

OCCIDENTAL PETROLEUM CORP /DE/

Form 10-Q

November 01, 2016

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, 2016

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

95-4035997

(State or other jurisdiction of  
incorporation or organization)

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

5 Greenway Plaza, Suite 110

77046

Houston, Texas

(Address of principal executive offices) (Zip Code)

(713) 215-7000

(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 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).

☒ 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 Filer ☒ 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 ☒ No

Edgar Filing: OCCIDENTAL PETROLEUM CORP /DE/ - Form 10-Q

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, 2016
Common stock \$.20 par value	764,188,495

---

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

	PAGE
Part I Financial Information	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Consolidated Condensed Balance Sheets</u> — September 30, 2016 and December 31, 2015	2
<u>Consolidated Condensed Statements of Operations</u> — Three and nine months ended September 30, 2016 and 2015	4
<u>Consolidated Condensed Statements of Comprehensive Income</u> — Three and nine months ended September 30, 2016 and 2015	5
<u>Consolidated Condensed Statements of Cash Flows</u> — Nine months ended September 30, 2016 and 2015	6
<u>Notes to Consolidated Condensed Financial Statements</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	30
Part II Other Information	
Item 1. <u>Legal Proceedings</u>	31
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 6. <u>Exhibits</u>	32

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS  
SEPTEMBER 30, 2016 AND DECEMBER 31, 2015  
(Amounts in millions)

	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$3,180	\$3,201
Restricted cash	—	1,193
Trade receivables, net	3,521	2,970
Inventories	927	986
Assets held for sale	—	141
Other current assets	1,083	911
Total current assets	8,711	9,402
<b>INVESTMENTS</b>		
Investment in unconsolidated entities	1,420	1,267
Available for sale investment	—	167
Total investments	1,420	1,434
<b>PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation, depletion and amortization of \$42,076 at September 30, 2016 and \$39,419 at December 31, 2015</b>	30,419	31,639
<b>LONG-TERM RECEIVABLES AND OTHER ASSETS, NET</b>	1,080	934
<b>TOTAL ASSETS</b>	<b>\$41,630</b>	<b>\$43,409</b>

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



OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS  
SEPTEMBER 30, 2016 AND DECEMBER 31, 2015  
(Amounts in millions except share amounts)

	2016	2015
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$—	\$1,450
Accounts payable	3,392	3,069
Accrued liabilities	2,296	2,213
Liabilities of assets held for sale	—	110
Total current liabilities	5,688	6,842
<b>LONG-TERM DEBT, NET</b>	8,333	6,855
<b>DEFERRED CREDITS AND OTHER LIABILITIES</b>		
Deferred domestic and foreign income taxes	1,411	1,323
Other	3,902	4,039
	5,313	5,362
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, at par value (892,165,801 shares at September 30, 2016 and 891,360,091 shares at December 31, 2015)	178	178
Treasury stock (127,977,306 shares at September 30, 2016 and 127,681,335 shares at December 31, 2015)	(9,143 )	(9,121 )
Additional paid-in capital	7,719	7,640
Retained earnings	23,836	25,960
Accumulated other comprehensive loss	(294 )	(307 )
Total stockholders' equity	22,296	24,350
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$41,630</b>	<b>\$43,409</b>

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

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
(Amounts in millions, except per-share amounts)

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
<b>REVENUES AND OTHER INCOME</b>				
Net sales	\$2,648	\$3,116	\$7,302	\$9,674
Interest, dividends and other income	25	31	72	88
Gain on disposal of assets, net	60	99	198	94
	2,733	3,246	7,572	9,856
<b>COSTS AND OTHER DEDUCTIONS</b>				
Cost of sales	1,338	1,413	3,863	4,450
Selling, general and administrative and other operating expenses	316	292	926	950
Taxes other than on income	61	79	210	293
Depreciation, depletion and amortization	1,046	1,123	3,218	3,268
Asset impairments and related items	221	3,397	299	3,721
Exploration expense	9	5	45	23
Interest and debt expense, net	68	48	216	86
	3,059	6,357	8,777	12,791
Loss before income taxes and other items	(326 )	(3,111 )	(1,205 )	(2,935 )
Benefit from domestic and foreign income taxes	30	445	329	140
Income from equity investments	58	60	142	154
Loss from continuing operations	(238 )	(2,606 )	(734 )	(2,641 )
Discontinued operations, net	(3 )	(3 )	432	(10 )
<b>NET LOSS</b>	<b>\$(241 )</b>	<b>\$(2,609 )</b>	<b>\$(302 )</b>	<b>\$(2,651 )</b>
<b>BASIC EARNINGS PER COMMON SHARE</b>				
Loss from continuing operations	\$(0.31 )	\$(3.41 )	\$(0.96 )	\$(3.45 )
Discontinued operations, net	(0.01 )	(0.01 )	0.56	(0.01 )
<b>BASIC EARNINGS PER COMMON SHARE</b>	<b>\$(0.32 )</b>	<b>\$(3.42 )</b>	<b>\$(0.40 )</b>	<b>\$(3.46 )</b>
<b>DILUTED EARNINGS PER COMMON SHARE</b>				
Loss from continuing operations	\$(0.31 )	\$(3.41 )	\$(0.96 )	\$(3.45 )
Discontinued operations, net	(0.01 )	(0.01 )	0.56	(0.01 )
<b>DILUTED EARNINGS PER COMMON SHARE</b>	<b>\$(0.32 )</b>	<b>\$(3.42 )</b>	<b>\$(0.40 )</b>	<b>\$(3.46 )</b>
<b>DIVIDENDS PER COMMON SHARE</b>	<b>\$0.76</b>	<b>\$0.75</b>	<b>\$2.26</b>	<b>\$2.22</b>

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





OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
(Amounts in millions)

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Net loss	\$(241)	\$(2,609)	\$(302)	\$(2,651)
Other comprehensive income (loss) items:				
Foreign currency translation gains (losses)	—	(1)	1	(2)
Unrealized losses on available for sale investment	—	(246)	—	(208)
Unrealized gains (losses) on derivatives <sup>(a)</sup>	1	2	(12)	2
Pension and postretirement gains <sup>(b)</sup>	4	1	16	5
Reclassification to income of realized losses on derivatives <sup>(c)</sup>	—	1	8	1
Other comprehensive income (loss), net of tax	5	(243)	13	(202)
Comprehensive loss	\$(236)	\$(2,852)	\$(289)	\$(2,853)

(a) Net of tax of \$(1) and \$(1) for the three months ended September 30, 2016 and 2015, respectively, and \$6 and \$(1) for the nine months ended September 30, 2016 and 2015, respectively.

(b) Net of tax of \$(2) and \$(1) for the three months ended September 30, 2016 and 2015, respectively, and \$(9) and \$(3) for the nine months ended September 30, 2016 and 2015, respectively.

(c) Net of tax of zero for the three months ended September 30, 2016 and 2015, respectively, and \$(4) and zero for the nine months ended September 30, 2016 and 2015, respectively.

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

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
(Amounts in millions)

	2016	2015
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Loss	\$(302 )	\$(2,651 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Discontinued operations, net	(432 )	10
Depreciation, depletion and amortization of assets	3,218	3,268
Deferred income tax benefit	(162 )	(417 )
Other noncash charges to income	79	359
Asset impairments and related items	139	3,364
Gain on sale of assets, net	(198 )	(94 )
Undistributed earnings from affiliates	(4 )	(3 )
Dry hole expenses	33	4
Changes in operating assets and liabilities, net	(460 )	(938 )
Other operating, net	(313 )	(499 )
Operating cash flow from continuing operations	1,598	2,403
Operating cash flow from discontinued operations	870	(17 )
Net cash provided by operating activities	2,468	2,386
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(1,845 )	(4,192 )
Change in capital accrual	(207 )	(652 )
Purchase of businesses and assets, net	(82 )	(52 )
Proceeds from sale of assets and equity investments, net	323	151
Equity investments and other, net	(165 )	(373 )
Net cash used by investing activities	(1,976 )	(5,118 )
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Change in restricted cash	1,193	2,254
Proceeds from long-term debt, net	2,718	1,478
Payment of long-term debt, net	(2,710 )	—
Proceeds from issuance of common stock	32	34
Purchases of treasury stock	(22 )	(586 )
Cash dividends paid	(1,724 )	(1,690 )
Net cash (used) provided by financing activities	(513 )	1,490
Decrease in cash and cash equivalents	(21 )	(1,242 )
Cash and cash equivalents — beginning of period	3,201	3,789
Cash and cash equivalents — end of period	\$3,180	\$2,547

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, 2016

1. General

In these unaudited consolidated condensed financial statements, "Occidental" means Occidental Petroleum Corporation, a Delaware corporation (OPC), or OPC and one or more entities in which it owns a controlling interest (subsidiaries). Occidental has made its disclosures in accordance with United States generally accepted accounting principles (GAAP) 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. These unaudited consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in Occidental's Annual Report on Form 10-K for the year ended December 31, 2015.

In the opinion of Occidental's management, the accompanying unaudited 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, 2016, and the consolidated statements of operations, comprehensive income and cash flows for the three and nine months ended September 30, 2016 and 2015, as applicable. The income and cash flows for the periods ended September 30, 2016 and 2015 are not necessarily indicative of the income or cash flows to be expected for the full year.

2. Asset Acquisitions, Dispositions and Other

In September 2016, Occidental completed the sale of its South Texas Eagle Ford non-operated properties for \$63 million resulting in a pre-tax gain of \$59 million.

In September 2016, Occidental sought government approvals to sell its operations in Libya. Occidental recorded a pre-tax impairment charge of \$112 million to write down the value of its Libya operations.

In August 2016, Occidental terminated crude oil supply agreements at a cost of \$160 million.

In the second quarter of 2016, Occidental received \$330 million as final payment from the settlement with the Republic of Ecuador. In January 2016, Occidental reached an understanding on the terms of payment for the approximate \$1.0 billion payable to Occidental by the Republic of Ecuador under a November 2015 International Center for Settlement of Investment Disputes arbitration award. This award relates to Ecuador's 2006 expropriation of Occidental's Participation Contract for Block 15. Occidental recorded a pre-tax gain of \$681 million in the first quarter of 2016. The results related to Ecuador were presented as discontinued operations.

In May and June 2016, respectively, Occidental utilized part of the proceeds from the April 2016 senior note offering (described below) to exercise the early redemption option on \$1.25 billion of 1.75-percent senior notes due in the first quarter of 2017 and to retire all \$750 million of 4.125-percent senior notes that matured in June 2016.

In April 2016, Occidental issued \$2.75 billion of senior notes, comprised of \$0.4 billion of 2.6-percent senior notes due 2022, \$1.15 billion of 3.4-percent senior notes due 2026 and \$1.2 billion of 4.4-percent senior notes due 2046. Occidental received net proceeds of approximately \$2.72 billion. Interest on the senior notes is payable semi-annually in arrears in April and October of each year for each series of senior notes, beginning on October 15, 2016. Occidental used a portion of the proceeds to retire debt in May and June 2016, and will use the remaining proceeds for general corporate purposes.

In March 2016, Occidental distributed its remaining shares of California Resources Corporation (California Resources) through a special stock dividend to stockholders of record as of February 29, 2016. Upon distribution, Occidental recorded a \$78 million loss to reduce the investment to its fair market value, and Occidental no longer owns any shares of California Resources common stock.

In March 2016, Occidental completed the sale of its Piceance Basin operations in Colorado for \$153 million resulting in a pre-tax gain of \$121 million. The assets and liabilities related to these operations were presented as held for

sale at December 31, 2015, and primarily included property, plant and equipment and current accrued liabilities and asset retirement obligations.

In February 2016, Occidental repaid \$700 million of 2.5-percent senior notes that matured.

In January 2016, Occidental completed the sale of its Occidental Tower building in Dallas, Texas, for net proceeds of approximately \$85 million, resulting in a pre-tax gain of \$57 million. The building was classified as held for sale as of December 31, 2015.

### 3. Accounting and Disclosure Changes

In October 2016, the Financial Accounting Standards Board ("FASB") issued new guidance related to the income tax consequences of intra-entity transfers of assets other than inventory. The rules become effective for the interim and annual periods beginning after December 15, 2017. Occidental is currently evaluating the impact of these rules on its financial statements.

In August 2016, the FASB issued new guidance related to the classification of certain cash receipts and payments on the statement of cash flows. The rules become effective for the interim and annual periods beginning after December 15, 2017. Occidental is currently evaluating the impact of these rules on its financial statements.

In March, April, and May of 2016, the FASB issued updates clarifying several aspects of the new revenue recognition standard, previously issued in May 2014. Occidental is currently evaluating the impact of these rules on its financial statements.

In March 2016, the FASB issued rules affecting entities that issue share-based payment awards to their employees. These rules are designed to simplify several aspects of accounting for share-based payment award transactions, including: (1) accounting and cash flow classification for excess tax benefits and deficiencies, (2) forfeitures, and (3) tax withholding requirements and cash flow classification. The rules were adopted for the second quarter of 2016 and did not have a material impact on Occidental's financial statements upon adoption.

In March 2016, the FASB issued an update to eliminate the requirement to retrospectively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The update requires that the equity method investor add the cost of acquiring the additional interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The rules become effective for the interim and annual periods beginning after December 15, 2016. The rules do not have a material impact on Occidental's financial statements upon adoption.

In March 2016, the FASB issued rules clarifying that a change in one of the parties to a derivative contract that is part of a hedge accounting relationship does not, by itself, require dedesignation of that relationship, as long as all other hedge accounting criteria continue to be met. The rules become effective for the interim and annual periods beginning after December 15, 2016. Occidental is currently evaluating the impact of these rules on its financial statements.

In February 2016, the FASB issued rules in which lessees will recognize most leases, including operating leases, on-balance sheet. These new rules will significantly increase reported assets and liabilities. The rules become effective for interim and annual periods beginning after December 15, 2018. Occidental is currently evaluating the impact of these rules on its financial statements.

In April 2015, the FASB issued rules simplifying the presentation of debt issuance costs. The new rules require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from

the carrying amount of that debt liability, consistent with debt discounts. Occidental adopted these rules retrospectively as of January 1, 2016. The rules do not have a material impact on Occidental's financial statements.

#### 4. Supplemental Cash Flow Information

Occidental paid foreign, state and federal income taxes of \$442 million and \$848 million during the nine months ended September 30, 2016 and 2015, respectively. During the first nine months of 2016, Occidental received federal income tax refunds of \$302 million as a result of the carryback of net operating losses generated in 2015. Interest paid totaled \$224 million and \$198 million during the nine months ended September 30, 2016 and 2015, respectively.

## 5. 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, 2016, and December 31, 2015, consisted of the following (in millions):

	2016	2015
Raw materials	\$77	\$73
Materials and supplies	503	568
Finished goods	397	395
	977	1,036
Revaluation to LIFO	(50 )	(50 )
Total	\$927	\$986

## 6. Environmental Liabilities and Expenditures

Occidental's operations are subject to stringent federal, state, local and foreign laws and regulations related to improving or maintaining environmental quality.

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 of hazardous substances; or operation and maintenance of remedial systems. These 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, 2016, Occidental participated in or monitored remedial activities or proceedings at 150 sites. The following table presents Occidental's environmental remediation reserves as of September 30, 2016, the current portion of which is included in accrued liabilities (\$78 million) and the remainder in deferred credits and other liabilities — other (\$342 million). The reserves are grouped as environmental remediation sites listed or proposed for listing by the United States 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.

	Number of Sites	Reserve Balance (in millions)
NPL sites	35	\$ 68
Third-party sites	69	126
Occidental-operated sites	17	100
Closed or non-operated Occidental sites	29	126
Total	150	\$ 420



As of September 30, 2016, Occidental's environmental reserves exceeded \$10 million each at 13 of the 150 sites described above, and 97 of the sites each had reserves of \$1 million or less. Based on current estimates, Occidental expects to expend funds corresponding to approximately half of the current environmental reserves at the sites described above over the next three to four years and the balance at these sites over the subsequent 10 or more years.

Due to uncertainties surrounding the Maxus indemnified sites described further under Note 7, Lawsuits, Claims, Commitments and Contingencies, Occidental is currently unable to estimate an amount of reasonably possible losses associated with certain sites. For all other sites, Occidental believes its estimable range of reasonably possible additional losses beyond those liabilities recorded for environmental remediation at these sites could be up to \$415 million. For additional information regarding environmental matters, refer to Note 7.

#### 7. Lawsuits, Claims, Commitments and Contingencies

Occidental or certain of its subsidiaries are involved, 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 or other losses, punitive damages, civil penalties, or injunctive or declaratory relief. Occidental or certain of its subsidiaries also are involved 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. Usually Occidental or such subsidiaries are among many companies in these environmental proceedings and have to date been successful in sharing response costs with other financially sound companies. Further, some lawsuits, claims and legal proceedings involve acquired or disposed assets with respect to which a third party or Occidental retains liability or indemnifies the other party for conditions that existed prior to the transaction.

In accordance with applicable accounting guidance, Occidental accrues reserves for outstanding lawsuits, claims and proceedings when it is probable that a liability has been incurred and the liability can be reasonably estimated. In Note 6, Occidental has disclosed its reserve balances for environmental remediation matters that satisfy this criteria. Reserve balances for matters, other than environmental remediation, that satisfy this criteria as of September 30, 2016 and December 31, 2015 were not material to Occidental's consolidated balance sheets.

Occidental also evaluates the amount of reasonably possible losses that it could incur as a result of outstanding lawsuits, claims and proceedings and discloses its estimable range of reasonably possible additional losses for sites where it is a participant in environmental remediation. Occidental believes that other reasonably possible losses for non-environmental matters 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. Occidental reassesses the probability and estimability of contingent losses as new information becomes available.

#### Environmental Litigation

When Occidental acquired Diamond Shamrock Chemicals Company (DSCC) in 1986, Maxus Energy Corporation (Maxus), currently a subsidiary of YPF S.A. (YPF), agreed to indemnify Occidental for a number of environmental sites, including the Diamond Alkali Superfund Site along a portion of the Passaic River. On June 17, 2016, Maxus and several affiliated companies filed for Chapter 11 bankruptcy in Federal District Court in the State of Delaware. Prior to filing for bankruptcy, Maxus defended and indemnified Occidental in connection with clean-up and other costs associated with the sites subject to the indemnity, including the Diamond Alkali Superfund Site. Occidental has been pursuing Maxus and its parent company, YPF, as the alter ego of Maxus, to recover all indemnified costs, which will include costs to be incurred at the Diamond Alkali Superfund Site.

In March 2016, the EPA issued a Record of Decision (ROD) for the Diamond Alkali Superfund Site specifying remedial actions required for the lower 8.3 miles of the Lower Passaic River. The ROD does not address any potential remedial action for the upper nine miles of the Lower Passaic River or Newark Bay.

During the third quarter of 2016, and following Maxus's bankruptcy filing, Occidental and the EPA entered into an Administrative Order on Consent (AOC) to complete the design of the proposed clean-up plan outlined in the ROD at

an estimated cost of \$165 million. The EPA announced that it will pursue similar agreements with other potentially responsible parties. Occidental has accrued a reserve relating to its estimated allocable share of the costs to complete the design of the proposed clean-up plan pursuant to the AOC. Occidental's allocable share of this liability may ultimately be higher or lower than the reserved amount, and is subject to Occidental's pursuit of its indemnity rights against Maxus. Occidental continues to evaluate the costs to be incurred to comply with the AOC in light of the Maxus bankruptcy and the share of ultimate liability of other potentially responsible parties.

Reserves have not been accrued for Occidental's potential obligations for the remediation costs for the cleanup of the Lower Passaic River (other than its estimated allocable share of the design costs under the AOC) and for other Maxus-indemnified sites as the amounts cannot be reasonably estimated at this time for several reasons including, but not limited to, the existence of other potentially responsible parties, the presence of contaminants of concern that are not associated with DSCC or Occidental's operations, the inherent uncertainties in estimating clean-up costs and the corrective actions that may be required. Occidental continues to evaluate the costs involved for Maxus-indemnified sites, including the costs involved in the cleanup of the Lower Passaic River as the design phase and other activities proceed.

## Tax Matters

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. Although taxable years through 2009 for United States federal income tax purposes have been audited by the United States Internal Revenue Service (IRS) pursuant to its Compliance Assurance Program, subsequent taxable years are currently under review. Additionally, in December 2012, Occidental filed United States federal refund claims for tax years 2008 and 2009 that are subject to IRS review. Taxable years from 2002 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.

## Indemnities to Third Parties

Occidental, its subsidiaries, or both, have indemnified various parties against specified liabilities 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, 2016, Occidental is not aware of circumstances that it believes would reasonably be expected to lead to indemnity claims that would result in payments materially in excess of reserves.

## 8. Retirement and Post-retirement Benefit Plans

The following tables set forth the components of the net periodic benefit costs for Occidental's defined benefit pension and post-retirement benefit plans for the three and nine months ended September 30, 2016 and 2015 (in millions):

Three months ended September 30	2016		2015	
Net Periodic Benefit Costs	Pension Benefit	Post-retirement Benefit	Pension Benefit	Post-retirement Benefit
Service cost	\$2	\$ 4	\$2	\$ 7
Interest cost	4	9	5	10
Expected return on plan assets	(6 )	—	(7 )	—
Recognized actuarial loss	3	3	3	6
Total	\$3	\$ 16	\$3	\$ 23

Nine months ended September 30	2016		2015	
Net Periodic Benefit Costs	Pension Benefit	Post-retirement Benefit	Pension Benefit	Post-retirement Benefit
Service cost	\$6	\$ 14	\$6	\$ 21
Interest cost	12	29	15	30
Expected return on plan assets	(18 )	—	(21)	—

Recognized actuarial loss	9	14		7	20
Settlement loss	2	—		—	—
Total	\$11	\$ 57		\$7	\$ 71

Occidental contributed approximately zero and \$2 million in the three months ended September 30, 2016 and 2015, respectively, and approximately \$2 million and \$7 million in the nine months ended September 30, 2016 and 2015, respectively, to its defined benefit plans.

## 9. Fair Value Measurements

Occidental has categorized its assets and liabilities that are measured at fair value in a three-level fair value hierarchy, based on the inputs to the valuation techniques: Level 1 — using quoted prices in active markets for the assets or liabilities; Level 2 — using observable inputs other than quoted prices for the assets or liabilities; 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 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:

Occidental values exchange-cleared commodity derivatives using closing prices provided by the exchange as of the balance sheet date. Occidental values its available for sale investment based on the common stock closing share price as of the balance sheet date. These derivatives and investments are classified as Level 1.

Over-the-Counter (OTC) bilateral financial commodity contracts, foreign exchange contracts, options and physical commodity forward purchase and sale contracts are generally classified as Level 2 and 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, and can be derived from observable data or are supported by observable prices at which transactions are executed in the marketplace.

Occidental values commodity derivatives based on a market approach that considers various assumptions, including quoted forward commodity prices and market yield curves. The assumptions used include inputs that are generally unobservable in the marketplace or are observable but have been adjusted based upon various assumptions, and the fair value is designated as Level 3 within the valuation hierarchy.

Occidental generally uses an income approach to measure fair value when observable inputs are unavailable. This approach utilizes management's judgments regarding expectations of projected cash flows, and discounts those cash flows using a risk adjusted discount rate.

The following tables provide fair value measurement information for such assets and liabilities that are measured on a recurring basis as of September 30, 2016 and December 31, 2015 (in millions):

Fair Value Measurements at  
September 30, 2016:

Description	Level 1	Level 2	Level 3	Netting and Collateral	Total Fair Value
Assets:					
Commodity derivatives	\$ 129	\$ 55	\$ —	—\$ (149 )	\$ 35
Liabilities:					
Commodity derivatives	\$ 150	\$ 310	\$ —	—\$ (171 )	\$ 289

Fair Value Measurements at December 31,  
2015:

Description	Level 1	Level 2	Level 3	Netting and Collateral	Total Fair Value
Assets:					
Commodity derivatives	\$ 557	\$ 87	\$ —	—\$ (535 )	\$ 109
Available for sale investment	\$ 167	\$ —	\$ —	—\$ —	\$ 167
Liabilities:					
Commodity derivatives	\$ 544	\$ 404	\$ —	—\$ (525 )	\$ 423

Fair Values — Nonrecurring

During the three and nine months ended September 30, 2016, Occidental did not have any assets or liabilities measured at fair value on a nonrecurring basis. The following table provides fair value measurement for such proved domestic and international oil and gas properties that are measured on a nonrecurring basis as of December 31, 2015. The impairment tests, including the fair value estimation, incorporated a number of assumptions involving expectations of future cash flows. These assumptions included estimates of future product prices, which Occidental based on forward price curves as of balance sheet date and, where applicable, contractual prices, estimates of oil and gas reserves, estimates of future expected operating and development costs, and a risk adjusted discount rate of 8 to 20 percent. These properties were impacted by persistently low worldwide oil and natural gas prices and changing development plans. Occidental used the income approach to measure the fair value of these properties, using inputs categorized as Level 3 in the fair value hierarchy.

(in millions)	Fair Value Measurements at December 31, 2015 Using		Net Book Value (a)	Total Pre-tax (Non-cash) Impairment Loss
Description	Level 1	Level 2	Level 3	
Assets:				
Impaired proved oil and gas assets - international	\$ —	\$ —	\$ 2,666	\$ 7,359
Impaired proved oil and gas assets - domestic	\$ —	\$ —	\$ 625	\$ 1,655
Impaired Midstream assets	\$ —	\$ —	\$ 50	\$ 891
Impaired Chemical property, plant, and equipment	\$ —	\$ —	\$ 3	\$ 124

(a) Amount represents net book value at date of assessment.





## Other Financial Instruments

The carrying amounts of cash and cash equivalents and other on-balance-sheet financial instruments, other than long-term fixed-rate debt, approximate fair value. The cost, if any, to terminate Occidental's 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 instruments' maturities. The estimated fair value of Occidental's debt as of September 30, 2016 and December 31, 2015 was \$9.1 billion and \$8.4 billion, respectively, and its carrying value net of unamortized discount as of September 30, 2016 and December 31, 2015, was \$8.3 billion. The majority of Occidental's debt is classified as Level 1, with \$68 million classified as Level 2.

## 10. 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 cash-flow hedge treatment and management elects and documents such treatment. Otherwise, any fair value gains or losses are recognized in earnings in the current period.

Occidental uses a variety of derivative instruments, including cash-flow hedges and derivative instruments not designated as hedging instruments, to obtain average prices for the relevant production month and to improve realized prices for oil and gas. Occidental only occasionally hedges its oil and gas production, and, when it does, the volumes are usually insignificant.

## Cash-Flow Hedges

Occidental's marketing and trading operations, from time to time, 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 through March 2017. As of September 30, 2016, Occidental had approximately 7 billion cubic feet of natural gas held in storage, and had cash-flow hedges for the forecast sale, to be settled by physical delivery, of approximately 7 billion cubic feet of stored natural gas. As of December 31, 2015, Occidental had approximately 13 billion cubic feet of natural gas held in storage, and had cash-flow hedges for the forecast sale, to be settled by physical delivery, of approximately 14 billion cubic feet of stored natural gas. The following table summarizes Occidental's other comprehensive income related to derivatives for the three and nine months ended September 30, 2016.

	After-tax	
	Three months ended September 30, 2016	Nine months ended September 30, 2015
Unrealized losses (gains) on derivatives	\$1 \$ 2	\$ (13 ) \$ 2
Reclassification to income of realized loss on derivatives	\$—\$ —	\$ 7 \$ —

## Derivatives Not Designated as Hedging Instruments

The following table summarizes Occidental's net volumes of outstanding commodity derivatives contracts not designated as hedging instruments, including both financial and physical derivative contracts as of September 30, 2016 and December 31, 2015:

	Net Outstanding Position Long / (Short)	
Commodity	2016	2015
Oil (million barrels)	44	83
Natural gas (billion cubic feet)	(49 )	(5 )
Carbon dioxide (billion cubic feet)	555	603

Occidental fulfills short positions through its own production or by third-party purchase contracts. Subsequent to September 30, 2016, Occidental entered into purchase contracts for a substantial portion of the short positions outstanding at quarter end and has sufficient production capacity and the ability to enter into additional purchase contracts to satisfy the remaining positions.

Approximately \$9 million of net gains and \$119 million of net losses from derivatives not designated as hedging instruments were recognized in net sales for the three months ended September 30, 2016 and 2015, respectively. Approximately \$35 million of net gains and \$163 million of net losses from derivatives not designated as hedging instruments were recognized in net sales for the nine months ended September 30, 2016 and 2015, respectively.

## Fair Value of Derivatives

The following table presents the gross and net fair values of Occidental's outstanding derivatives as of September 30, 2016 and December 31, 2015 (in millions):

		Asset Derivatives	Fair Value	Liability Derivatives	Fair Value
		Balance Sheet Location		Balance Sheet Location	
September 30, 2016					
Cash-flow hedges <sup>(a)</sup>					
Commodity contracts	Other current assets		\$ —	Accrued liabilities	\$ 3
Derivatives not designated as hedging instruments <sup>(a)</sup>					
	Other current assets		171	Accrued liabilities	242
Commodity contracts	Long-term receivables and other assets, net		13	Deferred credits and other liabilities	215
			184		457
Total gross fair value			184		460
Less: counterparty netting and cash collateral <sup>(b,c)</sup>			(149 )		(171 )
Total net fair value of derivatives			\$ 35		\$ 289
December 31, 2015					
Cash-flow hedges <sup>(a)</sup>					
Commodity contracts	Other current assets		\$ 9	Accrued liabilities	\$ 1
Derivatives not designated as hedging instruments <sup>(a)</sup>					
	Other current assets		626	Accrued liabilities	672
Commodity contracts	Long-term receivables and other assets, net		9	Deferred credits and other liabilities	275
			635		947
Total gross fair value			644		948
Less: counterparty netting and cash collateral <sup>(c,d)</sup>			(535 )		(525 )
Total net fair value of derivatives			\$ 109		\$ 423

(a) Fair values are presented at gross amounts, including when the derivatives are subject to master netting arrangements and presented on a net basis in the consolidated balance sheets.

(b) As of September 30, 2016, collateral received of zero has been netted against the derivative assets, and collateral paid of \$22 million has been netted against derivative liabilities.

(c) Select clearinghouses and brokers require Occidental to post an initial margin deposit. Collateral, mainly for initial margin, of \$32 million and \$3 million deposited by Occidental has not been reflected in these derivative fair value tables as of September 30, 2016 and December 31, 2015, respectively. This collateral is included in other current assets in the consolidated balance sheets as of September 30, 2016 and December 31, 2015, respectively.

(d) As of December 31, 2015, collateral received of \$14 million has been netted against derivative assets, and collateral paid of \$4 million has been netted against derivative liabilities.

See Note 9, Fair Value Measurements, for fair value measurement disclosures on derivatives.



## Credit Risk

The majority of Occidental's counterparty credit risk is related to the physical delivery of energy commodities to its customers and their inability to meet their settlement commitments. Occidental manages this credit risk by selecting counterparties that it believes to be financially strong, by entering into master netting arrangements with counterparties and by requiring collateral, as appropriate. Occidental actively reviews the creditworthiness of its counterparties and monitors credit exposures against assigned credit limits by adjusting credit limits to reflect counterparty risk, if necessary. Occidental also enters into future contracts through regulated exchanges with select clearinghouses and brokers, which are subject to minimal credit risk as a significant portion of these transactions settle on a daily margin basis.

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. Occidental believes that if it had received a one-notch reduction in its credit ratings, it would not have resulted in a material change in its collateral-posting requirements as of September 30, 2016 and December 31, 2015.

## 11. Industry Segments

Occidental conducts its operations through three segments: (1) oil and gas; (2) chemical; and (3) midstream and marketing. The oil and gas segment explores for, develops and produces oil and condensate, natural gas liquids (NGLs) and natural gas. The chemical segment mainly manufactures and markets basic chemicals and vinyls. The midstream and marketing segment gathers, processes, transports, stores, purchases and markets oil, condensate, NGLs, natural gas, CO<sub>2</sub> and power. It also trades around its assets, including transportation and storage capacity. Additionally, the midstream and marketing segment invests in entities that conduct similar activities.

Results 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 and geographic area assets and income from the segments' equity investments. Intersegment sales eliminate upon consolidation and are generally made at prices approximating those that the selling entity would be able to obtain in third-party transactions.

The following tables present Occidental's industry segments (in millions):

	Oil and Gas	Chemical	Midstream and Marketing	Corporate and Eliminations	Total
Three months ended September 30, 2016					
Net sales	\$ 1,660	\$ 988	\$ 202	\$ (202 )	\$ 2,648
Pre-tax operating profit (loss)	\$(51 ) <sup>(a)</sup>	\$ 117	\$ (180 )	\$ (154 ) <sup>(b)</sup>	\$(268 )
Income taxes	—	—	—	30 <sup>(c)</sup>	30
Discontinued operations, net	—	—	—	(3 )	(3 )
Net income (loss)	\$(51 )	\$ 117	\$ (180 )	\$ (127 )	\$(241 )

Three months ended September 30, 2015					
Net sales	\$ 2,054	\$ 1,008	\$ 231	\$ (177 )	\$ 3,116
Pre-tax operating profit (loss)	\$(3,128) <sup>(d)</sup>	\$ 272 <sup>(e)</sup>	\$ 24	\$ (219 ) <sup>(b)</sup>	\$(3,051)
Income taxes	—	—	—	445 <sup>(c)</sup>	445
Discontinued operations, net	—	—	—	(3 )	(3 )
Net income (loss)	\$(3,128)	\$ 272	\$ 24	\$ 223	\$(2,609)

	Oil and Gas	Chemical	Midstream and Marketing	Corporate and Eliminations	Total
Nine months ended September 30, 2016					
Net sales	\$ 4,560	\$ 2,786	\$ 476	\$ (520 )	\$ 7,302
Pre-tax operating profit (loss)	\$(653 ) <sup>(a)</sup>	\$ 419 <sup>(e)</sup>	\$ (333 )	\$ (496 ) <sup>(b)</sup>	\$(1,063)
Income taxes	—	—	—	329 <sup>(c)</sup>	329
Discontinued operations, net	—	—	—	432	432
Net income (loss)	\$(653 )	\$ 419	\$ (333 )	\$ 265	\$(302 )

Nine months ended September 30, 2015					
Net sales	\$ 6,405	\$ 3,038	\$ 722	\$ (491 )	\$ 9,674
Pre-tax operating profit (loss)	\$(3,039) <sup>(d)</sup>	\$ 547 <sup>(e)</sup>	\$ 96	\$ (385 ) <sup>(b)</sup>	\$(2,781)
Income taxes	—	—	—	140 <sup>(c)</sup>	140
Discontinued operations, net	—	—	—	(10 )	(10 )
Net income (loss)	\$(3,039)	\$ 547	\$ 96	\$ (255 )	\$(2,651)

The three and nine months ended September 30, 2016 include pre-tax impairment charges of \$112 million related to Occidental's Libya operations and \$160 million related to terminated crude oil supply contracts partially offset (a) by pre-tax gains of \$59 million on the sale of South Texas Eagle Ford non-operated properties. The nine months ended September 30, 2016 also reflected a \$121 million pre-tax gain on the sale of Occidental's Piceance Basin operations in Colorado.

(b) Includes unallocated net interest expense, administration expense, environmental remediation and other pre-tax items.

(c) Includes all foreign and domestic income taxes from continuing operations.

(d) The three months ended September 30, 2015 includes pre-tax impairment charges of \$3.1 billion. In September 2015, Occidental entered into a sales agreement to sell its Williston operations in North Dakota, and as such an impairment charge of \$756 million was recorded to write down the net book value of the assets and liabilities held for sale to the sales price. Due to the significant decline in oil and gas futures prices, Occidental also recorded impairment charges on proved and unproved properties related to Occidental's domestic gas operations of \$924 million, Iraq operations of \$760 million and Libya operations of \$676 million. The nine months ended September

30, 2015 also reflected first quarter impairment charges of \$195 million for Occidental's South Texas Eagle Ford non-operated properties and \$41 million to write-off the remaining investment in Yemen due to the collapse of the country's government.

(e) The nine months ended September 30, 2016 and 2015 include gains on sale of the Occidental Tower and Indspec for \$88 million and an idled chemical site for \$98 million, respectively.

## 12. Earnings Per Share

Occidental's instruments containing rights to nonforfeitable dividends granted in stock-based awards are considered participating securities prior to vesting and, therefore, net income allocated to these participating securities has been deducted from earnings 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 allocated 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 reflects the additional 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, 2016 and 2015 (in millions, except per-share amounts):

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Basic EPS				
Loss from continuing operations	\$(238 )	\$(2,606)	\$(734 )	\$(2,641)
Discontinued operations, net	(3 )	(3 )	432	(10 )
Net loss	(241 )	(2,609 )	(302 )	(2,651 )
Less: Net income allocated to participating securities	—	—	—	—
Net loss, net of participating securities	(241 )	(2,609 )	(302 )	(2,651 )
Weighted average number of basic shares	764.0	763.3	763.7	766.4
Basic EPS	\$(0.32)	\$(3.42 )	\$(0.40)	\$(3.46 )
Diluted EPS				
Net loss, net of participating securities	\$(241 )	\$(2,609)	\$(302 )	\$(2,651)
Weighted average number of basic shares	764.0	763.3	763.7	766.4
Dilutive effect of potentially dilutive securities	—	—	—	—
Total diluted weighted average common shares	764.0	763.3	763.7	766.4
Diluted EPS	\$(0.32)	\$(3.42 )	\$(0.40)	\$(3.46 )

## 13. Subsequent Event

In October 2016, Occidental acquired producing and non-producing leasehold acreage in the Permian Basin. This acquisition includes 35,000 net acres in Reeves and Pecos counties, Texas in the Southern Delaware Basin, in areas where Occidental currently operates or has working interests. Separately, Occidental also acquired working interests in several producing oil and gas CO<sub>2</sub> floods and related EOR infrastructure, increasing Occidental's ownership in several properties where it is currently the operator or an existing working interest partner. The total purchase price for these transactions is approximately \$2.0 billion, which Occidental funded from existing cash on hand.



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

In this report, "Occidental" means Occidental Petroleum Corporation (OPC), or OPC and one or more entities in which it owns a controlling interest (subsidiaries). 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. Actual results may differ from anticipated results, sometimes materially, and reported results should not be considered an indication of future performance. Factors that could cause results to differ include, but are not limited to: global commodity pricing fluctuations; supply and demand considerations for Occidental's products; higher-than-expected costs; the regulatory approval environment; reorganization or restructuring of Occidental's operations; not successfully completing, or any material delay of, field developments, expansion projects, capital expenditures, efficiency projects, acquisitions or dispositions; uncertainties about the estimated quantities of oil and natural gas reserves; lower-than-expected production from development projects or acquisitions; exploration risks; general economic slowdowns domestically or internationally; political conditions and events; liability under environmental regulations including remedial actions; litigation; disruption or interruption of production or manufacturing or facility damage due to accidents, chemical releases, labor unrest, weather, natural disasters, cyber attacks or insurgent activity; failure of risk management; changes in law or regulations; or changes in tax rates. Words such as "estimate," "project," "predict," "will," "would," "should," "could," "may," "might," "anticipate," "plan," "intend," "b," "goal," "target," "objective," "likely" or similar expressions that convey the prospective nature of events or outcomes generally indicate forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, Occidental does not undertake any obligation to update any forward-looking statements, as a result of new information, future events or otherwise. Material risks that may affect Occidental's results of operations and financial position appear in Part I, Item 1A "Risk Factors" of Occidental's Annual Report on Form 10-K for the year ended December 31, 2015 (the 2015 Form 10-K).

### Consolidated Results of Operations

Occidental reported a net loss from continuing operations of \$238 million for the third quarter of 2016 on net sales of \$2.6 billion, compared to a net loss from continuing operations of \$2.6 billion on net sales of \$3.1 billion for the third quarter of 2015. The net losses for the third quarters of 2016 and 2015 included asset impairments and related charges of \$221 million and \$3.4 billion, respectively. Diluted loss per share from continuing operations was \$0.31 for the third quarter of 2016, compared to diluted loss of \$3.41 per share for the third quarter of 2015.

Occidental reported a net loss from continuing operations of \$734 million for the first nine months of 2016 on net sales of \$7.3 billion, compared to a net loss of \$2.6 billion on net sales of \$9.7 billion for the same period in 2015. The net losses for the nine months ended September 2016 and 2015 included asset impairment and related items charges of \$299 million and \$3.7 billion, respectively. Diluted loss per share from continuing operations was \$0.96 per share for the first nine months of 2016, compared to a loss per share of \$3.45 for the same period of 2015. Gain from discontinued operations was \$432 million for the first nine months of 2016, compared with a loss of \$10 million for the same period of 2015.

Excluding asset impairment and related items charges, net losses from continuing operations for the three and nine months ended September 30, 2016, compared to the same period of 2015, mainly reflected lower realized oil prices and sales volumes. To a lesser extent, net losses from continuing operations for the third quarter of 2016 also reflected lower chemical sales prices and volumes, and lower midstream domestic pipeline income.

### Selected Statements of Operations Items

Net sales decreased for the three and nine months ended September 30, 2016, compared to the same periods in 2015, due to lower oil prices and sales volumes. Gain on disposal of assets, net, for the nine months ended September 30,

2016, reflect gains on the sale of the Piceance Basin operations in Colorado of \$121 million, the Occidental Tower building in Dallas of \$57 million and South Texas Eagle Ford non-operated properties of \$59 million.

Compared to the same periods in 2015, cost of sales for the three and nine months ended September 30, 2016 reflected lower oil and gas production costs, mainly from maintenance and support activities. The nine months ended September 30, 2016 also reflected lower raw material and energy costs for the chemical business.

Asset impairments and related items for the three and nine months ended September 30, 2016, reflected an impairment charge of \$112 million related to Libya and a crude oil supply agreement termination charge of \$160 million. The nine months ended September 30, 2016 also reflected impairment charges of \$78 million related to the special stock dividend of California Resources shares. Asset impairments and related items in the Oil and Gas segment for the three and nine months ended September 30, 2015 reflected impairment charges of \$3.1 billion, which included \$763 million to write down the net book value of the Williston operations and impairment charges related to Occidental's domestic gas operations of \$924 million, Iraq operations of \$760 million and Libya operations of \$676 million due to the decline in oil and gas futures prices. The nine months ended September 30, 2015 also reflected first quarter impairment charges of \$195 million for Occidental's South Texas Eagle Ford non-operated properties and \$41 million to write-off the remaining investment in Yemen due to the collapse of the country's government.

Taxes other than on income for the three and nine months ended September 30, 2016, compared to the same periods of 2015, reflected lower production and ad valorem taxes, due to lower oil and gas prices and the sale of the Williston operation.

Higher interest and debt expense, net for the three and nine months ended September 30, 2016, compared to the same periods of 2015, reflected lower capitalized interest and an additional six months interest expense related to the \$750 million 3.50-percent senior unsecured notes due 2025 and \$750 million of 4.625-percent senior unsecured notes due 2045 issued in June 2015. The nine months ended September 30, 2016 also reflected a premium charge on the early retirement in May 2016 of the \$1.25 billion of 1.75-percent senior notes due February 2017.

The domestic and foreign income tax benefit for the three and nine months ended September 30, 2016, compared to the same periods of 2015, reflected lower pre-tax operating losses in 2016 compared to 2015. The nine months ended September 30, 2016 also reflected the relinquishment of foreign exploration blocks.

#### Selected Analysis of Financial Position

See "Liquidity and Capital Resources" for a discussion about the changes in cash and cash equivalents and restricted cash.

The increase in trade receivables, net, at September 30, 2016, compared to December 31, 2015, was due to an increase in oil and gas realized prices. The decrease in assets held for sale and available for sale investment reflect the sale of Piceance operations in Colorado and the Occidental Tower in Dallas, and the distribution of Occidental's remaining California Resources common stock to its shareholders. The increase in investments in unconsolidated entities is primarily a result of capital contributions associated with the joint venture for the ethylene cracker at the OxyChem Ingleside facility. The decrease in property, plant and equipment, net, is primarily the result of \$3.2 billion of DD&A, partially offset by capital expenditures of \$1.8 billion.

Current maturities of long-term debt at September 30, 2016, decreased from December 31, 2015, due to the payments of \$700 million 2.5-percent senior notes due February 2016 and \$750 million 4.125-percent senior notes due June 2016. The increase in long-term debt, net since December 31, 2015 is the result of the issuance of \$2.75 billion of senior notes in April 2016, partially offset by the early redemption in May 2016 of \$1.25 billion 1.75-percent senior notes due February 2017.

The increase in accounts payable at September 30, 2016, is due to higher marketing payables as a result of higher oil and gas prices at the end of the third quarter 2016 compared to year-end 2015. Liabilities of assets held for sale as of September 30, 2016, decreased due to the sale of Piceance operations in Colorado.



## Segment Operations

Occidental conducts its operations through three segments: (1) oil and gas; (2) chemical; and (3) midstream and marketing. The oil and gas segment explores for, develops and produces oil and condensate, NGLs and natural gas. The chemical segment mainly manufactures and markets basic chemicals and vinyls. The midstream and marketing segment gathers, processes, transports, stores, purchases and markets oil, condensate, NGLs, natural gas, CO<sub>2</sub> and power. It also trades around its assets, including transportation and storage capacity. Additionally, the midstream and marketing segment invests in entities that conduct similar activities.

The following table sets forth the sales and earnings of each operating segment and corporate items for the three and nine months ended September 30, 2016 and 2015 (in millions):

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Net Sales <sup>(a)</sup>				
Oil and Gas	\$1,660	\$2,054	\$4,560	\$6,405
Chemical	988	1,008	2,786	3,038
Midstream and Marketing	202	231	476	722
Eliminations	(202 )	(177 )	(520 )	(491 )
	\$2,648	\$3,116	\$7,302	\$9,674
Segment Results <sup>(b)</sup>				
Oil and Gas	\$(51 )	\$(3,128)	\$(653 )	\$(3,039)
Chemical	117	272	419	547
Midstream and Marketing	(180 )	24	(333 )	96
	(114 )	(2,832 )	(567 )	(2,396 )
Unallocated Corporate Items <sup>(b)</sup>				
Interest expense, net	(62 )	(47 )	(203 )	(82 )
Income tax benefit	30	445	329	140
Other expense, net	(92 )	(172 )	(293 )	(303 )
Loss from continuing operations	(238 )	(2,606 )	(734 )	(2,641 )
Discontinued operations, net	(3 )	(3 )	432	(10 )
Net loss	\$(241 )	\$(2,609)	\$(302 )	\$(2,651)

(a) Intersegment sales eliminate upon consolidation and are generally made at prices approximating those that the selling entity would be able to obtain in third-party transactions.

(b) Refer to "Significant Transactions and Events Affecting Earnings," "Oil and Gas Segment," "Chemical Segment," "Midstream and Marketing Segment" and "Corporate" discussions that follow.

## Significant Transactions and Events Affecting Earnings

The following table sets forth significant transactions and events that vary widely and unpredictably in nature, timing and amount, affecting Occidental's earnings for the three and nine months ended September 30, 2016 and 2015 (in millions):

	Three months ended September 30 2016		Nine months ended September 30 2015	
Oil and Gas				
Asset sales gains and other	\$59	\$—	\$82	\$5
Asset impairments and related items - Domestic	—	(1,852 )	—	(2,102 )
Asset impairments and related items - International	(61 )	(1,438 )	(61 )	(1,485 )
Total Oil and Gas	\$(2 )	\$(3,290)	\$21	\$(3,582)
Chemical				
Asset sales gains	\$—	\$98	\$88	\$98
Total Chemical	\$—	\$98	\$88	\$98
Midstream and Marketing				
Asset impairments and related items	\$(160)	\$(7 )	\$(160)	\$(14 )
Total Midstream and Marketing	\$(160)	\$(7 )	\$(160)	\$(14 )
Corporate				
Asset impairments	\$—	\$(5 )	\$—	\$(5 )
Spin-off costs and related items	—	(95 )	(78 )	(115 )
Asset sales gains (losses)	—	2	—	(9 )
Tax effect of pre-tax adjustments <sup>(a)</sup>	36	667	69	766
Discontinued operations, net <sup>(b)</sup>	(3 )	(3 )	432	(10 )
Total Corporate	\$33	\$566	\$423	\$627
Total	\$(129)	\$(2,633)	\$372	\$(2,871)

(a) The nine months ended September 30, 2016 amount included benefits for the relinquishment of foreign exploration blocks.

(b) Amounts shown after tax.



## Worldwide Effective Tax Rate

The following table sets forth the calculation of the worldwide effective tax rate for income from continuing operations for the three and nine months ended September 30, 2016 and 2015 (in millions):

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Oil and Gas results	\$(51 )	\$(3,128)	\$(653)	\$(3,039)
Chemical results	117	272	419	547
Midstream and Marketing results	(180 )	24	(333 )	96
Unallocated corporate items	(154 )	(219 )	(496 )	(385 )
Pre-tax loss	(268 )	(3,051 )	(1,063)	(2,781 )
Income tax benefit (provision)				
Federal and state	242	747	767	919
Foreign	(212 )	(302 )	(438 )	(779 )
Total	30	445	329	140
Loss from continuing operations	\$(238)	\$(2,606)	\$(734)	\$(2,641)
Worldwide effective tax rate	11	% 15	% 31	% 5

Occidental's worldwide effective tax rate of 31 percent for the nine months ended September 30, 2016 is higher than the comparative period of 2015 due to the mix of domestic operating losses and foreign operating income, as well as the current year domestic tax benefit associated with the relinquishment of foreign exploration blocks and oil and gas asset impairments recorded in 2015. Excluding the impact of asset sales and other nonrecurring items, Occidental's worldwide effective tax rate for the nine months ended September 30, 2016 would be 28 percent.



## Oil and Gas Segment

The following tables set forth the production and sales volumes of oil, NGLs and natural gas per day for the three and nine months ended September 30, 2016 and 2015. The differences between the production and sales volumes per day are generally due to the timing of shipments at Occidental's international locations where the product is loaded onto tankers.

	Three months ended September 30		Nine months ended September 30	
Production Volumes per Day	2016	2015	2016	2015
Oil (MBBL)				
United States	181	204	189	203
Middle East/North Africa	164	207	172	195
Latin America	26	25	33	34
NGLs (MBBL)				
United States	55	58	54	55
Middle East/North Africa	31	22	27	15
Natural Gas (MMCF)				
United States	349	419	364	434
Middle East/North Africa	531	607	608	529
Latin America	8	9	8	10
Total Production Volumes (MBOE) <sup>(a)</sup>	605	689	638	665

	Three months ended September 30		Nine months ended September 30	
Sales Volumes per Day	2016	2015	2016	2015
Oil (MBBL)				
United States	181	204	189	203
Middle East/North Africa	163	179	173	185
Latin America	31	34	34	34
NGLs (MBBL)				
United States	55	58	54	55
Middle East/North Africa	31	22	27	15
Natural Gas (MMCF)				
United States	349	419	364	434
Middle East/North Africa	531	607	608	529
Latin America	8	9	8	10
Total Sales Volumes (MBOE) <sup>(a)</sup>	609	670	640	655

(See footnote following the table below)

The following tables set forth the production and sales volumes of ongoing operations for oil, NGLs and natural gas per day for the three and nine months ended September 30, 2016 and 2015, this excludes operations sold, exited or exiting.

	Three months ended September 30		Nine months ended September 30	
Production Volumes per Day	2016	2015	2016	2015
Oil (MBBL)				
United States <sup>(b)</sup>	181	188	189	186
Middle East/North Africa <sup>(c)</sup>	164	168	163	159
Latin America	26	25	33	34
NGLs (MBBL)				
United States <sup>(b)</sup>	55	55	53	52
Middle East/North Africa	31	22	27	15
Natural Gas (MMCF)				
United States <sup>(b)</sup>	349	343	350	353
Middle East/North Africa <sup>(c)</sup>	531	365	457	287
Latin America	8	9	8	10
Total Production Ongoing Operations (MBOE)	605	578	601	555
Operations Sold, Exited and Exiting	—	111	37	110
Total Production Volumes (MBOE) <sup>(a)</sup>	605	689	638	665

	Three months ended September 30		Nine months ended September 30	
Sales Volumes per Day	2016	2015	2016	2015
Oil (MBBL)				
United States <sup>(b)</sup>	181	188	189	186
Middle East/North Africa <sup>(d)</sup>	163	162	164	158
Latin America	31	34	34	34
NGLs (MBBL)				
United States <sup>(b)</sup>	55	55	53	52
Middle East/North Africa	31	22	27	15
Natural Gas (MMCF)				
United States <sup>(b)</sup>	349	343	350	353
Middle East/North Africa <sup>(d)</sup>	531	365	457	287
Latin America	8	9	8	10
Total Sales Ongoing Operations (MBOE)	609	581	603	554
Operations Sold, Exited and Exiting	—	89	37	101
Total Sales Volumes (MBOE) <sup>(a)</sup>	609	670	640	655

Note: MBBL represents thousand barrels. MMCF represents million cubic feet.

(a) Natural gas volumes have been converted to thousands of barrels of oil equivalent (MBOE) based on energy content of six million cubic feet (MMCF) of gas to one thousand barrels of oil (MBOE). Barrels of oil equivalence does not necessarily result in price equivalence.

(b) Excludes 16 MMBL, 3 MMBL and 76 MMCF of oil, NGLs and gas for the three months ended September 30, 2015 related to Williston and Piceance. Excludes 1 MMBL of NGLs and 14 MMCF of gas for the nine months ended September 30, 2016, related to Piceance and 17 MMBL, 3 MMBL and 81 MMCF of oil, NGLs, and gas for the nine months ended September 30, 2015, related to Williston and Piceance.

(c) Excludes 39 MMBL and 242 MMCF of oil and gas for the three months ended September 30, 2015, related to Bahrain and Iraq. Excludes 9 MMBL and 151 MMCF of oil and gas for the nine months ended September 30, 2016, and 36 MMBL and 242 MMCF of oil and gas for the nine months ended September 30, 2015, related to Bahrain, Iraq, Libya and Yemen.

(d) Excludes 17 MMBL and 242 MMCF of oil and gas for the three months ended September 30, 2015, related to Bahrain and Iraq. Excludes 9 MMBL and 151 MMCF of oil and gas for the nine months ended September 30, 2016, and 27 MMBL and 242 MMCF of oil and gas for the nine months ended September 30, 2015, related to Bahrain, Iraq, Libya and Yemen.

The following tables present information about Occidental's average realized prices and index prices for the three and nine months ended September 30, 2016 and 2015:

Average Realized Prices	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2016	2015	2016	2015
Oil (\$/BBL)				
United States	\$41.49	\$44.48	\$37.31	\$46.97
Middle East/North Africa	\$41.84	\$52.53	\$36.26	\$54.37
Latin America	\$39.66	\$42.46	\$35.50	\$48.53
Total Worldwide	\$41.49	\$47.78	\$36.70	\$50.33
NGLs (\$/BBL)				
United States	\$15.21	\$13.72	\$13.12	\$16.06
Middle East/North Africa	\$14.63	\$17.12	\$14.47	\$19.25
Total Worldwide	\$14.99	\$14.68	\$13.58	\$16.73
Natural Gas (\$/MCF)				
United States	\$2.30	\$2.24	\$1.74	\$2.28
Latin America	\$3.48	\$5.67	\$3.66	\$5.18
Total Worldwide	\$1.84	\$1.51	\$1.43	\$1.55
Average Index Prices	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2016	2015	2016	2015
WTI oil (\$/BBL)	\$44.94	\$46.43	\$41.33	\$51.00
Brent oil (\$/BBL)	\$46.98	\$51.17	\$43.01	\$56.61
NYMEX gas (\$/MCF)	\$2.70	\$2.78	\$2.24	\$2.86
Average Realized Prices as Percentage of Average Index Prices				
	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2016	2015	2016	2015
Worldwide oil as a percentage of average WTI	92 %	103 %	89 %	99 %
Worldwide oil as a percentage of average Brent	88 %	93 %	85 %	89 %
Worldwide NGLs as a percentage of average WTI	33 %	32 %	33 %	33 %
Domestic natural gas as a percentage of average NYMEX	85 %	81 %	78 %	80 %

Oil and gas segment losses were \$51 million for the third quarter of 2016, compared with segment losses of \$3.1 billion for the third quarter of 2015. The pre-tax results for the third quarter of 2015 included \$3.3 billion of pre-tax impairment and related charges, which reflected the sharp decline in the oil and gas futures price curves, as well as projects that management determined it would cease to pursue. After removing the impact of asset sales, impairments and other adjustments, the decrease in earnings year over year was mainly due to lower oil prices and volumes.

Total average daily production volumes were 605,000 BOE for the third quarter of 2016 compared to 689,000 BOE for the third quarter of 2015. Occidental completed the sale of the Piceance Basin assets on March 1, 2016, and continues to reduce its exposure to non-core operations in the Middle East/North Africa. Occidental completed its exit from Bahrain in the third quarter of 2016. These non-core domestic and international operations produced average daily volumes of 111,000 BOE in the third quarter of 2015. For the third quarter of 2016, total company average daily oil and gas production volumes for ongoing operations increased by 27,000 barrels of oil equivalent (BOE) to 605,000

BOE from 578,000 BOE in the third quarter of 2015. Compared to the third quarter of 2015, domestic average daily production for ongoing operations decreased by 6,000 BOE to 294,000 BOE in the third quarter of 2016, with South Texas decreasing by 10,000 BOE, which was partially offset by a 5,000 BOE production increase by Permian Resources. International average daily production for ongoing operations increased to 311,000 BOE in the third quarter of 2016 from 278,000 BOE in the third quarter of 2015. The increase in international production is primarily attributable to Al Hosn, which was still ramping up production in the third quarter of 2015, in addition to Oman's Block 62 production which commenced in 2016.

Worldwide commodity prices for the third quarter of 2016 were lower than the third quarter of 2015. The average quarterly WTI and Brent prices decreased to \$44.94 per barrel and \$46.98 per barrel, respectively, for the third quarter of 2016, compared to \$46.43 per barrel and \$51.17 per barrel, respectively, for the third quarter of 2015. Worldwide realized crude oil prices declined by 13 percent to \$41.49 per barrel for the third quarter of 2016, compared to \$47.78 per barrel in the third quarter of 2015. Worldwide realized NGL prices increased by 2 percent to \$14.99 per barrel in the third quarter of 2016, compared to \$14.68 per barrel in the third quarter of 2015. Domestic realized natural gas prices increased by 3 percent in the third quarter of 2016 to \$2.30 per MCF, compared to \$2.24 per MCF in the third quarter of 2015.

Oil and gas segment losses were \$653 million for the first nine months of 2016, compared with segment losses of \$3.0 billion for the same period of 2015. The pre-tax results for the first nine months of 2015 included \$3.6 billion of pre-tax impairment and related charges. After removing the impact of impairments and related charges, the decrease in earnings for the first nine months of 2016 was mainly due to oil prices partially offset by lower operating costs.

Total average daily production volumes for the first nine months of 2016 and 2015 were 638,000 BOE and 665,000 BOE, respectively. For the first nine months of 2016 and 2015, non-core operations produced average daily volumes of 37,000 BOE and 110,000 BOE, respectively. For the first nine months of 2016, total company average daily oil and gas production volumes for ongoing operations increased by 46,000 barrels of oil equivalent (BOE) to 601,000 BOE from 555,000 BOE for the first nine months of 2015. Domestic average daily production for ongoing operations increased by 4,000 BOE for the first nine months of 2016 as compared to the first nine months of 2015 with Permian Resources increasing by 17,000 BOE, which was partially offset by lower natural gas and NGL production in South Texas. International average daily production for ongoing operations increased to 300,000 BOE for the first nine months of 2016 from 258,000 BOE for the first nine months of 2015. The increase in international production mainly comes from Al Hosn, which was not fully operational in the first nine months of 2015, and Oman's Block 62 production which commenced in 2016.

Worldwide commodity prices for the first nine months of 2016 were lower than the same period of 2015. Worldwide realized crude oil prices declined by 27 percent to \$36.70 per barrel for the first nine months of 2016, compared to \$50.33 per barrel for the same period of 2015. Worldwide realized NGL prices decreased by 19 percent to \$13.58 per barrel for the first nine months of 2016, compared to \$16.73 per barrel for the same period of 2015. Domestic realized natural gas prices decreased by 24 percent for the first nine months of 2016 to \$1.74 per MCF, compared to \$2.28 per MCF for the same period of 2015.

In October 2016, Occidental acquired producing and non-producing leasehold acreage in the Permian Basin. This acquisition includes 35,000 net acres in Reeves and Pecos counties, Texas in the Southern Delaware Basin, in areas where Occidental currently operates or has working interests. Separately, Occidental also acquired working interests in several producing oil and gas CO<sub>2</sub> floods and related EOR infrastructure, increasing Occidental's ownership in several properties where it is currently the operator or an existing working interest partner. The total purchase price for these transactions is approximately \$2.0 billion, which Occidental funded from existing cash on hand.

Occidental's financial results correlate closely to the prices it obtains for its products. The weak price environment continues to significantly impact earnings as compared to the same period in 2015. Further declines in these commodity prices may result in additional impairments to reduce the carrying value of Occidental's oil and gas properties, as well as reducing the amount of these commodities that can be produced economically and the quantity and present value of proved reserves.

The calculated average first-day-of-the-month West Texas Intermediate oil price and Henry Hub natural gas price were \$41.52 per barrel and \$2.42 per MMBtu, respectively, for the first ten months of 2016 as compared to \$50.28 per

barrel and \$2.66 per MMBtu for the twelve months of 2015. Lower commodity prices in 2016 could result in a portion of proved reserves deemed uneconomic and no longer classified as proved.

#### Chemical Segment

Chemical segment earnings for the three and nine months ended September 30, 2016, were \$117 million and \$419 million, respectively, compared to \$272 million and \$547 million for the same periods of 2015. Excluding gains on sale of the chemical assets, the lower earnings for the three months ended September 30, 2016 compared to the same period in 2015 reflected lower sales volumes, primarily chlor-alkali and calcium chloride, along with higher ethylene costs resulting from significant planned and unplanned industry cracker outages, which was partially offset

by higher realized caustic soda pricing. Excluding gains on sale for the chemical assets, the lower earnings for the nine months ended September 30, 2016 compared to the same period in 2015 reflected lower vinyl margins as vinyl prices declined more than key material costs. In addition, chlor-alkali sales prices and volumes were unfavorable across most product lines which was partially offset by lower energy costs. Calcium chloride earnings were negatively impacted by the mild winter weather conditions.

#### Midstream and Marketing Segment

Midstream and marketing losses were \$180 million and \$333 million for the three and nine months ended September 30, 2016, respectively, compared to segment earnings of \$24 million and \$96 million for the same periods of 2015. The three months ended September 30, 2016 included a crude oil supply contract termination charge of \$160 million. Excluding the termination charge, the three and nine months ended September 30, 2016, compared to the same periods of 2015, reflected lower marketing margins due to unfavorable Permian to Gulf Coast differentials and lower domestic pipeline income due to lower throughput volumes.

#### Liquidity and Capital Resources

At September 30, 2016, Occidental had \$3.2 billion in cash. Subsequent to the quarter end, Occidental acquired Permian producing and non-producing leasehold acreage, CO<sub>2</sub> properties and related infrastructure for approximately \$2.0 billion. Occidental funded these acquisitions from existing cash on hand. Income and cash flows are largely dependent on the oil and gas segment's realized prices, sales volumes and operating costs. In the first nine months of 2016, Occidental significantly reduced its capital expenditures compared to the prior year period. With a continued focus on capital efficiency and operational efficiency, Occidental expects to fund its liquidity needs, including future dividend payments, through cash on hand, cash generated from operations, monetization of non-core assets or investments and through future borrowings, and if necessary, proceeds from other forms of capital issuance.

Net cash provided by operating activities was \$2.5 billion and \$2.4 billion for the nine months ended September 30, 2016 and 2015, respectively. The 2016 amount include \$0.9 billion from discontinued operations related to the Ecuador settlement. Cash flows were negatively impacted by significantly lower oil prices and sales volumes in the first nine months of 2016 as compared to the same period in 2015; this was partially offset by operating cost reductions as well as cash receipts of \$882 million for the Ecuador settlement and \$302 million of federal income tax refunds. The impact of the chemical and the midstream and marketing segments on overall cash flows is typically less significant than the impact of the oil and gas segment because these segments are significantly smaller. The usage of working capital of approximately \$460 million for the nine months ended September 30, 2016 mainly reflected higher oil prices at the end of the third quarter of 2016 compared to the year-end of 2015, which increased marketing receivables.

Occidental's net cash used by investing activities was \$2.0 billion for the first nine months of 2016, compared to \$5.1 billion for the same period of 2015. Capital expenditures for the first nine months of 2016 were \$1.8 billion of which \$1.4 billion was for the oil and gas segment, compared to \$4.2 billion for the first nine months of 2015 of which \$3.6 billion was for the oil and gas segment. The change in capital accrual for both periods reflected amounts paid in the current year related to capital expenditures incurred and accrued in the fourth quarter of the preceding year. Capital expenditures have been significantly reduced in response to the current commodity price environment.

Occidental's net cash used by financing activities was \$0.5 billion for the first nine months of 2016, compared to net cash provided by financing activities of \$1.5 billion for the same period of 2015. Restricted cash of \$1.2 billion and \$2.3 billion was used to pay dividends and repay debt in the first nine months of 2016 and 2015, respectively. In the first nine months of 2016 and 2015, Occidental received net proceeds of \$2.72 billion and \$1.48 billion for the issuance of senior notes, respectively. In the first nine months of 2016, Occidental repaid \$700 million of 2.5-percent



senior notes due February 2016 and \$750 million of 4.125-percent senior notes due June 2016, and redeemed \$1.25 billion of 1.75-percent senior notes due February 2017.

As of September 30, 2016, Occidental was in compliance with all covenants of its financing agreements and had substantial capacity for additional unsecured borrowings, the payment of cash dividends and other distributions on, or acquisitions of, Occidental stock.

#### Environmental Liabilities and Expenditures

Occidental's operations are subject to stringent federal, state, local and foreign laws and regulations related to improving or maintaining environmental quality. Occidental's environmental compliance costs have generally increased over time and are expected 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 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 of hazardous substances; or operation and maintenance of remedial systems. These 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.

Refer to Note 6, Environmental Liabilities and Expenditures, in the Notes to the Consolidated Condensed Financial Statements in Part I Item 1 of this Form 10-Q and to the Environmental Liabilities and Expenditures section of Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2015 Form 10-K for additional information regarding Occidental's environmental expenditures.

#### Lawsuits, Claims, Commitments and Contingencies

Occidental accrues reserves for outstanding lawsuits, claims and proceedings when it is probable that a liability has been incurred and the liability can be reasonably estimated. Occidental has disclosed its reserve balances for environmental matters. Reserve balances for other matters as of September 30, 2016, and December 31, 2015, were not material to Occidental's consolidated balance sheets. Occidental also evaluates the amount of reasonably possible losses that it could incur as a result of the matters mentioned above. Occidental has disclosed its range of reasonably possible additional losses for sites where it is a participant in environmental remediation. Occidental believes that other reasonably possible losses which 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. For further information, see Note 7, Lawsuits, Claims, Commitments and Contingencies, in the Notes to Consolidated Condensed Financial Statements in Part I Item 1 of this Form 10-Q.

#### Recently Adopted Accounting and Disclosure Changes

See Note 3, Accounting and Disclosure Changes, in the Notes to Condensed Consolidated Financial Statements in Part I Item 1 of this Form 10-Q.

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

For the three and nine months ended September 30, 2016, there were no material changes in the information required to be provided under Item 305 of Regulation S-K included under Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in the 2015 Form 10-K.

#### Item 4. Controls and Procedures

Occidental's President and Chief Executive Officer and its Senior Vice President and Chief Financial Officer supervised and participated in Occidental's evaluation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, Occidental's President and Chief Executive Officer and Senior Vice President and

Chief Financial Officer concluded that Occidental's disclosure controls and procedures were effective as of September 30, 2016.

There has been no change in Occidental's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the first nine months of 2016 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

For information regarding other legal proceedings, see Note 7, Lawsuits, Claims, Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements, in Part I Item 1 of this Form 10-Q, and Part I Item 3, “Legal Proceedings” in the 2015 Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Share Repurchase Activities

Occidental's share repurchase activities for the nine months ended September 30, 2016, were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (a)
First Quarter 2016	103,371	(b) \$ 70.63	—	
Second Quarter 2016	96,449	\$ 76.06		
July 1 - 31, 2016	—	\$ —	—	
August 1 - 31, 2016	—	\$ —	—	
September 1 - 30, 2016	96,151	\$ 70.50	—	
Third Quarter 2016	96,151	\$ 70.50	—	
Total	295,971	\$ 72.36	—	63,756,544

Represents the total number of shares remaining at September 30, 2016, under Occidental's share repurchase (a) program of 185 million shares. The program was initially announced in 2005. The program does not obligate Occidental to acquire any specific number of shares and may be discontinued at any time.

(b) Includes purchases from the trustee of Occidental's defined contribution savings plan that are not part of publicly announced plans or programs.

Item 6. Exhibits

- 10.1 First Amendment to the Occidental Petroleum Corporation 2015 Long-Term Incentive Plan.
- 10.2 Form of Occidental Petroleum Corporation Supplemental Retirement Plan II (Effective as of January 1, 2005, Amended and Restated as of November 1, 2008 and Restated as of October 31, 2016 solely to incorporate all interim amendments).
- 10.3 Form of Occidental Petroleum Corporation Modified Deferred Compensation Plan (Effective as of December 31, 2006, Amended and Restated effective as of November 1, 2008 and Restated as of October 31, 2016 solely to incorporate all interim amendments).
- 12 Statement regarding the computation of total enterprise ratios of earnings to fixed charges for the nine months ended September 30, 2016 and 2015, and for each of the five years in the period ended December 31, 2015.
- 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.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

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.

OCCIDENTAL PETROLEUM CORPORATION

DATE: November 1, 2016 /s/ Jennifer M. Kirk  
Jennifer M. Kirk  
Vice President, Controller and  
Principal Accounting Officer

EXHIBIT INDEX  
EXHIBITS

- 10.1 First Amendment to the Occidental Petroleum Corporation 2015 Long-Term Incentive Plan.
- 10.2 Form of Occidental Petroleum Corporation Supplemental Retirement Plan II (Effective as of January 1, 2005, Amended and Restated as of November 1, 2008 and Restated as of October 31, 2016 solely to incorporate all interim amendments).
- 10.3 Form of Occidental Petroleum Corporation Modified Deferred Compensation Plan (Effective as of December 31, 2006, Amended and Restated effective as of November 1, 2008 and Restated as of October 31, 2016 solely to incorporate all interim amendments).
- 12 Statement regarding the computation of total enterprise ratios of earnings to fixed charges for the nine months ended September 30, 2016 and 2015, and for each of the five years in the period ended December 31, 2015.
- 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.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.