

OCCIDENTAL PETROLEUM CORP /DE/  
Form 10-Q  
November 03, 2006  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2006

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-9210

\_\_\_\_\_

**OCCIDENTAL PETROLEUM CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**95-4035997**

(I.R.S. Employer  
Identification No.)

**10889 Wilshire Boulevard  
Los Angeles, California**

(Address of principal executive offices)  
**(310) 208-8800**

**90024**

(Zip Code)

(Registrant's telephone number, including area code)

\_\_\_\_\_

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. (See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act):

Large Accelerated Filer     Accelerated Filer     Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).     Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                        | Outstanding at September 30, 2006 |
|------------------------------|-----------------------------------|
| Common stock \$.20 par value | 841,083,197 shares                |

**OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES**

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements (unaudited)**

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED CONDENSED BALANCE SHEETS  
 SEPTEMBER 30, 2006 AND DECEMBER 31, 2005  
 (Amounts in millions)

|   | 2006            | 2005            |
|---|-----------------|-----------------|
| <b>ASSETS</b>   |                 |                 |
| <b>CURRENT ASSETS</b>   |                 |                 |
| Cash and cash equivalents   | \$1,214         | \$2,188         |
| Short-term investments  | 225             | 252             |
| Receivables, net  | 3,358           | 3,099           |
| Inventories   | 872             | 716             |
| Prepaid expenses and other  | 236             | 256             |
| Assets of discontinued operations   | 37              | 426             |
| Total current assets  | 5,942           | 6,937           |
| LONG-TERM RECEIVABLES, net  | 284             | 377             |
| INVESTMENTS IN UNCONSOLIDATED ENTITIES  | 1,605           | 1,209           |
| PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation, depletion and amortization of \$11,181 at September 30, 2006 and \$9,774 at December 31, 2005 | 23,432          | 17,171          |
| OTHER ASSETS  | 438             | 414             |
|   | <b>\$31,701</b> | <b>\$26,108</b> |

The accompanying notes are an integral part of these financial statements.

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS  
SEPTEMBER 30, 2006 AND DECEMBER 31, 2005  
(Amounts in millions)

|  | 2006     | 2005     |
|--|----------|----------|
| <b>LIABILITIES AND EQUITY</b>                                      |          |          |
| <b>CURRENT LIABILITIES</b>   |          |          |
| Current maturities of long-term debt and capital lease liabilities | \$46     | \$46     |
| Accounts payable   | 2,281    | 2,046    |
| Accrued liabilities  | 1,712    | 1,718    |
| Domestic and foreign income taxes                                  | 313      | 326      |
| Liabilities of discontinued operations                             | 142      | 136      |
| Total current liabilities  | 4,494    | 4,272    |
| LONG-TERM DEBT, net of current maturities and unamortized discount | 2,847    | 2,873    |
| <b>DEFERRED CREDITS AND OTHER LIABILITIES</b>                      |          |          |
| Deferred and other domestic and foreign income taxes               | 2,209    | 970      |
| Liabilities of discontinued operations                             | 210      |          |
| Other  | 2,727    | 2,621    |
|  | 5,146    | 3,591    |
| <b>MINORITY INTEREST</b>   | 356      | 340      |
| <b>STOCKHOLDERS' EQUITY</b>  |          |          |
| Common stock, at par value   | 174      | 161      |
| Treasury stock   | (1,296 ) | (8 )     |
| Additional paid-in capital   | 6,946    | 4,827    |
| Retained earnings  | 13,178   | 10,425   |
| Accumulated other comprehensive income                             | (144 )   | (373 )   |
|  | 18,858   | 15,032   |
|  | \$31,701 | \$26,108 |

The accompanying notes are an integral part of these financial statements.

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME  
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005  
(Amounts in millions, except per-share amounts)

|   | Three months<br>ended<br>September 30 |                 | Nine months ended<br>September 30 |                 |
|---|---------------------------------------|-----------------|-----------------------------------|-----------------|
|   | 2006                                  | 2005            | 2006                              | 2005            |
| <b>REVENUES</b>   |                                       |                 |                                   |                 |
| Net sales   | \$ 4,522                              | \$ 3,857        | \$ 13,517                         | \$ 10,415       |
| Interest, dividends and other income                                | 75                                    | 54              | 203                               | 120             |
| Gains on disposition of assets, net                                 | 6                                     | 723             | 25                                | 870             |
|   | 4,603                                 | 4,634           | 13,745                            | 11,405          |
| <b>COSTS AND OTHER DEDUCTIONS</b>                                   |                                       |                 |                                   |                 |
| Cost of sales   | 2,098                                 | 1,791           | 6,171                             | 4,877           |
| Selling, general and administrative<br>and other operating expenses | 348                                   | 511             | 1,039                             | 1,075           |
| Environmental remediation   | 8                                     | 10              | 24                                | 29              |
| Exploration expense   | 74                                    | 51              | 195                               | 196             |
| Interest and debt expense, net                                      | 62                                    | 96              | 202                               | 232             |
|   | 2,590                                 | 2,459           | 7,631                             | 6,409           |
| Income before taxes and other items                                 | 2,013                                 | 2,175           | 6,114                             | 4,996           |
| Provision for domestic and foreign<br>income and other taxes        | 886                                   | 574             | 2,672                             | 1,184           |
| Minority interest   | 24                                    | (6 )            | 95                                | 44              |
| Income from equity investments                                      | (56 )                                 | (50 )           | (167 )                            | (166 )          |
| Income from continuing operations                                   | 1,159                                 | 1,657           | 3,514                             | 3,934           |
| Discontinued operations, net  | 9                                     | 87              | (260 )                            | 192             |
| Cumulative effect of changes in accounting principles, net          |                                       | 3               |                                   | 3               |
| <b>NET INCOME</b>   | <b>\$ 1,168</b>                       | <b>\$ 1,747</b> | <b>\$ 3,254</b>                   | <b>\$ 4,129</b> |
| <b>BASIC EARNINGS PER COMMON SHARE</b>                              |                                       |                 |                                   |                 |
| Income from continuing operations                                   | \$ 1.36                               | \$ 2.05         | \$ 4.11                           | \$ 4.89         |
| Discontinued operations, net  | 0.01                                  | 0.11            | (0.30 )                           | 0.24            |
| Basic earnings per common share                                     | \$ 1.37                               | \$ 2.16         | \$ 3.81                           | \$ 5.13         |
| <b>DILUTED EARNINGS PER COMMON SHARE</b>                            |                                       |                 |                                   |                 |
| Income from continuing operations                                   | \$ 1.35                               | \$ 2.01         | \$ 4.07                           | \$ 4.82         |
| Discontinued operations, net  | 0.01                                  | 0.11            | (0.30 )                           | 0.24            |
| Diluted earnings per common share                                   | \$ 1.36                               | \$ 2.12         | \$ 3.77                           | \$ 5.06         |
| <b>DIVIDENDS PER COMMON SHARE</b>                                   | <b>\$ 0.22</b>                        | <b>\$ 0.155</b> | <b>\$ 0.58</b>                    | <b>\$ 0.465</b> |
| <b>WEIGHTED AVERAGE BASIC SHARES</b>                                | <b>852.8</b>                          | <b>808.5</b>    | <b>854.2</b>                      | <b>804.8</b>    |
| <b>WEIGHTED AVERAGE DILUTED SHARES</b>                              | <b>860.3</b>                          | <b>822.4</b>    | <b>863.0</b>                      | <b>816.5</b>    |

The accompanying notes are an integral part of these financial statements.

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005  
(Amounts in millions)

|   | 2006     | 2005     |
|---|----------|----------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                                    |          |          |
| Net income  | \$3,254  | \$4,129  |
| Adjustments to reconcile income to net cash provided by operating activities: |          |          |
| Discontinued operations, net  | 260      | (192 )   |
| Cumulative effect of changes in accounting principles, net                    |          | (3 )     |
| Depreciation, depletion and amortization of assets                            | 1,477    | 1,035    |
| Reversal of tax reserves  |          | (954 )   |
| Deferred income tax provision   | (26 )    | (51 )    |
| Other non-cash charges to income  | 416      | 663      |
| Gains on disposition of assets, net   | (25 )    | (870 )   |
| Income from equity investments  | (167 )   | (166 )   |
| Dry hole and impairment expense   | 66       | 138      |
| Changes in operating assets and liabilities                                   | (491 )   | (40 )    |
| Other operating, net  | (150 )   | (115 )   |
| Operating cash flow from continuing operations                                | 4,614    | 3,574    |
| Operating cash flow from discontinued operations                              | 194      | 189      |
| Net cash provided by operating activities                                     | 4,808    | 3,763    |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                                    |          |          |
| Capital expenditures  | (1,992 ) | (1,583 ) |
| Purchase of businesses, net   | (2,371 ) | (2,098 ) |
| Sales of businesses and disposal of property, plant, and equipment, net       | 975      | 182      |
| Short term investments - purchases  | (152 )   | (122 )   |
| Short term investments - sales  | 180      | 67       |
| Sales of equity investments and available-for-sale investments                |          | 1,069    |
| Equity investments and other investing, net                                   | (201 )   | 71       |
| Investing cash flow from continuing operations                                | (3,561 ) | (2,414 ) |
| Investing cash flow from discontinued operations                              | (38 )    | (78 )    |
| Net cash used by investing activities   | (3,599 ) | (2,492 ) |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                                    |          |          |
| Proceeds from long-term debt  | 150      | 172      |
| Payments on long-term debt and capital lease liabilities                      | (761 )   | (1,073 ) |
| Proceeds from issuance of common stock  | 5        | 5        |
| Purchase of treasury stock  | (1,288 ) |          |
| Excess tax benefits related to share-based payments                           | 126      | 41       |
| Cash dividends paid   | (458 )   | (357 )   |
| Stock options exercised   | 42       | 123      |
| Other   | 1        | 30       |
| Financing cash flow from continuing operations                                | (2,183 ) | (1,059 ) |
| Financing cash flow from discontinued operations                              |          | (1 )     |
| Net cash used by financing activities   | (2,183 ) | (1,060 ) |
| (Decrease) increase in cash and cash equivalents                              | (974 )   | 211      |
| Cash and cash equivalents beginning of period                                 | 2,188    | 1,199    |
| Cash and cash equivalents end of period                                       | \$1,214  | \$1,410  |

The accompanying notes are an integral part of these financial statements.





OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

September 30, 2006

1. General

In these unaudited consolidated condensed financial statements, "Occidental" means Occidental Petroleum Corporation (OPC) and/or one or more entities in which it owns a majority voting interest. Certain information and disclosures normally included in notes to consolidated financial statements have been condensed or omitted pursuant to the Securities and Exchange Commission's rules and regulations, but resultant disclosures are in accordance with accounting principles generally accepted in the United States of America as they apply to interim reporting. The consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Occidental's Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Form 10-K).

In the opinion of Occidental's management, the accompanying consolidated condensed financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to fairly present Occidental's consolidated financial position as of September 30, 2006, and the consolidated statements of income and cash flows for the three and nine months then ended, as applicable. The income and cash flows for the periods ended September 30, 2006 and 2005, are not necessarily indicative of the income or cash flows to be expected for the full year.

On August 1, 2006, Occidental effected a two-for-one stock split in the form of a stock dividend to shareholders of record as of that date with distribution of the shares on August 15, 2006. The total number of authorized shares of common stock and associated par value per share were unchanged by this action. All share and per share amounts discussed and disclosed in this Quarterly Report on Form 10-Q reflect the effect of these stock splits.

Certain financial statement elements and notes for the prior year have been reclassified to conform to the 2006 presentation.

2. Asset Acquisitions, Dispositions and Other Transactions

On January 30, 2006, Occidental completed the merger of Vintage Petroleum, Inc. (Vintage) into a wholly-owned Occidental subsidiary. Occidental acquired producing assets in Argentina, the United States, Yemen and Bolivia. The Argentina assets consist of 22 concessions, 19 of which Occidental operates, located in the San Jorge Basin in southern Argentina and the Neuquén and Cuyo Basins in western Argentina. Occidental paid approximately \$1.3 billion to former Vintage shareholders for the cash portion of the merger consideration and issued approximately 56 million shares for the stock portion, which was valued at \$2.1 billion. In addition, Occidental assumed Vintage's debt, which had an estimated fair market value of \$585 million at closing. Occidental has divested a portion of Vintage's assets for consideration of approximately \$1.0 billion and intends to divest more of these assets. Occidental believes that the merger provides significant growth opportunities represented by Vintage's assets in Argentina, California and Yemen, all of which will complement and enhance Occidental's current operations and production. Furthermore, the addition of Vintage's assets is expected to make significant long-term contributions to Occidental's cash flow.

The acquisition was accounted for in accordance with SFAS No. 141, Business Combinations. The results of Vintage's operations have been included in the consolidated financial statements since January 30, 2006. A preliminary allocation of the purchase price has been made based on currently

available information. The assets acquired and liabilities assumed were recorded at their estimated fair values at the acquisition date. However, certain information necessary to complete Occidental's final purchase price allocation is not yet available. Occidental is currently evaluating the assets to determine the fair value of the existing oil and gas reserves associated with the acquired assets. In addition, Occidental is in the process of divesting a portion of the assets acquired and is still gathering market information about these assets. Occidental also has not made a final determination of all the liabilities that may be attributable to the acquisition as well as the fair values of all existing

liabilities, including any contingent liabilities. Occidental expects to finalize its allocation of the purchase price as soon as practicable but in any event no later than January 30, 2007.

At September 30, 2006, certain Vintage assets and their related liabilities are classified as held for sale as Occidental expects to divest these assets in the fourth quarter. On the September 30, 2006, consolidated balance sheet, the assets of discontinued operations amount includes approximately \$37 million of property, plant and equipment that is being held for sale and the liabilities of discontinued operations includes \$5 million of liabilities held for sale. The results of operations for the assets held for sale are not included in the revenue, cost or production amounts and are treated as discontinued operations. Net revenues and pre-tax income for discontinued operations related to Vintage for the three months ended September 30, 2006, were \$42 million and \$15 million, respectively. Net revenues and pre-tax income for discontinued operations related to Vintage for the nine months ended September 30, 2006, were \$218 million and \$73 million, respectively.

The following unaudited pro forma summary presents the consolidated results of operations as if the acquisition of Vintage had occurred at the beginning of each period (in millions):

| Nine Months Ended September 30,        | 2006      | 2005      |
|--|-----------|-----------|
| <b>PRO FORMA RESULTS OF OPERATIONS</b> |           |           |
| Revenues                               | \$ 13,812 | \$ 11,873 |
| Net income                             | \$ 3,220  | \$ 4,224  |
| Basic earnings per common share        | \$ 3.77   | \$ 4.90   |
| Diluted earnings per common share      | \$ 3.73   | \$ 4.84   |

The unaudited pro forma data presented above use estimates and assumptions based on information currently available, and are not necessarily indicative of the results of operations of Occidental that would have occurred had such acquisition actually been consummated as of the beginning of the periods presented, nor are they necessarily indicative of future results of operations.

In May 2006, Ecuador terminated Occidental's contract for the operation of Block 15, which comprised all of its oil producing operations in the country, and seized Occidental's Block 15 assets. The process resulting in this action began shortly after Occidental prevailed, by unanimous decision of an international arbitration panel subsequently upheld by a London court, in a legal dispute over tax refunds that Ecuador wrongfully withheld from Occidental. Occidental immediately filed an arbitration claim against Ecuador, seeking redress for illegal confiscation of the Block 15 operations with the International Centre for Settlement of Investment Disputes in Washington, D.C., invoking the protections of the U.S. - Ecuador Bilateral Investment Treaty. As a result of the seizure, Occidental has classified its Block 15 operations as discontinued operations. In the second quarter of 2006, Occidental recorded a net after-tax charge of \$306 million in discontinued operations. This amount consists of after-tax charges for the write-off of the investment in Block 15 in Ecuador, as well as ship or pay obligations entered into with respect to the OCP pipeline in Ecuador to ship oil produced in Block 15, partially offset by \$109 million net-of-tax income from operations for the first five months of 2006.

Occidental's Block 15 assets and liabilities are classified as assets of discontinued operations and liabilities of discontinued operations on the consolidated balance sheets for all periods presented. Net revenues and pre-tax income (loss) for discontinued operations related to Ecuador for the three months ended September 30, 2006, and 2005, were \$0 and \$(2) million and \$200 million and \$122 million, respectively. Net revenues and pre-tax income for discontinued operations related to Ecuador for the nine months ended September 30, 2006 and 2005 were \$275 million and \$146 million and \$463 million and \$262 million, respectively.

On September 29, 2006, Occidental closed a transaction with Plains Exploration and Production Co. to acquire various oil and gas interests in the Permian Basin in West Texas and California for approximately \$859 million in cash.

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## 3. Accounting Changes

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit pension or postretirement plan as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. The Statement also requires an employer to measure the funded status of a plan at the date of the employer's fiscal year-end. The recognition and disclosure provisions of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. The requirement to measure plan assets and benefit obligations at the fiscal year-end date is effective for fiscal years ending after December 15, 2008. Occidental is currently assessing the effect of SFAS No. 158 on its financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Occidental is currently assessing the effect of SFAS No. 157 on its financial statements.

In September 2006, the FASB issued FASB Staff Position (FSP) AUG AIR-1, Accounting for Planned Major Maintenance Activities. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. FSP AUG AIR-1 is effective for the first fiscal year beginning after December 15, 2006. Occidental is currently assessing the effect of FSP AUG AIR-1 on its financial statements.

In June 2006, the FASB issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. This Interpretation provides accounting guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return as well as additional disclosures related to these tax positions. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. Occidental is currently assessing the effect of FIN No. 48 on its financial statements.

## 4. Comprehensive Income

The following table presents Occidental's comprehensive income items (in millions):

|   | Periods Ended September 30 |          |             |          |
|---|----------------------------|----------|-------------|----------|
|   | Three months               |          | Nine months |          |
|   | 2006                       | 2005     | 2006        | 2005     |
| Net income  | \$ 1,168                   | \$ 1,747 | \$ 3,254    | \$ 4,129 |
| Other comprehensive income items                  |                            |          |             |          |
| Foreign currency translation adjustments          | (2 )                       | 4        | 3           | (7 )     |
| Derivative mark-to-market adjustments             | 153                        | (173 )   | 55          | (438 )   |
| Minimum pension liability adjustments             |                            |          | (3 )        | (1 )     |
| Unrealized gain on securities                     | 49                         | 98       | 174         | 285      |
| Reclassification of realized gains <sup>(a)</sup> |                            | (468 )   |             | (468 )   |
| Other comprehensive income, net of tax            | 200                        | (539 )   | 229         | (629 )   |
| Comprehensive income                              | \$ 1,368                   | \$ 1,208 | \$ 3,483    | \$ 3,500 |

(a) Amount represents the gain recognized in the income statement from Valero Energy Corporation's (Valero's) acquisition of Premcor, Inc. (Premcor).

The unrealized gain on securities amount in the table above includes after-tax gains of \$52 million and \$179 million for the three and nine months ended September 30, 2006, respectively, related to the mark-to-market adjustment of the Lyondell Chemical Company (Lyondell) available-for-sale cost method investment. See Note 13 for further information.

5. Supplemental Cash Flow Information

During the nine months ended September 30, 2006 and 2005, net cash payments for federal, foreign and state income taxes were approximately \$1.7 billion and \$1.2 billion, respectively. Interest paid (net of interest capitalized of \$38 million and \$18 million, respectively) totaled approximately \$177 million and \$228 million for the nine months ended September 30, 2006 and 2005, respectively. See Note 2 for information regarding the non-cash portion of businesses acquired. Net cash payments for federal, foreign and state income taxes paid by discontinued operations during the nine months ended September 30, 2006 and 2005, were \$57 million and \$85 million, respectively.

6. Inventories

A portion of inventories is valued under the LIFO method. The valuation of LIFO inventory for interim periods is based on Occidental's estimates of year-end inventory levels and costs.

Inventories consist of the following (in millions):

| Balance at             | September 30, 2006 | December 31, 2005 |
|------------------------|--------------------|-------------------|
| Raw materials          | \$ 81              | \$ 83             |
| Materials and supplies | 284                | 177               |
| Finished goods         | 624                | 573               |
|                        | 989                | 833               |
| LIFO reserve           | (117 )             | (117 )            |
| Total                  | \$ 872             | \$ 716            |

7. Asset Retirement Obligations

The following summarizes the activity of the asset retirement obligations of which \$301 million and \$235 million are included in other deferred credits and other liabilities at September 30, 2006 and 2005, respectively, and the remaining balance is included in accrued liabilities (in millions):

| Nine Months Ended September 30,    | 2006   | 2005   |
|------------------------------------|--------|--------|
| Beginning balance                  | \$ 233 | \$ 206 |
| Liabilities incurred in the period | 5      | 4      |
| Liabilities settled in the period  | (16 )  | (4 )   |
| Acquisition and other              | 70     | 21     |
| Accretion expense                  | 14     | 11     |
| Revisions to estimated cash flows  | 2      | 3      |
| Ending balance                     | \$ 308 | \$ 241 |

## 8. Environmental Expenditures

Occidental's operations in the United States are subject to stringent federal, state and local laws and regulations relating to improving or maintaining environmental quality. Foreign operations also are subject to environmental-protection laws. The laws that require or address environmental remediation may apply to past waste disposal practices and releases. In many cases, the laws apply regardless of fault, legality of the original activities, or current ownership or control of sites. OPC or certain of its subsidiaries are currently participating in environmental assessments and cleanups under these laws at sites subject to the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), comparable state sites and other domestic and foreign remediation sites, including Occidental facilities and previously-owned sites.

The following table presents Occidental's environmental remediation reserves at September 30, 2006, the current portion of which (\$83 million) is included in accrued liabilities. The remaining amount of \$315 million is included in other deferred credits and other liabilities. The reserves are grouped by three categories of environmental remediation sites (\$ amounts in millions):

|                           | # of Sites | Reserve<br>Balance |
|---------------------------|------------|--------------------|
| CERCLA & Equivalent Sites | 107        | \$224              |
| Active Facilities         | 19         | 110                |
| Closed or Sold Facilities | 38         | 64                 |
| Total                     | 164        | \$398              |

In determining the environmental remediation reserves and the reasonably possible range of loss, Occidental refers to currently available information, including relevant past experience, available technology, regulations in effect, the timing of remediation and cost-sharing arrangements. Occidental believes it is reasonably possible that it will continue to incur additional liabilities beyond those recorded for environmental remediation at these and other sites. The range of reasonably possible loss for existing environmental remediation matters could be up to \$415 million beyond the amount accrued.

The following table shows additional detail regarding reserves for CERCLA or CERCLA-equivalent proceedings in which OPC or certain of its subsidiaries were involved at September 30, 2006 (\$ amounts in millions):

| Description                | # of Sites | Reserve<br>Balance |
|----------------------------|------------|--------------------|
| Minimal/No Exposure (a)    | 84         | \$4                |
| Reserves between \$1-10 MM | 17         | 64                 |
| Reserves over \$10 MM      | 6          | 156                |
| Total                      | 107        | \$224              |

(a) Includes 28 sites for which Maxus Energy Corporation has retained the liability and indemnified Occidental, 5 sites where Occidental has denied liability without challenge, 40 sites where Occidental's reserves are less than \$50,000 each, and 11 sites where reserves are between \$50,000 and \$1 million each.

## 9. Lawsuits, Claims, Commitments, Contingencies and Related Matters

OPC and certain of its subsidiaries have been named in a substantial number of lawsuits, claims and other legal proceedings. These actions seek, among other things, compensation for alleged personal injury, breach of contract or property damage, punitive damages, civil penalties, or injunctive or declaratory relief. OPC and certain of its subsidiaries also have been named in proceedings under CERCLA and similar federal, state, local and foreign environmental laws. These

environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages and civil penalties. Occidental is usually one of many companies in these proceedings and has to date been successful in sharing costs with other



financially sound companies. With respect to all such lawsuits, claims and proceedings, including environmental proceedings, Occidental accrues reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated.

Since April 2004, Occidental Chemical Corporation (OxyChem), has been served with ten lawsuits filed in Nicaragua by approximately 2,600 individual plaintiffs. These individuals allege that they have sustained several billion dollars of personal injury damages as a result of their alleged exposure to a pesticide. OxyChem is aware of, but has not been served in, 21 additional cases in Nicaragua, which Occidental understands make similar allegations. In the opinion of management, these claims are without merit because, among other things, OxyChem believes that none of the pesticide it manufactured was ever sold or used in Nicaragua. Under the applicable Nicaraguan statute, defendants are required to pay pre-trial deposits so large as to effectively prohibit defendants from participating fully in their defense. In previous situations, involving other defendants, Nicaraguan courts have proceeded to enter significant judgments against the defendants under that statute. OxyChem has filed a response to the complaints contesting jurisdiction without posting such pre-trial deposit. In December 2004, the judge in one of the cases (Osorio Case), ruled the court had jurisdiction over the defendants, including OxyChem, and that the plaintiffs had waived the requirement of the pre-trial deposit. OxyChem has appealed that portion of the ruling relating to the jurisdiction of the Nicaraguan courts. Thereafter, the trial court ordered defendants, including OxyChem, to file an answer. In order to preserve its jurisdictional defense, OxyChem elected not to make a substantive appearance in the Osorio Case. In August 2005, the judge in the Osorio Case entered judgment against several defendants, including OxyChem, for damages totaling approximately \$97 million. OxyChem has no assets in Nicaragua and, in the opinion of management, any judgment rendered under the statute, including in the Osorio Case, would be unenforceable in the United States.

In May 2006, Ecuador terminated Occidental's contract for the operation of Block 15, which comprised all of its oil producing operations in the country, and seized Occidental's Block 15 assets. The process resulting in this action began shortly after Occidental prevailed, by unanimous decision of an international arbitration panel subsequently upheld by a London court, in a legal dispute over tax refunds that Ecuador wrongfully withheld from Occidental. Occidental immediately filed an arbitration claim against Ecuador, seeking redress for illegal confiscation of the Block 15 operations with the International Centre for Settlement of Investment Disputes in Washington, D.C., invoking the protections of the U.S. - Ecuador Bilateral Investment Treaty.

During the course of its operations, Occidental is subject to audit by tax authorities for varying periods in various federal, state, local and foreign tax jurisdictions. Taxable years prior to 2001 are generally closed for U.S. federal corporate income tax purposes. Corporate tax returns for taxable years 2001 through 2003 are in various stages of audit by the U.S. Internal Revenue Service. Disputes arise during the course of such audits as to facts and matters of law.

Occidental had guarantees outstanding at September 30, 2006, which encompass performance bonds, letters of credit, indemnities, commitments and other forms of guarantees provided by Occidental to third parties, mainly to provide assurance that Occidental and/or its subsidiaries and affiliates will meet their various obligations (guarantees). At September 30, 2006, the notional amount of the guarantees that are subject to the reporting requirements of FIN 45 was approximately \$335 million, which mostly consists of Occidental's guarantees of equity investees debt and other commitments. This amount excludes approximately \$100 million related to Occidental's guarantee of its share of the ship or pay obligations entered into with respect to the OCP pipeline in Ecuador, as the total amount has been accrued on the consolidated balance sheet at September 30, 2006.

It is impossible at this time to determine the ultimate liabilities that OPC and its subsidiaries may incur resulting from any lawsuits, claims and proceedings, audits, commitments, contingencies and related matters. If these matters were to be ultimately resolved unfavorably at amounts substantially exceeding Occidental's reserves, an outcome not currently anticipated, it is possible that such outcome could have a material adverse effect upon Occidental's consolidated financial position or results of operations. However, after taking into account reserves, management does not expect the ultimate resolution of any of these matters to have a material adverse effect upon Occidental's consolidated financial position or results of operations.

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## 10. Income Taxes

The provision for taxes for the 2006 and 2005 interim periods is based on projections of total year pretax income. The tax provision for the three and nine months ended September 30, 2005, includes a \$335 million tax benefit due to the reversal of tax reserves no longer required as U.S. federal corporate returns for tax years 1998-2000 became closed due to the lapsing of the statute of limitations. The provision for income taxes for the nine months ended September 30, 2005, also includes a \$619 million tax benefit related to the resolution of certain IRS tax issues and a \$10 million charge related to a state income tax issue.

## 11. Stock-Based Incentive Plans

On July 1, 2005, Occidental adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payments, under the modified prospective transition method. The following table shows the pro forma net income and earnings per share that Occidental would have recorded if compensation expense were determined using SFAS No. 123R for the nine months ended September 30, 2005 (amounts in millions, except per share amounts):

| Nine months ended September 30   | 2005     |
|--|----------|
| Net income   | \$ 4,129 |
| Add: Stock-based compensation included in net income, net of tax, under APB No. 25             | 73       |
| Deduct: Stock-based compensation, net of tax, determined under SFAS No. 123R fair value method | (94 )    |
| Pro-forma net income   | \$ 4,108 |
| Earnings Per Share:  |          |
| Basic as reported  | \$ 5.13  |
| Basic pro forma  | \$ 5.10  |
| Diluted as reported  | \$ 5.06  |
| Diluted pro forma  | \$ 5.03  |

## 12. Retirement Plans and Postretirement Benefits

Occidental has various defined benefit and defined contribution retirement plans for its salaried, domestic union and nonunion hourly, and certain foreign national employees.

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The following tables set forth the components of the net periodic benefit costs for Occidental's defined benefit pension and postretirement benefit plans as of September 30 (in millions):

Three Months Ended September 30,

|                                | <b>2006</b>     |                        | <b>2005</b>     |                        |
|--------------------------------|-----------------|------------------------|-----------------|------------------------|
|                                | Pension Benefit | Postretirement Benefit | Pension Benefit | Postretirement Benefit |
| Net Periodic Benefit Cost      |                 |                        |                 |                        |
| Service cost                   | \$ 3            | \$ 2                   | \$ 4            | \$ 2                   |
| Interest cost                  | 7               | 9                      | 6               | 9                      |
| Expected return on plan assets | (8 )            |                        | (8 )            |                        |
| Recognized actuarial loss      | 1               | 5                      | 1               | 3                      |
| Total                          | \$ 3            | \$ 16                  | \$ 3            | \$ 14                  |

Nine Months Ended September 30,

|                                    | <b>2006</b>     |                        | <b>2005</b>     |                        |
|------------------------------------|-----------------|------------------------|-----------------|------------------------|
|                                    | Pension Benefit | Postretirement Benefit | Pension Benefit | Postretirement Benefit |
| Net Periodic Benefit Cost          |                 |                        |                 |                        |
| Service cost                       | \$ 9            | \$ 7                   | \$ 10           | \$ 7                   |
| Interest cost                      | 20              | 26                     | 19              | 25                     |
| Expected return on plan assets     | (24 )           |                        | (24 )           |                        |
| Amortization of prior service cost | 1               |                        | 1               |                        |
| Recognized actuarial loss          | 3               | 14                     | 2               | 11                     |
| Total                              | \$ 9            | \$ 47                  | \$ 8            | \$ 43                  |

Occidental did not fund any of its domestic defined benefit pension plans for the nine months ended September 30, 2006, and has no current plans to contribute any amount in 2006.

### 13. Investments in Unconsolidated Entities

Starting August 2002, when Occidental acquired its investment in Lyondell, two senior executives of Occidental held seats on Lyondell's board of directors. One of Occidental's senior executives did not stand for re-election to Lyondell's board of directors at its annual meeting on May 4, 2006. As a result, Occidental management believes that it has lost the ability to exercise significant influence over Lyondell's financial and operating policies and has discontinued accruing its share of Lyondell earnings or losses under equity-method accounting. Subsequent to May 4, 2006, Occidental has accounted for its Lyondell shares as an available-for-sale cost method investment. At September 30, 2006, Occidental owned approximately 12 percent of Lyondell's common stock.

On October 30, 2006, Occidental agreed to sell 10 million shares of Lyondell's common stock in a registered public offering for net after commission proceeds of \$25.05 per share. Occidental expects an after-tax gain of approximately \$55 million and net after-tax cash proceeds of \$200 million. After the offering, Occidental will own approximately 8 percent of Lyondell's common stock.

## 14. Industry Segments

The following table presents Occidental's interim industry segment and corporate disclosures (in millions):

|  | Oil and<br>Gas | Chemical | Corporate<br>and Other | Total        |
|--|----------------|----------|------------------------|--------------|
| Nine months ended September 30, 2006                         |                |          |                        |              |
| Net sales  | \$ 9,624       | \$ 3,779 | \$ 114                 | \$ 13,517    |
| Pretax operating profit (loss)                               | \$ 5,740       | \$ 745   | \$ (299)               | (a) \$ 6,186 |
| Income taxes   |                |          | (2,672)                | (b) (2,672)  |
| Discontinued operations, net                                 |                |          | (260)                  | (c) (260)    |
| Net income (loss)  | \$ 5,740       | \$ 745   | \$ (3,231)             | \$ 3,254     |
| Nine months ended September 30, 2005                         |                |          |                        |              |
| Net sales  | \$ 6,926       | \$ 3,379 | \$ 110                 | \$ 10,415    |
| Pretax operating profit (loss)                               | \$ 4,172       | \$ 442   | \$ 504                 | (a) \$ 5,118 |
| Income taxes   |                |          | (1,184)                | (b) (1,184)  |
| Discontinued operations, net                                 |                |          | 192                    | (c) 192      |
| Cumulative effect of changes in<br>accounting principle, net |                |          | 3                      | 3            |
| Net income (loss)  | \$ 4,172       | \$ 442   | \$ (485)               | (d) \$ 4,129 |

(a) Includes unallocated net interest expense, administration expense and other items.

(b) Includes all foreign and domestic income taxes. The 2005 amount includes a \$335 million tax benefit due to the reversal of tax reserves no longer required, a \$619 million tax benefit related to the resolution of certain tax issues with the IRS and a \$10 million charge related to a state income tax issue.

(c) The 2006 discontinued operations amount includes the after-tax results of the operations of the Vintage properties that are held for sale and the Ecuador Block 15 operations for the first five months of 2006 as well as the write-off of the Block 15 investment and the ship or pay obligations in Ecuador. The 2005 discontinued operations amount includes the after-tax results of the Ecuador Block 15 operations during 2005.

(d) Includes a pre-tax gain resulting from Valero's acquisition of Premcor and the subsequent sale of the Valero shares received in the merger for a total of \$726 million (\$463 million net of tax), a \$41 million (\$27 million net of tax) pre-tax charge for debt repurchase expenses, and a pre-tax gain on sale of Lyondell stock of \$140 million (\$89 million net of tax).

## 15. Condensed Consolidating Financial Information

Vintage Petroleum, LLC is the Occidental subsidiary into which Vintage merged. Payment of the Vintage Petroleum, LLC 8.25 percent senior notes due 2012 is guaranteed by Occidental Petroleum Corporation (Guarantor). The following condensed supplemental consolidating financial information reflects the summarized financial information of Vintage Petroleum, LLC, and its Guarantor and the Guarantor's non-guarantor subsidiaries (in millions):

## CONDENSED CONSOLIDATING BALANCE SHEET

As of September 30, 2006

|  | Occidental<br>Petroleum<br>Corporation | Vintage<br>Petroleum,<br>LLC | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|--|------------------------------|-------------------------------|--------------|--------------|
| <b>ASSETS</b>  |  |                              |                               |              |              |
| Current assets   | \$ 1,474                               | \$ 233                       | \$ 4,246                      | \$ (11 )     | \$ 5,942     |
| Investments in subsidiaries<br>and unconsolidated entities | 36,297                                 | 19                           | 1,386                         | (36,097 )    | 1,605        |
| Property, plant and<br>equipment, net                      | 1                                      | 4,771                        | 18,660                        |              | 23,432       |
| Other non-current assets                                   | 12,711                                 | 601                          | 29,096                        | (41,686 )    | 722          |
|  | \$ 50,483                              | \$ 5,624                     | \$ 53,388                     | \$ (77,794 ) | \$ 31,701    |
| <b>LIABILITIES AND EQUITY</b>                              |  |                              |                               |              |              |
| Current liabilities  | \$ 423                                 | \$ 139                       | \$ 3,943                      | \$ (11 )     | \$ 4,494     |
| Long-term debt, net  | 1,932                                  | 294                          | 621                           |              | 2,847        |
| Other long-term liabilities                                | 29,270                                 | 1,575                        | 15,987                        | (41,686 )    | 5,146        |
| Minority interest  |  |                              | 356                           |              | 356          |
| Stockholders' equity                                       | 18,858                                 | 3,616                        | 32,481                        | (36,097 )    | 18,858       |
|  | \$ 50,483                              | \$ 5,624                     | \$ 53,388                     | \$ (77,794 ) | \$ 31,701    |

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## CONDENSED CONSOLIDATING STATEMENT OF INCOME

For the three months ended September 30, 2006

|  | Occidental<br>Petroleum<br>Corporation | Vintage<br>Petroleum,<br>LLC | Non-<br>Guarantor<br>Subsidiaries | Eliminations       | Consolidated    |
|--|--|------------------------------|-----------------------------------|--------------------|-----------------|
| <b>REVENUES</b>  |  |                              |                                   |                    |                 |
| Net Sales  | \$                                     | \$ 246                       | \$ 4,276                          | \$                 | \$ 4,522        |
| Interest, dividends and other<br>income                                | 5                                      |                              | 143                               | (67 )              | 81              |
|  | 5                                      | 246                          | 4,419                             | (67 )              | 4,603           |
| <b>COSTS AND OTHER<br/>DEDUCTIONS</b>                                  |  |                              |                                   |                    |                 |
| Cost of sales  |  | 155                          | 1,943                             |                    | 2,098           |
| Selling, general and<br>administrative and other<br>operating expenses | 57                                     | 21                           | 352                               |                    | 430             |
| Interest and debt expense, net   | 113                                    | 4                            | 12                                | (67 )              | 62              |
|  | 170                                    | 180                          | 2,307                             | (67 )              | 2,590           |
| Income before taxes and other<br>items                                 | (165 )                                 | 66                           | 2,112                             |                    | 2,013           |
| Provision for domestic and<br>foreign income and other<br>taxes        | (60 )                                  | 6                            | 940                               |                    | 886             |
| Minority interest  |  |                              | 24                                |                    | 24              |
| (Income)/loss from equity<br>investments                               | (1,273 )                               |                              | (56 )                             | 1,273              | (56 )           |
| Income from continuing<br>operations                                   | 1,168                                  | 60                           | 1,204                             | (1,273 )           | 1,159           |
| Discontinued operations, net   |  | 10                           | (1 )                              |                    | 9               |
| <b>NET INCOME</b>  | <b>\$ 1,168</b>                        | <b>\$ 70</b>                 | <b>\$ 1,203</b>                   | <b>\$ (1,273 )</b> | <b>\$ 1,168</b> |

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## CONDENSED CONSOLIDATING STATEMENT OF INCOME

For the nine months ended September 30, 2006

|  | Occidental<br>Petroleum<br>Corporation | Vintage<br>Petroleum,<br>LLC | Non-<br>Guarantor<br>Subsidiaries | Eliminations       | Consolidated    |
|--|--|------------------------------|-----------------------------------|--------------------|-----------------|
| <b>REVENUES</b>  |  |                              |                                   |                    |                 |
| Net Sales  | \$                                     | \$ 659                       | \$ 12,858                         | \$                 | \$ 13,517       |
| Interest, dividends and other<br>income                                | 15                                     |                              | 399                               | (186 )             | 228             |
|  | 15                                     | 659                          | 13,257                            | (186 )             | 13,745          |
| <b>COSTS AND OTHER<br/>DEDUCTIONS</b>                                  |  |                              |                                   |                    |                 |
| Cost of sales  |  | 369                          | 5,802                             |                    | 6,171           |
| Selling, general and<br>administrative and other<br>operating expenses | 222                                    | 45                           | 991                               |                    | 1,258           |
| Interest and debt expense, net   | 339                                    | 16                           | 33                                | (186 )             | 202             |
|  | 561                                    | 430                          | 6,826                             | (186 )             | 7,631           |
| Income before taxes and other<br>items                                 | (546 )                                 | 229                          | 6,431                             |                    | 6,114           |
| Provision for domestic and<br>foreign income and other<br>taxes        | (199 )                                 | 59                           | 2,812                             |                    | 2,672           |
| Minority interest  |  |                              | 95                                |                    | 95              |
| (Income)/loss from equity<br>investments                               | (3,601 )                               |                              | (167 )                            | 3,601              | (167 )          |
| Income from continuing<br>operations                                   | 3,254                                  | 170                          | 3,691                             | (3,601 )           | 3,514           |
| Discontinued operations, net   |  | 47                           | (307 )                            |                    | (260 )          |
| <b>NET INCOME</b>  | <b>\$ 3,254</b>                        | <b>\$ 217</b>                | <b>\$ 3,384</b>                   | <b>\$ (3,601 )</b> | <b>\$ 3,254</b> |

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## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2006

|   | Occidental<br>Petroleum<br>Corporation | Vintage<br>Petroleum,<br>LLC | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|--|------------------------------|-------------------------------|--------------|--------------|
| <b>CASH FLOW FROM<br/>OPERATING ACTIVITIES</b>              |  |                              |                               |              |              |
| Operating cash flow from<br>continuing operations           | \$ (1,627 )                            | \$ 227                       | \$ 6,014                      | \$           | \$ 4,614     |
| Operating cash flow from<br>discontinued operations         |  | 83                           | 111                           |              | 194          |
| Net cash provided (used) by<br>operating activities         | (1,627 )                               | 310                          | 6,125                         |              | 4,808        |
| <b>CASH FLOW FROM<br/>INVESTING ACTIVITIES</b>              |  |                              |                               |              |              |
| Capital expenditures  | (1 )                                   | (154 )                       | (1,837 )                      |              | (1,992 )     |
| Purchase of businesses, net                                 | (2,372 )                               |                              | 1                             |              | (2,371 )     |
| Other investing, net  | 26                                     | 953                          | (177 )                        |              | 802          |
| Investing cash flow from<br>continuing operations           | (2,347 )                               | 799                          | (2,013 )                      |              | (3,561 )     |
| Investing cash flow from<br>discontinued operations         |  | (27 )                        | (11 )                         |              | (38 )        |
| Net cash provided (used) by<br>investing activities         | (2,347 )                               | 772                          | (2,024 )                      |              | (3,599 )     |
| <b>CASH FLOW FROM<br/>FINANCING ACTIVITIES</b>              |  |                              |                               |              |              |
| Proceeds from long-term debt                                |  |                              | 150                           |              | 150          |
| Payments on long-term debt<br>and capital lease liabilities | (450 )                                 | (286 )                       | (25 )                         |              | (761 )       |
| Purchase of treasury stock                                  | (1,288 )                               |                              |                               |              | (1,288 )     |
| Cash dividends paid   | (458 )                                 |                              |                               |              | (458 )       |
| Intercompany  | 5,995                                  | (793 )                       | (5,202 )                      |              |              |
| Other financing, net  | 173                                    |                              | 1                             |              | 174          |
| Net cash provided (used) by<br>financing activities         | 3,972                                  | (1,079 )                     | (5,076 )                      |              | (2,183 )     |
| (Decrease) Increase in cash<br>and cash equivalents         | (2 )                                   | 3                            | (975 )                        |              | (974 )       |
| Cash and cash equivalents<br>beginning of period            | 2,161                                  |                              | 27                            |              | 2,188        |
| Cash and cash equivalents<br>end of period                  | \$ 2,159                               | \$ 3                         | \$ (948 )                     | \$           | \$ 1,214     |

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## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Consolidated Results of Operations**

Occidental (which means Occidental Petroleum Corporation (OPC) and/or one or more entities in which it owns a majority voting interest) reported net income for the first nine months of 2006 of \$3.3 billion, on net sales of \$13.5 billion, compared with net income of \$4.1 billion, on net sales of \$10.4 billion for the same period of 2005. Diluted earnings per common share were \$3.77 for the first nine months of 2006, compared with diluted earnings per share of \$5.06 for the same period of 2005. Diluted core earnings per common share were \$4.07 for the first nine months of 2006, compared with diluted core earnings per common share of \$3.20 for the same period in 2005. Occidental reported net income for the third quarter of 2006 of \$1.2 billion, on net sales of \$4.5 billion, compared with net income of \$1.7 billion, on net sales of \$3.9 billion for the same period of 2005. Diluted earnings per common share were \$1.36 for the third quarter of 2006, compared with diluted earnings per share of \$2.12 for the same period in 2005. Diluted core earnings per common share were \$1.35 for the third quarter of 2006, compared with diluted core earnings per share of \$1.22 for the same period in 2005.

Net income for the first nine months of 2006 included a net after-tax loss of \$260 million in discontinued operations, which includes the impairment charge for Occidental's Block 15 investment in Ecuador and income from Vintage Petroleum, Inc. (Vintage) properties held for sale. Net income for the first nine months and the third quarter of 2005 included a \$726 million pre-tax gain resulting from Valero Energy Corp.'s (Valero) acquisition of Premcor, Inc. (Premcor) and the subsequent sale of the Valero shares received in the merger, a \$335 million tax benefit due to the reversal of tax reserves no longer required, a \$159 million pre-tax write-off and write-down of chemical plant assets, a \$30 million pre-tax debt purchase expense, \$26 million of pre-tax hurricane insurance charges and a \$15 million pre-tax equity investment impairment. Net income for the first nine months of 2005 also included a \$619 million tax benefit resulting from an IRS settlement, a \$140 million pre-tax gain on sale of 11 million shares of Lyondell Chemical Company (Lyondell) stock, a \$26 million pre-tax expense related to a contract settlement, an \$11 million pre-tax debt purchase expense, a net \$10 million charge related to a state income tax issue, and after-tax income from discontinued operations of \$192 million. Net income for the first nine months and third quarter of 2006, compared to the same periods in 2005, reflected higher worldwide oil prices and production and higher chlor-alkali volumes and margins in all chlorovinyl products, partially offset by higher operating expenses and increased DD&A rates. Net income for the first nine months of 2006, compared to the same period in 2005, also reflected higher gas prices.

### ***Selected Income Statement Items***

The increase in net sales of \$665 million and \$3.1 billion for the three and nine months ended September 30, 2006, compared with the same periods in 2005, reflected higher worldwide crude oil and chemical prices, higher oil and gas production and higher chlor-alkali volumes. The increase in net sales for the nine months of 2006, compared to the same period in 2005, also reflected higher gas prices. For the three and nine months ended September 30, 2005, gains on disposition of assets included a pre-tax gain of \$726 million resulting from Valero's acquisition of Premcor and the subsequent sale of Valero shares received. For the nine months ended September 30, 2005, gains on disposition of assets also included a pre-tax gain of \$140 million on the sale of 11 million shares of Lyondell stock.

The increase in cost of sales of \$307 million and \$1.3 billion for the three and nine months ended September 30, 2006, compared with the same periods in 2005, reflected higher oil and gas production costs and volumes, higher energy and chemical raw material costs and higher DD&A expense. The decrease of \$163 million in selling, general and administrative and other operating expenses for the three months ended September 30, 2006, compared to the same period in 2005, reflected 2005 chemical

segment charges for plant write-offs and write-downs of \$159 million. The decrease of \$36 million in selling, general and administrative and other operating expenses for the nine months ended September 30, 2006, compared to the same period in 2005, reflected 2005 chemical segment charges for plant write-offs and write-downs of \$159 million, net of minority interest, partially offset by increases in share-based compensation expenses, various international oil and gas costs and other operating costs. The increase of \$23 million in exploration expense for the three months ended September 30, 2006, compared to the same period in 2005, was due to higher seismic costs, largely related to Libya. Interest and debt expense for the three and nine months ended September 30, 2005, included charges of \$30 million and \$41 million, respectively, to purchase and redeem various debt issues. The provision for income taxes for the three and nine months ended September 30, 2005, included a \$335 million tax

benefit due to the reversal of tax reserves no longer required as U.S. federal corporate returns for tax years 1998-2000 became closed due to the lapsing of statutes of limitations. The provision for income taxes for the nine months ended September 30, 2005, included a \$619 million tax benefit related to the resolution of certain IRS tax issues, and a \$10 million charge related to a state tax issue.

### ***Selected Analysis of Financial Position***

The increase in receivables, net of \$259 million at September 30, 2006, compared with December 31, 2005, was due to higher worldwide oil and gas prices and production volumes. The increase in inventory of \$156 million at September 30, 2006, compared with December 31, 2005, was due to increases in materials and supplies, mainly in Oman and Colombia and increases in chemical inventory volumes. The increase in investments in unconsolidated entities of \$396 million at September 30, 2006, compared to December 31, 2005, was due to the mark-to-market adjustments on the Lyondell investment, which became an available-for-sale cost method investment in May 2006. The increase in property, plant and equipment of \$6.3 billion at September 30, 2006, compared to December 31, 2005, was due to the acquisitions of Vintage and certain oil and gas properties from Plains Exploration and Production Co. (Plains) completed in the first and third quarters of 2006, respectively, and oil and gas capital expenditures during the year.

The increase of \$235 million in accounts payable at September 30, 2006, compared to December 31, 2005, was mainly due to the Vintage acquisition, higher prices and volumes for purchased oil and gas in the marketing and trading operations and chemical price and volume increases. The increase in deferred and other domestic and foreign income taxes of \$1.2 billion at September 30, 2006, compared to December 31, 2005, was due to additional deferred taxes recorded as part of the Vintage acquisition purchase accounting. The increase in the contra-equity treasury stock account of \$1.3 billion at September 30, 2006, compared with December 31, 2005, was due to the implementation of the share repurchase program in 2006. The increase in additional paid-in capital of \$2.1 billion at September 30, 2006, compared to December 31, 2005, was the result of the stock issued as consideration for the Vintage acquisition.

**Segment Operations**

The following table sets forth the sales and earnings of each industry segment and unallocated corporate items (in millions):

|  | Periods Ended September 30 |                 |                   |                  |
|--|----------------------------|-----------------|-------------------|------------------|
|  | Three Months               |                 | Nine Months Ended |                  |
|  | Ended<br>2006              | 2005            | 2006              | 2005             |
| <b>Net Sales</b>   |                            |                 |                   |                  |
| Oil and gas  | \$ 3,207                   | \$ 2,617        | \$ 9,624          | \$ 6,926         |
| Chemical   | 1,265                      | 1,190           | 3,779             | 3,379            |
| Other  | 50                         | 50              | 114               | 110              |
| <b>Net Sales</b>   | <b>\$ 4,522</b>            | <b>\$ 3,857</b> | <b>\$ 13,517</b>  | <b>\$ 10,415</b> |
| <b>Segment Earnings</b>                                    |                            |                 |                   |                  |
| Oil and gas  | \$ 1,877                   | \$ 1,638        | \$ 5,740          | \$ 4,172         |
| Chemical   | 247                        | 3               | 745               | 442              |
|  | 2,124                      | 1,641           | 6,485             | 4,614            |
| <b>Unallocated Corporate Items</b>                         |                            |                 |                   |                  |
| Interest expense, net <sup>(a)</sup>                       | (18 )                      | (70 )           | (80 )             | (178 )           |
| Income taxes <sup>(b)</sup>                                | (885 )                     | (574 )          | (2,672 )          | (1,184 )         |
| Other <sup>(c)</sup>                                       | (62 )                      | 660             | (219 )            | 682              |
| <b>Income from Continuing Operations</b>                   | <b>1,159</b>               | <b>1,657</b>    | <b>3,514</b>      | <b>3,934</b>     |
| Discontinued operations, net of tax <sup>(d)</sup>         | 9                          | 87              | (260 )            | 192              |
| Cumulative effect of changes in accounting principles, net |                            | 3               |                   | 3                |
| <b>Net Income</b>  | <b>\$ 1,168</b>            | <b>\$ 1,747</b> | <b>\$ 3,254</b>   | <b>\$ 4,129</b>  |

- (a) The third quarter and nine months of 2006 include pre-tax interest charges of \$4 million for both periods to purchase or redeem various debt issues compared to \$30 million and \$41 million, respectively, for the same 2005 periods.
- (b) The third quarter and nine months of 2005 include a \$335 million tax benefit due to the reversal of tax reserves no longer required as U.S. federal corporate tax returns for tax years 1998-2000 became closed due to the lapsing of the statute of limitations. The nine months of 2005 includes a \$619 million tax benefit related to the resolution of certain tax issues with the U.S. Internal Revenue Service (IRS), and a net \$10 million charge related to a state income tax issue.
- (c) The third quarter and nine months of 2005 include a \$726 million pre-tax gain from Valero's acquisition of Premcor and the subsequent sale of the Valero shares received in the merger. The nine months of 2005 includes a \$140 million pre-tax gain from the sale of 11 million shares of Lyondell.
- (d) In May 2006, Ecuador terminated Occidental's contract for the operation of Block 15 and seized Occidental's Block 15 assets. As a result of the seizure, Occidental has classified its Block 15 operations as discontinued operations on a retrospective application basis. Discontinued operations for the third quarter and nine months of 2006 also include income from the Vintage properties that were held for sale.

**Significant Items Affecting Earnings**

Occidental's results of operations often include the effects of significant transactions and events affecting earnings that vary widely and unpredictably in nature, timing and amount. Therefore, management uses a measure called "core earnings", which excludes those items. This non-GAAP measure is not meant to disassociate those items from management's performance, but rather is meant to provide useful information to investors interested in comparing Occidental's earnings performance between periods. Reported earnings are considered representative of management's performance over the long term. Core earnings is not considered to be an alternative to operating income in accordance with generally accepted accounting principles.

The following table sets forth the core earnings and significant items affecting earnings for each operating segment and corporate and other for the three months ended September 30, 2006 and 2005:

| (in millions, except per-share amounts)                           | Three Months Ended September 30 |                |                 |                |
|---|---------------------------------|----------------|-----------------|----------------|
|   | 2006                            | Diluted<br>EPS | 2005            | Diluted<br>EPS |
| <b>TOTAL REPORTED EARNINGS</b>                                    | \$ 1,168                        | \$ 1.36        | \$ 1,747        | \$ 2.12        |
| <b><u>Oil and Gas</u></b>   |                                 |                |                 |                |
| Segment Earnings  | \$ 1,877                        |                | \$ 1,638        |                |
| Less: Hurricane insurance charge                                  |                                 |                | (9 )            |                |
| Segment Core Earnings   | 1,877                           |                | 1,647           |                |
| <b><u>Chemical</u></b>  |                                 |                |                 |                |
| Segment Earnings  | 247                             |                | 3               |                |
| Less:   |                                 |                |                 |                |
| Write-off of plants   |                                 |                | (159 )          |                |
| Hurricane insurance charge  |                                 |                | (5 )            |                |
| Segment Core Earnings   | 247                             |                | 167             |                |
| <b>Total Segment Core Earnings</b>                                | <b>2,124</b>                    |                | <b>1,814</b>    |                |
| <b><u>Corporate and Other</u></b>                                 |                                 |                |                 |                |
| Corporate Results - Non Segment*                                  | (956 )                          |                | 106             |                |
| Less:   |                                 |                |                 |                |
| Gain on Valero acquisition of Premcor                             |                                 |                | 726             |                |
| Reversal of tax reserves  |                                 |                | 335             |                |
| Debt purchase expense   |                                 |                | (30 )           |                |
| Equity investment impairment                                      |                                 |                | (15 )           |                |
| Equity investment hurricane charge                                |                                 |                | (2 )            |                |
| Hurricane insurance charge  |                                 |                | (10 )           |                |
| Tax effect of pre-tax adjustments                                 |                                 |                | (178 )          |                |
| Discontinued operations, net of tax                               | 9                               |                | 87              |                |
| Cumulative effect of changes in accounting principles, net of tax |                                 |                | 3               |                |
| Corporate Core Results - Non Segment                              | (965 )                          |                | (810 )          |                |
| <b>Total Core Earnings</b>  | <b>\$ 1,159</b>                 | <b>\$ 1.35</b> | <b>\$ 1,004</b> | <b>\$ 1.22</b> |

\* Interest expense, income taxes, general & administrative expense and other, and non-core items.

The following table sets forth the core earnings and significant items affecting earnings for each operating segment and corporate and other for the nine months ended September 30, 2006 and 2005:

| (in millions, except per-share amounts)                           | Nine Months Ended September 30 |                |                 |                |
|---|--------------------------------|----------------|-----------------|----------------|
|   | 2006                           | Diluted<br>EPS | 2005            | Diluted<br>EPS |
| <b>TOTAL REPORTED EARNINGS</b>                                    | \$ 3,254                       | \$ 3.77        | \$ 4,129        | \$ 5.06        |
| <b><u>Oil and Gas</u></b>   |                                |                |                 |                |
| Segment Earnings  | \$ 5,740                       |                | \$ 4,172        |                |
| Less:   |                                |                |                 |                |
| Contract Settlement   |                                |                | (26 )           |                |
| Hurricane insurance charge  |                                |                | (9 )            |                |
| Segment Core Earnings   | 5,740                          |                | 4,207           |                |
| <b><u>Chemical</u></b>  |                                |                |                 |                |
| Segment Earnings  | 745                            |                | 442             |                |
| Less:   |                                |                |                 |                |
| Write-off of plants   |                                |                | (159 )          |                |
| Hurricane insurance charge  |                                |                | (5 )            |                |
| Segment Core Earnings   | 745                            |                | 606             |                |
| <b>Total Segment Core Earnings</b>                                | <b>6,485</b>                   |                | <b>4,813</b>    |                |
| <b><u>Corporate and Other</u></b>                                 |                                |                |                 |                |
| Corporate Results Non Segment*                                    | (3,231 )                       |                | (485 )          |                |
| Less:   |                                |                |                 |                |
| Debt purchase expense   |                                |                | (41 )           |                |
| Gain on sale of Lyondell shares                                   |                                |                | 140             |                |
| Gain on Valero acquisition of Premcor                             |                                |                | 726             |                |
| State tax issue charge  |                                |                | (10 )           |                |
| Settlement of federal tax issue                                   |                                |                | 619             |                |
| Reversal of tax reserves  |                                |                | 335             |                |
| Equity investment impairment                                      |                                |                | (15 )           |                |
| Equity investment hurricane insurance charge                      |                                |                | (2 )            |                |
| Hurricane insurance charge  |                                |                | (10 )           |                |
| Tax effect of pre-tax adjustments                                 |                                |                | (225 )          |                |
| Discontinued operations, net of tax                               | (260 )                         |                | 192             |                |
| Cumulative effect of changes in accounting principles, net of tax |                                |                | 3               |                |
| Corporate Core Results Non Segment                                | (2,971 )                       |                | (2,197 )        |                |
| <b>Total Core Earnings</b>  | <b>\$ 3,514</b>                | <b>\$ 4.07</b> | <b>\$ 2,616</b> | <b>\$ 3.20</b> |

\* Interest expense, income taxes, general & administrative expense and other, and non-core items.

**Worldwide Effective Tax Rate**

The following table sets forth the calculation of the worldwide effective tax rate for reported income and core earnings:

| (in millions)                     | Periods Ended September 30 |          |             |          |
|-----------------------------------|----------------------------|----------|-------------|----------|
|                                   | Three Months               |          | Nine Months |          |
|                                   | 2006                       | 2005     | 2006        | 2005     |
| <b>REPORTED INCOME</b>            |                            |          |             |          |
| Oil & Gas <sup>(a)</sup>          | \$ 1,877                   | \$ 1,638 | \$ 5,740    | \$ 4,172 |
| Chemicals                         | 247                        | 3        | 745         | 442      |
| Corporate & other                 | (80 )                      | 590      | (299 )      | 504      |
| Pre-tax income                    | 2,044                      | 2,231    | 6,186       | 5,118    |
| Income tax expense                |                            |          |             |          |
| Federal and state                 | 435                        | 183      | 1,321       | 273      |
| Foreign <sup>(a)</sup>            | 450                        | 391      | 1,351       | 911      |
| Total                             | 885                        | 574      | 2,672       | 1,184    |
| <br>                              |                            |          |             |          |
| Income from continuing operations | \$ 1,159                   | \$ 1,657 | \$ 3,514    | \$ 3,934 |
| Worldwide effective tax rate      | 43%                        | 26%      | 43%         | 23%      |
| <b>CORE EARNINGS</b>              |                            |          |             |          |
| Oil & Gas <sup>(a)</sup>          | \$ 1,877                   | \$ 1,647 | \$ 5,740    | \$ 4,207 |
| Chemical                          | 247                        | 167      | 745         | 606      |
| Corporate & other                 | (80 )                      | (79 )    | (299 )      | (294 )   |
| Pre-tax income                    | 2,044                      | 1,735    | 6,186       | 4,519    |
| Income tax expense                |                            |          |             |          |
| Federal and state                 | 435                        | 340      | 1,321       | 992      |
| Foreign <sup>(a)</sup>            | 450                        | 391      | 1,351       | 911      |
| Total                             | 885                        | 731      | 2,672       | 1,903    |
| <br>                              |                            |          |             |          |
| Core Earnings                     | \$ 1,159                   | \$ 1,004 | \$ 3,514    | \$ 2,616 |
| Worldwide effective tax rate      | 43%                        | 42%      | 43%         | 42%      |

(a) Revenues and income tax expense include taxes owed by Occidental but paid by governmental entities on its behalf. Oil and gas pre-tax income includes revenue amounts by period (in millions): third quarter 2006 \$299, third quarter 2005 \$263, first nine months 2006 \$871 and first nine months 2005 \$676.

The worldwide tax rate for the three and nine months ended September 30, 2005 included a \$335 million tax benefit due to the reversal of tax reserves no longer required as U.S. federal corporate returns for tax years 1998-2000 became closed due to the lapsing of the statute of limitations. The nine months ended September 30, 2005 worldwide effective tax rate reflected a \$619 million tax benefit related to the resolution of certain tax issues with the IRS. The recorded tax benefit was the result of a closing agreement with the IRS, which resolved foreign tax credit issues as part of the IRS audit of tax years 1997-2000.



**Oil and Gas Segment**

| Summary of Operating Statistics                                | Periods Ended September 30 |          |             |          |
|--|----------------------------|----------|-------------|----------|
|  | Three Months               |          | Nine Months |          |
|  | 2006                       | 2005     | 2006        | 2005     |
| <b>Net Production per Day:</b>                                 |                            |          |             |          |
| <b>Crude Oil and Natural Gas Liquids (MBL)</b>                 |                            |          |             |          |
| United States  | 265                        | 251      | 265         | 248      |
| Latin America  | 70                         | 38       | 68          | 35       |
| Middle East/North Africa                                       | 100                        | 86       | 111         | 93       |
| Other Eastern Hemisphere                                       | 5                          | 5        | 4           | 5        |
| <b>Natural Gas (MMCF)</b>                                      |                            |          |             |          |
| United States  | 597                        | 564      | 593         | 547      |
| Latin America  | 35                         |          | 34          |          |
| Middle East  | 35                         | 35       | 32          | 51       |
| Other Eastern Hemisphere                                       | 75                         | 81       | 77          | 77       |
| <b>Barrels of Oil Equivalent (MBOE) per day <sup>(a)</sup></b> |                            |          |             |          |
| Consolidated subsidiaries                                      | 564                        | 493      | 571         | 494      |
| Other interests  | 23                         | 23       | 25          | 25       |
| Worldwide production <sup>(b)</sup>                            | 587                        | 516      | 596         | 519      |
| <b>Average Sales Price:</b>                                    |                            |          |             |          |
| <b>Crude Oil (\$/BBL)</b>                                      |                            |          |             |          |
| United States  | \$ 62.71                   | \$ 56.70 | \$ 60.03    | \$ 49.26 |
| Latin America  | \$ 55.19                   | \$ 59.91 | \$ 54.58    | \$ 51.06 |
| Middle East/North Africa                                       | \$ 65.84                   | \$ 56.37 | \$ 62.85    | \$ 48.69 |
| Other Eastern Hemisphere                                       | \$ 64.80                   | \$ 52.25 | \$ 58.87    | \$ 45.57 |
| Total consolidated subsidiaries                                | \$ 62.08                   | \$ 56.99 | \$ 59.77    | \$ 49.27 |
| Other interests  | \$ 36.30                   | \$ 43.01 | \$ 37.04    | \$ 35.29 |
| Total Worldwide <sup>(b)</sup>                                 | \$ 60.52                   | \$ 55.97 | \$ 58.41    | \$ 48.24 |
| <b>Natural Gas (\$/MCF)</b>                                    |                            |          |             |          |
| United States  | \$ 5.88                    | \$ 6.33  | \$ 6.80     | \$ 6.16  |
| Latin America  | \$ 2.08                    | \$       | \$ 1.91     | \$       |
| Middle East  | \$ 0.97                    | \$ 0.97  | \$ 0.96     | \$ 0.96  |
| Other Eastern Hemisphere                                       | \$ 2.88                    | \$ 2.72  | \$ 2.93     | \$ 2.41  |
| Total consolidated subsidiaries                                | \$ 5.14                    | \$ 5.58  | \$ 5.88     | \$ 5.29  |
| Other interests  | \$ 0.14                    | \$ 0.13  | \$ 0.14     | \$ 0.14  |
| Total Worldwide <sup>(b)</sup>                                 | \$ 5.06                    | \$ 5.49  | \$ 5.72     | \$ 5.18  |

(a) Natural gas volumes have been converted to equivalent BOE based on energy content of 6,000 cubic feet (one thousand cubic feet is referred to as a "Mcf") of gas to one barrel of oil.

(b) Occidental has classified its Ecuador Block 15 operations as discontinued operations on a retrospective application basis and excluded them from this table.

Oil and gas segment and core earnings for the nine months ended September 30, 2006, were \$5.7 billion compared with \$4.2 billion of segment and core earnings for the same period in 2005. For the three months ended September 30, 2006, oil and gas segment and core earnings were \$1.9 billion compared with \$1.6 billion of segment and core earnings for the same period in 2005. The increase in earnings for three and nine months ended September 30, 2006, compared to the same periods in 2005, reflected higher worldwide crude oil prices and higher production for crude oil and natural gas, partially offset by higher oil and gas operating expenses, including production-related taxes and utility costs, and higher DD&A rates. The increase in oil and gas earnings for the nine months ended September 30, 2006, compared to the same period in 2005, also reflected higher gas prices. The increase in net sales of \$590 million and



\$2.7 billion for the three and nine months ended September 30, 2006, compared with the same periods in 2005, reflected higher worldwide crude oil prices and oil and gas production. The increase in net sales for the nine months ended September 30, 2006, compared with the same period in 2005 also reflected higher gas prices.

The increase in production for the nine months ended September 30, 2006, was due to the Vintage acquisition and the addition of nine months of production in Libya in 2006 as compared to one month in 2005.

On October 20, 2006, the Organization of Petroleum Exporting Countries (OPEC) announced that they would reduce oil production by 1.2 million barrels per day, effective November 1, 2006. The OPEC announcement had no immediate impact to Occidental's production but future production could decline as a result of this action.

The average West Texas Intermediate (WTI) price in the third quarter of 2006 was \$70.53 per barrel and the average New York Mercantile Exchange (NYMEX) price for natural gas was \$6.33 per million BTUs, compared to \$63.19 per barrel and \$7.09 per million BTUs, respectively, for the third quarter of 2005. Occidental's realized oil price for the third quarter of 2006 was \$60.52 per barrel compared to \$55.97 per barrel for the third quarter of 2005. Occidental's realized price differential to WTI remained constant in the third quarter of 2006 at 86 percent of WTI as compared to the second quarter of 2006. For the first nine months of 2006, Occidental's realized oil price was \$58.41 per barrel compared to last year's realized price of \$48.24 for first nine months of 2005. A change of 25 cents per million BTUs in NYMEX gas prices impacts quarterly oil and gas segment earnings by approximately \$12 million while a \$1.00 per-barrel change in oil prices has a quarterly pre-tax impact of approximately \$38 million.

Average production costs for the first nine months of 2006 were \$11.13 per barrel of oil equivalent (BOE) compared to the 2005 production cost of \$8.81 per BOE. Approximately 45 percent of the increase was the result of higher energy prices increasing utility, gas plant and CO2 costs and ad valorem and export taxes and reducing the volumes produced under production sharing contracts. The remaining change was the result of increased workover, maintenance and other costs.

On January 30, 2006, Occidental completed the merger of Vintage into a wholly-owned Occidental subsidiary. Occidental acquired producing assets in Argentina, the United States, Yemen and Bolivia. The Argentina assets consist of 22 concessions, 19 of which Occidental operates, located in the San Jorge Basin in southern Argentina and the Neuquén and Cuyo Basins in western Argentina. Occidental paid approximately \$1.3 billion to former Vintage shareholders for the cash portion of the merger consideration and issued approximately 56 million shares for the stock portion, which was valued at \$2.1 billion. In addition, Occidental assumed Vintage's debt, which had an estimated fair market value of \$585 million at closing. Occidental has divested a portion of Vintage's assets for consideration of approximately \$1.0 billion and intends to divest more of these assets. Occidental believes that the merger provides significant growth opportunities represented by Vintage's assets in Argentina, California and Yemen, all of which will complement and enhance Occidental's current operations and production. Furthermore, the addition of Vintage's assets is expected to make significant long-term contributions to Occidental's cash flow. The results of operations for the assets held for sale are not included in the revenue, cost or production amounts and are treated as discontinued operations.

On September 29, 2006, Occidental closed a transaction with Plains to acquire various oil and gas interests in the Permian Basin in West Texas and California for approximately \$859 million in cash. Occidental estimates that the acquisition will add production of approximately 9,000 BOE per day.

### ***Chemical Segment***

Chemical segment and core earnings for the first nine months of 2006 were \$745 million, compared with \$442 million of segment earnings and \$606 million of core earnings for the same period of 2005. Chemical segment and core earnings for the three months ended September 30, 2006, were \$247 million, compared with \$3 million of segment earnings and \$167 million of core earnings for the same period of 2005. The increase in earnings for the first three and nine months ended September 30, 2006, compared with the same periods in 2005, was due to increased chlor-alkali volumes and higher margins in all chlorovinyl products.

In the third quarter of 2005, Occidental recorded a \$139 million charge for the write-off of two previously idled chemical plants and one currently operated plant and an additional charge of \$20 million for the write-down of another chemical plant.

### ***Corporate and Other***

Unallocated corporate items income taxes for the three and nine months ended September 30, 2005, included a \$335 million tax benefit due to the reversal of tax reserves no longer required and for the nine months ended September 30, 2005, included a \$619 million tax benefit resulting from the resolution of certain tax issues with IRS and a \$10 million charge related to a state tax issue.

On August 1, 2006, Occidental effected a two-for-one stock split in the form of a stock dividend to shareholders of record as of that date with distribution of the shares on August 15, 2006. The total number of authorized shares of common stock and associated par value per share were unchanged by this action. All share and per share amounts discussed and disclosed in this Quarterly Report on Form 10-Q reflect the effect of these stock splits.

Starting August 2002, when Occidental acquired its investment in Lyondell, two senior executives of Occidental held seats on Lyondell's board of directors. One of Occidental's senior executives did not stand for re-election to Lyondell's board of directors at its annual meeting on May 4, 2006. As a result, Occidental management believes that it has lost the ability to exercise significant influence over Lyondell's financial and operating policies and has discontinued accruing its share of Lyondell earnings or losses under equity-method accounting. Subsequent to May 4, 2006, Occidental has accounted for its Lyondell shares as an available-for-sale cost method investment. At September 30, 2006, Occidental owned approximately 12 percent of Lyondell's common stock.

On October 30, 2006, Occidental agreed to sell 10 million shares of Lyondell's common stock in a registered public offering for net after commission proceeds of \$25.05 per share. Occidental expects an after-tax gain of approximately \$55 million and net after-tax cash proceeds of \$200 million. After the offering, Occidental will own approximately 8 percent of Lyondell's common stock.

In May 2006, Ecuador terminated Occidental's contract for the operation of Block 15, which comprised all of its oil producing operations in the country, and seized Occidental's Block 15 assets. The process resulting in this action began shortly after Occidental prevailed, by unanimous decision of an international arbitration panel subsequently upheld by a London court, in a legal dispute over tax refunds that Ecuador wrongfully withheld from Occidental. Occidental immediately filed an arbitration claim against Ecuador, seeking redress for illegal confiscation of the Block 15 operations with the International Centre for Settlement of Investment Disputes in Washington, D.C., invoking the protections of the U.S. - Ecuador Bilateral Investment Treaty. As a result of the seizure, Occidental has classified its Block 15 operations as discontinued operations. In the second quarter of 2006, Occidental recorded a net after-tax charge of \$306 million in discontinued operations. This amount consists of after-tax charges for the write-off of the investment in Block 15 in Ecuador, as well as ship or pay obligations entered into with respect to the OCP pipeline in Ecuador to ship oil produced in Block 15, partially offset by \$109 million net-of-tax income from operations for the first five months of 2006.

### **Liquidity and Capital Resources**

Occidental's net cash provided by operating activities was \$4.8 billion for the first nine months of 2006, compared with \$3.8 billion for the same period of 2005. The significant increase in operating cash flow in 2006, compared to 2005, resulted from several factors. The most important drivers were higher oil and natural gas prices and production and, to a much lesser extent, higher chemical margins. In the first nine

months of 2006, compared to the same period in 2005, Occidental's realized oil price was higher by 21 percent and Occidental's realized natural gas price increased over 10 percent in the U.S., where over 80 percent of Occidental's natural gas was produced. Oil and gas production for the first nine months of 2006, compared to the same period in 2005, increased almost 15 percent. Chemical margin increases had a less significant effect on cash flow because chemical segment earnings and cash flow are significantly smaller than those for the oil and gas segment.

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Increases in the costs of producing oil and gas, such as purchased goods and services, utility and gas plant costs and production taxes, partially offset oil and gas sales price increases, but such cost increases had a much lower effect on cash flow than the realized price increases. Other cost elements, such as labor costs and overheads, are not significant drivers of cash flow because they are mainly fixed within a narrow range over the short-to-intermediate term.

Occidental's net cash used by investing activities was \$3.6 billion for the first nine months of 2006, compared with \$2.5 billion for the same period of 2005. The 2006 amount includes \$1.3 billion in cash consideration paid as part of the Vintage acquisition and \$859 million paid for the Plains acquisition, partially offset by \$944 million of cash proceeds from the Vintage assets held for sale. The 2005 amount includes cash payments for the Permian Basin transactions, the acquisition of the Vulcan chlor-alkali manufacturing facilities and payments to re-enter Libya, which were partially offset by the cash proceeds from the sale of the Premcor-Valero and Lyondell shares. Capital expenditures for the first nine months of 2006 were \$2.0 billion, including \$1.8 billion for oil and gas. Capital expenditures for the first nine months of 2005 were \$1.6 billion, including \$1.5 billion for oil and gas.

Occidental's net cash used by financing activities was \$2.2 billion in the first nine months of 2006, compared with \$1.1 billion for the same period of 2005. The 2006 amount includes \$1.3 billion of cash paid for repurchases of 26.7 million shares of Occidental's common stock at an average price of \$48.22 per share. In the third quarter of 2006, Occidental repurchased 6.6 million common shares, with 67 percent of those purchases occurring in the month of September, at an average price of \$47.98 per share. In February 2006, Occidental announced a common stock repurchase plan for an intermediate target total of approximately 60 million shares. In July 2006, the Board of Directors increased the number of shares authorized for the previously announced repurchase program to 40 million shares. The weighted average basic shares outstanding for the nine months of 2006 totaled 854.2 million and the weighted average diluted shares outstanding totaled 863.0 million. At September 30, 2006, there were 849.2 million basic shares outstanding and the diluted shares were 858.3 million. The share repurchases will continue to be funded solely from available cash from operations. The 2006 net cash used also includes net debt payments of \$611 million. The 2005 net cash used includes net debt payments of \$901 million.

Occidental amended and restated its \$1.5 billion bank credit to, among other things, lower the interest rate and extend the term to September 27, 2011. At September 30, 2006, no amounts have been borrowed under this facility. None of Occidental's committed bank credits contain material adverse change (MAC) clauses or debt rating triggers that could restrict Occidental's ability to borrow under these lines. Occidental's credit facilities and debt agreements do not contain rating triggers that could terminate bank commitments or accelerate debt in the event of a ratings downgrade.

Available but unused lines of committed bank credit totaled approximately \$1.5 billion at September 30, 2006, and cash and cash equivalents and short-term investments totaled \$1.4 billion on the September 30, 2006 balance sheet.

At September 30, 2006, under the most restrictive covenants of certain financing agreements, Occidental's capacity for additional unsecured borrowing was approximately \$44.0 billion, and the capacity for the payment of cash dividends and other distributions on, and for acquisitions of, Occidental's capital stock was approximately \$16.8 billion, assuming that such dividends, distributions and acquisitions were made without incurring additional borrowing.

Occidental currently expects to spend approximately \$3.0 billion on its 2006 capital spending program. Although its income and cash flows are largely dependent on oil and gas prices and production, Occidental believes that cash on hand, short-term investments and cash generated from operations will be sufficient to fund its operating needs, capital expenditure requirements, dividend payments and potential acquisitions.

## **Environmental Expenditures**

Occidental's operations in the United States are subject to stringent federal, state and local laws and regulations relating to improving or maintaining environmental quality. Foreign operations also are subject to environmental-protection laws. The laws that require or address environmental remediation may apply to past waste disposal practices and releases. In many cases, the laws apply regardless of fault, legality of the original activities or current ownership or control of sites. OPC or certain of its subsidiaries are currently participating in environmental assessments and cleanups under these laws at sites subject to the federal Comprehensive Environmental Response,

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Compensation, and Liability Act (CERCLA), comparable state sites and other domestic and foreign remediation sites, including Occidental facilities and previously-owned sites.

The following table presents Occidental's environmental remediation reserves at September 30, 2006, the current portion of which (\$83 million) is included in accrued liabilities. The remaining amount of \$315 million is included in other deferred credits and other liabilities. The reserves are grouped by three categories of environmental remediation sites (\$ amounts in millions):

|                           | # of Sites | Reserve<br>Balance |
|---------------------------|------------|--------------------|
| CERCLA & Equivalent Sites | 107        | \$224              |
| Active Facilities         | 19         | 110                |
| Closed or Sold Facilities | 38         | 64                 |
| Total                     | 164        | \$398              |

In determining the environmental remediation reserves and the reasonably possible range of loss, Occidental refers to currently available information, including relevant past experience, available technology, regulations in effect, the timing of remediation and cost-sharing arrangements. Occidental believes it is reasonably possible that it will continue to incur additional liabilities beyond those recorded for environmental remediation at these and other sites. The range of reasonably possible loss for existing environmental remediation matters could be up to \$415 million beyond the amount accrued.

The following table shows additional detail regarding reserves for CERCLA or CERCLA-equivalent proceedings in which OPC or certain of its subsidiaries were involved at September 30, 2006 (\$ amounts in millions):

| Description                | # of Sites | Reserve<br>Balance |
|----------------------------|------------|--------------------|
| Minimal/No Exposure (a)    | 84         | \$4                |
| Reserves between \$1-10 MM | 17         | 64                 |
| Reserves over \$10 MM      | 6          | 156                |
| Total                      | 107        | \$224              |

(a) Includes 28 sites for which Maxus Energy Corporation has retained the liability and indemnified Occidental, 5 sites where Occidental has denied liability without challenge, 40 sites where Occidental's reserves are less than \$50,000 each, and 11 sites where reserves are between \$50,000 and \$1 million each.

Refer to the Environmental Liabilities and Expenditures section of Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2005 Form 10-K for additional information regarding Occidental's environmental expenditures.

### **Lawsuits, Claims, Commitments, Contingencies and Related Matters**

OPC and certain of its subsidiaries have been named in a substantial number of lawsuits, claims and other legal proceedings. These actions seek, among other things, compensation for alleged personal injury, breach of contract or property damage, punitive damages, civil penalties, or injunctive or declaratory relief. OPC and certain of its subsidiaries also have been named in proceedings under CERCLA and similar federal, state, local and foreign environmental laws. These environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages and civil penalties. Occidental is usually one of many companies in these proceedings and has to date been successful in sharing costs with other financially sound companies. With respect to all such lawsuits, claims and proceedings, including environmental proceedings, Occidental accrues reserves when

it is probable a liability has been incurred and the amount of loss can be reasonably estimated.

During the course of its operations, Occidental is subject to audit by tax authorities for varying periods in various federal, state, local and foreign tax jurisdictions. Taxable years prior to 2001 are generally closed for U.S. federal corporate income tax purposes. Corporate tax returns for taxable years 2001 through 2003 are in various stages of

audit by the U.S. Internal Revenue Service. Disputes arise during the course of such audits as to facts and matters of law.

Occidental has guarantees outstanding at September 30, 2006, which encompass performance bonds, letters of credit, indemnities, commitments and other forms of guarantees provided by Occidental to third parties, mainly to provide assurance that Occidental and/or its subsidiaries and affiliates will meet their various obligations (guarantees). At September 30, 2006, the notional amount of the guarantees that are subject to the reporting requirements of FIN 45 was approximately \$335 million, which mostly consists of Occidental's guarantees of equity investees' debt and other commitments. This amount excludes approximately \$100 million related to Occidental's guarantee of its share of the ship or pay obligations entered into with respect to the OCP pipeline in Ecuador, as the total amount has been accrued on the consolidated balance sheet at September 30, 2006.

It is impossible at this time to determine the ultimate liabilities that OPC and its subsidiaries may incur resulting from any lawsuits, claims and proceedings, audits, commitments, contingencies and related matters. If these matters were to be ultimately resolved unfavorably at amounts substantially exceeding Occidental's reserves, an outcome not currently anticipated, it is possible that such outcome could have a material adverse effect upon Occidental's consolidated financial position or results of operations. However, after taking into account reserves, management does not expect the ultimate resolution of any of these matters to have a material adverse effect upon Occidental's consolidated financial position or results of operations.

### **Accounting Changes**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*—an amendment of FASB Statements No. 87, 88, 106, and 132(R). This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit pension or postretirement plan as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. The Statement also requires an employer to measure the funded status of a plan at the date of the employer's fiscal year-end. The recognition and disclosure provisions of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. The requirement to measure plan assets and benefit obligations at the fiscal year-end date is effective for fiscal years ending after December 15, 2008. Occidental is currently assessing the effect of SFAS No. 158 on its financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Occidental is currently assessing the effect of SFAS No. 157 on its financial statements.

In September 2006, the FASB issued FASB Staff Position (FSP) AUG AIR-1, *Accounting for Planned Major Maintenance Activities*. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. FSP AUG AIR-1 is effective for the first fiscal year beginning after December 15, 2006. Occidental is currently assessing the effect of FSP AUG AIR-1 on its financial statements.

In June 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109. This Interpretation provides accounting guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return as well as additional disclosures related to these tax positions. FIN No. 48 is effective for fiscal

years beginning after December 15, 2006. Occidental is currently assessing the effect of FIN No. 48 on its financial statements.

**Safe Harbor Statement Regarding Outlook and Forward-Looking Information**

Portions of this report contain forward-looking statements and involve risks and uncertainties that could materially affect expected results of operations, liquidity, cash flows and business prospects. Factors that could cause results to differ materially include, but are not limited to: exploration risks such as drilling unsuccessful wells; global commodity

pricing fluctuations; higher-than-expected costs; potential liability for remedial actions under existing or future environmental regulations and litigation; potential liability resulting from pending or future litigation; general domestic and international political conditions; potential disruption or interruption of Occidental's production or manufacturing facilities due to accidents, political events or insurgent activity; potential failure to achieve expected production from existing and future oil and gas development projects; the supply/demand considerations for Occidental's products; any general economic recession or slowdown domestically or internationally; regulatory uncertainties; and not successfully completing, or any material delay of, any development of new fields, expansion, capital expenditure, efficiency-improvement project, acquisition or disposition. Forward-looking statements are generally accompanied by words such as estimate, project, predict, will, anticipate, plan, intend, believe, expect or similar expressions that indicate the uncertainty of future events or outcomes. You should not place undue reliance on these forward-looking statements. Unless legally required, Occidental does not undertake any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. Certain risks that may affect Occidental's results of operations and financial position appear in Part 1, Item 1A of Occidental's 2005 Annual Report on Form 10-K.

### **Item 3 Quantitative and Qualitative Disclosures About Market Risk**

For the three and nine months ended September 30, 2006, there were no material changes in the information required to be provided under Item 305 of Regulation S-K included under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations (Incorporating Item 7A) Derivative Activities and Market Risk in Occidental's 2005 Annual Report on Form 10-K.

### **Item 4. Controls and Procedures**

Occidental's Chief Executive Officer and Chief Financial Officer supervised and participated in Occidental's evaluation of its disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in Occidental's periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Occidental in the reports that it files or submits under the Exchange Act is accumulated and communicated to Occidental's management to allow timely decisions regarding required disclosure. Based upon that evaluation, Occidental's Chief Executive Officer and Chief Financial Officer concluded that Occidental's disclosure controls and procedures are effective.

There has been no change in Occidental's internal control over financial reporting identified in connection with the evaluation required under the Exchange Act rules that occurred during Occidental's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, Occidental's internal control over financial reporting.

**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

This item incorporates by reference the information regarding lawsuits, claims, commitments, contingencies and related matters in Note 9 to the consolidated condensed financial statements in Part I of this Form 10-Q.

**Item 2. Share Repurchase Activities**

Occidental's share repurchase activities as of September 30, 2006, were as follows:

| Period                     | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid<br>per Share | Total Number<br>of Shares Purchased<br>as<br>Part of Publicly<br>Announced Plans<br>or Programs <sup>(b)</sup> | Maximum Number<br>of Shares that<br>May Yet be<br>Purchased<br>Under the Plans<br>or Programs <sup>(b)</sup> |
|----------------------------|---|---------------------------------------|--|--|
| <b>First Quarter 2006</b>  | 4,823,880                                 | \$45.89                               | 4,410,800  |  |
| <b>Second Quarter 2006</b> | 15,252,546                                | \$49.05                               | 15,080,600   |  |
| July 1 - 31, 2006          | 164,554                                   | \$51.89                               |  |  |
| August 1 - 31, 2006        | 1,993,534                                 | \$52.28                               | 1,804,600  |  |
| September 1 - 30, 2006     | 4,471,813                                 | \$45.92                               | 4,314,200  |  |
| <b>Third Quarter 2006</b>  | 6,629,901 (a)                             | \$47.98                               | 6,118,800  |  |
| <b>Total 2006</b>          | 26,706,327                                | \$48.22                               | 25,610,200   | 14,389,800   |

(a) Occidental purchased 164,554 shares, 188,934 shares and 157,613 shares in July, August and September, respectively from the trustee of its defined contribution savings plan.

(b) In 2006, Occidental announced a common stock repurchase plan for an intermediate target total of approximately 60 million shares. In July 2006, the Board of Directors increased the number of shares authorized for the previously announced share repurchase program to 40 million shares. A cumulative total of 26,899,889 shares have been purchased since the beginning of December 2005.

**Item 6. Exhibits**

- 4.1 Occidental Petroleum Corporation Amended and Restated Five-Year Credit Agreement, dated as of September 27, 2006, among Occidental; J.P. Morgan Securities Inc. and Citigroup Global Markets Inc., as Co-Arrangers and Joint Bookrunners; JPMorgan Chase Bank, N.A. and Citibank, N.A., as Co-Syndication Agents, BNP Paribas, Bank of America, N.A., Barclays Bank PLC and The Royal Bank of Scotland plc, as Co-Documentation Agents, and The Bank of Nova Scotia, as Administrative Agent.
- 10.1 Amendment No. 2 to the Occidental Petroleum Corporation 2005 Deferred Stock Program (filed as Exhibit 10.1 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210).
- 10.2 Global Restricted Stock Unit Amendment to the 2002 Terms and Conditions (filed as Exhibit 10.2 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210).
- 10.3 Global Restricted Stock Unit Amendment to the 2003 Terms and Conditions (filed as Exhibit 10.3 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210).
- 10.4 Global Restricted Stock Unit Amendment to the 2004 Terms and Conditions (filed as Exhibit 10.4 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210).
- 10.5 Global Restricted Stock Unit Amendment to the 2005 Terms and Conditions (filed as Exhibit 10.5 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210).
- 10.6 Global Restricted Stock Unit Amendment to the July 2004 Terms and Conditions (filed as Exhibit 10.6 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210).
- 10.7 Global Restricted Stock Unit Amendment to the July 2005 Terms and Conditions (filed as Exhibit 10.7 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210).
- 10.8 Global Performance-Based Stock Amendment (filed as Exhibit 10.8 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210).
- 10.9 Occidental Petroleum Corporation Deferred Compensation Plan 1 (filed as Exhibit 10.9 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210).
- 10.10 Occidental Petroleum Corporation Deferred Compensation Plan 2 (filed as Exhibit 10.10 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210).
- 10.11 Amendment No. 3 to the Occidental Petroleum Corporation 2005 Deferred Compensation Plan (filed as Exhibit 10.11 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210).
- 10.12 Occidental Petroleum Corporation Modified Deferred Compensation Plan (filed as Exhibit 10.12 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210).

- 10.13 Amendment No. 2 to the Occidental Petroleum Corporation Deferred Stock Program (filed as Exhibit 10.13 to Occidental's Current Report on Form 8-K dated October 12, 2006 (date of earliest event reported), File No. 1-9210)
- 11 Statement regarding the computation of earnings per share for the three and nine months ended September 30, 2006 and 2005.
- 12 Statement regarding the computation of total enterprise ratios of earnings to fixed charges for the nine months ended September 30, 2006 and 2005 and for each of the five years in the period ended December 31, 2005.
- 31.1 Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certifications of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: November 3, 2006

OCCIDENTAL PETROLEUM  
CORPORATION  
/s/ Jim A. Leonard  
Jim A. Leonard, Vice President and  
Controller  
(Principal Accounting and Duly Authorized  
Officer)

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**EXHIBIT INDEX**

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