

Fourth Quarter 2008 Earnings Conference Call

January 29, 2009

Oxy





Fourth Quarter 2008 Earnings – Highlights

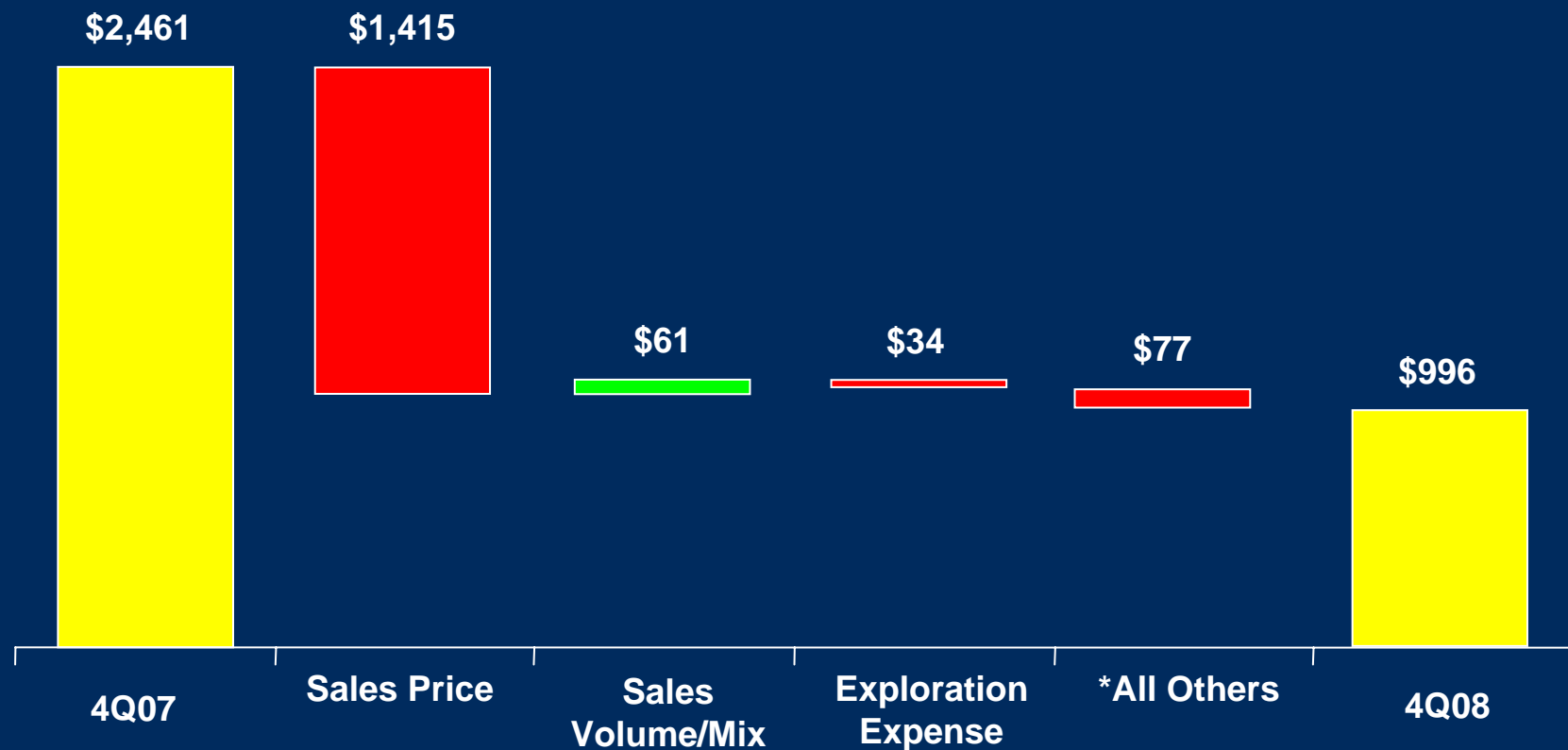
- *Core Results - \$957 Million vs. \$1.5 Billion in 4Q07*
 - *Core EPS \$1.18 (diluted) vs. \$1.76 in 4Q07.*
- Net Income - \$443 Million vs. \$1.5 Billion in 4Q07
 - EPS \$0.55 (diluted) vs. \$1.74 in 4Q07.
- Net Income includes after-tax non-core charges as follows:
 - \$390 mm impairment of undeveloped acreage in Argentina and Yemen;
 - \$27 mm impairment of producing oil and gas properties;
 - \$37 mm for rig contract terminations, and;
 - \$55 mm for chemical plant closure and impairments.

Fourth Quarter 2008 Earnings - Oil & Gas Segment Variance Analysis - 4Q08 vs. 4Q07



- *Core Results for 4Q08 of \$996 Million*

(\$ in millions)



*All Others include: DD&A rate increase and higher operating expenses.

Fourth Quarter 2008 Earnings – Oil & Gas Segment



	<u>4Q08</u>	<u>4Q07</u>
Reported Segment Earnings (\$ mm)	\$339	\$2,461
WTI Oil Price (\$/bbl)	\$58.73	\$90.68
NYMEX Gas Price (\$/mcf)	\$6.97	\$7.06
Oxy's Realized Prices		
Worldwide Oil (\$/bbl)	\$53.52	\$80.30
US Natural Gas (\$/mcf)	\$4.67	\$6.77



Fourth Quarter 2008 Earnings – Oil & Gas Segment

	<u>4Q08</u>	<u>4Q07</u>
Oil and Gas Sales Volumes (mboe/d)	620	590

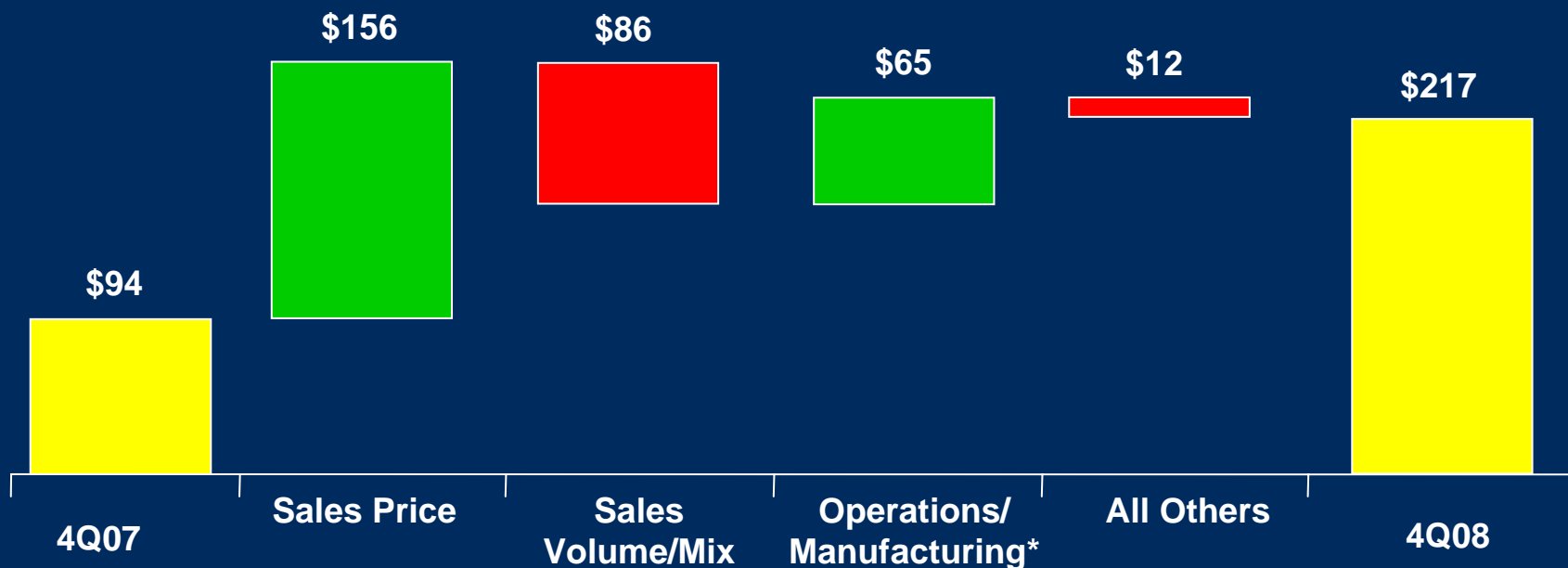
- + 5.1% year-over-year
- Year-over-year sales volume increase includes:
 - Dolphin project (+22 mboe/d);
 - Domestic operations (+14 mboe/d);
 - Oman (+6 mboe/d);
 - Libya, due to the new contract terms (-12 mboe/day).
- Sales volumes were +32 mboe/d vs. 3Q08.
- Exploration expense, excl. non-core items was \$134 mm in 4Q08.
- 4Q08 non-core items include:
 - Impairments of undeveloped acreage in Argentina and Yemen;
 - Impairment of producing oil and gas properties, and;
 - Rig contract terminations.

Fourth Quarter 2008 Earnings – Chemical Segment Variance Analysis - 4Q08 vs. 4Q07



- *Core Results for 4Q08 of \$217 Million*
 - Excludes \$90 mm pre-tax loss related to plant closure and impairments;
 - Improved results attributable primarily to higher caustic soda margins.

(\$ in millions)

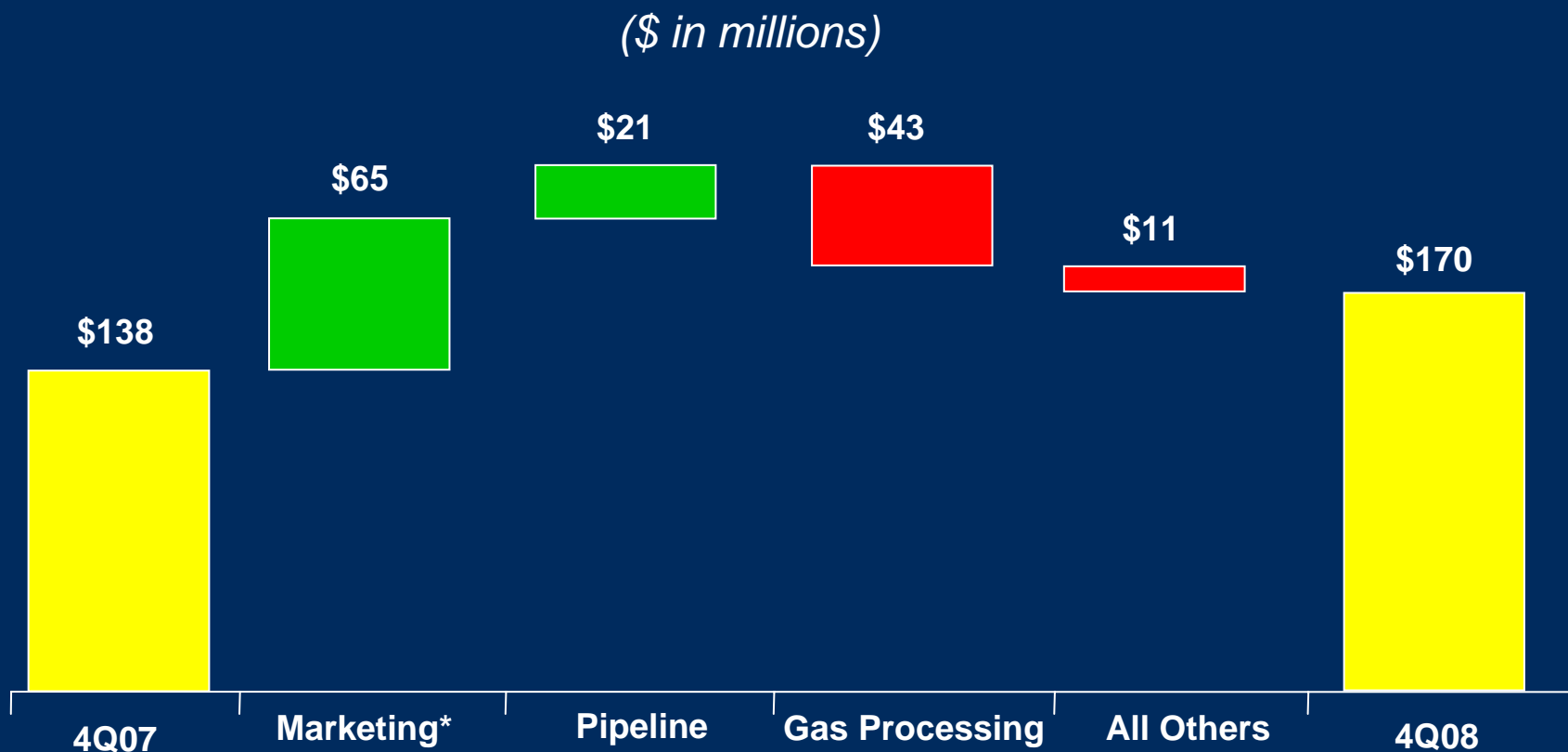


*Lower feedstock costs.

Fourth Quarter 2008 Earnings – Midstream Segment Variance Analysis - 4Q08 vs. 4Q07



- *Core Results for 4Q08 of \$170 Million*
 - Improvement due to higher crude oil marketing margins, higher Dolphin pipeline income, partly offset by lower NGL/gas processing margins.



*Includes positive mark to market adjustments in crude oil marketing.



Fourth Quarter 2008 Earnings – Full Year 2008 Results

- *Core Results FY2008 - \$7.3 Billion vs. \$4.4 Billion in FY2007*
 - *Core EPS \$8.95 (diluted) vs. \$5.25 in FY2007*
- Net Income FY2008 - \$6.9 Billion vs. \$5.4 Billion in FY2007
 - EPS \$8.35 (diluted) vs. \$6.44 in FY2007
- 2008 Net Income includes after-tax charges of \$491 mm.
- 2007 Net Income includes an after-tax benefit of \$1 Billion.
- 2008 Disclosure Reclassification:
 - We have broken out oil and gas production taxes and ad valorem taxes into a separate line item called “taxes – other than on income”.
 - This highlights their sensitivity to product price variations;
 - These taxes were \$2.62/boe in 2008 compared to \$1.97/boe in 2007.
 - Oil and gas cash production costs (excl. the taxes above) were \$12.13/boe for 2008 versus \$10.37/boe in 2007.
 - Increase is due to higher maintenance, workovers and field operating costs.



Fourth Quarter 2008 Earnings – 2008 Oil & Gas Reserves

- We currently estimate that we replaced approximately 200% of our oil and gas production in 2008.
 - This excludes the effect of price changes from 2007 to 2008.
- Including the effect of price changes, we estimate that we replaced around 150% of our 2008 production.
- Slightly over half of the reserve additions, excluding effect of price changes, came from internal sources resulting in over 100% reserve replacement.
- Major reserve increases were in:
 - the California properties;
 - the Permian and the Rockies, and;
 - Oman.
 - In aggregate, these areas constituted more than half of such reserve adds.

Fourth Quarter 2008 Earnings – Capital Spending

- Last year's capital program was about \$4.7 billion, and we spent another \$4.7 billion for acquisitions.
 - As a result, we have accumulated a sizeable inventory of projects which can be delayed until 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 5 mm net acres in the US;
 - 70% of this acreage is held by production;
 - about 10% 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% of the capital will be in Oil and Gas and the remainder in Midstream and Chemical.

Fourth Quarter 2008 Earnings – Capital Spending

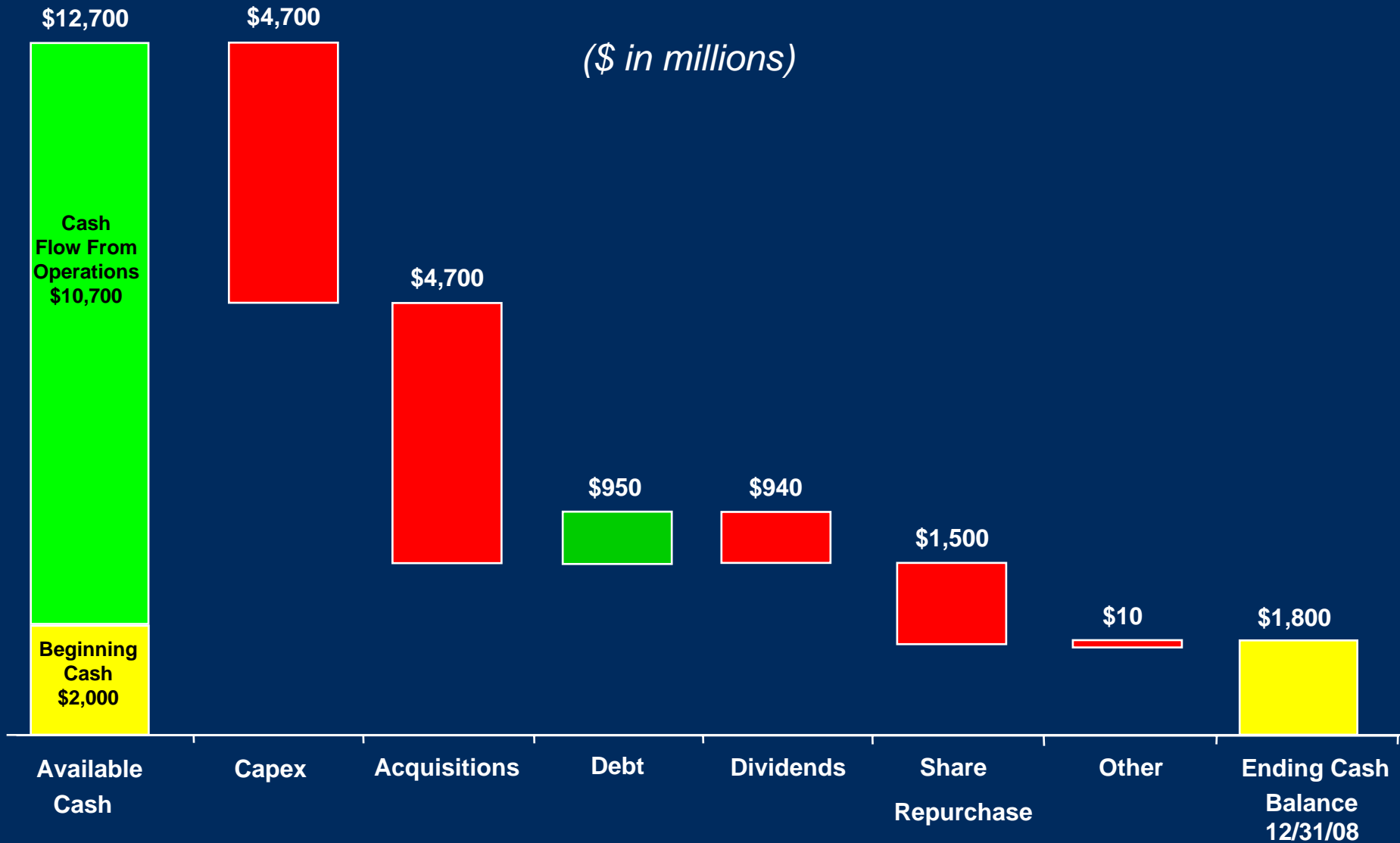
- Gas drilling with less than \$5 per mcf gas is unattractive.
- We will continue to fully fund much of our Middle East operations, successful exploration programs in California, Utah, and exploration in Argentina.
- Formerly "quick payout" wells in the Permian and California will be deferred until they become "quick payout" again.
- We will continue to fund our Midstream and CO₂ programs.
- Expect our capital run rate in 1Q09 to 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 modest in 2009, around 10 mboe/d, with a probable production range of 620 to 660 mboe/d and, with about 630 to 650 mboe/d in 1Q09.
 - Year-over-year, Argentina and Oman will show the most growth.

Fourth Quarter 2008 Earnings – Capital Spending



- 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/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.

Fourth Quarter 2008 Earnings – Full Year 2008 Cash Flow





Fourth Quarter 2008 Earnings – Shares Outstanding, Debt and Returns

Shares Outstanding (mm)	<u>2008</u>	<u>12/31/08</u>
Weighted Average Basic	817.6	
Weighted Average Diluted	820.8	
Basic Shares Outstanding		810.4
Diluted Shares Outstanding		813.5
	<u>2008</u>	<u>2007</u>
Debt/Capital	9%	7%
ROE	27%	26%
ROCE*	25%	24%

*See the investor relations supplemental schedules for the reconciliation of non-GAAP items.

Fourth Quarter 2008 Earnings - Outlook



- We expect 1Q09 exploration expense to be about \$60 mm.
- We expect 1Q09 Chemical earnings to be \$100 mm.
 - High caustic soda margins are expected to continue through the period, offset by continued weakness in the construction and housing markets impacting domestic demand.
 - Despite the difficult economic conditions, exports are anticipated to show modest improvement over abysmal demand of 4Q08.
- We expect our combined worldwide tax rate to be about 46% in 1Q09, compared to 40% for full-year 2008.
 - Increase is caused by higher expected foreign-sourced income expected in 2009 as a percentage of total income.
- We expect our Oil & Gas DD&A expense for 2009 to be approximately \$11.50/boe. Depreciation for the other two segments should be approximately \$400 mm.
- We expect to have severance and similar charges in 1Q09.

