



BRIAN'S TURN

Unocal Thailand is facing a tremendous growth opportunity. Now is the time to secure our position as the single largest supplier of energy to the Kingdom of Thailand, and at the same time become the leading business unit in Unocal. We must act quickly to seize this opportunity.

This opportunity to grow will be out of our reach unless we:

- ❖ *attract significant capital -- more than 1.4 billion dollars over the next five years -- from Unocal Corporation and our partners*
- ❖ *take full advantage of each other's skills and experience -- Unocal Thailand's human resources*
- ❖ *outperform our competition in the Gulf of Thailand.*

(Continued page 12)

It is natural for any company to set its sight on growth. Thanks to additional field discoveries, Unocal Thailand has laid down an ambitious production expansion plan for the next several years, revolving around the crucial, second gas trunk line to Rayong, which will come into service around year-end. By 1999, Unocal Thailand and partners aim to make the most use of that pipeline and produce around 1.1 billion cubic feet of gas a day (BCFD) -- a big 56% jump in output from the level of 1994.



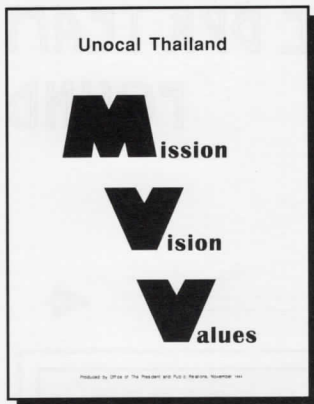
However, we can't grow *at any cost* -- we must maintain and even improve our profitability. Literally every project must be done in the best way possible. Our challenge also lies in the huge amount of physical work to be done to prepare us for the opening up of Jakrawan and Pailin. To reach the 1.1-BCFD goal and beyond, Unocal Thailand needs to be in even better shape than it is today. It was also found that improvement can come in the form of greater capital efficiency and lower lifting expense.

For the past 14 years, Unocal Thailand has been the top and best-known domestic producer of natural gas, and we intend to remain the leader for a long time. Our gas output averaged 709, 747, and 704 million cubic feet a day for the past three years, constrained only by pipeline capacity. This constraint will end with the completion of the second pipeline.

But this does not necessarily mean the golden age is coming. Outside our company, the energy business environment is getting tougher every day, with more competing fuels, more competitors, and more complex economic factors. Companies that cannot compete will find it difficult to be profitable. Inside our company, we find that we also must compete for funds from the corporation and, frankly, sometimes our projects don't match up in terms of profitability. Our profit-to-investment criteria have been steadily

declining as our reserves become more difficult to produce. While this is a natural consequence as fields are developed, it only underscores our need to improve.

TACKLING THE CHALLENGE



In view of this challenge, 20 managers got together in April 1994 to discuss the best way to enable Unocal Thailand to attain its goals -- to find out how much the company can "stretch" its organization for this purpose. It was found that several forms of improvement could indeed be made, e.g., adding flexibility by pushing expense authority downward. This was done in June. Also, to provide employees with a clear and common understanding of Unocal Thailand's philosophy and direction, the company issued a booklet in December containing the corporate Mission, Vision, and Values along with specific implications for Unocal Thailand. For the longer term, communications processes should be improved, training and career development programs need attention, and cultural differences should be dealt with more effectively. These moves are currently under way.

A study team found that the best way to go about the major task of improving Unocal Thailand's efficiency and productivity was to use a management method called Business Process Re-engineering (BPR). A project team consisting of the company's own professionals and a team from Booz-Allen & Hamilton, a consultant firm, went to work. Its mission was to find and address significant opportunities for improving our processes and -- if necessary -- our organization structure.

After months of identifying priorities and thoroughly analyzing work processes and organization, the team now has firm proposals for change. The next step is to detail the implementation plans and put the proposals into practice. The work of detailing began in February. Most major changes should be in place around mid-year, with several months of fine-tuning to follow.

WHAT

THE BPR TEAM

FOUND

First of all, the BPR team identified three critical points in Unocal Thailand's business processes where dramatic improvement could take place. These are business planning, field delineation and development, and facility engineering. The AGENDA FOR CHANGE box and Figure A provide greater detail about the key issues in these three critical processes.

PROCESS PRIORITIES

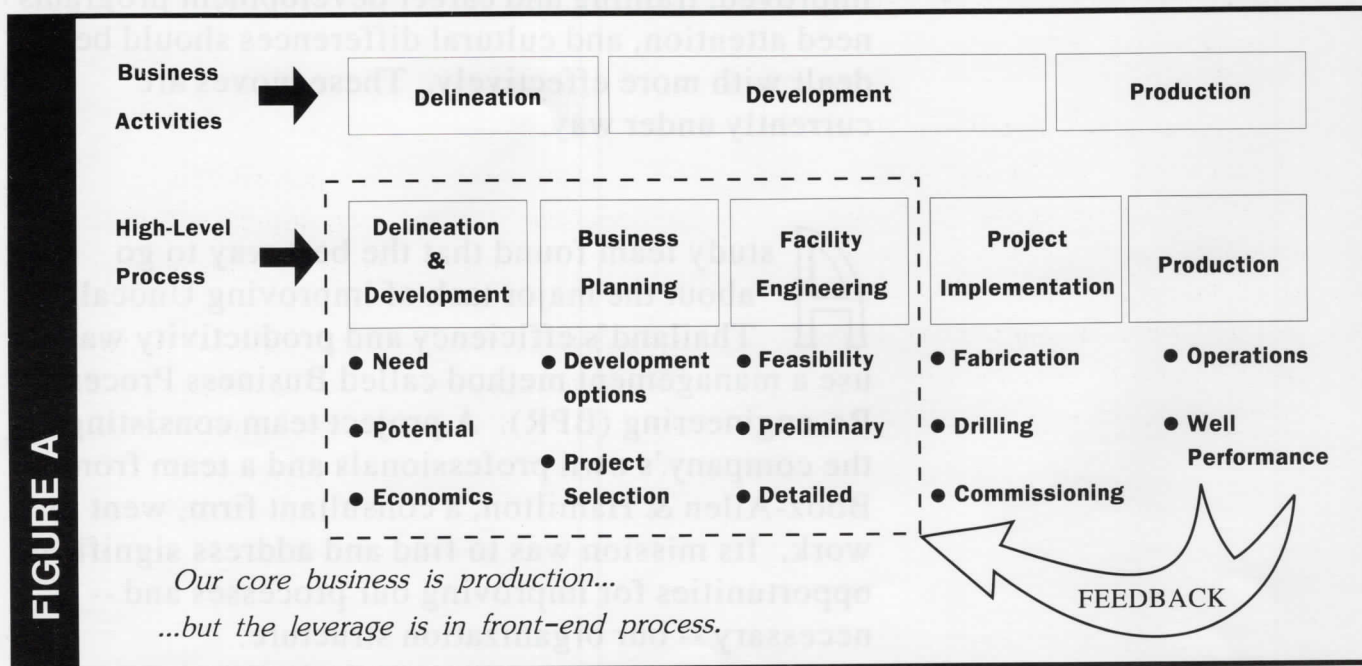


FIGURE A

AGENDA FOR CHANGE: THE MOST CRITICAL NEEDS IDENTIFIED

BUSINESS PLANNING

- ❖ Refocus the planning process from maximizing gas volume and individual project economics to maximizing the financial value of assets across the company
- ❖ More accurately assess the risk associated with reserves development
- ❖ Manage flow rates from various wells and optimally schedule capital investments, and
- ❖ Better prioritize geological and geophysical work so that reserves are progressively delineated on the path to development.

Ideally, the company will do only the delineation work required to give a high degree of confidence in the ultimate development plans. In modifying our approach to this critical work, platforms will be set and development wells drilled with the highest degree of confidence and with appropriate lead times to allow optimum use of personnel and equipment.

DELINEATION AND DEVELOPMENT

- ❖ Manage risks systematically through more rigorous technical evaluations before locating platforms and drilling wells
- ❖ Know reserves and their levels of certainty better, and
- ❖ Give professional staff enough time to specialize by field, rather than moving from one field to another.

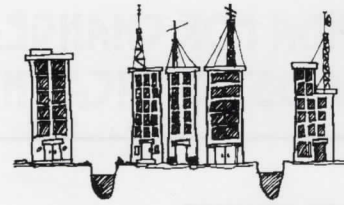
New work practices should eliminate some duplication and reworking of development plans and increase effectiveness by reducing or eliminating changes in scheduling.

FACILITY ENGINEERING

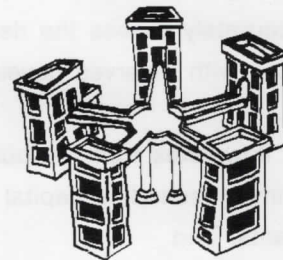
- ❖ Make systematic and uniform design decisions by reducing uncertainty and streamlining the decision-making process.

Unocal Thailand's new organization is designed to "leverage" the flow of information from field operating knowledge, production engineering, and project specialization. Starting from an already excellent operation, the company now aims for more efficiency coupled with new and innovative solutions, yielding higher-value projects.

To maximize the benefit to be derived from the re-engineering changes, the team also called for other changes in teaming, information technology (IT) capabilities, innovation, and career development. During the course of its work, the team interviewed many employees and gathered data for further analysis. The findings were that employees weren't used to working cross-functionally, i.e., getting things done in a "horizontal" process that cuts through department boundaries. This obstacle needed to be urgently removed.



At the same time, it found that IT requirements needed to be more promptly responded to. Also, innovative ideas had generally lacked ownership and the sponsorship necessary to see them through to timely completion. And last but not least, the team identified a need to further upgrade career development for technical professionals and managers, with a greater emphasis on development of our national staff for the future.

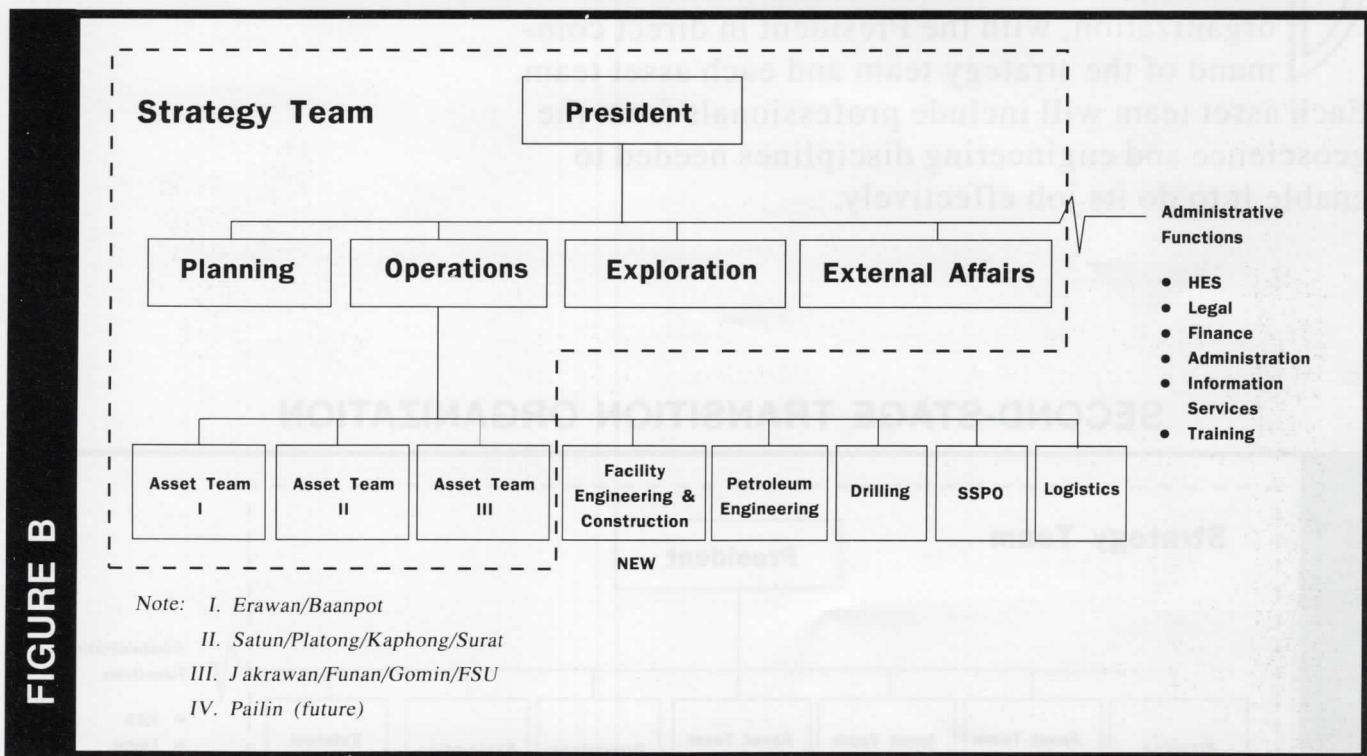


NEW DIRECTION, NEW TEAMS

Completing phase one of the project in January, the BPR team has now come up with recommendations for changes in both business processes and organization structure. PROPOSALS FOR CHANGE provides a broad direction of the proposed changes.

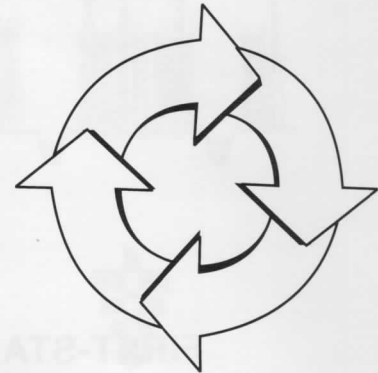
To achieve the company's new focus of maximizing the financial value of its combined assets, a new planning process, involving both executive management and operating management working together in the "STRATEGY TEAM" and "ASSET TEAMS," will be introduced. See Figure B.

FIRST-STAGE TRANSITION ORGANIZATION



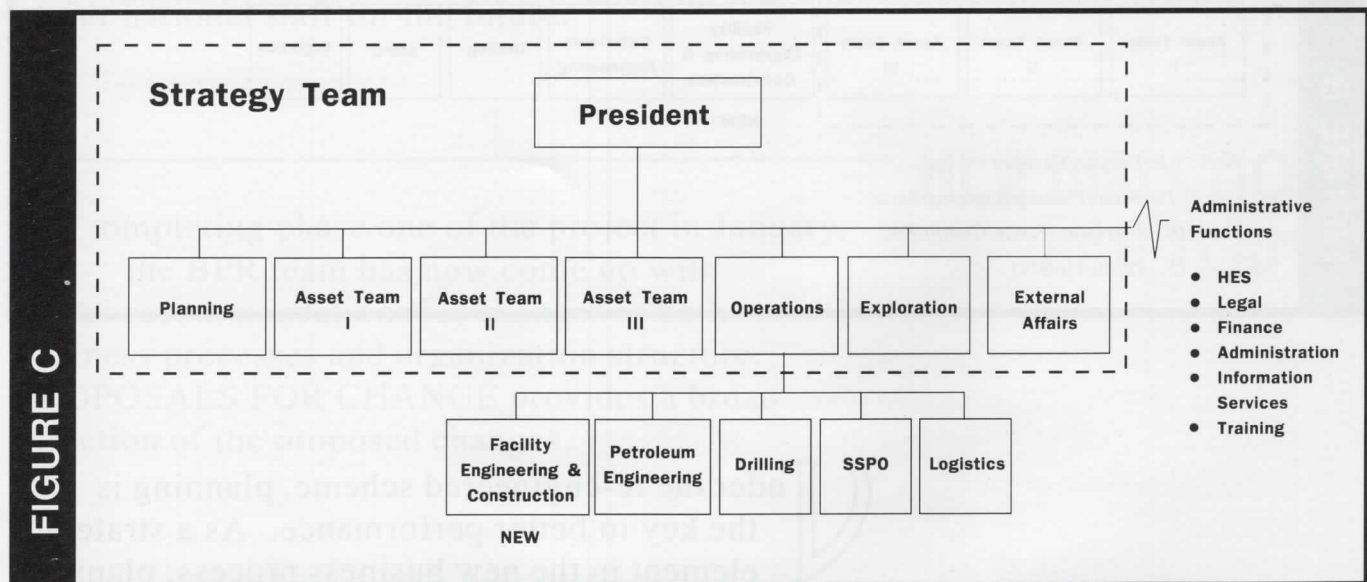
Under the re-engineered scheme, planning is the key to better performance. As a strategic element in the new business process, planning will be charged with market intelligence, development scenario analysis, financial returns, innovation imperatives, and executive support. Simply put, it's our business "nerve center".

Consisting of the President and top-level managers of planning, operations, exploration, asset teams, and external affairs, the strategy team is responsible for formulating the overall action plans that the asset teams and other operating units then carry out. The asset teams will be key to providing the input to this process. Within this general framework, asset teams have much greater control over their individual work programs.



Ultimately, Unocal Thailand will feature a flatter organization, with the President in direct command of the strategy team and each asset team. Each asset team will include professionals from the geoscience and engineering disciplines needed to enable it to do its job effectively.

SECOND-STAGE TRANSITION ORGANIZATION



Transformation of the organization will come in stages (Figure B and Figure C) to give members of newly formed teams time to make adjustments and build relationships. This will not only enable the company to keep its business of gas and condensate production running at high efficiency, but will also take advantage of 1995, a relatively level production year, to build our new systems and get them "up and running."

Once the new processes and organization structure prove to be working well, the company will move on to the next stage and then to the final stage, which would be the "flattest" possible organization. This final transition could still be quite some time in the future and will be possible only when all parts of the company are functioning in an effective team environment.



PROPOSALS FOR CHANGE

BUSINESS PROCESSES should be changed to do several things.

- ❖ Focus the company on maximizing the financial value of its combined assets
- ❖ Enable it to assess the risks of development options based on rigorous technical work
- ❖ Allow it to recognize a full range of alternatives for adding reserves and optimizing flow rates
- ❖ Investigate all viable options to determine optimal field development plans
- ❖ Allow for determination of technical staff resource requirements, especially for geologists and geophysicists, based on development plans, and

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PROPOSALS FOR CHANGE

- ❖ Tighten control of engineering projects while encouraging innovation.

The revised *ORGANIZATION STRUCTURE* should -- through greater teamwork -- achieve the following.

- ❖ Elevate and broaden the business planning function
- ❖ Establish a top management team (called the "strategy team") to drive development planning across all producing fields
- ❖ Establish "asset teams" to be responsible for development optimization at the field level and to direct day-to-day production operations more independently. Each asset team is responsible for field development and operations for a number of fields. This "focus" is expected to raise the overall value and long-term benefits of each field
- ❖ Give the Vice President of Exploration the responsibility for bringing development projects to the point of proven commercial viability, and
- ❖ Consolidate facility engineering authority.

NEXT ISSUE AND BEYOND:

- ❖ Implementation: what, when, and how
- ❖ Handling the changes following implementation
- ❖ More about strategy team, asset teams, and other units
- ❖ Matching faces with new positions
- ❖ How BPR affects career development
- ❖ The ultimate organization structure
- ❖ More questions and answers.

QUESTIONS AND ANSWERS

Q

What is the purpose of re-engineering? How will it benefit the company and employees?

A

"Re-engineering" describes a methodology for accomplishing change. How a company applies the method depends on what it wants to change. Companies in America and Europe have used re-engineering to make their companies smaller to cope with shrinking markets. For that reason, re-engineering has often acquired a reputation as a management tool to justify employee layoffs. However, re-engineering of work processes means eliminating duplication, increasing efficiency, reducing wasted energy, and improving quality of work.

We are using re-engineering to change the company so that we can handle the projected substantial rises in daily production expected between now and 1999. If we can accomplish this without proportionately large increases in staff, then we'll also become more profitable. This is our goal and expectation.

Q

If after the re-engineering exercise the team finds there is a need to reduce employees, will a package similar to VRP be provided?

A

First of all, we don't expect this to happen. Unlike some other companies, Unocal is re-engineering for GROWTH, not for SURVIVAL.

Two things have become more certain: PTT is committed to building the second pipeline and construction is now underway, and we do believe that the Pailin field can be developed commercially. We're planning our business around both these projects, and expect that the key challenge of the next 4-5 years will be controlling staff growth, not planning staff reductions.

Brian's Turn (from page 1)

This is a turning point for us. An opportunity like this comes rarely, and if we miss this one now we may not see another.

Unocal Thailand has a history of rising to meet challenges, and we can do it again through cooperation: working together in new ways, more efficiently and effectively than ever before.

We met critical challenges in the 80's through innovation and efficiency in technology; for the 90's we need innovation and efficiency in business processes and organization structure as well.

Our business process re-engineering (BPR) program has identified the critical barriers to achieving growth, and has developed solutions: changes to our business processes and organization. The team has not done this in a vacuum, but with full support and involvement from my management team and me, with input from all parts of the organization.

Change is difficult, but as we meet the growth challenge ahead, we all win. As Unocal Thailand grows, we will create a rewarding future for every employee.

Q

If certain employees can't adapt to the re-engineered business processes, what can be done to help them?

A

The re-engineered business processes may require employees to use new skills in their re-engineered jobs. As the re-engineering team develops new business processes, training needs will be identified and appropriate training will be provided. Beyond just training -- and even more important than basic training -- the transition to new processes will be controlled, and no one should feel that they can't keep up with the changes. This project is not a race to become a new company. It's a long-term exercise to promote the right changes for Unocal Thailand. Time will be made available for employees to understand the goals of the project and participate in the changes that affect their area of the company.

We expect the changes to be both exciting and career-expanding.

Get ready for a milestone meeting...

Mr. Marcotte will address us on "Unocal Thailand after re-engineering" in early April. Date and time to be announced.

Please send any questions you would like Mr. Marcotte to address at this meeting to PR Department (12th floor).



Teamwork



Effectiveness



Growth



March 27, 1995

TO: All employees

FROM: Brian W. G. Marcotte

A handwritten signature in black ink, appearing to read "Brian W. G. Marcotte", written over the printed name.

It's been seven months now since we launched our effort to prepare our company for long-term growth. The first phase of the Business Process Re-engineering Project, or "BPR" for short, was completed in January, when the project recommendations were accepted by the management team and me. Detailing, then implementing the recommended changes comes next. I'm sure that as a member of the Unocal Thailand team, you're eager to learn about the forthcoming change in our organization -- especially what it will mean to you. We will do our best to answer all your questions. But above all, we want you to understand the cooperation we'll need to give one another to make the transition smooth. We're on our way and need everyone to be committed to what we're doing.

A newsletter called TURNING POINT has been created to help explain the changes that are coming. The name "TURNING POINT" signifies our significant transformation into a whole new organization with a whole new work process and way of managing our resources. TURNING POINT will also describe changes in employee training and career development practices, which will form a major part of post-BPR employee development.

I've often invited you to share your views with the BPR team and contribute to the changes. Many of you have done so, and I'm repeating this offer here. If you have an idea or recommendation for helping the implementation of the upcoming changes, please let me or any member of the team know, and we'll address it accordingly -- in TURNING POINT, in future meetings, or both.

My management team and I are committed to ensuring that the changes will benefit each of you and Unocal Thailand. As I said in my letter to you in August last year, I've set a goal of helping each of you become a better and more confident employee -- a member of the winning team. Let's work together through this exciting challenge and reach for our goal of producing 1.1 billion cubic feet a day by 1999 through value-adding growth, effectiveness, and teamwork. Our plans are now set to turn our vision into reality. I know this can be done.