

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

In this report, "Occidental" or "the Company" refers to Occidental Petroleum Corporation, a Delaware corporation (OPC), or OPC and one or more entities in which it owns a controlling interest (subsidiaries). Occidental is a multinational organization whose subsidiaries and affiliates operate in the oil and gas, chemical and midstream, marketing and other segments. The oil and gas segment explores for, develops and produces oil and condensate, natural gas liquids (NGLs) and natural gas. The chemical segment (OxyChem) mainly manufactures and markets basic chemicals and vinyls. The midstream, marketing and other segment (midstream and marketing) gathers, treats, processes, transports, stores, purchases and markets oil, condensate, NGLs, natural gas, carbon dioxide (CO₂) and power. It also trades around its assets, including pipelines and storage capacity, and trades oil, NGLs, gas and other commodities.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles (GAAP) and include the accounts of OPC, its subsidiaries and its undivided interests in oil and gas exploration and production ventures. Occidental accounts for its share of oil and gas exploration and production ventures, in which it has a direct working interest, by reporting its proportionate share of assets, liabilities, revenues, costs and cash flows within the relevant lines on the balance sheets, income statements and cash flow statements.

Certain financial statements, notes and supplementary data for prior years have been reclassified to conform to the 2011 presentation.

INVESTMENTS IN UNCONSOLIDATED ENTITIES

Occidental's percentage interest in the underlying net assets of affiliates as to which it exercises significant influence without having a majority voting interest (excluding oil and gas ventures in which Occidental holds an undivided interest) are accounted for under the equity method. Occidental reviews equity-method investments for impairment whenever events or changes in circumstances indicate that an other-than-temporary decline in value may have occurred. The amount of impairment, if any, is based on quoted market prices, where available, or other valuation techniques, including discounted cash flows.

REVENUE RECOGNITION

Revenue is recognized from oil and gas production when title has passed to the customer, which occurs when the product is shipped. In international locations where oil is shipped by tanker, title passes when the tanker is loaded or product is received by the customer, depending on the shipping terms. This process occasionally causes a difference between actual production in a reporting period and sales volumes that have been recognized as revenue.

Revenue from chemical product sales is recognized when the product is shipped and title has passed to the customer. Certain incentive programs may provide for payments or credits to be made to customers based on the volume of product purchased over a defined period. Total customer incentive payments over a given period are estimated and recorded as a reduction to revenue ratably over the contract period. Such estimates are evaluated and revised as warranted.

Revenue from marketing and trading activities is recognized on net settled transactions upon completion of contract terms, and for physical deliveries upon title transfer. For unsettled transactions, contracts are recorded at fair value and changes in fair value are reflected in net sales. Revenue from all marketing and trading activities is reported on a net basis.

Occidental records revenue net of any taxes, such as sales taxes, that are assessed by governmental authorities on Occidental's customers.

RISKS AND UNCERTAINTIES

The process of preparing consolidated financial statements in conformity with GAAP requires Occidental's management to make informed estimates and judgments regarding certain types of financial statement balances. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Changes in facts and circumstances or discovery of new information relating to such transactions and events may result in revised estimates and judgments and actual results may differ from estimates upon settlement but generally not by material amounts. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of Occidental's financial position and results of operations.

Occidental establishes a valuation allowance against net operating losses and other deferred tax assets to the extent it believes the future benefit from these assets will not be realized in the statutory carryforward periods. Realization of deferred tax assets, including any net operating loss carryforwards, is dependent upon Occidental generating sufficient future taxable income in jurisdictions where such assets originate and reversal of temporary differences.

The accompanying consolidated financial statements include assets of approximately \$11 billion as of December 31, 2011, and net sales of approximately \$8.7 billion for the year ended December 31, 2011, relating to Occidental's operations in countries outside North America. Occidental operates some of its oil and gas business in countries that occasionally have experienced political instability, armed conflict, terrorism, insurgency, civil unrest, security problems, labor unrest, OPEC production restrictions, equipment import restrictions and sanctions, all of which increase Occidental's risk of loss or delayed or restricted production or may result in other adverse consequences. Occidental attempts to conduct its financial affairs so as to mitigate its exposure to such risks and would seek compensation in the event of nationalization.

Since Occidental's major products are commodities, significant changes in the prices of oil and gas and chemical products may have a significant impact on Occidental's results of operations.

Also, see "Property, Plant and Equipment" below.

CASH AND CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to cash. Cash equivalents were approximately \$3.5 billion and \$2.5 billion at December 31, 2011 and 2010, respectively.

INVESTMENTS

Available-for-sale securities are recorded at fair value with any unrealized gains or losses included in accumulated other comprehensive income/loss (AOCI). Trading securities are recorded at fair value with unrealized and realized gains or losses included in net sales.

INVENTORIES

Materials and supplies are valued at the lower of weighted-average cost or market and are reviewed periodically for obsolescence. Oil, NGLs and natural gas inventories are valued at the lower of cost or market.

For the chemical segment, Occidental's inventories are valued at the lower of cost or market. For most of its domestic inventories, other than materials and supplies, the chemical segment uses the last-in, first-out (LIFO) method as it better matches current costs and current revenue. For other countries, Occidental uses the first-in, first-out method (if the costs of goods are specifically identifiable) or the average-cost method (if the costs of goods are not specifically identifiable).

PROPERTY, PLANT AND EQUIPMENT

Oil and Gas

The carrying value of Occidental's property, plant and equipment (PP&E) represents the cost incurred to acquire or develop the asset, including any capitalized interest, net of accumulated depreciation, depletion and amortization (DD&A) and net of any impairment charges. For business acquisitions, PP&E cost is based on fair values at the acquisition date. Interest costs incurred in connection with qualifying capital expenditures are capitalized and amortized over the lives of the related assets.

Occidental uses the successful efforts method to account for its oil and gas properties. Under this method, costs of acquiring properties, costs of drilling successful exploration wells and development costs are capitalized. The costs of exploratory wells are initially capitalized pending a determination of whether proved reserves have been found. If proved reserves have been found, the costs of exploratory wells remain capitalized. Otherwise, the costs of the related exploratory wells are charged to expense. In some cases, a determination of proved reserves cannot be made at the completion of drilling, requiring additional testing and evaluation of the wells. Occidental's practice is generally to expense the costs of such exploratory wells if a determination of proved reserves has not been made within a 12-month period after drilling is complete.

The following table summarizes the activity of capitalized exploratory well costs for continuing operations for the years ended December 31:

In millions	2011	2010	2009
Balance — Beginning of Year	\$ 73	\$ 51	\$ 63
Additions to capitalized exploratory well costs pending the determination of proved reserves	155	73	51
Reclassifications to property, plant and equipment based on the determination of proved reserves	(28)	(29)	(8)
Capitalized exploratory well costs charged to expense	(18)	(22)	(55)
Balance — End of Year	\$ 182	\$ 73	\$ 51

Annual lease rentals and geological, geophysical and seismic costs are expensed as incurred.

Occidental's policy is to expense the costs of injectants for secondary and tertiary recovery.

Depreciation and depletion of oil and gas producing properties are determined by the unit-of-production method. Leasehold acquisition costs are amortized over total proved reserves, while capitalized development and successful exploration costs are amortized over proved developed reserves.

Proved oil and gas reserves (as defined in the Securities and Exchange Commission's Regulation S-X, Rule 4-10(a)) are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. Occidental has no proved oil and gas reserves for which the determination of commercial viability is subject to the completion of major additional capital expenditures.

A portion of the carrying value of Occidental's oil and gas properties is attributable to unproved properties. At December 31, 2011, the net capitalized costs attributable to unproved properties were \$4.9 billion. The unproved amounts are not subject to DD&A or impairment until they are classified as proved properties. As exploration and development work progresses, if reserves on these properties are proved, capitalized costs attributable to the properties will become subject to DD&A. If the exploration and development work were to be unsuccessful, or management's plans changed with respect to these properties, as a result of economic, operating or contractual conditions, the capitalized costs of the related properties would be expensed. The timing of any writedowns of these unproved properties, if warranted, depends upon management's plans, the nature, timing and extent of future exploration and development activities and their results. Occidental believes its current plans and exploration and development efforts will allow it to realize its unproved property balance.

Additionally, Occidental performs impairment tests with respect to its proved properties generally when prices decline other than temporarily, reserve estimates change significantly or other significant events occur that may impact its ability to realize the recorded asset amounts. Impairment tests incorporate a number of assumptions involving expectations of future cash flows, which can change significantly over time. These assumptions include estimates of future product prices, which Occidental bases on forward price curves and, where applicable, contractual prices, estimates of oil and gas reserves and estimates of future expected operating and development costs. Fluctuations in commodity prices and production and development costs could cause management's plans to change with respect to unproved properties and could cause the carrying values of proved properties to be unrealizable. Such circumstances could result in impairments in the carrying values of proved or unproved properties or both. Any impairment loss would be calculated as the excess of the asset's net book value over its estimated fair value.

Chemical

Occidental's chemical assets are depreciated using either the unit-of-production or straight-line method, based upon the estimated useful lives of the facilities. The estimated useful lives of Occidental's chemical assets, which range from three years to 50 years, are also used for impairment tests. The estimated useful lives for the chemical facilities are based on the assumption that Occidental will provide an appropriate level of annual expenditures to ensure productive capacity is sustained. Such expenditures consist of ongoing routine repairs and maintenance, as well as planned major maintenance activities (PMMA). Ongoing routine repairs and maintenance expenditures are expensed as incurred. PMMA costs are capitalized and amortized over the period until the next planned overhaul. Additionally, Occidental incurs capital expenditures that extend the remaining useful lives of existing assets, increase their capacity or operating efficiency beyond the original specification or add value through modification for a different use. These capital expenditures are not considered in the initial determination of the useful lives of these assets at the time they are placed into service. The resulting revision, if any, of the asset's estimated useful life is measured and accounted for prospectively.

Without these continued expenditures, the useful lives of these assets could decrease significantly. Other factors that could change the estimated useful lives of Occidental's chemical assets include sustained higher or lower product prices, which are particularly affected by both domestic and foreign competition, demand, feedstock costs, energy prices, environmental regulations and technological changes.

Occidental performs impairment tests on its chemical assets whenever events or changes in circumstances lead to a reduction in the estimated useful lives or estimated future cash flows that would indicate that the carrying amount may not be recoverable, or when management's plans change with respect to those assets. Any impairment loss would be calculated as the excess of the asset's net book value over its estimated fair value.

Midstream and Marketing

Occidental's midstream and marketing PP&E is depreciated over the estimated useful lives of the assets, using either the unit-of-production or straight-line method.

Occidental performs impairment tests on its midstream and marketing assets whenever events or changes in circumstances lead to a reduction in the estimated useful lives or estimated future cash flows that would indicate that the carrying amount may not be recoverable, or when management's plans change with respect to those assets. Any impairment loss would be calculated as the excess of the asset's net book value over its estimated fair value.

FAIR VALUE MEASUREMENTS

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

Fair Values - Recurring

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

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

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

ACCRUED LIABILITIES—CURRENT

Accrued liabilities include accrued payroll, commissions and related expenses of \$462 million and \$470 million at December 31, 2011 and 2010, respectively.

ENVIRONMENTAL LIABILITIES AND EXPENDITURES

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Occidental records environmental reserves for estimated remediation costs that relate to existing conditions from past operations when environmental remediation efforts are probable and the costs can be reasonably estimated. In determining the reserves and the range of reasonably possible additional loss, Occidental refers to currently available information, including relevant past experience, remedial objectives, available technologies, applicable laws and regulations and cost-sharing arrangements. Occidental bases environmental reserves on management's estimate of the most likely cost to be incurred, using the most cost-effective technology reasonably expected to achieve the remedial objective. Occidental periodically reviews reserves and adjusts them as new information becomes available. Occidental records environmental reserves on a discounted basis when it deems the aggregate amount and timing of cash payments to be reliably determinable at the time the reserves are established. The reserve methodology with respect to discounting for a specific site is not modified once it is established. The amount of discounted environmental reserves is insignificant. Occidental generally records reimbursements or recoveries of environmental remediation costs in income when received, or when receipt of recovery is highly probable. As of December 31, 2011, 2010 and 2009, Occidental did not have any accruals for reimbursements or recoveries.

Many factors could affect Occidental's future remediation costs and result in adjustments to its environmental reserves and range of reasonably possible additional loss. The most significant are: (1) cost estimates for remedial activities may be inaccurate; (2) the length of time, type or amount of remediation necessary to achieve the remedial objective may change due to factors such as site conditions, the ability to identify and control contaminant sources or the discovery of additional contamination; (3) the regulatory agency may ultimately reject or modify Occidental's proposed remedial plan; (4) improved or alternative remediation technologies may change remediation costs; and (5) laws and regulations may impose more or less stringent remediation requirements or affect cost sharing or allocation of liability.

Certain sites involve multiple parties with various cost-sharing arrangements, which fall into the following three categories: (1) environmental proceedings that result in a negotiated or prescribed allocation of remediation costs among Occidental and other alleged potentially responsible parties; (2) oil and gas ventures in which each participant pays its proportionate share of remediation costs reflecting its working interest; or (3) contractual arrangements,

typically relating to purchases and sales of properties, in which the parties to the transaction agree to methods of allocating remediation costs. In these circumstances, Occidental evaluates the financial viability of the other parties with whom it is alleged to be jointly liable, the degree of their commitment to participate and the consequences to Occidental of their failure to participate when estimating Occidental's ultimate share of liability. Occidental records reserves at its expected net cost of remedial activities and, based on these factors, believes that it will not be required to assume a share of liability of such other potentially responsible parties in an amount materially above amounts reserved.

In addition to the costs of investigations and cleanup measures, which often take in excess of 10 years at Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) National Priorities List (NPL) sites, Occidental's reserves include management's estimates of the costs to operate and maintain remedial systems. If remedial systems are modified over time in response to significant changes in site-specific data, laws, regulations, technologies or engineering estimates, Occidental reviews and adjusts its reserves accordingly.

ASSET RETIREMENT OBLIGATIONS

Occidental recognizes the fair value of asset retirement obligations in the period in which a determination is made that a legal obligation exists to dismantle an asset and reclaim or remediate the property at the end of its useful life and the cost of the obligation can be reasonably estimated. The liability amounts are based on future retirement cost estimates and incorporate many assumptions such as time to abandonment, technological changes, future inflation rates and the risk-adjusted risk-free rate of interest. When the liability is initially recorded, Occidental capitalizes the cost by increasing the related PP&E balances. If the estimated future cost of the asset retirement obligation changes, Occidental records an adjustment to both the asset retirement obligation and PP&E. Over time, the liability is increased and expense is recognized for accretion, and the initial capitalized cost is depreciated over the useful life of the asset. Occidental has recorded no market risk premium in its liability since no reliable estimate can be made at this time.

At a certain number of its facilities, Occidental has identified conditional asset retirement obligations that are related mainly to plant decommissioning. Occidental believes that there is an indeterminate settlement date for these asset retirement obligations because the range of time over which Occidental may settle these obligations is unknown or cannot be estimated. Therefore, Occidental cannot reasonably estimate the fair value of these liabilities. Occidental will recognize these conditional asset retirement obligations in the periods in which sufficient information becomes available to reasonably estimate their fair values.

The following table summarizes the activity of the asset retirement obligation, of which \$1,030 million and \$762 million is included in deferred credits and other liabilities - other, with the remaining current portion in accrued liabilities at December 31, 2011 and 2010, respectively.

For the years ended December 31, (in millions)	2011	2010
Beginning balance	\$ 800	\$ 657
Liabilities incurred - capitalized to PP&E	74	47
Liabilities settled and paid	(53)	(32)
Accretion expense	48	37
Acquisitions and other - capitalized to PP&E	177	66
Revisions to estimated cash flows - capitalized to PP&E	43	25
Ending balance	<u>\$ 1,089</u>	<u>\$ 800</u>

DERIVATIVE INSTRUMENTS

Derivatives are carried at fair value and on a net basis when a legal right of offset exists with the same counterparty. Occidental applies hedge accounting when transactions meet specified criteria for such treatment and management elects to do so. If a derivative does not qualify or is not designated and documented as a cash-flow hedge, any fair value gains or losses are recognized in earnings in the current period. For cash-flow hedges, the gain or loss on the effective portion of the derivative is reported as a component of other comprehensive income (OCI) with an offsetting adjustment to the basis of the item being hedged. Realized gains or losses from cash-flow hedges, and any ineffective portion, are recorded as a component of net sales in the consolidated statements of income. Ineffectiveness is primarily created by a basis difference between the hedged item and the hedging instrument due to location, quality or grade of the physical commodity transactions. Gains and losses from derivative instruments are reported net in the consolidated statements of income. There were no fair value hedges as of and during the years ended December 31, 2011, 2010 and 2009.

A hedge is regarded as highly effective such that it qualifies for hedge accounting if, at inception and throughout its life, it is expected that changes in the fair value or cash flows of the hedged item will be offset by 80 to 125 percent of the changes in the fair value or cash flows, respectively, of the hedging instrument. In the case of hedging a forecast transaction, the transaction must be probable and must present an exposure to variations in cash flows that could ultimately affect reported net income or loss. Occidental discontinues hedge accounting when it determines that a derivative has ceased to be highly effective as a hedge; when the hedged item matures or is sold or repaid; or when a forecast transaction is no longer deemed probable.

STOCK-BASED INCENTIVE PLANS

Occidental has established several stockholder-approved stock-based incentive plans for certain employees (Plans) that are more fully described in Note 12. A summary of Occidental's accounting policy under each type of award issued under the Plans follows below.

For cash- and stock-settled restricted stock units or incentive award shares (RSUs), compensation value is initially measured on the grant date using the quoted market price of Occidental's common stock. For stock options (Options), stock-settled stock appreciation rights (SARs), performance stock awards (PSAs) and total shareholder return incentives (TSRIs), compensation value is initially measured on the grant date using potential exercise values or estimated payout levels using Monte Carlo or other valuation models. Compensation expense for all awards is recognized on a straight-line basis over the requisite service periods, which is generally over the awards' respective vesting or performance periods. Compensation expense for PSAs and TSRIs is adjusted quarterly for any changes in the number of shares expected to be issued based on the performance criteria using valuation models. In addition, every quarter, compensation expense for the cash-settled portion of RSUs, SARs, PSAs and TSRIs is adjusted for changes in the value of the underlying stock. The stock-settled portion of all these awards is expensed using the initially measured compensation value. All such performance or stock-price-related changes are recognized in periodic compensation expense.

EARNINGS PER SHARE

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

Basic EPS was computed by dividing net income attributable to common stock, net of 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.

RETIREMENT PLANS AND POSTRETIREMENT BENEFITS

Occidental recognizes the overfunded or underfunded amounts of its defined benefit pension and postretirement plans in its financial statements using a December 31 measurement date.

Occidental determines its defined benefit pension and postretirement benefit plan obligations based on various assumptions and discount rates. The discount rate assumptions used are meant to reflect the interest rate at which the obligations could effectively be settled on the measurement date. Occidental uses the fair value of assets to determine expected return on plan assets in calculating pension expense. Occidental funds and expenses negotiated pension increases for domestic union employees over the terms of the applicable collective bargaining agreements.

Pension and postretirement plan assets are measured at fair value. Common stock, preferred stock, publicly registered mutual funds, U.S. government securities and corporate bonds are valued using quoted market prices in active markets when available. When quoted market prices are not available, these investments are valued using pricing models with observable inputs from both active and non-active markets. Common and collective trusts are valued at the fund units' net asset value (NAV) provided by the issuer, which represents the quoted price in a non-active market. Some of the collateral Occidental receives for securities loaned includes investments in short-term investment funds. The short-term investment funds are valued at the fund units' NAV provided by the issuer.

SUPPLEMENTAL CASH FLOW INFORMATION

Occidental paid United States federal, state and foreign income taxes for continuing operations of approximately \$2.9 billion, \$2.4 billion and \$1.4 billion during the years ended December 31, 2011, 2010 and 2009, respectively. Occidental also paid production, property and other taxes of approximately \$635 million, \$510 million and \$484 million during the years ended December 31, 2011, 2010 and 2009, respectively, substantially all of which was in the United States. Additionally, net payments for income taxes related to discontinued operations were zero, \$42 million and \$4 million for the years 2011, 2010 and 2009, respectively. Production, property and other taxes paid related to discontinued operations were zero, \$197 million and \$100 million for the years 2011, 2010 and 2009, respectively. Interest paid totaled approximately \$315 million, \$161 million and \$164 million for the years 2011, 2010 and 2009, respectively. The 2011 interest paid included \$154 million of debt extinguishment premiums.

FOREIGN CURRENCY TRANSACTIONS

The functional currency applicable to all of Occidental's foreign oil and gas operations is the United States dollar since cash flows are denominated principally in United States dollars. In Occidental's other operations, Occidental's use of non-United States dollar functional currencies was not material for all years presented. The effect of exchange rates on transactions in foreign currencies is included in periodic income. Exchange-rate gains and losses for continuing operations were not material for all years presented.

NOTE 2 ACQUISITIONS, DISPOSITIONS AND OTHER TRANSACTIONS

2011

During the year ended December 31, 2011, Occidental acquired producing properties in South Texas for approximately \$1.8 billion. Occidental also acquired approximately \$2.6 billion of other domestic oil and gas assets, which included properties in California, as well as the Permian and Williston Basins.

In the first quarter of 2011, Occidental completed the sale of its Argentine oil and gas operations, initiated in 2010.

Internationally, Occidental acquired a 40-percent participating interest in the Shah Gas Field development project in Abu Dhabi, which is operated by Abu Dhabi Gas Development Company Limited (Al Hosn Gas Project), in the first quarter of 2011. Occidental partnered with the Abu Dhabi National Oil Company in a 30-year joint venture agreement for the \$10 billion project, of which Occidental's portion is approximately \$4 billion. In May 2011, Occidental paid approximately \$500 million for its share of pre-acquisition development expenditures.

In early 2011, Occidental ceased exploration activity and its participation in production operations in Libya due to civil unrest in the country and United States sanctions. As a result, Occidental wrote off the entire amount of the capitalized and suspended exploration costs incurred to date, including lease acquisition costs, of approximately \$35 million in the first quarter of 2011. The United States government lifted its sanctions in September 2011 and Occidental resumed its participation in the producing operations at that time.

2010

In December 2010, Occidental acquired oil producing and prospective properties in North Dakota for approximately \$1.4 billion in cash. In 2010, Occidental also acquired various domestic oil and gas interests, in operated, producing and non-producing properties in the Permian Basin, mid-continent region and California, for approximately \$2.8 billion.

In December 2010, Occidental executed an agreement with a subsidiary of China Petrochemical Corporation (Sinopec) to sell its Argentine oil and gas operations for after-tax proceeds of approximately \$2.6 billion. Occidental recorded a pre-tax gain of \$225 million when the sale closed in February 2011. Net revenues and pre-tax income for discontinued operations related to Argentina were \$97 million and \$2 million for the year ended December 31, 2011. Net revenues and pre-tax losses for such discontinued operations were, respectively, \$700 million and \$(39) million in 2010, and \$589 million and \$(369) million in 2009. As of December 31, 2011 and 2010, the assets of discontinued operations related to Argentina were zero and \$2.9 billion, respectively, which mainly comprised PP&E as of December 31, 2010. As of December 31, 2011 and 2010, the liabilities of discontinued operations were zero and \$513 million, which mainly comprised deferred tax liabilities and accrued liabilities as of December 31, 2010.

In December 2010, Occidental purchased additional noncontrolling interests in the General Partner of Plains All-American Pipeline, L.P. (Plains Pipeline) for approximately \$430 million, and now owns approximately 35 percent of the General Partner. In December 2010, Occidental also completed its acquisition of the remaining 50-percent joint venture interest in Elk Hills Power, LLC (EHP), a limited liability company that operates a gas-fired power-generation plant in California, for approximately \$175 million, bringing Occidental's total ownership to 100 percent. EHP is now consolidated in Occidental's balance sheet.

In January 2010, Occidental and its partners signed a 20-year contract with the South Oil Company of Iraq to develop the Zubair Field in Iraq.

2009

On December 31, 2009, Occidental completed the acquisition of Phibro LLC (Phibro) for approximately \$370 million in cash and maintains a controlling interest. Phibro, primarily an investor in commodities, is included as a part of Occidental's midstream and marketing segment. The assets acquired and liabilities assumed were recorded at their estimated fair values at the acquisition date. No goodwill was recorded on this transaction.

In December 2009, Occidental purchased additional noncontrolling interests in Plains Pipeline for approximately \$330 million in cash.

Occidental and its partners signed a Development and Production Sharing Agreement (DPSA) in April 2009 with the National Oil and Gas Authority of Bahrain for further development of the Bahrain Field, which became effective in December 2009. Under this agreement, a joint operating company formed by Occidental and its partners serves as operator for the project.

In 2009, Occidental acquired various additional oil and gas properties in California and the Permian Basin for approximately \$610 million in cash.

NOTE 3 ACCOUNTING AND DISCLOSURE CHANGES

RECENTLY ADOPTED ACCOUNTING AND DISCLOSURE CHANGES

Pursuant to a new rule issued by the Financial Accounting Standards Board, Occidental moved the Consolidated Statements of Comprehensive Income to consecutively follow the Consolidated Statements of Income. Occidental early adopted the rule, as permitted, in the fourth quarter of 2011.

NOTE 4 INVENTORIES

Net carrying values of inventories valued under the LIFO method were approximately \$176 million and \$177 million at December 31, 2011 and 2010, respectively. Inventories in continuing operations consisted of the following:

Balance at December 31, (in millions)	2011	2010
Raw materials	\$ 69	\$ 63
Materials and supplies	443	414
Finished goods	655	636
	<u>1,167</u>	<u>1,113</u>
LIFO reserve	(98)	(72)
Total	\$ 1,069	\$ 1,041

NOTE 5 LONG-TERM DEBT

Long-term debt consisted of the following:

Balance at December 31, (in millions)	2011	2010
4.10% senior notes due 2021	\$ 1,300	\$ 1,300
1.75% senior notes due 2017	1,250	—
7.0% senior notes due 2013	—	1,000
3.125% senior notes due 2022	900	—
4.125% senior notes due 2016	750	750
2.5% senior notes due 2016	700	700
1.45% senior notes due 2013	600	600
6.75% senior notes due 2012	—	368
8.45% senior notes due 2029	116	116
9.25% senior debentures due 2019	116	116
7.2% senior debentures due 2028	82	82
Variable rate bonds due 2030 (0.11% and 0.32% as of December 31, 2011 and 2010, respectively)	68	68
8.75% medium-term notes due 2023	22	22
	<u>5,904</u>	<u>5,122</u>
Less:		
Unamortized discount, net	(33)	(11)
Total	\$ 5,871	\$ 5,111

Occidental's available but unused committed bank credit was \$2.0 billion at December 31, 2011. In October 2011, Occidental entered into a new five-year, \$2.0 billion bank credit facility (2011 Credit Facility) which replaced its previous \$1.4 billion bank credit facility (2006 Credit Facility), which was scheduled to expire in September 2012. The 2011 Credit Facility provides for the termination of the loan commitments and requires immediate repayment of any outstanding amounts if certain events of default occur or if Occidental files for bankruptcy. Up to \$1.0 billion of the 2011 Credit Facility is available in the form of letters of credit. Occidental did not draw down any amounts under the 2011 Credit Facility or the 2006 Credit Facility during 2011.

The 2011 Credit Facility and other debt agreements do not contain material adverse change clauses or debt ratings triggers that could restrict Occidental's ability to borrow or permit the lenders to terminate their commitments or accelerate debt. Borrowings under the 2011 Credit Facility bear interest at various benchmark rates, including LIBOR, plus a margin based on Occidental's senior debt ratings. Additionally, Occidental paid prorated annual facility fees of 0.10 percent and 0.05 percent, respectively, in 2011 on the total commitment amounts of the 2011 Credit Facility and the 2006 Credit Facility based on Occidental's senior debt ratings.

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

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

In December 2010, Occidental issued \$2.6 billion of debt, which comprised \$600 million of 1.45-percent senior unsecured notes due 2013, \$700 million of 2.50-percent senior unsecured notes due 2016 and \$1.3 billion of 4.10-percent senior unsecured notes due 2021. Occidental received net proceeds of approximately \$2.6 billion. Interest on the notes will be payable semi-annually in arrears in June and December of each year for the 1.45-percent notes and February and August of each year for the other notes.

In July 2009, Occidental repaid its \$600 million debt associated with Dolphin Energy's debt. Also, in July 2009, Dolphin Energy refinanced its debt on a limited-recourse basis. Occidental provided guarantees limited to certain political and other events. At December 31, 2011 and 2010, Occidental's guarantees were not material and a substantial majority of the amounts consisted of limited recourse guarantees on \$300 million of Dolphin's debt, of which the fair value was immaterial.

At December 31, 2011, minimum principal payments on long-term debt subsequent to December 31, 2011 aggregated \$5.9 billion, of which zero is due in 2012, \$0.6 billion in 2013, zero in 2014, zero in 2015, \$1.5 billion in 2016 and \$3.8 billion in 2017 and thereafter.

As of December 31, 2011, under the most restrictive covenants of its financing agreements, Occidental had substantial capacity for additional unsecured borrowings, the payment of cash dividends and other distributions on, or acquisitions of, Occidental stock.

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 values of Occidental's debt at December 31, 2011 and 2010 were approximately \$6.4 billion and \$5.5 billion, respectively, compared to carrying values of approximately \$5.9 billion and \$5.1 billion, respectively. Occidental's exposure to changes in interest rates relates primarily to its variable-rate, long-term debt obligations, and is not material. As of December 31, 2011 and 2010, variable-rate debt constituted approximately one percent of Occidental's total debt.

NOTE 6 LEASE COMMITMENTS

Operating lease agreements include leases for transportation equipment, power plants, machinery, terminals, storage facilities, land and office space. Occidental's operating lease agreements frequently include renewal or purchase options and require it to pay for utilities, taxes, insurance and maintenance expense. At December 31, 2011, future net minimum lease payments for noncancelable operating leases (excluding oil and gas and other mineral leases, utilities, taxes, insurance and maintenance expense) were the following:

In millions	Amount ^(a)
2012	\$ 140
2013	102
2014	85
2015	91
2016	78
Thereafter	517
Total minimum lease payments	\$ 1,013

(a) These amounts are net of sublease rentals of \$11 million, which are to be received as follows (in millions): 2012—\$4, 2013—\$4, 2014—\$3, 2015—zero and 2016—zero.

Rental expense for operating leases, net of sublease rental income for continuing operations, was \$179 million in 2011, \$170 million in 2010 and \$170 million in 2009. Rental expense was net of sublease income of \$4 million, \$4 million and \$4 million in 2011, 2010 and 2009, respectively.

NOTE 7 DERIVATIVES

Objective & Strategy

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

Refer to Note 1 for Occidental's accounting policy on derivatives.

Cash-Flow Hedges

Throughout 2011 and 2010, Occidental held a series of collar agreements that qualified as cash-flow hedges for the sale of approximately 3 percent and 2 percent, respectively, of its oil production. These agreements were for existing domestic production and terminated as of December 31, 2011. The collar agreements hedged the sale of 12,000 barrels per day at a weighted-average strike price that ranged from \$32.92 to \$46.35.

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

Natural Gas Swaps	Daily Volume (cubic feet)	Average Price
January 2012 - March 2012 ^(a)	50 million	\$6.07

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

Occidental's marketing and trading operations store natural gas purchased from third parties at Occidental's North American leased storage facilities. Derivative instruments are used to fix margins on the future sales of the stored volumes. These derivative agreements continue through January 2013. As of December 31, 2011 and 2010, Occidental had approximately 25 billion cubic feet and 28 billion cubic feet of natural gas held in storage, respectively. As of December 31, 2011 and 2010, Occidental had cash-flow hedges for the forecast sale, to be settled by physical delivery, of approximately 35 billion cubic feet and 24 billion cubic feet of natural gas held in storage, respectively.

The following table presents the pre-tax gains and losses recognized in, and reclassified from, AOCI and recognized in income (net sales), including any hedge ineffectiveness, for derivative instruments classified as cash-flow hedges for the years ended December 31, 2011 and 2010 (in millions):

	2011	2010
Commodity Contracts – cash-flow hedges		
Unrealized gains recognized in AOCI	\$ 20	\$ 55
Losses reclassified into income	\$ 154	\$ 123
Gains recognized in income - ineffective portion	\$ 1	\$ 2

The following table summarizes net after-tax derivative activity recorded in AOCI for the years ended December 31, 2011 and 2010 (in millions):

	2011	2010
Beginning Balance - AOCI	\$ (111)	\$ (227)
Unrealized gains recognized in AOCI	14	37
Losses reclassified into income	98	79
Ending Balance - AOCI	\$ 1	\$ (111)

During the next twelve months, Occidental expects that approximately \$14 million of net after-tax derivative gains included in AOCI will be reclassified into income based on their valuation as of December 31, 2011.

Derivatives Not Designated as Hedging Instruments

Occidental's third-party marketing and trading activities focus on purchasing oil, NGLs and gas for resale from partners, producers and third parties whose oil and gas supply is located near its midstream and marketing assets, such as pipelines, processing plants and storage facilities. These purchases allow Occidental to aggregate volumes to maximize prices received for Occidental's production. The third-party marketing and trading purchase and sales contracts generally approximate each other with respect to aggregate volumes and terms. In addition, Occidental's Phibro trading unit's strategy is to profit from market price changes using derivatives not designated as hedging instruments.

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

Commodity	Volumes	
	2011	2010
Sales contracts related to Occidental's production		
Oil (million barrels)	9	8
Third-party marketing and trading activities		
Purchase contracts		
Oil (million barrels)	109	136
Natural gas (billion cubic feet)	481	833
Precious metals (million troy ounces)	4	13
Sales contracts		
Oil (million barrels)	109	144
Natural gas (billion cubic feet)	723	1,156
Precious metals (million troy ounces)	1	1

In addition, Occidental's Phibro trading unit has certain other commodity trading contracts, including agricultural products, metals and electricity, as well as foreign exchange contracts, but these were not material to Occidental as of December 31, 2011 and 2010.

Occidental has oil sales contracts representing a small portion of Occidental's domestic oil production. Additionally, for third-party marketing and trading activities, a substantial portion of the sales contracts that exist at the end of a reporting period are typically fulfilled by offsetting purchase contracts that have substantially identical terms entered into within a short time. For a substantial portion of the sales commitments not satisfied by such contracts as of December 31, 2011, Occidental entered into offsetting contracts after December 31, 2011. Occidental believes it has the ability to fulfill any remaining portion through its equity production or through additional third-party purchases.

Approximately \$1 million and \$293 million of gains from derivatives not designated as hedging instruments were recognized in net sales for the years ended December 31, 2011 and 2010, respectively.

Fair Value of Derivatives

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

December 31, 2011	Asset Derivatives	Fair	Liability Derivatives	Fair
	Balance Sheet Location	Value	Balance Sheet Location	Value
Cash-flow hedges ^(a)				
Commodity contracts	Marketing and trading assets and other	\$ 41	Accrued liabilities	\$ 5
	Long-term receivables and other assets, net	3	Deferred credits and other liabilities	—
		<u>\$ 44</u>		<u>\$ 5</u>
Derivatives not designated as hedging instruments ^(a)				
Commodity contracts	Marketing and trading assets and other	\$ 835	Accrued liabilities	\$ 887
	Long-term receivables and other assets, net	71	Deferred credits and other liabilities	71
		<u>906</u>		<u>958</u>
Total gross fair value		950		963
Less: counterparty netting and cash collateral ^(b)		(755)		(779)
Total net fair value of derivatives		<u>\$ 195</u>		<u>\$ 184</u>

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

(a) Fair values are presented at gross amounts, including when the derivatives are subject to master netting arrangements and qualify for net presentation in the consolidated balance sheet.

(b) As of December 31, 2011, collateral received of \$39 million has been netted against derivative assets and collateral paid of \$63 million has been netted against derivative liabilities.

(c) As of December 31, 2010, collateral received of \$39 million has been netted against derivative assets and collateral paid of \$95 million has been netted against derivative liabilities.

See Note 15 for fair value measurement disclosures on derivatives.

Credit Risk

A substantial portion of Occidental's derivative transaction volume is executed through exchange-traded contracts, which are subject to nominal credit risk as a significant portion of these transactions are executed on a daily margin basis. Collateral of \$173 million and \$154 million deposited by Occidental for such contracts with clearing houses and brokers, which has not been reflected in the derivative fair value tables, is included in the marketing and trading assets and other balance as of December 31, 2011 and 2010, respectively.

Occidental executes the rest of its derivative transactions in the OTC market. Occidental is subject to counterparty credit risk to the extent the counterparty to the derivatives is unable to meet its settlement commitments. Occidental manages this credit risk by selecting counterparties that it believes to be financially strong, by spreading the credit risk among many such counterparties, by entering into master netting arrangements with the counterparties and by requiring collateral, as appropriate. Occidental actively monitors the creditworthiness of each counterparty and records valuation adjustments to reflect counterparty risk, if necessary.

Certain of Occidental's OTC derivative instruments contain credit-risk-contingent features, primarily tied to credit ratings for Occidental or its counterparties, which may affect the amount of collateral that each would need to post. As of December 31, 2011 and 2010, Occidental had a net liability of \$58 million and \$234 million, respectively, for which the amount of collateral posted was \$27 million and \$10 million, respectively. 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 December 31, 2011 and 2010.

Foreign Currency Risk

Occidental's foreign operations have currency risk. Occidental manages its exposure primarily by balancing monetary assets and liabilities and maintaining cash positions in foreign currencies only at levels necessary for operating purposes. Most international oil sales are denominated in United States dollars. Additionally, all of Occidental's consolidated foreign oil and gas subsidiaries have the United States dollar as the functional currency.

NOTE 8 ENVIRONMENTAL LIABILITIES AND EXPENDITURES

Occidental's operations are subject to stringent federal, state, local and foreign laws and regulations relating to improving or maintaining environmental quality. Occidental's environmental compliance costs have generally increased over time and 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.

ENVIRONMENTAL REMEDIATION

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; or operation and maintenance of remedial systems. The environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages, civil penalties, injunctive relief and government oversight costs.

As of December 31, 2011, Occidental participated in or monitored remedial activities or proceedings at 160 sites. The following table presents Occidental's environmental remediation reserves as of December 31, 2011, 2010 and 2009, the current portion of which is included in accrued liabilities (\$79 million in 2011, \$79 million in 2010 and \$84 million in 2009) and the remainder in deferred credits and other liabilities — other (\$281 million in 2011, \$287 million in 2010 and \$319 million in 2009). The reserves are grouped as environmental remediation sites listed or proposed for listing by the U.S. Environmental Protection Agency on the CERCLA NPL (NPL sites) and three categories of non-NPL sites — third-party sites, Occidental-operated sites and closed or non-operated Occidental sites, as follows:

\$ amounts in millions	2011		2010		2009	
	Number of Sites	Reserve Balance	Number of Sites	Reserve Balance	Number of Sites	Reserve Balance
NPL sites	36	\$ 63	38	\$ 56	39	\$ 57
Third-party sites	73	88	83	91	81	104
Occidental-operated sites	22	120	20	122	19	126
Closed or non-operated Occidental sites	29	89	29	97	29	116
Total	160	\$ 360	170	\$ 366	168	\$ 403

As of December 31, 2011, Occidental's environmental reserves exceeded \$10 million each at 10 of the 160 sites described above, and 107 of the sites had reserves from zero to \$1 million each.

As of December 31, 2011, two landfills in western New York owned by Occidental accounted for 64 percent of its reserves associated with NPL sites. Maxus Energy Corporation has retained the liability and indemnified Occidental for 13 of the remaining NPL sites.

As of December 31, 2011, Maxus has also retained the liability and indemnified Occidental for 9 of the 73 third-party sites. Two of the remaining 64 third-party sites — a former copper mining and smelting operation in Tennessee and a containment and removal project in Tennessee — accounted for 44 percent of Occidental's reserves associated with these sites.

Four sites — chemical plants in Kansas, Louisiana and New York and a group of oil and gas properties in the southwestern United States — accounted for 61 percent of the reserves associated with the Occidental-operated sites. Two other sites — a former chemical plant in Tennessee and a closed coal mine in Pennsylvania — accounted for 42 percent of the reserves associated with closed or non-operated Occidental sites.

The following table presents environmental reserve activity for the past three years:

In millions	2011	2010	2009
Balance — Beginning of Year	\$ 366	\$ 403	\$ 439
Remediation expenses and interest accretion	53	26	26
Changes from acquisitions/dispositions	14	3	4
Payments	(73)	(66)	(66)
Balance — End of Year	\$ 360	\$ 366	\$ 403

Occidental expects to expend funds corresponding to approximately half of the current environmental reserves over the next four years and the balance over the subsequent 10 or more years. Occidental believes its range of reasonably possible additional loss beyond those liabilities recorded for environmental remediation at the sites described above could be up to \$375 million.

ENVIRONMENTAL COSTS

Occidental's environmental costs, some of which include estimates, are presented below for each segment for the years ended December 31:

In millions	2011	2010	2009
Operating Expenses			
Oil and Gas	\$ 158	\$ 108	\$ 110
Chemical	68	72	67
Midstream and Marketing	21	13	14
	<u>\$ 247</u>	<u>\$ 193</u>	<u>\$ 191</u>
Capital Expenditures			
Oil and Gas	\$ 110	\$ 72	\$ 78
Chemical	15	19	15
Midstream and Marketing	15	13	4
	<u>\$ 140</u>	<u>\$ 104</u>	<u>\$ 97</u>
Remediation Expenses			
Corporate	\$ 52	\$ 25	\$ 25

Operating expenses are incurred on a continual basis. Capital expenditures relate to longer-lived improvements in currently operating properties. Remediation expenses relate to existing conditions from past operations.

NOTE 9 LAWSUITS, CLAIMS, COMMITMENTS AND OTHER CONTINGENCIES

OPC or certain of its subsidiaries are named, in the normal course of business, in lawsuits, claims and other legal proceedings that seek, among other things, compensation for alleged personal injury, breach of contract, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. OPC or certain of its subsidiaries also have been named in proceedings under CERCLA and similar federal, state, local and foreign environmental laws. These environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages, civil penalties and injunctive relief; however, Occidental or such subsidiaries are usually among many companies in these proceedings and have to date been successful in sharing response costs with other financially sound companies. Occidental accrues reserves for currently 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 December 31, 2011 and 2010, 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 that it could incur in excess of reserves accrued on the balance sheet would not be material to its consolidated financial position or results of operations.

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

OPC, its subsidiaries or both have entered into agreements providing for future payments to secure terminal and pipeline capacity, drilling rigs and services, electrical power, steam and certain chemical raw materials. Occidental has certain other commitments under contracts, guarantees and joint ventures, including purchase commitments for goods and services at market-related prices and certain other contingent liabilities. At December 31, 2011, total purchase obligations were \$7.9 billion, which included approximately \$2.7 billion, \$1.3 billion, \$700 million, \$450 million and \$300 million that will be paid in 2012, 2013, 2014, 2015 and 2016, respectively. Included in the purchase obligations are commitments for major fixed and determinable capital expenditures during 2012 and thereafter, which were approximately \$2.0 billion.

OPC, 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 December 31, 2011, Occidental is not aware of circumstances that it believes would reasonably be expected to lead to future indemnity claims against it in connection with these transactions that would result in payments materially in excess of reserves.

NOTE 10 DOMESTIC AND FOREIGN INCOME TAXES

The domestic and foreign components of income from continuing operations before domestic and foreign income taxes and net of noncontrolling interest amounts were as follows:

For the years ended December 31, (in millions)	Domestic	Foreign	Total
2011	\$ 4,806	\$ 6,035	\$ 10,841
2010	\$ 3,295	\$ 4,269	\$ 7,564
2009	\$ 2,091	\$ 3,123	\$ 5,214

The provisions for domestic and foreign income taxes on continuing operations consisted of the following:

For the years ended December 31, (in millions)	U.S. Federal	State and Local	Foreign	Total
2011				
Current	\$ 320	\$ 88	\$ 2,357	\$ 2,765
Deferred	1,340	47	49	1,436
	\$ 1,660	\$ 135	\$ 2,406	\$ 4,201
2010				
Current	\$ 614	\$ 79	\$ 1,896	\$ 2,589
Deferred	390	4	12	406
	\$ 1,004	\$ 83	\$ 1,908	\$ 2,995
2009				
Current	\$ 16	\$ 27	\$ 1,361	\$ 1,404
Deferred	606	37	16	659
	\$ 622	\$ 64	\$ 1,377	\$ 2,063

The following reconciliation of the United States statutory federal income tax rate to Occidental's effective tax rate on income from continuing operations is stated as a percentage of pre-tax income:

For the years ended December 31,	2011	2010	2009
United States federal statutory tax rate	35%	35%	35%
Operations outside the United States	4	5	5
State income taxes, net of federal benefit	1	1	1
Other	(1)	(1)	(1)
Tax rate provided by Occidental	39%	40%	40%

The tax effects of temporary differences resulting in deferred income taxes at December 31, 2011 and 2010 were as follows:

Tax effects of temporary differences (in millions)	2011		2010	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Property, plant and equipment differences	\$ —	\$ 6,039	\$ —	\$ 4,558
Equity investments, partnerships and foreign subsidiaries	—	351	—	208
Environmental reserves	131	—	135	—
Postretirement benefit accruals	410	—	368	—
Deferred compensation and benefits	286	—	275	—
Asset retirement obligations	318	—	242	—
Foreign tax credit carryforwards	1,240	—	718	—
Federal benefit of state income taxes	104	—	88	—
All other	374	116	442	131
Subtotal	2,863	6,506	2,268	4,897
Valuation allowance	(1,003)	—	(486)	—
Total deferred taxes	\$ 1,860	\$ 6,506	\$ 1,782	\$ 4,897

Included in total deferred tax assets was a current portion aggregating \$200 million and \$330 million as of December 31, 2011 and 2010, respectively, that was reported in prepaid expenses and other. Total deferred tax assets were \$1.9 billion and \$1.8 billion as of December 31, 2011 and 2010, respectively, the noncurrent portion of which is netted against deferred tax liabilities. Occidental expects to realize the recorded deferred tax assets, net of any allowances, through future operating income and reversal of temporary differences.

Occidental has, as of December 31, 2011, foreign tax credit carryforwards of \$1.2 billion, which expire in varying amounts through 2021, and various state operating loss carryforwards, which have varying carryforward periods through 2025. Substantially all of Occidental's valuation allowance is provided for foreign tax credit and state operating loss carryforwards.

A deferred tax liability has not been recognized for temporary differences related to unremitted earnings of certain consolidated foreign subsidiaries aggregating approximately \$5.5 billion at December 31, 2011, as it is Occidental's intention, generally, to reinvest such earnings permanently. If the earnings of these foreign subsidiaries were not indefinitely reinvested, an additional deferred tax liability of approximately \$88 million would be required, assuming utilization of available foreign tax credits.

Discontinued operations include income tax charges of \$86 million in 2011, and income tax benefits of \$26 million in 2010 and \$147 million in 2009.

Additional paid-in capital was credited \$14 million in 2011, \$22 million in 2010 and \$24 million in 2009 for an excess tax benefit from the exercise of certain stock-based compensation awards.

As of December 31, 2011, Occidental had liabilities for unrecognized tax benefits of approximately \$67 million included in deferred credits and other liabilities – other, all of which, if subsequently recognized, would favorably affect Occidental's effective tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

For the years ended December 31, (in millions)	2011	2010
Balance at January 1,	\$ 38	\$ 52
Additions based on tax positions related to the current year	44	24
Reductions based on tax positions related to prior years and settlements	(15)	(38)
Balance at December 31,	\$ 67	\$ 38

Occidental records estimated potential interest and penalties related to liabilities for unrecognized tax benefits in the provisions for domestic and foreign income taxes and these amounts were not material for the years ended December 31, 2011, 2010 and 2009.

Occidental is subject to audit by various tax authorities in varying periods. See Note 9 for a discussion of these matters.

Management believes it is unlikely that Occidental's liabilities for unrecognized tax benefits related to existing matters would increase or decrease within the next twelve months by a material amount. Occidental cannot reasonably estimate a range of potential changes in such benefits due to the unresolved nature of the various audits.

NOTE 11 STOCKHOLDERS' EQUITY

The following is a summary of common stock issuances:

Shares in thousands	Common Stock
Balance, December 31, 2008	881,423
Issued	1,697
Options exercised and other, net	523
Balance, December 31, 2009	883,643
Issued	967
Options exercised and other, net	665
Balance, December 31, 2010	885,275
Issued	1,302
Options exercised and other, net	232
Balance, December 31, 2011	886,809

TREASURY STOCK

Occidental has had a 95 million share repurchase program authorized since 2008; however, the program does not obligate Occidental to acquire any specific number of shares and may be discontinued at any time. In 2011, Occidental purchased 2.7 million shares under the program at an average cost of \$77.12 per share.

Additionally, Occidental purchased shares from the trustee of its defined contribution savings plan during the years ended December 31, 2011, 2010 and 2009.

As of December 31, 2011, 2010 and 2009, treasury stock shares numbered 75.8 million, 72.5 million and 71.7 million, respectively.

NONREDEEMABLE PREFERRED STOCK

Occidental has authorized 50,000,000 shares of preferred stock with a par value of \$1.00 per share. At December 31, 2011, 2010 and 2009, Occidental had no outstanding shares of preferred stock.

EARNINGS PER SHARE

The following table presents the calculation of basic and diluted EPS for the years ended December 31:

In millions, except per-share amounts	2011	2010	2009
Basic EPS			
Income from continuing operations	\$ 6,640	\$ 4,641	\$ 3,202
Less: Income from continuing operations attributable to noncontrolling interest	—	(72)	(51)
Income from continuing operations attributable to common stock	6,640	4,569	3,151
Discontinued operations, net	131	(39)	(236)
Net income attributable to common stock	6,771	4,530	2,915
Less: Net income allocated to participating securities	(11)	(6)	(4)
Net income attributable to common stock, net of participating securities	\$ 6,760	\$ 4,524	\$ 2,911
Weighted average number of basic shares	812.1	812.5	811.3
Basic EPS	\$ 8.32	\$ 5.57	\$ 3.59
Diluted EPS			
Net income attributable to common stock, net of participating securities	\$ 6,760	\$ 4,524	\$ 2,911
Weighted average number of basic shares	812.1	812.5	811.3
Dilutive effect of potentially dilutive securities	0.8	1.3	2.5
Total diluted weighted average common shares	812.9	813.8	813.8
Diluted EPS	\$ 8.32	\$ 5.56	\$ 3.58

ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss consisted of the following after-tax gains (losses):

Balance at December 31, (in millions)	2011	2010
Foreign currency translation adjustments	\$ (9)	\$ 2
Unrealized gains (losses) on derivatives	1	(111)
Pension and post-retirement adjustments ^(a)	(475)	(415)
Total	\$ (483)	\$ (524)

(a) See Note 13 for further information.

NOTE 12 STOCK-BASED INCENTIVE PLANS

Occidental has established several Plans that allow it to issue stock-based awards in the form of RSUs, Options, SARs, PSAs and TSRI's. An aggregate of 66 million shares of Occidental common stock were authorized for issuance and approximately 14 million shares have been issued through December 31, 2011. Of the remaining shares, depending on the type of award granted, approximately 8.8 to 26.3 million shares are available for grants of future awards. During 2011, non-employee directors were granted awards for 64,800 shares of restricted stock that fully vested on the grant date. Compensation expense for these awards was measured using the quoted market price of Occidental's common stock on the grant date and was fully recognized at that time.

The following table summarizes certain stock-based incentive amounts for the past three years:

For the years ended December 31, (in millions)	2011	2010	2009
Compensation expense	\$ 110	\$ 136	\$ 151
Income tax benefit recognized in the income statement	\$ 40	\$ 50	\$ 55
Intrinsic value of options and stock-settled SARs exercised	\$ 21	\$ 74	\$ 58
Cash paid ^(a)	\$ 124	\$ 97	\$ 50
Fair value of PSAs, RSUs and TSRI's vested during the year ^(b)	\$ 53	\$ 19	\$ 142

(a) Includes cash paid under the cash-settled SARs and the cash-settled portion of the PSAs, RSUs and TSRI's.

(b) As measured on the vesting date for the stock-settled portion of the PSAs, RSUs and TSRI's.

As of December 31, 2011, there was \$193 million of pre-tax unrecognized compensation expense, based on year-end valuation, related to all unvested stock-based incentive award grants. This expense is expected to be recognized over a weighted-average period of 2.0 years.

RSUs

Certain employees are awarded the right to receive cash-settled RSUs, which are equivalent in value to actual shares of Occidental common stock but are paid in cash at the time of vesting. These awards vest either in total over two years or ratably over three years after the grant date and can be forfeited or accelerated under certain conditions. For those awards which vest in total over two years, dividend equivalents are accumulated during the vesting period and are paid when they vest. For those awards which vest ratably, dividend equivalents are paid during the vesting period. The weighted-average, grant-date fair values of these awards granted in 2011, 2010 and 2009 were \$104.74, \$77.14 and \$66.43 per share, respectively.

Certain employees are awarded the right to receive stock-settled RSUs that vest at the end of, or ratably over, three years from the grant date (some vesting may extend to 7 years under certain circumstances) and can be forfeited or accelerated under certain conditions. Dividends or dividend equivalents are paid during the vesting period. The weighted-average, grant-date fair value of the stock-settled RSUs granted in 2011 and 2010 was \$102.97 and \$84.29, respectively. There were no such awards granted in 2009.

A summary of changes in Occidental's unvested cash- and stock-settled RSUs during the year ended December 31, 2011 is presented below:

	Cash-Settled		Stock-Settled	
	RSUs (000's)	Weighted-Average Grant-Date Fair Value	RSUs (000's)	Weighted-Average Grant-Date Fair Value
Unvested at January 1	1,137	\$ 73.44	310	\$ 84.18
Granted	717	\$ 104.74	274	\$ 102.97
Vested	(518)	\$ 73.68	(4)	\$ 74.88
Forfeitures	(64)	\$ 82.83	(12)	\$ 92.04
Unvested at December 31	1,272	\$ 90.50	568	\$ 93.14

STOCK OPTIONS AND SARs

Certain employees have been granted Options that are settled in stock and SARs that are settled either only in stock or only in cash. No Options or SARs have been granted since 2006 and all outstanding awards are vested. Exercise prices of the Options and SARs were equal to the quoted market value of Occidental's stock on the grant date. Generally, the Options and SARs vest ratably over three years from the grant date with a maximum term of ten years. These Options and SARs may be forfeited or accelerated under certain circumstances.

The fair value of each Option, stock-settled SAR or cash-settled SAR is initially measured on the grant date using the Black Scholes option valuation model. The expected life is estimated based on the actual weighted-average life of historical exercise activity of the grantee population at the grant date. The volatility factors are based on the historical volatilities of Occidental common stock over the expected lives as estimated on the grant date. The risk-free interest rate is the implied yield available on zero coupon T-notes (US Treasury Strip) at the grant date with a remaining term equal to the expected life of the measured instrument. The dividend yield is the expected annual dividend yield over the expected life, expressed as a percentage of the stock price on the grant date. Estimates of fair value may not accurately predict the value ultimately realized by employees who receive stock-based incentive awards, and the ultimate value may not be indicative of the reasonableness of the original estimates of fair value made by Occidental due to subsequent events.

The following is a summary of Option and SAR transactions during the year ended December 31, 2011:

	Cash-Settled				Stock-Settled			
	SARs (000's)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value (000's)	SARs & Options (000's)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value (000's)
Beginning balance, January 1	837	\$ 24.66			1,014	\$ 23.62		
Exercised	(273)	\$ 24.66			(232)	\$ 14.44		
Ending balance, December 31	564	\$ 24.66	2.5	\$ 38,939	782	\$ 26.34	2.3	\$ 52,689
Exercisable at December 31	564	\$ 24.66	2.5	\$ 38,939	782	\$ 26.34	2.3	\$ 52,689

PERFORMANCE-BASED AWARDS

PSAs and TSRIs

Certain executives are awarded PSAs and TSRIs that vest at the end of the three- or four-year period following the grant date if performance targets are certified as being met. TSRIs granted in July 2011 and October 2010 have payouts that range from 0 to 100 percent of the maximum award that would settle, once certified, 50 percent in stock and 50 percent in cash. TSRIs granted in July 2009 have payouts that ranged from 0 to 200 percent of the target award that would settle, once certified, 60 percent in stock and 40 percent in cash. TSRIs granted in July 2008 have payouts that ranged from 0 to 150 percent of the target award that would settle, once certified, equally in stock and cash. TSRIs granted in January 2007 had payouts of 150 percent of the target award and were certified and settled equally in stock and cash in 2011. PSAs granted in January 2007 had payouts of approximately 193 percent of the target award and were certified after year-end 2010 for settlement equally in stock and cash. Dividend equivalents for PSA and TSRI target shares are paid during the performance period regardless of the payout range or settlement provision, except for the TSRIs issued in 2010 and 2011, for which cumulative dividends will be paid upon vesting for the number of vested shares.

The fair values of PSAs and TSRIs are initially determined on the grant date using a Monte Carlo simulation model based on Occidental's assumptions, noted in the following table, and the volatility from corresponding peer group companies. The expected life is based on the vesting period (Term). The risk-free interest rate is the implied yield available on zero coupon T-notes (US Treasury Strip) at the time of grant with a remaining term equal to the Term. The dividend yield is the expected annual dividend yield over the Term, expressed as a percentage of the stock price on the grant date. Estimates of fair value may not accurately predict the value ultimately realized by the employees who receive the awards, and the ultimate value may not be indicative of the reasonableness of the original estimates of fair value made by Occidental due to subsequent events.

The grant-date assumptions used in the Monte Carlo simulation models for the estimated payout level of TSRIs were as follows:

Year Granted	TSRIs		
	2011	2010	2009
Assumptions used:			
Risk-free interest rate	0.6%	0.6%	2.1%
Dividend yield	1.8%	1.8%	2.0%
Volatility factor	33%	32%	28%
Expected life (years)	3	3	4
Grant-date fair value of underlying Occidental common stock	\$ 102.97	\$ 84.29	\$ 66.74

A summary of Occidental's unvested PSAs and TSRIs as of December 31, 2011 and changes during the year ended December 31, 2011 is presented below:

	PSAs		TSRIs	
	Awards (000's)	Weighted-Average Grant-Date Fair Value of Occidental Stock	Awards (000's)	Weighted-Average Grant-Date Fair Value of Occidental Stock
Unvested at January 1 ^(a)	143	\$ 48.83	2,041	\$ 70.84
Granted ^(a)	—	\$ —	325	\$ 102.97
Vested ^(b)	(143)	\$ 48.83	(485)	\$ 61.93
Forfeitures	—	\$ —	(16)	\$ 80.14
Unvested at December 31 ^(a)	—	\$ —	1,865	\$ 78.67

(a) Unvested awards and award grants are presented at the target or mid-point payouts.

(b) The payout at vesting was 193 percent and 150 percent of the target for PSAs and TSRIs, respectively.

NOTE 13 RETIREMENT PLANS AND POSTRETIREMENT BENEFITS

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

DEFINED CONTRIBUTION PLANS

All domestic employees and certain foreign national employees are eligible to participate in one or more of the defined contribution retirement or savings plans that provide for periodic contributions by Occidental based on plan-specific criteria, such as base pay, age level and employee contributions. Certain salaried employees participate in a supplemental retirement plan that restores benefits lost due to governmental limitations on qualified retirement benefits. The accrued liabilities for the supplemental retirement plan were \$126 million and \$109 million as of December 31, 2011 and 2010, respectively, and Occidental expensed \$110 million in 2011, \$101 million in 2010 and \$97 million in 2009 under the provisions of these defined contribution and supplemental retirement plans.

DEFINED BENEFIT PLANS

Participation in defined benefit plans is limited and approximately 1,000 domestic and 1,600 foreign national employees, mainly union, nonunion hourly and certain employees that joined Occidental from acquired operations with grandfathered benefits, are currently accruing benefits under these plans.

Pension costs for Occidental's defined benefit pension plans, determined by independent actuarial valuations, are generally funded by payments to trust funds, which are administered by independent trustees.

OTHER POSTRETIREMENT BENEFIT PLANS

Occidental provides medical and dental benefits and life insurance coverage for certain active, retired and disabled employees and their eligible dependents. Occidental generally funds the benefits as they are paid during the year. The total benefit costs, including the postretirement costs, were approximately \$194 million in 2011, \$180 million in 2010 and \$158 million in 2009.

OBLIGATIONS AND FUNDED STATUS

The following table shows the funding status of Occidental's plans:

For the years ended December 31, (in millions)	Pension Benefits		Postretirement Benefits			
	2011	2010	Unfunded Plans		Funded Plans	
			2011	2010	2011	2010
Changes in benefit obligation:						
Benefit obligation — beginning of year	\$ 624	\$ 573	\$ 940	\$ 848	\$ 51	\$ 43
Service cost — benefits earned during the period	12	16	21	18	1	1
Interest cost on projected benefit obligation	29	30	43	42	2	2
Actuarial loss	49	42	67	92	14	6
Foreign currency exchange rate (gain) loss	(5)	10	—	—	—	—
Benefits paid	(51)	(47)	(46)	(60)	(1)	(1)
Settlements	(57)	—	—	—	—	—
Benefit obligation — end of year	\$ 601	\$ 624	\$ 1,025	\$ 940	\$ 67	\$ 51
Changes in plan assets:						
Fair value of plan assets — beginning of year	\$ 495	\$ 482	\$ —	\$ —	\$ 1	\$ 2
Actual return on plan assets	13	44	—	—	—	—
Foreign currency exchange rate gain (loss)	(3)	1	—	—	—	—
Employer contributions	79	15	—	—	—	—
Settlements	(57)	—	—	—	—	—
Benefits paid	(51)	(47)	—	—	—	(1)
Fair value of plan assets — end of year	\$ 476	\$ 495	\$ —	\$ —	\$ 1	\$ 1
Unfunded status:	\$ (125)	\$ (129)	\$ (1,025)	\$ (940)	\$ (66)	\$ (50)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for defined benefit pension plans with an accumulated benefit obligation in excess of plan assets were \$370 million, \$343 million and \$227 million, respectively, as of December 31, 2011, and \$259 million, \$234 million and \$82 million, respectively, as of December 31, 2010. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for defined benefit pension plans with plan assets in excess of the accumulated benefit obligation were \$231 million, \$226 million and \$250 million, respectively, as of December 31, 2011, and \$365 million, \$360 million and \$413 million, respectively, as of December 31, 2010.

Occidental has 401(h) accounts established within certain defined benefit pension plans. These plans allow Occidental to fund postretirement medical benefits for employees at two of its operations. Contributions to these 401(h) accounts are made at Occidental's discretion. All of Occidental's other postretirement benefit plans are unfunded.

Amounts recognized in the consolidated balance sheets consist of:

As of December 31, (in millions)	Pension Benefits		Postretirement Benefits			
	2011	2010	Unfunded Plans		Funded Plans	
			2011	2010	2011	2010
Other assets	\$ 24	\$ 53	\$ —	\$ —	\$ —	\$ —
Accrued liabilities	(5)	(7)	(47)	(60)	—	—
Deferred credits and other liabilities — other	(144)	(175)	(978)	(880)	(66)	(50)
	\$ (125)	\$ (129)	\$ (1,025)	\$ (940)	\$ (66)	\$ (50)

At December 31, 2011 and 2010, AOCI included the following after-tax balances:

As of December 31, (in millions)	Pension Benefits		Postretirement Benefits			
	2011	2010	Unfunded Plans		Funded Plans	
			2011	2010	2011	2010
Net loss	\$ 146	\$ 111	\$ 309	\$ 284	\$ 22	\$ 15
Prior service cost	2	2	2	3	—	—
	\$ 148	\$ 113	\$ 311	\$ 287	\$ 22	\$ 15

Occidental does not expect any plan assets to be returned during 2012.

COMPONENTS OF NET PERIODIC BENEFIT COST

The following table sets forth the components of net periodic benefit costs:

For the years ended December 31, (in millions)	Pension Benefits			Postretirement Benefits						
	2011	2010	2009	Unfunded Plans			Funded Plans			
				2011	2010	2009	2011	2010	2009	
Net periodic benefit costs:										
Service cost — benefits earned during the period	\$ 12	\$ 16	\$ 14	\$ 21	\$ 18	\$ 16	\$ 1	\$ 1	\$ 1	
Interest cost on benefit obligation	29	30	28	43	42	39	2	2	2	
Expected return on plan assets	(33)	(31)	(25)	—	—	—	—	—	—	
Amortization of prior service cost	1	1	1	1	1	1	—	—	—	
Recognized actuarial loss	13	15	17	29	26	20	2	1	1	
Additional settlement cost	2	—	—	—	—	—	—	—	—	
Currency adjustments	(3)	9	12	—	—	—	—	—	—	
Net periodic benefit cost	\$ 21	\$ 40	\$ 47	\$ 94	\$ 87	\$ 76	\$ 5	\$ 4	\$ 4	

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from AOCI into net periodic benefit cost over the next fiscal year are \$19 million and \$1 million, respectively. The estimated net loss and prior service cost for the defined benefit postretirement plans that will be amortized from AOCI into net periodic benefit cost over the next fiscal year are \$34 million and \$1 million, respectively.

ADDITIONAL INFORMATION

The following table sets forth the weighted-average assumptions used to determine Occidental's benefit obligation and net periodic benefit cost for domestic plans:

For the years ended December 31,	Pension Benefits		Postretirement Benefits			
	2011	2010	Unfunded Plans		Funded Plans	
			2011	2010	2011	2010
Benefit Obligation Assumptions:						
Discount rate	4.12%	4.74%	4.12%	4.74%	4.12%	4.74%
Rate of compensation increase	4.00%	4.00%	—	—	—	—
Net Periodic Benefit Cost Assumptions:						
Discount rate	4.74%	5.12%	4.74%	5.12%	4.74%	5.12%
Assumed long term rate of return on assets	6.50%	6.50%	—	—	6.50%	6.50%
Rate of compensation increase	4.00%	4.00%	—	—	—	—

For domestic pension plans and postretirement benefit plans, Occidental based the discount rate on the Aon/Hewitt AA-AAA Universe yield curve in 2011 and the Hewitt Bond Universe yield curve in 2010. The weighted-average rate of increase in future compensation levels is consistent with Occidental's past and anticipated future compensation increases for employees participating in retirement plans that determine benefits using compensation. The assumed long-term rate of return on assets is estimated with regard to current market factors but within the context of historical returns. Occidental considers historical returns and correlation of equities and fixed income securities and current market factors such as inflation and interest rates.

For pension plans outside the United States, Occidental based its discount rate on rates indicative of government or investment grade corporate debt in the applicable country, taking into account hyperinflationary environments when necessary. The discount rates used for the foreign pension plans ranged from 1.5 percent to 10.0 percent at both December 31, 2011 and 2010. The average rate of increase in future compensation levels ranged from a low of 1.5 percent to a high of 10.0 percent in 2011, depending on local economic conditions. The expected long-term rate of return on plan assets was 5.8 percent and 6.8 percent in excess of local inflation in 2011 and 2010, respectively.

The postretirement benefit obligation was determined by application of the terms of medical and dental benefits and life insurance coverage, including the effect of established maximums on covered costs, together with relevant actuarial assumptions and health care cost trend rates projected at an assumed Consumer Price Index (CPI) increase of 2.04 percent and 2.54 percent as of December 31, 2011 and 2010, respectively. Beginning in 1993, participants other than certain union employees have paid for all medical cost increases in excess of increases in the CPI. For those union employees, the health care cost trend rates were projected at annual rates ranging ratably from 9.0 percent in 2011 to 6.0 percent through the year 2017 and thereafter. A 1-percent increase or a 1-percent decrease in these assumed health care cost trend rates would result in an increase of \$40 million or a reduction of \$36 million, respectively, in the postretirement benefit obligation as of December 31, 2011, and a corresponding increase of \$4 million or a reduction of \$3 million in interest cost in 2011. The annual service costs would not be materially affected by these changes.

The actuarial assumptions used could change in the near term as a result of changes in expected future trends and other factors that, depending on the nature of the changes, could cause increases or decreases in the plan liabilities.

FAIR VALUE OF PENSION AND POSTRETIREMENT PLAN ASSETS

Occidental employs a total return investment approach that uses a diversified blend of equity and fixed income investments to optimize the long-term return of plan assets at a prudent level of risk. The investments are monitored by Occidental's Investment Committee in its role as fiduciary. The Investment Committee, consisting of senior Occidental executives, selects and employs various external professional investment management firms to manage specific investments across the spectrum of asset classes. Equity investments are diversified across United States and non-United States stocks, as well as differing styles and market capitalizations. Other asset classes such as private equity and real estate may be used with the goals of enhancing long-term returns and improving portfolio diversification. The target allocation of plan assets is 60 percent equity securities and 40 percent debt securities. Investment performance is measured and monitored on an ongoing basis through quarterly investment portfolio and manager guideline compliance reviews, annual liability measurements, and periodic studies.

The fair values of Occidental's pension plan assets by asset category are as follows (in millions):

Description	Fair Value Measurements at December 31, 2011 Using			
	Level 1	Level 2	Level 3	Total
Asset Class:				
Collateral received for securities loaned	\$ —	\$ 1	\$ —	\$ 1
U.S. government securities	22	—	—	22
Corporate bonds ^(a)	—	83	—	83
Common/collective trusts ^(b)	—	14	—	14
Mutual funds:				
Bond funds	84	—	—	84
Value funds	77	—	—	77
Blend and growth funds	25	—	—	25
Common and preferred stocks ^(c)	131	—	—	131
Other	—	33	12	45
Total pension plan assets ^(d)	\$ 339	\$ 131	\$ 12	\$ 482

Description	Fair Value Measurements at December 31, 2010 Using			
	Level 1	Level 2	Level 3	Total
Asset Class:				
Cash and cash equivalents	\$ 1	\$ —	\$ —	\$ 1
Collateral received for securities loaned	—	4	—	4
U.S. government securities	23	—	—	23
Corporate bonds ^(a)	—	70	—	70
Common/collective trusts ^(b)	—	42	—	42
Mutual funds:				
Bond funds	81	—	—	81
Value funds	89	—	—	89
Blend and growth funds	39	—	—	39
Common and preferred stocks ^(c)	120	—	—	120
Other	—	29	17	46
Total pension plan assets ^(d)	\$ 353	\$ 145	\$ 17	\$ 515

(a) This category represents investment grade bonds of U.S. and non-U.S. issuers from diverse industries.

(b) This category includes investment funds that primarily invest in U.S. and non-U.S. common stocks and fixed income securities.

(c) This category represents investment in U.S. and non-U.S. common and preferred stocks from diverse industries.

(d) Amounts exclude net payables of approximately \$6 million and \$20 million as of December 31, 2011 and 2010, respectively.

The activity during the years ended December 31, 2011 and 2010 for the assets using Level 3 fair value measurements was not significant.

Occidental expects to contribute \$6 million to its defined benefit pension plans during 2012. All of the contributions are expected to be in the form of cash.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

For the years ended December 31, (in millions)	Pension Benefits	Postretirement Benefits
2012	\$ 46	\$ 50
2013	\$ 46	\$ 50
2014	\$ 47	\$ 51
2015	\$ 43	\$ 52
2016	\$ 48	\$ 54
2017 — 2021	\$ 231	\$ 294

NOTE 14 INVESTMENTS AND RELATED-PARTY TRANSACTIONS

As of December 31, 2011 and 2010, investments in unconsolidated entities comprised \$2.1 billion and \$2 billion of equity-method investments, respectively.

EQUITY INVESTMENTS

As of December 31, 2011, Occidental's equity investments consisted mainly of a 24.5-percent interest in the stock of Dolphin Energy, an approximately 35-percent interest in the General Partner of Plains Pipeline and various other partnerships and joint ventures. Equity investments paid dividends of \$349 million, \$217 million and \$139 million to Occidental in 2011, 2010 and 2009, respectively. As of December 31, 2011, cumulative undistributed earnings of equity-method investees since their respective acquisitions were \$400 million. As of December 31, 2011, Occidental's investments in equity investees exceeded the underlying equity in net assets by \$1.1 billion, of which \$1 billion represents goodwill and \$134 million relates to assets, including intangibles, which are being amortized over their estimated useful lives.

The following table presents Occidental's ownership interest in the summarized financial information of its equity-method investments:

For the years ended December 31, (in millions)	2011	2010	2009
Revenues	\$ 2,439	\$ 1,759	\$ 1,080
Costs and expenses	2,046	1,482	853
Net income	\$ 393	\$ 277	\$ 227
As of December 31, (in millions)	2011	2010	
Current assets	\$ 2,230	\$ 2,041	
Non-current assets	\$ 4,381	\$ 3,965	
Current liabilities	\$ 1,532	\$ 1,323	
Long-term debt	\$ 2,305	\$ 2,454	
Other non-current liabilities	\$ 168	\$ 119	
Stockholders' equity	\$ 2,606	\$ 2,110	

Occidental's investment in Dolphin, which was acquired in 2002, consists of two separate economic interests through which Occidental owns (i) a 24.5-percent undivided interest in the operations under a DPSA which is proportionately consolidated in the financial statements; and (ii) a 24.5-percent interest in the stock of Dolphin Energy, which is accounted for as an equity investment.

In Ecuador, Occidental has a 14-percent interest in the Oleoducto de Crudos Pesados Ltd. (OCP) oil export pipeline, which Occidental records as an equity investment.

During 2010, Occidental had a 50-percent joint interest in EHP, which was accounted for as an equity method investment. On December 31, 2010, Occidental completed its acquisition of the remaining 50-percent interest, bringing its total ownership to 100 percent. EHP was consolidated in Occidental's balance sheet as of December 31, 2010.

RELATED-PARTY TRANSACTIONS

Occidental purchases power, steam and chemicals from and sells oil, NGLs, gas, chemicals and power to certain of its equity investees at market-related prices. During 2011, 2010 and 2009, Occidental entered into the following related-party transactions and had the following amounts due from or to its related parties:

December 31, (in millions)	2011	2010	2009
Purchases ^(a)	\$ 10	\$ 153	\$ 138
Sales ^(b)	\$ 392	\$ 440	\$ 291
Services	\$ 10	\$ 2	\$ 2
Advances and amounts due from	\$ 32	\$ 135	\$ 123
Amounts due to	\$ 21	\$ 383	\$ 112

(a) In 2010 and 2009, purchases from EHP accounted for 90 percent and 92 percent, respectively.

(b) In 2011, sales to Dolphin Energy accounted for 16 percent. In 2010 and 2009, sales to EHP and Dolphin Energy accounted for 44 percent and 63 percent, respectively. In 2011, 2010 and 2009, sales of Occidental-produced oil and NGLs to Plains Pipeline accounted for 76 percent, 50 percent and 26 percent of these totals, respectively. Additionally, Occidental conducts marketing and trading activities with Plains Pipeline for oil and NGLs. These transactions are reported in Occidental's income statement on a net margin basis. The sales amounts above include the net margins on such transactions, which were negligible.

NOTE 15 FAIR VALUE MEASUREMENTS

FAIR VALUES - RECURRING

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

Description	Fair Value Measurements at December 31, 2011 Using			Netting and Collateral ^(a)	Total Fair Value
	Level 1	Level 2	Level 3		
Assets:					
Commodity derivatives	\$ 310	\$ 640	\$ —	\$ (755)	\$ 195
Total assets	\$ 310	\$ 640	\$ —	\$ (755)	\$ 195
Liabilities:					
Commodity derivatives	\$ 311	\$ 652	\$ —	\$ (779)	\$ 184
Total liabilities	\$ 311	\$ 652	\$ —	\$ (779)	\$ 184
Fair Value Measurements at December 31, 2010 Using					
Description	Level 1	Level 2	Level 3	Netting and Collateral ^(a)	Total Fair Value
Assets:					
Trading equity securities - natural resources industry	\$ 116	\$ —	\$ —	\$ —	\$ 116
Trading U.S. treasury securities	10	—	—	—	10
Commodity derivatives	178	797	—	(680)	295
Total Assets	\$ 304	\$ 797	\$ —	\$ (680)	\$ 421
Liabilities:					
Commodity derivatives	\$ 201	\$ 916	\$ —	\$ (736)	\$ 381
Total liabilities	\$ 201	\$ 916	\$ —	\$ (736)	\$ 381

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

FAIR VALUES - NONRECURRING

In 2010, Occidental recorded an impairment charge of \$275 million predominantly to write off gas properties in the Rocky Mountain region.

FINANCIAL INSTRUMENTS FAIR VALUE

The carrying amounts of cash and cash equivalents and other on-balance-sheet financial instruments, other than fixed-rate debt, approximate fair value. The cost, if any, to terminate off-balance-sheet financial instruments is not significant.

NOTE 16 INDUSTRY SEGMENTS AND GEOGRAPHIC AREAS

Occidental conducts its continuing operations through three segments: (1) oil and gas; (2) chemical; and (3) midstream, marketing and other (midstream and marketing). The oil and gas segment explores for, develops 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, treats, processes, transports, stores, purchases and markets oil, condensate, NGLs, natural gas, CO₂ and power. It also trades around its assets, including pipelines and storage capacity, and trades oil, NGLs, gas and other commodities.

Earnings of industry segments and geographic areas 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 approximately equal to those that the selling entity would be able to obtain in third-party transactions.

Identifiable assets are those assets used in the operations of the segments. Corporate assets consist of cash, certain corporate receivables and PP&E, and an investment in the Joslyn, Canada oil sands project.

INDUSTRY SEGMENTS

In millions

	Oil and Gas	Chemical	Midstream, Marketing and Other	Corporate and Eliminations	Total
YEAR ENDED DECEMBER 31, 2011					
Net sales	\$ 18,419 ^(a)	\$ 4,815 ^(b)	\$ 1,447 ^(c)	\$ (742)	\$ 23,939
Pretax operating profit (loss)	\$ 10,241 ^(d)	\$ 861	\$ 448	\$ (709) ^(f)	\$ 10,841 ^(d)
Income taxes	—	—	—	(4,201) ^(g)	(4,201)
Discontinued operations, net	—	—	—	131	131
Net income (loss) attributable to common stock	\$ 10,241 ^(d)	\$ 861	\$ 448	\$ (4,779) ^(h)	\$ 6,771
Investments in unconsolidated entities	\$ 128	\$ 121	\$ 1,812	\$ 11	\$ 2,072
Property, plant and equipment additions, net ⁽ⁱ⁾	\$ 6,192	\$ 241	\$ 1,120	\$ 51	\$ 7,604
Depreciation, depletion and amortization	\$ 3,064	\$ 330	\$ 173	\$ 24	\$ 3,591
Total assets	\$ 38,967	\$ 3,754	\$ 11,962	\$ 5,361	\$ 60,044
YEAR ENDED DECEMBER 31, 2010					
Net sales	\$ 14,276 ^(a)	\$ 4,016 ^(b)	\$ 1,471 ^(c)	\$ (718)	\$ 19,045
Pretax operating profit (loss)	\$ 7,151 ^(d,e)	\$ 438	\$ 472	\$ (497) ^(f)	\$ 7,564 ^(d,e)
Income taxes	—	—	—	(2,995) ^(g)	(2,995)
Discontinued operations, net	—	—	—	(39)	(39)
Net income (loss) attributable to common stock	\$ 7,151 ^(d,e)	\$ 438	\$ 472	\$ (3,531) ^(h)	\$ 4,530 ^(e)
Investments in unconsolidated entities	\$ 123	\$ 135	\$ 1,770	\$ 11	\$ 2,039
Property, plant and equipment additions, net ⁽ⁱ⁾	\$ 3,211	\$ 248	\$ 537	\$ 38	\$ 4,034
Depreciation, depletion and amortization	\$ 2,668	\$ 321	\$ 142	\$ 22	\$ 3,153
Total assets	\$ 31,855	\$ 3,755	\$ 10,445	\$ 6,377 ⁽ⁱ⁾	\$ 52,432
YEAR ENDED DECEMBER 31, 2009					
Net sales	\$ 11,009 ^(a)	\$ 3,225 ^(b)	\$ 1,016 ^(c)	\$ (436)	\$ 14,814
Pretax operating profit (loss)	\$ 5,097 ^(d,e)	\$ 389	\$ 235	\$ (507) ^(f)	\$ 5,214 ^(d,e)
Income taxes	—	—	—	(2,063) ^(g)	(2,063)
Discontinued operations, net	—	—	—	(236)	(236)
Net income (loss) attributable to common stock	\$ 5,097 ^(d,e)	\$ 389	\$ 235	\$ (2,806) ^(h)	\$ 2,915 ^(e)
Investments in unconsolidated entities	\$ 118	\$ 131	\$ 1,473	\$ 10	\$ 1,732
Property, plant and equipment additions, net ⁽ⁱ⁾	\$ 2,571	\$ 213	\$ 583	\$ 39	\$ 3,406
Depreciation, depletion and amortization	\$ 2,258	\$ 298	\$ 110	\$ 21	\$ 2,687
Total assets	\$ 26,854	\$ 3,608	\$ 8,773	\$ 4,994 ⁽ⁱ⁾	\$ 44,229

(See footnotes on next page)

Footnotes:

- (a) Oil sales represented approximately 87 percent, 86 percent and 86 percent of the oil and gas segment net sales for the years ended December 31, 2011, 2010 and 2009, respectively.
- (b) Total product sales for the chemical segment comprised the following:

	Basic Chemicals	Vinyls	Other Chemicals
Year ended December 31, 2011	58%	39%	3%
Year ended December 31, 2010	57%	40%	3%
Year ended December 31, 2009	63%	34%	3%

- (c) Total sales for the midstream and marketing segment comprised the following:

	Gas Processing	Power	Marketing, Trading, Transportation and other
Year ended December 31, 2011	64%	27%	9%
Year ended December 31, 2010	52%	27%	21%
Year ended December 31, 2009	56%	26%	18%

- (d) The 2011 amount includes pre-tax charges of \$35 million related to exploration write-offs in Libya and \$29 million related to a Colombian net worth tax, and a pre-tax gain for sale of an interest in a Colombian pipeline of \$22 million. The 2010 amount includes a \$275 million pre-tax charge for asset impairments, predominantly of gas properties in the Rocky Mountain region. The 2009 amount includes an \$8 million pre-tax charge for the termination of rig contracts.
- (e) Includes amounts attributable to common stock after deducting noncontrolling interest amounts of \$72 million and \$51 million for 2010 and 2009, respectively.
- (f) Includes unallocated net interest expense, administration expense, environmental remediation and other pre-tax items noted in footnote (h) below.
- (g) Includes all foreign and domestic income taxes from continuing operations.
- (h) Includes the following significant items affecting earnings for the years ended December 31:

Benefit (Charge) (In millions)	2011	2010	2009
CORPORATE			
Pre-tax operating profit (loss)			
Premium on debt extinguishments	\$ (163)	\$ —	\$ —
Severance charge	—	—	(40)
Railcar leases	—	—	(15)
	\$ (163)	\$ —	\$ (55)
Income taxes			
State income tax charge	\$ (33)	\$ —	\$ —
Foreign tax credit carryforwards	—	80	—
Tax effect of pre-tax adjustments *	50	100	22
	\$ 17	\$ 180	\$ 22
Discontinued operations, net of tax **	\$ 131	\$ (39)	\$ (236)

* Amounts represent the tax effect of all pre-tax adjustments listed, as well as those in footnote (d).

** The 2011 amount includes a \$144 million after-tax gain from the sale of the Argentine operations. The 2009 amount includes an after-tax charge of \$111 million for asset impairments of certain Argentine producing properties.

- (i) Includes capital expenditures, capitalized interest, and for 2009, capitalized CO₂, and excludes purchases of assets, net. Also includes amounts attributable to the noncontrolling interest in a Colombian subsidiary for 2010 and 2009.
- (j) Includes Argentine assets held for sale for 2010 and 2009.

GEOGRAPHIC AREAS

In millions

For the years ended December 31,	Net sales ^(a)			Property, plant and equipment, net		
	2011	2010	2009	2011	2010	2009
United States	\$ 15,040	\$ 12,151	\$ 9,448	\$ 36,283	\$ 28,571	\$ 23,440
Foreign						
Qatar	3,432	2,677	2,201	2,735	2,823	2,842
Oman	2,500	1,666	1,038	2,143	1,967	1,885
Colombia	1,054	999	922	854	715	688
Yemen	907	766	667	245	347	398
United Arab Emirates	187	100	8	1,448	223	151
Libya	151	373	243	926	953	968
Other Foreign	668	313	287	1,050	937	765
Total Foreign	8,899	6,894	5,366	9,401	7,965	7,697
Total	\$ 23,939	\$ 19,045	\$ 14,814	\$ 45,684	\$ 36,536	\$ 31,137

- (a) Sales are shown by individual country based on the location of the entity making the sale.