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UNOCAL CORP  
Form 10-Q/A  
September 20, 2002

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

FORM 10-Q/A  
Amendment No. 1  
-----

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002  
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OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

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

Commission file number 1-8483

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

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

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

2141 ROSECRANS AVENUE, SUITE 4000, EL SEGUNDO, CALIFORNIA 90245  
(Address of principal executive offices)  
(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes      X      No  
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Number of shares of Common Stock, \$1 par value, outstanding as of  
July 31, 2002: 244,665,162

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## PART I

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## GLOSSARY

Below are certain definitions of key terms that may be in use in this Form 10-Q report.

|         |                                |       |  |
|---------|--------------------------------|-------|--|
| M       | Thousand                       | Bbl   | Barrels                                  |
| MM      | Million                        | Cf/d  | Cubic feet per day                       |
| B       | Billion                        | Cfe/d | Cubic feet of gas equivalent per day     |
| CF      | Cubic feet                     | Btu   | British thermal units                    |
| BOE     | Barrels of oil equivalent      | DD&A  | Depreciation, depletion and amortization |
| Liquids | Crude oil, condensate and NGLs | NGLs  | Natural gas liquids                      |
| Bbl/d   | Barrels per day                |       |  |

- o API Gravity is a measurement of the gravity (density) of crude oil and other liquid hydrocarbons by a system recommended by the American Petroleum Institute ("API"). The measuring scale is calibrated in terms of "API degrees." The higher the API gravity, the lighter the oil.
- o Bilateral institution refers to a country specific institution, which lends funds primarily to promote the export of goods from that country. Examples of bilateral institutions are Ex-Im (U.S.), Hermes (Germany), SACE (Italy), COFACE (France), and JBIC (Japan).
- o BOE A term used to quantify oil and natural gas amounts using the same measurement. Gas volumes are converted to barrels of oil on the basis of energy content, where the volume of natural gas that when burned produces the same amount of heat as a barrel of oil (6,000 cubic feet of gas equals one barrel of oil).
- o British Thermal Units ("Btu") is a measure of the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit.
- o Delineation or appraisal well is a well drilled in an unproven area adjacent to a discovery well to define the boundaries of the reservoir.
- o Development well is a well drilled within the proved area of an oil or natural gas reservoir to a depth of a stratigraphic horizon known to be productive.
- o Dry hole is a well believed to be incapable of producing hydrocarbons in sufficient commercial quantities to justify future capital expenditures for completion and additional infrastructure.
- o Economic interest method pursuant to production sharing contracts is a method by which the Company's share of the cost recovery revenue and the profit revenue is divided by year-end oil and gas prices and represents the volume that the Company is entitled to. The lower the commodity price, the

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- o higher the volume entitlement, and vice versa.
- o Exploratory well is a well drilled to find and produce oil or natural gas reserves that is not a development well.
- o Farm-in or farm-out is an agreement whereby the owner of a working interest in an oil and gas lease assigns the working interest or a portion thereof to another party who desires to drill on the leased acreage. The assignor usually retains a royalty or reversionary interest in the lease. The interest received by an assignee is a "farm-in," while the interest transferred by the assignor is a "farm-out."
- o Field is an area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition.
- o Floating Production Storage and Offloading ("FPSO") technology refers to the use of a vessel that is stationed above or near an offshore oil field. Produced fluids from subsea completion wells are brought by flowlines to the vessel where they are separated, treated, stored and then offloaded to another vessel for transportation.
- o Gross acres or gross wells are the total acres or wells in which a working interest is owned.
- o Hydrocarbons are organic compounds of hydrogen and carbon atoms that form the basis of all petroleum products.

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- o Lifting is the amount of liquids each working-interest partner takes physically. The liftings may actually be more or less than actual entitlements that are based on royalties, working interest percentages, and a number of other factors.
- o Liquefied Natural Gas ("LNG") is a gas, mainly methane, which has been liquefied in a refrigeration and pressure process to facilitate storage and transportation.
- o Liquefied Petroleum Gas ("LPG") is a mixture of butane, propane and other light hydrocarbons. At normal temperature it is a gas, but it can be cooled or subjected to pressure to facilitate storage and transportation.
- o Multilateral institution refers to an institution with shareholders from multiple countries that lends money for specific development reasons. Examples of multilateral institutions are International Finance Corporation ("IFC"), European Bank for Reconstruction and Development ("EBRD"), and Asian Development Bank ("ADB").
- o Natural Gas Liquids ("NGLs") are primarily ethane, propane, butane and natural gasolines which can be extracted from wet natural gas and become liquid under various combinations of increasing pressure and lower temperature.
- o Net acreage and net oil and gas wells are obtained by multiplying gross acreage and gross oil and gas wells by the Company's working interest percentage in the properties.
- o Net pay is the amount of oil or gas saturated rock capable of producing oil or gas.
- o Production Sharing Contract ("PSC") is a contractual agreement between the Company and a host government whereby the Company, acting as contractor, bears all exploration costs, development and production costs in return for an agreed upon share of production.
- o Producing well is a well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.
- o Prospective acreage is lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas.
- o Proved acreage is acreage that is allocated to producing wells or wells capable of production or to acreage that is being developed.
- o Reservoir is a porous and permeable underground formation containing oil

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- and/or natural gas enclosed or surrounded by layers of less permeable rock and is individual and separate from other reservoirs.
- o Subsea tieback is a well with the wellhead equipment located on the bottom of the ocean.
  - o Take-or-Pay is a type of contract clause where specific quantities of a product must be paid for, even if delivery is not taken. Normally, the purchaser has the right in following years to take product that had been paid for but not taken.
  - o Trend or Play is an area or region of concentrated activity with a group of related fields and prospects.
  - o Working interest is the percentage of ownership that the Company has in a joint venture, partnership or consortium.

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### PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

##### CONSOLIDATED EARNINGS (UNAUDITED)

|   | For the Three Months<br>Ended June 30, |          |
|---|--|----------|
| Millions of dollars except per share amounts                                      | 2002                                   | 2001     |
| <b>Revenues</b>   |  |          |
| Sales and operating revenues  | \$ 1,349                               | \$ 1,684 |
| Interest, dividends and miscellaneous income                                      | 8                                      | 11       |
| Gain (loss) on sales of assets  | (1)                                    | 1        |
| <hr style="border-top: 1px dashed black;"/>                                       |  |          |
| Total revenues  | 1,356                                  | 1,696    |
| <b>Costs and other deductions</b>   |  |          |
| Crude oil, natural gas and product purchases                                      | 428                                    | 537      |
| Operating expense   | 312                                    | 329      |
| Administrative and general expense  | 37                                     | 27       |
| Depreciation, depletion and amortization  | 255                                    | 245      |
| Impairments   | 21                                     | -        |
| Dry hole costs  | 13                                     | 47       |
| Exploration expense   | 61                                     | 55       |
| Interest expense  | 43                                     | 48       |
| Property and other operating taxes  | 18                                     | 20       |
| Distributions on convertible preferred securities of subsidiary trust             | 8                                      | 8        |
| <hr style="border-top: 1px dashed black;"/>                                       |  |          |
| Total costs and other deductions  | 1,196                                  | 1,316    |
| Earnings from equity investments  | 51                                     | 49       |
| <hr style="border-top: 1px dashed black;"/>                                       |  |          |
| Earnings from continuing operations before<br>income taxes and minority interests | 211                                    | 429      |
| <hr style="border-top: 1px dashed black;"/>                                       |  |          |
| Income taxes  | 95                                     | 180      |
| Minority interests  | 3                                      | 14       |
| <hr style="border-top: 1px dashed black;"/>                                       |  |          |
| Earnings from continuing operations   | 113                                    | 235      |
| Discontinued operations   |  |          |
| Refining, marketing and transportation  |  |          |
| Gain on disposal (net of tax)   | 1                                      | 12       |
| <hr style="border-top: 1px dashed black;"/>                                       |  |          |

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|   |         |         |
|---|---------|---------|
| Earnings from discontinued operations             | 1       | 12      |
| Cumulative effect of accounting change            | -       | -       |
| -----   |         |         |
| Net earnings                                      | \$ 114  | \$ 247  |
| =====   |         |         |
| Basic earnings per share of common stock (a)      |         |         |
| Continuing operations                             | \$ 0.46 | \$ 0.98 |
| Net earnings                                      | \$ 0.46 | \$ 1.02 |
| Diluted earnings per share of common stock (b)    |         |         |
| Continuing operations                             | \$ 0.46 | \$ 0.95 |
| Net earnings                                      | \$ 0.46 | \$ 0.99 |
| Cash dividends declared per share of common stock | \$ 0.20 | \$ 0.20 |
| -----   |         |         |

See Notes to the Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEET

|  |             |
|--|-------------|
|  | At June 30, |
| Millions of dollars  | 2002        |
| -----  |             |
| Assets   |             |
| Current assets   |             |
| Cash and cash equivalents                                      | \$ 161      |
| Accounts and notes receivable - net                            | 837         |
| Inventories  | 111         |
| Deferred income taxes  | 138         |
| Other current assets   | 23          |
| -----  |             |
| Total current assets   | 1,270       |
| Investments and long-term receivables - net                    | 1,486       |
| Properties - net (b)   | 7,741       |
| Deferred income taxes  | 177         |
| Other assets   | 119         |
| -----  |             |
| Total assets   | \$ 10,793   |
| =====  |             |
| Liabilities and Stockholders' Equity                           |             |
| Current liabilities  |             |
| Accounts payable   | \$ 828      |
| Taxes payable  | 245         |
| Dividends payable  | 49          |
| Interest payable   | 48          |
| Current portion of environmental liabilities                   | 116         |
| Current portion of long-term debt and capital leases           | 8           |
| Other current liabilities                                      | 147         |
| -----  |             |
| Total current liabilities                                      | 1,441       |
| Long-term debt and capital leases                              | 3,111       |
| Deferred income taxes  | 678         |
| Accrued abandonment, restoration and environmental liabilities | 587         |
| Other deferred credits and liabilities                         | 722         |
| Subsidiary stock subject to repurchase                         | 92          |
| Minority interests   | 430         |

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|   |           |
|---|-----------|
| Company-obligated mandatorily redeemable convertible preferred securities<br>of a subsidiary trust holding solely parent debentures | 522       |
| Common stock (\$1 par value, shares authorized: 750,000,000 (c))  | 255       |
| Capital in excess of par value  | 573       |
| Unearned portion of restricted stock issued   | (26)      |
| Retained earnings   | 2,926     |
| Accumulated other comprehensive income  | (66)      |
| Notes receivable - key employees  | (41)      |
| Treasury stock - at cost (d)  | (411)     |
| <hr style="border-top: 1px dashed black;"/>   |           |
| Total stockholders' equity  | 3,210     |
| <hr style="border-top: 1px dashed black;"/>   |           |
| Total liabilities and stockholders' equity  | \$ 10,793 |
| <hr style="border-top: 3px double black;"/>   |           |

See Notes to the Consolidated Financial Statements.

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### CONSOLIDATED CASH FLOWS (UNAUDITED)

|   |    |
|---|----|
|   | F  |
| Millions of dollars   | 2  |
| <hr style="border-top: 1px dashed black;"/>   |    |
| Cash Flows from Operating Activities  |    |
| Net earnings  | \$ |
| Adjustments to reconcile net earnings to<br>net cash provided by operating activities |    |
| Depreciation, depletion and amortization  |    |
| Impairments   |    |
| Dry hole costs  |    |
| Amortization of exploratory leasehold costs   |    |
| Deferred income taxes   |    |
| Gain on sales of assets (pre-tax)   |    |
| Gain on disposal of discontinued operations (pre-tax)                                 |    |
| Earnings applicable to minority interests   |    |
| Other   |    |
| Working capital and other changes related to operations                               |    |
| Accounts and notes receivable   |    |
| Inventories   |    |
| Accounts payable  |    |
| Taxes payable   |    |
| Other   |    |
| <hr style="border-top: 1px dashed black;"/>   |    |
| Net cash provided by operating activities   |    |
| <hr style="border-top: 1px dashed black;"/>   |    |
| Cash Flows from Investing Activities  |    |
| Capital expenditures (includes dry hole costs)  | (  |
| Major acquisitions  |    |
| Proceeds from sales of assets   |    |
| Proceeds from sale of discontinued operations   |    |
| <hr style="border-top: 1px dashed black;"/>   |    |
| Net cash used in investing activities   | (  |
| <hr style="border-top: 1px dashed black;"/>   |    |

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### Cash Flows from Financing Activities

Long-term borrowings  
Reduction of long-term debt and capital lease obligations  
Minority interests  
Proceeds from issuance of common stock  
Dividends paid on common stock

---

Net cash provided by financing activities

---

Net increase (decrease) in cash and cash equivalents

---

Cash and cash equivalents at beginning of year

---

Cash and cash equivalents at end of period

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See Notes to the Consolidated Financial Statements.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### 1. General

The consolidated financial statements included in this report are unaudited and, in the opinion of management, include all adjustments necessary for a fair presentation of financial position and results of operations. All adjustments are of a normal recurring nature. Such financial statements are presented in accordance with the Securities and Exchange Commission's ("SEC") disclosure requirements for Form 10-Q.

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes filed with the Commission in Unocal Corporation's 2001 Annual Report on Form 10-K.

For the purpose of this report, Unocal Corporation ("Unocal") and its consolidated subsidiaries, including Union Oil Company of California ("Union Oil"), are referred to as the "Company".

The consolidated financial statements of the Company include the accounts of subsidiaries in which a controlling interest is held. Investments in entities without a controlling interest are accounted for by the equity method or cost basis. Under the equity method, the investments are stated at cost plus the Company's equity in undistributed earnings and losses after acquisition. Income taxes estimated to be payable when earnings are distributed are included in deferred income taxes.

Results for the six months ended June 30, 2002, are not necessarily indicative of future financial results.

Certain items in the prior year financial statements have been reclassified to conform to the 2002 presentation.

#### 2. Accounting Changes

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 addresses accounting for goodwill and identifiable intangible assets subsequent to their initial recognition, eliminates the amortization of goodwill and

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provides specific steps for testing the impairment of goodwill. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. SFAS No. 142 also eliminates amortization of the excess of cost over the underlying equity in the net assets of an equity method investee that is recognized as goodwill. The adoption of the statement did not have a material effect on the Company's financial position and results of operations.

Effective January 1, 2002, the Company also adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". The adoption of SFAS No. 144 did not have a material effect on the Company's financial position and results of operations.

The Company has adopted SFAS No. 145, "Rescission of SFAS No. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections." This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". This Statement also rescinds or amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The adoption of SFAS No. 145 did not have a material effect on the Company's financial position and results of operations.

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In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement provides guidance on the recognition and measurement of liabilities associated with disposal activities and is effective for the Company on January 1, 2003.

### 3. Other Financial Information

During the second quarters of 2002 and 2001, approximately 23 percent and 25 percent, respectively, of total sales and operating revenues were attributable to the resale of liquids and natural gas purchased from others in connection with marketing activities. For the six months ended June 30, 2002 and 2001, these percentages were approximately 22 percent and 32 percent, respectively. Related purchase costs are classified as expense in the crude oil, natural gas and product purchase category on the consolidated earnings statement. The current year percentage decreases were principally due to lower purchases of domestic crude oil from third parties for resale. During 2001, management decided to decrease its outside crude oil purchases for resale due to increased volatility in the oil markets.

Capitalized interest totaled \$10 million and \$6 million for the second quarters of 2002 and 2001, respectively, and \$19 million and \$11 million for the six months ended 2002 and 2001, respectively. The increase was primarily due to the capitalized interest related to the Mad Dog development project in the Gulf of Mexico and the West Seno oil and gas development project in the deepwater Kutei Basin, offshore East Kalimantan, Indonesia.

Exploration expense on the consolidated earnings statement consisted of the following:



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| Millions of dollars                | For the Three Months<br>Ended June 30, |       |
|------------------------------------|--|-------|
|                                    | 2002                                   | 2001  |
| Exploration operations             | \$ 25                                  | \$ 22 |
| Geological and geophysical         | 8                                      | 6     |
| Amortization of exploratory leases | 23                                     | 23    |
| Leasehold rentals                  | 5                                      | 4     |
| Exploration expense                | \$ 61                                  | \$ 55 |

4. Restructuring

In June 2002, the Company adopted a restructuring plan that resulted in the accrual of a \$19 million pre-tax restructuring charge. The charge included the estimated costs of terminating approximately 200 employees in the Company's Sugar Land, Texas, office and field locations. The restructuring plan involves organizational changes to eliminate unnecessary work processes in the Company's Gulf Region business unit, which is part of the U.S. Lower 48 operations in the Exploration and Production segment.

The restructuring charge was reflected in the operating expense line on the consolidated earnings statement and included approximately \$14 million for termination costs to be paid to the employees over time, about \$3 million for outplacement and other costs and about \$2 million for benefit plan curtailment costs. All of the affected employees had been terminated or had received termination notices as of June 30, 2002.

5. Impairments

The Company, as part of its regular assessment, reviewed its developed and undeveloped oil and gas properties and other long-lived assets for possible impairment. In the second quarter of 2002, the Company recorded a pre-tax charge of \$21 million, or \$13 million after-tax, for the impairment of oil and gas fields in Alaska and the Gulf of Mexico region. The impairment in Alaska, which made up the majority of the amount recorded, was \$18 million pre-tax, or \$12 million after-tax.

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6. Income Taxes

Income taxes on earnings from continuing operations for the second quarter and six months periods of 2002 were \$95 million and \$135 million, respectively, compared with \$180 million and \$370 million for the comparable periods of 2001. The effective income tax rates for the second quarter and six months periods of 2002 were 46 percent and 50 percent, respectively, compared with 43 percent and 41 percent for the comparable periods of 2001.

The higher effective income tax rates for the second quarter and the first six months of 2002, as compared with the same periods a year ago, reflect currency effects primarily in Thailand along with the effect of changes in the mix of domestic earnings in the prior year periods and losses in the current year periods coupled with foreign earnings for all periods reported, which are generally taxed at higher rates.

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7. Earnings Per Share

The following are reconciliations of the numerators and denominators of the basic and diluted earnings per share ("EPS") computations for earnings from continuing operations for the second quarters and six months ended June 30, 2002 and 2001:

| Millions except per share amounts                                  | Earnings<br>(Numerator) | S<br>(Denominator) |
|--|-------------------------|--------------------|
| -----  |                         |                    |
| Three months ended June 30, 2002                                   |                         |                    |
| Earnings from continuing operations                                | \$ 113                  |                    |
| Basic EPS  |                         |                    |
| Effect of dilutive securities                                      |                         |                    |
| Options and common stock equivalents                               |                         |                    |
|  | -----                   |                    |
| Diluted EPS  | 113                     |                    |
| Distributions on subsidiary trust preferred securities (after-tax) | 7                       |                    |
|  | -----                   |                    |
| Antidilutive   | \$ 120                  |                    |
| Three months ended June 30, 2001                                   |                         |                    |
| Earnings from continuing operations                                | \$ 235                  |                    |
| Basic EPS  |                         |                    |
| Effect of dilutive securities                                      |                         |                    |
| Options and common stock equivalents                               |                         |                    |
|  | -----                   |                    |
|  | 235                     |                    |
| Distributions on subsidiary trust preferred securities (after-tax) | 7                       |                    |
|  | -----                   |                    |
| Diluted EPS  | \$ 242                  |                    |

Not included in the computation of diluted EPS for the three months ended June 30, 2002 and 2001, were options outstanding to purchase approximately 1.9 million and 3.4 million shares, respectively, of common stock. These options were not included in the computation as the exercise prices were greater than average market prices of the common shares during the respective quarters.

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| Millions except per share amounts    | Earnings<br>(Numerator) | S<br>(Denominator) |
|--------------------------------------|-------------------------|--------------------|
| -----                                |                         |                    |
| Six months ended June 30, 2002       |                         |                    |
| Earnings from continuing operations  | \$ 135                  |                    |
| Basic EPS                            |                         |                    |
| Effect of dilutive securities        |                         |                    |
| Options and common stock equivalents |                         |                    |

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|  |       |        |
|--|-------|--------|
|  | ----- | 135    |
| Distributions on subsidiary trust preferred securities (after-tax) |       | 14     |
|  | ----- |        |
| Antidilutive   |       | \$ 149 |
| Six months ended June 30, 2001                                     |       |        |
| Earnings from continuing operations                                |       | \$ 527 |
| Basic EPS  |       |        |
| Effect of dilutive securities                                      |       |        |
| Options and common stock equivalents                               |       |        |
|  | ----- | 527    |
| Distributions on subsidiary trust preferred securities (after-tax) |       | 13     |
|  | ----- |        |
| Diluted EPS  |       | \$ 540 |

The diluted EPS computation for the six months ended June 30, 2002 and 2001, did not include options outstanding to purchase approximately 3.3 million and 5.0 million shares, respectively, of common stock. These options were not included in the computation as the exercise prices were greater than the year-to-date average market price of the common shares.

Basic and diluted earnings per common share for discontinued operations were as follows:

|  | For the Three Months<br>Ended June 30, |         | For<br>E |
|--|--|---------|----------|
| Millions except per share amounts            | 2002                                   | 2001    | -----    |
| Basic earnings per share of common stock:    |  |         |          |
| Discontinued operations:                     |  |         |          |
| Earnings from discontinued operations        | \$ 1                                   | \$ 12   |          |
| Weighted average common shares outstanding   | 244.6                                  | 243.5   |          |
| Earnings from discontinued operations        | \$ -                                   | \$ 0.04 |          |
| Dilutive earnings per share of common stock: |  |         |          |
| Discontinued operations:                     |  |         |          |
| Earnings from discontinued operations        | \$ 1                                   | \$ 12   |          |
| Weighted average common shares outstanding   | 245.8                                  | 256.9   |          |
| Earnings from discontinued operations        | \$ -                                   | \$ 0.04 |          |

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8. Comprehensive Income

The Company's comprehensive income was:

For the Three Months  
Ended June 30,

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| Millions of dollars   | 2002          | 2001          |
|---|---------------|---------------|
| Net earnings  | \$ 114        | \$ 247        |
| Cumulative effect of change in accounting principle           |               |               |
| SFAS No. 133 adoption (a)                                     | -             | -             |
| Change in unrealized loss on hedging instruments (b)          | (1)           | 41            |
| Reclassification adjustment for settled hedging contracts (c) | 4             | 2             |
| Unrealized foreign currency translation adjustments           | 35            | 15            |
| <b>Total comprehensive income</b>                             | <b>\$ 152</b> | <b>\$ 305</b> |

9. Cash and Cash Equivalents

| Millions of dollars              | At June 30,<br>2002 | At Decem<br>2001 |
|----------------------------------|---------------------|------------------|
| Cash                             | \$ 18               |                  |
| Time deposits                    | 97                  |                  |
| Restricted cash                  | 6                   |                  |
| Marketable securities            | 40                  |                  |
| <b>Cash and cash equivalents</b> | <b>\$ 161</b>       |                  |

10. Long Term Debt and Credit Agreements

During the first six months of 2002, the Company's consolidated debt, including the current portion, increased by \$213 million. This net increase included \$440 million in new commercial paper borrowings, the proceeds of which were used to refinance maturing debt and for general corporate purposes. The commercial paper had a weighted average interest rate of 2.23 percent at June 30, 2002. The Company retired \$132 million of maturing medium-term notes during the first six months of 2002. In February 2002, the Company's Northrock Resources Ltd. subsidiary redeemed its \$35 million "Series A" and \$40 million "Series B" senior U.S. dollar-denominated notes, which bore interest of 6.54 percent and 6.74 percent, respectively. The Company's Pure Resources, Inc. ("Pure") subsidiary reduced its long-term debt, included in the Company's consolidated debt, by \$16 million principally due to a decrease in borrowing under its revolving credit facilities. Pure's debt was \$571 million at June 30, 2002. Neither Unocal nor Union Oil guarantees any of Pure's debt.

11. Accrued Abandonment, Restoration and Environmental Liabilities

At June 30, 2002, the Company had accrued \$472 million for the estimated future costs to abandon and remove wells and production facilities. The total costs for these abandonments are predominantly accrued on a unit-of-production basis and are estimated to be approximately \$700 million. This estimate was derived in large part from abandonment cost studies performed by independent third party firms and is used to calculate the amount to be amortized. The Company's reserve for environmental remediation obligations at June 30, 2002 totaled \$231 million, of which \$116 million was included in current liabilities.

12. Commitments and Contingencies

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

Environmental matters

The Company is subject to loss contingencies pursuant to federal, state, local and foreign environmental laws and regulations. These include existing and possible future obligations to investigate the effects of the release or disposal of certain petroleum, chemical and mineral substances at various sites; to remediate or restore these sites; to compensate others for damage to property and natural resources, for remediation and restoration costs and for personal injuries; and to pay civil penalties and, in some cases, criminal penalties and punitive damages. These obligations relate to sites owned by the Company or others and are associated with past and present operations, including sites at which the Company has been identified as a potentially responsible party ("PRP") under the federal Superfund laws and comparable state laws. Liabilities are accrued when it is probable that future costs will be incurred and such costs can be reasonably estimated. However, in many cases, investigations are not yet at a stage where the Company is able to determine whether it is liable or, even if liability is determined to be probable, to quantify the liability or estimate a range of possible exposure. In such cases, the amounts of the Company's liabilities are indeterminate due to the potentially large number of claimants for any given site or exposure, the unknown magnitude of possible contamination, the imprecise and conflicting engineering evaluations and estimates of proper clean-up methods and costs, the unknown timing and extent of the corrective actions that may be required, the uncertainty attendant to the possible award of punitive damages, the recent judicial recognition of new causes of action, the present state of the law, which often imposes joint and several and retroactive liabilities on PRPs, the fact that the Company is usually just one of a number of companies identified as a PRP, or other reasons.

As disclosed in note 11, at June 30, 2002, the Company had accrued \$231 million for estimated future environmental assessment and remediation costs at various sites where liabilities for such costs are probable and reasonably estimable. The Company may also incur additional liabilities in the future at sites where remediation liabilities are probable but future environmental costs are not presently reasonably estimable because the sites have not been assessed or the assessments have not advanced to the stage where costs are reasonably estimable. At those sites where investigations or feasibility studies have advanced to the stage of analyzing feasible alternative remedies and/or ranges of costs, the Company estimates that it could incur possible additional remediation costs aggregating approximately \$255 million. The amount of such possible additional costs reflects the aggregate of the high ends of the ranges of costs of feasible alternatives identified by the Company for those sites with respect to which investigation or feasibility studies have advanced to the stage of analyzing such alternatives. However, such estimated possible additional costs are not an estimate of the total remediation costs beyond the amounts reserved, because there are sites where the Company is not yet in a position to estimate all, or in some cases any, possible additional costs. Both the amounts reserved and

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

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The accrued costs and the possible additional costs are shown below in four categories of sites:

| Millions of dollars  | At June 30, 2002 |                     |
|--|------------------|---------------------|
|  | Reserves         | Possible Additional |
| Superfund and similar sites  | \$ 18            | \$ 11               |
| Active company facilities  | 37               | 66                  |
| Company facilities sold with retained liabilities<br>and former company-operated sites | 97               | 71                  |
| Inactive or closed company facilities  | 79               | 107                 |
| Total reserves   | \$ 231           | \$ 255              |

The time frame over which the amounts included in the reserve may be paid extend from the near term to several years into the future. The sites included in the above categories are in various stages of investigation and remediation; therefore, the related payments against the existing reserve will be made in different future periods. Also, some of the work is dependent upon reaching agreements with regulatory agencies and/or other third parties on the scope of remediation work to be performed, who will perform the work, the timing of the work, who will pay for the work and other factors that may have an impact on the timing of the payments for amounts included in the reserve. For some sites, the remediation work will be performed by other parties, such as the current owners of the sites, and the Company has a contractual agreement to pay a share of the remediation costs. For these sites, the Company generally has less control over the timing of the work and consequently the timing of the associated payments. Based on available information, the Company estimates that the majority of the amounts included in the reserve will be paid within the next three to five years.

At the sites where the Company has a contractual agreement to share remediation costs with third parties, the reserve reflects the Company's estimated share of those costs. In many of the oil and gas sites, remediation cost sharing is included in joint venture agreements that were made with third parties during the original operation of the site. In many cases where the Company sold facilities or a business to a third party, sharing of remediation costs for those sites may be included in the sales agreement.

Contamination in the sites of the "Superfund and Similar Sites" category was the result of the disposal of substances at these sites by one or more PRPs. Contamination of these sites could be from many sources, of which the Company may be one. The Company has been notified that it is a PRP at the sites included in this category. At the sites where the Company has not denied liability, the Company's contribution to the contamination at these sites was primarily from waste from the current and former operations identified above.

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The "Active Company Facilities" category includes oil and gas fields and mining operations. The sites are primarily contaminated with crude oil, oil field waste and other petroleum hydrocarbons. Contamination at the active mining sites was principally the result of the impact of mined material on the groundwater and/or surface water at these sites.

The "Company Facilities Sold and Former Company-Operated Sites" and "Inactive or Closed Company Facilities" categories include former Company refineries, transportation and distribution facilities and service stations. The required remediation of these sites is mainly for petroleum hydrocarbon contamination as the result of leaking tanks or impoundments that were used in these operations. Also, included in these categories are former oil and gas fields that the company no longer operates. In most cases, these sites are contaminated with crude oil, oil field waste and other petroleum hydrocarbons. Contamination at other sites in this category was the result of former industrial chemical and polymers manufacturing and distribution facilities, agricultural chemical retail businesses and ferromolybdenum production operations.

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Superfund and similar sites - At June 30, 2002, Unocal had received notification from the U.S. Environmental Protection Agency ("EPA") that the Company may be a PRP at 30 sites and may share certain liabilities at these sites. Of the total, five sites are under investigation and/or litigation and the Company's potential liability is not presently determinable and for two sites the Company has denied responsibility. At one site, the Company's potential liability appears to be de minimis. Of the remaining 22 sites, where probable and to the extent costs can be reasonably estimated, reserves of \$12 million have been established for future remediation and settlement costs.

Various state agencies and private parties had identified 23 other similar PRP sites. Two sites are under investigation and/or litigation and the Company's potential liability is not presently determinable. At three sites the Company's potential liability appears to be de minimis. At another site, the Company has made final settlement payments and is in the process of completing its involvement in the site. The Company has denied responsibility at two sites. Where probable and to the extent costs can be reasonably estimated at the remaining 15 sites, reserves of \$6 million have been established for future remediation and settlement costs.

In addition to the total of \$18 million in reserves mentioned above, the Company has also estimated that additional costs of \$11 million are possible for the "Superfund and Similar Sites" category.

Included in this category of sites are:

- o The McColl site in Fullerton, California
- o The Operating Industries site in Monterey Park, California
- o The Casmalia Waste site in Casmalia, California

These 53 sites exclude 108 sites where the Company's liability has been settled, or where the Company has no evidence of liability and there has been no further indication of liability by government agencies or third parties for at least a 12-month period.

The Company does not consider the number of sites for which it has been named a PRP as a relevant measure of liability. Although the liability of a PRP is generally joint and several, the Company is usually just one of numerous companies designated as a PRP. The Company's ultimate share of the remediation costs at those sites often is not determinable due to many unknown factors. The

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solvency of other responsible parties and disputes regarding responsibilities may also impact the Company's ultimate costs.

Active Company facilities - The Company has a reserve of \$37 million for estimated future costs of remedial orders, corrective actions and other investigation, remediation and monitoring obligations at certain operating facilities and producing oil and gas fields. Included in this category are:

- o The Molycorp molybdenum mine in Questa, New Mexico
- o The Molycorp lanthanide facility in Mountain Pass, California
- o Alaska oil and gas properties

The company estimates that it may incur possible additional costs of \$67 million for this group of sites.

Company facilities sold with retained liabilities and former Company-operated sites - Company facilities sold with retained liabilities include:

- o West Coast refining, marketing and transportation sites
- o Auto/truckstop facilities throughout the U.S.
- o Industrial chemical and polymer sites in the South, Midwest and California
- o Agricultural chemical sites in the West and Midwest

In each sale, the Company retained a contractual remediation or indemnification obligation and is responsible only for certain environmental problems associated with its past operations. The reserves represent estimated future costs for remediation work: identified prior to the sale of these sites; included in negotiated agreements with the buyers of these sites where the Company retained certain levels of remediation liabilities; and/or identified in subsequent claims made by buyers of the properties. Former Company-

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operated sites include service stations, distribution facilities and oil and gas fields that were previously operated but not owned by the Company. The Company has an aggregate reserve of \$97 million and additional costs of \$72 million are possible for this category. The possible additional costs are primarily related to service station and distribution facilities and oil and gas properties.

Inactive or closed Company facilities - Reserves of \$79 million have been established for these types of facilities. The major sites in this category are:

- o The Guadalupe oil field on the central California coast
- o The Molycorp Washington and York facilities in Pennsylvania
- o The Beaumont Refinery in Texas

These sites also have possible additional costs of \$95 million associated with them.

The Company is subject to federal, state and local environmental laws and regulations, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), as amended, the Resource Conservation and Recovery Act ("RCRA") and laws governing low level radioactive materials. Under these laws, the Company is subject to possible obligations to remove or mitigate the environmental effects of the disposal or release of certain chemical, petroleum and radioactive substances at various sites. Corrective investigations and actions pursuant to RCRA and other federal, state and local environmental laws are being performed at the Company's Beaumont, Texas, facility, a former agricultural chemical facility in Corcoran, California, and Molycorp's Washington, Pennsylvania, facility. In addition, Molycorp is required to decommission its Washington and York facilities in Pennsylvania pursuant to the terms of their respective radioactive source materials licenses and



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decommissioning plans.

The Company also must provide financial assurance for future closure and post-closure costs of its RCRA-permitted facilities and for decommissioning costs at facilities that are under radioactive source materials licenses. Pursuant to a 1998 settlement agreement between the Company and the State of California and the subsequent stipulated judgment entered by the Superior Court, the Company must provide financial assurance for anticipated costs of remediation activities at its inactive Guadalupe oil field. Also, pursuant to a 1995 settlement agreement between Molycorp and the California Department of Toxic Substances Control (and subsequent final judgment entered by the Superior Court), the Company must provide financial assurance for anticipated costs of disposing of certain wastes, as well as closing facilities associated with the handling of those wastes, at Molycorp's Mountain Pass, California, facility. Although these costs are likely to be incurred at different times and over a period of many years, the Company believes that these obligations could have a material adverse effect on the Company's results of operations but are not expected to be material to the Company's consolidated financial condition or liquidity.

The total environmental remediation reserves recorded on the consolidated balance sheet represent the Company's estimates of assessment and remediation costs based on currently available facts, existing technology and presently enacted laws and regulations. The remediation cost estimates, in many cases, are based on plans recommended to the regulatory agencies for approval and are subject to future revisions. The ultimate costs to be incurred could exceed the total amounts reserved. The reserve will be adjusted as additional information becomes available regarding the nature and extent of site contamination, required or agreed-upon remediation methods and other actions by government agencies and private parties. Therefore, amounts reserved may change substantially in the near term.

The Company maintains insurance coverage intended to reimburse the cost of damages and remediation related to environmental contamination resulting from sudden and accidental incidents under current operations. The purchased coverages contain specified and varying levels of deductibles and payment limits. Although certain of the Company's contingent legal exposures enumerated above are uninsurable due either to insurance policy limitations, public policy or market conditions, management believes that its current insurance program significantly reduces the possibility of an incident causing a material adverse financial impact to the Company.

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### Certain Litigation and Claims

**City of Santa Monica MTBE Lawsuit:** In June 2000, the City of Santa Monica (the "City") sued Shell Oil Company and other oil companies, including the Company, for contamination with methyl tertiary butyl ether ("MTBE") and a related chemical of water pumped from its Charnock wellfield (City of Santa Monica v Shell Oil Company et al, California Superior Court, Orange County, Case No. 01CC04331). In August 2001, Shell filed a cross-complaint against the Company and other oil companies, seeking the recovery of the funds it has expended to respond to the contamination. Further proceedings on this cross-complaint remain stayed.

The City's first amended complaint, filed in May 2002, alleges causes of action for strict liability (gasoline containing MTBE as a defective product designed, manufactured and sold without adequate warnings), negligence, trespass, public and private nuisance, declaratory relief and unfair competition. The City seeks

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damages, a declaration that the defendants are liable for all remedial actions, abatement of nuisance and injunctive relief. The City alleges that releases from sites of units of Shell, ChevronTexaco Corporation and ExxonMobil Corporation were the releases which caused the wellfield to be shut down. Releases from Company sites allegedly impacted the wellfield subsequently.

In July 2002, the City, ChevronTexaco and ExxonMobil announced a proposed settlement, under which the two companies would pay the City \$30 million and construct and operate a water treatment plant. Future settlement and/or judgment amounts paid to the City from other defendants would go in part into an operating account, from which the two companies could be reimbursed for part or all of their treatment plant costs, as well as certain other costs. The Company, Tosco Corporation (now a unit of Phillips Petroleum Company) and other defendants, but not the Shell defendants, have been invited to participate in this settlement. The Company is evaluating its position with regard to participation, which would involve its paying the City \$7.5 million and contributing to the costs of the treatment plant. However, based on a rigorous technical analysis of the data, the Company believes it has strong defenses to the allegations in the complaint, including the lack of evidence that its former service stations or activities are responsible for any contamination that has reached or threatens the wellfield. The Company also believes it has certain available defenses that the settling defendants and others may not have due to tolling agreements they entered into with the City; and, unlike the Shell defendants and the settling defendants, the Company is neither the object of punitive damages claims nor a cause of the wellfield's being originally shut down. The Company is also subject to potential partial responsibility for liabilities arising from its former gasoline marketing business that was sold to Tosco in 1997. The Company's current analysis does not indicate any such liabilities are likely to be significant.

For several years prior to the City's suit, the EPA and the California Regional Water Quality Control Board have asserted jurisdiction over contamination of groundwater potentially affecting the wellfield, and these agencies have issued a number of orders under RCRA and state law to the Shell defendants and the other defendant oil companies, including the Company, with respect to both investigation of individual facilities and regional contamination, and requiring replacement of water lost to the City, which Shell is currently providing. The impact of the proposed settlement in the City's lawsuit on future government agency actions is uncertain. The Company has submitted to these agencies several technical analyses, which it believes demonstrate that its sites are not a part of any regional contamination problem, but, rather, present, at the most, localized issues which the Company, under agency oversight, has been successfully resolving.

Agrium Litigation: In June 2002, a lawsuit was filed against the Company by Agrium Inc., a Canadian corporation, and a U. S. subsidiary in the California Superior Court, Los Angeles County (Agrium U.S. Inc. and Agrium Inc. v. Union Oil Company of California, Case No. BC275407). The Company subsequently removed the case to the U.S. District Court for the Central District of California (Case No. 02-04769 Nm).

The Agrium entities ("Agrium") allege numerous causes of action relating to their purchase from the Company of a nitrogen-based fertilizer plant on the Kenai Peninsula, Alaska, in September 2000. The primary allegations involve the Company's obligation to supply natural gas to the plant pursuant to a Gas Purchase and Sale Agreement (the "GPSA") between the parties. Agrium alleges that the Company misrepresented the amount of gas reserves available for sale to the plant as of the closing of the transaction and that the Company has failed to develop additional reserves for sale to the plant. Agrium also alleges that

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the Company misrepresented the condition of the general effluent sewer at the plant and made misrepresentations regarding other environmental matters.

Agrium seeks damages in an unspecified amount for breach of such representations and warranties, as well as for alleged misconduct by the Company in operating and managing certain oil and gas leases and other facilities. Agrium also seeks declaratory relief concerning the base price of gas under the GPSA, as well as for the calculation of payments under a "Retained Earnout" covenant that entitles the Company to certain contingent payments based on the price of ammonia subsequent to the September 2000 closing. The complaint includes demands for punitive damages and attorneys' fees.

Also in June 2002, the Company filed a lawsuit against Agrium in the U.S. District Court for the Central District of California (Union Oil Company of California v. Agrium Inc. and Agrium U.S. Inc., Case No. 02-04518 Nm(Ctx)). The Company seeks declaratory relief in its favor against the allegations of Agrium set forth above and for judgment on the Retained Earnout in the amount of \$16.6 million, together with interest accrued subsequent to May 31, 2002.

The Company believes that certain portions of its disputes with Agrium are subject to binding arbitration under the terms of the GPSA, and has initiated arbitration respecting the gas supply available under that agreement. Agrium claims the dispute resolution provisions of the agreement for the sale of the plant (the "PSA") supersede the arbitration provisions of the GPSA. Agrium has filed motions to stay the Company's lawsuit, to enjoin implementation of the arbitration and for Agrium's lawsuit to be remanded to the state court. A hearing on these motions is set for September 2002. The federal court recently denied a motion by Agrium to temporarily restrain implementation of the arbitration.

The GPSA contains a contractual limit on liquidated damages of \$25 million per year, not to exceed a total of \$50 million over the life of the agreement. In addition, the PSA contains a limit on damages of \$50 million. The Company believes it has a meritorious defense to each of the Agrium claims, but that in any event its exposure to damages for all disputes is limited by the agreements. Agrium alleges that it is entitled to recover damages in excess of those amounts.

**Petrobangla Claim:** In July 2002, the Company's subsidiary Unocal Bangladesh Blocks Thirteen and Fourteen, Ltd. (which was acquired in 1999 from Occidental Petroleum Corporation and, prior to the recent completion of Bangladesh name-change formalities, was still known in Bangladesh as Occidental of Bangladesh Ltd.) ("OBL"), received from the Bangladesh Oil, Gas & Mineral Corporation ("Petrobangla") a letter claiming, on behalf of the Bangladesh government and Petrobangla, compensation allegedly due in the amount of \$685 million for 246 BCF of recoverable natural gas allegedly "lost and damaged" in a 1997 blowout and ensuing fire during the drilling by OBL, as operator, of the Moulavi Bazar #1 ("MB #1") exploration well on the Blocks 13 and 14 PSC area in Northeast Bangladesh. The Company and OBL believe that the claim vastly overstates the amount of recoverable gas involved in the blowout.

Consistent with worldwide industry contracting practice, there was no provision in the PSC for compensating the Bangladesh government or Petrobangla for resources lost during the contractors' operations. Even if some form of compensation were due, the Company and OBL believe that settlement compensation for the blowout was fully addressed in a 1998 Supplemental Agreement to the PSC, which, among other matters, waived OBL's then 50-percent contractor's share (as well as the then 50-percent contractor's share held by the Company's Unocal Bangladesh, Ltd., subsidiary) of entitlement to the recovery of costs incurred in the blowout, waived their right to invoke force majeure in connection with

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the blowout, and reduced by five percentage points their contractors' profit share (with a concomitant increase in Petrobangla's profit share) of future production from the sands encountered by the MB #1 well to a drill depth of 840 meters or, if the blowout sand reservoir were not deemed commercial, from other commercial fields in the Moulavi Bazar "ring-fenced" area of Block 14. Consequently, the Company and OBL consider the matter closed and OBL has advised Petrobangla that no additional compensation is warranted.

In view of the inherent difficulty of predicting the outcome of legal matters, the Company cannot state with confidence what the eventual outcome of the three preceding matters will be. However, based on current knowledge, none of the preceding matters is presently expected to have a material adverse effect on the Company's consolidated financial condition or liquidity, but each of them could have a material adverse effect

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on the Company's results of operations for the accounting period or periods in which one or more of them might be resolved adversely.

### Tax matters

The company believes it has adequately provided in its accounts for tax items and issues not yet resolved. Several prior material tax issues are unresolved. Resolution of these tax issues impact not only the year in which the items arose, but also the company's tax situation in other tax years. With respect to 1979-1984 taxable years, all issues raised for these years have now been settled, with the exception of the effect of the carryback of a 1993 net operating loss ("NOL") to tax year 1984 and resultant credit adjustments. The 1985-1990 taxable years are before the Appeals division of the Internal Revenue Service. All issues raised with respect to those years have now been settled, with the exception of the effect of the 1993 NOL carryback and resultant adjustments. The Joint Committee on Taxation of the U.S. Congress has reviewed the settled issues with respect to 1979-1990 taxable years and no additional issues have been raised. While all tax issues for the 1979-1990 taxable years have been agreed and reviewed by the Joint Committee, these taxable years will remain open due to the 1993 NOL carryback. The 1993 NOL results from certain specified liability losses, which occurred during 1993, and which resulted in a tax refund of \$73 million. Consequently, these tax years will remain open until the specified liability loss, which gave rise to the 1993 NOL, is finally determined by the Internal Revenue Service and is either agreed to with the IRS or otherwise concluded in the Tax Court proceeding. In 1999, the United States Tax Court granted Unocal's motion to amend the pleadings in its Tax Court cases to place the 1993 NOL carryback in issue. The 1991-1994 taxable years are now before the Appeals division of the Internal Revenue Service. The 1995-1997 taxable years are under examination by the Internal Revenue Service.

### Pure Resources, Inc. Employment and Severance Agreements

Under circumstances specified in the employment and/or severance agreements entered into between the Company's Pure subsidiary and its officers, each covered officer will have the right to require Pure to purchase its common shares currently held or subsequently obtained by the exercise of any option held by the officer at a calculated "net asset value" per share. The circumstances under which certain officers may exercise this right include the termination of the officer without cause prior to May 25, 2003, termination for any reason after May 24, 2003, a change in control of either Pure or Unocal and other events specified in the agreements. The net asset value per share is

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calculated by reference to each common share's pro rata amount of the present value of Pure's proved reserves discounted at 10 percent, as defined, times 110 percent, less funded debt, as defined. At June 30, 2002, Pure estimated that the amount it may have to repurchase under these agreements was approximately \$92 million, which is reflected as subsidiary stock subject to repurchase on the consolidated balance sheet. The repurchase amount will fluctuate with changes in the net asset value per share. At December 31, 2001, the repurchase amount under these agreements was approximately \$70 million.

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### Other matters

The Company has a lease agreement relating to its Discoverer Spirit deepwater drillship, with a remaining term of approximately three years and three months at June 30, 2002. In 2001, the Company signed a sublease agreement with a third party for a minimum period of 200 days. The completion of the sublease period is currently estimated to be in September 2002. Under the provisions of the agreement, the third party assumed all of the lease payments to the lessor during the sublease period, which began in December 2001. The drillship has a minimum daily rate of approximately \$219,000. The future remaining minimum lease payment obligation, excluding the remaining sublease period, was approximately \$240 million at June 30, 2002.

In the normal course of business, the Company has performance obligations which are secured by surety bonds or letters of credit. These obligations primarily cover self-insurance, site restoration, dismantlement and other programs where governmental organizations require such support. These surety bonds and letters of credit are issued by financial institutions but are funded by the Company if exercised. At June 30, 2002, the Company, including its Pure subsidiary, had obtained various surety bonds for approximately \$350 million. These surety bonds primarily consisted of bonds for the Company's mining operation discussed in the following paragraph and a bond for \$99 million securing the Company's performance under a fixed price natural gas sales contract for the delivery of 72 billion cubic feet of gas over a ten year period that began in January of 1999 and will end in December of 2008. The Company also had obtained approximately \$64 million in standby letters of credit at June 30, 2002. The Company has entered into indemnification obligations in favor of the providers of these surety bonds and letters of credit. In addition, the Company has various other guarantees for approximately \$410 million. Approximately \$200 million of the \$410 million in guarantees would require the Company to obtain a surety bond or a letter of credit, or establish a trust fund if its credit rating drops below investment grade, that is BBB- or Baa3 from Standard & Poor's Ratings Services and Moody's Investors Service, Inc., respectively. Approximately \$180 million of the surety bonds, letters of credit and other guarantees that the Company is required to obtain or issue reflect obligations that are already included on the consolidated balance sheet in other current liabilities and other deferred credits. The surety bonds, letters of credit and other guarantees may also reflect some of the possible additional remediation liabilities discussed earlier in this note.

As mentioned in the previous paragraph, the Company's Molycorp subsidiary has permits covering discharges from its Questa, New Mexico, molybdenum mine. Obtaining these permits involved the posting by Molycorp of two bonds totaling \$152 million that provide financial assurance of completion of temporary closure plans (required only upon cessation of operations) and other obligations required under the terms of the permits. These costs are based on estimations provided by agencies of the state of New Mexico. Unocal has indemnified the insurance company that issued the bonds with respect to all amounts that may be drawn against them.

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The Company has certain investments in entities that it accounts for under the equity method, such as Colonial Pipeline Company. These entities have approximately \$1.8 billion of their own debt obligations that are either fully non-recourse or of limited recourse to the Company. Of the total \$1.8 billion in equity investee debt, \$1.1 billion belongs to the Colonial Pipeline Company, in which the Company holds a 23.44 percent equity interest. The Company guarantees only \$27 million of the total \$1.8 billion debt obligations.

The Company also has other contingent liabilities with respect to litigation, claims and contractual agreements arising in the ordinary course of business. On the basis of management's assessment of the ultimate amount and timing of possible adverse outcomes and associated costs, none of such matters is presently expected to have a material adverse effect on the Company's consolidated financial condition, liquidity or results of operations.

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### 13. Financial Instruments and Commodity Hedging

Fair values of debt and other long-term instruments - The estimated fair value of the Company's long-term debt at June 30, 2002, including the current portion, was approximately \$3.31 billion. The fair value was based on the discounted amounts of future cash outflows using the rates offered to the Company for debt with similar remaining maturities.

The estimated fair value of the mandatorily redeemable convertible preferred securities of the Company's subsidiary trust was approximately \$527 million at June 30, 2002. The fair value was based on the trading prices of the preferred securities on June 28, 2002, as reported to the Company.

Commodity hedging activities - During the second quarter of 2002, the Company recognized \$1 million in after-tax losses for the ineffectiveness of both cash flow and fair value hedges. For the six months ended June 30, 2002, the earnings impact of ineffectiveness was immaterial. At June 30, 2002, the Company had approximately \$9 million of after-tax deferred losses in accumulated other comprehensive income on the consolidated balance sheet related to cash flow hedges for future commodity sales for the period beginning July 2002 through October 2004. Of this amount, approximately \$3 million in after-tax losses are expected to be reclassified to the consolidated earnings statement during the next twelve months.

Foreign currency contracts - At June 30, 2002, the Company had approximately \$1 million of after-tax deferred gains in accumulated other comprehensive income on the consolidated balance sheet related to cash flow hedges for future foreign currency denominated payment obligations through December 2003. Of this amount, the losses expected to be reclassified to the consolidated earnings statement during the next twelve months are immaterial.

Interest rate contracts - At June 30, 2002, the Company had approximately \$3 million of after-tax deferred losses in accumulated other comprehensive income on the consolidated balance sheet related to cash flow hedges of interest rate exposure through September 2012. Of this amount, the losses expected to be reclassified to the consolidated earnings statement during the next twelve months are immaterial.

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### 14. Supplemental Condensed Consolidating Financial Information

Unocal guarantees all the publicly held securities issued by its 100 percent-owned subsidiaries Unocal Capital Trust and Union Oil. Such guarantees are full and unconditional and no subsidiaries of Unocal or Union Oil guarantee these securities.

The following tables present condensed consolidating financial information for (a) Unocal (Parent), (b) the Trust, (c) Union Oil (Parent) and (d) on a combined basis, the subsidiaries of Union Oil (non-guarantor subsidiaries). Virtually all of the Company's operations are conducted by Union Oil and its subsidiaries.

#### CONDENSED CONSOLIDATING EARNINGS STATEMENT

For the three months ended June 30, 2002

| Millions of dollars   | Unocal<br>(Parent) | Unocal<br>Capital Trust | Union Oil<br>(Parent) | Non-<br>Guarantor<br>Subsidiaries | Eliminatio    |
|---|--------------------|-------------------------|-----------------------|-----------------------------------|---------------|
| <b>Revenues</b>   |                    |                         |                       |                                   |               |
| Sales and operating revenues  | \$ -               | \$ -                    | \$ 286                | \$ 1,298                          | \$ (2)        |
| Interest, dividends and miscellaneous income  | -                  | 9                       | -                     | 10                                | (             |
| Gain (loss) on sales of assets  | -                  | -                       | 1                     | (2)                               | )             |
| <b>Total revenues</b>   | <b>-</b>           | <b>9</b>                | <b>287</b>            | <b>1,306</b>                      | <b>(2)</b>    |
| <b>Costs and other deductions</b>   |                    |                         |                       |                                   |               |
| Purchases, operating and other expenses   | 1                  | -                       | 259                   | 836                               | (2)           |
| Depreciation, depletion and amortization  | -                  | -                       | 93                    | 162                               | )             |
| Impairments   | -                  | -                       | 21                    | -                                 | )             |
| Dry hole costs  | -                  | -                       | 2                     | 11                                | )             |
| Interest expense  | 9                  | 1                       | 35                    | 9                                 | )             |
| Distributions on convertible preferred securities   | -                  | 8                       | -                     | -                                 | )             |
| <b>Total costs and other deductions</b>   | <b>10</b>          | <b>9</b>                | <b>410</b>            | <b>1,018</b>                      | <b>(2)</b>    |
| Equity in earnings of subsidiaries  | 118                | -                       | 198                   | -                                 | (3)           |
| Earnings from equity investments  | -                  | -                       | 2                     | 49                                | )             |
| <b>Earnings from continuing operations before<br/>income taxes and minority interests</b> | <b>108</b>         | <b>-</b>                | <b>77</b>             | <b>337</b>                        | <b>(3)</b>    |
| Income taxes  | (3)                | -                       | (41)                  | 139                               | )             |
| Minority interests  | -                  | -                       | -                     | 1                                 | )             |
| <b>Earnings from continuing operations</b>  | <b>111</b>         | <b>-</b>                | <b>118</b>            | <b>197</b>                        | <b>(3)</b>    |
| Earnings from discontinued operations   | -                  | -                       | -                     | 1                                 | )             |
| <b>Net earnings</b>   | <b>\$ 111</b>      | <b>\$ -</b>             | <b>\$ 118</b>         | <b>\$ 198</b>                     | <b>\$ (3)</b> |

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#### CONDENSED CONSOLIDATING EARNINGS STATEMENT

For the three months ended June 30, 2001

| Millions of dollars   | Unocal<br>(Parent) | Unocal<br>Capital Trust | Union Oil<br>(Parent) | Non-<br>Guarantor<br>Subsidiaries | Eliminatio    |
|---|--------------------|-------------------------|-----------------------|-----------------------------------|---------------|
| <b>Revenues</b>   |                    |                         |                       |                                   |               |
| Sales and operating revenues  | \$ -               | \$ -                    | \$ 286                | \$ 1,298                          | \$ (2)        |
| Interest, dividends and miscellaneous income  | -                  | 9                       | -                     | 10                                | (             |
| Gain (loss) on sales of assets  | -                  | -                       | 1                     | (2)                               | )             |
| <b>Total revenues</b>   | <b>-</b>           | <b>9</b>                | <b>287</b>            | <b>1,306</b>                      | <b>(2)</b>    |
| <b>Costs and other deductions</b>   |                    |                         |                       |                                   |               |
| Purchases, operating and other expenses   | 1                  | -                       | 259                   | 836                               | (2)           |
| Depreciation, depletion and amortization  | -                  | -                       | 93                    | 162                               | )             |
| Impairments   | -                  | -                       | 21                    | -                                 | )             |
| Dry hole costs  | -                  | -                       | 2                     | 11                                | )             |
| Interest expense  | 9                  | 1                       | 35                    | 9                                 | )             |
| Distributions on convertible preferred securities   | -                  | 8                       | -                     | -                                 | )             |
| <b>Total costs and other deductions</b>   | <b>10</b>          | <b>9</b>                | <b>410</b>            | <b>1,018</b>                      | <b>(2)</b>    |
| Equity in earnings of subsidiaries  | 118                | -                       | 198                   | -                                 | (3)           |
| Earnings from equity investments  | -                  | -                       | 2                     | 49                                | )             |
| <b>Earnings from continuing operations before<br/>income taxes and minority interests</b> | <b>108</b>         | <b>-</b>                | <b>77</b>             | <b>337</b>                        | <b>(3)</b>    |
| Income taxes  | (3)                | -                       | (41)                  | 139                               | )             |
| Minority interests  | -                  | -                       | -                     | 1                                 | )             |
| <b>Earnings from continuing operations</b>  | <b>111</b>         | <b>-</b>                | <b>118</b>            | <b>197</b>                        | <b>(3)</b>    |
| Earnings from discontinued operations   | -                  | -                       | -                     | 1                                 | )             |
| <b>Net earnings</b>   | <b>\$ 111</b>      | <b>\$ -</b>             | <b>\$ 118</b>         | <b>\$ 198</b>                     | <b>\$ (3)</b> |

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Revenues

|   |        |      |        |          |       |
|---|--------|------|--------|----------|-------|
| Sales and operating revenues  | \$ -   | \$ - | \$ 487 | \$ 1,604 | \$ (4 |
| Interest, dividends and miscellaneous income                                      | -      | 9    | 4      | 8        | (     |
| Gain on sales of assets   | -      | -    | 1      | -        |       |
| -----   |        |      |        |          |       |
| Total revenues  | -      | 9    | 492    | 1,612    | (4    |
| Costs and other deductions  |        |      |        |          |       |
| Purchases, operating and other expenses   | 1      | -    | 272    | 1,112    | (4    |
| Depreciation, depletion and amortization  | -      | -    | 91     | 154      |       |
| Dry hole costs  | -      | -    | 24     | 23       |       |
| Interest expense  | 9      | 1    | 40     | 8        | (     |
| Distributions on convertible preferred securities                                 | -      | 8    | -      | -        |       |
| -----   |        |      |        |          |       |
| Total costs and other deductions  | 10     | 9    | 427    | 1,297    | (4    |
| -----   |        |      |        |          |       |
| Equity in earnings of subsidiaries  | 252    | -    | 202    | -        | (4    |
| Earnings from equity investments  | -      | -    | 10     | 39       |       |
| -----   |        |      |        |          |       |
| Earnings from continuing operations before<br>income taxes and minority interests | 242    | -    | 277    | 354      | (4    |
| -----   |        |      |        |          |       |
| Income taxes  | (4)    | -    | 37     | 147      |       |
| Minority interests  | -      | -    | -      | 5        |       |
| -----   |        |      |        |          |       |
| Earnings from continuing operations   | 246    | -    | 240    | 202      | (4    |
| Earnings from discontinued operations   | -      | -    | 12     | -        |       |
| Cumulative effect of accounting change  | -      | -    | -      | -        |       |
| -----   |        |      |        |          |       |
| Net earnings  | \$ 246 | \$ - | \$ 252 | \$ 202   | \$ (4 |
| =====   |        |      |        |          |       |

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CONDENSED CONSOLIDATING EARNINGS STATEMENT  
For the six months ended June 30, 2002

| Millions of dollars                               | Unocal<br>(Parent) | Unocal<br>Capital<br>Trust | Union Oil<br>(Parent) | Non-<br>Guarantor<br>Subsidiaries | Eli |
|---|--------------------|----------------------------|-----------------------|-----------------------------------|-----|
| -----   |                    |                            |                       |                                   |     |
| Revenues  |                    |                            |                       |                                   |     |
| Sales and operating revenues                      | \$ -               | \$ -                       | \$ 495                | \$ 2,279                          |     |
| Interest, dividends and miscellaneous income      | -                  | 17                         | 7                     | 15                                |     |
| Gain (loss) on sales of assets                    | -                  | -                          | 14                    | (13)                              |     |
| -----   |                    |                            |                       |                                   |     |
| Total revenues                                    | -                  | 17                         | 516                   | 2,281                             |     |
| Costs and other deductions                        |                    |                            |                       |                                   |     |
| Purchases, operating and other expenses           | 3                  | -                          | 486                   | 1,470                             |     |
| Depreciation, depletion and amortization          | -                  | -                          | 180                   | 299                               |     |
| Impairments                                       | -                  | -                          | 21                    | -                                 |     |
| Dry hole costs                                    | -                  | -                          | 17                    | 24                                |     |
| Interest expense                                  | 17                 | 1                          | 78                    | 18                                |     |
| Distributions on convertible preferred securities | -                  | 16                         | -                     | -                                 |     |
| -----   |                    |                            |                       |                                   |     |
| Total costs and other deductions                  | 20                 | 17                         | 782                   | 1,811                             |     |
| -----   |                    |                            |                       |                                   |     |
| Equity in earnings of subsidiaries                | 148                | -                          | 326                   | -                                 |     |
| Earnings from equity investments                  | -                  | -                          | 2                     | 86                                |     |



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|   |        |      |        |        |
|---|--------|------|--------|--------|
| Earnings from continuing operations before<br>income taxes and minority interests | 128    | -    | 62     | 556    |
| Income taxes  | (7)    | -    | (86)   | 228    |
| Minority interests  | -      | -    | -      | 3      |
| Earnings from continuing operations   | 135    | -    | 148    | 325    |
| Earnings from discontinued operations   | -      | -    | -      | 1      |
| Cumulative effect of accounting change  | -      | -    | -      | -      |
| Net earnings  | \$ 135 | \$ - | \$ 148 | \$ 326 |

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CONDENSED CONSOLIDATING EARNINGS STATEMENT  
For the six months ended June 30, 2001

| Millions of dollars   | Unocal<br>(Parent) | Unocal<br>Capital<br>Trust | Union Oil<br>(Parent) | Non-<br>Guarantor<br>Subsidiaries | Eli |
|---|--------------------|----------------------------|-----------------------|-----------------------------------|-----|
| Revenues  |                    |                            |                       |                                   |     |
| Sales and operating revenues  | \$ -               | \$ -                       | \$ 1,180              | \$ 3,686                          |     |
| Interest, dividends and miscellaneous income                                      | 5                  | 17                         | 3                     | 13                                |     |
| Gain on sales of assets   | -                  | -                          | 1                     | -                                 |     |
| Total revenues  | 5                  | 17                         | 1,184                 | 3,699                             |     |
| Costs and other deductions  |                    |                            |                       |                                   |     |
| Purchases, operating and other expenses   | 2                  | -                          | 667                   | 2,734                             |     |
| Depreciation, depletion and amortization  | -                  | -                          | 177                   | 291                               |     |
| Impairments   | -                  | -                          | -                     | -                                 |     |
| Dry hole costs  | -                  | -                          | 34                    | 53                                |     |
| Interest expense  | 17                 | 1                          | 85                    | 13                                |     |
| Distributions on convertible preferred securities                                 | -                  | 16                         | -                     | -                                 |     |
| Total costs and other deductions  | 19                 | 17                         | 963                   | 3,091                             |     |
| Equity in earnings of subsidiaries  | 551                | -                          | 413                   | -                                 |     |
| Earnings from equity investments  | -                  | -                          | 8                     | 83                                |     |
| Earnings from continuing operations before<br>income taxes and minority interests | 537                | -                          | 642                   | 691                               |     |
| Income taxes  | (5)                | -                          | 106                   | 269                               |     |
| Minority interests  | -                  | -                          | -                     | 9                                 |     |
| Earnings from continuing operations   | 542                | -                          | 536                   | 413                               |     |
| Earnings from discontinued operations   | -                  | -                          | 16                    | -                                 |     |
| Cumulative effect of accounting change  | -                  | -                          | (1)                   | -                                 |     |
| Net earnings  | \$ 542             | \$ -                       | \$ 551                | \$ 413                            |     |

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CONDENSED CONSOLIDATING BALANCE SHEET  
At June 30, 2002

| Millions of dollars  | Unocal<br>(Parent) | Unocal<br>Capital<br>Trust | Union Oil<br>(Parent) | Non-<br>Guarantor<br>Subsidiaries | El |
|--|--------------------|----------------------------|-----------------------|-----------------------------------|----|
| <b>Assets</b>  |                    |                            |                       |                                   |    |
| <b>Current assets</b>  |                    |                            |                       |                                   |    |
| Cash and cash equivalents  | \$ 1               | \$ -                       | \$ 61                 | \$ 99                             |    |
| Accounts and notes receivable - net  | 51                 | -                          | 56                    | 792                               |    |
| Inventories  | -                  | -                          | 9                     | 102                               |    |
| Other current assets   | -                  | -                          | 130                   | 31                                |    |
| <b>Total current assets</b>  | <b>52</b>          | <b>-</b>                   | <b>256</b>            | <b>1,024</b>                      |    |
| Investments and long-term receivables - net  | 4,123              | -                          | 4,455                 | 1,078                             |    |
| Properties - net   | -                  | -                          | 2,141                 | 5,600                             |    |
| Other assets   | 3                  | 541                        | 456                   | 2,130                             |    |
| <b>Total assets</b>  | <b>\$4,178</b>     | <b>\$ 541</b>              | <b>\$ 7,308</b>       | <b>\$ 9,832</b>                   |    |
| <b>Liabilities and Stockholders' Equity</b>  |                    |                            |                       |                                   |    |
| <b>Current liabilities</b>   |                    |                            |                       |                                   |    |
| Accounts payable   | \$ -               | \$ -                       | \$ 242                | \$ 637                            |    |
| Current portion of long-term debt and capital leases   | -                  | -                          | -                     | 8                                 |    |
| Other current liabilities  | 46                 | 3                          | 144                   | 372                               |    |
| <b>Total current liabilities</b>   | <b>46</b>          | <b>3</b>                   | <b>386</b>            | <b>1,017</b>                      |    |
| Long-term debt and capital leases  | -                  | -                          | 2,489                 | 622                               |    |
| Deferred income taxes  | -                  | -                          | (20)                  | 698                               |    |
| Accrued abandonment, restoration<br>and environmental liabilities  | -                  | -                          | 305                   | 282                               |    |
| Other deferred credits and liabilities   | 541                | -                          | 376                   | 2,695                             |    |
| Subsidiary stock subject to repurchase   | -                  | -                          | -                     | 92                                |    |
| Minority interests   | -                  | -                          | -                     | 313                               |    |
| Company-obligated mandatorily redeemable<br>convertible preferred securities of a<br>subsidiary trust holding solely parent debentures | -                  | 522                        | -                     | -                                 |    |
| <b>Stockholders' equity</b>  | <b>3,591</b>       | <b>16</b>                  | <b>3,772</b>          | <b>4,113</b>                      |    |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$4,178</b>     | <b>\$ 541</b>              | <b>\$ 7,308</b>       | <b>\$ 9,832</b>                   |    |

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CONDENSED CONSOLIDATING BALANCE SHEET  
At December 31, 2001

| Millions of dollars                 | Unocal<br>(Parent) | Unocal<br>Capital<br>Trust | Union Oil<br>(Parent) | Non-<br>Guarantor<br>Subsidiaries | El |
|-------------------------------------|--------------------|----------------------------|-----------------------|-----------------------------------|----|
| <b>Assets</b>                       |                    |                            |                       |                                   |    |
| <b>Current assets</b>               |                    |                            |                       |                                   |    |
| Cash and cash equivalents           | \$ -               | \$ -                       | \$ 62                 | \$ 128                            |    |
| Accounts and notes receivable - net | 51                 | -                          | 154                   | 693                               |    |

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|  |         |        |          |          |
|--|---------|--------|----------|----------|
| Inventories  | -       | -      | 3        | 99       |
| Other current assets   | -       | -      | 122      | 34       |
| <hr/>  |         |        |          |          |
| Total current assets   | 51      | -      | 341      | 954      |
| Investments and long-term receivables - net  | 4,032   | -      | 4,143    | 968      |
| Properties - net   | -       | -      | 2,149    | 5,365    |
| Other assets   | 3       | 541    | 214      | 2,403    |
| <hr/>  |         |        |          |          |
| Total assets   | \$4,086 | \$ 541 | \$ 6,847 | \$ 9,690 |
| <hr/>  |         |        |          |          |
| Liabilities and Stockholders' Equity   |         |        |          |          |
| Current liabilities  |         |        |          |          |
| Accounts payable   | \$ -    | \$ -   | \$ 278   | \$ 596   |
| Current portion of long-term debt and capital leases   | -       | -      | -        | 9        |
| Other current liabilities  | 42      | 3      | 145      | 400      |
| <hr/>  |         |        |          |          |
| Total current liabilities  | 42      | 3      | 423      | 1,005    |
| Long-term debt and capital leases  | -       | -      | 2,181    | 716      |
| Deferred income taxes  | -       | -      | (71)     | 698      |
| Accrued abandonment, restoration and environmental liabilities   | -       | -      | 293      | 297      |
| Other deferred credits and liabilities   | 541     | -      | 312      | 2,821    |
| Subsidiary stock subject to repurchase   | -       | -      | -        | 70       |
| Minority interests   | -       | -      | -        | 309      |
| <hr/>  |         |        |          |          |
| Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely parent debentures | -       | 522    | -        | -        |
| <hr/>  |         |        |          |          |
| Stockholders' equity   | 3,503   | 16     | 3,709    | 3,774    |
| <hr/>  |         |        |          |          |
| Total liabilities and stockholders' equity   | \$4,086 | \$ 541 | \$ 6,847 | \$ 9,690 |
| <hr/>  |         |        |          |          |

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CONDENSED CONSOLIDATING CASH FLOWS  
For the six months ended June 30, 2002

| Millions of dollars   | Unocal<br>(Parent) | Unocal<br>Capital<br>Trust | Union Oil<br>(Parent) | Non-<br>Guarantor<br>Subsidiaries | Elim   |
|---|--------------------|----------------------------|-----------------------|-----------------------------------|--------|
| Cash Flows from Operating Activities                            | \$ 80              | \$ -                       | \$ (110)              |                                   | \$ 656 |
| Cash Flows from Investing Activities                            |                    |                            |                       |                                   |        |
| Capital expenditures and acquisitions (includes dry hole costs) | -                  | -                          | (213)                 |                                   | (617)  |
| Proceeds from sales of assets and discontinued operations       | -                  | -                          | 15                    |                                   | 32     |
| Net cash used in investing activities                           | -                  | -                          | (198)                 |                                   | (585)  |
| Cash Flows from Financing Activities                            |                    |                            |                       |                                   |        |
| Change in long-term debt and capital leases                     | -                  | -                          | 307                   |                                   | (96)   |
| Dividends paid on common stock                                  | (98)               | -                          | -                     |                                   | -      |
| Other   | 19                 | -                          | -                     |                                   | (4)    |

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|   |      |      |       |       |
|---|------|------|-------|-------|
| Net cash provided by (used in) financing activities | (79) | -    | 307   | (100) |
| -----   |      |      |       |       |
| Net increase in cash and cash equivalents           | 1    | -    | (1)   | (29)  |
| -----   |      |      |       |       |
| Cash and cash equivalents at beginning of period    | -    | -    | 62    | 128   |
| -----   |      |      |       |       |
| Cash and cash equivalents at end of period          | \$ 1 | \$ - | \$ 61 | \$ 99 |
| =====   |      |      |       |       |

CONDENSED CONSOLIDATING CASH FLOWS  
For the six months ended June 30, 2001

| Millions of dollars  | Unocal<br>(Parent) | Unocal<br>Capital<br>Trust | Union Oil<br>(Parent) | Non-<br>Guarantor<br>Subsidiaries | Elim   |
|--|--------------------|----------------------------|-----------------------|-----------------------------------|--------|
| -----  |                    |                            |                       |                                   |        |
| Cash Flows from Operating Activities                               | \$ 83              | \$ -                       | \$ 572                |                                   | \$ 589 |
| Cash Flows from Investing Activities                               |                    |                            |                       |                                   |        |
| Capital expenditures and acquisitions<br>(includes dry hole costs) | -                  | -                          | (373)                 |                                   | (868)  |
| Proceeds from sales of assets<br>and discontinued operations       | -                  | -                          | 28                    |                                   | 2      |
| -----  |                    |                            |                       |                                   |        |
| Net cash used in investing activities                              | -                  | -                          | (345)                 |                                   | (866)  |
| -----  |                    |                            |                       |                                   |        |
| Cash Flows from Financing Activities                               |                    |                            |                       |                                   |        |
| Change in long-term debt and capital leases                        | -                  | -                          | (5)                   |                                   | 371    |
| Dividends paid on common stock                                     | (97)               | -                          | -                     |                                   | -      |
| Other  | 13                 | -                          | -                     |                                   | (10)   |
| -----  |                    |                            |                       |                                   |        |
| Net cash provided by (used in) financing activities                | (84)               | -                          | (5)                   |                                   | 361    |
| -----  |                    |                            |                       |                                   |        |
| Net increase (decrease) in cash and cash equivalents               | (1)                | -                          | 222                   |                                   | 84     |
| -----  |                    |                            |                       |                                   |        |
| Cash and cash equivalents at beginning of period                   | 1                  | -                          | 84                    |                                   | 150    |
| -----  |                    |                            |                       |                                   |        |
| Cash and cash equivalents at end of period                         | \$ -               | \$ -                       | \$ 306                |                                   | \$ 234 |
| =====  |                    |                            |                       |                                   |        |

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15. Segment Data

The Company's reportable segments are: Exploration and Production, Trade, Midstream, and Geothermal and Power Operations. General corporate overhead, unallocated costs and other miscellaneous operations, including real estate, carbon and minerals and those businesses that were sold, are included under the Corporate and Other heading.

Segment Information  
For the Three Months

-----  
Exploration & Production  
North America

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ended June 30, 2002

Millions of dollars

|  | Lower 48 | Alaska | Canada | F |
|--|----------|--------|--------|---|
| Sales & operating revenues                 | \$ 124   | \$ 73  | \$ 61  |   |
| Other income (loss) (a)                    | 1        | -      | -      |   |
| Inter-segment revenues                     | 234      | -      | -      |   |
| Total                                      | 359      | 73     | 61     |   |
| Earnings (loss) from equity investments    | 1        | -      | -      |   |
| Earnings (loss) from continuing operations | 20       | (5)    | 6      |   |
| Earnings from discontinued operations      | -        | -      | -      |   |
| Net earnings (loss)                        | 20       | (5)    | 6      |   |
| Assets (at June 30, 2002)                  | 3,255    | 352    | 1,125  |   |

|  | Midstream | Geothermal<br>& Power<br>Operations | Administrative<br>& General | Corporate & Other<br>Net Interest<br>Expense | Envi<br>& Li |
|--|-----------|-------------------------------------|-----------------------------|--|--------------|
| Sales & operating revenues                 | \$ 76     | \$ 33                               | \$ -                        | \$ -   |              |
| Other income (loss) (a)                    | 1         | 2                                   | -                           | 5  |              |
| Inter-segment revenues                     | 4         | -                                   | -                           | -  |              |
| Total                                      | 81        | 35                                  | -                           | 5  |              |
| Earnings (loss) from equity investments    | 18        | 5                                   | -                           | -  |              |
| Earnings (loss) from continuing operations | 23        | 14                                  | (19)                        | (28)   |              |
| Earnings from discontinued operations      | -         | -                                   | -                           | -  |              |
| Net earnings (loss)                        | 23        | 14                                  | (19)                        | (28)   |              |
| Assets (at June 30, 2002)                  | 506       | 595                                 | -                           | -  |              |

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Segment Information  
For the Three Months  
ended June 30, 2001  
Millions of dollars

|                            | Lower 48 | Alaska | Canada | Exploration & Production<br>North America | Inter |
|----------------------------|----------|--------|--------|---|-------|
| Sales & operating revenues | \$ 167   | \$ 63  | \$ 97  | \$ 26                                     |       |
| Other income (loss) (a)    | -        | -      | 2      | (   |       |
| Inter-segment revenues     | 406      | -      | -      | 5   |       |
| Total                      | 573      | 63     | 99     | 32  |       |

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|  |       |     |       |      |
|--|-------|-----|-------|------|
| Earnings from equity investments           | 8     | -   | -     |      |
| Earnings (loss) from continuing operations | 142   | 13  | 14    | 11   |
| Earnings from discontinued operations      | -     | -   | -     |      |
| Cumulative effect of accounting change     | -     | -   | -     |      |
| Net earnings (loss)                        | 142   | 13  | 14    | 11   |
| Assets (at December 31, 2001)              | 3,345 | 344 | 1,015 | 2,46 |

|  | Midstream | Geothermal<br>& Power<br>Operations | Administrative<br>& General | Corporate & Other<br>Net Interest<br>Expense | Environ<br>& Litig |
|--|-----------|-------------------------------------|-----------------------------|--|--------------------|
| Sales & operating revenues                 | \$ 39     | \$ 45                               | \$ -                        | \$ -   | \$                 |
| Other income (loss) (a)                    | 1         | 4                                   | -                           | 7  |                    |
| Inter-segment revenues                     | 2         | -                                   | -                           | -  |                    |
| Total                                      | 42        | 49                                  | -                           | 7  |                    |
| Earnings from equity investments           | 19        | -                                   | -                           | -  |                    |
| Earnings (loss) from continuing operations | 18        | 2                                   | (21)                        | (32)   | (1)                |
| Earnings from discontinued operations      | -         | -                                   | -                           | -  |                    |
| Cumulative effect of accounting change     | -         | -                                   | -                           | -  |                    |
| Net earnings (loss)                        | 18        | 2                                   | (21)                        | (32)   | (1)                |
| Assets (at December 31, 2001)              | 479       | 594                                 | -                           | -  |                    |

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| Segment Information<br>For the Six Months<br>ended June 30 2002<br>Millions of dollars | Lower 48 | Alaska | Canada | Far |
|--|----------|--------|--------|-----|
| Sales & operating revenues   | \$ 237   | \$ 124 | \$ 100 | \$  |
| Other income (loss) (a)  | 4        | -      | -      |     |
| Inter-segment revenues   | 400      | -      | -      |     |
| Total  | 641      | 124    | 100    |     |
| Earnings (loss) from equity investments  | -        | -      | -      |     |
| Earnings (loss) from continuing operations   | 24       | (11)   | (3)    |     |
| Earnings from discontinued operations  | -        | -      | -      |     |

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|                           |       |      |       |   |
|---------------------------|-------|------|-------|---|
| Net earnings (loss)       | 24    | (11) | (3)   |   |
| Assets (at June 30, 2002) | 3,255 | 352  | 1,125 | 2 |

|  | Midstream | Geothermal<br>& Power<br>Operations | Administrative<br>& General | Corporate & Other<br>Net Interest<br>Expense | Envi<br>& Li |
|--|-----------|-------------------------------------|-----------------------------|--|--------------|
| Sales & operating revenues                 | \$ 139    | \$ 61                               | \$ -                        | \$ -   |              |
| Other income (loss) (a)                    | 2         | 4                                   | -                           | 8  |              |
| Inter-segment revenues                     | 6         | -                                   | -                           | -  |              |
| Total                                      | 147       | 65                                  | -                           | 8  |              |
| Earnings (loss) from equity investments    | 37        | 2                                   | -                           | -  |              |
| Earnings (loss) from continuing operations | 42        | 20                                  | (43)                        | (65)   |              |
| Earnings from discontinued operations      | -         | -                                   | -                           | -  |              |
| Net earnings (loss)                        | 42        | 20                                  | (43)                        | (65)   |              |
| Assets (at June 30, 2002)                  | 506       | 595                                 | -                           | -  |              |

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| Segment Information<br>For the Six Months<br>ended June 30, 2001<br>Millions of dollars | Exploration & Production |        |        |          |
|---|--------------------------|--------|--------|----------|
|   | Lower 48                 | Alaska | Canada | Far East |
| Sales & operating revenues  | \$ 328                   | \$ 135 | \$ 129 | \$ 501   |
| Other income (loss) (a)   | 1                        | -      | 1      | (6)      |
| Inter-segment revenues  | 972                      | -      | -      | 110      |
| Total   | 1,301                    | 135    | 130    | 605      |
| Earnings from equity investments  | 14                       | -      | -      | 19       |
| Earnings (loss) from continuing operations  | 383                      | 32     | 11     | 219      |
| Earnings from discontinued operations   | -                        | -      | -      | -        |
| Cumulative effect of accounting change  | -                        | -      | -      | -        |
| Net earnings (loss)   | 383                      | 32     | 11     | 219      |
| Assets (at December 31, 2001)   | 3,345                    | 344    | 1,015  | 2,463    |

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|  | Midstream  | Geothermal<br>& Power<br>Operations | Administrative<br>& General | Net Interest<br>Expens | Corporate & Other<br>Environm<br>& Litiga |
|--|------------|-------------------------------------|-----------------------------|------------------------|---|
| Sales & operating revenues                 | \$ 139     | \$ 89                               | \$ -                        | \$ -                   | \$ -                                      |
| Other income (loss) (a)                    | 2          | 7                                   | -                           | 13                     | -   |
| Inter-segment revenues                     | 4          | -                                   | -                           | -                      | -   |
| <b>Total</b>                               | <b>145</b> | <b>96</b>                           | <b>-</b>                    | <b>13</b>              | <b>-</b>                                  |
| Earnings from equity investments           | 28         | -                                   | -                           | -                      | -   |
| Earnings (loss) from continuing operations | 27         | 3                                   | (44)                        | (65)                   | (50)                                      |
| Earnings from discontinued operations      | -          | -                                   | -                           | -                      | -   |
| Cumulative effect of accounting change     | -          | -                                   | -                           | -                      | -   |
| <b>Net earnings (loss)</b>                 | <b>27</b>  | <b>3</b>                            | <b>(44)</b>                 | <b>(65)</b>            | <b>(50)</b>                               |
| Assets (at December 31, 2001)              | 479        | 594                                 | -                           | -                      | -   |

16. Subsequent Event

In July 2002, the Company's Unocal Geothermal of Indonesia, Ltd. ("UGI") subsidiary and Dayabumi Salak Pratama, Ltd. ("DSPL"), a 50-percent equity investee of UGI, reached agreement over pricing and production issues at its Gunung Salak geothermal project in Indonesia with PT. PLN (Persero) ("PLN"), the Indonesian state-owned electricity company, and Pertamina, the Indonesian state-owned oil and natural gas company. The new agreement extends the primary terms of the Joint Operation Contract and Energy Sales Contract ("ESC") to 2040 and also contains provisions to extend the deadline for transferring to PLN generating plants currently operated by DSPL plus any additional plants subsequently developed and operated by DSPL or the Company to the expiration date of the ESC. The new agreement lowers the selling price of electricity delivered by DSPL from 8.49 cents per kilowatt-hour (kWh) to 4.45 cents per kWh and steam supplied to PLN by UGI from 4.25 cents per kWh to 3.75 cents per kWh. Under the terms of the amended ESC both the selling price for electricity and the selling price for geothermal steam are indexed for changes in foreign exchange rates and inflation. The new agreement also provides for payment by PLN of a portion of the past due receivable balances to the Company while the Company foregoes a portion of the receivables.

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SIGNATURE

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

UNOCAL CORPORATION  
(Registrant)

Dated: As of August 12, 2002

By: /s/JOHN A. BRIFFETT



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John A. Briffett  
Assistant Comptroller

CERTIFICATIONS

I, Charles R. Williamson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Unocal Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Dated: September 19, 2002

/s/CHARLES R. WILLIAMSON

-----  
Charles R. Williamson  
Chairman of the Board  
and Chief Executive Officer  
-----

I, Terry G. Dallas, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Unocal Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Dated: September 19, 2002

/s/TERRY G. DALLAS

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Terry G. Dallas  
Executive Vice President  
and Chief Financial Officer