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UNOCAL CORP  
Form DEF 14A  
April 12, 2004

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934

Filed by the Registrant  [X]

Filed by a Party other than the Registrant  [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[ ] Confidential, for Use of the Commission Only  
(as permitted by Rule 14a-6(e)(2))

[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material under Section 240.14a-12

Unocal Corporation

-----  
(Name of Registrant as Specified In Its Charter)

-----  
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required

[ ] \$125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), 14a-6(i)2  
or Item 22(a)(2) of Schedule 14A.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed  
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(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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(2) Form Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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

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April 12, 2004

Dear Stockholder:

Please accept my personal invitation to attend the 2004 annual meeting of stockholders of Unocal Corporation on Monday, May 24, 2004. It will be held at the Westin Los Angeles Airport Hotel, located at 5400 West Century Boulevard, Los Angeles, California, in the second floor theater, at 10:00 A.M., Pacific Daylight Time.

The enclosed notice of annual meeting and proxy statement provide important information concerning the matters to be considered at the meeting. Before the conclusion of the meeting, there will be a period for questions and comments.

If you are a registered stockholder and plan to attend the meeting in person, please mark the attendance box on your proxy card and bring the tear-off admission ticket with you to the meeting. If you are a beneficial owner of Unocal common stock that is held by a bank, broker or other nominee, you will need proof of ownership to be admitted to the meeting. A recent brokerage statement or a letter from your bank or broker are examples of proof of ownership. Stockholders will be asked for identification for admission to the meeting.

Your vote is important. I urge you to submit your proxy as

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soon as possible so that your shares will be represented. Most stockholders have their choice of three methods to vote by proxy:

- Mail, using the enclosed proxy card and return envelope,  
-----
- Phone, using the 800 number provided on the proxy card (U.S.  
-----  
and Canada only), or
- Internet, using the website provided on the proxy card.  
-----

Thank you very much for your continued interest and support.

Sincerely,

/S/ Charles R. Williamson

Charles R. Williamson  
Chairman of the Board of  
Directors,  
Chief Executive Officer and  
President

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Notice of 2004  
Annual Meeting  
of Stockholders

UNOCAL [LOGO APPEARS HERE]

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

The 2004 annual meeting of stockholders of Unocal Corporation (the "Company"), a Delaware corporation, will be held at the Westin Los Angeles Airport Hotel, located at 5400 West Century Boulevard, Los Angeles, California, in the second-floor theater, on Monday, May 24, 2004, at 10:00 A.M., Pacific Daylight Time, for the following purposes:

- (1) to elect three directors for three-year terms that will expire at the annual meeting in 2007;
- (2) to ratify the action of the Audit Committee of the Board of Directors in appointing PricewaterhouseCoopers LLP as the Company's independent auditors for 2004;
- (3) to approve the 2004 Management Incentive Program;
- (4) to approve the 2004 Directors' Deferred Compensation and Restricted Stock Unit Award Plan;
- (5) to consider and act upon the four stockholder proposals described in the accompanying proxy statement, if presented at the meeting; and
- (6) to consider and act upon such other matters as may properly be brought before the meeting and any adjournment thereof.

Only stockholders of record at the close of business on March 25, 2004, are entitled to notice of and to vote at the annual meeting and any adjournment thereof.

By Order of the Board of  
Directors

/S/ Bryan J. Pechersky

Bryan J. Pechersky  
Corporate Secretary

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April 12, 2004  
El Segundo, California

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Proxy Statement  
Annual Meeting of Stockholders  
May 24, 2004

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

GENERAL INFORMATION  
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Proxy Solicitation; Mailing Date. This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Unocal Corporation (the "Company" or "Unocal"), a Delaware corporation, for use at the 2004 annual meeting of stockholders of the Company to be held on May 24, 2004, and any adjournment thereof. The Board of Directors has appointed Messrs. Terry G. Dallas, Executive Vice President and Chief Financial Officer, and Samuel H. Gillespie III, Senior Vice President, General Counsel and Chief Legal Officer, as the proxy holders for the annual meeting. The notice of the annual meeting and this proxy statement, together with a proxy card and the Company's 2003 annual report, are first being sent to stockholders on or about April 12, 2004.

Stockholders Entitled to Vote. Only common stockholders of record on the books of the Company at the close of business on March 25, 2004 are entitled to notice of and to vote at the meeting. A stockholder of record is entitled to one vote for each share of common stock owned on the record date. As of the record date, the Company had 262,358,048 shares of common stock outstanding.

Quorum; Required Votes. The holders of one-third of all of the outstanding shares of the common stock of the Company entitled to vote at the meeting, present in person or represented by proxy, constitute a quorum for the transaction of business at the meeting. Broker non-votes, which are explained below, abstentions and withhold votes will count as present for purposes of establishing a quorum for the transaction of business at the meeting.

A "broker non-vote" occurs if a broker or other nominee who is entitled to vote shares on behalf of a record owner has not received instructions with respect to a particular item to be voted on and the broker or nominee does not otherwise have discretionary authority to vote on that matter. Under the rules of the New York Stock Exchange ("NYSE"), brokers may vote a client's proxy in their own discretion on certain items even without instructions from the beneficial owner, but may not vote a client's proxy without voting instructions on "non-

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discretionary" items.

- Item 1 (election of directors) - A plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on this Item is required for the election of the directors. This means that director nominees with the most votes are elected, even if a nominee does not receive a majority vote. Instructions to "withhold" votes will not have an effect on the outcome of the election of directors at the meeting.
- Item 2 (ratification of independent auditors) - The affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote on this Item is required for ratification of the appointment. Abstentions will have the same effect as a negative vote.
- Items 3 and 4 (approvals of management and director compensation plans) - The affirmative vote of the majority of votes cast on these Items is required for approval of the plans, provided that the total vote cast represents over 50% of all shares entitled to vote thereon. Abstentions will have the

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same effect as a negative vote. Broker non-votes will not have an effect on the outcome of the vote, provided that the total vote cast represents over 50% of all shares entitled to vote thereon.

- Items 5 - 8 (stockholder proposals) - The affirmative vote of the majority of shares present in person or represented by proxy at the annual meeting and entitled to vote on these Items is required for approval of these proposals. Abstentions will have the same effect as a negative vote. Broker non-votes will not have an effect on the outcome of the vote.

**Solicitation Expenses.** The Company will pay the cost of soliciting proxies. In addition to solicitation by mail, certain directors, officers and employees of the Company and its subsidiaries may solicit proxies by telephone, personal interview, electronic mail, facsimile and other written communication. The Company also has retained D. F. King & Co., Inc., New York, New York, to assist in the solicitation of proxies for a fee estimated to be \$16,500, plus reimbursement of out-of-pocket expenses.

**Voting Procedures.** All stockholders may vote by signing, dating and returning their proxy cards in the enclosed pre-addressed envelopes. Registered stockholders may instead choose to vote by telephone (from U.S. and Canada locations), using the toll-free number listed on the proxy card, or electronically on the Internet, using the web site listed on the proxy card, or in person at the meeting. If you are a beneficial owner of Unocal common stock that is held by a bank, broker or other nominee, please read your voting card to determine whether you may vote by telephone or electronically on the Internet, following the instructions on the card. A street-name stockholder who wishes to vote at the meeting will need to obtain a proxy from the record holder.

**Revoking Your Proxy.** A registered stockholder who has provided a proxy may revoke it at any time before the shares are voted at the meeting by executing a later-dated proxy, by

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providing new instructions using the proxy telephone or Internet system, by voting by ballot at the meeting, or by filing an instrument of revocation with the Inspector of Elections. The proxy tabulating agent will record your vote according to the instructions which it receives last, regardless of when you transmitted the instructions.

**Confidential Voting.** The Board of Directors has adopted a policy of ensuring the confidentiality of stockholder votes to encourage stockholder participation in corporate governance. The Company retains independent third parties to receive and tabulate stockholder votes. The manner in which any stockholder votes on any particular issue shall, subject to federal or state law requirements, be strictly confidential.

The Board of Directors considers that some registered stockholders may want the Company to know how they have voted and the Company, where possible, may wish to inquire as to how stockholders have voted. If you want the Company to have access to your proxy card, you may check the box marked "OPEN BALLOT" on the proxy card and your proxy will be made available to the Company. Your vote will remain confidential if you do not check the "OPEN BALLOT" box.

**Electronic Delivery.** Registered stockholders who have computer access to the World Wide Web on the Internet and agree to receive future annual reports and other proxy materials by accessing the Company's web site should provide their valid e-mail addresses to our transfer agent, Mellon Investor Services, LLC, at the agent's website [www.melloninvestor.com/ISD](http://www.melloninvestor.com/ISD). If you consent to electronic delivery, our transfer agent will send an e-mail notifying you regarding the web address to access annual meeting materials and we will not mail paper copies of future annual reports and proxy materials to you unless you request paper copies.

**Stockholders Sharing an Address.** Registered stockholders will receive one proxy statement and annual report for each account. Most banks and brokers are delivering only one copy of the annual report and proxy statement to consenting street-name stockholders who share the same address. This saves the Company money in printing and distribution costs. Those who wish to receive separate copies in the future may do so by contacting their bank or broker, or, in most cases, by checking the appropriate box on the voting instruction card sent to them. Similarly, most street-name stockholders who are receiving

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multiple copies of the annual report and proxy statement at a single address may request that only a single set of materials be sent to them by checking the appropriate box on the voting instruction card sent to them, or by contacting their bank or broker.

In the alternative, most street-name stockholders may give instructions to receive separate copies or discontinue multiple mailings of materials by contacting the third party that mails annual meeting materials for most banks and brokers by writing to Household Department, ADP, 51 Mercedes Way, Edgewood, NY 11717, or telephoning (800) 542-1061. Stockholders may also send written instructions to Unocal Stockholder Services, 2141



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Rosecrans Avenue, Suite 4000, El Segundo, CA 90245, and the Company will forward your instructions. In both cases, your instructions must include the name of your stockbrokerage firm and your account number.

Copies of the Annual Report and Proxy Statement. Copies of the current annual report and proxy statement are available by contacting Unocal Stockholder Services at (310) 726-7681, 2141 Rosecrans Avenue, Suite 4000, El Segundo, CA 90245, e-mail: stockholder\_services@unocal.com.

STOCK OWNERSHIP

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

As of December 31, 2003, the following entities were known by the Company to own beneficially more than five percent of the Company's common stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Capital Group International, Inc. 11100 Santa Monica Blvd. Los Angeles, CA 90025	31,123,270 (A)	11.9%
Capital Research and Management Company 333 South Hope Street Los Angeles, California 90071	28,685,560 (B)	11.0
Dodge & Cox One Sansome St., 35th Floor San Francisco, CA 94104	27,901,694 (C)	10.7

(A) Based on a Schedule 13G dated February 10, 2004, Capital Group International, Inc. beneficially owned these shares as the parent holding company of a group of investment management companies that provide investment advisory and management services for their clients, which include investment companies and institutional accounts. This number included 394,620 shares resulting from the assumed conversion of 335,900 6 1/4% Trust Convertible Preferred Securities of Unocal Capital Trust. The investment management companies had sole voting power over 26,659,980 shares, and had sole dispositive power over all these shares. One of the investment management companies, Capital Guardian Trust Company, beneficially owned 16,607,430 (6.4%) of Unocal's Common Stock and had sole voting power over 12,144,140 shares.

(B) Based on a Schedule 13G dated February 10, 2004, Capital Research and Management Company beneficially owned these shares as a result of acting as investment advisor to various investment companies. This number included 528,660 shares resulting from the assumed conversion of 450,000 6 1/4% Trust Convertible Preferred Securities of Unocal Capital Trust. Capital Research and Management Company had the sole dispositive power over of all these shares, but did not have

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voting power over any of the shares.

(notes continued on next page)

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(C) Based on a Schedule 13G dated February 17, 2004, Dodge & Cox beneficially owned these shares on behalf of clients, which may include investment companies, employee benefit plans, pension funds, endowment funds or other institutional clients. Dodge & Cox had sole voting power over 26,134,744 shares, and shared voting power over 269,300 shares. Dodge & Cox had sole dispositive power over all these shares.

SECURITY OWNERSHIP OF MANAGEMENT

The following table lists the beneficial ownership of shares of the Company's common stock as of March 15, 2004, by (1) all current directors and director nominees, (2) the CEO and other five most highly compensated executive officers in 2003 (the "named executive officers") and (3) all current directors and executive officers as a group:

Name	Sole Voting or Investment Power	Shared Voting or Investment Power	Right to Acquire within 60 Days from March 15, 2004		Total Beneficial Ownership
			Directors Units (A)	Stock Options (B)	
John W. Amerman		11,461	17,085	4,532	33,078
Craig Arnold					None
Joe D. Cecil	16,538	5,900		50,537	72,975
John W. Creighton, Jr.	2,000		31,843	4,532	38,375
James W. Crownover	6,425		13,964	4,532	24,921
Terry G. Dallas	13,381			278,784	292,165
Thomas E. Fisher	15,924	8,536		82,774	107,234
Frank C. Herringer	400 (C)	51,332	23,287	4,532	79,551
Timothy H. Ling (D)					
Ferrell P. McClean		500	501	2,730	3,731
Richard D. McCormick	3,000				3,000
Donald B. Rice	12,000		1,829	4,532	18,361
Kevin W. Sharer		2,945	14,248	4,532	21,725
Charles O. Strathman	10,572			63,151	73,723

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Mark A. Suwyn					None
Marina v.N. Whitman	8,026		6,947	4,532	19,505
Charles R. Williamson	83,249	20,605		464,600	568,454
All current directors and executive officers as a group (E)	194,404	101,279	109,704	969,185	1,374,572

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 and related Securities and Exchange Commission ("SEC") rules require that directors and executive officers report to the SEC changes in their beneficial ownership of Unocal stock, and that any late filings must be disclosed. The Company generally makes the filings on behalf of the directors and officers pursuant to powers of attorney. A Form 4 for Mr. Douglas M. Miller, reporting the cancellation of 127 shares for withholding taxes upon the lapse of restrictions on restricted stock, was filed on August 6, 2003, which was 20 days late.

CORPORATE GOVERNANCE

DIRECTOR NOMINATION PROCESS

The Board Governance Committee has approved certain minimum standards for candidates for service as a first-time director and has developed a process for identifying and evaluating first-time nominees in light of these standards and such other factors as the Governance Committee deems appropriate. These standards, and the Governance Committee's evaluation process, apply to all proposed first-time nominees for directors, including those nominees recommended by stockholders. Stockholders may recommend candidates by writing to the Corporate Secretary of the Company at Unocal Corporation, 2141 Rosecrans Avenue, Suite 4000, El Segundo, CA 90245. This process of identifying and evaluating nominees is based on the Governance Committee's familiarity with the composition of the current Board, its awareness of anticipated openings, and its assessment of desirable talents or expertise. The Governance Committee regularly reviews the composition of the Board in light of its understanding of the backgrounds, industry and professional experience, and the various communities, both geographic and demographic, represented by current members. It also monitors the expected service dates of Board members, any planned retirement dates, and other anticipated events that may affect a director's continued ability to serve. The Governance Committee periodically reviews Board self-evaluations and information with respect to the business and professional expertise represented by current directors in order to identify any specific skills desirable for future board members.

The Board has approved the following minimum qualifications for first-time nominees for directors, including nominees

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recommended by stockholders, for election to the Company's Board: (1) a demonstrated breadth and depth of management and/or leadership experience, preferably in a senior leadership role (e.g., chief executive officer, managing partner, president) in a large or recognized organization; (2) financial literacy or other professional or business experience relevant to an understanding of the Company and its business; (3) a demonstrated experience in or knowledge of international operations; and (4) a demonstrated ability to think and act independently, as well as the ability to work constructively in a collegial environment. The Governance Committee will determine, in its sole discretion, whether a nominee meets these minimum qualifications.

In addition to these minimum qualifications, the Governance Committee will also consider, in evaluating a candidate for nomination as a first-time director, the current composition of the Board in light of the diverse communities and geographies served by the Company and the interplay of the candidate's experience with the experience of the other Board members, as well as such other factors as the Governance Committee considers appropriate.

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The Governance Committee is responsible for managing the process for nomination of new directors. The Governance Committee identifies potential candidates for first-time nomination as a director using a variety of sources - recommendations from the Company's Management Committee, current Board members, stockholder recommendations, contacts in communities served by the Company, or by conducting a formal search using an outside search firm selected and engaged by the Governance Committee. The Governance Committee then commences an inquiry to obtain sufficient information on the background of a potential new director-nominee. Included in this inquiry is an initial review of the candidate with respect to the following three factors: (1) whether the individual meets the minimum qualifications for first-time director nominees; (2) whether the individual would be considered independent under the NYSE and SEC rules; and (3) whether the individual would meet any additional requirements imposed by law or regulation on the members of the Audit and/or Management Development and Compensation Committees of the Board. The individual will also be asked to provide the information required to be disclosed in the Company's proxy statement.

If it decides to proceed further following its initial review, the Governance Committee arranges an introductory meeting with the candidate and either the Company's Chief Executive Officer ("CEO") or the Governance Committee Chair or, in some cases, with another director, to determine the candidate's interest in serving on the Board. The Governance Committee, together with several members of the Board, the CEO, and, if appropriate, other key Company executives, conducts a comprehensive interview with the candidate. If the Company and the candidate are both interested in proceeding, the Governance Committee then reviews personal information provided by the candidate in light of the same factors used by the Governance Committee for its initial review.

Assuming a satisfactory conclusion to the process outlined

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above, the Governance Committee then presents the candidate's name (or names, if more than one acceptable candidate has been identified by the Governance Committee) to the Board of Directors for nomination for election as a director and/or inclusion in the Company's proxy statement.

### BOARD COMMITTEE MEETINGS AND FUNCTIONS

The following table lists the current Board members, the standing Board committees and their current members, and the number of committee meetings held during 2003:

Director -----	Audit Committee -----	Board Governance Committee -----	Executive Committee -----	Corporate Responsibility Committee -----	Management Development and Compensation Committee -----
John W. Amerman	X		X	X	
Craig Arnold					
John W. Creighton, Jr. (A)	X		X	X**	
James W. Crownover	X**			X	
Frank C. Herringer		X	X		X**
Ferrell P. McClean	X			X	
Richard D. McCormick					
Donald B. Rice		X**	X		X
Kevin W. Sharer		X			X
Mark A. Suwyn					
Marina v.N. Whitman		X			X
Charles R. Williamson (B)			X**		
No. of meetings in 2003	13	5	2	4	4

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Meetings; Annual Meeting Attendance Policy. There were a total of six Board of Directors meetings and 30 Board committee meetings in 2003. All directors attended over 75% of their aggregate Board and committee meetings. All directors are encouraged to attend annual meetings and all the directors attended the 2003 annual stockholders meeting.

Board / Committee Independence. The Board of Directors has determined that, other than the Company's CEO Mr. Williamson, none of the directors set forth in the preceding table has a material relationship with the Company and that each such director, other than the Company's CEO Mr. Williamson, is otherwise independent under the applicable NYSE listing standards. Except for the Executive Committee, which is chaired by Mr. Williamson, all the committees are composed entirely of non-employee directors. Moreover, the Board of Directors has determined that none of the current members of the Audit Committee, Board Governance Committee and Management Development and Compensation Committee has a material relationship with the Company and that each such committee member is otherwise independent under the applicable NYSE listing standards and SEC

rules.

**Audit Committee.** The Audit Committee assists the Board in monitoring the integrity and reliability of the Company's financial reporting, the Company's compliance with legal and regulatory requirements, the adequacy of the Company's internal operating policies and controls, and the quality and performance of combined management, independent auditor, and the internal audit function. The Board determined that each of John W. Creighton, Jr., John W. Amerman and Ferrell P. McClean qualifies as an audit committee financial expert as defined in SEC rules, and that each member of the Committee is financially literate in compliance with NYSE listing standards. The Committee's charter is attached to this proxy statement as Exhibit A, and also is available on the Company's web site at [www.unocal.com/governance/audit.htm](http://www.unocal.com/governance/audit.htm).

**Board Governance Committee.** The Board Governance Committee recommends to the Board the composition, role, structure and procedures of the Board and its committees; oversees the periodic evaluation of the Board and makes recommendations to improve the functioning and effectiveness of the Board and its committees; manages the process for nomination of new directors; and reviews and presents for Board approval the charters of the Board committees, director compensation, and the Company's Corporate Governance Principles. The Committee's charter is available on the Company's web site at [www.unocal.com/governance/board\\_gov.htm](http://www.unocal.com/governance/board_gov.htm).

**Executive Committee.** The Executive Committee has the powers and authority of the Board during the periods between Board meetings, except for those powers specifically reserved to the full Board by the Delaware General Corporation Law or the Company's Bylaws.

**Corporate Responsibility Committee.** The Corporate Responsibility Committee reviews the implementation of the Company's Vision and Values Statement as it relates to corporate responsibility, and reviews significant legal or other matters involving health, environment, safety, human resources, community affairs and development, or ethical conduct. It coordinates as necessary with the Audit Committee to ensure effective oversight of all aspects of the Company's ethics and compliance programs.

**Management Development and Compensation Committee.** The Management Development and Compensation Committee designs the Company's executive compensation program; administers all management incentive programs and makes recommendations to the Board with respect to other incentive compensation and equity-based plans; evaluates the CEO annually and assists the CEO in the evaluation of senior management; establishes the levels of compensation for the CEO and senior management; and oversees and shapes the Company's succession and management development programs. The Committee's charter is available on the Company's web site at [www.unocal.com/governance/mdc\\_com.htm](http://www.unocal.com/governance/mdc_com.htm).

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**Retirement Plan Committee.** The Retirement Plan Committee oversees the management of the assets of the Company's retirement plans, which includes setting investment objectives, establishing

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asset allocation strategy and reviewing the investment performance and the funded status of the plans at least annually.

### DIRECTORS' COMPENSATION

Cash Compensation and Expenses. Non-employee directors receive the following fees and reimbursement of expenses:

- \$48,000 annual retainer for serving as a director
- \$48,000 annual retainer for serving as Vice-Chairman of the Board
- \$6,000 annual retainer for chairing a committee other than the Audit Committee
- \$15,000 annual retainer for chairing the Audit Committee
- \$2,000 for each Board or committee meeting attended in person
- \$1,000 for each Board or committee meeting attended by telephone
- Reimbursement of reasonable out-of-pocket expenses related to meetings and other Company business

From January through June 2003, directors received \$3,000 for attending Board meetings and \$1,000 for attending committee meetings, and the annual retainer (paid in monthly installments) for serving as a director was \$25,000, with an additional \$25,000 for serving also as Vice-Chairman. From June through December 2003, directors received \$2,000 for attending certain committee meetings by telephone.

Stock Compensation. The 2001 Directors' Deferred Compensation and Stock Award Plan (the "2001 Plan") was approved by the stockholders at the 2001 annual meeting. A total of 500,000 shares are authorized for issuance for awards made under the 2001 Plan through July 1, 2006. Under the 2001 Plan, each non-employee director receives:

- An annual grant of stock units equal in value to 20% of the director's fees earned during the prior year
- An initial stock option award with a value of \$82,500 upon first being elected to the Board
- An annual stock option award with a value of \$27,500
- For any cash fees voluntarily deferred, stock units equal to 120% of the cash deferred

The Board Governance Committee administers the 2001 Plan. The Governance Committee has broad authority under the 2001 Plan, including the authority to establish the valuation methodology that determines the number of shares underlying option grants, within plan limits. The Governance Committee may also determine adjustments to plan terms responsive to extraordinary transactions, and establish, adopt and revise rules and regulations relating to the plan. For the 2003 annual stock option awards the numbers of shares underlying the stock option grants were determined using a Black Scholes model that resulted in a formula that multiplied the fair market value of a share of common stock on the grant date by .3316 and then divided the award value by the result.

Each of the independent directors on May 1, 2003 received an annual stock option award to purchase 3,003 shares of common stock under the 2001 Plan at an exercise price of \$27.6150, which expires on May 1, 2013. Stock options granted under the 2001 Plan are 10-year nonqualified stock options. The exercise price of the options is the fair market value of the shares on the date of grant. Initial option grants vest 33 1/3% each year over

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three years, and annual option grants vest 50% each year over two years. Options become immediately vested upon: (1) death or disability; (2) a Change in Control (as defined in the 2001 Plan), or (3) with respect to options that have been outstanding for at least nine months, retirement from service either (A) at the end of the director's then current term and after completing five full years of service, if a director is ineligible to stand for reelection under the Company's director retirement policy, or (B) on the date of the annual meeting of stockholders immediately following

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the director's 72nd birthday under the Company's director retirement policy and after completing five full years of service. A director who terminates service for any reason other than for cause will have three years to exercise vested options if the director served on the Board for at least three years, and two years to exercise vested options if the director served on the Board less than three years.

Stock units represent unfunded bookkeeping entries, which are paid out in an equal number of shares of common stock at the end of the deferral period chosen by each director for each annual grant or voluntarily deferred annual compensation. The units are fully vested and non-forfeitable at all times. Dividend equivalents are credited as additional stock units, subject to the same deferral elections.

The minimum deferral period that may be elected for stock units is three years or following a termination of services, whichever is earlier or later. In addition, participants may elect to accelerate the payout of their units upon a Change in Control, upon certain hardships, or by requesting an early distribution, subject to a withdrawal penalty. Payout of units occurs if a unit holder would otherwise forfeit the units as a result of acceptance of government or community service.

Subject to customary exceptions, stock options and stock units are generally non-transferable, except by will or the laws of descent and distribution or beneficiary designation. The Governance Committee, however, may permit certain transfers of stock options for estate and/or tax planning purposes to certain related persons or entities.

Stockholders will be voting on a new non-employee directors' plan at this 2004 annual meeting. The new plan, the 2004 Directors' Deferred Compensation and Restricted Stock Unit Award Plan (the "2004 Plan"), is described in Item 4 of this proxy statement, and the full text of the 2004 Plan is attached as Exhibit C. If stockholders approve the 2004 Plan, no additional awards will be made under the 2001 Plan and outstanding stock units will be transferred to stock unit accounts under the 2004 Plan, subject to the terms and conditions of the 2004 Plan. In addition, to prevent a compounding of benefits in 2004, if stockholders approve the 2004 Plan, the stock options granted in 2004 under the 2001 Plan prior to the annual meeting in accordance with the terms of the 2001 Plan will be rescinded without consideration. If the 2004 Plan is approved, director compensation will be increased as described in Item 4 to include, among other benefits, initial and annual awards of restricted stock units in lieu of the award of stock options and stock units



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granted under the 2001 Plan.

### EXECUTIVE SESSIONS

The Board of Directors has elected Mr. Creighton as Vice Chairman. An executive session of the independent directors without management is scheduled after each regularly scheduled meeting of the Board of Directors. Mr. Creighton presides at these executive sessions.

### COMMUNICATIONS WITH BOARD MEMBERS

Stockholders and other interested parties may send communications to the Board of Directors, individual directors, including the Vice-Chairman, or the non-management directors as a group by writing in care of Unocal Corporation, 2141 Rosecrans Avenue, Suite 4000, El Segundo, CA 90245.

All communications addressed to the Board of Directors in general, except any material not related to the duties or responsibilities of a director, are forwarded to the Chairman of the Board, the Vice-Chairman, and if appropriate, the chairman of any relevant Board committee. The Office of the General Counsel maintains a log of all material not forwarded to the Vice-Chairman, which the Vice-Chairman reviews periodically.

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### REPORT OF THE AUDIT COMMITTEE

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. The Committee is composed of four independent directors, each of whom meets the independence standard of the NYSE and the SEC. The Committee operates under a written charter recommended by the Committee and adopted by the Board of Directors. The charter is attached to this proxy statement as Exhibit A. Management has the responsibility for the financial statements and the reporting process. The Company's independent auditors, PricewaterhouseCoopers LLP, are responsible for expressing an opinion on the conformity of the Company's audited financial statements to accounting principles generally accepted in the United States of America.

In this context, the Committee reviewed and discussed with management and the independent auditors the audited financial statements to be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. The Committee discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," as amended. In addition, the Committee received from the independent auditors the written disclosures required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," and discussed with them their independence from the Company and its management.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual

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Report on Form 10-K for the year ended December 31, 2003, for filing with the SEC.

Audit Committee  
of the Board of Directors

James W. Crownover, Chair  
John W. Amerman  
John W. Creighton, Jr.  
Ferrell P. McClean

The preceding Report of the Audit Committee shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, notwithstanding any general incorporation by reference of this proxy statement into any other document or its inclusion as an exhibit thereto.

### EXECUTIVE COMPENSATION

#### REPORT OF THE MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE

This report of the Management Development and Compensation Committee of the Board of Directors (the "Compensation Committee") describes the executive compensation programs and policies of the Company, including its short-term and long-term incentive compensation plans. Key elements of the compensation program are:

- Compensation Committee members are independent, non-employee directors
- Compensation Committee retains and is assisted by an outside consultant
- Salaries are based on comparisons with petroleum and energy industry medians
- Short-term and long-term incentives use a combination of stock performance, financial performance, individual performance and operational results

The Compensation Committee, composed entirely of independent, non-employee directors, is responsible for setting and administering the annual and long-term compensation programs. The Compensation Committee reviews and determines executive officer salaries and incentive awards under the 1998 Management Incentive Program. The Compensation Committee also administers the 2000

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Executive Stock Purchase Program. The Compensation Committee is assisted by an outside consultant, and has delegated certain administrative responsibilities with respect to salaries and incentive awards for non-executive officers to the CEO. The outside consultant and the CEO are present at Compensation Committee meetings but cannot vote. The Compensation Committee considers competitive compensation data, Company performance and individual performance, including adherence to the Company's Code of Conduct, in establishing executive compensation. The Compensation Committee meets outside the presence of the CEO on certain matters, including CEO compensation and certain succession issues. The Compensation Committee met four times in

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2003.

The compensation program for the CEO and other executives consists of four elements: salary, annual cash bonus, performance shares and stock options. All of these elements, other than salary, are part of the 1998 Management Incentive Program approved by the stockholders and explicitly link short-term and long-term incentive compensation to the Company's common share price performance, thereby reinforcing the goal of creating value for the stockholders. Each element of executive compensation is discussed below.

The Company's executive compensation program uses both absolute and relative share price performance. The "Comparative Return to Shareholders" compares the Company's share price plus dividends (Total Shareholder Return or "TSR") to that of a group of companies in energy-related businesses (the "Peer Group").

The Peer Group is designed to have a composite business mix that is similar to that of the Company as of the beginning of an award period. Therefore, the effects of commodity prices and other external events should be similar for the Company and the Peer Group, taken as a whole. The companies comprising the Peer Group are reviewed periodically and changed as business characteristics of these companies, and of Unocal, change. Once the Peer Group is established for a particular award, it is not altered for the award period. If a company in the Peer Group does not continue as a public company to the end of an award period, the calculation uses the average share price for the 60 days prior to the announcement of the merger or other corporate transaction which resulted in such company no longer being listed on a stock exchange. The Peer Group for 2003 and 2004 awards under the Management Incentive Program consisted of 11 companies that, as a group, reflected Unocal's current lines of business.

The Compensation Committee administers the Management Incentive Program to preserve the deductibility of compensation in accordance with Section 162(m) of the Internal Revenue Code, unless such deductibility would be inconsistent with the objectives of the Program. It is the Compensation Committee's belief and intention that the Management Incentive Program has been structured and administered in a manner that preserves the Company's tax deduction for executive incentive compensation paid or accrued under the Program in 2003.

In 2003 the Committee's outside consultant, Towers Perrin, conducted a comprehensive review of the Company's annual and long-term incentive programs. As a result of that review, several changes to the Company's compensation program have been incorporated into the 2004 Management Incentive Program being submitted to the stockholders for approval. As discussed more fully beginning on page 28 of this proxy statement, these changes include using performance-restricted stock, reducing the size of stock option grants, reducing measurement cycles for performance share awards to three years and placing more emphasis on comparative financial and operations performance.

Salary. The base salaries of the CEO and the other executive officers are reviewed annually and when there is a significant change in an executive's responsibilities. The Compensation Committee considers the responsibilities, experience and performance of the executive officers and survey data on the

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compensation paid by energy and petroleum-related companies for similar positions. For 2003, the Compensation Committee selected a group of 11 companies to use to compare salary and other compensation (the "Compensation Group"). These 11 companies also comprised the Peer Group used for calculating Comparative Return to Shareholders for incentive programs. Following a review of compensation data in 2003, the salary of the CEO, Mr. Williamson, was increased to \$925,000 in

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September 2003. In order to facilitate a total compensation analysis, the Compensation Committee decided to move the salary review period for 2004 and future years to February.

The objective of the Compensation Committee is to establish base salaries that are near the median paid by the companies in the Compensation Group, with adjustments for reporting relationships, responsibilities and job scope. After increases to the base salary of the executive officers for 2003, the salaries of those officers as a group and that of the CEO were at approximately the estimated median of comparative salaries of the surveyed companies.

Unocal Deferred Compensation Plan. The Unocal Deferred Compensation Plan (the "DCP"), adopted in 2001, allows participants to defer up to 90% of annual bonuses and up to 50% of salary. The participant may elect various investment options, which determine the ultimate payment due at the end of the elected deferral period. The DCP is largely unfunded and the participants are unsecured creditors of the Company.

Revised Incentive Compensation Plan. The Revised Incentive Compensation Plan (the "RICP") is the Company's annual bonus plan for senior and middle management. Each award period under the RICP is one year. The annual bonus pool for a calendar year equals 2% of the Company's "Net Cash Provided by Operating Activities," which is the maximum amount of annual cash bonuses that may be awarded in a calendar year.

Prior to March of each year, the Compensation Committee establishes a percentage of this bonus pool as the maximum target award for the CEO and certain other executive officers. The Compensation Committee also establishes individual target awards for the remaining participants based on salary grade.

For 2003, the Compensation Committee approved a bonus award payout based 25% on Comparative Return to Shareholders, 37.5% on financial performance ("Return on Capital Employed" and "Free Cash Flow") and 37.5% on an evaluation of the calendar year activities that will affect future performance. The Compensation Committee determined that the Company performed significantly above the established goals with respect to the financial and future performance measures, while the Company's TSR was at the 41st percentile of the Peer Group, resulting in 62% of target payout with respect to this factor. Consequently, for 2003 the bonus award pool for the entire eligible group was set at 120% of the target amount. Awards were subject to further adjustment to reflect business unit and individual performance.

The RICP provides for deferral of awards into restricted stock

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and awards can also be deferred into the DCP as described above. The portion of the award deferred into restricted stock is increased by 20% to compensate for the executive foregoing immediate cash compensation and for the risk of forfeiture. The restriction period is five years. The award is forfeited if the recipient resigns or is terminated for cause prior to the end of the restriction period, unless the recipient retires at or after age 65. Mr. Williamson deferred 90% of his award into the DCP. The Company's other four named executive officers eligible for deferrals deferred an average of 60% into the DCP.

**Executive Stock Purchase Program.** The Executive Stock Purchase Program was approved by stockholders at the 2000 annual meeting. Mr. Williamson and nine other participants (including one other named executive officer) received interest-bearing, full recourse loans to purchase shares of Unocal common stock. Interest on the executive loans accrues at an annual rate of 6.8%. Dividends on shares held by the participant must be used to repay loan balances. While participants can elect to repay the loan and accrued interest at any time, full repayment of principal and accrued interest is not due until March 2008.

The Program resulted in the participants acquiring 1,150,310 shares of stock, thus aligning their interests with those of other stockholders. Mr. Williamson acquired 179,736 shares of Unocal stock and had an outstanding loan balance of \$5.6 million on December 31, 2003. Each of the participants was also granted a Performance Bonus Award, as described below. In February 2002, the Compensation

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Committee decided that no additional loans would be made and cancelled the authorization for the remaining 599,690 shares reserved under the Program for future issuance.

On February 10, 2004 the Company repurchased 179,736 shares from Mr. Williamson, 179,736 from Mr. Ling's estate, and 179,736 shares from two other participants who were employed at the close of the year. The repurchase price was the average of the high and low reported prices on the New York Stock Exchange Composite Transactions for that date. Proceeds from the repurchase in each case were used partially to pay off the remaining loan balances of \$5.93 million for Mr. Williamson, \$5.92 million for Mr. Ling's estate and \$5.98 million for the other two loans respectively, and the remaining proceeds were paid directly to these participants.

**Long-Term Incentive Plan.** The Long-Term Incentive Plan of 1998, as amended (the "1998 Plan"), is administered by the Compensation Committee and provides for awards in the form of non-qualified stock options, performance shares, performance bonus awards and restricted stock.

In 2000, the stockholders approved Performance Bonus Awards under the 1998 Plan. Performance Bonus Awards were made only to participants in the Executive Stock Purchase Program. The Company's TSR and absolute share price for the performance period that ended on December 31, 2003 were less than the required levels and therefore no performance bonuses were paid. No further performance bonuses are available.

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The Compensation Committee awarded a "target" number of performance share units in 2000 to the CEO and other executive officers for the 2000-2003 performance period under the 1998 Plan. Each unit is the equivalent of one share of the Company's common stock. The awards are dependent on the executive's level of responsibility and base compensation. Mr. Williamson's award for this performance period was 8,500 units.

The actual payout of awards at the end of the four-year performance period is determined by how the Company's TSR for the period compares to that of the Peer Group. The maximum number of shares that can be paid out is 200% of the performance share units granted, and the maximum value of the payout cannot exceed 400% of the fair market value of the initial award. During the 2000-2003 performance period, the Company's TSR was significantly below the average of the Peer Group. Therefore, none of the performance share units awarded were paid out to the participants, including Mr. Williamson.

Option grants are normally made in February or March of each calendar year. Prior option grants are not considered in making these awards except when a grant is in lieu of future grants. The number of options granted to the executive officers is determined by reviewing option grants for similar positions by the surveyed companies. The compensation value of the option grants to the executive officers as a group is also compared to option grants and compensation data available from the proxy statements of other large public companies. The option exercise price under the 1998 Plan is the fair market value on the date of grant. Exercise of an option results in compensation to the employee only if the fair market value on the date of exercise exceeds the price on the date granted.

Currently, the only numerical restrictions on grants are the total number of shares available under the 1998 Plan and the limitation that no person may be granted during any 12-month period options to acquire more than 600,000 shares. In 2001 the Company made four grants, including an option for 450,000 shares to Mr. Williamson and options to purchase 480,000 shares to two other named executive officers. These grants were made after reviewing competitive data and were intended to provide an immediate incentive to the executives to maximize share price performance by granting three years of options at one time. Since these grants were for a three-year period, these individuals did not receive option grants in 2003, and they are ineligible for option grants in 2004.

Since the total number of shares available under the 1998 Plan is less than five percent of the outstanding shares, individual grants during the term of the 1998 Plan have not been of such magnitude as to have any significant dilutive effects on the Company's stock.

As described above, Unocal aligns management and stockholder interests by linking executive incentive compensation programs to share price performance and the creation of stockholder value. The 1998 Long-Term Incentive Plan also provides for grants of restricted stock to executives, managers and technical employees

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whose performance and potential is exceptional. The award is forfeited if the recipient resigns or is removed for cause prior to the end of the restriction period. In addition, the Company has incentive programs for other employees that focus on contributions to the success of the Company and its stockholders, including an Annual Incentive Plan, Chairman's Awards and Special Recognition Awards.

Management Development and  
Compensation Committee of the  
Board of Directors

Frank C. Herringer, Chair  
Donald B. Rice  
Kevin W. Sharer  
Marina v.N. Whitman

The preceding Report of the Management Development and Compensation Committee shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, notwithstanding any general incorporation by reference of this proxy statement into any other document or its inclusion as an exhibit thereto.

### EMPLOYMENT CONTRACTS; TERMINATION OF EMPLOYMENT AND CHANGE OF CONTROL ARRANGEMENTS

Employment Contracts with Messrs. Williamson, Dallas, Fisher and Gillespie. The Company has employment agreements with Messrs. Williamson and Dallas that are effective for three years, and an employment agreement with Mr. Fisher that is effective for two years, in each case commencing March 12, 2003. The Company also has an employment agreement with Samuel H. Gillespie III, the Company's Senior Vice President, Chief Legal Officer and General Counsel, that is effective for two years commencing October 1, 2003. These agreements automatically renew daily until the Company gives notice that it does not wish to further extend the term, but in no event later than the date of the Company's annual meeting following the employee's 65th birthday.

The agreements provide for certain benefits following an employment termination without cause or following an alteration of the employee's employment situation, as defined in the agreements (collectively, a "Termination Without Cause"), including a payment of 3.18 times annual salary plus three times target bonus applicable as of the beginning of the calendar year in which such Termination Without Cause occurs for Messrs. Williamson or Dallas, and 2.12 times annual salary plus two times target bonus applicable as of the beginning of the calendar year in which such Termination Without Cause occurs for Messrs. Fisher or Gillespie. The agreements also provide for continuation of medical, dental, life and disability insurance coverage for two years following the Termination Without Cause. In lieu of the foregoing continued medical, dental, life and disability benefits, the Company may elect to pay the sum of \$25,000. In the event of a Termination Without Cause within 24 months of a Change of Control (as defined in the agreements), Messrs. Williamson, Dallas, Fisher and Gillespie would also be entitled to the increase in the lump sum value of their benefits under the Company's qualified and non-qualified retirement plans, as if three years were added to their benefit service and ages thereunder. If any payment or distribution by the Company

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("Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, or any interest or penalties are incurred with respect to such excise tax (such excise tax and any such interest and penalties, collectively, the "Excise Tax"), then the employee is entitled to an additional payment (a "Gross-Up Payment") in an amount such that after payment by the employee of all taxes (including any interest or penalties imposed) and Excise Tax imposed upon the Gross-Up Payment, the employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. If distributions and payments to be made by the Company do not exceed 110% of the greatest amount (the "Reduced Amount") that could be paid to Messrs. Williamson, Dallas, Fisher or Gillespie, such that the receipt of payments would not give rise to

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any Excise Tax, then no Gross-Up Payment will be made and the payments will be reduced to the Reduced Amount. Mr. Gillespie also receives reimbursement for certain relocation and living expenses under the Company's Relocation Policy.

Messrs. Williamson's and Dallas's agreements were filed as exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2002. Mr. Fisher's agreement was filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003. Mr. Gillespie's agreement was filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

Employment Contract with Mr. Ling. The Company had a change in control agreement with Mr. Ling that provided that in the event of a Termination Without Cause within 36 months following a Change of Control that occurred during the term of the agreement, Mr. Ling would have been entitled to the same benefits as provided in the employment agreement for Mr. Williamson described above. The agreement was filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002. The agreement was terminated without payment of any benefits upon Mr. Ling's death on January 28, 2004.

Employment Contract with Mr. Strathman. The Company also has an employment agreement with Mr. Strathman which provides that if his employment is terminated (a) by the Company, at any time for reasons other than misconduct, or (b) by the Company or as a result of Mr. Strathman's resignation (i) after May 31, 2004 for any reason, (ii) any time after six months following the appointment of a new Chief Legal Officer/General Counsel, or (iii) following a reduction of his salary or incentive targets, then his termination shall be treated as "at the convenience of the Company" under the Company's long-term incentive plans, thus entitling him to the extended period provided therein to exercise vested stock options, the vesting of restricted stock, the pro-rata payment of performance shares and a Revised Incentive Compensation ("ICP") award for calendar years 2003 and 2004, prorated for his actual period of employment. Under such a termination he will also be entitled to such severance and termination-type benefits applicable to his position, including, at a minimum, Unocal Employee Redeployment Program and Unocal Termination Allowance Plan benefits. The agreement was filed as an exhibit to the Company's Current Report on Form 8-K dated



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February 4, 2003.

Other Termination of Employment and Change in Control Arrangements. In the event of a "change in control," as defined in the Company's incentive plans and agreements issued thereunder, annual cash bonuses will be paid, restricted stock will become vested, unvested options will become vested, and payout will be accelerated for performance shares. Performance shares will be paid out at not less than the target number of shares, subject to the limitation that the fair market value of the shares paid out may not exceed 400% of the fair market value of the initial award of performance shares. Annual cash bonuses under the Revised Incentive Compensation Plan will pay out at not less than the target amount, prorated by the ratio that the shortened award period bears to the calendar year. At February 29, 2004, 1,549,849 shares of restricted stock were outstanding, unvested options to purchase 2,926,755 shares of common stock were outstanding at a weighted average exercise price of \$32.48, and 888,504 performance shares were outstanding. At February 29, 2004, the number of shares of restricted stock outstanding for the named executive officers was: Mr. Williamson, 74,892 shares; Mr. Dallas, 12,118 shares; Mr. Fisher, 13,852 shares; Mr. Strathman, 5,742 shares; and Mr. Cecil, 5,690 shares. Unvested options outstanding at December 31, 2003 for the named executive officers are provided in the table on page 20 of this proxy statement. Additional grants were made on February 10, 2004 to Mr. Fisher to purchase 11,040 shares, to Mr. Strathman to purchase 8,467 shares and to Mr. Cecil to purchase 6,748 shares, each at the price of \$36.869. The number of performance shares outstanding at February 29, 2004 (including 84,978 performance shares granted under the 2004 Management Incentive Program subject to stockholder approval, as described in Item 3 of this proxy statement) for the named executive officers were: Mr. Williamson, 113,742; Mr. Ling's estate, 17,192; Mr. Dallas, 38,986; Mr. Fisher, 18,936; Mr. Strathman, 15,472; and Mr. Cecil, 13,960.

In 2000, the Boards of Directors of the Company and its Union Oil Company of California subsidiary approved an enhanced severance program for U.S. payroll employees not represented by collective bargaining agents in the event they lose their jobs through a change of control of the Company occurring

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before 2005. In the event of such a "change of control," as defined in the Company's Long-term Incentive Plan of 1998, the program provides for the immediate vesting of accrued benefits and/or accounts of all covered employees under the Company's retirement and savings plans and the immediate payment to such employees in cash of bonuses under its annual incentive compensation plans.

The program also provides the following in the event of an eligible employee's involuntary termination (other than for death, disability or misconduct) or "constructive discharge" within two years following a change of control:

Employees with less than five years of service would receive four months of base pay plus three-fourths of a month of base pay for every year of service.

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Employees with five or more years of service would receive four months of base pay plus an enhanced retirement benefit. The enhanced benefit would add three years to the employee's service and age, plus the benefit would utilize the highest consecutive 12 months of pensionable pay in the most recent 120 months of service. The employee would also receive the incremental difference in value, if any, of three-fourths of a month of base pay for each completed year of actual service, to a maximum of 20 months, above the discounted present value of the enhancement to the retirement benefit.

Although all current executive officers are entitled to the benefits described in the two preceding paragraphs, payment of such benefits would reduce the amounts payable to Messrs. Williamson, Dallas, Fisher and Gillespie under their employment agreements.

The program permits an eligible employee to elect an immediate distribution or rollover of his or her total retirement plan benefits. The program also provides for subsidized "COBRA" medical and dental coverage for 18 months, adds three years to the employee's age and service for determining eligibility and contributions under the Company's retiree and special continuation medical coverages and eligibility under its retiree life and AD&D insurance plans, as well as certain other benefits.

The program includes a "tax gross-up" arrangement for employees subject to the excise tax provided for by Section 280G of the Internal Revenue Code, including the named executive officers. Under this section, excise taxes are imposed on employees receiving change-of-control payments (as defined) that exceed 2.99 times the employee's average annual compensation (as defined). Under the arrangement, an employee who is subject to the excise tax would receive a gross-up payment, in addition to the amounts deemed change-of-control payments, to eliminate the effect of the excise tax. This gross-up arrangement would apply only if the employee's change-of-control payments exceed the excise tax threshold amount of Section 280G by more than 10%. Otherwise, such payments would be reduced below the threshold.

### INDEBTEDNESS OF MANAGEMENT

The Company made loans in 2000 to ten employees, two of which were executive officers during 2003, for the purchase of Unocal common stock under the 2000 Executive Stock Purchase Program, approved by stockholders at the 2000 annual meeting. The loans were made on March 16, 2000, with a scheduled maturity of March 16, 2008, and interest accrual of 6.8%, compounded annually. The minimum interest payable each March 16 during the years 2001 through 2005 is limited to the amount of dividends paid during the prior 12-month period on the number of shares purchased with the loan. Any remaining unpaid accrued interest is added to the principal and accrues interest thereafter. Starting March 16, 2006, principal for outstanding loans is payable in three equal annual payments along with the full amount of interest accrued over the past 12 months. The loans were made as full-recourse loans, with certain exceptions for death or disability, without being secured by the shares of common stock purchased or by any other collateral. The loan agreements and related promissory notes were filed as exhibits to the Company's Current Report on Form 8-K dated March 16, 2000.

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On February 10, 2004, the Company repurchased 179,736 shares of Unocal common stock from Mr. Williamson, 179,736 shares from Mr. Ling's estate, and a total of 179,736 shares from two other current officers of the Company. The shares, originally acquired using the loan proceeds, were repurchased in private transactions at \$36.88 per share. A portion of the proceeds from the repurchases was applied to repay in full each seller's outstanding loan. There remain loans outstanding to four former officers.

The following table shows amounts owed on the loans made under the 2000 Executive Stock Purchase Program to the two employees who were executive officers during 2003:

Name	Principal Position	Largest Outstanding Amount Since January 1, 2003	Date Loan Repaid in Full
Mr. Williamson	Chairman, Chief Executive Officer and President	\$5,932,835	February 10, 2004
Mr. Ling (deceased)	Former President and Chief Operating Officer	5,917,278	February 10, 2004

SUMMARY COMPENSATION TABLE

The following table shows compensation earned in 2003 by the named executive officers:

Name and Principal Position	Year	Annual Compensation			Long Term Compensation	
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(A)	Restricted Stock Awards (\$)(B)	Securities Underlying Options/S
Charles R. Williamson Chairman, Chief Executive Officer and President	2003	\$863,390	\$1,500,000 (D)	\$8,961	None	None
	2002	818,004	543,403 (D)	5,256	\$ 28,226 (F)	None
	2001	737,502	1,100,000 (D)	5,847	None	450,000
Timothy H. Ling Former	2003	683,558	846,000	8,961	None	None

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President and Chief Operating Officer (deceased)	2002	659,514	170,250 (J)	5,256	181,521 (K)	None
	2001	622,500	350,000 (J)	5,191	430,555 (K)	240,000
Terry G. Dallas Vice President and Chief Financial Officer	2003	457,283	570,000 (D)	9,816	None	None
	2002	439,704	233,688 (D)	3,721	None	None
	2001	415,008	500,000 (D)	None	None	273,780
Thomas E. Fisher Senior Vice President, Commercial Affairs	2003	315,545	214,000 (D)	8,961	31,751 (F)	21,279
	2002	303,918	89,000 (D)	5,256	None	12,745
	2001	286,758	175,950 (D)	5,191	82,455 (F)	11,580
Joe D. Cecil Vice President and Comptroller	2003	256,928	142,000 (D)	8,961	None	12,745
	2002	247,968	65,000 (D)	5,256	None	8,810
	2001	234,438	120,000	5,413	None	7,810
Charles O. Strathman Former Vice President and Chief Legal Officer (W)	2003	320,307	179,282 (D)	8,961	None	14,510
	2002	271,266	63,600 (D)	7,768	22,166 (F)	9,620
	2001	253,620	422,000 (D)	5,684	None	8,440

OPTION/SAR GRANTS IN 2003

The following table shows stock option awards granted in 2003 to the named executive officers:

Name	No. of Securities Underlying Options Granted (A)	% of Total Options Granted to Employees in 2003 (B)	Exercise Price (\$/SH)	Expiration Date	Potential Realized Assumed Stock Price Opti 5% (\$)
Mr. Fisher	21,279	0.9%	\$27.07	02/11/2013	\$362,257
Mr. Strathman	14,518	0.6%	\$27.07	02/11/2013	247,157
Mr. Cecil	12,745	0.5%	\$27.07	02/11/2013	216,973

AGGREGATED OPTION/SAR EXERCISES IN 2003 AND DECEMBER 31, 2003  
OPTION/SAR VALUES

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The following table shows exercises of stock option in 2003 by the named executive officers and the year-end stock option balances:

Name	No. Of Shares Acquired on Exercise	Value Realized (\$)	No. of Securities Underlying Unexercised Options/SARs at 12/31/03		Value of Unexercised Money Options/ 12/31/03 (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Mr. Williamson	None	\$ 0	472,119	112,500	\$829,039	\$
Mr. Ling (B)	None	0	335,000	60,000 (B)	423,500	
Mr. Dallas	None	0	270,338	68,446	124,243	
Mr. Fisher	3,849 (C)	31,996 (D)	80,990	25,219	305,526	
Mr. Strathman	15,008	113,449	55,004	17,811	168,287	
Mr. Cecil	None	0	43,194	15,918	139,068	

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### LONG-TERM INCENTIVE PLANS - AWARDS IN 2003

The following table shows performance share awards granted in 2003 to the named executive officers:

Name	No. of Performance Share Units (A)	Period Until Maturation or Payout	Estimated Future Payouts		
			Threshold Number of Shares	Target Number of Shares	Maximum Number of Shares (A)
Mr. Williamson	21,000	12/31/2006	0	21,000	42,000
Mr. Ling (B)	13,300	12/31/2006	0	13,300	26,600
Mr. Dallas	9,000	12/31/2006	0	9,000	18,000
Mr. Fisher	5,100	12/31/2006	0	5,100	10,200
Mr. Strathman	4,700	12/31/2006	0	4,700	9,400
Mr. Cecil	4,000	12/31/2006	0	4,000	8,000

(A) Pursuant to the performance shares agreements, the actual number of performance shares paid out is based on the Company's return to stockholders for the four-year performance period (January 1, 2003 through December 31, 2006) compared to that of a group of peer companies selected by the Management Development and Compensation Committee. Return to stockholders is defined as share price appreciation plus dividends expressed as a percentage

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of the beginning share price. The maximum number of shares that can be paid out is 200% of the performance shares granted, and the maximum value of the payout cannot exceed 400% of the Fair Market Value of the initial award of performance shares. The Management Development and Compensation Committee may reduce the payment based on other factors at the discretion of the Committee. If Unocal's return to stockholders is at or under the 30th percentile of the peer group's return to stockholders, there is no payout. The payout percentage may not exceed 50% if Unocal's return is at the 35th percentile of the peer group's return, the payout may not exceed 100% if Unocal's return is at the 60th percentile of the peer group's return, and the payout percentage may not exceed 200% if Unocal's return is at the 100th percentile of the peer group's return. A matrix is used for determining the specific payout percentages that may not be exceeded for specific return to stockholders levels between the 30th and 100th percentile. Awards can be paid out partly in cash and partly in shares, as determined by the Management Development and Compensation Committee.

- (B) Mr. Ling died on January 28, 2004. Any payout will be prorated for the length of his service during the four-year performance period.

PENSION PLAN TABLE

The following table shows estimated annual retirement benefits for the names executive officers for the indicated compensation and years served:

Covered Compen- sation (A)	Years of Service						
	1	10	20	25	30	35	40
\$ 200,000	\$ 3,200	\$ 32,000	\$ 64,000	\$ 80,000	\$ 96,000	\$112,000	\$ 128,000
400,000	6,400	64,000	128,000	160,000	192,000	224,000	256,000
600,000	9,600	96,000	192,000	240,000	288,000	336,000	384,000
800,000	12,800	128,000	256,000	320,000	384,000	448,000	512,000
1,000,000	16,000	160,000	320,000	400,000	480,000	560,000	640,000
1,200,000	19,200	192,000	384,000	480,000	576,000	672,000	768,000
1,400,000	22,400	224,000	448,000	560,000	672,000	784,000	896,000
1,600,000	25,600	256,000	512,000	640,000	768,000	896,000	1,024,000
1,800,000	28,800	288,000	576,000	720,000	864,000	1,008,000	1,152,000

(note on next page)

- (A) Covered compensation is the average annualized monthly compensation in the 36 highest-paid months within the last 120

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months immediately preceding retirement. For the named executive officers in the Summary Compensation Table on page 17, covered compensation equals the amounts in the Salary and Bonus columns of the Summary Compensation Table and the amount of bonus that the participant elected to defer into restricted stock (other than augmentations for deferring into restricted stock).

The Company has a noncontributory qualified defined benefit retirement plan covering substantially all U.S. payroll employees. The plan provides participants with retirement benefits based on a formula relating such benefits to compensation and years of service, less up to half of the estimated old age Social Security benefit payable. The amount of these benefits is limited by the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. Where that occurs, the Company has three nonqualified retirement plans designed to maintain and supplement total retirement benefits. Among other exclusions, all four of the plans exclude augmentations to bonuses deferred into restricted stock, and exclude interest and appreciation in the value of bonuses and/or salary deferred into the Unocal Deferred Compensation Plan. This Pension Plan Table, which covers all persons named in the Summary Compensation Table, shows the estimated annual benefits from the plans, before the deduction for a portion of the estimated old age Social Security benefit, as described above. The benefits shown are computed based on a single life annuity payable at normal retirement age.

Covered compensation and credited full years of service under the retirement plan as of year-end 2003 for the executive officers named in the Summary Compensation Table are as follows: \$1,440,768 and 26 years for Mr. Williamson; \$468,220 and 1 year for Mr. Dallas; \$438,043 and 37 years for Mr. Fisher; \$395,244 and 23 years for Mr. Strathman; and \$348,453 and 32 years for Mr. Cecil. The accrued benefit for Mr. Ling's surviving spouse is \$3,850 per month.

PERFORMANCE GRAPH  
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The following table shows cumulative total shareholder return (price changes plus reinvested dividends) from December 31, 1998 to December 31, 2003:

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN  
AMONG UNOCAL, S&P EXPLORATION & PRODUCTION AND S&P 500

[PERFORMANCE GRAPH APPEARS HERE]

Measurement Period (Fiscal Year Covered)	Unocal	S&P Exploration & Production Index	S&P 500 Index
-----	-----	-----	-----
Measurement Pt - 1998	\$100	\$100	\$100
1999	118	119	121
2000	139	190	110
2001	133	150	97
2002	115	148	76
2003	143	183	97

(A) The S&P Oil & Gas Exploration & Production Index consists of Unocal and six other companies, which are also included in the Peer Group of companies used to compare Unocal's stockholder return for incentive compensation purposes, as explained in the Report of the Management Development and Compensation Committee beginning on page 10.

The preceding Performance Graph shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, notwithstanding any general incorporation by reference of this proxy statement into any other document or its inclusion as an exhibit thereto.

EQUITY COMPENSATION PLAN INFORMATION (A)

The following table shows the number of Unocal common shares authorized for grants of options and other stock-based awards at December 31, 2003:

Plan Category	No. of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	No. of securities remaining available for future issuance
Equity compensation plans approved by security holders	6,406,956 (B)	\$34.62	4,045,661 (C)
Equity compensation plans not approved by security holders	6,826,250 (D)	\$32.24	678,656 (E)
Total	13,233,206	\$33.25	4,724,317

(A) Excludes certain other stock-based compensation plans which do not involve the issuance of common shares.

(B) Includes 1,265,196 shares reserved for a maximum payout of 632,598 performance shares outstanding under the Long-Term Incentive Plan of 1998 and 120,006 directors' Units outstanding under the Directors Restricted Stock Units Plan



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and 2001 Directors' Deferred Compensation and Stock Award Plan. There were options outstanding for 84,919 shares under the 2001 Directors' Deferred Compensation and Stock Award Plan, 1,806,515 shares under the Long-Term Incentive Plan of 1991, and 3,130,320 shares under the Long-Term Incentive Plan of 1998.

- (C) A total of 280,497 shares were available for future grants of director stock options or director units under the 2001 Directors' Deferred Compensation and Stock Award Plan. Except for units to be credited for voluntary deferral of director fees for the first quarter 2004 and the first quarter dividend equivalents, this share reserve will be canceled upon stockholder approval of the 2004 Directors' Deferred Compensation and Restricted Stock Unit Award Plan.

There were 112,341 shares reserved for dividend equivalents on existing balances in the Directors' Restricted Stock Units Plan. A total of 3,652,823 were available for future grants of stock options, restricted stock, and performance shares under the 1998 Management Incentive Program. Of the 3,652,823 shares, a total of 1,212,213 shares were available for future grants of restricted stock and performance shares. As of February 29, 2004, there were 2,116,595 shares remaining available under the 1998 Management Incentive Program. Upon stockholder approval of the 2004 Management Incentive Program, the remaining balance of shares reserved for grant under the 1998 Management Incentive Program will be canceled.

(notes continued on next page)

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- (D) There remained options outstanding for 272,398 shares under the Special Stock Option Plan of 1996 and 6,553,852 shares under the Unocal Stock Option Plan. Additionally, in connection with the merger of a wholly-owned subsidiary of Unocal into Pure Resources, Inc. ("Pure"), on October 30, 2002, that resulted in Pure becoming a wholly-owned subsidiary of Unocal, employee nonqualified stock options to acquire Pure stock (that were issued by Pure and its predecessors) became fully vested stock options to acquire Unocal common stock; options to acquire a total of 2,481,774 shares with a weighted average exercise price of \$18.50 were outstanding at December 31, 2003 and all of these options became fully vested at the time of the acquisition. Most of the Pure employee stock options were issued under Pure's 1999 Incentive Plan, as approved by Pure stockholders in May of 1999.
- (E) A total of 635,373 shares were reserved for future grants of stock options under the Unocal Stock Option Plan and 43,283 shares were reserved for future grants of restricted stock under the Union Oil Restricted Stock Plan.

Stock options are nonqualified with a maximum term of ten years. Except for certain stock options granted under Pure's 1999 Incentive Plan that were granted at prices below fair market value on the grant date, the exercise price for options may not be less than the fair market value of the common stock on the grant date. Options are generally nontransferable except in the

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event of an employee's death or pursuant to a court order.

The Compensation Committee of Pure Resources, Inc. may approve the extension of a loan by the Company to assist in paying the exercise price of an option and/or any tax required by law to be withheld upon exercise of an option assumed by Unocal Corporation in connection with the acquisition. A majority of the options assumed by Unocal in connection with the Pure acquisition are exercisable until the end of their full ten-year terms, which expire from 2004 to 2012.

Stock options granted under the Special Stock Option Plan of 1996 and the Unocal Stock Option Plan cease to vest upon termination of employment. Vested options may be exercised for up to three years or the original expiration date, whichever is earlier, from the date of death, disability, or termination of employment other than for cause or resignation.

Dividends for restricted stock granted under the Union Oil Restricted Stock Plan are accumulated and paid out when the shares vest. The restricted shares are not delivered until the end of the restricted period, which is four years. The restricted stock is subject to forfeiture if the holder terminates employment during the restriction period for reasons other than death, disability, retirement at or after age 65, or for the convenience of the Company.

All outstanding restricted stock would become unrestricted and unvested stock options would become exercisable in the event of a "change in control" as defined in the plans and agreements governing the restricted stock and stock options.

ITEM 1. ELECTION OF DIRECTORS  
-----

The Board of Directors is divided into three classes. Directors in each class are elected for three-year terms or until their successors are duly elected and qualified. Information about the three director nominees up for election at the 2004 annual meeting for three-year terms expiring at the annual meeting in 2007 and the seven continuing directors, whose terms expire in 2005 and 2006, is provided in the tables below. If any nominee becomes unavailable or disqualified to serve as a director, and if the Board designates a substitute nominee, the proxy holders will vote for the substitute nominee designated by the Board.

NOMINEES FOR DIRECTORS—TERMS TO EXPIRE IN 2007

Name	Principal Occupation and Business Experience	Age at 2004 Annual Meeting	Director Since	Other Directorships
----	-----	-----	-----	-----
Richard D.	Chairman (1991-1999) and	63	2004	-- Wells

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McCormick (recommended by certain current non- management directors)	President & CEO (1991- 1998) of U S. West, Inc. (telecommunications)				Fargo & Company -- United Technologies Corporation
Marina v.N. Whitman	Professor of business administration and public policy at the University of Michigan (1992- present); serves as a member, director, or trustee of several educational and professional organizations	69	1993	--	Intelliseek, Inc.
Charles R. Williamson	Chairman (November 2001- present), CEO (2001- present), and President (February 2004-present) of Unocal; Executive Vice President, International Energy Operations (1999- 2000), Group Vice President, Asia Operations (1998-1999), Group Vice President, International Operations (1996-1998) of Unocal	55	2000		None

CONTINUING DIRECTORS-TERMS TO EXPIRE IN 2005

Name	Principal Occupation and Business Experience	Age at 2004	Annual Meeting	Director Since	Other Directorships
----	-----	-----	-----	-----	-----
Craig Arnold	Sr. Vice President & Group Executive, Fluid Power Group (October 2000- present) of Eaton Corporation (industrial manufacturing); President (1999-2000) of GE Lighting Services Ltd. for General Electric (Europe); President (1998- 1999) of GE Plastics, China; President (1997- 1998) of GE Appliances, Asia	44		2004	None
James W. Crownover	Former Director (1982- 1998), Managing Director of Southwest Practice (1984-1994) of McKinsey & Company, Inc. (management consulting)	60		1998	-- Great Lakes Chemical Corp. -- Weingarten Realty

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				Investors
				-- Allied
				Waste
				Industries,
				Inc.
Donald B. Rice	Chairman (February 2002- present), President and CEO (1996-present) of Agensys, Inc. (biotechnology); President and Chief Operating Officer and a director (1993-1996) of Teledyne, Inc. (aerospace)	64	1998	-- Wells Fargo & Company -- Vulcan Materials Company -- Amgen Inc.

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CONTINUING DIRECTORS-TERMS TO EXPIRE IN 2005

Name	Principal Occupation and Business Experience	Age at 2004 Annual Meeting	Director Since	Other Directorships
----	-----	-----	-----	-----
Mark A. Suwyn	Chairman & CEO (1996- present) of Louisiana- Pacific Corporation; Executive Vice President (1992-1995) of International Paper Co. (paper industry)	61	2004	-- Louisiana- Pacific Corp. -- Ballard Power Systems Inc.

CONTINUING DIRECTORS-TERMS TO EXPIRE IN 2006

Name	Principal Occupation and Business Experience	Age at 2004 Annual Meeting	Director Since	Other Directorships
----	-----	-----	-----	-----
John W. Creighton, Jr.	Vice Chairman (December, 2002-present) of Unocal; Chairman and CEO (October 2001-August, 2002) of UAL Corporation (United Airlines); Chairman (January through October, 2001) of Unocal; Director (1988-1998), President and CEO (1991-1997) of Weyerhaeuser Company (forest products)	71	1995	None
Ferrell P.	Former Managing Director,	57	2002	-- Graftech

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McClellan	Investment Banking, and Senior Advisor to Head of Global Oil & Gas Investment Banking of J.P. Morgan Chase & Co. (2000-2002); Managing Director, Investment Banking, and Co-Head of Global Energy Investment Banking of J.P. Morgan & Co. (1991-2000) (investment banking)			International Ltd.
Kevin W. Sharer	Chairman (2001-present), CEO and President (2000-present), President and Chief Operating Officer (1992-2000) and a director (1992-present) of Amgen Inc. (biotechnology)	56	1997	-- Amgen Inc (Chairman) -- 3M Company -- Northrop Gruman Corp.

RETIRING DIRECTORS

Two current independent directors, John C. Amerman (currently in the class of 2006) and Frank C. Herringer (currently in the class of 2007), will retire from the Unocal Board at the Company's annual meeting in May 2004. Mr. Amerman, former chairman and chief executive officer of Mattel, Inc., has been on the Board for 13 years; Mr. Herringer, chairman of Transamerica Corporation, has served 15 years. In addition, the Company's director retirement policy requires that a director retire on the day of the annual meeting of stockholders following the director's 72nd birthday; thus, John W. Creighton, Jr. is expected to retire in 2005, even though he is in the class of directors whose terms expire in 2006.

OTHER INFORMATION

Mr. Creighton was interim chairman and chief executive officer of UAL Corporation from October, 2001 through August, 2002. UAL Corporation filed for protection under Chapter 11 of the U.S. Bankruptcy Code on December 9, 2002.

DIRECTORS' RECOMMENDATION

The Board of Directors unanimously recommends a vote FOR election of the nominees. The proxy holders will vote all proxies received FOR election unless instructed otherwise.

ITEM 2. RATIFICATION OF APPOINTMENT OF  
PRICEWATERHOUSECOOPERS LLP AS INDEPENDENT AUDITORS

The stockholders will be asked to ratify the appointment of the firm of PricewaterhouseCoopers LLP ("PwC") as independent

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auditors for 2004 which was made by the Audit Committee of the Board of Directors. PwC, one of the nation's largest public auditing firms, or one of its predecessors, has served as the Company's independent auditors for the past 59 years. Representatives of the firm are expected to be present at the annual meeting and will have the opportunity to make a statement if so desired and will be available to respond to questions.

### INDEPENDENT AUDITORS FEES

The aggregate fees for professional services rendered by PwC for years 2003 and 2002 were as follows (millions of dollars):

	2003	2002
	----	----
Audit Fees	\$3.9	\$3.9
Audit-Related Fees	0.3	0.2
Tax Fees	0.4	2.8
All Other Fees	0.1	0.3
	----	----
Total	\$4.7	\$7.2

**Audit Fees.** The Audit Fees for years 2003 and 2002 were for services associated with the audit of the Company's consolidated financial statements included in its Annual Report on Form 10-K, reviews of the Company's financial statements included in its Quarterly Reports, and statutory and subsidiary audits.

**Audit-Related Fees.** The Audit-Related Fees for years 2003 and 2002 were for services associated with benefit plan audits and internal control reviews.

**Tax Fees.** The Tax Fees for years 2003 and 2002 were for services associated with tax compliance, including preparation of selected tax returns; and tax planning and tax advice, including assistance with tax audits, appeals, claims for refunds, and requests for rulings or technical advice from tax authorities.

**All Other Fees.** All Other Fees for years 2003 and 2002 were for services associated with information technology consultation.

The Audit Committee has considered whether the rendering of non-audit services to the Company by the independent auditors is compatible with the auditors' independence. Effective May 2003, in accordance with rules of the SEC implementing the Sarbanes-Oxley Act of 2002, the Audit Committee pre-approves all audit and allowable non-audit services performed by PwC. In addition, effective May 2004, in accordance with rules of the SEC on Standards Relating to Listed Company Audit Committees, the Audit Committee will pre-approve all audit services to be performed by auditors other than PwC. The Audit Committee has appointed its Chairman as its designated member to pre-approve any allowable auditor engagements, to the extent necessary, in between Audit Committee meetings. Any pre-approvals by the Chairman are then reported to the Audit Committee on a timely basis.

### DIRECTORS' RECOMMENDATION

The Board of Directors unanimously recommends a vote FOR

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ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors for 2004. The proxy holders will vote all proxies received FOR ratification unless instructed otherwise.

The Audit Committee will consider the results of the vote in fulfilling its responsibility to select the independent auditors, although the results of the vote are not binding on the Audit Committee.

### ITEM 3. APPROVAL OF 2004 MANAGEMENT INCENTIVE PROGRAM

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On February 10, 2004, the Board of Directors, upon the recommendation of the Management Development and Compensation Committee, adopted the 2004 Management Incentive Program (the "2004 Program"), subject to stockholder approval at the 2004 annual meeting.

The Company currently maintains the 1998 Management Incentive Program, as amended (the "1998 Program"). If the 2004 Program is approved by the stockholders at the annual meeting, no future awards will be granted under the 1998 Program. The termination of the 1998 Program does not affect the awards that are outstanding on the date of its termination. As of February 29, 2004, 2,116,595 shares remained available for future grants of awards under the 1998 Program.

The Board of Directors approved the 2004 Program, subject to stockholder approval, to provide for sufficient share authority and flexibility to structure future award grants to better align executive pay with the long-term interests of stockholders and with corporate goals and strategies. The 2004 Program consists of:

- the Incentive Compensation Plan (the "ICP"), which provides for annual cash bonus awards, a portion of which may be paid as restricted stock under the LTIP or deferred; and
- the Long-Term Incentive Plan of 2004 (the "LTIP"), which provides for grants of non-qualified stock options, performance share awards, restricted stock and performance restricted stock awards.

This proposal requests, and the Board of Directors recommends, stockholder approval of the 2004 Program. If the stockholders do not approve the 2004 Program, the Company will continue to make awards under the 1998 Program. Awards of performance shares were made under the 2004 Program to 69 employees, including six current officers, subject to stockholder approval of the 2004 Program. These awards are shown in the table entitled "New Plan Benefits" below.

#### SUMMARY DESCRIPTION OF THE PROGRAM

The principal terms of the 2004 Program are summarized below. Because it is not a complete description of all the terms and conditions of the 2004 Program, please refer the full text of the 2004 Program, which is attached to this proxy statement as Exhibit B.

Administration and Eligibility

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The Board of Directors has appointed the Management Development and Compensation Committee (the "Committee") to administer the 2004 Program. The Committee is comprised entirely of non-employee directors. The Committee will have broad authority to administer the 2004 Program, including the power, subject to the terms of the 2004 Program, to make (and amend) awards, establish, adopt or revise rules and regulations and interpret and make determinations relating to the 2004 Program as it may deem necessary or advisable in the administration of the 2004 Program. The Committee, in its

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discretion, will also be able to select as 2004 Program participants any employees of the Company and its subsidiaries.

The 2004 Program provides that the Committee may, in its sole discretion, delegate the authority to grant awards under the 2004 Program to employees other than executive officers to a committee of the Board of Directors. The Board of Directors has established a single member committee, with Director, CEO and President Charles R. Williamson to serve as the sole member, which shall have such authorities under the 2004 Program as is expressly delegat