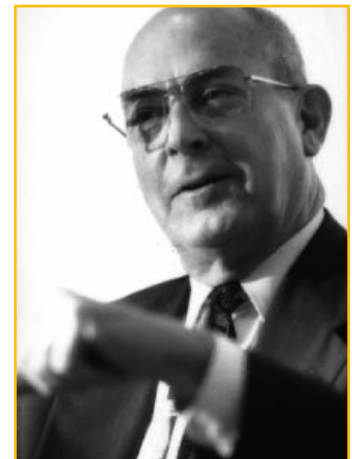
Unocal’s Corporate Responsibility Program focuses on four core elements: community and philanthropic projects, workplace programs, environmental initiatives, and ethical and human rights considerations.

In 1999, Unocal continued sponsoring a project with CARE in Indonesia to keep children in school despite family hardships caused by recent economic and political crises. The company also supports UNICEF’s nutritional program for mothers and infants in Indonesia, scholarship programs for Southeast Asian students, job skills training for displaced workers in Thailand, a public health program in Bangladesh, funding for disaster relief in several countries, and many other initiatives.

UNOCAL’S VISION

Our vision is to be the world’s leading energy resource and project development company — the first of a new breed in our industry. We are continuing to transform Unocal into an E&P company that combines the global reach, technical expertise and financial muscle of a major with the agility and creativity of a small independent. We believe that our core strengths will result in improved performance:

- We have a large, profitable, sustaining E&P asset base.
- We have a global exploration portfolio in which low-risk prospects are balanced with higher-risk, higher-return prospects.
- We’re a low-cost operator with industry-leading drilling expertise.
- Our skilled management and employee teams are rewarded on the basis of improving company performance.



Sincerely,

Roger C. Beach
March 14, 2000

CORPORATE GOVERNANCE

Unocal's system of corporate governance emphasizes the Board of Directors' effectiveness, independence and ability to evaluate corporate and management performance. It includes the following:

1. Seven of ten directors are independent.
2. The Board Governance Committee, composed of non-employee directors only, is charged with the responsibility of advising the board on all board governance matters, including: recommending the composition, role, structure and procedures of the board; recommending the appointment, composition and responsibilities of the committees of the board; and identifying and presenting qualified candidates for election and re-election as directors.
3. The Accounting and Auditing Committee, the Corporate Responsibility Committee, and the Management Development and Compensation Committee also consist entirely of non-employee directors.
4. The schedule and length of board meetings allow sufficient time for in-depth discussion, analysis and strategic planning.
5. Whenever feasible, directors receive materials well in advance of board meetings relating to items that require action.
6. Non-employee directors meet privately periodically.
7. The board meeting format allows directors to interact with the company's management.
8. The Management Development and Compensation Committee annually evaluates the performance of the CEO and senior management.
9. The board reviews succession planning and management development at least annually.
10. Incentive compensation for executive officers is linked to share price performance.
11. The company ensures the confidentiality of stockholder votes.
12. The board sets the corporate governance principles and reviews them at least annually.

BOARD OF DIRECTORS

Roger C. Beach, Director since 1988

Chairman and Chief Executive Officer, Unocal Corporation

John W. Amerman, Director since 1991

Former Chairman and Chief Executive Officer, Mattel, Inc. (children's toys)

John W. Creighton, Jr., Director since 1995

Former President and Chief Executive Officer, Weyerhaeuser Company (forest products)

James W. Crownover, Director since 1998

Chairman of the Board, Xpedior, Inc. (e-business professional services)

Frank C. Herringer, Director since 1989

Chairman of the Board of Directors, Combined AEGON-Transamerica operations (financial services)

Timothy H. Ling, Director since January 2000

Executive Vice President, North American Energy Operations, and Chief Financial Officer, Unocal Corporation

Donald B. Rice, Director since 1998

President and Chief Executive Officer, UroGenesys, Inc. (biotechnology)

Kevin W. Sharer, Director since 1997

President and Chief Operating Officer, Amgen Inc. (biotechnology)

Marina v. N. Whitman, Director since 1993

Professor of Business Administration and Public Policy, University of Michigan

Charles R. Williamson, Director since January 2000

Executive Vice President, International Energy Operations, Unocal Corporation

EXECUTIVE OFFICERS

Roger C. Beach, Chairman and Chief Executive Officer

Timothy H. Ling, Executive Vice President,

North American Energy Operations, and Chief Financial Officer

Charles R. Williamson, Executive Vice President,

International Energy Operations

L.E. (Ed) Scott, Group Vice President, Diversified Business Group

Joe D. Cecil, Vice President and Comptroller

Dennis P.R. Codon, Vice President, Chief Legal Officer and General Counsel

Douglas M. Miller, Vice President, Corporate Development



STOCK TRANSFER AGENT AND REGISTRAR

Please contact ChaseMellon Shareholder Services for information about:

- the Dividend Reinvestment and Common Stock Purchase Plan
- direct deposit of dividends
- consolidation of multiple accounts
- lost certificates
- change of address
- other matters regarding your stock ownership

ChaseMellon Shareholder Services, L.L.C.
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WWW.UNOCAL.COM

Unocal's web site provides frequently updated information about the company and its activities.

- Unocal news releases, including quarterly earnings results
- Unocal Annual Report
- Unocal Proxy Statement
- Detailed financial reports, forecasts and updates
- Presentations to the investment community
- Links to the company's SEC filings
- Profiles of company operations and projects around the world

UCL.E*NEWS

The web site provides an e-mail subscription news service, as well as an e-mail service that provides daily summaries of Unocal stock and market performance.

STOCKHOLDER SERVICES

To request printed copies of company reports, earnings news releases or other information, contact:

Unocal Stockholder Services
2141 Rosecrans Avenue, Suite 4000
El Segundo, California 90245
Tel: (800) 252-2233
Fax: (310) 726-7682
E-mail: stockholder_services@unocal.com

COMPANY DESCRIPTION

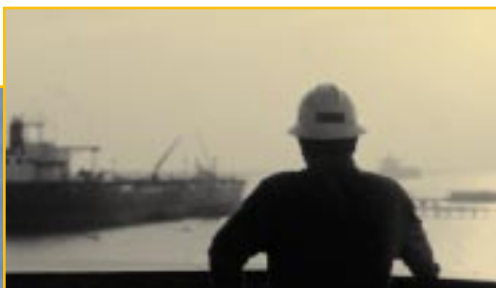
Unocal Corporation is the parent of Union Oil Company of California. Virtually all operations are conducted by Union Oil Company of California, which does business as Unocal, and its subsidiaries. The name Unocal is used for Unocal Corporation and its subsidiaries in this report.

FORWARD-LOOKING STATEMENTS

Forward-looking statements and estimates of future financial and operating results in this report are based on assumptions concerning operating, market, competitive, regulatory, environmental and other considerations. Actual results could differ materially, as a result of factors discussed on pages 45-47 of the 1999 Annual Report on Form 10-K.

DEFINITION OF POTENTIAL RESOURCE

The term "potential resource" represents a speculative estimate of the ultimate recovery of crude oil and/or natural gas and natural gas liquids, including non-proven resource and exploration potential, based on engineering, geophysical and geological studies.





UNOCAL CORPORATION

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