

Occidental Petroleum Corporation

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President and Chief Financial Officer

– Conference Call –

Fourth Quarter 2008 Earnings Announcement

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Los Angeles, California

Thank you Ray.

Net income for the quarter was \$443 million, or \$0.55 per diluted share, compared to \$1.5 billion, or \$1.74 per diluted share in the fourth quarter of 2007. The 2008 fourth quarter net income includes after-tax non-core charges totaling \$514 million. These charges included \$390 million for impairment of undeveloped acreage in Argentina and Yemen, \$27 million for impairment of producing oil and gas properties, \$37 million for rig contract terminations and \$55 million for chemical plant closure and impairments. Core results were \$957 million, or \$1.18 per diluted share in the fourth quarter of 2008, compared to \$1.5 billion, or \$1.76 per diluted share in the fourth quarter of 2007.

Here's the segment breakdown for the **fourth quarter**.

Oil and gas fourth quarter 2008 segment earnings were \$339 million, compared to \$2.5 billion for the fourth quarter of 2007. Oil and gas core results for the fourth quarter of 2008 were \$996 million, after excluding

asset impairments and rig termination costs. The following accounted for the decrease in oil and gas earnings between these quarters:

- The \$1.5 billion decrease in the fourth quarter of 2008 core results was due to \$1.4 billion lower crude oil and natural gas prices, a benefit of \$0.1 billion for higher volumes offset by higher operating expenses, DD&A rates and exploration expense. Occidental's average realized crude oil price in the 2008 fourth quarter was \$53.52 per barrel, a decrease of 33 percent from the comparable period in 2007. Oxy's domestic average realized gas price for the quarter was \$4.67 per mcf, compared with \$6.77 per mcf for the fourth quarter 2007.
- Worldwide oil and gas sales volumes for the fourth quarter of 2008 were 620,000 barrels of oil equivalent per day, an increase of 5 percent, compared with 590,000 BOE in the fourth quarter of last year. The increase includes 22,000 BOE per day from the Dolphin project, 14,000 BOE per day domestically and 6,000 BOE per day from Oman, offset by 12,000 BOE per day lower production in Libya as a result of the new contract terms.
- The fourth quarter of 2008 oil and gas sales volumes were 32,000 BOE per day higher than the third quarter of 2008 volumes.
- Exploration expense, excluding non core items, was \$134 million in the quarter.
- Fourth quarter non-core items included impairments of undeveloped acreage in Argentina and Yemen, impairment of producing oil and gas properties and rig contract terminations.

Chemical segment earnings for the fourth quarter of 2008 were \$127 million. After excluding the plant closure and impairments, the fourth quarter 2008 core results were \$217 million. The higher earnings were attributable primarily to higher caustic soda margins. Chemicals earned \$94 million in last year's fourth quarter.

Midstream segment earnings for the fourth quarter of 2008 were \$170 million, an increase of \$32 million from the fourth quarter of 2007 results. The improvement in earnings was due to higher margins in crude oil marketing, higher pipeline income from Dolphin and lower NGL margins in the gas processing business.

Fourth quarter 2008 results also included after-tax foreign exchange gains of \$88 million of which \$70 million was in oil and gas.

Let me now turn to Occidental's performance during the **twelve months**.

Net income was a record \$6.9 billion, or \$8.35 per diluted share for the twelve months of 2008, compared with \$5.4 billion, or \$6.44 per diluted share for the same period of 2007. Core results for the twelve months of 2008 were \$7.3 billion, or \$8.95 per diluted share, compared with \$4.4 billion, or \$5.25 per diluted share for the full year 2007. Income for the twelve months of 2008 included \$491 million of charges, net of tax and 2007 included a \$1 billion benefit, net of tax, for the items noted on the schedule reconciling net income to core results.

We have broken out oil and gas production taxes and ad valorem taxes into a separate line item called "taxes - other than on income," for disclosure purposes to highlight their sensitivity to product price variations. These taxes were \$2.62 a barrel in 2008 compared with \$1.97 a barrel for 2007. Oil and gas cash production costs (after exclusion of the taxes described above) were

\$12.13 a barrel for the twelve months of 2008, compared to last year's costs of \$10.37 a barrel. The bulk of the increase is related to higher maintenance, workovers and field operating costs.

Reserves

We currently estimate that we replaced approximately 200 percent of our oil and gas production in 2008, without taking into account the effect of price changes from 2007 to 2008. With the effect of price changes, we estimate we replaced about 150 percent of our production. Slightly over half of the reserve additions, excluding the effect of price changes, came from internal sources resulting in over 100 percent reserve replacement. Major increases were in the California properties, Permian and the Rockies, and in Oman, which in aggregate constituted more than half of such reserve adds.

Capital Spending

Last year's capital program was about \$4.7 billion. Additionally, we spent another \$4.7 billion for acquisitions. As a result of these expenditures, we have accumulated a sizeable inventory of projects. The bulk of these projects can be delayed until such time as the industry cost structure is in line with product prices. We believe that the service company cost structure is more reflective of an \$80 oil environment rather than a \$40 one. An illustration of our ability to defer drilling is that we have a total of 5 million net acres in the United States. 70 percent is held by production, about 10 percent consists of long-term leases, with many years on average to run, and the remainder in mineral acres held in perpetuity.

This year's capital program of \$3.5 billion will focus on ensuring that our returns remain well above our cost of capital given current oil and gas prices and contractor costs. About 80 percent of the capital will be in oil and gas and the remainder in midstream and chemical. Gas drilling with less

than \$5.00 per mcf gas is unattractive. We will continue to fully fund much of our Middle East operations, our successful exploration programs in California and Utah, and our exploration in Argentina. Formerly "quick payout" wells in the Permian and California will be deferred until they become "quick payout" again. We will also continue to fund our midstream and CO2 programs.

You should expect that our capital run rate in the first quarter will be greater than the \$3.5 billion level and will decline all year unless economic conditions improve. The effect of this program on our production should be fairly modest this year, around 10,000 BOE per day, resulting in a probable production range of 620,000 to 660,000 BOE per day and with about 630,000 to 650,000 BOE per day in the first quarter. Year-over-year, Argentina and Oman will show the most growth.

We are also focusing on internal costs. Some reductions in overhead will be made this year which should improve our overhead levels by at least \$1.00 per BOE. We are renegotiating our supplier contracts to further reduce costs and are laying down rigs, including paying cancellation costs when that makes sense. We expect these efforts to result in a reduction in the cost of executing our capital programs, as well as, a reduction of our operating expenses.

Oxy's focus has been and will continue to be delivering returns well in excess of our cost of capital. When costs and prices are inline, our capital program will be boosted and the project inventory worked down faster.

Cash Flow

Cash flow from operations for the twelve months was \$10.7 billion. We used \$4.7 billion of the company's cash flow to fund capital expenditures, \$4.7 billion for acquisitions and \$940 million to pay

dividends. We spent \$1.5 billion to repurchase 19.4 million common shares and we borrowed \$1 billion in the fourth quarter. These and other net cash outflows decreased our \$2.0 billion cash balance at the end of last year by \$200 million to \$1.8 billion at December 31.

The weighted average basic shares outstanding for the twelve months were 817.6 million and the weighted average diluted shares outstanding were 820.8 million. At December 31, there were 810.4 million basic shares outstanding and the diluted share amount was approximately 813.5 million.

Our debt to capitalization ratio was 9 percent. Oxy's 2008 return on equity was 27 percent, with return on capital employed of 25 percent.

As we look ahead in the **current quarter**:

- We expect exploration expense to be about \$60 million.
- We expect chemical segment earnings for the first quarter to be \$100 million. High caustic soda margins are expected to continue through the period offset by the continued weakness in the construction and housing markets impacting domestic demand. Despite the difficult economic conditions, exports are anticipated to show modest improvement over the abysmal demand of the fourth quarter.
- The worldwide effective tax rate on core income was 40 percent for 2008. We expect our combined worldwide tax rate in the first quarter of 2009, to be about 46 percent. The increase in the rate from the prior year is caused by higher foreign-sourced income expected in 2009 as a percentage of total income. Our fourth quarter and twelve-month U. S. and foreign tax rates are included in the "Investor Relations Supplemental Schedule."

- Our Oil & Gas DD&A expense for 2009 should be approximately \$11.50 per BOE. Depreciation for the other two segments should be approximately \$400 million.
- We expect to have severance and similar charges in the first quarter of 2009.
- Copies of the press release announcing our fourth quarter earnings and the Investor Relations Supplemental Schedules are available on our website at www.oxy.com or through the SEC's EDGAR system.

Now we're ready to take your questions.