UNOCAL CORP
Form 8-K
February 06, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

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

Date of report (Date of earliest event reported) January 27, 2004

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

Delaware
(State or Other Jurisdiction of Incorporation)

1-8483	95-3825062
(Commission File Number)	(I.R.S. Employer Identification No.)

2141 Rosecrans Avenue, Suite 4000, El Segundo, California	90245
(Address of Principal Executive Offices)	(Zip Code)

(310) 726-7600
(Registrant's Telephone Number, Including Area Code)

Item 5. Other Events.

Fourth Quarter 2003 and Year-To-Date Results

Unocal Corporation's (the "Company") preliminary net earnings were $180 million, or 68 cents per share (diluted), in the fourth quarter of 2003 compared with $96 million, or 38 cents per share (diluted), in the fourth quarter of 2002. For the full year of 2003, preliminary unaudited net earnings were $643 million, or $2.46 per share (diluted), compared with $331 million, or $1.34 per share (diluted) in 2002.

Millions of dollars	For the Three Months Ended December 31, 2003	2002	For the Twelve Months Ended December 31, 2003	2002
Earnings from continuing operations	$ 172	$ 96	$ 710	$ 330
Earnings from discontinued operations	8	-	16	1
Cumulative effects of accounting changes	-	-	(83)	-
Net earnings	$ 180	$ 96	$ 643	$ 331

Continuing Operations

Fourth Quarter Results: Earnings from continuing operations increased by $76 million in the fourth quarter of 2003 compared to the same quarter a year ago, primarily reflecting improved results from the Company's exploration and production operations, due to higher worldwide natural gas and liquids prices. Higher worldwide commodity prices increased net earnings by approximately $90 million. The Company's worldwide average realized natural gas price, with a 14 cents gain from hedging activities, was $3.65 per Mcf in the current quarter. This was an increase of 55 cents per Mcf, or 18 percent, from the $3.10 per Mcf realized during the same period a year ago, which included a 2 cent loss per Mcf from hedging activities. In the current quarter, the Company's worldwide average realized liquids price, with a 19 cent gain from hedging activities, was $28.33 per Bbl, which was an increase of $2.89 per Bbl, or 11 percent, from the same period a year ago. The Company's hedging program had no impact on the average realized liquids price in the fourth quarter of 2002.

The fourth quarter of 2003 also benefited from a Canadian statutory tax rate change which added $29 million to net earnings. In addition, the Company recorded $17 million after-tax related to an insurance settlement for the recovery of amounts previously paid out for environmental pollution claims and related costs. The Company's after-tax environmental and litigation expenses were $27 million in the current quarter of 2003, compared with $29 million in the same period a year ago. The fourth quarter of 2002 included $9 million after-tax for uninsured losses due to hurricane damage in the Gulf of Mexico and $8 million after-tax of costs related to the acquisition of the outstanding minority interest in Pure Resources, Inc. ("Pure"), common stock.

The positive variance factors discussed in the previous paragraph were partially offset by $28 million after-tax in premiums incurred for the early redemption of long-term debt in 2003. In addition, lower North America production reduced net earnings by approximately $20 million in the current quarter compared with the same period a year ago. North America liquids production averaged 75,000 Bbl/d in the current quarter, down from 87,000 Bbl/d in the same period a year ago, while natural gas production averaged 655 MMcf/d in the current quarter, down from 818 MMcf/d in the same period a year ago. Most of the production decline was due to the divestiture of various properties in the Gulf of Mexico, onshore U.S. and Canada during 2003. Higher pension related expenses also reduced net earnings by approximately $10 million in the current quarter compared to the same period a year ago. In addition, the fourth quarter of 2002 included approximately $25 million in higher net after-tax gains from asset sales.

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Full Year Results: Earnings from continuing operations were $710 million in 2003 compared to $330 million for 2002. Higher worldwide commodity prices increased net earnings by approximately $480 million. The Company's worldwide average realized natural gas price, including a loss of 7 cents per Mcf from hedging activities, was $3.66 per Mcf in 2003. This was an increase of 85 cents per Mcf, or 30 percent, from the $2.81 per Mcf, including a benefit of 2 cents per Mcf from hedging activities, realized in 2002. In 2003, the Company's worldwide average realized liquids price was $27.60 per Bbl, which was an increase of $4.46 per Bbl, or 19 percent, from a year ago. The Company's hedging program lowered the average realized liquids price by 10 cents per Bbl in 2003 while 2002 included a gain of one cent per Bbl from hedging activities. International production increases also contributed approximately $35 million in higher earnings, primarily from higher Indonesia and Thailand liquids and natural gas production. In 2003, asset sales added after-tax gains of approximately $65 million, which included the sale of the Company's equity interests in Matador Petroleum Corporation ("Matador") and Tom Brown Inc. ("Tom Brown"), and other asset divestitures in North America, compared to gains of approximately $26 million in 2002. The geothermal and power operations segment added $20 million in earnings improvement in 2003 as compared to 2002, primarily as a result of the amended Geothermal Salak energy sales agreements in Indonesia and improved results from the Company's equity interests in gas-fired power plants in Thailand. The 2003 results included a $4 million after-tax gain on mark-to-market accruals and realized gains/losses for non-hedge commodity derivatives recorded by the Company's Northrock subsidiary in Canada, compared with a $6 million after-tax loss in 2002. The 2003 results also benefited from the Canadian statutory tax rate change which added $29 million to net earnings. In addition, the Company recorded $17 million after-tax related to insurance settlements compared to $2 million after-tax for 2002. The 2002 results included $9 million after-tax for uninsured losses due to hurricane damage in the Gulf of Mexico and $8 million after-tax of costs related to the acquisition of the outstanding minority interest in Pure common stock.

The positive variance factors discussed in the previous paragraph were partially offset by lower North America production, higher pension related expenses, higher asset impairments, the premiums paid for the early redemption of long-term debt and higher exploration expenses including dry hole costs, which reduced net earnings by approximately $80 million, $35 million, $30 million, $30 million and $15 million, respectively, in 2003 compared with 2002. North America liquids production averaged 81,000 Bbl/d in 2003, down from 94,000 Bbl/d a year ago, while natural gas production averaged 763 MMcf/d down from 886 MMcf/d for 2002. Most of the production decline was due to natural declines in existing fields in the Gulf of Mexico and the divestiture of various properties in the Gulf of Mexico, onshore U.S. and Canada. In addition, the Company's minerals operations recorded approximately $20 million after-tax in lower earnings for 2003 as compared to the same period a year ago due primarily to lower margins and lower Brazil earnings.

After-tax environmental and litigation expenses were $110 million in 2003, compared with $91 million in 2002, reflecting higher litigation expenses including related outside support costs. The 2003 results included the company-wide $24 million restructuring charge, while the same period a year ago included a $12 million restructuring charge for the Gulf Region business unit.

Discontinued Operations

Preliminary unaudited earnings from discontinued operations were $16 million in 2003 and $1 million in 2002. The amounts in both years related to the Company's 1997 sale of its former West Coast refining, marketing and transportation assets. The sales agreement contained a provision calling for payments to the Company for price differences between California Air Resources Board Phase 2 gasoline and conventional gasoline. This provision of the agreement terminated at the end of 2003.

Cumulative Effects of Accounting Changes

In the first quarter of 2003, the Company recorded a non-cash $83 million after-tax charge consisting of the cumulative effect of a change in accounting principle related to the initial adoption of Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." The Company also increased its accrued abandonment and restoration liabilities by $268 million and increased its net properties by $138 million on the consolidated balance sheet as a result of the adoption of SFAS No.143, as of January 1, 2003.

Financial Condition

Net Cash provided by operating activities was $1.95 billion in 2003 compared with $1.57 billion in 2002. The increase principally reflected the effects of higher worldwide commodity prices.

Capital expenditures were $1.72 billion in 2003 compared with $1.67 billion in the same period a year ago.

Pre-tax proceeds from asset sales were $299 million in the fourth quarter, and the total for 2003 was $642 million. In 2003, the Company received $150 million from the sale of its equity interest shares held in Tom Brown and $80 million from the sale of its equity interest in Matador. The Company also completed the sale of various properties in the Gulf of Mexico, onshore U.S. and Canada, which netted the Company approximately $360 million in proceeds. Other miscellaneous properties netted the Company $50 million in proceeds.

The Company's total consolidated debt, including current maturities, at December 31, 2003, was $2.88 billion, compared with $3.0 billion at year-end 2002. Cash and cash equivalents on hand totaled $404 million at December 31, 2003, up from $168 million at the end of 2002.

In 2003, the Company retired approximately $500 million in net long-term debt and other financings. Pursuant to Financial Accounting Standards Board Interpretation 46 ("Consolidation of Variable Interest Entities"), the Company consolidated in 2003 the long-term debt of an affiliate that operates geothermal steam-fired power plants in Indonesia. At December 31, 2003, the balance sheet included $74 million related to this debt.

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First Quarter 2004 Outlook

The Company's current net worldwide daily production estimate for the first quarter of 2004 is between 410,000 and 420,000 barrels-of-oil equivalent ("BOE"). Based on current market prices, the Company's net earnings for the first quarter are expected to change $8 million for every $1 change in the Company's average worldwide realized price for crude oil and $3 million for every 10-cent change in its average realized North America natural gas price, excluding the effect of hedging activities. For the first quarter of 2004, the Company has hedged 41 million MMBtu (million British thermal units) of North America natural gas production and 3 million Bbl of North America crude oil, together representing approximately 60 percent of expected North America BOE production volume. These first quarter hedges include fixed price sales for 41 million MMBtu of natural gas at $6.25 per MMBtu and 2.8 million Bbl of crude oil at $30.14 per Bbl, in addition to crude oil collars between $28.40 and $24.00 per Bbl on 180,000 Bbl. The Company also forecasts first quarter pre-tax dry hole costs of $40 million to $50 million.

2004 Capital Expenditures

Capital expenditures for 2004 are currently forecast at approximately $1.93 billion, which excludes $80 million of capitalized interest. This compares with approximately $1.66 billion in 2003, which excluded $60 million in capitalized interest. About 94 percent of the total capital spending plan is for exploration and production projects, with about two-thirds targeted for outside North America.

Nearly 50 percent of the estimated spending is earmarked principally for large, mostly international, crude oil and natural gas development projects that are expected to bring on new production in 2004 and 2005. Major international projects include Thailand oil and gas development, Indonesia deepwater development, Bangladesh gas field development, Caspian Sea oil development, and China's Xihu Trough natural gas development. In the U.S., the Company will be completing development of the Mad Dog field and beginning development of the K2 field in the deepwater Gulf of Mexico.

For 2004, the Company expects to maintain an exploration capital budget of about $325 million. The primary focus will be deepwater Gulf of Mexico and Indonesia. Exploration spending on the deep shelf program in the Gulf of Mexico represents about 10 percent of the overall spending plan and will be less than one-half of the 2003 level.

2003 Reserve Replacement and FD&A Results

The Company estimates its preliminary year-end 2003 proved oil and gas reserves to be 1.765 billion BOE, compared with 1.774 billion BOE at the end of 2002. In 2003, the Company replaced production and nearly offset the sale of 98 million BOE. Including the net effect of sales, preliminary reserve replacement was 95 percent of 2003 production, with preliminary costs for new reserves measured as both finding and development ("F&D") and finding, development and acquisition ("FD&A") of approximately $6.90 per BOE.

The Company's reserve replacement performance reflects continued strength in legacy areas including Thailand, U.S. Mid-Continent, Canada, and Alaska. The Company also progressed in commercializing some of its large backlog of discovered oil and gas in Bangladesh and Indonesia. For the Company's International operations, FD&A was less than $5.00 per BOE. In 2003, the Company booked new reserves at the Moulavi Bazar field in Bangladesh and at the Ranggas field in the deepwater Kutei Basin offshore Indonesia. FD&A for North America, excluding deep water, was about $9.90 per BOE, which is above the Company's stated goal of $8.00 per BOE for those businesses. The Alaska, U.S. Mid-Continent and Canada programs met or exceeded the $8.00 goal, and the Company will continue to fund those programs at a comparable level in 2004. The exploration program in the Gulf of Mexico shelf, including the deep shelf program, had unacceptable returns as a result of lower than expected discovery volumes and drilling cost overruns. In 2004, overall exploration capital spending for the Gulf of Mexico shelf will be cut by approximately 50 percent from the 2003 level. The Company booked 7 million BOE in the deepwater Gulf of Mexico for the Mad Dog field development, which is expected to be on production in 2005, and the K2 field, which is planned for development.

During 2003, the Company added proved reserves of 203 million BOE from discoveries and extensions. It also made upward revisions of 43 million BOE because of reservoir performance. This was offset partially by 4 million BOE in negative price revisions attributable to changes in crude oil prices for reserves held under production-sharing contracts ("PSCs").

About 50 percent of the Company's proved reserves are in the Proved Undeveloped ("PUD") category. These relate to discovered reserves near existing infrastructure or large development projects that are currently underway. Roughly 40 percent of the PUDs are related to specific projects such as deepwater developments in the Gulf of Mexico and Indonesia, and the Company's interest in the Azerbaijan International Operating Company ("AIOC"). The majority of the remaining PUDs relate to Thailand. The Company delineates undeveloped reserves there to meet the growing long-term sales commitments and to respond to market opportunities as the swing producer. The Company does not spend the capital to develop those reserves until deliverability is required by the market (just-in-time development). In 2003, Unocal Thailand, Ltd. ("Unocal Thailand"), reached preliminary agreement to extend the gas sales agreements and increase the Company's net daily contract quantity by approximately 50 percent to 920 MMcf/d beyond 2006.

The Company's 2003 reserves did not include resources from a number of previously announced major discoveries - Gehem, Gula and Gendalo in Indonesia; Vietnam; Arthit in Thailand; Bibiyana in Bangladesh; Xihu Trough in China; or the Champlain, Trident, St. Malo, and Puma deepwater Gulf of Mexico discoveries, which are all in active appraisal.

Unocal preliminary estimated proved reserves
of crude oil and natural gas (MMBOE)

As of December 31, 2002	1,774
Discoveries and extensions	203
Improved recovery	10
Revisions	39
Purchases	6
Sales	(98)
Production	(169
As of December 31, 2003	1,765

Reserve due diligence

The Company employs an extensive auditing process to assure quality reserve reporting. The reserves are calculated and reviewed by the individual business unit team of degreed engineering and geology professionals, and the results are then reviewed by a corporate team. For 2003, more than three-fourths of the Company's reserves were reviewed by the corporate team, which is composed of individuals who have no management ties to the business units nor do they have any reserve volume goals. In addition, the auditing team includes one member from an independent third party engineering firm. The Company's auditing team examines the existing reserve base on a rotating basis once every three years. All material changes in reserves each year are reviewed by the company's management committee. As a matter of policy, the Company does not book reserves without management's commitment to develop the project, which requires an established market for the resource.

Cautionary Statement

This filing contains certain forward-looking statements about Unocal's future production rates, commodity prices, dry hole costs, estimates of proved reserves, future operations, capital expenditures, possible development activities, drilling plans, business transactions and other matters. These statements are not guarantees of future performance. The statements are based upon Unocal's current expectations and beliefs and are subject to a number of known and unknown risks and uncertainties that could cause actual results to differ materially from those described in the forward looking statements. Actual results could differ materially as a result of changes in commodity prices, the levels of the Company's oil and gas production, development and exploratory drilling results, the amounts of the Company's operating cash flow and other capital resources available to fund its capital expenditures, government approvals, regulatory, geological, operating and economic considerations, and other factors disclosed on pages 56 to 68 of Unocal's 2002 Annual Report on Form 10-K.

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

UNOCAL CORPORATION
(Registrant)

Date: February 6, 2004

By: /s/ JOE D. CECIL

Joe D. Cecil
Vice President and Comptroller

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CONSOLIDATED EARNINGS (UNAUDITED) UN

Millions of dollars except per share amounts	For the Three Months Ended December 31, 2003	2002	For th Ende
Revenues			
Sales and operating revenues	$ 1,578	$ 1,529	$ 6
Interest, dividends and miscellaneous income	7	14	
Gain on sales of assets	4	40	
Total revenues	1,589	1,583	6
Costs and other deductions			
Crude oil, natural gas and product purchases	497	577	2
Operating expense	375	389	1
Administrative and general expense	61	37	
Depreciation, depletion and amortization	242	249	
Asset impairments	7	20	
Dry hole costs	33	26	
Exploration expense	69	66	
Interest expense	71	45	
Property and other operating taxes	20	19	
Distributions on convertible preferred securities of subsidiary trust	9	9	
Total costs and other deductions	1,384	1,437	5
Earnings from equity investments	42	31	

Earnings from continuing operations before income taxes and minority interests	247	177	1
Income taxes	74	77	
Minority interests	1	4	
Earnings from continuing operations	172	96	
Earnings from discontinued operations	8	-	
Cumulative effects of accounting changes (a)	-	-	
Net earnings	$ 180	$ 96	$
Basic earnings per share of common stock (b)			
Continuing operations	$ 0.66	$ 0.38	$
Net earnings	$ 0.69	$ 0.38	$
Diluted earnings per share of common stock (c)			
Continuing operations	$ 0.65	$ 0.38	$
Net earnings	$ 0.68	$ 0.38	$
Cash dividends declared per share of common stock	$ 0.20	$ 0.20	$

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CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED) UNOCAL CORPORATIO

	At December 31,	
Millions of dollars	2003	200
Assets		
Cash and cash equivalents	$ 404	$ 16
Other current assets - net	1,587	1,20
Investments and long-term receivables - net	893	1,04
Properties - net	8,324	7,87
Goodwill	131	12
Other assets	459	42
Total assets	$11,798	$10,84
Liabilities and Stockholders' Equity		
Current liabilities (a)	$ 2,085	$ 1,63
Long-term debt and capital leases	2,635	3,00
Deferred income taxes	704	59
Accrued abandonment, restoration and environmental liabilities	844	62
Other deferred credits and liabilities	960	90
Minority interests	39	27
Convertible preferred securities of a subsidiary trust	522	52
Stockholders' equity	4,009	3,29
Total liabilities and stockholders' equity	$11,798	$10,84

CONSOLIDATED CASH FLOWS (UNAUDITED) U

Millions of dollars	For the T Ended De 2003
Cash Flows from Operating Activities	
Net earnings	$ 643
Adjustments to reconcile net earnings to net cash provided by operating activities	
Depreciation, depletion and amortization	988
Asset impairments	93
Dry hole costs	128
Amortization of exploratory leasehold costs	108
Deferred income taxes	56
Gain on sales of assets	(119)
Gain on disposal of discontinued operations	(25)
Pension expense net of contributions	58
Restructuring provisions net of payments	27
Cumulative effect of accounting changes	83
Other	(3)
Working capital and other changes related to operations	(88)
Net cash provided by operating activities	1,949
Cash Flows from Investing Activities	
Capital expenditures (includes dry hole costs)	(1,718)
Proceeds from sales of assets	642
Proceeds from sale of discontinued operations	11
Net cash used in investing activities	(1,065)
Cash Flows from Financing Activities	
Long-term borrowings	205
Reduction of long-term debt and capital lease obligations	(452)
Minority interests	(257)
Proceeds from issuance of common stock	58
Dividends paid on common stock	(207)
Loans to key employees	11
Other	(6)
Net cash provided by (used in) financing activities	(648)
Net increase (decrease) in cash and cash equivalents	236
Cash and cash equivalents at beginning of year	168
Cash and cash equivalents at end of period	$ 404

OPERATING HIGHLIGHTS UNOCAL CORPORATION

	Three Months 2003	Three Months 2002	Twelve Months 2003	Twelve Months 2002
	Ended December 31,			
North America Net Daily Production				
Liquids (thousand barrels)				
U.S. Lower 48 (a) (b)	37	46	43	52
Alaska	21	23	21	24
Canada	17	18	17	18
Total liquids	75	87	81	94
Natural gas - dry basis (million cubic feet)				
U.S. Lower 48 (a) (b)	516	659	616	719
Alaska	50	68	57	76
Canada	89	91	90	91
Total natural gas	655	818	763	886
North America Average Prices (excluding hedging activities) (c)				
Liquids (per barrel)				
U. S. Lower 48	$27.73	$25.20	$28.07	$22.85
Alaska	$30.73	$26.96	$29.85	$24.21
Canada	$22.94	$21.84	$24.76	$20.70
Average	$27.52	$24.94	$27.84	$22.79
Natural gas (per mcf)				
U. S. Lower 48	$ 4.47	$ 3.77	$ 5.18	$ 3.01
Alaska	$ 1.46	$ 1.20	$ 1.31	$ 1.42
Canada	$ 4.56	$ 3.50	$ 5.07	$ 2.67
Average	$ 4.30	$ 3.51	$ 4.88	$ 2.83
North America Average Prices (including hedging activities) (c)				
Liquids (per barrel)				
U. S. Lower 48	$28.50	$25.19	$27.72	$22.87
Alaska	$30.73	$26.96	$29.85	$24.21
Canada	$22.94	$21.84	$24.76	$20.70
Average	$27.90	$24.94	$27.66	$22.81
Natural gas (per mcf)				
U. S. Lower 48	$ 4.91	$ 3.75	$ 5.07	$ 3.07
Alaska	$ 1.46	$ 1.20	$ 1.31	$ 1.42
Canada	$ 4.34	$ 3.31	$ 4.78	$ 2.66
Average	$ 4.61	$ 3.47	$ 4.76	$ 2.88

OPERATING HIGHLIGHTS (CONTINUED) UNOCAL CORPORATION

	Three Months 2003	Three Months 2002	Twelve Months 2003	Twelve Months 2002
	Ended December 31,			

International Net Daily Production (d)				
Liquids (thousand barrels)				
Far East	63	53	59	53
Other (a)	19	21	20	20
Total liquids	82	74	79	73
Natural gas - dry basis (million cubic feet)				
Far East	844	823	877	847
Other (a)	78	96	88	93
Total natural gas	922	919	965	940
International Average Prices (e)				
Liquids (per barrel)				
Far East	$28.40	$25.36	$27.30	$22.88
Other	$29.68	$27.55	$28.29	$25.47
Average	$28.73	$26.01	$27.54	$23.57
Natural gas (per mcf)				
Far East	$ 2.96	$ 2.77	$ 2.83	$ 2.75
Other	$ 3.00	$ 2.83	$ 2.90	$ 2.72
Average	$ 2.96	$ 2.78	$ 2.84	$ 2.75
Worldwide Net Daily Production (a) (b) (d)				
Liquids (thousand barrels)	157	161	160	167
Natural gas - dry basis (million cubic feet)	1,577	1,737	1,728	1,826
Barrels oil equivalent (thousands)	420	451	448	471
Worldwide Average Prices (excluding hedging activities) (c)				
Liquids (per barrel)	$28.14	$25.44	$27.70	$23.13
Natural gas (per mcf)	$3.51	$3.12	$3.73	$2.79
Worldwide Average Prices (including hedging activities) (c) (e)				
Liquids (per barrel)	$28.33	$25.44	$27.60	$23.14
Natural gas (per mcf)	$3.65	$3.10	$3.66	$2.81