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UNOCAL CORP
Form 8-K
April 28, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

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

Date of report (Date of earliest event reported) April 24, 2003

UNOCAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation)

1-8483

95-3825062

(Commission File Number)

(I.R.S. Employer Identification No.)

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

(Address of Principal Executive Offices)

(Zip Code)

(310) 726-7600

(Registrant's Telephone Number, Including Area Code)

Item 5. Other Events.

First Quarter 2003 Results

Unocal Corporation's net earnings were \$134 million, or 52 cents per share (diluted), in the first quarter of 2003 compared with \$22 million, or 9 cents per share (diluted), in the first quarter of 2002. In the first quarter of 2003, net earnings included an after-tax charge of \$83 million, or 30 cents per share (diluted), from the cumulative effects of accounting changes.

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| Millions of dollars | For the Three Months Ended March 31, | |
|--|--------------------------------------|-------|
| | 2003 | 2002 |
| Earnings from continuing operations | \$ 217 | \$ 22 |
| Earnings from discontinued operations | - | - |
| Cumulative effects of accounting changes | (83) | - |
| Net earnings | \$ 134 | \$ 22 |

Continuing Operations

First Quarter Results: Earnings from continuing operations increased by \$195 million in the first quarter of 2003 compared to the same quarter a year ago, primarily reflecting improved results from the Company's exploration and production operations, due to higher worldwide natural gas and liquids prices. Higher worldwide commodity prices increased net earnings by approximately \$230 million. The Company's worldwide average realized natural gas price, including a loss of 27 cents per thousand cubic feet ("Mcf") from hedging activities, was \$3.90 per Mcf for the first quarter of 2003. This was an increase of \$1.44 per Mcf, or 59 percent, from the \$2.46 per Mcf, including a benefit of 9 cents per Mcf from hedging activities, realized during the first quarter of 2002. In the first quarter of 2003, the Company's worldwide average liquids price was \$29.99 per barrel, which was an increase of \$11.13 per barrel, or 59 percent, from the same period a year ago. The Company's hedging program lowered the average realized liquids price by 50 cents in the first quarter of 2003 while the first quarter of 2002 included a gain of 6 cents per barrel from hedging activities. The first quarter of 2003 included an after-tax gain of \$2 million in mark-to-market accruals and realized gains/losses for non-hedge commodity derivatives recorded by the Company's Northrock Resources Ltd. subsidiary, compared to an after-tax loss of \$4 million in the same period a year ago. After-tax environmental and litigation expenses were \$17 million in the first quarter of 2003, compared with \$26 million in the same period a year ago.

These positive variance factors were partially offset by higher dry hole costs, higher depreciation and depletion rates (including asset retirement obligation accretion) and lower North America liquids production, which reduced net earnings by approximately \$25 million, \$20 million and \$10 million, respectively, in the first quarter of 2003 compared with the same period a year ago. North America liquids production averaged 88,000 barrels per day in the first quarter of 2003, down from 99,000 barrels per day a year ago. Most of the production decline was due to natural declines in existing fields in the Gulf of Mexico and the divestiture of various properties in Canada, onshore U.S. and the Gulf of Mexico.

Cumulative Effects of Accounting Changes

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

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Revenues from continuing operations for the first quarter of 2003 were \$1.83 billion compared with \$1.05 billion for the same period a year ago. The increase primarily reflected higher natural gas and liquids prices.

Financial Condition

Cash flows from operating activities, including working capital and other changes, was \$685 million in the first quarter of 2003 compared with \$271 million in the same period a year ago. The increase principally reflected the effects of higher worldwide commodity prices.

Capital expenditures were \$429 million for the first quarter of 2003 compared with \$390 million in the same period a year ago.

The Company's total consolidated debt, including current maturities, at March 31, 2003, was \$2.92 billion, compared with \$3.0 billion at the end of 2002. Cash and cash equivalents on hand totaled \$356 million at March 31, 2003, up from \$168 million at the end of 2002.

Second Quarter 2003 and Full-Year 2003 Outlook

The Company's current net worldwide daily production estimate for the second quarter of 2003 is between 460,000 and 470,000 barrels-of-oil equivalent ("BOE"). Based on current market prices, the Company's net earnings for the second quarter are expected to change 4 cents per share for every \$1 change in the Company's average worldwide realized price for crude oil and 2 cents per share for every 10-cent change in its average realized North America natural gas price, excluding the effect of hedging activities. For the second quarter of 2003, the Company has hedged 19.7 billion Btu of Lower 48 natural gas production with pricing collars between \$4.21 and \$5.06 per MMBtu, and 1.5 million barrels of Lower 48 crude oil with collars between \$28.94 and \$32.71 per barrel. Second quarter hedged volumes represent approximately 32 percent and 35 percent of expected Lower 48 natural gas and crude oil production volumes, respectively. The Company also forecasts second quarter pre-tax dry hole costs of \$40 million to \$50 million.

The Company currently estimates its full-year 2003 production to average between 475,000 to 490,000 BOE per day. This production forecast includes the associated production loss of approximately 5,000 BOE per day from divestitures that the Company has completed so far this year. These divestitures included various properties in Canada, onshore U.S. and the Gulf of Mexico and netted the Company \$64 million in proceeds. The Company has additional property divestitures pending or planned and additional adjustments to the production forecast range will be made as further divestitures are completed. The production forecast reflects the start of new oil production from the West Seno field in Indonesia, currently scheduled to begin late in the second quarter of 2003. The Company's total actual production for the year could also be impacted by cost recovery volume fluctuations under the Company's various foreign Production Sharing Contracts ("PSCs") due to changes in commodity prices, demand for natural gas in Thailand, and production and exploration performance in the Gulf of Mexico.

Based on current market prices, the Company's net earnings for the full-year are expected to change 14 cents per share for each \$1 change in the Company's average worldwide realized price for crude oil and 7 cents per share for every 10-cent change in its average realized North America natural gas price, excluding the effect of hedging activities. For the remaining three quarters of 2003, the Company has hedged 43.4 billion Btus of Lower 48 natural gas production with collars of \$3.98 to \$4.84 per MMBtu. This volume represents approximately 25 percent of expected Lower 48 natural gas production. Hedged crude oil production volumes beyond the second quarter levels, discussed in the previous paragraph, are immaterial. The Company forecasts pre-tax dry

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hole costs of \$155 million to \$185 million and that pre-tax pension-related expenses will increase over 2002 by approximately \$55 million to \$60 million.

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Cautionary Statement

This filing contains certain forward-looking statements about Unocal's future production rates, commodity prices, dry hole costs, divestitures, pension costs, future operations, drilling plans, business transactions and other matters. These statements are not guarantees of future performance. The statements are based upon Unocal's current expectations and beliefs and are subject to a number of known and unknown risks and uncertainties that could cause actual results to differ materially from those described in the forward looking statements. Actual results could differ materially as a result of changes in commodity prices, the levels of the Company's oil and gas production, development and exploratory drilling results, the amounts of the Company's operating cash flow and other capital resources available to fund its capital expenditures, government approvals, regulatory, geological, operating and economic considerations, and other factors disclosed on pages 56 to 64 of Unocal's 2002 Annual Report on Form 10-K.

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

UNOCAL CORPORATION
(Registrant)

Date: April 28, 2003

By: /s/ JOE D. CECIL

Joe D. Cecil
Vice President and Comptroller

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CONSOLIDATED EARNINGS (UNAUDITED)

UNOCAL CORPORATION

For the Three Months
Ended March 31,

Millions of dollars except per share amounts

Revenues

| | | |
|--|----------|----------|
| Sales and operating revenues | \$ 1,813 | \$ 1,035 |
| Interest, dividends and miscellaneous income | 11 | 12 |
| Gain on sales of assets | 3 | 2 |
| ----- | | |
| Total revenues | 1,827 | 1,049 |

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| | | |
|--|---------|---------|
| Costs and other deductions | | |
| Crude oil, natural gas and product purchases | 684 | 295 |
| Operating expense | 294 | 299 |
| Administrative and general expense | 51 | 43 |
| Depreciation, depletion and amortization | 260 | 224 |
| Asset impairments | - | - |
| Dry hole costs | 71 | 28 |
| Exploration expense | 55 | 59 |
| Interest expense | 38 | 51 |
| Property and other operating taxes | 22 | 16 |
| Distributions on convertible preferred securities of subsidiary trust | 8 | 8 |
| ----- | | |
| Total costs and other deductions | 1,483 | 1,023 |
| ----- | | |
| Earnings from equity investments | 43 | 37 |
| ----- | | |
| Earnings from continuing operations before income taxes and minority interests | 387 | 63 |
| ----- | | |
| Income taxes | 168 | 40 |
| Minority interests | 2 | 1 |
| ----- | | |
| Earnings from continuing operations | 217 | 22 |
| ----- | | |
| Earnings from discontinued operations | - | - |
| Cumulative effects of accounting changes (a) | (83) | - |
| ----- | | |
| Net earnings | \$ 134 | \$ 22 |
| ===== | | |
| Basic earnings per share of common stock (b) | | |
| Continuing operations | \$ 0.84 | \$ 0.09 |
| Net earnings | \$ 0.52 | \$ 0.09 |
| Diluted earnings per share of common stock (c) | | |
| Continuing operations | \$ 0.82 | \$ 0.09 |
| Net earnings | \$ 0.52 | \$ 0.09 |
| ----- | | |
| Cash dividends declared per share of common stock | \$ 0.20 | \$ 0.20 |
| ----- | | |

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CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED) UNOCAL CORPORATION

| Millions of dollars | At March 31, 2003 | At December 31, 2002 |
|---|----------------------|-------------------------|
| ----- | | |
| Assets | | |
| Cash and cash equivalents | \$ 356 | \$ 168 |
| Other current assets - net | 1,354 | 1,207 |
| Investments and long-term receivables - net | 1,038 | 1,044 |
| Properties - net | 8,114 | 7,879 |
| Goodwill | 125 | 122 |
| Other assets | 396 | 340 |
| ----- | | |
| Total assets | \$ 11,383 | \$ 10,760 |
| ===== | | |

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| | | |
|---|-----------|-----------|
| Liabilities and Stockholders' Equity | | |
| Current liabilities (a) | \$ 1,869 | \$ 1,632 |
| Long-term debt and capital leases | 2,918 | 3,002 |
| Deferred income taxes | 631 | 593 |
| Accrued abandonment, restoration and environmental liabilities | 880 | 622 |
| Other deferred credits and liabilities | 844 | 816 |
| Minority interests | 275 | 275 |
| Convertible preferred securities of a subsidiary trust | 522 | 522 |
| Stockholders' equity | 3,444 | 3,298 |
| ----- | | |
| Total liabilities and stockholders' equity | \$ 11,383 | \$ 10,760 |
| ===== | | |

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CONDENSED CONSOLIDATED CASH FLOWS (UNAUDITED) UNOCAL CORPORATION

| Millions of dollars | For the Three Months Ended March 31, | |
|---|---|-------|
| | 2003 | 2002 |
| ----- | | |
| Cash Flows from Operating Activities | | |
| Net earnings | \$ 134 | \$ 22 |
| Adjustments to reconcile net earnings to net cash provided by operating activities | | |
| Depreciation, depletion and amortization | 260 | 224 |
| Asset impairments | - | - |
| Dry hole costs | 71 | 28 |
| Amortization of exploratory leasehold costs | 24 | 22 |
| Deferred income taxes | 30 | (23) |
| Gain on sales of assets (pre-tax) | (3) | (2) |
| Earnings applicable to minority interests | 2 | 1 |
| Cumulative effects of accounting changes | 83 | - |
| Other | 30 | (12) |
| Working capital and other changes related to operations | 54 | 11 |
| ----- | | |
| Net cash provided by operating activities | 685 | 271 |
| ----- | | |
| Cash Flows from Investing Activities | | |
| Capital expenditures (includes dry hole costs) | (429) | (390) |
| Proceeds from sales of assets | 66 | 28 |
| Proceeds from sale of discontinued operations | - | 2 |
| ----- | | |
| Net cash used in investing activities | (363) | (360) |
| ----- | | |
| Cash Flows from Financing Activities | | |
| Long-term borrowings | 16 | 399 |
| Reduction of long-term debt and capital lease obligations | (100) | (123) |
| Minority interests | (2) | (2) |
| Proceeds from issuance of common stock | 1 | 14 |

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| | | |
|--|--------|--------|
| Dividends paid on common stock | (52) | (49) |
| Other | 3 | (2) |
| ----- | | |
| Net cash provided (used) by financing activities | (134) | 237 |
| ----- | | |
| Net increase in cash and cash equivalents | 188 | 148 |
| ----- | | |
| Cash and cash equivalents at beginning of year | 168 | 190 |
| ----- | | |
| Cash and cash equivalents at end of period | \$ 356 | \$ 338 |
| ===== | | |

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OPERATING HIGHLIGHTS

UNOCAL CORPORATION

| | For the Three Months Ended March 31, | |
|---|---|---------|
| | 2003 | 2002 |
| ----- | | |
| North America Net Daily Production | | |
| Liquids (thousand barrels) | | |
| U.S. Lower 48 (a) (b) | 48 | 56 |
| Alaska | 22 | 25 |
| Canada | 18 | 18 |
| ----- | | |
| Total liquids | 88 | 99 |
| Natural gas - dry basis (million cubic feet) | | |
| U.S. Lower 48 (a) (b) | 700 | 746 |
| Alaska | 61 | 101 |
| Canada | 97 | 90 |
| ----- | | |
| Total natural gas | 858 | 937 |
| North America Average Prices (excluding hedging activities) (c) (d) | | |
| Liquids (per barrel) | | |
| U.S. Lower 48 | \$30.53 | \$18.36 |
| Alaska | \$33.48 | \$18.61 |
| Canada | \$28.44 | \$16.52 |
| Average | \$30.77 | \$18.06 |
| Natural gas (per mcf) | | |
| U.S. Lower 48 | \$ 6.29 | \$ 2.23 |
| Alaska | \$ 1.20 | \$ 1.57 |
| Canada | \$ 5.64 | \$ 2.34 |
| Average | \$ 5.83 | \$ 2.16 |
| ----- | | |
| North America Average Prices (including hedging activities) (c) (d) | | |
| Liquids (per barrel) | | |
| U.S. Lower 48 | \$28.97 | \$18.54 |
| Alaska | \$33.48 | \$18.61 |
| Canada | \$28.44 | \$16.52 |
| Average | \$29.90 | \$18.17 |
| Natural gas (per mcf) | | |
| U.S. Lower 48 | \$ 5.61 | \$ 2.47 |
| Alaska | \$ 1.20 | \$ 1.57 |
| Canada | \$ 5.33 | \$ 2.25 |
| Average | \$ 5.25 | \$ 2.35 |
| ----- | | |

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OPERATING HIGHLIGHTS (CONTINUED)

UNOCAL CORPORATION

| | For the Three Months Ended March 31, | |
|---|---|---------|
| | 2003 | 2002 |
| ----- | | |
| International Net Daily Production (e) | | |
| Liquids (thousand barrels) | | |
| Far East | 55 | 53 |
| Other (a) | 21 | 20 |
| ----- | | |
| Total liquids | 76 | 73 |
| Natural gas - dry basis (million cubic feet) | | |
| Far East | 875 | 822 |
| Other (a) | 107 | 75 |
| ----- | | |
| Total natural gas | 982 | 897 |
| International Average Prices (f) | | |
| Liquids (per barrel) | | |
| Far East | \$29.69 | \$19.28 |
| Other | \$32.21 | \$21.96 |
| Average | \$30.11 | \$19.86 |
| Natural gas (per mcf) | | |
| Far East | \$ 2.76 | \$ 2.59 |
| Other | \$ 2.83 | \$ 2.48 |
| Average | \$ 2.77 | \$ 2.58 |
| ----- | | |
| Worldwide Net Daily Production (a) (b) (e) | | |
| Liquids (thousand barrels) | 164 | 172 |
| Natural gas - dry basis (million cubic feet) | 1,840 | 1,834 |
| Barrels oil equivalent (thousands) | 471 | 477 |
| Worldwide Average Prices (excluding hedging activities) (c) (d) | | |
| Liquids (per barrel) | \$30.49 | \$18.80 |
| Natural gas (per mcf) | \$ 4.17 | \$ 2.37 |
| Worldwide Average Prices (including hedging activities) (c) (d) | | |
| Liquids (per barrel) | \$ 29.99 | \$18.86 |
| Natural gas (per mcf) | \$ 3.90 | \$ 2.46 |
| ----- | | |

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