Unum Group
Form 4
February 27, 2014

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Farrell Breege A

(Last) (First) (Middle)

1 FOUNTAIN SQUARE

(Street)

CHATTANOOGA, TN 37402

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Unum Group [UNM]

3. Date of Earliest Transaction (Month/Day/Year)
02/25/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP & Chief Investment Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/25/2014		A		9,884 (1)	A	$ 0	53,646 (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secu Bene Own Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Farrell Breege A 1 FOUNTAIN SQUARE CHATTANOOGA, TN 37402			EVP & Chief Investment Officer	

Signatures

/s/ Jullienne, J. Paul, Attorney-in-Fact	02/27/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) All are restricted stock units, which may be settled, on a 1-for-1 basis, only in shares of common stock ("stock-settled RSUs"), and which vest in three equal annual installments beginning on February 25, 2015.

(2) Includes 33,233 stock-settled RSUs and 20,413 shares of common stock. Fractional amounts have been rounded to the nearest whole number.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ,866
-- Total current liabilities 2,599 149 160 - 2,908 Long-term debt 211 439 753 - 1,403 Intercompany payable to consolidated affiliates - 1,765 - (1,765) - Asbestos litigation claims 737 - - - 737 Other liabilities 1,016 16 93 - 1,125 Minority interest in consolidated subsidiaries 41 - - - 41
-- Total liabilities 4,604 2,369 1,006 (1,765) 6,214 Shareholders' equity: Common shares 175 - 1,138 (175) 1,138 Other shareholders' equity 6,085 4,409 4,175 (11,055) 3,614
-- Total shareholders' equity 6,260 4,409 5,313 (11,230) 4,752
-- Total liabilities and shareholders' equity $ 10,864 $ 6,778 $ 6,319 $(12,995) $10,966

==
26 Condensed Consolidating Statements of Cash Flows Six Months ended June 30, 2002 DII Non-issuer/ Industries, Halliburton Consolidated Non-guarantor LLC Company Consolidating Halliburton Millions of dollars Subsidiaries (Issuer) (Guarantor) Adjustments Company
-- Net cash flows from operating activities $ 607 $ (15) $ 28 $ - $ 620 Capital expenditures (404) - - - (404) Sales of property, plant and equipment 54 - - - 54 Other investing activities (64) - 192 (192) (64) Payments on long-term borrowings (4) - - - (4) Borrowings (repayments) of short-term debt, net 39 - (25) - 14 Payments of dividends to shareholders - - (109) - (109) Proceeds from exercises of stock options - - - - - Payments to reacquire common stock - - (2) - (2) Other financing activities (197) 15 (10) 192 - Effect of exchange rate on cash (12) - - - (12) Net cash flows from discontinued operations - - - - - -- Increase (decrease) in cash and equivalents $ 19 $ - $ 74 $ - $ 93
==
Condensed Consolidating Statements of Cash Flows Six Months ended June 30, 2001 DII Non-issuer/ Industries, Halliburton Consolidated Non-guarantor LLC Company Consolidating Halliburton Millions of dollars Subsidiaries (Issuer) (Guarantor) Adjustments Company
-- Net cash flows from operating activities $ 251 $ 46 $ 47 $ - $ 344 Capital expenditures (344) - - - (344) Sales of property, plant and equipment 39 - - - 39 Other investing activities (147) - 1,032 (1,032) (147) Payments on long-term borrowings (4) (5) - - (9) Borrowings (repayments) of short-term debt, net (18) - (836) - (854) Payments of dividends to shareholders - - (107) - (107) Proceeds from exercises of stock options - - 24 - 24 Payments to reacquire common stock - - (8) - (8) Other financing activities 185 (1,220) - 1,032 (3) Effect of exchange rate on cash (12) - - - (12) Net cash flows from discontinued operations - 1,174 - - 1,174
-- Increase (decrease) in cash and equivalents $ (50) $ (5) $ 152 $ - $ 97
==
27 During the second quarter 2002, we identified an error contained in the information set forth in the December 31, 2001 Condensed Consolidating Balance Sheets which were previously disclosed in our periodic reports filed with the SEC. The error has been corrected in the December 31, 2001 Condensed Consolidating Balance Sheets presented in this footnote. The line items and amounts as originally reported and as corrected are as follows: Non-issuer/ Halliburton Asset (Liability) Non-guarantor DII Industries, LLC Company Subsidiaries (Issuer) (Guarantor)
-- Originally Corrected Originally Corrected Originally Corrected Reported Amounts Reported Amounts Reported Amounts
-- Intercompany receivable from consolidated affiliates $ 0 $ 198 $ 0 $ 0 $2,854 $ 1,805
-- Intercompany payable to consolidated affiliates (1,089) 0 (1,765) (1,765) 0 0
-- Equity in and advances to consolidated affiliates 0 0 5,296 6,583 3,122 4,409
-- Other shareholders' equity (4,798) (6,085) (3,122) (4,409) (3,937) (4,175)
-- Net (5,887) (5,887) 409 409 2,039 2,039 -- The error had no impact on the information in the Condensed Consolidating Statements of Income or the Condensed Consolidating Statements of Cash Flow for the year ending December 31, 2001. The error also had no impact on the Condensed Consolidated Financial Statements of Halliburton Company or any other footnote disclosures. 28 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
-- In this section, we discuss the operating results and general financial condition of Halliburton Company and its subsidiaries. We explain: - factors and risks that impact our business; - results of our quarterly and year-to-date operating results; - factors that impacted our cash flows and our liquidity; and - other items that materially affect our financial condition or earnings. BUSINESS

ENVIRONMENT Our business is organized around two business segments: - Energy Services Group; and - Engineering and Construction Group. The results of Dresser Equipment Group are reported as discontinued operations through March 31, 2001. We currently operate in over 100 countries throughout the world, providing a comprehensive range of discrete and integrated products and services to the energy industry, and to other industrial and governmental customers. The majority of our consolidated revenues are derived from the sale of services and products, including engineering and construction activities, to large integrated oil and gas companies as well as national oil companies. These services and products are used throughout the energy industry, from the earliest phases of exploration, development, and production of oil and gas resources through refining and processing. The industries we serve are highly competitive with many substantial competitors within each segment. No country other than the United States or the United Kingdom accounts for more than 10% of our operations. Unsettled political conditions, acts of terrorism, expropriation or other governmental actions, exchange controls or currency devaluation may result in increased business risk in any one country. We believe the geographic diversification of our business activities reduces the risk that loss of business in any one country would be material to our consolidated results of operations. Halliburton Company Activity levels within our two business segments are significantly impacted by the spending of large integrated oil and gas companies and national oil companies on exploration, development, and production programs, capital expenditures for refining and processing facilities and the level of government spending. Also impacting our activity is the status of the global economy, which indirectly impacts oil and gas consumption, demand for petrochemical and investment in infrastructure projects. High levels of worldwide drilling activity, particularly in the United States for gas drilling, occurred in the first half of 2001, but began to decline in the latter part of that year. The decline was partially due to general business conditions caused by global economic unrest and uncertainty which was accelerated by the terrorist attacks on September 11, 2001. The energy industry in the United States was further impacted by consecutive unseasonably warm winters in 2000 and 2001 which caused higher than normal gas storage levels and resultant excess supply as previously reported by the American Gas Association and currently by the Energy Information Administration. The increased gas storage levels contributed to the declining natural gas prices during the second half of 2001 and reduced spending on gas drilling activities. Quarterly average natural gas prices (Henry Hub - expressed in United States dollars per MCF) decreased from $4.48 in the 2001 second quarter, to $2.47 in the 2002 first quarter, then increased to $3.40 during the 2002 second quarter. We expect that the current surplus of gas in storage will keep downward pressure on natural gas prices until well into the winter heating season. We expect natural gas prices to decline during the third quarter and then to firm up as we move into the peak winter demand season in the 2002 fourth quarter and 2003 first quarter assuming an average or colder than average winter. During the 2002 second quarter and despite weak demand, crude oil prices (West Texas Intermediate - expressed in U.S. dollars per barrel) remained above anticipated levels of less than $20.00 per barrel, due to actions to control production by OPEC. Quarterly average oil prices decreased from $27.93 in the 2001 second quarter, to $21.36 in the 2002 first quarter, and increased to $25.75 during the 2002 second quarter. For the remainder of 2002, oil prices 29 are expected to remain at current levels, but may be volatile due to the political tension in the Middle East, the ability of OPEC to manage member OPEC country production quota levels, and increased production by non-OPEC countries, namely, Norway, Russia and the former Soviet Union countries of the Commonwealth of Independent States. Energy Services Group Lower natural gas and crude oil drilling activity since the 2001 third quarter resulted in decreased demand for the services and products provided by the Energy Services Group. The quarterly average worldwide rig count based on published rig count information, decreased from 2,240 in the 2001 second quarter, to 1,932 in the 2002 first quarter, and further decreased to 1,678 during the 2002 second quarter. These rig count decreases were attributable primarily to North America due to lower gas prices brought on by decreased gas drilling demand resulting from a weaker United States economy and higher than normal levels of gas in storage due to an unseasonably warmer winter. The Canadian rig count averaged 147 during the 2002 second quarter compared to 252 in the 2001 second quarter and 383 in the 2002 first quarter. The decrease was a result of a longer than normal spring thaw season preventing drilling activity. The international rig count was relatively flat for the comparable periods. The rig count for the remainder of this year will be predicated on oil and gas prices and demand which will be driven by the United States and world economies and in particular gas demand and gas available in underground storage in the United States to meet winter seasonal requirements. In addition, the decreased rig activity in the United States has increased pressure on the oilfield services product service lines to discount prices. The price increases we implemented last year and our efforts to manage costs in particular through our 2002 restructuring efforts should partially offset the impacts of lower activity levels and additional discounting. As predicted, our pressure pumping product service line has been significantly impacted by the current economic slowdown due to its dependence on United States gas drilling. Deepwater activity has not been as adversely impacted as land activity by the downturn in the industry, due to the level of investment and the long term nature of contracts. Our drilling systems product service line, which has a large percentage of its business outside the United States and is heavily involved in deepwater oil and gas exploration and development drilling and longer term contracts, has remained strong despite the overall decline in the energy industry. Drilling activity in the United States and Canada is expected to gradually improve in the second half of the year as compared to the first half of the year. International drilling activity during the second half of 2002 is expected to be flat to down slightly. In the longer term, we expect increased global demand for oil and natural gas products, additional customer spending to replace depleting reserves and our continued technological advances to provide growth opportunities for us. Engineering and Construction Group Our engineering and construction projects are longer term in nature and are not as impacted by short-term fluctuations in oil and gas prices. The global economic slowdown continued through the first half of 2002, however, we may see a turnaround during the second half of 2002. Manufacturing activity has recently improved and has led to increased demand for ethylene and for other petrochemical products. However, project awards will continue to be delayed or their scope reduced due to excess capacity in petrochemical supplies. A number of large-scale gas and liquefied natural gas, gas-to-liquids, government and infrastructure projects are being awarded or actively considered. Growth opportunities also exist to provide additional security and defense support to government agencies in the United States and other countries. Demands for these services are expected to grow as governmental agencies seek to control costs and efficiencies by outsourcing these functions and due to new demands created by increased efforts to combat terrorism. After careful consideration, we have decided to no longer pursue lump sum engineering, procurement, installation and commissioning (EPIC) contracts for the offshore oil and gas industry. An important aspect of our reorganization process was to look closely at each of our businesses to insure that they are self-sufficient including their use of capital and liquidity. In that process, we found that the EPIC offshore business was using a disproportionate share of our bonding and letter of credit capacity relative to its profit contribution. The risk/reward relationship in that segment is no longer attractive to us. We provide a range of engineering, fabrication and project management services to 30 the offshore industry which we will continue to service through a variety of other contracting forms. We have seven fixed price EPIC offshore projects underway and we are fully committed to successful completion of these projects, most of which are substantially complete. We plan to retain our excellent offshore engineering and services capabilities. Backlog Our total backlog at June 30, 2002, was $9.8 billion, comprised of $9.4 billion for the Engineering and Construction Group and $0.4 billion for the Energy Services Group. As a result of the 2002 corporate reorganization and movement of our Major Projects, Production Services and Granherne businesses to the Engineering and Construction Group from the Energy Services Group, approximately $1.7 billion of backlog is now reported under the Engineering and Construction Group that was previously reported under the Energy Services Group. Reorganization of Business Operations Based on our review, we announced plans to restructure our businesses into two wholly owned operating subsidiary groups, the Energy Services Group and the Engineering and Construction Group. As part of this reorganization, we are separating and consolidating the entities in our Energy Services Group together as direct and indirect subsidiaries of Halliburton Energy Services, Inc. We are also separating and consolidating the entities in our Engineering and Construction Group together as direct and indirect subsidiaries of the former Dresser Industries Inc., which became a limited liability company during the quarter and was renamed DII Industries, LLC. The reorganization of business operations will facilitate the separation, organizationally, financially, and operationally, of our two business segments, which we believe will significantly improve operating efficiencies in both, while streamlining management and easing manpower requirements. In addition, many support functions which were previously shared were moved into the two business groups. Although we have no specific plans currently, the reorganization would facilitate separation of the ownership of the two businesses in the future if we identify an opportunity that produces greater value for our shareholders than continuing to own both businesses. The corporate reorganization is largely complete and is expected to be concluded by the end of the year. In the second quarter of 2002 we have incurred pretax restructuring charges of $56 million, which brings the year-to-date restructuring cost to $67 million. The year-to-date charges include $44 million in personnel related costs, $13 million in asset write-downs, $7 million in professional fees related to the restructuring and $3 million in contract terminations. We expect to incur additional charges in the second half of this year totaling approximately $20 million. We anticipate that the cost savings will increase so that in 2003 they will result in annualized cost savings of $200 million compared to costs prior to the corporate reorganization. As a part of the reorganization, we decided that the operations of Major Projects, Granherne and Production Services were best managed by KBR in the current business environment and these businesses were moved from the Energy Services Group to the Engineering and Construction Group during the second quarter. All prior period segment results have been restated to reflect this change. Major Projects, which currently consists of the Barracuda-Caratinga project in Brazil, is now reported through the Offshore Operations product line, Granherne is now reported in the Onshore product line and Production Services is now reported under the Operations and Maintenance product line. Asbestos During the quarter, we received an asbestos econometric report from Hamilton, Rabinovitz & Alschuler, Inc. Based upon this report we accrued an additional asbestos pretax charge of $483 million and increased our net asbestos liability to $602 million. Of this pretax charge, $330 million was recorded under the Engineering and Construction Group segment and $153 million was recorded as discontinued operations. At June 30, 2002 our gross liability for asbestos litigation claims increased by $1.5 billion to $2.2 billion, and estimated insurance recoveries increased by $1 billion to a total of $1.6 billion. These amounts include a reserve for estimated incurred but not reported claims to be filed through 2052, as well as all existing claims. See Note 8. 31 RESULTS OF OPERATIONS IN 2002 COMPARED TO 2001 Second Quarter of 2002 Compared with the Second Quarter of 2001 Second Quarter REVENUES ---------------------- Increase Millions of dollars 2002 2001 (decrease) --- Energy Services Group $ 1,756 $ 2,008 $ (252) Engineering and Construction Group 1,479 1,331 148 --- Total revenues $ 3,235 $ 3,339 $ (104) === Consolidated revenues in the 2002 second quarter of $3.2 billion decreased $104 million compared to the 2001 second quarter. International revenues were 67% of total revenues for the 2002 second quarter and 60% in the 2001 second quarter, highlighting the reduction in business levels in the United States. Energy Services Group revenues were $1.8 billion for the 2002 second quarter, a decrease of 13% from the 2001 second quarter. International revenues were 60% of total revenues in the 2002 second quarter compared to 52% in the 2001 second quarter due to decreased United States drilling activity. Our oilfield services product service line revenues of over $1.5 billion in the 2002 second quarter declined 13% from the 2001 second quarter, primarily due to reduced rig activity, particularly in the United States, and increased discounts. Revenues from logging, completion products, drilling fluids and drill bit product service lines declined between 10% and 13% in the 2002 second quarter from the 2001 second quarter. Pressure pumping revenues were down about 18% from the same period. Drilling systems revenues increased 2% in the 2002 second quarter as compared to the 2001 second quarter due to introduction of new technologies and increased capacity. International revenues were slightly higher in the 2002 second quarter, with a 3% increase over the 2001 second quarter. Geographically, oilfield services North America revenues decreased 29%, reflecting market conditions and weak rig activity in the United States and Canada. Europe/Africa revenues increased 8%. Asia Pacific revenues increased almost 21%. Middle East revenues were up over 12%. Revenues were 4% lower in Latin America due to political instability and an oil workers strike in Venezuela, and the impact of the Argentina economic crisis. Revenues for the balance of the segment decreased $26 million for the 2002 second quarter as compared to the 2001 second quarter, primarily due to the formation of Subsea 7 on May 23, 2002. We are accounting for our 50% ownership interest in Subsea 7 on the equity method of accounting versus full consolidation of the Halliburton Subsea revenue in the 2001 second quarter. Had it not been for the change in accounting method in connection with the transaction, revenues for the balance of the segment would have increased slightly for the 2002 second quarter. Integrated exploration and production information systems revenues experienced growth of 7%, primarily due to increased professional services as a result of the Magic Earth acquisition. Engineering and Construction Group revenues of $1.5 billion in the 2002 second quarter were 11% higher than the 2001 second quarter. Revenue in our offshore operations increased 49% in the 2002 second quarter versus the 2001 second quarter, primarily due to progress on a major project in Latin America during 2002. In addition, we had a 10% increase in onshore operations due to the progress on several large projects. Infrastructure revenue increased 8% primarily due to additional revenue from an Australian rail line project which started during second quarter of 2001. Government operations revenue declined 9% in the 2002 second quarter as compared to the 2001 second quarter, as the logistical support contract in the Balkans experienced lower task order volumes. Operations and maintenance revenue declined 5% due to decreased domestic maintenance revenues. International revenues were 76% for the second quarter of 2002 and 73% for the second quarter of 2001.

Revenue increased in all geographic regions with the largest increase in Latin America due to progress on a major project. Second Quarter OPERATING INCOME ------------------------- Increase Millions of dollars 2002 2001 (decrease) -- Energy Services Group $ 70 $ 268 $ (198) Engineering and Construction Group (450) 21 (471) General corporate (25) (17) (8) -- Total operating income $ (405) $ 272 $ (677) == 32 We had a consolidated operating loss of $405 million in the 2002 second quarter compared to $272 million of operating income in the 2001 second quarter. In the 2002 second quarter, we incurred certain charges, which included: - $56 million in pretax expense related to restructuring charges, of which $37 million related to the Energy Services Group, $10 million related to the Engineering and Construction Group and $9 million related to General corporate; - $119 million pretax loss in the Engineering and Construction Group on a lump sum fixed price offshore EPIC project in Brazil; - $330 million pretax loss in the Engineering and Construction Group related to asbestos exposures; and - $61 million pretax loss in the Energy Services Group on the impairment of our 50% equity investment in the Bredero-Shaw joint venture. In the 2001 second quarter, we incurred $12 million in goodwill amortization of which $7 million related to the Energy Services Group and $5 million related to the Engineering and Construction Group. Energy Services Group operating income for the 2002 second quarter decreased $198 million, or 74%, from the 2001 second quarter. Excluding the impairment of our 50% investment in Bredero-Shaw, restructuring charges, and goodwill amortized in the second quarter of 2001, operating income decreased by 39%. The results were significantly impacted by the slower United States economy, lower gas drilling activity primarily in the United States onshore operations and increased discount rates for our services in the United States. Operating income for our oilfield services product service line decreased 52% for the 2002 second quarter as compared to the 2001 second quarter. Excluding the noted items, the decline was approximately 41%. Operating income for the pressure pumping product service line declined by approximately 37%, logging by 50%, and drilling fluids decreased by just under 41% in the 2002 second quarter, as compared to the 2001 second quarter. Our drilling systems product line continue to do well with a 10% increase in operating income due mainly to the new SlickBore (TM) and Geo-Pilot (TM) tools. Geographically, all international regions experienced significant improvements except for Asia Pacific, with the largest increase in the Middle East. Increased activity in the Middle East contributed to higher operating income for the pressure pumping, drilling systems, logging and drilling bit product service lines for that region. Middle East pressure pumping operating income nearly tripled due to this increased activity while drilling systems was up 50%. Operating income in Latin America benefited from retroactive price adjustments in Brazil and Argentina totaling $10 million. Asia Pacific operating income declined primarily related to a $27 million loss on an integrated solutions project in Indonesia and the impact of mobilization of equipment and start-up costs on a project on Sakhalin Island. Excluding the impairment of our 50% interest in the Bredero-Shaw joint venture, 2002 restructuring charges and goodwill amortization in the 2001 second quarter, operating income for the remainder of the segment increased about $4 million. Increased income at integrated exploration and product information systems and Bredero-Shaw offset lower results within Subsea and the impact of selling EMC earlier this year. Engineering and Construction Group operating income decreased $471 million, from the 2001 second quarter to the 2002 second quarter. Operating income declined $17 million, excluding the impact of the 2002 restructuring costs, the loss on a major Brazilian project, accrued liabilities associated with asbestos exposure, and goodwill amortization in the 2001 second quarter. This decline occurred primarily in offshore operations where operating income decreased due to a loss on a project in the Philippines of $17 million. As we noted above, we have recorded a $119 million job loss related to a major Brazilian project. In calculating the loss to accrue on this job, we used $101 million in unapproved claims as we believe collection of those claims is probable. This compares to $66 million in unapproved claims used in the 2002 first quarter calculation for this project. In addition, we used $92 million in unapproved claims in calculating the accrued loss on other jobs in the second quarter 2002 and $134 million in unapproved claims used for the accrued loss calculation for several projects in the second quarter 2001. Operating income in onshore operations declined due to several jobs being at or near their completion stages. These decreases were partially offset by higher operating income in government operations, infrastructure and operations and maintenance. 33 General corporate expenses for the 2002 second quarter were $25 million compared to $17 million for the 2001 second quarter. Excluding 2002 restructuring costs, general corporate expenses were $16 million or a decrease of 6% compared to the 2001 second quarter. NONOPERATING ITEMS Interest expense of $30 million for the 2002 second quarter, decreased $4 million compared to the 2001 second quarter. The decrease is due to lower average borrowings in 2002. Interest income was $12 million in the second quarter of 2002 and $6 million in the second quarter of 2001. The increased interest income is for interest on a note receivable from a customer which had been deferred until collection. Foreign exchange losses, net were $5 million in the current year quarter compared to $1 million in the second quarter of last year. The increase is due to the continuing economic and financial crisis in Argentina. Other, net had a $2 million loss in the 2002 second quarter related to financing activities. Benefit for income taxes of $77 million in the 2002 second quarter resulted in an effective tax benefit of 18%, versus a provision for income taxes in the 2001 second quarter rate of 40%. Excluding the impact of the impairment loss on Bredero-Shaw and charges associated with our asbestos exposure, our effective tax benefit was 39%. The asbestos accrual generates a United States Federal deferred tax asset which may not be fully realizable based upon future taxable income projections and thus we have recorded a partial valuation allowance. The Bredero-Shaw loss created a capital loss for which we have no capital gains to offset and therefore no tax benefit was booked for the loss as future realization of the benefit was questionable. Loss from continuing operations was $358 million in the 2002 second quarter, compared to income from continuing operations of $143 million in the 2001 second quarter. Income (loss) from discontinued operations was a $159 million pretax loss, $140 million after-tax or $0.32 per diluted share, for the 2002 second quarter compared to a pretax loss of $92 million, $60 million after-tax or $0.14 per diluted share, for the 2001 second quarter. The loss in 2002 was due primarily to charges of $153 million pretax, $123 million after-tax booked on asbestos exposures. We also recorded pretax expense of $6 million associated with the Harbison-Walker bankruptcy filing. In addition, based upon the impact of certain second quarter items, we adjusted our 2002 estimated effective tax rate for discontinued operations by recording an $11 million tax provision in the second quarter of 2002. The loss in 2001 was due to asbestos exposures primarily from Harbison-Walker. Net loss for the 2002 second quarter was $498 million, or $1.15 per diluted share. Net income was $382 million, or $0.89 per diluted share for the 2001 second quarter. First Six Months of 2002 Compared with the First Six Months of 2001 First Six Months REVENUES ------------------------- Increase Millions of dollars 2002 2001 (decrease) -- Energy Services Group $ 3,445 $ 3,800 $ (355) Engineering and Construction Group 2,797 2,683 114 -- Total revenues $ 6,242 $ 6,483 $ (241) ==

Consolidated revenues in the first six months of 2002 of $6.2 billion decreased 4% compared to the first six months of 2001. International revenues were 67% of total revenues for the first half of 2002 and 61% in the first half of 2001 as activity levels remained more stable internationally versus in the United States where rig activity declined putting pressure on pricing and discounting. Energy Services Group revenues were lower by $355 million in the first half of 2002, a decrease of 9% from the first half of 2001. International revenues were 60% of total revenues for the first six months of 2002 as compared to 52% for the first six months of 2001. Revenues decreased primarily in North America as well as a slight decrease in Latin America, while Europe/Africa, Middle East and Asia Pacific had increases between 8% and 14% as compared to the 34 first six months of 2001. Revenues from our oilfield services product service lines were $3.0 billion for the first six months of 2002 compared to $3.4 billion for the first six months of 2001. Our pressure pumping business experienced a year-over-year decline of 13% while other businesses within the oilfield services product service lines had decreased revenues of 8% to 10% except for drilling systems which increased by 8%. The decline in revenue is attributable to lower levels of activity primarily in North America, which also put pressure on pricing and discounting of work in the United States. Geographically, our oilfield services product service lines declined 25% in North America due to lower rig activity and 3% in Latin America primarily in Argentina due to currency devaluation and in Venezuela due to lower activity brought on by uncertain market conditions. Offsetting these declines were increased revenues in Europe/Africa, Middle East and Asia Pacific primarily in Russia, the Commonwealth of Independent States, West Africa, Saudi Arabia, Egypt, Indonesia and China. Revenues for the remainder of the segment decreased $48 million year-over-year primarily in our Surface/Subsea business reflecting lower vessel utilization and a change in accounting for an unconsolidated investment. On May 23, 2002 Halliburton Subsea and DSND Subsea ASA concluded the formation of Subsea 7 with Halliburton accounting for their 50% ownership interest prospectively on the equity method of accounting versus full consolidation of the results of operations in the first half of 2001. This was partially offset by a 10% increase in revenues in integrated exploration and production information systems compared to the first half of 2001. Engineering and Construction Group revenues increased $114 million, or 4%, in the first six months of 2002 compared to the first six months of 2001. Year-over-year revenues were 5% lower in North America while increasing 7% outside North America. The increase in all other regions is mainly attributable to a large offshore project in Brazil attaining 43% completion and increased offshore engineering activity. Infrastructure revenues were higher by 11% due to increased progress on the Alice Springs to Darwin Rail Line project in Australia. Government operations product line revenues were 5% lower due to the contract in the Balkans experiencing lower task order volumes. Operations and maintenance revenue declined 9% primarily due to reduced downstream maintenance activity. First Six Months OPERATING INCOME -------------------------- Increase Millions of dollars 2002 2001 (decrease) -- Energy Services Group $ 239 $ 457 $ (218) Engineering and Construction Group (508) 48 (556) General corporate (13) (35) 22 -- Total operating income $ (282) $ 470 $ (752) ==

The first half of 2002 resulted in a consolidated operating loss of $282 million compared to $470 million of operating income in the first half of 2001. In the 2002 first half, we incurred gains and losses, which included: - $67 million in pretax expense related to restructuring, charges of which $42 million related to the Energy Services Group, $14 million related to the Engineering and Construction Group and $11 million related to General corporate; - $119 million pretax loss in the Engineering and Construction Group on a lump sum fixed price Brazil project; - $330 million pretax loss in the Engineering and Construction Group related to asbestos exposures; - $61 million pretax loss in the Energy Services Group on the impairment of our 50% equity investment in the Bredero-Shaw joint venture; - $108 million pretax gain in the Energy Services Group on the sale of our 50% interest in European Marine Contractors; - $98 million pretax expense in the Energy Services Group related to the judgment in a patent infringement case; - $80 million pretax write-off of billed and accrued receivables related to the Highlands Insurance Company litigation in the Engineering and Construction Group, formerly reported in General corporate; and - $28 million pretax gain for the value of stock received from the demutualization of an insurance provider in General corporate. 35 In the first half of 2001 we incurred $23 million in goodwill amortization of which $13 million related to the Energy Services Group and $10 million related to the Engineering and Construction Group. Energy Services Group operating income for the first half of 2002 declined $218 million, or 48%, as compared to the first half of 2001. Excluding $61 million impairment of our 50% interest in the Bredero-Shaw joint venture, $108 million gain on the sale of our interest in European Marine Contractors, $98 million related to the BJ Services judgment, $42 million in restructuring charges, and 2001 goodwill amortization, operating income declined 29%. Operating income in our oilfield services product service line declined $278 million or 60% reflecting lower rig activity primarily in North America. Pressure pumping operating income decreased 33%, being adversely impacted by reduced gas drilling in North America. Our logging and drilling fluids product services lines were also affected by the rig count decline with operating income declining 61% in logging and 37% in drilling fluids. Offsetting the declines were significantly improved results in the drilling systems product services line with operating income increasing 61% in the first half of 2002 compared to the first half of 2001 benefiting from improved international market activity and the introduction of our new SlickBore (TM) and Geo-Pilot (TM) tools. Our completion products and services product service line had a 37% increase in operating income in the first half of 2002 compared to the first half of 2001. International oilfield services operating income remained strong despite lower international rig activity. All international regions registered over 40% increase in operating income except for Asia Pacific. Operating income for the remainder of the segment increased $60 million. Excluding the impairment of our 50% interest in the Bredero-Shaw joint venture, $108 million gain on the sale of our interest in European Marine Contractors, $7 million in restructuring charges, and 2001 second quarter goodwill amortization, operating income for the remainder of the segment increased $12 million in the first half of 2002 compared to the first half of 2001. Engineering and Construction Group operating income declined by $556 million compared to the first half of 2001. Excluding the $119 million loss on unapproved claims for a major project in Latin America, $410 million accrued expenses related to net asbestos liability, $14 million in restructuring costs, and goodwill amortization in the 2001 second quarter, operating income declined $23 million. This decline occurred primarily in Offshore operations where operating income decreased $33 million due to a loss on a project in the Philippines. This was partially offset by higher margin technology sales in our Onshore operations. As we noted above, we have recorded a $119 million job loss related to a major Brazilian project. In calculating the loss to accrue for this project, we used $101 million in unapproved claims as we believe collection of those claims is probable. In addition, we used $92 million in unapproved claims in calculating the accrued loss on other jobs in 2002 and $134 million in unapproved claims used for the accrued loss calculation for several projects in the second quarter of 2001. General corporate expenses for the first half of 2002 were $13 million compared to $35 million in the first half of 2001. Excluding restructuring charges and gain from the value of stock received from demutualization of an insurance provider, expenses would have been $30 million. NONOPERATING ITEMS Interest expense of $62 million for the first six months of 2002 decreased $19 million compared to the first six months of 2001. The decrease is due to lower average borrowings in 2002, partially offset by the $4 million in interest related to the patent infringement litigation. Interest income was $16 million in the first six months of 2002 compared to $10 million in the first six months of 2001. The increased interest income is for interest on a note receivable from a customer which had been deferred until collection. Foreign exchange losses, net were $13 million in the first six months of 2002 compared to $4 million in the first six months of 2001. The increase is due to the continuing economic and financial crisis in Argentina. Other, net of $2 million in the first six months of 2002, includes $3 million pretax gain associated with the increase on the option component of the European Marine Contractors Ltd. sale. Benefit for income taxes was $41 million in the first half of 2002 compared to a provision for income taxes of $159 million in the first half of 2001 reflecting an effective tax rate of 12% for the first six months of 2002 36 compared to 40% for the first six months of 2001. Excluding the impact of impairment loss on Bredero-Shaw and charges associated with our asbestos exposure, our effective tax rate was 39%. The asbestos accrual generates a United States Federal deferred tax asset which may not be fully realizable based upon future taxable income projections. As a result we have recorded a partial valuation allowance. The Bredero-Shaw loss created a capital loss for which we have no capital gains to offset and therefore no tax benefit was booked for the loss. Loss from continuing operations was $308 million in the first six months of 2002 compared to income from continuing operations of $229 million in the first six months of 2001. Loss from discontinued operations was $202 million pretax, $168 million after-tax or $0.39 per diluted share in the first six months of 2002 compared to a loss of $55 million pretax, $38 million after-tax or $0.09 per diluted share. The loss in 2002 was due primarily to charges recorded for asbestos exposures. We also recorded pretax expense of $6 million associated with the Harbison-Walker bankruptcy filing. In addition, based upon the impact of certain second quarter items, we adjusted our 2002 estimated effective tax rate for discontinued operations by recording an $11 million tax provision in the second quarter of 2002. The net loss for 2001 represents the results of Dresser Equipment Group through March 31, 2001 and an asbestos accrual primarily related to Harbison-Walker. Gain on disposal of discontinued operations of $299 million after-tax, or $0.70 per diluted share, in 2001 resulted from the sale of our remaining businesses in the Dresser Equipment Group in April 2001. Cumulative effect of accounting change, net in 2001 of $1 million reflects the impact of adoption of Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and for Hedging Activities." After recording the cumulative effect of the change our estimated annual expense under Financial Accounting Standards No. 133 is not expected to be materially different from amounts expensed under the prior accounting treatment. Net loss for the first six months of 2002 was $476 million, or $1.10 per diluted share. Net income for the first six months of 2001 was $491 million, or $1.14 per diluted share. LIQUIDITY AND CAPITAL RESOURCES We ended the second quarter of 2002 with cash and equivalents of $383 million, an increase of $93 million from the end of 2001. Cash flows from operating activities provided $620 million in the first six months of 2002 compared to $344 million in the first half of 2001. Working capital items, which include receivables, sales of receivables, inventories, accounts payable and other working capital, net, provided $333 million of cash in the first six months of 2002 compared to using $370 million in the same period of 2001. Included in changes to other operating activities for the first half of 2002 is a $40 million payment related to the Harbison-Walker bankruptcy filing. The 2002 change in sales of receivables relates to the sales of $200 million of undivided ownership interest to unaffiliated companies by the funding subsidiary under the account receivable securitization agreement. See Note 12 for further discussion. Cash flows from investing activities were $414 million in the first six months of 2002 and $452 million in the first half of 2001. Capital expenditures in the first six months of 2002 were $404 million as compared to $344 million for the first six months of 2001. Capital spending in the first half of 2002 continued to be primarily directed to Halliburton Energy Services, for fracturing equipment and directional and logging-while-drilling tools. We invested $60 million in an integrated solutions project. Dispositions of businesses in the first half of 2002 include $134 million collected from the sale of our European Marine Contractors Ltd. joint venture. Included in the change in restricted cash for the first half of 2002 is a $106 million deposit that collateralizes an appeal bond for a patent infringement judgment on appeal and $56 million as collateral for potential future insurance claim reimbursements. Also included in changes in restricted cash is $26 million primarily related to cash collateral agreements for letters of credit we currently have outstanding for various construction projects. In the first quarter the $26 million was included as Other current assets on the balance sheet and as an operating cash outflow. As the projects are considered long term in nature and we receive the interest on this cash, we have reclassified this amount to Other assets on the balance sheet and investing activities on the cash flow. In March 2001, we acquired PGS Data Management division of Petroleum Geo-Services ASA for $164 million cash. 37 Cash flows from financing activities used $101 million in the first six months of 2002 as compared to $957 million for the first six months of 2001. We paid dividends of $109 million to our shareholders in the first six months of 2002 compared to $107 million in the first six months of 2001. Proceeds from exercises of stock options provided cash flows of $24 million in the first quarter of 2001. With the proceeds from the sale of the Dresser Equipment Group in April 2001 we repaid our short-term debt in 2001. Cash flows from discontinued operations provided $1.2 billion in the first six months of 2001. Discontinued operations cash flows for 2001 include the proceeds from the sale of the Dresser Equipment Group. Capital resources from internally generated funds and access to capital markets are sufficient to fund our working capital requirements and investing activities. Our combined short-term notes payable and long-term debt was 27% of total capitalization at June 30, 2002 and 24% at December 31, 2001. At June 30, 2002, we have $188 million in restricted cash included in Other assets. See Note 5. In addition, on April 15, 2002, we entered into an agreement to sell accounts receivable to provide additional liquidity. See Note 12. Late in 2001 and early in 2002, Moody's Investors' Services lowered its ratings of our long-term senior unsecured debt to Baa2 and our short-term credit and commercial paper ratings to P-2. In addition, Standard & Poor's lowered its ratings of our long-term senior unsecured debt to A- and our short-term credit and commercial paper ratings to A-2. The ratings were lowered due to the agencies' concerns about asbestos litigation and the general weakening in the oilfield services sector. Although our long-term ratings continue at investment grade levels the cost of new borrowing is higher and our access to the debt markets is more volatile at the new rating levels. Reduced ratings and concerns about asbestos litigation, along with recent changes in the banking and insurance markets, will also result in higher cost and more limited access to markets for other credit products including letters of credit and surety bonds. Investment grade ratings are BBB- or higher for Standard & Poor's and Baa3 or higher for Moody's Investors' Services. Our current ratings are three levels above BBB- on Standard & Poor's and one level above Baa3 on Moody's Investors' Services. We have $700 million of committed lines of credit from banks that are available if we maintain an investment grade rating. In August 2002 $350 million of our $700 million in unused and undrawn bank lines will expire. We do not expect to replace the expiring bank lines at this time. The remaining $350 million facility expires on August 16, 2006. As of June 30, 2002, no amounts have been borrowed under these lines. In the normal course of business, we have agreements with banks under which approximately $1.3 billion of letters of credit or bank guarantees were issued, including $220 million which relate to our joint ventures' operations. Of these financial instruments, $260 million include provisions that allow the banks to require cash collateralization if our debt ratings fall below the investment grade ratings of BBB- by Standard & Poor's or Baa3 by Moody's Investors' Services. If our debt ratings fall below investment grade, we would also be in technical breach of a bank agreement covering another $127 million of letters of credit at June 30, 2002, which might entitle the bank to set-off rights. In addition, a $151 million letter of credit line, of which $85 million has been issued, includes provisions that allow the banks to require cash collateralization for the full line if debt ratings of either rating agency fall below the rating of BBB by Standard & Poor's, three downgrades from our current rating or Baa2 by Moody's Investors' Services, one downgrade from our current rating. In the event the ratings of our debt by either agency falls, we may have to issue additional debt or equity securities or obtain additional credit facilities in order to satisfy the cash collateralization requirements under the instruments referred to above and meet our other liquidity needs. We anticipate that any such new financing would not be on terms as attractive as those we have currently and that we would also be subject to increased borrowing costs and interest rates. These letters of credit and bank guarantees relate to our guaranteed performance or retention payments under our long-term contracts and self-insurance. In the past, no significant claims have been made against these financial instruments. We do not anticipate material losses to occur as a result of these financial instruments. Our Halliburton Elective Deferral Plan has a provision that if the Standard & Poor's rating falls below BBB the amounts credited to the participants accounts will be paid to the participants in a lump-sum within 45 days. At June 30, 2002 this was approximately $50 million. 38 On July 12, 2001 we issued $425 million of two and five year medium-term notes under our medium-term note program. The notes consist of $275 million of 6% fixed rate notes due August 1, 2006 and $150 million of floating rate notes due July 16, 2003. Net proceeds from the two medium-term note offerings were used to reduce short-term debt in 2001. In addition, we have a $75 million medium-term note due August 2002. Currently we do not expect to issue new debt to replace the medium-term note. CRITICAL ACCOUNTING POLICIES The preparation of financial statements requires the use of judgments and estimates. During the quarter, we reevaluated our critical accounting policies and related disclosures. Based upon this review and certain changes in our business, the following critical accounting policies have been updated or added: - forecasting our effective tax rate including, our ability to utilize foreign tax credits and the realizability of deferred tax assets; and - loss contingencies, related to asbestos litigation. This discussion and analysis should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this report and our Form 10-K for the year ended December 31, 2001 filed with the SEC. Tax Accounting We account for our income taxes in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes", which requires the recognition of the amount of taxes payable or refundable for the current year; and an asset and liability approach in recognizing the amount of deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. We apply the following basic principles in accounting for our income taxes at the date of the financial statements: - a current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year; - a deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards; - the measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated; and - the value of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. We determine deferred taxes separately for each tax-paying component (an entity or a group of entities that is consolidated for tax purposes) in each tax jurisdiction. That determination includes the following procedures: - identify the types and amounts of existing temporary differences; - measure the total deferred tax liability for taxable temporary differences using the applicable tax rate; - measure the total deferred tax asset for deductible temporary differences and operating loss carryforwards using the applicable tax rate; - measure the deferred tax assets for each type of tax credit carryforward; and - reduce the deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized due to expiration before we are able to realize their benefit, or that future deductibility is uncertain. This methodology requires a significant amount of judgment regarding assumptions and the use of estimates, which can create significant variances between actual results and estimates. Examples include the forecasting of our effective tax rate and the potential realization of deferred tax assets in the future, such as utilization of foreign tax credits. This process involves making forecasts of current and future years' United States taxable income, foreign taxable income and related taxes in order to estimate the foreign tax credits. Unforeseen events, such as the timing of asbestos settlements, and other tax timing issues may significantly affect these estimates. These factors can affect the accuracy of our tax account balances and impact our future reported earnings. 39 Loss Contingencies Asbestos. In the past, we have only provided for known outstanding claims as we did not have sufficient information to make a reasonable estimate of future asbestos claims liability. DII Industries, LLC retained Dr. Francine F. Rabinovitz of Hamilton, Rabinovitz & Alschuler, Inc. to estimate the probable number and value, including defense costs, of unresolved current and future asbestos-related bodily injury claims asserted against DII Industries, LLC and its subsidiaries. As a result of Dr. Rabinovitz's analysis, we were able to accrue not only for known open claims, but also for the projected costs to resolve asbestos claims through 2052 during the second quarter of 2002. The methodology utilized by Dr. Rabinovitz to project DII Industries, LLC's and its subsidiaries' asbestos-related liabilities and defense costs relied upon and included: - an analysis of historical asbestos settlements and defense costs; - an analysis of the pending inventory of asbestos-related; - an analysis of the claims filing history for asbestos-related claims since January 2000 (two-year claims history) and alternatively since January 1997 (five-year claims history); - an analysis of the population likely to have been exposed or claim exposure to certain products or construction and renovation projects; and - epidemiological studies to estimate the number of people who might allege exposure to products. Dr. Rabinovitz's estimates are based on historical data supplied by DII Industries, LLC, Kellogg, Brown & Root, Inc. and Harbison-Walker and publicly available studies, including annual surveys by the National Institutes of Health concerning the incidence of mesothelioma deaths. In her analysis, Dr. Rabinovitz projected that the elevated and historically unprecedented rate of claim filings of the last several years (particularly in 2000 and 2001), especially as expressed by the ratio of nonmalignant claim filings to malignant claim filings, would continue into the future for 5 more years. After that, Dr. Rabinovitz projected that the ratio of nonmalignant claim filings to malignant claim filings will gradually decrease for a 10 year period ultimately returning to the historical claiming rate and claiming ratio. In making her calculation Dr. Rabinovitz alternately assumed a somewhat lower rate of claim filings, based on an average of the last five years of claims experience, would continue into the future for five more years and decrease thereafter. Other important assumptions utilized in Dr. Rabinovitz's estimates, which we relied upon in making our accrual are: - an assumption that there will be no legislative or other systemic changes to the tort system; - that the Company will continue to aggressively defend against asbestos claims made against the Company; and - an inflation rate of 3% annually for settlement payments and an inflation rate of 4% annually for defense costs. Based upon her analysis, Dr. Rabinovitz estimated DII Industries, LLC's total, undiscounted asbestos liabilities, including defense costs, through 2052 to be within a range from $2.2 billion to $3.5 billion. As of June 30, 2002, we do not believe there is a better amount within the expert's range and, therefore, we based our estimated accrual for asbestos liability on the low-end of the expert's range, or $2.2 billion, in accordance with SFAS 5 and related interpretations (which includes payments related to the approximately 312,000 claims currently pending). If we had adjusted our accrual for asbestos liabilities for current and future asbestos claims up to the high-end of the expert's range, or $3.5 billion, and adjusted the related probable insurance recovery up to $2.0 billion, we would have recorded an additional pretax charge of $879 million ($753 million after-tax). Using Dr. Rabinovitz's projections, we then conducted an analysis to determine the amount of insurance that we estimate is probable that we will recover in relation to the projected claims and defense costs through 2052. In conducting this analysis, we: - reviewed DII Industries, LLC's historical course of dealings with its insurance companies concerning the payment of asbestos-related claims, including DII Industries, LLC's 15 year litigation and settlement history; 40 - reviewed the terms of DII Industries, LLC's prior and current coverage-in-place settlement agreements; - reviewed the status of DII Industries, LLC's and Kellogg, Brown & Root, Inc.'s current insurance-related lawsuits and the various legal positions of the parties in those lawsuits in relation to the developed and developing case law and the historic positions taken by insurers in the earlier filed and settled lawsuits; - engaged in discussions with our counsel; and - analyzed publicly-available information concerning the ability of the DII Industries, LLC's insurers to meet their obligations. Based on that review, analyses and discussions, we made judgments concerning insurance coverage that we believe are reasonable and consistent with our historical course of dealings with our insurers and the relevant case law to determine the probable insurance recoveries for DII Industries, LLC's asbestos liabilities through 2052. This analysis factored in the probable effects of self-insurance features, such as self-insured retentions, policy exclusions, liability caps, current and anticipated financial status of applicable insurers, and various judicial determinations relevant to applicable insurance programs. Based on Dr. Rabinovitz's projections and our analysis of the probable insurance recoveries, we established reserves for the probable and reasonably estimable liabilities and defense costs we believe we will pay through 2052 of $2.2 billion, and we have also recorded receivables for the insurance recoveries that are deemed probable through that same date of $1.6 billion. The insurance receivables we have recorded do not assume any recovery from insolvent insurers or from any state insurance guaranty association and assume that all but one of our insurance companies that are currently solvent will continue to be solvent throughout the period of the applicable recoveries in the projections. However, there can be no assurances that these assumptions will be correct. The insurance receivables do not exhaust the applicable insurance coverage for asbestos-related liabilities. Projecting future events, such as the number of future asbestos-related lawsuits to be filed against DII Industries, LLC and Kellogg, Brown & Root, Inc., the average cost to resolve such future lawsuits, coverage issues among layers of insurers issuing different policies to different policyholders over extended periods of time, the impact on the amount of insurance recoverable in light of the Harbison-Walker and Federal-Mogul bankruptcies, and the continuing solvency of various insurance companies is subject to many uncertainties that could cause the asbestos-related liabilities and insurance recoveries to be higher or lower than those projected and booked. Given the inherent uncertainty in making future projections, we plan to have the projections periodically reexamined, and update them based on our experience and other relevant factors such as changes in the tort system and the resolution of the bankruptcies of various asbestos defendants. Similarly, we will re-evaluate our projections concerning our probable insurance recoveries in light of any updates to Dr. Rabinovitz's projections, developments in DII Industries, LLC's and Kellogg, Brown & Root, Inc.'s various lawsuits against its insurance companies and other developments that may impact the probable insurance recoveries. ENVIRONMENTAL MATTERS We are subject to numerous environmental, legal and regulatory requirements related to our operations worldwide. As a result of those obligations, we are involved in environmental litigation and claims, the clean-up of properties we own or have operated, and efforts to meet or correct compliance-related matters. ACCOUNTING CHANGES In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 "Accounting for Asset Retirement Obligations" which addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated assets' retirement costs. The new standard will be effective for us beginning January 1, 2003, and we are currently reviewing and evaluating the effects this standard will have on our future financial condition, results of operations, and accounting policies and practices. 41 In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", the amendment to SFAS No. 4, and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". SFAS No. 145 also amends paragraph 14(a) of SFAS No. 13, "Accounting for Leases", to eliminate an inconsistency between the accounting for sale-leaseback transactions and certain lease modifications that have economic effects that are similar to sale-leaseback transactions. We do not believe the effects of this new standard will have a material effect on our future financial condition or operations. FORWARD-LOOKING INFORMATION The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward-looking information. Forward-looking information is based on projections and estimates, not historical information. Some statements in this Form 10-Q are forward-looking and use words like "may," "may not," "believes," "do not believe," "expects," "do not expect," "do not anticipate," and similar expressions. We may also provide oral or written forward-looking information in other materials we release to the public. Forward-looking information involves risks and uncertainties and reflects our best judgment based on current information. Our results of operations can be affected by inaccurate assumptions we make or by known or unknown risks and uncertainties. In addition, other factors may affect the accuracy of our forward-looking information. As a result, no forward-looking information can be guaranteed. Actual events and the results of operations may vary materially. While it is not possible to identify all factors, we continue to face many risks and uncertainties that could cause actual results to differ from our forward-looking statements including: Legal - asbestos litigation including the judgments against us in late 2001 and their related appeals; - the ability of our insurers for our asbestos exposures to pay claims in the future; - future asbestos claims settlement and defense costs; - number of future asbestos claims; - other litigation, including, for example, class action shareholder lawsuits, contract disputes, patent infringements and environmental matters; - trade restrictions and economic embargoes imposed by the United States and other countries; - changes in governmental regulations in the numerous countries in which we operate including, for example, regulations that: - encourage or mandate the hiring of local contractors; and - require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction; - potentially adverse customer reaction, and time and expense responding to the increased scrutiny of Halliburton by the media and others; - environmental laws and regulations, including, for example, those that: - require emission performance standards for facilities; and - the potential regulation of hydraulic fracturing as underground injection; - any unexpected adverse outcome of the SEC's current inquiries into Halliburton's accounting policies, practices and procedures; and - adverse results of increased review and scrutiny of Halliburton by regulatory authorities, media and others; Geopolitical - unsettled political conditions, war, the effects of terrorism, civil unrest, currency controls and governmental actions in the numerous countries in which we operate; - operations in countries with significant amounts of political risk, including, for example, Algeria, Angola, Argentina, Colombia, Indonesia, Libya, Nigeria, Russia, and Venezuela; and - changes in foreign exchange rates and exchange controls as were experienced in Argentina in late 2001 and early 2002; 42 Liquidity - reductions in debt ratings by rating agencies including, for example, our recent reductions by Standard & Poor's and Moody's Investors' Services in late 2001 and early 2002; - access to lines of credit, credit markets and credit from suppliers under acceptable terms; - availability of financing from the United States Export/Import Bank; - borrowing costs in the future; - ability to issue letters of credit and surety bonds; and - ability to raise capital via the sale of stock; Weather related - the effects of severe weather conditions, including, for example, hurricanes and typhoons, on offshore operations and facilities; and - the impact of prolonged severe or mild weather conditions on the demand for and price of oil and natural gas; Customers - the magnitude of governmental spending and outsourcing for military and logistical support of the type that we provide, including, for example, support services in Bosnia; - changes in capital spending by customers in the oil and gas industry for exploration, development, production, processing, refining, and pipeline delivery networks; - changes in capital spending by governments for infrastructure projects of the sort that we perform; - consolidation of customers in the oil and gas industry including, for example, the proposed merger of Conoco and Phillips Petroleum; and - claim negotiations with engineering and construction customers on cost variances and change orders on major projects, including, for example, the Barracuda-Caratinga project in Brazil; - ability of our customers to timely pay the amounts due us; Industry - technological and structural changes in the industries that we serve; - changes that impact the demand for oil and gas including, for example, the slowdown in the global economy following the terrorist attacks on the United States on September 11, 2001; - changes in the price of oil and natural gas, resulting from: - OPEC's ability to set and maintain production levels and prices for oil; - the level of oil production by non-OPEC countries; - the policies of governments regarding exploration for and production and development of their oil and natural gas reserves; and - the level of demand for oil and natural gas, especially natural gas in the United States where demand is currently below last years' usage; and - changes in the price or the availability of commodities that we use or of key insurance coverages; - risks that result from entering into fixed fee projects, where failure to meet schedules, cost estimates or performance targets could result in non-reimbursable costs which cause the project not to meet our expected profit margins or incur a loss; - risks that result from entering into complex business arrangements for technically demanding projects where failure by one or more parties could result in monetary penalties; and - the risk inherent in the use of derivative instruments of the sort that we use which could cause a change in value of the derivative instruments as a result of: - adverse movements in foreign exchange rates, interest rates, or commodity prices; or - the value and time period of the derivative being different than the exposures or cash flows being hedged; 43 Systems - the successful deployment of SAP throughout our remaining Energy Services Group businesses, principally Baroid and Sperry Sun; and - the successful identification, procurement and installation of a new financial system to replace the current system for the Engineering and Construction Group; Personnel and mergers/reorganizations/dispositions - increased competition in the hiring and retention of employees in specific areas, including, for example, energy services operations, accounting and finance; - integration of acquired businesses into Halliburton, including, for example, our 2001 acquisitions of Magic Earth, Inc. and PGS Data Management, including: - standardizing information systems or integrating data from multiple systems; - maintaining uniform standards, controls, procedures and policies; and - combining operations and personnel of acquired businesses with ours; - effectively restructuring operations and personnel within Halliburton including, for example, the reorganization of our engineering and construction business in early 2001 and the recent segregation of our business into two separate entities under Halliburton; - ensuring acquisitions and new products and services add value and complement our core businesses; and - successful completion of planned dispositions. In addition, future trends for pricing, margins, revenues and profitability remain difficult to predict in the industries we serve. We do not assume any responsibility to publicly update any of our forward-looking statements regardless of whether factors change as a result of new information, future events or for any other reason. You should review any additional disclosures we make in our press releases and Forms 10-Q, 8-K and 10-K to the United States Securities and Exchange Commission. We also suggest that you listen to our quarterly earnings release conference calls with financial analysts. Item 3. Quantitative and Qualitative Disclosures about Market Risk -- We are exposed to financial instrument market risk from changes in foreign currency exchange rates, interest rates and to a limited extent, commodity prices. We selectively manage these exposures through the use of derivative instruments to mitigate our market risk from these exposures. The objective of our risk management is to protect our cash flows related to sales or purchases of goods or services from market fluctuations in currency rates. Our use of derivative instruments includes the following types of market risk: - volatility of the currency rates and commodity prices; - time horizon of the derivative instruments; - market cycles; and - the type of derivative instruments used. We do not use derivative instruments for trading purposes. We do not consider any of these risk management activities to be material. 44 PART II. OTHER INFORMATION Item 4. Submission of Matters to a Vote of Security Holders -- At our Annual Meeting of Stockholders held on May 15, 2002, stockholders were asked to consider and act upon: (1) the election of Directors for the ensuing year, (2) a proposal to approve the Halliburton Company 2002 Employee Stock Purchase Plan; and (3) a stockholder proposal on auditor services. The following table sets out, for each matter where applicable, the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes. (1) Election of Directors: Name of Nominee Votes For Votes Withheld Robert L. Crandall 357,240,074 9,002,829 Kenneth T. Derr 357,667,297 8,575,606 Charles J. DiBona 359,038,088 7,204,815 Lawrence S. Eagleburger 312,919,052 53,323,851 William R. Howell 357,412,938 8,829,965 Ray L. Hunt 357,694,176 8,548,727 David J. Lesar 359,140,702 7,102,201 Aylwin B. Lewis 359,290,693 6,952,210 J. Landis Martin 358,721,972 7,520,931 Jay A. Precourt 359,435,705 6,807,098 Debra L. Reed

359,355,282 6,887,621 C. J. Silas 357,542,983 8,699,920 (2) Proposal to approve the 2002 Employee Stock Purchase Plan: Number of Votes For 334,839,586 Number of Votes Against 28,255,615 Number of Votes Abstain 3,147,702 Number of Broker Non-Votes 0 (3) Shareholder proposal on auditor services: Number of Votes For 31,871,260 Number of Votes Against 227,511,245 Number of Votes Abstain 5,204,576 Number of Broker Non-Votes 101,655,822 45 Item 6. Exhibits and Reports on Form 8-K -- (a) Exhibits * 10.1 Halliburton Elective Deferral Plan as amended and restated effective May 1, 2002. * 10.2 Halliburton Company 2002 Employee Stock Purchase Plan. * 10.3 Employment Agreement (Albert O. Cornelison). * 10.4 Employment Agreement (Weldon J. Mire). * 24.1 Powers of attorney for the following directors: Robert L. Crandall Kenneth T. Derr Charles J. DiBona Lawrence S. Eagleburger W. R. Howell Ray L. Hunt David J. Lesar Aylwin B. Lewis J. Landis Martin Jay A. Precourt Debra L. Reed C. J. Silas * 24.2 Powers of attorney for the following executive officers: Jerry H. Blurton Lester L. Coleman Albert O. Cornelison Douglas L. Foshee Robert R. Harl Arthur D. Huffman Weldon J. Mire R. Charles Muchmore, Jr. Edgar Ortiz David R. Smith * Filed with this Form 10-Q. (b) Reports on Form 8-K 46 Date Filed Date of Earliest Event Description of Event -------------------------- ----------------------- --- During the second quarter of 2002: April 15, 2002 April 12, 2002 Item 5. Other Events for a press release announcing a Federal court has rendered a verdict in a patent infringement case. April 18, 2002 April 17, 2002 Item 4. Changes in Registrant's Certifying Accountant for a press release announcing the dismissal of Arthur Andersen LLP as independent auditors and the appointment of KPMG LLP. May 8, 2002 May 7, 2002 Item 5. Other Events for a press release announcing 2002 first quarter earnings. May 13, 2002 May 9, 2002 Item 5. Other Events for a press release announcing the annual meeting of shareholders. May 15, 2002 May 15, 2002 Item 5. Other Events for a press release announcing 2002 second quarter dividend. May 21, 2002 May 20, 2002 Item 5. Other Events for a press release announcing asbestos plaintiffs agree to extend current stay on asbestos claims until June 4, 2002. May 29, 2002 May 28, 2002 Item 5. Other Events for a press release announcing the settlement of thirty asbestos claims. May 29, 2002 May 28, 2002 Item 5. Other Events for a press release announcing that the Securities and Exchange Commission has initiated a preliminary investigation of accounting treatment of cost overruns on construction jobs. June 4, 2002 June 4, 2002 Item 5. Other Events for a press release announcing asbestos plaintiffs agree to extend current stay on asbestos claims until July 16, 2002. During the third quarter of 2002: July 11, 2002 July 10, 2002 Item 5. Other Events for a press release announcing the response to the news of Judicial Watch Lawsuit. July 24, 2002 July 16, 2002 Item 5. Other Events for a press release announcing that an agreement has been reached with Harbison-Walker Refractories Company and the Official Committee of Asbestos Creditors to consensually extend the period of the stay contained in the Bankruptcy Court's temporary restraining order until September 18, 2002. 47 Date Filed Date of Earliest Event Description of Event -------------------------- ----------------------- --- During the third quarter of 2002 (cont'd): July 24, 2002 July 22, 2002 Item 5. Other Events for a press release announcing second quarter asbestos charges. July 29, 2002 July 22, 2002 Item 5. Other Events for a press release announcing that a letter of intent has been signed to sell 50% interest in Bredero-Shaw to ShawCor Ltd. July 30, 2002 July 24, 2002 Item 5. Other Events for a press release announcing second quarter results. August 7, 2002 August 1, 2002 Item 5. Other Events for a press release announcing response to a false statement by Citizensworks. 48 SIGNATURES As required by the Securities Exchange Act of 1934, the registrant has authorized this report to be signed on behalf of the registrant by the undersigned authorized individuals. HALLIBURTON COMPANY Date: March 28, 2003 By: /s/ Douglas L. Foshee ------------------ ---------------------------------- Douglas L. Foshee Executive Vice President and Chief Financial Officer /s/ R. Charles Muchmore, Jr. --------------------------------- R. Charles Muchmore, Jr. Vice President and Controller and Principal Accounting Officer 49