FINAL TRANSCRIPT

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OXY - Q4 2008 Occidental Petroleum Corporation Earnings Conference Call

Event Date/Time: Jan. 29. 2009 / 11:30AM ET

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PRESENTATION

Operator

Ladies and gentlemen, thank you store standing by and welcome to the Occidental Petroleum fourth quarter 2008 earnings release 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). Thank you.

Mr. Stavros, you may begin.

Christopher Stavros - *Occidental Petroleum Corporation - IR*

Thank you and good morning, everyone. I would like to welcome you to Occidental's fourth quarter 2008 earnings conference call. Joining us on the call from Los Angeles this morning are Dr. Ray Irani, Oxy's Chairman and CEO, Steve Chazen, our President and CFO and Casey Olson, President of our International Oil and Gas Operations.

In just a moment, I will be passing the call over to Dr. Irani who will discuss our plans for managing the business in the current challenging economic period, as well as some of our future growth opportunities. Steve will then review our fourth quarter and full-year 2008 financial results and provide some additional insight on our capital spending plans for 2009. Our fourth quarter earnings press release, investor relations supplemental schedules, and the conference call presentation slides which refer to Steve's remarks, can be downloaded off of our website at www.oxy.com. I will now turn the call over to Dr. Irani. Dr. Irani, please go ahead.

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

Thank you, Chris. Good morning, ladies and gentlemen. Last year was an interesting year. Oxy achieved solid results in 2008 including record earnings of $6.9 billion, an increase of 27% from 2007.

However, 2008 was in fact three years and one for our industry. Collectively, we experienced solid growth in the first part of the year, followed by unprecedented record high oil prices and finally, a collapse of those prices as the global economy went into recession. Today, I will focus on how we plan to manage and grow the business in the future, even though the current economy and low oil and gas prices make it challenging.

First, I want to mention a few developments from 2008 that will be key to Oxy's continued success. Oxy's worldwide production increased 5.4% over 2007, reaching 601,000 barrels of oil equivalent per day. Even more significant was the growth in our oil and gas reserves. We estimate that we placed approximately 200% of our production in 2008, without taking into account the effect of price changes from 2007 to 2008 with the majority coming through organic growth. Steve will talk more about this later on.

We ended the year with cash on hand of $1.8 billion, and very little net debt. In the past twelve months, we have capitalized on some key opportunities to strengthen our position and achieve further growth. In the fourth quarter of 2008, we signed an exploration and production sharing agreement with the government of Oman to develop four medium-sized gas fields and to explore for potential new discoveries. We expect the existing fields to reach production of 10,000 BOE per day net to Oxy.

We also continued production growth at [Democratic] oilfield in South Central Oman where we have a major steam flood project for enhanced oil recovery; one of Oxy's technological strengths. As of year-end 2008, gross daily production was over six times higher than the production rate in September 2005 when Oxy assumed operation of the field from Shell. In the third quarter, we signed a preliminary agreement with the Abu Dhabi National Oil Company to appraise and develop two medium-sized oil and gas fields in Abu Dhabi. Oxy will operate both fields and hold 100% interest in the concessions. When fully operational, we expect these two projects in Abu Dhabi to produce 20,000 BOE per day.

Additionally, you may have seen the recent media reports that Bahrain National Oil and Gas Authority has selected Oxy as the winner of the competitive bid to develop oil and gas assets in the Kingdom of Bahrain. Our respective teams are now finalizing the relevant technical and financial agreements. Various Bahrain agencies and government authorities have already approved Oxy as the winning bidder for the project, and we hope to have the completed agreement approved by the Bahrain Parliament before year end.

Our strong balance sheet has also enabled additional growth of Oxy reserves in the Permian basin, mid-continent and California in the United States. We intend to continue acquiring additional desirable assets as they become available in the US at more attractive prices. In 2008, we spent about $4.7 billion on capital expenditures.

This year, we plan to spend approximately $3.5 billion on projects that would allow us continued growth while protecting our targeted financial returns. We maintain a firm policy of pursuing only those opportunities which meet our standards for return on capital employed, and complement our existing assets and core areas. The ongoing turbulence in the global economy only reinforces the logic of our selectivity in considering potential transactions.

But even when the new spending, we're confident that we'll grow our production in excess of 5%, both this year and next, much of their growth from our international projects, including those I discussed earlier. We're also currently focusing on increasing our operational efficiency throughout the Company while reducing key cost areas including overhead, external purchasing, and outside services. Steve will give you additional details about all of this in a moment.

The coming months will be challenging for all businesses and all industries. However, in good economic times and bad, Oxy is well-positioned to succeed. Oxy will continue to maintain a low risk, low leverage profile and a consistent focus on building stockholder value. With our concentration on core areas, growth in production and reserves, and our efficient operations and strong balance sheet, we are confident in our ability to achieve sustained growth and solid profitability. I will now turn the call over to Steve.

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

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 last year. 2008 fourth quarter net income includes after tax non-core charges totaling $514 million. These charges include $390 million for impairment of undeveloped acreage in Argentina and Yemen, $27 million for impairment of US 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 last year.

Here is a segment breakdown for the fourth quarter. Oil and gas fourth quarter 2008 segment earnings were $339 million, compared to $2.5 billion last year. Oil and gas core results for the fourth quarter were $996 million after excluding the asset impairments and rig termination costs. The following accounted for the decrease in oil and gas earnings between these quarters; $1.5 billion decrease in the fourth quarter of 2008 core results was due to $1.4 billion lower crude and natural gas prices and a benefit of $0.1 billion for higher volumes offset by higher operating expenses, DD&A and exploration expense.

Occidental's average realized crude price in 2008 fourth quarter is $53.52 a barrel, a decrease of 33% from the comparable period last year. Oxy's domestic realized gas price for the quarter was $4.67 per MCF, compared with $6.77 per MCF in the fourth quarter of 2007. Worldwide oil and gas sales volume for the fourth quarter of 2008 were 620,000 barrels of oil equivalent per day, an increase of 5% compared to 590,000 BOE in the fourth quarter of last year. The increase includes 22,000 BOE a day from Dolphin, 14,000 a day domestically and 6,000 BOE a day from Oman, offset by 12,000 BOE per day lower production in Libya as a result of new contract terms. The fourth quarter of 2008 oil and gas sales volumes were 32,000 BOE a day, higher than the third quarter of 2008.

Exploration expense, excluding non-core items, is $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, core results were $217 million. The higher earnings were attributable to higher cost [of soda] margins. Chemicals earned $94 million in last year's fourth quarter.

Mid-stream segment earnings for the fourth quarter of 2008 were $170 million, an increase of $32 million in the fourth quarter of last year. Improvement in earnings was due to higher margin and crude oil marketing, higher pipeline income from Dolphin and lower NGL margins in the gas processing business. The fourth quarter of 2008 results also included after tax foreign exchange gains of $88 million which is -- of which $70 million was in oil and gas.

Let us now turn to our twelve-month performance. Our net income was a record $6.9 billion or $8.35 per diluted share for the twelve months of 2008, compared to $5.4 billion or $6.44 for the diluted share for the same period last year. Core results for the twelve months of 2008 were $7.3 billion or $8.95 per diluted share, compared to $4.4 billion or $5.25 per diluted share for the full year of 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 in the items noted on the schedule attached.

We have broken out oil and gas production taxes and add [delorem] taxes into a separate line called taxes other than on income for disclosure purposes to highlight their sensitivity to product price variation. These taxes were $2.62 a barrel in 2008, compared to $1.97 a barrel in 2007. Oil and gas cash production costs 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 related to higher maintenance workovers and field operating costs.

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

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 sizable 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 in a $80 oil environment 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% is held by production, about 10% consists of long-term leases with many years on average to run with 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 the midstream and chemicals. Gas drilling with less than $5 and MCF gas is generally unattractive. We will continue to fully fund our Middle East operations, our successful exploration programs in California and Utah, and ur 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. Effecting this program in our production should be fairly modest this year around 10,000 BOE a day, resulting in a probable production range of 620,000 to 660,000 BOE a day with about 630,000 to 650,000 BOE a day in the first quarter. Year-over-year, Argentina and Oman should show the most growth.

We are also focusing on internal costs. Some reductions may be made this year, it 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 cancelation costs when that makes sense. We expect these programs to result in 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 in line, our capital program will be boosted and the project inventory worked down faster.

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 billion cash balance at the end of last year by $200 million to $1.8 billion at December 31st.

The weighted average basic shares outstanding at the twelve months was 817.6 million and the weighted average diluted shares outstanding was 820.8 million At December 31st, there was approximately 810.4 million basic shares outstanding and the diluted share amount was approximately 813.5 million. Our debt to capitalization ratio was 9%. Last year's return on equity was 27% and return on capital employed was 25%.

As you look ahead to the current quarter, we expect exploration expense to be about $60 million. We expect chemical segment earnings for the first quarter to be about $100 million. High cost of soda margins is margins expected to continue throughout the period, offset by continued weakness in the construction and housing market impacting domestic demand. Despite the difficult economic conditions, exports are anticipated to show modest improvements over the a dismal demand of the fourth quarter.

The worldwide effective tax rate on the core income was 40% for 2008. We expect our combined worldwide tax rate in the first quarter of 2009 to be about 46%. The increase in rate from the prior year is caused by a higher foreign source income expected in 2009 as a percentage of total income. Our fourth quarter and twelve-month US and foreign income tax rates are included in the investor relations supplement.

Oil and gas DD&A expense for 2009 should be approximately $11.5 per BOE. Appreciation for the other two segments should total approximately $400 million. We expect to have severance and similar charges in the first quarter of 2009.

Copies of the press release, announcing our results and the supplements are available on our website or through the SEC's Edgar system. We're now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Michael Jacobs.

Mike Jacobs - *Tudor Pickering & Co. - Analyst*

Good morning.

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

Good morning.

Mike Jacobs - *Tudor Pickering & Co. - Analyst*

Thank you for all of the additional guidance on the capital spending. Steve, you touched on your return focused investment philosophy. While your business model doesn't warrant some of the tougher decisions of trying to live within cash flow, can you just take a second to discuss what differentiates the Oxy business model and how you think about potentially accelerating cash flow at the cost of returns in the current environment?

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

Since we can't predict oil prices and we have to live with what the oil prices are, and if we look at each project, especially the US projects which are infinitely deferrable, we look at the returns at the current oil situation or gas situation, figure out what the returns are and if the returns are below our cost of capital, we'll defer it. When you get a different cost structure or price structure, whichever or both, we'll reevaluate that and boost the spending, or decrease it for that matter. We have a lot of flexibility in deferral, maybe not infinite, but a lot.

The contracts outside the United States basically have production sharing contracts which tend to protect the returns. When things are real good, they don't return as well as you might hope. When things are bad, they cushion the blow so we lived with this $40 environment. It wasn't that long ago. We're borrowing all -- we're doing is bringing our capital spending down to our 2007 levels. We are investing for growth. We're protecting our long-term outlook, but the just deferring some things that we can defer.

Mike Jacobs - *Tudor Pickering & Co. - Analyst*

That's great. Moving onto reserves and specifically focusing on Oman, we've seen some pretty meaningful production growth in the last few quarters. It seems steam is clearly penetrating the reserve add. Can you give us a quick update of what you're seeing operationally and how that factored into reserve adds in 2008?

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

We'll let Casey talk about the operational part, I think. But on the reserve adds, it was a sizable reserve add in Oman, probably the -- almost I the largest single area of reserve adds last year. Also there was price -- a positive price impact there, too, because of the production sharing contracts. We're not through with the reserve adds there, just so -- as the steam continues to penetrate, we'll add additional reserves. Casey?

Casey Olson - *Occidental Petroleum Corporation - President, International Oil and Gas Operations*

Operationally, things are going very well as you say. There have been some substantial increases in production. They're right in line. Our development plans are turning out right in line with what we anticipated when we won the project a few years ago. As we noted in the comments, gross production from the field is up over six times from what it was at the end of 2005 when we took over the operation.

I think we can say that in general, the reservoir is in fact performing better than we expected. The steam flood project is doing exactly as we thought it would, but as I said, performing even better. We had a lot of facility activity during the course of the year, building these huge water treatment facilities that ultimately purified the water and generated the steam. There were some moderate delays during the course of the past year in getting those on stream.

By the end of the year, we were fully caught up. The remainder of those facilities will be completed as expected and on time this year. We remain very confident in both the performance of the reservoir and our potential to continue to meet the anticipated schedules for the increase of production to probably 150,000 barrels a day gross by late 2011, early 2012.

Mike Jacobs - *Tudor Pickering & Co. - Analyst*

Great. Thank you. Just one final question before I hop back into the queue. You mentioned higher workover expenses were partly responsible for the year-over-year increase in LOE. Looking ahead, how much of an improvement would you expect in your cost structure as you reduce your quick payout activity?

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

Overall for the Company, probably about $0.70 or $0.80.

Mike Jacobs - *Tudor Pickering & Co. - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Robert Kessler.

Robert Kessler - *Simmons & Company - Analyst*

Good morning, gentlemen. With respect to reserve for replacement last year, it looks like about 50% of your production equivalent was a negative price effect. It is about 110 million-barrels equivalent. I was curious if you could perhaps gross that out to the positive effects of PSEs and the negative effects of shortening production lines. And maybe a little bit more on geography, particularly the shortened productions lines.

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

It's fairly straightforward on the shortened one, since we're only in effectively three places. Permian obviously.

Robert Kessler - *Simmons & Company - Analyst*

Yes.

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

And Hugoton gas reserves and some in California. The big slug is in the Permian. Have you a mismatch right now on this price revision. You use the year-end prices.

But you effectively -- your costs for cut off are the old higher costs so you wind up overstating I think the negative revisions in the domestic properties because have you a mismatch between your costs and your price. And you're not allowed to forecast a decline in your cost of operating using SEC rules. My guess is this number will -- if we ran it a year from now and the prices with the same kind of price change, we would have a much smaller number. We'll recoup this stuff, but in the production sharing contracts -- offset a lot of big gains at Dolphin, and Cutter and Oman were the big pieces of that. We'll give you more detail when we roll out the exact numbers.

Robert Kessler - *Simmons & Company - Analyst*

Okay. But no guesstimate on the magnitude on the positives for PSEs in aggregate?

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

No. Let's not get into that at this point.

Robert Kessler - *Simmons & Company - Analyst*

Okay. Looks like on the cost side, you're certainly doing your part to try and lower the $80 a barrel cost environment down to $40 a barrel with a $58 million termination charge on rig contracts and the like. Can you get any more specific on where that is and future contract cancellations, and assuming maybe the Permian -- ?

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

I think we're about done with the contract cancellations.

Robert Kessler - *Simmons & Company - Analyst*

Okay .

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

We've begun to see some reduction from some of the service companies, but not the order of magnitude we would like to see. Looking at their results, it looks like they're still making too much money to me.

Robert Kessler - *Simmons & Company - Analyst*

Okay. Thanks very much.

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

Sure.

Operator

Your next question is from the line of Ben Dell.

Ben Dell - *Sanford C. Bernstein & Company, Inc. - Analyst*

Hi.

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

Hi, Ben.

Ben Dell - *Sanford C. Bernstein & Company, Inc. - Analyst*

I just had one question regarding your US gas prices. They came in relatively low versus the benchmark. I wonder if there was any particular reason for that during the quarter?

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

The gas out of the Rockies and the Permian which basically heads West, was crummy and which is why we -- why we're reducing the drilling in the Rockies now. It is tightened a little bit, but not very much.

Ben Dell - *Sanford C. Bernstein & Company, Inc. - Analyst*

When you look at that going forward, is there any plans put in -- any base hedge to cover that going forward or is that something you avoided?

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

We avoided that because it seems like a way to make the brokers rich and me poor.

Ben Dell - *Sanford C. Bernstein & Company, Inc. - Analyst*

And I just had one other question. There has been some talk obviously in the news recently about Libya coming out about the potential for renationalization which seems like more noise than anything else. Wondering if you can give us your view on that and if you've heard any thing from the Libyan government?

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

It is noise.

Ben Dell - *Sanford C. Bernstein & Company, Inc. - Analyst*

Okay. Thank you.

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

That's Ray.

Operator

Your next question is from the line of Arjun Murti.

Arjun Murti - *Goldman Sachs - Analyst*

First, thanks for breaking out the production taxes. That will be helpful. The rig contract cancellations, can you say where they are, Steve?

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

Actually, they're scattered. South America and the mid-Continent are the bulk of them.

Arjun Murti - *Goldman Sachs - Analyst*

Got you. Some Piceance drilling as well, I presume?

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

We call that mid-continent.

Arjun Murti - *Goldman Sachs - Analyst*

Got you. If I missed any remarks, I apologize. I assume the pace of stock buyback slows -- you want to preserve balance sheet capacity to keep all options open or am I mistaken in that?

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

You're not mistaken. We would like the business -- to get some idea where we're headed here, keep on reading Wall Street reports and I can get any number I want, so I am waiting for more consistency.

Arjun Murti - *Goldman Sachs - Analyst*

I know the reports are so helpful.

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

They're very helpful. We always listen to them.

Arjun Murti - *Goldman Sachs - Analyst*

We'll keep them coming. On the production potential for the Middle East projects, can you scale that either -- the new ones, Bahrain, the couple from Abu Dhabi and Oman, net or gross production over the next few years?

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

As I said in my remarks, Arjun, we expect growth in 2009 even with reduced capital of 5%. Growth for the Company would come primarily from the Middle East projects which I talked about and an additional 5% growth in 2010, and further as you go down.

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

Listed in the remarks is the individual projects. The Bahrain one because it is not a signed contract, we just don't want to talk about that at this time.

Arjun Murti - *Goldman Sachs - Analyst*

That's great. It seems like some of those projects will help offset whatever declines or less growth from the Permian, California and --

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

We don't expect declines.

Arjun Murti - *Goldman Sachs - Analyst*

Okay. That's great. Thank you very much.

Operator

Your next question comes from the line of Erik Mielke.

Erik Mielke - *BAS-ML - Analyst*

Good morning. My question relates to the chemicals business. Can you give us an update and what you're seeing in 2009 and particularly, in light of the writedown you've taken in the segment as well? I have a follow-up.

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

The writedown are basically TCB plants, relatively small TCB plants. It's not material in the total. Basically those plant -- we added capacity in one of our large plants and we're basically taking out the capacity in the smaller, less efficient plants. We don't know. We had a good fourth quarter, a crummy December. There is some signs of life this quarter, but we have outlooked the earnings for the chemical segment.

I wouldn't view that as reflective of necessarily other people's chemical segment. This is pretty narrow business. The demand for caustic soda has declined some, but not as fast as the decline in people's production of it because there is no place to put the chlorine. We wouldn't go out and outlook the whole year at this point. We're lucky to get the quarter.

Erik Mielke - *BAS-ML - Analyst*

The $100 million you've outlined for the first quarter, therefore it is just -- that's as far as you can go at this point?

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

Pardon me?

Erik Mielke - *BAS-ML - Analyst*

The $100 million you outlined for the first quarter is as high as you can go in terms of guidance?

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

That's as far as I am willing to -- anything else wouldn't be very reliable.

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

We're giving you what we think --

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

What we think we have a feel for -- beyond that you have to do macroeconomics.

Erik Mielke - *BAS-ML - Analyst*

Sure.

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

And with the new President's plan --

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

Maybe he wants to buy a bunch of PVC pipe for the [Middle East].

Erik Mielke - *BAS-ML - Analyst*

Okay. My final question is a follow-up to an earlier question on capital costs in the industry. Can you talk a bit about what are the areas in particular you think costs need to come down and maybe the timeframe in which you envision this happening?

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

Steel costs have already started to fall and they're falling fairly sharply. There is more to go there. They look like they've fallen maybe a third since the peak.

The big cost in the business is not so much -- for us since we don't have the offshore drilling, it is really completion costs. The completion costs are the area where I think there is a lot more room for improvement by the service providers. I think that's the big area that I would look for. Seismic stuff is probably falling like a rock right now. I think the completion costs are the key area. That's mostly labor and not so much hard goods.

Erik Mielke - *BAS-ML - Analyst*

That can be quite sticky.

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

The suppliers want it to be sticky.

Erik Mielke - *BAS-ML - Analyst*

In terms of timing, are you optimistic you might see more of a match towards the middle of the year?

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

We're always optimistic, but who knows. They're coming down. There is no argument that it is coming down. It is just not whether it is fast enough. I think like a lot of people, they're hoping that the current environment is temporary and good times will come back so they won't have to cut so much. We'll see as the year progresses since our crystal ball is no better than anybody else's.

Erik Mielke - *BAS-ML - Analyst*

Finally can I ask about the M&A landscape? You previously have been very willing to talk about the gap between the bid on spread -- on what the sellers were looking for and what the buyers were willing to pay. Are you seeing signs that is changing? Would you consider making -- put in proper terms, strategic resource acquisitions such as the oil sands? Or are you keeping your wallet closed at this point?

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

There is just not a lot of opportunity right now. The material that's up for sale -- probably shrinking rather than growing and really isn't a lot of opportunity. The same view the service people -- this is temporary and good times will come here soon.

As far as for the short-term, we don't see anything. As far as resource, we're mostly looking for cash flow and less looking for -- we have a huge inventory of things to do. Just an enormous inventory of things to do, once we get the costs in line. There is no pressure on us to do something that's -- to build some imaginary resource. As far as oil sands are concerned, we'll wait and see how that shakes out.

Erik Mielke - *BAS-ML - Analyst*

Thank you.

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

Thanks.

Operator

Your next question comes from the line of Paul Sankey.

Paul Sankey - *Deutsche Bank - Analyst*

Good morning.

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

Good morning.

Paul Sankey - *Deutsche Bank - Analyst*

You said that you expect to grow by more than 5% volumes in 2009 and 2010. You also said that you felt that the lower CapEx wouldn't have a major impact on 2009 volumes. I was wondering what the scale of the impact you expect to see on 2010 was and in volume terms?

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

We don't know. We gave you a rough idea for this year -- about 10,000 barrels a day. We just don't know. I think some of these other projects that Ray has talked about will more than offset whatever effect that is. Remember, the capital we're taking out is largely focused on quick payout sort of things, rather than long-term and so we just don't know. We're hopeful that by year-end that the costs will be in line with the product prices. There may not be much effect in 2010. But if it is, it is still not going to be a big number.

Paul Sankey - *Deutsche Bank - Analyst*

I understand. In terms of the split between gas and oil, do we assume that the -- your previous plan from two quarters ago, you had to get that gas growing in '09. We would expect to see more impact on that gas, based on your comments?

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

That's right. More impact on domestic gas.

Paul Sankey - *Deutsche Bank - Analyst*

Do you have a similar number to the $5 per MCF number that you gave for oil at which drilling becomes unattractive?

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

Probably under 30.

Paul Sankey - *Deutsche Bank - Analyst*

Steve, if we could move over -- or Ray for that matter, to Argentina. Can you just talk a little bit more firstly, about the impairments and secondly, about the contract negotiations, and thirdly, about the outlook for growth there in the context of both of those? Thanks.

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

The impairment was the acreage, not the production and tied to the contract discussions where we've been in discussions with them about extending the contract, but no results yet. That acreage really depends -- exploiting that acreage well depends on the contract extension. Without a contract extension in the current environment, that we thought it prudent to expense the acreage at this time.

Paul Sankey - *Deutsche Bank - Analyst*

What's the prospect there for the extension?

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

We're still talking. I can't give you a deadline.

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

We just --

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

When it comes to government, it is Argentina or Libya. It is dangerous to start -- to give you deadlines when this might happen. Discussions continue.

Paul Sankey - *Deutsche Bank - Analyst*

I understand. You expect volumes then to be relatively flat to down?

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

Well, no, no. We expect growth in Argentina -- more modest than we would have told you a year ago, but there will be growth environment in Argentina in 2009. Modest, but definitely growth.

Paul Sankey - *Deutsche Bank - Analyst*

Okay. That does it for me. Thank you.

Operator

The next question comes from the line of Jason Gammel.

Jason Gammel - *Macquarie Research Equities - Analyst*

My question was starting -- to get exhausted here, but I wanted to come back to the reserve replacement numbers and try to put that in context of capital spend as well. I have capital spend roughly $3.8 billion in the upstream in 2008. Am I in the ballpark in thinking if it we're not for price effects, refining and development costs would have been in the range of about $17.50 a barrel which is a favorable comparison to what you've done the last couple of years in the industry. But when we look at the numbers that will actually get reported -- in the SEC reports that number will be more like $35 a barrel. Does that sound about right?

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

$17 is about right.

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

But if you just wait a week or two, you will get the accurate number.

Jason Gammel - *Macquarie Research Equities - Analyst*

Fair enough.

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

The $17 is about right.

Jason Gammel - *Macquarie Research Equities - Analyst*

Okay. That's all I had, guys. Thank you.

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

Thanks.

Operator

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

Pavel Molchanov - *Raymond James - Analyst*

Hi, guys. Historically, you have avoided hedging and it certainly worked very well in the first half of '08. Are you reevaluating your position in hedging in light of the current commodity environment?

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

No.

Pavel Molchanov - *Raymond James - Analyst*

Any circumstances where you would?

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

I suppose. I just can't come up with it right now. You never say never, I suppose. But the answer to your question is -- my view on the counter party risk is not becoming more comfortable.

Pavel Molchanov - *Raymond James - Analyst*

Sounds good. Thank you.

Operator

Your next question comes from the line of Faisel Khan.

Faisel Khan - *Citigroup - Analyst*

Good morning.

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

Good morning.

Faisel Khan - *Citigroup - Analyst*

How much of the 5% growth rate in '09 is coming from the acquisitions that you guys made in '08?

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

It is not very different than the chart we gave you in July.

Faisel Khan - *Citigroup - Analyst*

Okay.

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

You might be a little off, obviously -- every time you re-estimate, the things move around. But in aggregate, it is not very different than the chart we gave you in July. A little more probably the growth out in the Middle East because production sharing contracts have boosted our production.

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

And the projects in Oman.

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

Yes, but that was in the chart there.

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

Right.

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

From in July.

Faisel Khan - *Citigroup - Analyst*

Okay.

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

It is not a lot different except -- again, we could re-estimate this every month to come up with slightly different numbers.

Faisel Khan - *Citigroup - Analyst*

Okay. Fair enough. In the new gas projects in Oman and Abu Dhabi, what gas prices should we expect in those projects? Is something linked to some GCC oil price or will be something else?

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

Let me just cover this in total. Just like we told you in Dolphin, the returns on both projects will be attractive. That's all I care to share with you.

Faisel Khan - *Citigroup - Analyst*

Okay. Fair enough. Sorry, go ahead.

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

The projects include liquids, they include gas, and so on and so forth. To get into breaking out what this is or that is -- the returns are very attractive even at today's price environment.

Faisel Khan - *Citigroup - Analyst*

Okay. On the sandwich deal that you guys signed last year, how is that project progressing in terms of construction and drilling on their end?

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

We don't watch their drilling, but you can ask them about the drilling, I think. The plant itself is on track.

Faisel Khan - *Citigroup - Analyst*

Okay. And you're pretty confident that they will deliver the CO2 volumes?

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

I think so. It is like any other contract. We believe they will. The CO2 is there. There isn't a question of whether it is there or not. It is a matter of drilling the wells. There is no -- you won't see anything until -- into next year sometime, 2010. We have no reason to believe they won't deliver.

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

This is in long-term investment and it is going to happen. It is going to improve our production. To try and guess which month in 2010 or 2009 it is happening would not be useful -- for the longer term.

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

We don't see any reason to believe they won't drill the wells.

Faisel Khan - *Citigroup - Analyst*

Fair enough. In the last quarter, I believe you guys accessed the debt capital markets. Do you foresee yourself doing that again this year?

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

Given our current program, we wouldn't probably. If we buy stuff or something like that, then we'd look at it again. Our debt -- if you take it per barrel equivalent -- we have, round figures, 3 billion barrels of reserves. We're pretty much committed to keeping our debt below $2 a barrel so you have $6 billion of debt -- from my perspective, debt capacity. We're a long way from that. We don't foresee a need to just drop operations to tap the markets. We have some debt maturities this year -- about $700 million or so of debt maturities. And so we'll just see where we are, but we would only tap it for some opportunity probably.

Faisel Khan - *Citigroup - Analyst*

Okay. Fair enough. Thank you for your time.

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

Sure.

Operator

(Operator Instructions) . You have a follow-up question from Michael

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Mike Jacobs - *Tudor Pickering & Co. - Analyst*

Just a follow up, high-level question for Ray. You currently have a lot of international development opportunities in the queue. From from a high level, have you seen an increase in demand for your capital or technical expertise with respect to any future opportunities?

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

No. Governments don't react that quickly. The places where we operate are quite different from one country to another. Clearly, when you are dealing with Abu Dhabi, there is plenty of money. They don't need the money, it is the technology and know how we have. Other places different. Overall, there is no demand for additional investment.

Our program is always been long-term and the projects we just announced, we have been working on them for at least three years, some more, some less. And we have in the pipeline other projects which down the road will happen. It is not an instant response sort of thing.

Mike Jacobs - *Tudor Pickering & Co. - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Monroe Helm.

Monroe Helm - *CM Energy - Analyst*

Thanks. This is for Steve Chazen. I got on the call late, so I apologize if you've already answered this. But I think when I first got on you were discussing your outlook for potential for domestic acquisitions. I thought I heard you say there is still a big gap between what you think the assets are worth and what the solars think they're worth. Is that an accurate assessment? Do you think given the problems in the banking system that there could be assets for sale later -- mid to late this year because of pressure from the banks on people to get more liquid?

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

You don't know. It is also -- there really isn't much out there being offered either. I think -- it isn't just bid ask spread as wide. There is nothing to bid on that amounts to much. Almost everybody is in some belief that by mid-year or some other time, things are going to get better and all we can do is wait. We just don't know. I think the pressure from the banks -- doesn't seem to me to -- at this point to be a lot of pressure on the small producers by the banks. You don't really see it -- even the renegotiate, the reserve base is actually the bank really doesn't want to impair the value of any loans I think right now.

Monroe Helm - *CM Energy - Analyst*

Okay.

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

I wouldn't guess. -- impaired loans right now. (multiple speakers)

Monroe Helm - *CM Energy - Analyst*

In your own personal assessment, things will get better by the middle of the year or no way to know?

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

We don't know. I slept through the economics course in school.

Monroe Helm - *CM Energy - Analyst*

Good for you. That's why you're a good CFO, or were and now President. Sorry about that.

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

Thanks.

Operator

There are no further questions at this time. Do you have any closing remarks?

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

Thank you.

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

Thank you, operator. Please feel free to call us in New York if you have any further questions. Thank you for listening in.

Operator

This concludes today's Occidental Petroleum fourth quarter 2008 earnings release call. You may now disconnect

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