FINAL TRANSCRIPT

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OXY - Q1 2009 Occidental Petroleum Corporation Earnings Conference Call

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PRESENTATION

Operator

Good morning. I will be your conference operator today. At this time, I would like to welcome everyone to the Occidental Petroleum Corporation first quarter 2009 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. (Operator Instructions). I would now like to turn the call over to Chris Stavros. Please go ahead, sir.

Chris Stavros - *Occidental Petroleum Corporation - VP IR*

Thank you, Katora, and good morning, everyone. I'd like to welcome you to Occidental's first quarter 2009 earnings conference call. Joining us on the call from Los Angeles this morning are Dr. Ray Irani, Oxy's Chairman and CEO, and Steve Chazen, our President and CFO. Bill Albrecht, Oxy's President of US Oil and Gas, and Sandy Lowe, our new President of Oxy's Oil and Gas International Operations will also be joining us and available during the Q&A session. In just a moment I'll be passing the call over to Steve, who will provide further details on our quarterly results and operations. Our first quarter earnings press release, investor relations supplemental schedules, and earnings conference call slides, which refer to Steve's remarks, can be downloaded off of our website, www.oxy.com.

I'll now turn the call over to Steve. Steve, please go ahead.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Well, thank you, Chris. Net income for the quarter was $368 million, or $0.45 per diluted share, compared to $1.8 billion, or $2.22 per diluted share in the first quarter of 2008. 2009 first quarter net income includes after-tax non-core charge of $39 million, including $21 million for severance, $10 million for railcar leases, $5 million for rig termination costs, and $3 million for discontinued operations. The core results were $407 million, or $0.50 per diluted share in the first quarter of 2009, compared to $1.8 billion, or $2.19 per diluted share in the first quarter of last year.

Here's a segment breakdown for the first quarter. Oil and gas first quarter 2009 segment earnings were $545 million. After excluding the rig termination costs, the first quarter 2009 core results were $553 million compared to $2.9 billion for last year. The $2.3 billion decrease in the first quarter earnings was due to lower crude oil and natural gas prices and higher DD&A rates. Occidental's average realized crude price in the 2009 first quarter was $39.29, a decrease of 55% from $86.75 in the comparable period of 2008. Oxy's domestic average realized gas price for the quarter was $3.54 per Mcf compared to $8.15 per Mcf to the first quarter of 2008, a decline of about 57%.

Worldwide oil and gas sales volumes for the first quarter of 2009 were 654,000 boe/d, an increase of nearly 8% compared to 607,000 boe/d in the first quarter of last year. The increase includes 22,000 boe/d from domestic operations, 15,000 boe/d from Oman, and 10,000 boe/d from Argentina. About half the domestic volume increase was attributable to our acquisitions from last year. Higher production sharing volumes, net of the change of Libyan contract terms in the Middle East and north Africa, added about 10,000 boe/d to our results. The first quarter of 2009 oil and gas sales volumes were 34,000 boe/d, higher than the fourth quarter of 2008.

Exploration expense was $58 million in the quarter. Over the course of a little over a year Occidental has drilled 35 wells, seeking nontraditional hydrocarbon-bearing zones in California. Of these wells, 13 are commercial and 12 are currently being evaluated. Four of these wells currently account for approximately 28 MMcf a day and 3000 barrels of liquids of gross daily production. While it is too early to speculate on the ultimate reserves and production associated with this activity it is progressing nicely. We will continue to invest in this program despite weak gas prices, since we currently believe the total cost -- that is finding, developing and lifting -- will be less than $10 per boe. We expect to drill 20 exploration wells in California this year. Occidental holds approximately 1.1 million acres of net fee minerals and leaseholds in California, which have been acquired mostly in the last few years to exploit these opportunities. This is essentially all the data that we have at this time to discuss with you.

Oil and gas production costs, excluding production and property taxes, were $10.48 a barrel for the three months of 2009, a 13.6% decline from last year's 12-month costs of $12.13 a barrel this. This decline is due to lower workover, maintenance and utility costs and the effective higher production sharing volumes. These costs are in line with our fourth quarter guidance, where we indicated we were actively renegotiating our supplier contracts and laying down some rigs. Taxes, other than non-income, were $1.71 a barrel for the first quarter of 2009 compared to $2.62 for all of 2008. These costs, which are sensitive to product prices, reflect crude oi -- lower crude oil and gas prices in the first quarter.

The Chemical segment earnings for the first quarter of 2009 were $169 million compared to our guidance of $100 million. The higher earnings were attributable primarily to the higher of soda margins. Chemicals earned $179 million in last-year's first quarter. Midstream segment earnings for the first quarter of 2009 were $14 million compared to $123 million in the first quarter of 2008. The decline in earnings was due to significantly lower NGL realized prices in the gas processing business and negative mark-to-market adjustments in crude oil marketing. Non-core adjustments for the first quarter of 2009 included a $32 million pretax charge for severance. We do not expect to record any material additional amounts for the rest of the year. Additional recorded -- we recorded a $15 million pretax charge related to railcar subleases to Lyondell, which are being restructured as a result of Lyondell entering into bankruptcy.

The worldwide effective tax rate was $0.39 (sic) for the first quarter of 2009 compared with our guidance of 46%. The decrease in rate reflects tax benefits resulting from a relinquishment of international exploration contracts. Occidental generally records no tax book benefits on foreign expense exploration until the project is relinquished. Capital spending for the first quarter of 2009 was $1.1 billion. As previously mentioned, our capital run rate in the first quarter of 2009 was greater than the $3.5 billion total year level and will decline throughout the year.

We expect the second quarter capital will be in line with the $3.5 billion annual rate. Cash flow from operations for the three months 2009 was about $1.3 billion before working capital changes. We used about $500 million for payments related to higher capital spending and other expenses from the fourth quarter of 2008, which were accrued at year end. We used $1.2 billion of the Company's capital to fund to fund capital expenditures and acquisition costs, and $260 million to pay dividends. Based on our annual capital spending forecast, we expect our second quarter capital run rate to drop by about $300 million. The higher first quarter 2009 capital run rate the payments related to fourth-quarter 2008 capital and other net cash outflows decreased our $1.8 billion cash balance at the end of last year by $700 million to $1.1 billion at the end of the quarter.

The weighted average basic shares outstanding for three months were 811.8 million and the weighted average diluted shares were 814.4 million. As we look ahead to the current quarter, we expect oil and gas production volumes to be in the range of 640,000 boe to 660,000 boe per day during the second quarter at about current prices. This volume range reflects increases in Dolphin, Oman, and Qatar With respect to prices and current market price a dollar change in oil prices impacts quarterly oil and gas earnings before income taxes by about $36 million, a swing of $0.50 per mmBTUs, and domestic gas prices had a $20 million impact on quarterly earnings before income taxes. While current NYMEX gas price is around $3.50, prices in the Permian and California are currently about $3, while the Rockies gas is in the range of $2.50. We expect exploration expenses to be about $60 million for seismic and drilling for our exploration programs.

We expect chemical segment earnings for the second quarter to be about $100 million. Weakness in the global alumina and pulp & paper markets are expected to result in reduced demand and margins for caustic soda. Domestically weak construction and housing markets are expected to continue to reduce demand for vinyl. We expect our combined worldwide tax rate in the second quarter of 2009 to be about 43% of current prices. Our first quarter US and foreign tax rates are included in the supplement.

We continue to negotiate cost reductions across all areas, including, but not limited to, drilling rigs, service rigs, drilling services, artificial lift, maintenance repair and operations, chemicals and oil country tubular goods. On average we have negotiated about a 20% to 25% reduction across all areas from the peak 2008 level. The attached chart indicates the range of reductions we are realizing across the broad cost categories and may not reflect the trends across the entire industry. The effect of these reductions is not yet in the first quarter run rate. We have realized about one third of the reductions we need to do to achieve effective economic results in the current price environment. We expect the full effect to be realized over the balance of the year and into next year. These cost reductions impact both capital spending and operating costs. We will not provide any additional detail or increased granularity about the components of the cost reduction other than those available on the attached schedule.

We're now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Michael Jacobs with Tudor, Pickering.

Michael Jacobs - *Tudor, Pickering - Analyst*

Good morning, everyone.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Morning.

Michael Jacobs - *Tudor, Pickering - Analyst*

Steve, appreciate the color on California activity, can you give us a little history on how overall activity in California has evolved over the last year or two and some of the assumptions that go into how you arrived at a sub-$10 a barrel estimate for S&D and lifting costs?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

We started this project, oh, I think five years ago with the notion that there were reservoirs that weren't -- that hadn't been productive elsewhere in the state and so we began accumulating acreage. We really don't want to get into any more detail about how the numbers were computed. It's very early in the process and really not something we -- we told you what we think we can tell you with high certainty and we want to stay away from speculating about what it might turn out.

Michael Jacobs - *Tudor, Pickering - Analyst*

Okay. Just one more question on the Permian. With the CO2 representing about 50,000 boe/d of future growth how are you assessing the overall risk to that future growth, and what is the potential recourse and kind of a worst case situation?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

You're talking about SandRidge?

Michael Jacobs - *Tudor, Pickering - Analyst*

Yes.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Things are going just fine with SandRidge. We don't have any reason to believe that anything is going to happen except the plant's going to be delivered generally on time. There's plenty of drilling locations in the area with lots of CO2, so I'm really not worried that we won't be able to supply CO2. If SandRidge doesn't supply it for some reason, which I don't expect, the area is loaded with wells with the small amounts of -- relatively small amounts of methane and lots of CO2, so it's not something we spend a lot of time worrying about. And I think they're doing fine. They seem to be okay.

Michael Jacobs - *Tudor, Pickering - Analyst*

Great, thanks.

Operator

Your next question comes from the line of Michael LaMotte with JPMorgan.

Michael LaMotte - *JPMorgan - Analyst*

Thanks. Good morning, Steve.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Morning.

Michael LaMotte - *JPMorgan - Analyst*

If I could follow up on the CapEx question and your cost question, I just want to get some sense from you as to how you think about the returns, or the difference between your realizations and your target costs in terms of when you actually might see some of your shorter cycle activity turn back up again so that the trend in volumes that looks to be down sequentially this year might actually stop and reverse?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Our volumes, of course, are up sequentially.

Michael LaMotte - *JPMorgan - Analyst*

Well, I mean from the Q1 level, right? Your -- say 54 guidance to 640 to 660 for next quarter?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

To some extent each quarter's a little difficult to worry about. We try to estimate how much trouble we're going to have in a quarter and we ran a little better in the first quarter than probably we planned, so we try to -- there's always something in the oil business that makes your production a little slower, so that's why we give you a range.

Michael LaMotte - *JPMorgan - Analyst*

Right.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

I wouldn't read a whole lot into the range selection.

Michael LaMotte - *JPMorgan - Analyst*

Okay. Well, if I think about the full year you guided to 4%, you're starting off at 8%, I just assumed that there's some trailing off as we move through the year, is that --

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Well, maybe.

Michael LaMotte - *JPMorgan - Analyst*

I'm trying to gauge how much of that is activity or CapEx related?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Well, in the first call -- first quarter we said the 10,000 boe/d loss from lower capital.

Michael LaMotte - *JPMorgan - Analyst*

Okay.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

There's no reason to believe that that isn't going to happen.

Michael LaMotte - *JPMorgan - Analyst*

Okay.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

We're still sizably above, especially in gas. In the Piceance we could have a lot more production in gas, but it just doesn't make any sense at these levels. So we're a long, long way away in getting costs in line with $2.50 gas in the Piceance .

Michael LaMotte - *JPMorgan - Analyst*

If I think about the CapEx from Q1 to Q4 and variance of activity versus what you're actually saving in costs, are you at a run rate now in terms of workover rigs, et cetera, that you're comfortable with, or could we actually start ramping up again by Q4 or Q1 next year?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

We'll see what prices are and what costs are.

Michael LaMotte - *JPMorgan - Analyst*

Okay. A lot of companies are talking about targeting costs at an '04 level, does that make sense to you in terms of when you --?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Yes, it does.

Michael LaMotte - *JPMorgan - Analyst*

Okay.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Certainly for oil.

Michael LaMotte - *JPMorgan - Analyst*

Yes.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Gas has sort of fallen off a cliff here, in case you haven't noticed. (LAUGHTER)

Michael LaMotte - *JPMorgan - Analyst*

Yes.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

We're not at 2004 levels of gas.

Michael LaMotte - *JPMorgan - Analyst*

No.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

So gas drilling is -- the cost of gas drilling has to fall sharply.

Michael LaMotte - *JPMorgan - Analyst*

Okay.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

And we really -- we've seen some of that, obviously, but not near enough.

Michael LaMotte - *JPMorgan - Analyst*

If I could shift gears geographically over to the Middle East, can you maybe give us an update as to where we are on Dolphin and any potential talk of expansion? I know UAE is still short gas coming into this summer, and curious to know if there's talk --?

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

The UAE is still short of gas. The increase in potential volume for Dolphin would have to come from Qatar and right now they're really not looking at any new projects basically in that regard. They're still assessing how much the north field has and have they're hands full. Dolphin, we'll take advantage during periods when Qater can't sell other gas to move some of the gas into pipeline because the pipeline, as you know, can handle more than is produced by the concession area we have. So that's that on that issue.

Michael LaMotte - *JPMorgan - Analyst*

What -- theoretically what is the throughput on Dolphin? I know 2.2 is the targeted capacity level, but this summer could there be days or periods where you're at three?

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

Well, let me turn -- Sandy Lowe is on the phone and he built this facility, so for the first time we have him answer the question. Sandy, would you answer that with regards to capacity and flexibility if we had the gas available?

Sandy Lowe - *Occidental Petroleum Corporation - President - Oil & Gas International Operations*

Yes, thank you, Dr. Irani. We have the ability to flow through 3.2 billion a day through the pipeline. We do not have the contractual rights to that, as Dr. Irani has said, nor do we have all of the compressors currently in place to handle that. I'm sure there will be possibilities for the -- the technical possibilities are all there for the future.

Michael LaMotte - *JPMorgan - Analyst*

In terms of adding the compression is that something that could be done relatively quickly, or is this something that we could maybe expect to be built up over the next one to two years?

Sandy Lowe - *Occidental Petroleum Corporation - President - Oil & Gas International Operations*

These compressors would take almost -- just about two years to install in today's market, so we -- everybody has that in mind for the future possibilities.

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

To help Sandy out, Sandy, currently how much more can you put through the line?

Sandy Lowe - *Occidental Petroleum Corporation - President - Oil & Gas International Operations*

Well, we can push about 2.5 through right now.

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

We can move 2.5 right now and we could go up to 3.2, as Sandy said, or even more if we put our minds to it, but that takes time.

Michael LaMotte - *JPMorgan - Analyst*

That's helpful color. Thank you. And last one for me, Dr. Irani, I'd love to know your current thoughts on Iraq?

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

On Iraq?

Michael LaMotte - *JPMorgan - Analyst*

Yes.

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

Very good question. As you know, they're talking about opening up a whole bunch of fields there and as you would expect many, many companies are looking at entries there. We have been studying those opportunities. There are huge fields, there are medium fields and there are smaller fields. Realistically, the way they are looking at awarding, potentially, these areas is to consortium and you can bid on as many fields as you want, but you can't have more than a certain amount, and in all probability, the very huge fields will be given to consortiums, not just any one company and the -- I'm talking ones with ten billion barrels or more. And realistically, the super major will probably head those elephant fields and, of course, we really don't mind participating in some of those and those discussions go on.

But there are other fields -- medium fields, smaller fields -- some of which we may be able to hope and lead one of those activities. So it's a free for all and lot of interest by a lot of people. How the secured situation materializes is of great importance because President Obama, as you know, is planning to withdraw the troops and this time it's serious, and so we have to watch very carefully while that develops. But clearly, in the future Iraq is one of the key areas that offers opportunities for international oil companies to participate, and this is going to be a bigger gold rush than happened in Libya with everybody under the sun wanting to get a piece of the action.

Michael LaMotte - *JPMorgan - Analyst*

And the timing feels like it's more precedent. If I think about the scale of opportunities for a company like Oxy I guess it would make more sense that round two in September would be a higher probability scenario versus round one in June. Is it realistic to think that by 2010 Oxy will be in Iraq in one way or another?

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

Well, I sure as hell would like to, but (LAUGHTER) as you know -- okay, there's a desire for us to be there. But again, the Iraqis keep -- understandably their government has many other issues to address, and then lines get delayed, changes in some of the bidding conditions change, and so on and so forth. So we have a desire and -- but looking at when this could really bring money to the bottom line you are talking years, let's face it, because it's going to take (inaudible) and it's not going to happen over night. So I sure as hell would like us to have good news for you by 2010, but I can't speculate on when it could have any meaningful income.

Michael LaMotte - *JPMorgan - Analyst*

Understood. Thanks for the time. I'll turn it back now.

Operator

Your next question comes from the line of Paul Sankey with Deutsche Bank.

Paul Sankey - *Deutsche Bank - Analyst*

Hi, good morning, gentlemen. Could you comment on the outlook for M&A on an industry-wide level and your own perspective? Thanks.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Right now there's some small deals out there that -- first time we're seeing a little bit of activity. A lot of, call it farm-in activity, people have the acreage that they would like to drill and the terms are getting somewhat more attractive. I don't see any large scale activity at this point. I think we're still a ways away.

Paul Sankey - *Deutsche Bank - Analyst*

I guess you're talking about nothing until 2010?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

No, I, I would be -- wouldn't be surprised if in the back half of the year that the rate picked up.

Paul Sankey - *Deutsche Bank - Analyst*

And with this -- I guess we just track the indebtedness of the various places?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Well, indebtedness and right now they are trying to sell, or farm out, or whatever the right word is, acreage that's expiring and trying to get people to drill it for them. And they started out with, we'll call it unattractive terms, and they're getting more realistic. Whether there's anything there for us, I don't know, but that's where they are right now. They're trying to cut their capital effectively -- cover their capital. But I think as we move through the year more interesting things will come loose, I don't have any real guidance. But I don't know if it'll be this year or next year, but I wouldn't be more surprised to see more activity in the back half of the year.

Paul Sankey - *Deutsche Bank - Analyst*

Just going on to the cost issue, you said that you got -- your own production costs are down 13.6%, full-year costs in '08, and then you said kind of a range of 15% to 40% of the extreme is your expectations for service costs. Would it be reasonable, then, to assume that your production costs will fall by something more towards the 20% to 30% by the time the whole process is worked through?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Yes.

Paul Sankey - *Deutsche Bank - Analyst*

Okay, that's great. Thank you. I'll leave it at that.

Operator

Your next question comes from the line of Faisel Khan with CitiGroup.

Faisel Khan - *Citigroup - Analyst*

Good morning.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Morning.

Faisel Khan - *Citigroup - Analyst*

Can you give us a little bit of an update on any -- on your drilling activity in Libya and how that's going and progressing?

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

I think really the best I can tell you, right now Libya is what it is. Things move slower than we expected and studies continue to take place, but I don't expect any meaningful increases there for at least another 12 months.

Faisel Khan - *Citigroup - Analyst*

Okay. And then if you can comment on the -- I know you talked about the net PSC effect that you had in the quarter of about 10,000 boe/d, but just looking at Oman being up 35,000 boe/d day versus 27,000 boe/d in the fourth quarter, is it all a reflection of the PSC effect, or is there something else going on there?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

No, it's [Mahizmah] and the PSC effect.

Faisel Khan - *Citigroup - Analyst*

Okay. And what would you say is a mix between the two? Is it mostly your activity in Mahizmah, or is it ?

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

Primarily Mahizmah.

Faisel Khan - *Citigroup - Analyst*

Okay.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Primarily.

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

Mahizmah, as you recall, when we took it over from Shell was producing 8,000 boe/d, it's now in the 50s. By the end of the year will be 80 and ultimately we -- our contract's as get to 150,000, so that's continuous ramp up of that activity. Sandy, could you add to that?

Sandy Lowe - *Occidental Petroleum Corporation - President - Oil & Gas International Operations*

Yes, sir, we are right now just under 60.000 a day. We only have about 25% of the steam capacity commissioned so far, so we see quite a nice ramp up. as Dr. Irani says, 80,000 by the end of the year and the 150,000 in the year 2012. We have new drilling rigs out there that are putting in routes faster than we've ever done and everything's on track.

Faisel Khan - *Citigroup - Analyst*

Okay, understood. And then on -- shifting to Latin America the volumes in Argentina were up pretty substantially sequentially fourth quarter to first quarter. Can you give us a little bit of color around that, too?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Yes, that's just -- remember, they had some strikes and stuff in last year, so it's basically back to where it should be. One of the volume variances I talked about earlier where it's very hard to predict.

Faisel Khan - *Citigroup - Analyst*

Okay, understood. And then shifting to the Midstream side of the equation for a second, I saw your slide where you showed us first quarter '08 versus first quarter '09. I was also looking at your supplemental information where you gave us fourth quarter '08 versus first quarter '09, and in that slide you had gas processing and GL prices only affecting sequential quarter-over-quarter operating profit by $22 million and mark-to-market adjustments effecting the number of $131 million. So I guess what I was just trying to get at is, what were the actual cash earnings from that business in the quarter?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Cash earning of the business is about $60 million. There's mar -- within our pipeline system, we buy oil from producers and we ship it to the pi -- and we lock in the margin, which is a dollar or two.

Faisel Khan - *Citigroup - Analyst*

Okay.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

So let's say you buy it from them for $40 and we sell it immediately for $41 or $42. So the oil doesn't get there. It may run over the quarter, end of the quarter, and let's say oil prices, meanwhile, have moved up. You have to mark-to-market the change.

Faisel Khan - *Citigroup - Analyst*

Okay.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

And so you get that back. It's not a real thing. The real profit is a dollar or two.

Faisel Khan - *Citigroup - Analyst*

Okay.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

And that -- so you get a lot of volatility in the number from quarter to quarter, over the year it shouldn't matter. So when prices are coming down, you'll get nominal gains from it. When prices are going up, you'll have nominal losses over the end of the quarter. This is why we broke the segment out so we can see all this noise in it, but there's nothing really fundamental going on. But NGL margins are clearly constrained.

Faisel Khan - *Citigroup - Analyst*

Sure.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Natural gas, while the spread is wide relatively, the absolute prices are real low. You're paying $3 for the gas and selling liquids for $43 last quarter, but it's a lot -- the magnitude of the spread has shrunk considerably year over year.

Faisel Khan - *Citigroup - Analyst*

Okay, got you. On the tax rate, 39% versus 46%, I think I understand what's going on there, but is the entire difference between your guidance and what you actually reported that tax benefit from the relinquishment of the contracts?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Essentially.

Faisel Khan - *Citigroup - Analyst*

Okay. Got you. And then last question on working capital, just so I understand, that negative $500 million of working capital does reverse itself over the course of the year, is that -- ?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

No.

Faisel Khan - *Citigroup - Analyst*

No?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

That was like an accrued liability from the fourth quarter.

Faisel Khan - *Citigroup - Analyst*

Oh, I see.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

So our -- if you want to think of it as paying off that obligation in the first quarter that was accrued in the first --

Faisel Khan - *Citigroup - Analyst*

Okay.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

-- so it obviously affects your cash. When your business is -- when you're spending less capital your accrued liabilities have to be paid -- normally wouldn't make any difference if you were (inaudible) level. You'd always fill about the same accrued liabilities, but now your accrued liabilities are declining.

Faisel Khan - *Citigroup - Analyst*

Okay, understood. Thank you very much.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Thanks.

Operator

Your next question comes from the line of Doug Leggate with Howard Weil.

Doug Leggate - *Howard Weil - Analyst*

Thank you. Good morning, guys. I've got a couple of things on the production outlook, if I could kickoff with the press release you put out a couple of weeks ago on [Owali]. can you give us an update as to when you would expect to be able to confirm what your share of Owali will be? And probably the more important question is, I'm trying to understand where your geological rights end in the context of the field because there is clearly a very substantial gas opportunity, the deep gas rights in Bahrain, and if you could give any color as to what your potential entitlement or potential opportunity is there that would be great> And I have a follow up.

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

On Bahrain is the question. Well, we expect to sign a deal before the end of the month. At least that's what's been announced by people from [Babco] two days ago and it looks that's likely, so before the end of the month we hope to give you in the announcement guidance on what the volumes are impacting Oxy. We see a fairly interesting number of potential activities, including the one that you will see some more details about within a week or two, and as you know, when you go into a country you'll always look at new opportunities and we think we'll have some there. It's a modest field relative to the measures, but a number of them have beds and we've been fortunate to succeed in taking initially the existing oil and gas fields and have the opportunity to increase the production. But we're looking at other things we might do there.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

There's a much deeper gas zone that's being bid out, significantly deeper, and that's what this other bid package is.

Doug Leggate - *Howard Weil - Analyst*

Do you have -- underneath the Owali field that you have right now do you get the rights to the gas or do you have to bid for that, as well?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

No, the gas these being bid out is a much deeper zone.

Doug Leggate - *Howard Weil - Analyst*

Okay.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

It's separate.

Doug Leggate - *Howard Weil - Analyst*

Separately --

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

We'll be bidding on it, of course, but that has to take its course.

Doug Leggate - *Howard Weil - Analyst*

Right. Separately, in Columbia we've seen a little bit of activity there, it appears, on the La Cira-Infantas field that obviously we've talked about backwards and forwards, but it looks like Ecopetrol came out recently and talked about their net share getting up to something like 30,000 boe/d by 2011, but what's interesting is that appears that you guys have now awarded contracts for the water pumps. Can you just talk a little bit about whether you are actually moving forward to Phase 2 and what you expect your net share to be, because I seem to recall it was a little higher than Ecopetrol's?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Sandy?

Sandy Lowe - *Occidental Petroleum Corporation - President - Oil & Gas International Operations*

Oh, the La Cira-Infantas field is moving ahead quite nicely. There -- we have new, very fast drilling rigs putting in wells, and again, faster than we've ever done before, and the progress is running around 24,000 boe/d, so there's water injection planned and a number of other enhancements and not from me, with Ecopetrol's projections on this.

Doug Leggate - *Howard Weil - Analyst*

Okay. Well, I guess --

Sandy Lowe - *Occidental Petroleum Corporation - President - Oil & Gas International Operations*

Historically they've been fairly optimistic projections, as you know.

Doug Leggate - *Howard Weil - Analyst*

Right. Well, I guess where I'm going with this, Steve, is that if you take -- go back to 2006 when you laid out your long-term production guidance and all the upside potential that you talked about if XYZ projects happen, you've now got (inaudible) deal, you're talking obviously a lot more optimistically about the [Stephen Shale and the Antelope] over in California, so when are we going to get a revised longer-term expectation in terms of your production outlook, and can you just give us an idea of whether you think you've actually hit what you, at that time, laid out to be your stretch goal for the projects you've got in hand? That's it.

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

I think we have consistently said over time, and we reconfirmed -- ignoring this economic downturn issue for now -- is that we continue to believe we can grow the business in volume between 5% and 7%. It would be lower in a low price environment because clearly we're going to put this capital in. And our business is not going to be growing in a smooth curve, so you're going to be seeing increases over the next couple of years from both definitely Mahizmah, as Sandy just talked about, from Bahrain, which we will be taking over the operation during the remainder of the year, increases potentially domestically, increases in the Piceance, as gas prices improve, and there's other projects we continue to work about. But we at Oxy don't believe like giving you a number of projects if we're thinking about that may have. We like to have a degree of certainty before we start sharing with you our thoughts and dreams. So I can't sit and tell you, well, in Iraq we're going to have so much. I can, but realistically that's a wish by me just as it's a wish by other people. So we have a lot of places we can drill. Bill, would you share with them how many places we can drill in the United States?

Bil Albrecht - *Occidental Petroleum Corporation - President - US Oil and Gas*

Yes, Dr. Irani, thank you. We currently have roughly 10,000 locations to drill in the United States, with about 6,000 of those locations in the Piceance alone.

Doug Leggate - *Howard Weil - Analyst*

Got it. I'll leave it there. Thank you.

Operator

Your next question comes from the line of Pavel Molchanov with Raymond James.

Pavel Molchanov - *Raymond James - Analyst*

Thanks for taking my call. In the middle of 2008 you made a small investment in an oil sands project in Canada. Under current economics do you anticipate that project moving forward and if so, under what timeframe?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

No, it's -- Total runs the project, as you know, and so they're -- they've delayed until costs come into line so I would -- almost everybody up there is waiting for cost decreases before they move forward and I think Total made that announcement a few months ago.

Pavel Molchanov - *Raymond James - Analyst*

And as a follow up to that, if there are potential opportunities to increase your stake, either in that project or the oil sands more generally under current commodity prices, would you consider that?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Well, that project is -- the rest is Total so I don't see them selling down. They'd probably be more interested in taking our share than the other way. As far as other projects go, we look for quality operators and quality reservoirs, and so that sort of limits this -- limits the opportunities in Canada.

Pavel Molchanov - *Raymond James - Analyst*

Sounds good. Thank you.

Operator

(Operator Instructions), Your next question comes from the line of Robert Kessler with Simmons.

Robert Kessler - *Simmons - Analyst*

Good morning. I was interested in your commentary about Dolphin. I don't know -- it was somewhat unexpected for me in terms of the discussion around the market diversions. Ray, I think you mentioned in instances where the [Qatarys] might not be able to sell the gas to other markets. They could divert and put it through the Dolphin line provided -- allowing you to ramp up to your capacity there or towards it. Did I understand that correctly? And I guess if so, I'm curious around the logistics there. My thought was that most of the Ras Laffan projects were somewhat ring fenced from each other in terms of the gas feed, albeit having some shared utilities or that was planned longer term, so I wouldn't have thought the logistics would have been that easy to transfer the gas in between the various projects based on markets, but I'd be curious if you thought otherwise.

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

Yes. I think let me start out, then I'll turn it over to Sandy. Even before we started producing gas from Dolphin, we put some gas through to -- significantly, hundreds of thousands of -- hundreds millions of cubic feet a day purchased from Qatar and, Sandy, would you give him some feeling on the logistics (inaudible)?

Sandy Lowe - *Occidental Petroleum Corporation - President - Oil & Gas International Operations*

Yes, sir, I'd be glad to. The -- Qatar has a lot of L&G, which as you've alluded to is some -- is pretty well ring fenced, but there's a lot of domestic consumption there which has a seasonal swing and are times when there's more available gas than is used in their domestic power generation, et cetera, so sometimes that's available.

Robert Kessler - *Simmons - Analyst*

Okay, that's helpful. But then on terms (inaudible) specifically, would you expect a diversion of the L&G, or it sounds like that pretty much goes as is?

Sandy Lowe - *Occidental Petroleum Corporation - President - Oil & Gas International Operations*

There are some technical interconnections that could be used, but generally speaking the L&G has been ring fenced as part of the deals that were made. It would be more domestic oversupply that we get to use.

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

Yes, I think -- so you don't feel that this is a substitute for L&G, it's not. It's (inaudible) opportunitistic understanding between us and Qatar that when they have extra gas it can be used in the UAE and when there isn't, there isn't. So it's not really going to be an alternative to L&G.

Robert Kessler - *Simmons - Analyst*

Got you.

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

Qatar has a fair amount that's dedicated for its domestic use and how much they need depends on the growth in the construction and other utility and those go up and down and sideways.

Robert Kessler - *Simmons - Analyst*

That clarifies quite a bit. Thank you very much.

Operator

Your next question comes from the line of [Howard Blinker] with[Blinker and Company].

Howard Blinker - *Blinker and Company - Analyst*

Howard Blinker. At what price do you think that domestic suppliers will be shutting in gas rather than not replacing it?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

I don't know. I see where McClint Aubrey's shutting in gas at current levels.

Howard Blinker - *Blinker and Company - Analyst*

Yes, I saw a little bit.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Yes.

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

[That depended on how much into the future they have small hedges.]

Howard Blinker - *Blinker and Company - Analyst*

Yeah.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

It's really hard for us to speculate at that. As far as new drilling goes the current levels I don't think are economic anywhere.

Howard Blinker - *Blinker and Company - Analyst*

None, right?

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman & CEO*

But other people may do it, Steve, because they think gas prices are going to go up soon. We don't like to go on that theory.

Howard Blinker - *Blinker and Company - Analyst*

Yes, other than speculators like me.

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Right.

Howard Blinker - *Blinker and Company - Analyst*

Can people generally -- without hedges can they generally make money at $5? Can they cover their full costs?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Yes, they should be.

Howard Blinker - *Blinker and Company - Analyst*

At $5 they can?

Steve Chazen - *Occidental Petroleum Corporation - President & CFO*

Yes.

Howard Blinker - *Blinker and Company - Analyst*

Okay, thanks.

Operator

There are no further questions at this time. Mr. Stavros?

Chris Stavros - *Occidental Petroleum Corporation - VP IR*

Thank you very much for joining us today, and if you have any further follow-up questions, don't hesitate to call us here in New York. Thanks very much, and have a great day.

Operator

This concludes today's Occidental Petroleum Corporation first quarter 2009 earnings conference call. You may now disconnect.
