

Edgar Filing: UNOCAL CORP - Form 10-Q

UNOCAL CORP
Form 10-Q
May 15, 2002

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2002

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	95-3825062
(State or other jurisdiction of incorporation or organization)	(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 No

Number of shares of Common Stock, \$1 par value, outstanding as of
April 30, 2002: 244,609,488

TABLE OF CONTENTS

Edgar Filing: UNOCAL CORP - Form 10-Q

PART I	PAGE
Item 1. Financial Statements	
Consolidated Earnings.....	1
Consolidated Balance Sheet.....	2
Consolidated Cash Flows.....	3
Notes to Financial Statements.....	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	17
Operating Highlights	20
Item 3 Quantative and Qualitative Disclosures About Market Risk.....	27
PART II	
Item 1 Legal Proceedings.....	31
Item 6 Exhibits and Reports on Form 8-K.....	31
SIGNATURES.....	32
EXHIBIT INDEX.....	33

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED EARNINGS (UNAUDITED)	UNOCAL CORPORATION	
	For the Three Months Ended March 31,	
Millions of dollars except per share amounts	2002	2001
Revenues		
Sales and operating revenues	\$ 1,024	\$ 2,206
Interest, dividends and miscellaneous income	12	8
Gain on sales of assets	2	-
Total revenues		
	1,038	2,214
Costs and other deductions		
Crude oil, natural gas and product purchases	295	987
Operating expense	288	330
Administrative and general expense	43	44
Depreciation, depletion and amortization	224	223
Dry hole costs	28	40
Exploration expense	59	56
Interest expense	51	49
Property and other operating taxes	16	21
Distributions on convertible preferred		

Edgar Filing: UNOCAL CORP - Form 10-Q

securities of subsidiary trust	8	8

Total costs and other deductions	1,012	1,758
Earnings from equity investments	37	42

Earnings from continuing operations before income taxes and minority interests	63	498

Income taxes	40	190
Minority interests	1	16

Earnings from continuing operations	22	292
Discontinued operations		
Refining, marketing and transportation		
Gain on disposal (net of tax)	-	4

Earnings from discontinued operations	-	4
Cumulative effect of accounting change	-	(1)

Net earnings	\$ 22	\$ 295
=====		
Basic earnings per share of common stock (a)		
Continuing operations	\$ 0.09	\$ 1.19
Net earnings	\$ 0.09	\$ 1.21
Diluted earnings per share of common stock (b)		
Continuing operations	\$ 0.09	\$ 1.16
Net earnings	\$ 0.09	\$ 1.18
Cash dividends declared per share of common stock	\$ 0.20	\$ 0.20

See Notes to Consolidated Financial Statements.

-1-

CONSOLIDATED BALANCE SHEET

UNOCAL CORPORATION

	At March 31,	At December 31,
Millions of dollars	2002 (a)	2001

Assets		
Current assets		
Cash and cash equivalents	\$ 338	\$ 190
Accounts and notes receivable - net	869	847
Inventories	96	102
Deferred income taxes	126	123
Other current assets	31	33

Total current assets	1,460	1,295
Investments and long-term receivables - net	1,459	1,405
Properties - net (b)	7,543	7,514
Deferred income taxes	174	128
Other assets	122	83

Edgar Filing: UNOCAL CORP - Form 10-Q

Total assets	\$ 10,758	\$ 10,425
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 772	\$ 823
Taxes payable	331	249
Dividends payable	49	49
Interest payable	48	49
Current portion of environmental liabilities	110	124
Current portion of long-term debt and capital leases	9	9
Other current liabilities	148	119
Total current liabilities	1,467	1,422
Long-term debt and capital leases	3,174	2,897
Deferred income taxes	639	627
Accrued abandonment, restoration and environmental liabilities	605	590
Other deferred credits and liabilities	729	724
Subsidiary stock subject to repurchase	69	70
Minority interests	456	449
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely parent debentures	522	522
Common stock (\$1 par value, shares authorized: 750,000,000 (c))	255	255
Capital in excess of par value	568	551
Unearned portion of restricted stock issued	(29)	(29)
Retained earnings	2,861	2,888
Accumulated other comprehensive income	(105)	(88)
Notes receivable - key employees	(42)	(42)
Treasury stock - at cost (d)	(411)	(411)
Total stockholders' equity	3,097	3,124
Total liabilities and stockholders' equity	\$ 10,758	\$ 10,425

See Notes to the Consolidated Financial Statements.

-2-

CONSOLIDATED CASH FLOWS (UNAUDITED)

UNOCAL CORPORATION

For the Three Months
Ended March 31,

Millions of dollars

2002 2001

Cash Flows from Operating Activities

Net earnings	\$ 22	\$ 295
Adjustments to reconcile net earnings to net cash provided by operating activities		

Edgar Filing: UNOCAL CORP - Form 10-Q

Depreciation, depletion and amortization	224	223
Dry hole costs	28	40
Amortization of exploratory leasehold costs	22	22
Deferred income taxes	(23)	32
Gain on sales of assets (pre-tax)	(2)	-
Gain on disposal of discontinued operations (pretax)	-	(7)
Earnings applicable to minority interests	1	16
Other	(12)	54
Working capital and other changes related to operations		
Accounts and notes receivable	(14)	169
Inventories	6	27
Accounts payable	(51)	(166)
Taxes payable	82	69
Other	(12)	(1)

Net cash provided by operating activities	271	773

Cash Flows from Investing Activities		
Capital expenditures (includes dry hole costs)	(390)	(360)
Major acquisitions	-	(261)
Proceeds from sales of assets	28	8
Proceeds from sale of discontinued operations	2	7

Net cash used in investing activities	(360)	(606)

Cash Flows from Financing Activities		
Long-term borrowings	399	240
Reduction of long-term debt and capital lease obligations	(123)	(6)
Minority interests	(2)	(5)
Proceeds from issuance of common stock	14	5
Dividends paid on common stock	(49)	(49)
Other	(2)	-

Net cash provided by financing activities	237	185

Increase in cash and cash equivalents	148	352

Cash and cash equivalents at beginning of year	190	235

Cash and cash equivalents at end of period	\$ 338	\$ 587
=====		

See Notes to the Consolidated Financial Statements.

-3-

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 disclosure requirements

Edgar Filing: UNOCAL CORP - Form 10-Q

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 three months ended March 31, 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 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.

(3) Other Financial Information

During the first quarters of 2002 and 2001, approximately 20 percent and 37 percent, respectively, of total sales and operating revenues were attributable to the resale of crude oil, natural gas and natural gas liquids purchased from others in connection with the Company's marketing activities.

Capitalized interest totaled \$9 million and \$5 million for the first quarters of 2002 and 2001, respectively. The increase was primarily due to the capitalized interest related to the West Seno oil and gas development project in the deepwater Kutei Basin, offshore East Kalimantan, Indonesia.

Edgar Filing: UNOCAL CORP - Form 10-Q

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

Millions of dollars	For the Three Months Ended March 31,	
	2002	2001
Exploration operations	\$ 23	\$ 18
Geological and geophysical	11	13
Amortization of exploratory leases	22	22
Leasehold rentals	3	3
Exploration expense	\$ 59	\$ 56

(4) Income Taxes

Income taxes on earnings from continuing operations for the first quarter of 2002 were \$40 million compared with \$190 million for the first quarter of 2001. The effective income tax rate for the first quarter of 2002 was 65 percent compared with 39 percent for the first quarter of 2001. In 2002, the mix effect of domestic losses coupled with foreign earnings, which are generally taxed at a higher rate, resulted in the higher effective tax rate when compared to 2001.

(5) 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 first quarters ended March 31, 2002 and 2001:

Millions except per share amounts	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Three months ended March 31, 2002			
Earnings from continuing operations	\$ 22	244.2	
Basic EPS			\$0.09 =====
Effect of dilutive securities			
Options and common stock equivalents		1.0	
Diluted EPS	22	245.2	\$0.09 =====
Distributions on subsidiary trust preferred securities (after-tax)	7	12.3	
Antidilutive	\$ 29	257.5	\$0.11 =====
Three months ended March 31, 2001			
Earnings from continuing operations	\$ 292	243.2	
Basic EPS			\$1.19 =====
Effect of dilutive securities			

Edgar Filing: UNOCAL CORP - Form 10-Q

Options and common stock equivalents		0.9	
	-----	-----	
	292	244.1	\$1.19
Distributions on subsidiary trust preferred securities (after-tax)	7	12.3	
	-----	-----	
Diluted EPS	\$ 299	256.4	\$1.16
			=====

Not included in the computation of diluted EPS for the three months ended March 31, 2002 and 2001, were options outstanding to purchase approximately 5.1 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.

-5-

(6) Comprehensive Income

The Company's comprehensive income was:

Millions of dollars	For the Three Months Ended March 31,	
	2002	2001
-----	-----	-----
Net earnings	\$ 22	\$ 295
Cumulative effect of change in accounting principle SFAS No. 133 adoption (a)	-	(59)
Change in unrealized loss on hedging instruments (b)	(20)	(5)
Reclassification adjustment for settled hedging contracts (c)	6	12
Unrealized foreign currency translation adjustments	(3)	(31)
-----	-----	-----
Total comprehensive income	\$ 5	\$ 212
=====	=====	=====

(7) Cash and Cash Equivalents

Millions of dollars	At March 31,	At December 31,
	2002	2001
-----	-----	-----
Cash	\$ 55	\$ 12
Time deposits	178	123
Restricted cash	5	5
Marketable securities	100	50
-----	-----	-----
Cash and cash equivalents	\$ 338	\$ 190
=====	=====	=====

(8) Long Term Debt and Credit Agreements

Edgar Filing: UNOCAL CORP - Form 10-Q

During the first three months of 2002, the Company's consolidated debt, including the current portion, increased by \$277 million. This net increase included \$399 million in new commercial paper borrowings, the proceeds of which were used to refinance maturing debt and for general corporate purposes. The Company retired \$23 million of maturing medium-term notes during the quarter. 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 \$25 million principally due to a decrease in borrowing under its revolving credit facilities. Pure's debt was \$562 million at March 31, 2002. Neither Unocal nor Union Oil guarantees any of Pure's debt.

(9) Accrued Abandonment, Restoration and Environmental Liabilities

At March 31, 2002, the Company had accrued \$482 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 \$670 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 March 31, 2002 totaled \$233 million, of which \$110 million was included in current liabilities.

-6-

(10) 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

Edgar Filing: UNOCAL CORP - Form 10-Q

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 9, at March 31, 2002, the Company had accrued \$233 million for estimated future environmental assessment and remediation costs at various sites where liabilities for such costs are probable. 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 \$240 million.

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 either due to 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.

-7-

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

Edgar Filing: UNOCAL CORP - Form 10-Q

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 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 March 31, 2002, Pure estimated that the amount it may have to repurchase under these agreements was approximately \$69 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.

Other matters

The Company has a lease agreement relating to its Discoverer Spirit deepwater drillship, with a remaining term of approximately three years and six months at March 31, 2002. In 2001, the Company signed a sublease agreement with a third party for a minimum period of 200 days. 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 200-day sublease period, was approximately \$255 million at March 31, 2002. If the sublease period runs longer than the minimum period of 200 days, the amount of the future remaining lease rental payment obligation would decrease by the minimum daily rate amount times the number of days over the minimum sublease period.

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 March 31, 2002, the Company, including its Pure subsidiary, had obtained various surety bonds for approximately \$360 million. These surety bonds primarily consisted of bonds for the Company's mining operation discussed in the following paragraph and a bond for \$102 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

-8-

January of 1999 and will end in December of 2008. The Company also had obtained approximately \$52 million in standby letters of credit at March 31, 2002. In addition, the Company has various other guarantees for approximately \$410 million. The Company has entered into indemnification obligations in favor of the providers of these surety bonds and letters of credit. Approximately \$190 million of the \$410 million in guarantees would require the Company to obtain a bond or a letter of credit, or establish a trust fund if its credit rating drops below BBB- or Baa3 from Standard & Poor's Ratings Services and Moody's Investors Service, Inc., respectively. Approximately \$150 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

Edgar Filing: UNOCAL CORP - Form 10-Q

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.

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 \$72 million of the total \$1.8 billion debt obligations. Approximately \$46 million of the \$72 million in debt guarantees will expire in June 2002.

The Company also has other contingent liabilities with respect to litigation, claims, and contractual agreements arising in the ordinary course of business. Although these contingencies could result in expenses or judgments that could be material to the Company's results of operations for a given reporting period, on the basis of management's best assessment of the ultimate amount and timing of these events, such expenses or judgments are not expected to have a material adverse effect on the Company's consolidated financial condition or liquidity.

(11) 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 March 31, 2002, including the current portion, was approximately \$3.29 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 \$540 million at March 31, 2002. The fair value was based on the trading prices of the preferred securities on March 29, 2002, as reported to the Company.

Commodity hedging activities - During the first quarter of 2002, the Company recognized \$1 million in after-tax gains for the ineffectiveness of both cash flow and fair value hedges. At March 31, 2002, the Company had approximately \$12 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 April 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.

-9-

Foreign currency contracts - At March 31, 2002, the Company had approximately \$1 million of after-tax deferred losses 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

Edgar Filing: UNOCAL CORP - Form 10-Q

during the next twelve months are immaterial.

(12) 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 the first quarters of 2002 and 2001 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 CONSOLIDATED EARNINGS STATEMENT

Period ended March 31, 2002

Millions of dollars	Unocal Unocal (Parent)	Unocal Capital Trust	Union Oil (Parent)	Non- Union Guarantor Subsi- diaries	Elim- inations	Conso- lidated
<hr/>						
Revenues						
Sales and operating revenues	\$ -	\$ -	\$ 209	\$ 981	\$ (166)	\$ 1,024
Interest, dividends and miscellaneous income	-	8	7	5	(8)	12
Gain (loss) on sales of assets	-	-	13	(11)	-	2
<hr/>						
Total revenues	-	8	229	975	(174)	1,038
Costs and other deductions						
Purchases, operating and other expenses	2	-	227	634	(162)	701
Depreciation, depletion, and amortization	-	-	87	137	-	224
Dry hole costs	-	-	15	13	-	28
Interest expense	8	-	43	9	(9)	51
Distributions on convertible preferred securities	-	8	-	-	-	8
<hr/>						
Total costs and other deductions	10	8	372	793	(171)	1,012
<hr/>						
Equity in earnings of subsidiaries	30	-	128	-	(158)	-
Earnings from equity investments	-	-	-	37	-	37
<hr/>						
Earnings from continuing operations before income taxes and minority interests	20	-	(15)	219	(161)	63
<hr/>						
Income taxes	(4)	-	(45)	89	-	40
Minority interests	-	-	-	2	(1)	1
<hr/>						
Net earnings	\$ 24	\$ -	\$ 30	\$ 128	\$ (160)	\$ 22
<hr/>						

Edgar Filing: UNOCAL CORP - Form 10-Q

CONDENSED CONSOLIDATED EARNINGS STATEMENT
Period ended March 31, 2001

Millions of dollars	Unocal (Parent)	Unocal Capital Trust	Union Oil (Parent)	Non- Guarantor Subsi- diaries	Elim- nations	Conso- lidated
Revenues						
Sales and operating revenues	\$ -	\$ -	\$ 693	\$ 2,082	\$ (569)	\$ 2,206
Interest, dividends and miscellaneous income	5	8	(1)	5	(9)	8
Gain (loss) on sales of assets	-	-	-	-	-	-
Total revenues	5	8	692	2,087	(578)	2,214
Costs and other deductions						
Purchases, operating and other expenses	1	-	395	1,622	(580)	1,438
Depreciation, depletion, and amortization	-	-	86	137	-	223
Dry hole costs	-	-	10	30	-	40
Interest expense	8	-	45	5	(9)	49
Distributions on convertible preferred securities	-	8	-	-	-	8
Total costs and other deductions	9	-	536	1,794	(589)	1,758
Equity in earnings of subsidiaries	299	-	211	-	(510)	-
Earnings from equity investments	-	-	(2)	44	-	42
Earnings from continuing operations before income taxes and minority interests	295	-	365	327	(498)	498
Income taxes	(1)	-	69	122	-	190
Minority interests	-	-	-	4	12	16
Earnings from continuing operations	296	-	296	211	(511)	292
Earnings from discontinued operations	-	-	4	-	-	4
Cumulative effect of accounting change	-	-	(1)	-	-	(1)
Net earnings	\$ 296	\$ -	\$ 299	\$ 211	\$ (511)	\$ 295

-11-

CONDENSED CONSOLIDATED BALANCE SHEET
At March 31, 2002

	Unocal	Unocal	Union	Non- Guarantor	Elim-	Conso-
	Unocal	Capital	Oil	Subsi-	nations	lidated

Edgar Filing: UNOCAL CORP - Form 10-Q

Millions of dollars	(Parent)	Trust	(Parent)	diaries	nations	litedated
Assets						
Current assets						
Cash and cash equivalents	\$ 1	\$ -	\$ 149	\$ 188	\$ -	\$ 338
Accounts and notes receivable - net	62	-	83	796	(72)	869
Inventories	-	-	12	84	-	96
Other current assets	-	-	114	43	-	157
Total current assets	63	-	358	1,111	(72)	1,460
Investments and long-term						
receivables - net	4,006	-	4,274	1,033	(7,854)	1,459
Properties - net	-	-	2,142	5,401	-	7,543
Other assets	3	541	432	2,176	(2,856)	296
Total assets	\$4,072	\$541	\$ 7,206	\$ 9,721	\$(10,782)	\$10,758
Liabilities and Stockholders' Equity						
Current liabilities						
Accounts payable	\$ -	\$ -	\$ 216	\$ 618	\$ (62)	\$ 772
Current portion of long-term debt and capital leases	-	-	-	9	-	9
Other current liabilities	47	3	192	455	(11)	686
Total current liabilities	47	3	408	1,082	(73)	1,467
Long-term debt and						
capital leases	-	-	2,558	616	-	3,174
Deferred income taxes	-	-	(78)	717	-	639
Accrued abandonment, restoration and environmental liabilities	-	-	325	280	-	605
Other deferred credits and liabilities	541	-	314	2,695	(2,821)	729
Subsidiary stock subject to repurchase	-	-	-	69	-	69
Minority interests	-	-	-	311	145	456
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely parent debentures						
	-	522	-	-	-	522
Stockholders' equity	3,484	16	3,679	3,951	(8,033)	3,097
Total liabilities and stockholders' equity	\$4,072	\$541	\$7,206	\$ 9,721	\$(10,782)	\$10,758

-12-

CONDENSED CONSOLIDATED BALANCE SHEET
At December 31, 2001

Millions of dollars	Unocal		Union Guarantor		Elim-	Conso-
	(Parent)	Trust	(Parent)	diaries		
	Unocal	Capital	Oil	Subsi-	nations	litedated

Edgar Filing: UNOCAL CORP - Form 10-Q

Assets						
Current assets						
Cash and cash equivalents	\$ -	\$ -	\$ 62	\$ 128	\$ -	\$ 190
Accounts and notes receivable - net	51	-	154	693	(51)	847
Inventories	-	-	3	99	-	102
Other current assets	-	-	122	34	-	156

Total current assets	51	-	341	954	(51)	1,295
Investments and long-term						
receivables - net	4,032	-	4,143	968	(7,738)	1,405
Properties - net	-	-	2,149	5,365	-	7,514
Other assets	3	541	214	2,403	(2,950)	211

Total assets	\$4,086	\$ 541	\$ 6,847	\$ 9,690	\$(10,739)	\$10,425
=====						
Liabilities and Stockholders' Equity						
Current liabilities						
Accounts payable	\$ -	\$ -	\$ 278	\$ 596	\$ (51)	\$ 823
Current portion of long-term debt and capital leases	-	-	-	9	-	9
Other current liabilities	42	3	145	400	-	590

Total current liabilities	42	3	423	1,005	(51)	1,422
Long-term debt and						
capital leases	-	-	2,181	716	-	2,897
Deferred income taxes	-	-	(71)	698	-	627
Accrued abandonment, restoration and environmental liabilities	-	-	293	297	-	590
Other deferred credits and liabilities	541	-	312	2,821	(2,950)	724
Subsidiary stock subject to repurchase	-	-	-	70	-	70
Minority interests	-	-	-	309	140	449

Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust holding solely parent debentures	-	522	-	-	-	522

Stockholders' equity	3,503	16	3,709	3,774	(7,878)	3,124

Total liabilities and stockholders' equity	\$4,086	\$541	\$6,847	\$ 9,690	\$(10,739)	\$10,425
=====						

-13-

CONDENSED CONSOLIDATED CASH FLOWS
For the Three Months Ended March 31, 2002

Millions of dollars	Non-				
	Unocal (Parent)	Unocal Capital Trust	Union Oil (Parent)	Guarantor Subsidiaries	Eliminations
					Conso-
					lidated

Edgar Filing: UNOCAL CORP - Form 10-Q

Cash Flows from

Operating Activities	\$ 36	\$ -	\$ (192)	\$ 427	\$ -	\$ 271
Cash Flows from Investing Activities						
Capital expenditures and acquisitions (includes dry hole costs)	-	-	(98)	(292)	-	(390)
Proceeds from sales of assets and discontinued operations	-	-	3	27	-	30

Net cash used in investing activities	-	-	(95)	(265)	-	(360)

Cash Flows from Financing Activities						
Change in long-term debt and capital leases	-	-	376	(100)	-	276
Dividends paid on common stock	(49)	-	-	-	-	(49)
Minority interests	-	-	-	(2)	-	(2)
Other	14	-	(2)	-	-	12

Net cash provided by (used in) financing activities	(35)	-	374	(102)	-	237

Increase in cash and cash equivalents	1	-	87	60	-	148

Cash and cash equivalents at beginning of period	-	-	62	128	-	190

Cash and cash equivalents at end of period	\$ 1	\$ -	\$149	\$ 188	\$ -	\$ 338
=====						

CONDENSED CONSOLIDATED CASH FLOWS

For the Three Months Ended March 31, 2001

Millions of dollars	Unocal		Union Guarantor		Conso-	
	Unocal (Parent)	Capital Trust	Oil (Parent)	Subsi- diaries	Elim- nations	lited

Cash Flows from						
Operating Activities	\$ 44	\$ -	\$ 420	\$ 309	\$ -	\$ 773
Cash Flows from Investing Activities						
Capital expenditures and acquisitions (includes dry hole costs)	-	-	(195)	(426)	-	(621)
Proceeds from sales of assets and discontinued operations	-	-	15	-	-	15

Net cash used in investing activities	-	-	(180)	(426)	-	(606)

Edgar Filing: UNOCAL CORP - Form 10-Q

Cash Flows from Financing Activities						
Change in long-term debt and capital leases	-	-	(5)	239	-	234
Dividends paid on common stock	(49)	-	-	-	-	(49)
Minority interests	-	-	-	(5)	-	(5)
Other	5	-	-	-	-	5

Net cash provided by (used in) financing activities	(44)	-	(5)	234	-	185

Increase in cash and cash equivalents	-	-	235	117	-	352

Cash and cash equivalents at beginning of period	1	-	84	150	-	235

Cash and cash equivalents at end of period	\$ 1	\$ -	\$319	\$ 267	\$ -	\$ 587
=====						

-14-

(13) 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, minerals and those businesses that were sold, are included under the Corporate and Other heading.

Segment Information For the Three Months ended March 31, 2002 Millions of dollars	Exploration & Production			
	Lower 48	North America Alaska	Canada	Intern Far East

Sales & operating revenues	\$ 113	\$ 51	\$ 39	\$ 219
Other income (loss) (a)	3	-	-	-
Inter-segment revenues	166	-	-	52

Total	282	51	39	271
Earnings (loss) from equity investments	(1)	-	-	8
Net earnings (loss)	4	(6)	(9)	90
Assets (at March 31, 2002)	3,254	341	1,034	2,596

Midstream	Geothermal & Power Operations	Admin &	Corporate & Other Net Interest	Environment &
-----------	-------------------------------------	------------	--------------------------------------	------------------

Edgar Filing: UNOCAL CORP - Form 10-Q

			General	Expense	Litigation
Sales & operating revenues	\$ 63	\$ 28	\$ -	\$ -	\$ -
Other income (loss) (a)	1	2	-	3	-
Inter-segment revenues	2	-	-	-	-
Total	66	30	-	3	-
Earnings (loss) from equity investments	19	(3)	-	-	-
Net earnings (loss)	19	6	(24)	(37)	(23)
Assets (at March 31, 2002)	472	591	-	-	-

-15-

Segment Information For the Three Months ended March 31, 2001 Millions of dollars	Exploration & Production			
	Lower 48	North America Alaska	Canada	Intern Far East
Sales & operating revenues	\$ 161	\$ 72	\$ 32	\$ 232
Other income (loss) (a)	1	-	(1)	(3)
Inter-segment revenues	566	-	-	55
Total	728	72	31	284
Earnings (loss) from equity investments	6	-	-	11
Earnings (loss) from continuing operations	241	19	(3)	106
Earnings from discontinued operations (net)	-	-	-	-
Cumulative effect of accounting changes	-	-	-	-
Net earnings (loss)	241	19	(3)	106
Assets (at December 31, 2001)	3,345	344	1,015	2,463

	Midstream	Geothermal & Power Operations	Admin & General	Corporate & Other Net Interest Expense	Environment & Litigation
Sales & operating revenues	\$ 100	\$ 44	\$ -	\$ -	\$ -
Other income (loss) (a)	1	3	-	6	-
Inter-segment revenues	2	-	-	-	-

Edgar Filing: UNOCAL CORP - Form 10-Q

Total	103	47	-	6	-
Earnings (loss) from equity investments	9	-	-	-	-
Earnings (loss) from continuing operations	9	1	(23)	(33)	(34)
Earnings from discontinued operations (net)	-	-	-	-	-
Cumulative effect of accounting changes	-	-	-	-	-
Net earnings (loss)	9	1	(23)	(33)	(34)
Assets (at December 31, 2001)	479	594	-	-	-

-16-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of the consolidated financial condition and results of operations of Unocal should be read in conjunction with Management's Discussion and Analysis in Item 7 of the Company's 2001 Annual Report on Form 10-K.

CONSOLIDATED RESULTS

Millions of dollars	For the Three Months Ended March 31,	
	2002	2001
Earnings from continuing operations	\$ 22	\$ 292
Earnings from discontinued operations	-	4
Cumulative effect of accounting change	-	(1)
Net earnings	\$ 22	\$ 295

Earnings from continuing operations were \$22 million in the first quarter of 2002 compared to \$292 million for the first quarter of 2001, which was a decrease of \$270 million. The decrease was primarily due to lower prices for natural gas and liquids (crude oil, condensate and natural gas liquids). The Company's worldwide average natural gas price, including a benefit of 9 cents per thousand cubic feet (Mcf) from hedging activities, was \$2.39 per Mcf in the first quarter of 2002 compared to \$4.41 per Mcf in the same period a year ago, which included a loss of 20 cents per Mcf from hedging activities. In the first quarter of 2002, the Company's worldwide average liquids price, including a benefit of 6 cents per barrel from hedging activities, was \$18.28 per barrel compared to \$24.63 per barrel in the same period a year ago, which included a loss of 6 cents per barrel from hedging activities. The lower natural gas prices reduced net earnings by approximately \$160 million, while the lower liquids prices reduced net earnings by approximately \$50 million. The first quarter of 2002 was also impacted by lower production compared to the same period a year ago, principally in the Lower 48 operations. The lower worldwide production reduced net earnings by approximately \$85 million. In the first quarter of 2002, \$3 million in higher pension expense compared to the same period a year ago also

Edgar Filing: UNOCAL CORP - Form 10-Q

impacted net earnings. These negative factors were partially offset by \$13 million in lower after-tax losses related to non-hedging commodity derivative positions, \$10 million in lower after-tax provisions for environmental and litigation matters (the first quarter of 2002 included \$21 million while the first quarter of 2001 included \$31 million) and \$8 million in lower after-tax dry hole costs. The first quarter of 2002 also included \$2 million after-tax gain from an insurance settlement related to a prior year environmental issue and \$2 million after-tax gain adjustment related to a Lower 48 prior year asset sale.

Total revenues from continuing operations for the first quarter of 2002 were \$1.04 billion, compared with \$2.21 billion for the first quarter of 2001. The lower 2002 revenues primarily reflected lower commodity prices and lower third party crude oil purchase and resale activity by the Company's Trade segment.

The first quarter of 2001 included a \$4 million gain from discontinued operations, related to the Company's 1997 sale of its former West Coast refining, marketing and transportation assets.

In the first quarter of 2001, the Company recorded a non-cash \$1 million after-tax charge consisting of the cumulative effect of a change in accounting principle related to the initial adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities".

-17-

Net Earnings Reconciliation to Adjusted Earnings

The purpose of the table below is to provide the investment community supplemental financial data in addition to the data prepared in accordance with generally accepted accounting principles in the U.S.

The table provides a reconciliation of consolidated net earnings to adjusted after-tax earnings. Special items represent certain significant transactions, the results of which are included in net earnings, that management determines to be unrelated to or not representative of the Company's ongoing operations.

Millions of dollars	For the Three Months Ended March 31,	
	2002	2001
Net earnings (a)	\$ 22	\$ 295
Less: Earnings from discontinued operations	-	4
Less: Cumulative effect of accounting change	-	(1)
Earnings from continuing operations	22	292
Special items:		
Continuing operations		
Environmental and litigation provisions	(21)	(31)
Trading derivatives -- non-hedging	(4)	(17)
Insurance settlement related to an environmental issue	2	-
Asset sales	2	-
Total special items from continuing operations	(21)	(48)
Adjusted after-tax earnings (before special items) (a)	\$ 43	\$ 340

Exploration and Production

The Company engages in oil and gas exploration, development and production worldwide. The results of this segment are discussed under the following two geographical breakdowns:

North America - Included in this category are the U.S. Lower 48, Alaska and Canada oil and gas operations. The emphasis of the U.S. Lower 48 operations is on the onshore, the shelf and deepwater areas of the Gulf of Mexico region. The U.S. Lower 48 also includes the consolidated results of Pure Resources, Inc. ("Pure"), which operates primarily in the Permian and San Juan Basins in west Texas and New Mexico, the Gulf of Mexico region and offshore in the Gulf of Mexico. A substantial portion of the crude oil and natural gas produced in the U.S. Lower 48 operations, excluding that of Pure, is sold to the Company's Trade business segment. The remainder of North America production, including the production of Pure and Northrock Resources Ltd. ("Northrock") in Canada, is sold to third parties. In Alaska, natural gas production, pursuant to agreements with the purchaser of the Company's former agricultural products business, is sold to a fertilizer plant in Nikiski, Alaska. In addition, the Company including Pure takes pricing positions in hydrocarbon derivative instruments in support of its oil and gas operations.

Operations resulted in an after-tax loss of \$11 million in the first quarter of 2002 compared to after-tax earnings of \$257 million in the same period a year ago, which was a decrease of \$268 million. The decrease was primarily due to lower prices for natural gas and liquids. The average natural gas price for North America, including a benefit of 19 cents per Mcf from hedging activities, was \$2.35 per Mcf in the first quarter of 2002 compared to \$5.87 per Mcf in the same period a year ago, which included a loss of 36 cents per Mcf from hedging activities. In the first quarter of 2002, the Company's North America average liquids price, including a benefit of 11 cents per barrel from hedging activities, was \$17.19 per barrel compared to \$24.60 per barrel in the same period a year ago, which included a loss of 9 cents per barrel from hedging activities. The lower natural gas prices reduced net earnings by \$155 million, while the lower liquids prices reduced net earnings by approximately \$40 million. The first quarter of 2002 was also impacted by lower natural gas production compared to the same period a year ago, which reduced net earnings by approximately \$80 million. North America average net daily natural gas production was 937 million cubic feet per day (MMcf/d) in the first quarter of 2002 compared to 1,152 MMcf/d in the same period a year ago, which was a decrease of 19 percent, primarily due to Lower 48 production of 746 MMcf/d compared to 874 MMcf/d in the same period a year ago. The Lower 48 decline reflected lower natural gas production from the Gulf of Mexico shelf area including production from Ship Shoal Block 295 (Muni field), which averaged slightly over 16 MMcf/d in the first quarter of 2002 compared to 55 MMcf/d during the first quarter of 2001. These negative factors were partially offset by \$13 million in lower after-tax losses related to non-hedging commodity derivative positions held by Northrock and \$ 6 million in lower after-tax dry hole costs in North America. Lower 48 dry hole costs in the first quarter of 2002 were lower by \$15 million after-tax than the same period a year ago, primarily due to lower drilling activity in the deepwater Gulf of Mexico. This decrease was partially offset by \$8 million after-tax in higher dry hole costs in Alaska.

International - Unocal's International operations include oil and gas

Edgar Filing: UNOCAL CORP - Form 10-Q

exploration and production activities outside of North America. The Company operates or participates in production operations in Thailand, Indonesia, Myanmar, Bangladesh, the Netherlands, Azerbaijan, the Democratic Republic of Congo and Brazil. International operations also include the Company's exploration and development activities primarily in Asia, Latin America and West Africa.

After-tax earnings totaled \$102 million in the first quarter of 2002 compared to \$128 million in the same period a year ago, which was a decrease of \$26 million. The decrease was primarily due to lower sales volumes, lower liquids prices and higher effective tax rates, primarily due to changes in the Thai baht/U.S. dollar exchange rate. Liquids sales volumes decreased due to the timing of liftings in Azerbaijan and the Democratic Republic of Congo. The average liquids price for International operations was \$19.86 per barrel in the first quarter of 2002, which was a decrease of \$4.81 per barrel, or 19 percent, from the same period a year ago. These negative factors were partially offset by higher natural gas production in the Far East, as the result of higher natural gas sales in Thailand. The average net daily natural gas production was 897 MMcf/d in the first quarter of 2002 compared to 850 MMcf/d in the same period a year ago, which was an increase of 6 percent.

-19-

	For the Three Months Ended March 31,	
Operating Highlights	2002	2001
<hr style="border-top: 1px dashed black;"/>		
North America Net Daily Production		
Liquids (thousand barrels)		
Lower 48 (a) (b)	56	53
Alaska	25	24
Canada	18	15
<hr style="border-top: 1px dashed black;"/>		
Total liquids	99	92
Natural gas - dry basis (million cubic feet)		
Lower 48 (a) (b)	746	874
Alaska	101	138
Canada	90	140
<hr style="border-top: 1px dashed black;"/>		
Total natural gas	937	1,152
North America Average Prices (c)		
Liquids (per barrel)		
Lower 48	\$ 18.48	\$ 26.75
Alaska	\$ 14.54	\$ 22.76
Canada	\$ 16.52	\$ 20.46
Average	\$ 17.19	\$ 24.60
Natural gas (per Mcf)		
Lower 48	\$ 2.47	\$ 6.93
Alaska	\$ 1.57	\$ 1.20
Canada	\$ 2.25	\$ 4.22
Average	\$ 2.35	\$ 5.87
<hr style="border-top: 1px dashed black;"/>		
International Net Daily Production (d)		
Liquids (thousand barrels)		
Far East	53	50
Other (a)	20	19
<hr style="border-top: 1px dashed black;"/>		
Total liquids	73	69

Edgar Filing: UNOCAL CORP - Form 10-Q

Natural gas - dry basis (million cubic feet)		
Far East	822	793
Other (a)	75	57
<hr style="border-top: 1px dashed black;"/>		
Total natural gas	897	850
International Average Prices (c)		
Liquids (per barrel)		
Far East	\$ 19.28	\$ 24.25
Other	\$ 21.96	\$ 25.55
Average	\$ 19.86	\$ 24.67
Natural gas (per Mcf)		
Far East	\$ 2.44	\$ 2.48
Other	\$ 2.48	\$ 2.89
Average	\$ 2.44	\$ 2.50
<hr style="border-top: 1px dashed black;"/>		
Worldwide Net Daily Production (a) (b) (d)		
Liquids (thousand barrels)	172	161
Natural gas - dry basis (million cubic feet)	1,834	2,002
Barrels oil equivalent (thousands)	477	495
Worldwide Average Prices (c)		
Liquids (per barrel)	\$ 18.28	\$ 24.63
Natural gas (per Mcf)	\$ 2.39	\$ 4.41
<hr style="border-top: 1px dashed black;"/>		

-20-

TRADE

The Trade segment conducts the majority of the Company's worldwide crude oil, condensate and natural gas marketing activities, excluding those of Pure and Northrock. It is also responsible for commodity-specific risk management activities on behalf of most of the Company's Exploration and Production segment, excluding Pure. The Trade segment also purchases crude oil, condensate and natural gas from certain of the Company's royalty owners, joint venture partners and other unaffiliated oil and gas producing and trading companies for resale. In addition, the segment takes pricing positions in hydrocarbon derivative instruments.

After-tax earnings totaled \$1 million in the first quarter of 2002 compared to \$3 million in the same period a year ago. The decrease was primarily due to lower results related to domestic natural gas marketing activities.

Sales and operating revenues from the Trade business segment were \$456 million in the first quarter of 2002 compared to \$1,503 million in the same period a year ago, which was a decrease of \$ 1,047 million. These revenues represented approximately 45 percent and 68 percent of the Company's total sales and operating revenues for the first quarters of 2002 and 2001, respectively. For the period, natural gas revenues declined by \$465 million primarily due to lower commodity prices and lower domestic production volumes. Crude oil revenues declined by \$485 million, primarily due to significantly reduced activity in the purchase and resale of third party barrels intended to take advantage of market price differentials.

MIDSTREAM

Edgar Filing: UNOCAL CORP - Form 10-Q

The Midstream segment is comprised of the Company's equity interests in affiliated petroleum pipeline companies, wholly-owned pipeline systems throughout the U.S., and the Company's North America gas storage business.

After-tax earnings totaled \$19 million in the first quarter of 2002 compared to \$9 million in the same period a year ago. The increase was due primarily to improved throughput volumes from the pipeline business and a \$6 million asset write-down related to a Colonial Pipeline Company investment that was recorded in the first quarter of 2001.

GEOHERMAL AND POWER OPERATIONS

The Geothermal and Power Operations business segment produces geothermal steam for power generation, with operations in the Philippines and Indonesia. The segment's activities also include the operation of power plants in Indonesia and equity interests in gas-fired power plants in Thailand. The Company's non-exploration and production business development activities, primarily power-related, are also included in this segment.

After-tax earnings totaled \$6 million in the first quarter of 2002 compared to \$1 million in the same period a year ago. This increase was primarily due to lower receivable provisions related to geothermal operations in Indonesia.

-21-

CORPORATE AND OTHER

Corporate and Other includes general corporate overhead, miscellaneous operations (including real estate activities, carbon and minerals) and other corporate unallocated costs. Net interest expense represents interest expense, net of interest income and capitalized interest.

The after-tax earnings effect for the first quarter of 2002 was a loss of \$95 million compared to a loss of \$106 million in the same period a year ago. Lower after-tax provisions for environmental and litigation matters benefited the first quarter of 2002, which included provisions of \$22 million after-tax while the first quarter of 2001 included provisions of \$31 million after-tax. The current period results also benefited from a \$2 million after-tax gain from an insurance settlement related to a prior year environmental issue. The results in the Other category included a \$10 million pre-tax (\$7 million after-tax) contribution to a charitable foundation in the first quarter of 2001. The 2002 earnings benefit from the lower contribution was partially offset by \$3 million after-tax in higher pension related expenses. For the full-year 2002, pension costs related to the Company's U.S. based employees are expected to increase by approximately \$25 million after-tax compared to the full-year 2001. Lower returns on plan assets and the use of a lower discount rate to measure benefit-related liabilities are the principal factors behind the increase. Net interest expense was \$4 million higher primarily due to a premium on an early repayment of long-term debt and higher overall long-term debt levels, partially offset by higher capitalized interest on development projects.

FINANCIAL CONDITION

	At March 31,	At December 31,	At March 31,
	-----	-----	-----
Millions of dollars	2002	2001	2001

Edgar Filing: UNOCAL CORP - Form 10-Q

Current ratio	1.0:1	0.9:1	1.1:1
Total debt and capital leases	\$ 3,183	\$ 2,906	\$ 2,740
Trust convertible preferred securities	522	522	522
Stockholders' equity	3,097	3,124	2,888
Total capitalization	\$ 6,802	\$ 6,552	\$ 6,150
Total debt/total capitalization	47%	44%	45%
Floating-rate debt/total debt	19%	8%	11%

Cash flows from operating activities, including discontinued operations and working capital and other changes, were \$271 million in the first quarter of 2002 compared to \$773 million in the same period a year ago. This decrease principally reflected the effects of lower worldwide average natural gas and liquids prices.

Pre-tax proceeds from asset sales, including those classified as discontinued operations, were \$30 million for the first quarter of 2002. The proceeds were primarily from an asset sale by the Company's Pure subsidiary of oil and gas producing properties in the U.S.

Capital expenditures in the first three months of 2002 were \$390 million, compared with \$360 million in the same period a year ago. The higher capital expenditures in 2002 were primarily due to higher development expenditures in Indonesia partially offset by lower Gulf of Mexico exploratory expenditures. The capital expenditures amount for the first quarter of 2001 excluded Pure's acquisition of properties from International Paper Company for \$261 million.

The Company's long-term debt, including the current portion, was \$3.18 billion at March 31, 2002, compared with \$2.91 billion at year-end 2001. This increase primarily reflected the commercial paper borrowings made by the Company to fund scheduled maturing fixed-rate debt and for other general corporate purposes (see note 8 for further detail on the Company's long-term debt).

-22-

In 2001, the Company replaced its \$1 billion bank credit agreement with two new revolving credit facilities totaling \$1 billion. One of these credit facilities is a \$400 million 364-day credit agreement and the other credit facility is a \$600 million 5-year credit agreement. The credit facilities provide for the termination of their loan commitments and require the prepayment of all outstanding borrowings in the event that (1) any person or group becomes the beneficial owner of more than 30 percent of the then outstanding voting stock of Unocal other than in a transaction having the approval of the Company's board of directors, at least a majority of which are continuing directors, or (2) if continuing directors shall cease to constitute at least a majority of the board. The bank credit agreements do not have a drawdown restriction nor a prepayment obligation in the event of a credit rating downgrade.

Based on current commodity prices and current development projects, the Company does not expect cash generated from operating activities, asset sales and cash on hand in 2002 to be sufficient to cover its operating and capital spending requirements and to meet dividend payments. The Company has substantial

Edgar Filing: UNOCAL CORP - Form 10-Q

borrowing capacity to enable it to meet anticipated and unanticipated cash requirements. The Company relies on the commercial paper market on an interim basis, its accounts receivable securitization program and its revolving credit facility to cover short-term borrowing requirements. The Company also has in place a universal shelf registration statement with an unutilized balance of approximately \$739 million, which can be issued as debt and/or equity securities, depending on the Company's needs and market conditions. From time to time, the Company may also look to fund some of its long-term projects using other financing sources, including multilateral and bilateral agencies.

Maintaining investment-grade credit ratings is a significant factor in the Company's ability to raise short-term and long-term financing. The Company currently has a BBB+ / Baal credit rating by Standard & Poor's Ratings Services and Moody's Investors Service, Inc. Moody's recently changed its rating outlook for the Company's long-term debt to negative from stable and retained an outlook of stable for the Company's Prime-2 commercial paper rating. As outlined in the tables on pages 40 and 41 of Management's Discussion and Analysis in Item 7 of the Company's 2001 Annual Report on Form 10-K, the Company continues to believe that it does not have a significant liquidity exposure in the event of a credit rating downgrade.

ENVIRONMENTAL MATTERS

At March 31, 2002, the Company's reserves for environmental remediation obligations totaled \$233 million, of which \$110 million was included in current liabilities. During the first quarter of 2002, cash payments of \$35 million were applied against the reserve and \$31 million in provisions were added to the reserve balance. The provision included revised cost estimates related to the anticipated cleanup of former service stations and distribution facilities throughout the United States. The provision for these sites is included in the former company-operated sites environmental reserve category shown in the table below. A provision was also recorded for revised estimates for various remediation projects at the former Guadalupe oil field on the central California coast. The provision for Guadalupe is included in the inactive or closed company facilities reserve category. A provision was recorded for the company's estimated remaining share of oversight and monitoring costs for the McColl Superfund site in Fullerton, California. The provision was recorded as the result of a federal appeals court overturning a 1998 court decision that held the federal government responsible for cleanup of the site because of its role in encouraging oil companies to produce gasoline during World War II. The Company also estimated as of March 31, 2002, that it possibly could incur additional remediation costs aggregating approximately \$240 million. The Company's total environmental reserve and possible additional liability amounts are grouped into the following four categories.

	At March 31, 2002	
Millions of dollars	Reserve	Possible Additional
Superfund and similar sites	\$ 17	\$ 10
Active company facilities	38	90
Company facilities sold with retained liabilities and former company-operated sites	95	60
Inactive or closed company facilities	83	80
Totals	\$ 233	\$ 240

OUTLOOK

Certain of the statements in this discussion, as well as other forward-looking statements within this document, contain estimates and projections of amounts of or increases / decreases in future revenues, earnings, cash flows, capital expenditures, assets, liabilities and other financial items and of future levels of or increases / decreases in reserves, production, sales including related costs and prices, drilling activities and other statistical items; plans and objectives of management regarding the Company's future operations, products and services; and certain assumptions underlying such estimates, projection plans and objectives. While these forward-looking statements are made in good faith, future operating, market, competitive, legal, economic, political, environmental, and other conditions and events could cause actual results to differ materially from those in the forward-looking statements. See pages 51 through 53 of Management's Discussion and Analysis in Item 7 of the Company's 2001 Annual Report on Form 10-K for a discussion of certain of such conditions and events.

Volatile energy prices are expected to continue to impact financial results in the year 2002. The Company expects energy prices to remain volatile due to changes in climate conditions, worldwide demand, crude oil and natural gas inventory levels, production quotas set by OPEC, current and future worldwide political instability and security and other factors.

The economic situation in Asia, where most of the Company's international activity is centered, is still recovering with positive signs showing in the region. The Company looks at the natural gas market in Asia as its primary investment and believes that the governments in the region are committed to undertaking the reforms and restructuring necessary to enable their nations to continue their recoveries from the downturn.

The Company estimates that its net worldwide daily production for 2002 will average between 490,000 and 500,000 barrels-of-oil equivalent (BOE). The Company forecasts its net earnings per share to be between \$1.60 and \$1.85 in 2002. This forecast assumes average NYMEX benchmark prices of \$24.80 per barrel of crude oil and \$3.35 per million British thermal units (MMBtus) for North America natural gas. These price assumptions are based on year-to-date actual prices and the NYMEX strip for the remainder of the year. Earnings are expected to change 16 cents per share for every \$1 change in the Company's average worldwide realized price for crude oil and 8 cents per share for every 10-cent change in the Company's average realized North America natural gas price. The full-year forecast also includes pre-tax dry hole costs of \$120 to \$130 million.

U.S. Lower 48: In the Gulf of Mexico deep water, the Company is continuing its appraisal of the Trident discovery and is planning to drill a second appraisal well later in 2002. In addition, the Company is continuing its participation in the development of the Mad Dog discovery.

The Company is continuing to optimize its production portfolio on the Gulf of Mexico shelf by its exploration focus on deeper prospects with significantly higher resource potential.

Alaska: In April 2002, the Company announced the successful completion and testing of two additional exploration wells in the Ninilchik Exploration Unit on Alaska's Kenai Peninsula. The Grassim Oskolkoff #2 well tested at a combined flow rate of 11.9 MMcf/d from three zones. The Falls Creek #1RD was also

Edgar Filing: UNOCAL CORP - Form 10-Q

recently tested from a single zone at a rate of 6.8 MMcf/d. In January 2002, the Company announced a discovery of a new natural gas reservoir in the Ninilchik Exploration Unit with the Grassim Oskolkoff #1 well, which tested 11.2 MMcf/d from one zone. The Company holds a 40 percent working interest in the 25,000-acre Ninilchik Exploration Unit. Marathon Oil Company is operator and holds the remaining interest. The Ninilchik Exploration Unit is located about 35 miles south of Kenai, Alaska. The two companies also formed Kenai Kachemak Pipeline LLC to develop a natural gas pipeline that would connect the producing area with the existing south central Alaska pipeline system. The Company failed to find commercial quantities of natural gas in a three-well program on the southern Kenai Peninsula. Due to the lack of commercial success in South Kenai, the Kenai Kachemak Pipeline LLC pipeline project was revised and will now be approximately 33 miles in length between Kenai and Ninilchik.

-24-

In April 2002, a fire damaged the Company's King Salmon Platform, located in the Cook Inlet in Alaska. The fire was put out and no oil spilled in the Cook Inlet. Four workers sustained injuries that were not life threatening. The platform resumed operations in late April. The Company's current estimate of property losses and lost production revenues from this incident is approximately \$3 million after-tax.

Canada: In May 2002, the Company's Northrock subsidiary entered into an agreement to acquire all of the issued and outstanding common shares of Corsair Exploration Inc. ("Corsair"). Corsair is a Canadian exploration and production company primarily engaged in activity in West Central Alberta, Canada. The total consideration for the offer is approximately \$35 million, including the assumption of outstanding debt and working capital deficiency. The agreement and the offer are subject to a number of conditions, including obtaining all required regulatory approvals and receiving tenders for a minimum of 66 2/3 percent of the outstanding shares. The transaction is expected to close by the end of the second quarter of 2002.

Thailand: In 2002, the Company's Unocal Thailand, Ltd., subsidiary and its partners agreed to cut the price of natural gas it sells to PTT Public Co., Ltd. "PTT"), the partially privatized state energy company. The discount covers natural gas supplies produced in the Gulf of Thailand under three gas sales contracts ("GSAs"). The effective date of the discount for GSA 1 (Erawan field) is July 2002, with October 2002 being the start of the new pricing arrangement under GSAs 2 and 3. As part of the agreement, PTT has agreed to extend the GSA for the Erawan field by five-and-one-half years to 2012. The current expected realized price for all of Unocal's Thailand GSAs in 2002 is about \$2.45 per Mcf. For 2003 through 2012, the Company's sales price will be discounted by an average of approximately 5 cents per Mcf, or 2 percent. The Company's net working interest share of daily contract quantities of natural gas sold from the Gulf of Thailand during the period of 2003 through 2012 is anticipated to be approximately 575 MMcf/d.

The Company began crude oil production in May 2002 from its Yala field in the Gulf of Thailand. The Company began initial production of crude oil from the neighboring Plamuk field in 2001. The Company expects production from the Plamuk, Yala and a third field (Surat) to reach 15 MBbl/d (gross) in 2002. The Company has a 71.25 percent working interest in these fields.

Vietnam: In May 2002, the Company's Vietnam subsidiaries filed a declaration of commercial discovery with PetroVietnam, the national oil company, for three natural gas fields offshore southwest Vietnam. The declaration followed the drilling of 10 successful exploration wells on Blocks B and 52/97, including four wells that were drilled in 2001. The declaration is the first step toward signing a gas sales agreement, which is required before any field development can begin. As a result of the declaration of commercial discovery,

Edgar Filing: UNOCAL CORP - Form 10-Q

PetroVietnam may exercise its option to convert its carried participating interests into paying working interests. Should PetroVietnam opt to convert to normal working interests, the Company would hold a 42 percent working interest in Block B and Block 48/95 and a 43 percent working interest in Block 52/97.

Indonesia: The Company's Unocal Rapak, Ltd. ("Unocal Rapak"), subsidiary successfully tested two appraisal wells in the deepwater Ranggas oil prospect offshore East Kalimantan, Indonesia. The Ranggas-4 appraisal well flowed at a daily rate of 8,158 barrels of oil and 6.4 million cubic feet of gas from a single interval between 10,174 feet and 10,224 feet true vertical depth subsea (TVD). The Ranggas-4 well encountered 181 feet of net oil pay and 57 feet of net gas pay. The well was drilled in 5,208 feet of water to 11,252 feet TVD. The well is located 2.4 miles north of the Ranggas-1 discovery well and 1.2 miles south of the Ranggas-3 appraisal well. In addition, the Company successfully completed the Ranggas-5 appraisal well, also on the main Ranggas structure. The Ranggas-5 well encountered 203 feet of net oil pay and 618 feet of net gas pay. The well was drilled in 5,412 feet of water to 11,858 TVD. The well is located 1.5 miles north of the Ranggas-1 discovery well and 0.7 mile south of the Ranggas-4 well. The Company has initiated engineering and development studies for the prospect, in light of the successful appraisal program. Unocal Rapak is operator of the Rapak Production-Sharing Contract (PSC) area and holds an 80 percent working interest.

The Company is also evaluating early development options for the condensate discovered at its deepwater Genadalo-Gandang discovery in the Ganal PSC, offshore Indonesia. The Company is the operator of the Ganal PSC and holds an 80 percent working interest.

-25-

Bangladesh: The Company continues to work with the government of Bangladesh and Petrobangla, the national oil and gas company, to develop additional reserves and export natural gas to markets in neighboring India. At March 31, 2002, the Company's business unit in Bangladesh had a gross receivable balance of approximately \$32 million relating to invoices billed for natural gas and condensate sales to Petrobangla. Approximately \$27 million of the outstanding balance represented past due amounts and accrued interest for invoices covering September 2001 through March 2002. In April 2002, payments were received for natural gas sales covering billings for September and the remaining unpaid portion of August 2001. In May 2002, payments were received for natural gas sales covering billings for October 2001 and payments for condensate sales for September 2001. Generally, invoices, when paid, have been paid in full. The Company is working with Petrobangla and the government of Bangladesh regarding the collection of the outstanding receivables.

Brazil: The Company anticipates that the drilling of an exploratory well on the BM-ES-1 Block in the Espirito Santo Basin will begin by the end of the second quarter of 2002. The Company acquired a 25 percent non-operating working interest in the Block earlier in 2002. Drilling in the adjacent BM-ES-2 Block will wait on results from the BM-ES-1 Block and is projected to commence in the first quarter of 2003 at the earliest. The Company holds a 40.5 percent working interest in the BM-ES-2 Block.

Geothermal and Power Operations: As of March 31, 2002, the Company's Indonesian Geothermal business unit had a gross receivable balance of approximately \$435 million. Approximately \$184 million was related to Gunung Salak electric generating Units 1, 2, and 3, of which \$181 million represented past due amounts and accrued interest resulting from partial payments for March 1998 through March 2002. Although invoices generally have not been paid in full, amounts that

Edgar Filing: UNOCAL CORP - Form 10-Q

have been paid have been received in a timely manner in accordance with the steam sales contract. The remaining \$251 million is primarily related to Salak electric generating Units 4, 5 and 6. Provisions covering substantial portions of these receivables have been recorded from 1998 through March 2002. The Company believes that it will be able to collect the net outstanding receivables. Efforts to renegotiate geothermal steam sales and electrical energy sales contracts at Gunung Salak are continuing. The Company believes that significant progress has been made towards an agreement that is acceptable to all parties to resolve the issues.

FUTURE ACCOUNTING CHANGES

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No 143, "Accounting for Asset Retirement Obligations". It is effective for fiscal years beginning after June 15, 2002, and it requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred, as a capitalized cost of the long-lived asset and to depreciate it over the useful life of the asset. The Company is currently in the process of evaluating the impact that SFAS No. 143 will have on its financial position and results of operations.

Other proposed accounting changes considered from time to time by the FASB, the U.S. SEC, the American Institute of Certified Public Accountants and the United States Congress could materially impact the Company's reported financial position and results of operations.

-26-

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk generally represents the risk that losses may occur in the values of financial instruments as a result of movements in interest rates, foreign currency exchange rates and commodity prices. As part of its overall risk management strategies, the Company uses derivative financial instruments to manage and reduce risks associated with these factors. The Company also pursues outright pricing positions in certain hydrocarbon derivative instruments, such as futures contracts, swaps and options.

The Company determines the fair values of its derivative financial instruments primarily based upon market quotes of exchange traded instruments. Most futures and options contracts are valued based upon direct exchange quotes or industry published price indices. Some instruments with longer maturity periods require financial modeling to accommodate calculations beyond the horizons of available exchange quotes. These models calculate values for outer periods using current exchange quotes (forward curve) and assumptions regarding interest rates, commodity and interest rate volatility and, in some cases, foreign currency exchange rates. While the Company feels that current exchange quotes and assumptions regarding interest rates and volatilities are appropriate factors to measure the fair value of its longer termed hydrocarbon derivative instruments, other pricing assumptions or methodologies may lead to materially different results in some instances.

Interest Rate Risk - From time to time the Company temporarily invests its excess cash in short-term interest-bearing securities issued by high-quality issuers. Company policies limit the amount of investment in securities of any one financial institution. Due to the short time the investments are outstanding and their general liquidity, these instruments are classified as cash

Edgar Filing: UNOCAL CORP - Form 10-Q

equivalents in the consolidated balance sheet and do not represent a material interest rate risk to the Company. The Company's primary market risk exposure for changes in interest rates relates to the Company's long-term debt obligations. The Company manages its exposure to changing interest rates principally through the use of a combination of fixed and floating rate debt. Interest rate risk sensitive derivative financial instruments, such as swaps or options may also be used depending upon market conditions.

The Company evaluated the potential effect that near term changes in interest rates would have had on the fair value of its interest rate risk sensitive financial instruments at March 31, 2002. Assuming a ten percent decrease in the Company's weighted average borrowing costs at March 31, 2002, the potential increase in the fair value of the Company's debt obligations and associated interest rate derivative instruments, including the Company's net interests in the debt obligations and associated interest rate derivative instruments of its subsidiaries, would have been approximately \$106 million at March 31, 2002.

Foreign Exchange Rate Risk - The Company conducts business in various parts of the world and in various foreign currencies. To limit the Company's foreign currency exchange rate risk related to operating income, foreign sales agreements generally contain price provisions designed to insulate the Company's sales revenues against adverse foreign currency exchange rates. In most countries, energy products are valued and sold in U.S. dollars and foreign currency operating cost exposures have not been significant. In other countries, the Company is paid for product deliveries in local currencies but at prices indexed to the U.S. dollar. These funds, less amounts retained for operating costs, are converted to U.S. dollars as soon as practicable. The Company's Canadian subsidiaries are paid in Canadian dollars for their crude oil and natural gas sales.

From time to time the Company may purchase foreign currency options or enter into foreign currency swap or foreign currency forward contracts to limit the exposure related to its foreign currency debt or other obligations. At March 31, 2002, the Company had various foreign currency swaps and foreign currency forward contracts outstanding related to operations in Canada, Thailand and The Netherlands. The Company evaluated the effect that near term changes in foreign exchange rates would have had on the fair value of the Company's combined foreign currency position related to its outstanding foreign currency swaps and forward contracts.

-27-

Assuming an adverse change of ten percent in foreign exchange rates at March 31, 2002, the potential decrease in fair value of the Company's foreign currency forward contracts, foreign-currency denominated debt, foreign currency swaps and foreign currency forward contracts of its subsidiaries, would have been approximately \$18 million at March 31, 2002.

Commodity Price Risk - The Company is a producer, purchaser, marketer and trader of certain hydrocarbon commodities such as crude oil and condensate, natural gas and refined products and is subject to the associated price risks. The Company uses hydrocarbon price-sensitive derivative instruments (hydrocarbon derivatives), such as futures contracts, swaps, collars and options to mitigate its overall exposure to fluctuations in hydrocarbon commodity prices. The Company may also enter into hydrocarbon derivatives to hedge contractual delivery commitments and future crude oil and natural gas production against price exposure. The Company also actively trades hydrocarbon derivatives, primarily exchange regulated futures and options contracts, subject to internal policy limitations.

Edgar Filing: UNOCAL CORP - Form 10-Q

The Company uses a variance-covariance value at risk model to assess the market risk of its hydrocarbon derivatives. Value at risk represents the potential loss in fair value the Company would experience on its hydrocarbon derivatives, using calculated volatilities and correlations over a specified time period with a given confidence level. The Company's risk model is based upon historical data and uses a three-day time interval with a 97.5 percent confidence level. The model includes offsetting physical positions for hydrocarbon derivatives related to the Company's fixed price pre-paid crude oil and pre-paid natural gas sales. The model also includes the Company's net interests in its subsidiaries' crude oil and natural gas hydrocarbon derivatives and forward sales contracts. Based upon the Company's risk model, the value at risk related to hydrocarbon derivatives held for purposes other than hedging was approximately \$3 million at March 31, 2002. The value at risk related to hydrocarbon derivatives held for hedging purposes was approximately \$9 million at March 31, 2002.

In order to provide a more comprehensive view of the Company's commodity price risk, a tabular presentation of open hydrocarbon derivatives is also provided. The following table sets forth the future volumes and price ranges of hydrocarbon derivatives held by the Company at March 31, 2002, along with the fair values of those instruments.

-28-

Open Hydrocarbon Hedging Derivative Instruments (a)

	2002	2003	2004	2005	2006-2009	(Thousand Fair Value Assets (Liabilities))
<hr/>						
Natural Gas Futures Positions						
Volume (MMBtu)	3,210,000	-	-	-	-	\$
Average price, per MMBtu	\$ 3.29					
<hr/>						
Natural Gas Swap Positions						
Pay fixed price (c)						
Volume (MMBtu)	8,578,500	7,298,000	7,241,000	7,218,000	21,677,000	\$
Average swap price, per MMBtu	\$ 2.76	\$ 2.31	\$ 2.33	\$ 2.37	\$ 2.47	
<hr/>						
Receive fixed price (d)						
Volume (MMBtu)	14,034,842	131,508	95,438	-	-	\$
Average swap price, per MMBtu	\$ 2.92	\$ 1.97	\$ 1.97			
<hr/>						
Natural Gas Basis Swap Positions						
Volume (MMBtu)	-	-	-	-	-	\$
Average price received, per MMBtu						
Average price paid, per MMBtu						
<hr/>						
Natural Gas Collar Positions						
Volume (MMBtu)	33,455,000	891,000	112,500	-	-	\$
Average ceiling price, per MMBtu	\$ 3.41	\$ 5.42	4.65			
Average floor price, per MMBtu	\$ 2.23	\$ 3.06	2.90			
<hr/>						
Natural Gas Option (Listed)						
Call Volume (MMBtu)	2,300,000	180,000	-	-	-	\$
Average Call price, per MMBtu	\$ 3.19	\$ 6.35				
Put Volume (MMBtu)	(38,100)	(180,000)	-	-	-	\$
Average Put Price	\$ 3.56	\$ 3.25				
<hr/>						

Edgar Filing: UNOCAL CORP - Form 10-Q

Natural Gas Option (OTC)						
Put Volume (MMBtu)	-	-	-	-	-	\$
Average Put Price						

Crude Oil Future position						
Volume (Bbls)	791,000	-	-	-	-	\$
Average price, per Bbl	\$21.30					

Crude Oil Option						
Put Volume (Bbls)	(800,000)	-	-	-	-	\$
Average price, per Bbl	\$ 31.06					
Call Volume (Bbls)	-	-	-	-	-	\$
Average price, per Bbl						

Crude Oil Swap Positions						
Pay fixed price						
Volume (Bbls)	59,500	-	-	-	-	\$
Average swap price, per Bbl	\$ 26.40					
Receive fixed price (e)						
Volume (Bbls)	119,000	-	-	-	-	\$
Average swap price, per Bbl	\$ 18.71					

Crude Oil Collars						
Volume (Bbls)	88,421	156,802	47,778	-	-	\$
Average ceiling price, per Bbl	\$ 27.15	\$ 25.33	\$ 23.84			
Average floor price, per Bbl	\$ 20.61	\$ 19.77	\$ 18.00			

-29-

Open Hydrocarbon Non-Hedging Derivative Instruments (a)

	2002	2003	(Thousands of dollars) Fair Value Asset (Liability) (b)

Natural Gas Futures Positions			
Volume (MMBtu)	2,710,000	-	\$ 382
Average price, per MMBtu	\$ 3.36		

Natural Gas Swap Positions			
Pay fixed price			
Volume (MMBtu)	166,225	828,400	\$ (15,676)
Average swap price, per MMBtu	\$ 3.27	\$ 3.27	

Natural Gas Basis Swap Positions			
Volume (MMBtu)	-	-	\$ 1,142
Average price received, per MMBtu			
Average price paid, per MMBtu			

Natural Gas Option (Listed)			
Call Volume (MMBtu)	(6,500,000)	-	\$ 90
Average Call price, per MMBtu	\$ 3.57		

Natural Gas Option (Over the Counter)			
Call Volume (MMBtu)	(3,613,050)	(3,055,200)	\$ (5,707)

Edgar Filing: UNOCAL CORP - Form 10-Q

Average Call price, per MMBtu	\$ 2.97	\$2.55	
Put Volume (MMBtu)	(2,140,000)	-	\$ 86
Average Put price, per MMBtu	\$ 2.90		

Natural Gas Spread Option (Over the Counter)			
NYMEX / IFERC (c)			
Put Volume (MMBtu)	(23,440,000)	-	\$ 646
Average Strike price, per MMbtu	\$ 0.32		

Crude Oil Future position			
Volume (Bbls)	(231,494)	-	\$ 2,872
Average price, per Bbl	\$ 23.95		

Crude Oil Option			
Put Volume (Bbls)	-	-	\$ (1,092)
Average price, per Bbl			
Call Volumes (Bbls)	-	-	\$ (158)
Average price, per Bbl			

Crude Oil Swap Positions			
Pay Fixed price			
Volume (Bbls)	499,972	-	\$ (1,684)
Average price, per Bbl	21.34		
Receive fixed price			
Volume (Bbls)	1,071,000	-	\$ (7,259)
Average swap price, per Bbl	\$ 18.85		

-30-

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

There is incorporated by reference: the information with respect to certain legal proceedings pending or threatened against the Company previously reported in Item 3 of Unocal's Annual Report on Form 10-K for the year ended December 31, 2001 (2001 Form 10-K); the information regarding environmental remediation reserves in note 9 to the consolidated financial statements in Item 1 of Part I of this report; the discussion of such reserves in the Environmental Matters section of Management's Discussion and Analysis in Item 2 of Part I; and the information regarding certain legal proceedings and other contingent liabilities in note 10 to the consolidated financial statements. Information with respect to recent developments in certain of such proceedings is set forth below:

1. In April 2002, the U.S. District Court for the District of Hawaii approved the settlement agreement submitted to it in the action captioned Anzai [formerly Bronster] (State of Hawaii) v. Unocal Corporation, et al., described in Paragraph 4 of Item 3 of the 2001 Form 10-K. The Company paid its \$3.3 million share of the settlement in May 2002.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

- (a) Exhibits: The Exhibit Index on page 33 of this report lists the exhibits that are filed as part of this report.

Edgar Filing: UNOCAL CORP - Form 10-Q

(b) Reports on Form 8-K:

Filed during the first quarter of 2002:

- (1) Current Report on Form 8-K, dated and filed January 24, 2002, for the purpose of reporting, under Item 5, the Company's fourth quarter 2001 impairment charge and other special items.
- (2) Current Report on Form 8-K, dated January 22, 2002, and filed January 31, 2002, for the purpose of reporting, under Item 5, the Company's fourth quarter 2001 earnings and related information, the Company's 2001 reserve replacement and finding development and acquisition results, the Company's 2002 earnings forecast and other operational activity updates.
- (3) Current Report on Form 8-K, dated March 27, 2002, and filed March 28, 2002, for the purpose of reporting, under Item 5, the amendment, effective March 27, 2002, of the Company's Rights Agreement, dated as of January 5, 2000.

Filed during the second quarter of 2002 to the date hereof:

- (1) Current Report on Form 8-K, dated and filed April 8, 2002, for the purpose of reporting, under Item 5, the Company's drilling results in Indonesia and a first quarter 2002 provision for environmental remediation.
- (2) Current Report on Form 8-K, dated and filed April 25, 2002, for the purpose of reporting, under Item 5, the Company's first quarter 2002 earnings and related information and the Company's 2002 earnings forecast.

-31-

SIGNATURE

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

UNOCAL CORPORATION
(Registrant)

Dated: May 15, 2002

By: /s/JOE D. CECIL

Joe D. Cecil
Vice President and Comptroller
(Duly Authorized Officer
Principal Accounting Officer)

-32-

EXHIBIT INDEX

Edgar Filing: UNOCAL CORP - Form 10-Q

- 12.1 Statement regarding computation of ratio of earnings to fixed charges of Unocal Corporation for the three months ended March 31, 2002 and 2001.
- 12.2 Statement regarding computation of ratio of earnings to fixed charges of Union Oil Company of California for the three months ended March 31, 2002 and 2001.

Copies of exhibits will be furnished upon request. Requests should be addressed to the Corporate Secretary.