OCCIDENTAL PETROLEUM CORP /DE/
Form 10-Q
November 03, 2011

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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)	90024 (Zip Code)

(310) 208-8800
(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. R Yes £ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). R Yes £ No

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

Large Accelerated FilerR   Accelerated Filer£   Non-Accelerated Filer£   Smaller Reporting Company£

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). £ Yes R 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, 2011
Common stock $.20 par value	811,788,632 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, 2011 AND DECEMBER 31, 2010
(Amounts in millions)

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,039	$ 2,578
Trade receivables, net	4,829	5,032
Marketing and trading assets and other	849	900
Assets of discontinued operations		2,861
Inventories	1,249	1,041
Prepaid expenses and other	410	647
Total current assets	11,376	13,059
INVESTMENTS IN UNCONSOLIDATED ENTITIES	2,105	2,039
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation, depletion and amortization of $22,996 at September 30, 2011 and $20,630 at December 31, 2010	43,025	36,536
LONG-TERM RECEIVABLES AND OTHER ASSETS, NET	738	798
TOTAL ASSETS	$ 57,244	$ 52,432

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

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
SEPTEMBER 30, 2011 AND DECEMBER 31, 2010
(Amounts in millions)

	2011	2010
LIABILITIES AND STOCKHOLDERS’ EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 4,595	$ 4,646
Accrued liabilities	2,174	2,397
Domestic and foreign income taxes	140	170
Liabilities of discontinued operations	95	612
Total current liabilities	7,004	7,825
LONG-TERM DEBT, NET	5,870	5,111
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred and other domestic and foreign income taxes	4,494	3,445
Long-term liabilities of discontinued operations	102	115
Other	3,295	3,452
	7,891	7,012
STOCKHOLDERS' EQUITY		
Common stock, at par value	177	177
Treasury stock	(4,434)	(4,228)
Additional paid-in capital	7,273	7,191
Retained earnings	33,882	29,868
Accumulated other comprehensive loss	(419)	(524)
Total stockholders’ equity	36,479	32,484
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 57,244	$ 52,432

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

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(Amounts in millions, except per-share amounts)

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
REVENUES AND OTHER INCOME				
Net sales	$ 6,006	$ 4,763	$ 17,905	$ 13,982
Interest, dividends and other income	70	27	136	88
Gains on disposition of assets, net		6	22	1
	6,076	4,796	18,063	14,071
COSTS AND OTHER DEDUCTIONS				
Cost of sales	2,879	2,323	8,125	6,888
Selling, general and administrative and other operating expenses	242	277	1,071	908
Taxes other than on income	152	110	465	356
Exploration expense	39	83	185	208
Interest and debt expense, net	25	25	267	92
	3,337	2,818	10,113	8,452
Income before income taxes and other items	2,739	1,978	7,950	5,619
Provision for domestic and foreign income taxes	1,087	822	3,252	2,377
(Income) from equity investments	(123)	(69)	(301)	(193)
Income from continuing operations	1,775	1,225	4,999	3,435
Discontinued operations, net	(4)	(12)	138	(59)
Net income	1,771	1,213	5,137	3,376
Less: Net income attributable to noncontrolling interest		(22)		(58)
NET INCOME ATTRIBUTABLE TO COMMON STOCK	$ 1,771	$ 1,191	$ 5,137	$ 3,318
BASIC EARNINGS PER COMMON SHARE (attributable to common stock)				
Income from continuing operations	$ 2.18	$ 1.48	$ 6.14	$ 4.15
Discontinued operations, net	(0.01)	(0.02)	0.17	(0.07)
BASIC EARNINGS PER COMMON SHARE	$ 2.17	$ 1.46	$ 6.31	$ 4.08
DILUTED EARNINGS PER COMMON SHARE (attributable to common stock)				
Income from continuing operations	$ 2.18	$ 1.48	$ 6.14	$ 4.14
Discontinued operations, net	(0.01)	(0.02)	0.17	(0.07)
DILUTED EARNINGS PER COMMON SHARE	$ 2.17	$ 1.46	$ 6.31	$ 4.07
DIVIDENDS PER COMMON SHARE	$ 0.46	$ 0.38	$ 1.38	$ 1.09

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

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OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(Amounts in millions)

	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	$ 5,137	$ 3,376
Adjustments to reconcile net income to net cash provided by operating activities		
Discontinued operations, net	(138)	59
Depreciation, depletion and amortization of assets	2,653	2,353
Deferred income tax provision	999	273
Other noncash charges to income	338	350
Gains on disposition of assets, net	(22)	(1)
Undistributed earnings from equity investments	(68)	(60)
Dry hole and impairment expense	109	121
Changes in operating assets and liabilities, net	(135)	327
Other operating, net	(219)	(182)
Operating cash flow from continuing operations	8,654	6,616
Operating cash flow from discontinued operations, net of taxes	(16)	128
Net cash provided by operating activities	8,638	6,744
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditures	(4,969)	(2,580)
Payments for purchases of assets and businesses	(4,070)	(1,813)
Sales of assets, net	45	18
Other, net	(64)	(17)
Investing cash flow from continuing operations	(9,058)	(4,392)
Investing cash flow from discontinued operations	2,570	(315)
Net cash used by investing activities	(6,488)	(4,707)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	2,111	
Payments of long-term debt	(1,523)	(311)
Proceeds from issuance of common stock	47	7
Purchases of treasury stock	(159)	(11)
Distributions to noncontrolling interest	(121)	
Cash dividends paid	(1,060)	(848)
Other, net	16	9
Net cash used by financing activities	(689)	(1,154)
Increase in cash and cash equivalents	1,461	883
Cash and cash equivalents—beginning of period	2,578	1,224
Cash and cash equivalents—end of period	$ 4,039	$ 2,107

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

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

September 30, 2011

1. General

In these unaudited consolidated condensed financial statements, "Occidental" means Occidental Petroleum Corporation, a Delaware corporation (OPC), and/or one or more entities in which it owns a majority voting interest (subsidiaries). Occidental has made its disclosures in accordance with United States generally accepted accounting principles as they apply to interim reporting, and condensed or omitted, as permitted by the Securities and Exchange Commission's rules and regulations, certain information and disclosures normally included in consolidated financial statements and the notes. 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, 2010.

In the opinion of Occidental's management, the accompanying consolidated condensed financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to fairly present Occidental's consolidated financial position as of September 30, 2011, and the consolidated statements of income and cash flows for the three and nine months ended September 30, 2011 and 2010, as applicable. The income and cash flows for the periods ended September 30, 2011 and 2010 are not necessarily indicative of the income or cash flows to be expected for the full year.

Certain financial statement balances and notes for the prior year have been reclassified to conform to the 2011 presentation.

2. Asset Acquisitions, Dispositions and Other Transactions

During the nine months ended September 30, 2011, Occidental paid approximately $3.6 billion for domestic acquisitions, which included oil and gas properties in South Texas, California and the Permian Basin.

In October 2011, Occidental entered into a new five-year, $2.0 billion bank credit facility (2011 Credit Facility) which replaced its previous $1.4 billion bank credit facility (2006 Credit Facility), which was scheduled to expire in September 2012. The 2011 Credit Facility has similar terms to the 2006 Credit Facility and does not contain material adverse change clauses or debt ratings triggers that could restrict Occidental's ability to borrow under this facility. Occidental did not draw down any amounts under the 2011 Credit Facility or the 2006 Credit Facility during 2011 and no amounts were outstanding as of September 30, 2011.

In August 2011, Occidental issued $2.15 billion of debt under its shelf registration, which comprised $1.25 billion of 1.75-percent senior unsecured notes due 2017 and $900 million of 3.125-percent senior unsecured notes due 2022. Occidental received net proceeds of approximately $2.1 billion. Interest on the notes will be payable semi-annually in arrears in February and August of each year for both series of notes.

In the first quarter of 2011, Occidental acquired a 40-percent participating interest in the Al Hosn Gas project in Abu Dhabi, which is the Shah field gas development project. Occidental partnered with the Abu Dhabi National Oil Company in a 30-year joint venture agreement for the $10 billion project, of which Occidental's portion is approximately $4 billion. In May 2011, Occidental paid approximately $500 million for its share of development expenditures incurred by the project prior to the date the final agreement was signed.

In March 2011, Occidental redeemed all of its $1.0 billion 7-percent senior notes due 2013 and all of its $368 million 6.75-percent senior notes due 2012. Occidental recorded a $163 million pre-tax charge related to this redemption in the first quarter of 2011.

In March 2011, Occidental borrowed $1.0 billion for short-term cash needs, all of which was repaid in April 2011. In June 2011, Occidental borrowed $500 million for short-term cash needs, all of which was repaid in July 2011.

In December 2010, Occidental executed an agreement with a subsidiary of China Petrochemical Corporation (Sinopec) to sell its Argentine oil and gas operations for after-tax proceeds of approximately $2.6 billion. Occidental recorded a pre-tax gain of $225 million when the sale closed in February 2011. Net revenues and pre-tax income for discontinued operations related to Argentina were $97 million and $2 million for the nine months ended September 30, 2011, while there were no revenues and pre-tax income for the three months ended September 30, 2011. Net revenues and pre-tax losses for such discontinued operations were respectively $133 million and $13 million for the three months ended September 30, 2010, and $446 million and $73 million for the nine months ended September 30, 2010. As of September 30, 2011 and December 31, 2010, the assets of discontinued operations related to Argentina were $0 and $2.9 billion, respectively, which were mainly comprised of property, plant and equipment as of December 31, 2010. As of December 31, 2010, the liabilities of discontinued operations were $513 million, which mainly comprised deferred tax liabilities and accrued liabilities.

In the first quarter of 2011, Occidental ceased its exploration activity in Libya due to the political unrest there and sanctions imposed by the United States government in February 2011. As a result, Occidental wrote off the entire amount of the capitalized and suspended exploration costs incurred to date, including lease acquisition costs, of approximately $35 million in the first quarter of 2011. While certain U.S. government restrictions on Occidental’s ability to operate were lifted in September 2011, Occidental anticipates ramp-up of production by its Libyan joint venture partners will be hampered in the near term by operational, logistical and other problems from the prolonged shut in. The net book value of Occidental’s Libyan producing properties as of September 30, 2011 was $800 million. At December 31, 2010, these properties had net proved reserves estimated at 57 million barrels, approximately 2 percent of Occidental’s 2010 total proved reserves. Occidental Libya’s 2010 sales and production volumes were 13,000 BOE per day, representing less than 2 percent of Occidental’s worldwide volumes. Going forward, Occidental is uncertain when it will report production from Libya. Occidental’s Libyan operations, excluding exploration costs, had $25 million and $31 million of after-tax income and cash flows, respectively, for the year ended December 31, 2010.

3. Accounting and Disclosure Changes

Occidental has not made any significant accounting and disclosure changes for the three and nine months ended September 30, 2011.

4. Comprehensive Income

The following table presents Occidental’s comprehensive income for the three and nine months ended September 30, 2011 and 2010 (in millions):

	Periods ended September 30			
	Three months		Nine months	
	2011	2010	2011	2010
Net income attributable to common stock	$ 1,771	$ 1,191	$ 5,137	$ 3,318
Other comprehensive income (loss) items:				
Foreign currency translation adjustments	(25)	8	(12)	4
Pension and post retirement adjustments	9	7	23	20
Unrealized gains on derivatives	24	7	20	67
Reclassification of realized losses on derivatives and other	25	18	74	62
Other comprehensive income, net of tax	33	40	105	153
	$ 1,804	$ 1,231	$ 5,242	$ 3,471

Comprehensive income attributable to common stock

There were no other comprehensive income items related to noncontrolling interests for the three and nine months ended September 30, 2011 and 2010.

5. Supplemental Cash Flow Information

Occidental paid U.S. federal, state and foreign income taxes for continuing operations of approximately $2.2 billion and $1.9 billion during the nine months ended September 30, 2011 and 2010, respectively. Additionally, net payments for income taxes related to discontinued operations were $0 and $43 million for the nine months ended September 30, 2011 and 2010, respectively. Interest paid totaled approximately $292 million (including $154 million for early extinguishment premium) and $108 million for the nine months ended September 30, 2011 and 2010, 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 as of September 30, 2011 and December 31, 2010 consisted of the following (in millions):

	2011	2010
Raw materials	$ 68	$ 63
Materials and supplies	459	414
Finished goods	794	636
	1,321	1,113
LIFO reserve	(72)	(72)
Total	$ 1,249	$ 1,041

7. Environmental Liabilities and Expenditures

Occidental's operations are subject to stringent federal, state, local and foreign laws and regulations relating to improving or maintaining environmental quality. Occidental's environmental compliance costs have generally increased over time and could continue to rise in the future. Occidental factors environmental expenditures for its operations into its business planning process as an integral part of producing quality products responsive to market demand.

The laws that require or address environmental remediation, including the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and similar federal, state, local and foreign laws, may apply retroactively and regardless of fault, the legality of the original activities or the current ownership or control of sites. OPC or certain of its subsidiaries participate in or actively monitor a range of remedial activities and government or private proceedings under these laws with respect to alleged past practices at operating, closed and third-party sites. Remedial activities may include one or more of the following: investigation involving sampling, modeling, risk assessment or monitoring; cleanup measures including removal, treatment or disposal; or operation and maintenance of remedial systems. The environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages, civil penalties, injunctive relief and government oversight costs.

As of September 30, 2011, Occidental participated in or monitored remedial activities or proceedings at 169 sites. The following table presents Occidental's environmental remediation reserves as of September 30, 2011, the current portion of which is included in accrued liabilities ($78 million) and the remainder in deferred credits and other liabilities – other ($277 million). The reserves are grouped as environmental remediation sites listed or proposed for listing by the U.S. Environmental Protection Agency on the CERCLA National Priorities List (NPL sites) and three categories of non-NPL sites — third-party sites, Occidental-operated sites and closed or non-operated Occidental sites.

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	Number of Sites	Reserve Balance (in millions)
NPL sites	38	$ 59
Third-party sites	81	94
Occidental-operated sites	21	111
Closed or non-operated Occidental sites	29	91
Total	169	$ 355

As of September 30, 2011, Occidental's environmental reserves exceeded $10 million at 10 of the 169 sites described above, and 120 of the sites had reserves from $0 to $1 million each. Occidental expects to expend funds corresponding to approximately half of the current environmental reserves over the next four years and the balance over the subsequent ten or more years. Occidental believes its range of reasonably possible additional loss beyond those liabilities recorded for environmental remediation at the sites described above could be up to $380 million. The status of Occidental's involvement with the sites and related significant assumptions have not changed materially since December 31, 2010. For management's opinion with respect to environmental matters, refer to Note 8.

8. Lawsuits, Claims, Commitments, Contingencies and Related Matters

OPC or certain of its subsidiaries are named, in the normal course of business, in lawsuits, claims and other legal proceedings that seek, among other things, compensation for alleged personal injury, breach of contract, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. OPC or 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, civil penalties and injunctive relief; however, Occidental is usually one of many companies in these proceedings and has to date been successful in sharing response costs with other financially sound companies. The ultimate amount of losses and the timing of any such losses that Occidental may incur resulting from currently outstanding lawsuits, claims and proceedings cannot be determined reliably at this time. Occidental accrues reserves for all of these matters when it is probable that a liability has been incurred and the liability can be reasonably estimated. Reserve balances as of September 30, 2011 and December 31, 2010 were not material to Occidental's consolidated balance sheets. Occidental also evaluates the amount of reasonably possible additional losses that it could incur as a result of the matters mentioned above. Occidental has disclosed its range of reasonably possible losses for sites where it is a participant in environmental remediation. Occidental believes that other reasonably possible additional losses that it could incur in excess of reserves accrued on the balance sheet would not be material to its consolidated financial position or results of operations.

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. While the audits of corporate tax returns for taxable years through 2009 have concluded for U.S. federal income tax purposes, the 2010 and 2011 taxable years are currently under review by the U.S. Internal Revenue Service pursuant to its Compliance Assurance Program. Taxable years from 2000 through the current year remain subject to examination by foreign and state government tax authorities in certain jurisdictions. In certain of these jurisdictions, tax authorities are in various stages of auditing Occidental's income taxes. During the course of tax audits, disputes have arisen and other disputes may arise as to facts and matters of law. Occidental believes that the resolution of outstanding tax matters would not have a material adverse effect on its consolidated financial position or results of operations.

Occidental has indemnified various parties against specified liabilities that those parties might incur in the future in connection with purchases and other transactions that they have entered into with Occidental. These indemnities usually are contingent upon the other party incurring liabilities that reach specified thresholds. As of September 30, 2011, Occidental is not aware of circumstances that it believes would reasonably be expected to lead to future indemnity claims against it in connection with these transactions that would result in payments materially in excess of reserves.

9. Retirement Plans and Postretirement Benefits

The following table sets forth the components of the net periodic benefit costs for Occidental's defined benefit pension and postretirement benefit plans for the three and nine months ended September 30, 2011 and 2010 (in millions):

Three months ended September 30	2011		2010	
Net Periodic Benefit Costs	Pension Benefit	Postretirement Benefit	Pension Benefit	Postretirement Benefit
Service cost	$ 5	$ 6	$ 4	$ 5
Interest cost	7	11	8	11
Expected return on plan assets	(9)		(8)	
Amortization of prior service cost	1			
Recognized actuarial loss	4	8	3	6
Total	$ 8	$ 25	$ 7	$ 22

Nine months ended September 30	2011		2010	
Net Periodic Benefit Costs	Pension Benefit	Postretirement Benefit	Pension Benefit	Postretirement Benefit
Service cost	$ 15	$ 17	$ 13	$ 14
Interest cost	22	34	23	33
Expected return on plan assets	(25)		(24)	
Amortization of prior service cost	1		1	
Recognized actuarial loss	10	23	9	19
Total	$ 23	$ 74	$ 22	$ 66

Occidental contributed $12 million and $3 million in the three-month periods ended September 30, 2011 and 2010, respectively, and $16 million and $8 million in the nine-month periods ended September 30, 2011 and 2010, respectively, to its defined benefit pension plans.

10. Fair Value Measurements

Occidental has categorized its assets and liabilities that are measured at fair value, based on the priority of the inputs to the valuation techniques, in a three-level fair value hierarchy: Level 1 – using quoted prices in active markets for identical assets or liabilities; Level 2 – using observable inputs other than quoted prices; and Level 3 – using unobservable inputs. Transfers between levels, if any, are recognized at the end of each reporting period.

Fair Values – Recurring

Occidental primarily applies the market approach for recurring fair value measurements, maximizes its use of observable inputs and minimizes its use of unobservable inputs. Occidental utilizes the mid-point price between bid and ask prices for valuing the majority of its assets and liabilities measured and reported at fair value. In addition to using market data, Occidental makes assumptions in valuing its assets and liabilities, including assumptions about the risks inherent in the inputs to the valuation technique. For assets and liabilities carried at fair value, Occidental measures fair value using the following methods:

Trading securities – Quoted prices in active markets exist and are used to provide fair values for these instruments. These securities are classified as Level 1.

Commodity derivatives – Occidental values exchange-cleared commodity derivatives using closing prices provided by the exchange as of the balance sheet date. These derivatives are classified as Level 1. Over-the-Counter (OTC) financial commodity contracts, options and physical commodity forward purchase and sale contracts are generally valued using quotations provided by brokers or industry-standard models that consider various inputs, including quoted forward prices for commodities, time value, volatility factors, credit risk and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these inputs are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable prices at which transactions are executed in the marketplace. Occidental classifies these measurements as Level 2.

Occidental generally uses an income approach to measure fair value when there is not a market-observable price for an identical or similar asset or liability. This approach utilizes management's assumptions regarding expectations of projected cash flows, and discounts the expected cash flows using a risk-adjusted discount rate.

The following tables provide fair value measurements information for such assets and liabilities that are measured on a recurring basis as of September 30, 2011 and December 31, 2010 (in millions):

	Fair Value Measurements at September 30, 2011 Using				
Description	Level 1	Level 2	Level 3	Netting and Collateral (a)	Total Fair Value
Assets:					
Trading equity securities – natural resources industry	$ 139	$	$	$	$ 139
Commodity derivatives	727	911		(1,390)	248
Total assets	$ 866	$ 911	$	$ (1,390)	$ 387
Liabilities:					
Commodity derivatives	$ 697	$ 1,027	$	$ (1,431)	$ 293
Total liabilities	$ 697	$ 1,027	$	$ (1,431)	$ 293

	Fair Value Measurements at December 31, 2010 Using				
Description	Level 1	Level 2	Level 3	Netting and Collateral (a)	Total Fair Value
Assets:					
Trading equity securities – natural resources industry	$ 116	$	$	$	$ 116
Trading U.S. treasury securities	10				10
Commodity derivatives	178	797		(680)	295
Total assets	$ 304	$ 797	$	$ (680)	$ 421
Liabilities:					
Commodity derivatives	$ 201	$ 916	$	$ (736)	$ 381
Total liabilities	$ 201	$ 916	$	$ (736)	$ 381

(a) Represents the impact of netting assets, liabilities and collateral when a legal right of offset exists.

Fair Values - Nonrecurring
During the three and nine months ended September 30, 2011 and 2010, Occidental did not have any assets or liabilities measured at fair value on a non-recurring basis.

Other Financial Instruments
The carrying amounts of cash and cash equivalents and other on-balance-sheet financial instruments, other than fixed-rate debt, approximate fair value. The cost, if any, to terminate off-balance-sheet financial instruments is not significant. Occidental estimates the fair value of fixed-rate debt based on the quoted market prices for those instruments or on quoted market yields for similarly rated debt instruments, taking into account such similar instruments' maturities. The estimated fair values of Occidental's debt, as of September 30, 2011 and December 31, 2010, were approximately $6.2 billion and $5.5 billion, respectively, compared to carrying values of $5.9 billion and $5.1 billion, respectively.

11. Derivatives

Derivatives are carried at fair value and on a net basis when a legal right of offset exists with the same counterparty. Occidental applies hedge accounting when transactions meet specified criteria for such treatment and management elects to do so. If a derivative does not qualify or is not designated and documented as a cash-flow hedge, any fair value gains or losses are recognized in earnings in the current period.

Through its marketing and trading activities and within its established policy controls and procedures, Occidental uses derivative instruments, including a combination of short-term futures, forwards, options and swaps, to improve realized prices for its crude oil, gas and natural gas liquids (NGL). Additionally, Occidental, through its Phibro trading unit, engages in trading activities using derivatives for the purpose of generating profits mainly from market price changes of commodities. Occidental has also used derivatives to reduce its exposure to price volatility on a small portion of its crude oil and gas production.

Cash-Flow Hedges
As of September 30, 2011 and December 31, 2010, Occidental held a series of collar agreements that qualify as cash-flow hedges for the sale of approximately 3 percent of its crude oil production. These agreements continue to the end of 2011. The following table presents the daily quantities and weighted-average strike prices of Occidental's collar positions as of September 30, 2011 and December 31, 2010:

Crude Oil – Collars	Daily Volume (barrels)	Average Floor	Average Cap
October 2011 – December 2011 (a)	12,000	$32.92	$46.27

(a) At December 31, 2010, these contracts were outstanding with the same daily volumes and terms indicated and also covered the period from January 1, 2011 to September 30, 2011.

In 2009, Occidental entered into financial swap agreements related to the sale of a portion of its natural gas production from the Rocky Mountain region of the United States that qualify as cash-flow hedges. The following table presents the daily quantities and weighted-average prices that will be received by Occidental as of September 30, 2011 and December 31, 2010:

Natural Gas – Swaps	Daily Volume (cubic feet)	Average Price
October 2011 – March 2012 (a)	50 million	$6.07

(a)

At December 31, 2010, these contracts were outstanding with the same daily volumes and terms indicated and also covered the period from January 1, 2011 to September 30, 2011.

Occidental's marketing and trading operations store natural gas purchased from third parties at Occidental's North American leased storage facilities. Derivative instruments are used to fix margins on the future sales of the stored volumes. These agreements continue through January 2013. As of September 30, 2011 and December 31, 2010, Occidental had approximately 22 billion cubic feet and 28 billion cubic feet of natural gas held in storage, respectively. As of September 30, 2011 and December 31, 2010, Occidental had cash-flow hedges for the forecasted sale, to be settled by physical delivery, of approximately 22 billion cubic feet and 24 billion cubic feet of this natural gas held in storage, respectively.

The following table presents the pre-tax gains and losses recognized in, and reclassified from, Accumulated Other Comprehensive Income (AOCI) and recognized in income (net sales), including any hedge ineffectiveness, for derivative instruments classified as cash-flow hedges for the three and nine months ended September 30, 2011 and 2010 (in millions):

	Periods ended September 30							
	Three Months				Nine Months			
Commodity Contracts – cash-flow hedges		2011		2010		2011		2010
Unrealized gains recognized in AOCI	$	37	$	10	$	31	$	105
Losses reclassified into income	$	39	$	28	$	115	$	91
(Losses) recognized in income – ineffective portion	$	(1)	$	(1)	$	(1)	$	

The following table summarizes net after-tax derivative activity recorded in AOCI for the three and nine months ended September 30, 2011 and 2010 (in millions):

	Periods ended September 30							
	Three Months				Nine Months			
		2011		2010		2011		2010
Beginning balance – AOCI	$	(66)	$	(127)	$	(111)	$	(227)
Unrealized gains recognized in AOCI		24		7		20		67
Losses reclassified into income		25		18		74		58
Ending balance – AOCI	$	(17)	$	(102)	$	(17)	$	(102)

During the next twelve months, Occidental expects that approximately $4 million of net after-tax derivative losses included in AOCI, based on their valuation as of September 30, 2011, will be reclassified into income.

Derivatives Not Designated as Hedging Instruments

Occidental's third-party marketing and trading activities focus on purchasing crude oil, natural gas and NGL for resale from partners, producers and third parties whose supply is located near midstream and marketing assets, such as pipelines, processing plants and storage facilities, that are owned or leased by Occidental. These purchases allow Occidental to aggregate volumes to maximize prices received for Occidental's production. The third-party marketing and trading purchase and sales contracts generally approximate each other with respect to aggregate volumes and terms. In addition, Occidental's Phibro trading unit uses derivative instruments, including forwards, futures, swaps and options, some of which may be for physical delivery, in its strategy to profit from market price changes.

The following table presents gross volumes of Occidental's commodity derivatives contracts not designated as hedging instruments as of September 30, 2011 and December 31, 2010:

	Volumes	
Commodity	2011	2010
Sales contracts related to Occidental's production		
Crude oil (million barrels)	9	8
Third-party marketing and trading activities		
Purchase contracts		
Crude oil (million barrels)	173	136
Natural gas (billion cubic feet)	682	833
Precious metals (million troy ounces)	3	13
Sales contracts		
Crude oil (million barrels)	170	144
Natural gas (billion cubic feet)	801	1,156
Precious metals (million troy ounces)	1	1

In addition, Occidental has certain other commodity trading contracts, including agricultural products, metals, and electricity, as well as foreign exchange contracts, which were not material to Occidental as of September 30, 2011 and December 31, 2010.

Occidental has crude oil sales contracts representing a small portion of Occidental's domestic crude oil production. Additionally, for third-party marketing and trading activities, typically a substantial portion of the sales contracts that exist at the end of a reporting period are fulfilled by existing purchase contracts with substantially identical terms. For a substantial portion of the natural gas sales commitments not satisfied by such contracts as of September 30, 2011, Occidental has entered into offsetting contracts after September 30, 2011. The remaining portion is not material to Occidental.

Approximately $237 million of net losses and $15 million of net gains from derivatives not designated as hedging instruments were recognized in net sales for the three months ended September 30, 2011 and 2010, respectively. Approximately $47 million of net losses and $59 million of net gains from derivatives not designated as hedging instruments were recognized in net sales for the nine months ended September 30, 2011 and 2010, respectively.

Fair Value of Derivatives

The following table presents the gross fair value of Occidental's outstanding derivatives as of September 30, 2011 and December 31, 2010 (in millions):

September 30, 2011	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Cash-flow hedges (a)				
Commodity contracts	Marketing and trading assets and other	$ 32	Accrued liabilities	$ 38
		32		38
Derivatives not designated as hedging instruments (a)				
Commodity contracts	Marketing and trading assets and other	1,528	Accrued liabilities	1,617
	Long-term receivables and other assets, net	78	Deferred credits and other liabilities	69
		1,606		1,686
Total gross fair value		1,638		1,724
Less: counterparty netting and cash collateral (b)		(1,390)		(1,431)
Total net fair value of derivatives		$ 248		$ 293

December 31, 2010	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Cash-flow hedges (a)				
Commodity contracts	Marketing and trading assets and other	$ 51	Accrued liabilities	$ 209
	Long-term receivables and other assets, net	9	Deferred credits and other liabilities	
		60		209
Derivatives not designated as hedging instruments (a)				
Commodity contracts	Marketing and trading assets and other	829	Accrued liabilities	823
	Long-term receivables and other assets, net	86	Deferred credits and other liabilities	85
		915		908
Total gross fair value		975		1,117
Less: counterparty netting and cash collateral (c)		(680)		(736)
Total net fair value of derivatives		$ 295		$ 381

(a) The above fair values are presented at gross amounts, including when the derivatives are subject to master netting arrangements and qualify for net presentation in the consolidated balance sheet.
(b) As of September 30, 2011, collateral received of $116 million has been netted against derivative assets and collateral paid of $157 million has been netted against derivative liabilities.
(c) As of December 31, 2010, collateral received of $39 million has been netted against derivative assets and collateral paid of $95 million has been netted against derivative liabilities.

See Note 10 for fair value measurement disclosures on derivatives.

Credit Risk

A majority of Occidental's derivative transaction volume is executed through exchange-traded contracts, which are subject to nominal credit risk as a significant portion of these transactions are executed on a daily margin basis. Collateral of $129 million and $154 million deposited by Occidental for such contracts with clearing houses and brokers, which has not been reflected in the derivative fair value tables, is included in the marketing and trading assets and other balance as of September 30, 2011 and December 31, 2010, respectively.

In addition, Occidental executes a portion of its derivative transactions in the over-the-counter (OTC) market. Occidental is subject to counterparty credit risk to the extent the counterparty to the derivatives is unable to meet its settlement commitments. Occidental manages this credit risk by selecting counterparties that it believes to be financially strong, by spreading the credit risk among many such counterparties, by entering into master netting arrangements with the counterparties and by requiring collateral, as appropriate. Occidental actively monitors the creditworthiness of each counterparty and records valuation adjustments to reflect counterparty risk, if necessary. Certain of Occidental's OTC derivative instruments contain credit risk contingent features, primarily tied to credit ratings for Occidental or its counterparties, which may affect the amount of collateral that each would need to post. As of September 30, 2011 and December 31, 2010, Occidental had a net liability of $75 million and $234 million, respectively, for which the amount of collateral posted was $70 million and $10 million, respectively. Occidental believes that if it had received a one-notch reduction in its credit rating, it would not have resulted in a material change in its collateral-posting requirements as of September 30, 2011 and December 31, 2010.

12. Industry Segments

Occidental conducts its continuing operations through three segments: (1) oil and gas; (2) chemical; and (3) midstream, marketing and other (midstream and marketing). The oil and gas segment explores for, develops, produces and markets crude oil, NGL and condensate (collectively "liquids"), and natural gas. The chemical segment manufactures and markets basic chemicals, vinyls and other chemicals. The midstream and marketing segment gathers, treats, processes, transports, stores, purchases and markets liquids, natural gas, carbon dioxide (CO_2) and power. It also trades around its assets, including pipelines and storage capacity, and trades oil and gas, other commodities and commodity-related securities.

Earnings of industry segments generally exclude income taxes, interest income, interest expense, environmental remediation expenses, unallocated corporate expenses and discontinued operations, but include gains and losses from dispositions of segment assets and income from the segment equity investments.

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

	Oil and Gas	Chemical	Midstream, Marketing and Other	Corporate and Eliminations	Total
Nine months ended September 30, 2011					
Net sales	$ 13,635	$ 3,721	$ 1,109	$ (560) (a)	$ 17,905
Pretax operating profit (loss)	$ 7,704	$ 717	$ 378	$ (548) (b)	$ 8,251
Income taxes				(3,252) (c)	(3,252)
Discontinued operations, net				138 (d)	138
Net income (loss) attributable to common stock	$ 7,704	$ 717	$ 378	$ (3,662)	$ 5,137
Nine months ended September 30, 2010					
Net sales	$ 10,517	$ 3,020	$ 993	$ (548) (a)	$ 13,982
Pretax operating profit (loss)	$ 5,543	$ 327	$ 270	$ (328) (b)	$ 5,812
Income taxes				(2,377) (c)	(2,377)
Discontinued operations, net				(59)	(59)
Net income attributable to noncontrolling interest	(58)				(58)
Net income (loss) attributable to common stock	$ 5,485	$ 327	$ 270	$ (2,764)	$ 3,318

(a) Intersegment sales eliminate upon consolidation and are generally made at prices approximating those that the selling entity is able to obtain in third-party transactions.
(b) Includes net interest expense (including the early debt extinguishment costs of $163 million for the nine months ended September 30, 2011), administration expense, environmental remediation and other pre-tax items.
(c) Includes all foreign and domestic income taxes from continuing operations.
(d) Reflects the after-tax gain from the sale of the Argentine operations.

13. Earnings Per Share

Occidental's instruments containing rights to nonforfeitable dividends granted in share-based payment transactions are considered participating securities prior to vesting, and, therefore, have been included in the earnings allocations in computing basic and diluted EPS under the two-class method.

Basic EPS was computed by dividing net income attributable to common stock, net of income attributable to participating securities, by the weighted-average number of common shares outstanding during each period, net of treasury shares and including vested but unissued shares and share units. The computation of diluted EPS further reflected the dilutive effect of stock options and unvested stock awards.

The following table presents the calculation of basic and diluted EPS for the three and nine months ended September 30, 2011 and 2010:

	Periods Ended September 30			
	Three months		Nine months	
(in millions, except per-share amounts)	2011	2010	2011	2010
Basic EPS				
Income from continuing operations	$ 1,775			