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PRESENTATION

Operator

Good afternoon, and welcome to Occidental's First Quarter 2022 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Jeff Alvarez, Vice President of Investor Relations. Please go ahead.

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Thank you, Drew. Good afternoon, everyone, and thank you for participating in Occidental's First Quarter 2022 Conference Call. On the call with us today are Vicki Hollub, President and Chief Executive Officer; Rob Peterson, Senior Vice President and Chief Financial Officer; and Richard Jackson, President of Operations, U.S. Onshore Resources and Carbon Management.

This afternoon, we will refer to slides available on the Investors section of our website. The presentation includes a cautionary statement on Slide 2 regarding forward-looking statements that will be made on the call this afternoon.

I will now turn the call over to Vicki. Vicki, please go ahead.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Thank you, Jeff, and good afternoon, everyone. We're especially proud of our results this quarter as our strong operational and financial performance enabled us to generate our highest reported and adjusted earnings in over a decade, resulting in an annualized return on capital employed of 21% when calculated with adjusted earnings. We also reported a record level of free cash flow for the fifth consecutive quarter. The increase in free cash flow compared to last quarter was achieved as we began executing on our 2022 capital plan to support our cash flow longevity.

As we will detail in a few minutes, we made meaningful progress towards our near-term goal of retiring $5 billion of debt. We remain focused on reducing debt this year as we advance our shareholder return framework. We repaid over $3.6 billion of debt as a part of the near-term goals we announced last quarter to repay an additional $5 billion of principal and lower net debt to $20 billion. Once the $5 billion target has been achieved, our focus will expand to the $3 billion share repurchase program.

When this first phase of our shareholder return framework is complete, we will continue to focus on debt reduction until we have achieved the face value of our debt to the high teens. When we have line of sight on reaching this milestone, we will detail the next phase of our shareholder return framework.

During our most recent earnings call, we spoke about the importance of lowering our interest expense to support a dividend that can sustainably grow throughout the cycle. Continuing to lower debt, combined with managing the number of shares outstanding, will

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enhance the sustainability of our dividend while positioning us to increase it at the appropriate time.

This morning, I will cover our first quarter operational performance and Rob will cover our financial results as well as our updated guidance, which includes an increase in guidance for OxyChem and Midstream's 2022 earnings.

Our first quarter results are a great example of how Oxy's operational excellence and asset portfolio position our shareholders to benefit from a high commodity price environment. In the first quarter, we generated $3.3 billion of free cash flow. This is more than twice what we generated in the first quarter of 2021, which at that time was our highest level of free cash flow in over a decade. Our strong financial results were driven by our businesses delivering exceptional performance while practicing disciplined capital allocation and cost control, combined with the benefits of an improved financial position and higher commodity prices.

Switching to operational performance. We delivered first quarter production from continuing operations of approximately 1.1 million BOE per day, in line with the midpoint of our guidance and with total company-wide capital spending of $858 million. Our international operations successfully completed their scheduled turnarounds in the quarter and production has returned to normalized levels. Compared to the first quarter, we expect international production to increase accordingly in the second quarter. While higher prices are expected to lower our full year international guidance under our production sharing contracts, we expect the impact to be fully offset by outperformance in our Rockies and Gulf of Mexico businesses. As I mentioned during our last call, we expect company-wide production to grow from the second quarter through the end of the year as our targeted capital investments sustain 2022 average production in line with the previous year.

OxyChem's performance continued to exceed expectations as the business benefited from robust pricing in the caustic, chlorine, and PVC markets. OxyChem delivered record earnings this quarter, which we expect to contribute to 2022 being another record year for the business. Following several consecutive record quarters, we see the potential for market conditions to dampen slightly in the second half of the year, though the long-term fundamentals continue to remain supportive. I'm very proud of OxyChem's workforce who recently received 13 Responsible Care and 15 facility safety awards from the American Chemistry Council for their 2021 performance.

Midstream and Marketing's outperformance compared to guidance in the first quarter was primarily driven by higher margins from gas processing and sulfur sales and our ability to optimize gas transportation in the Permian and Rockies and the timing of export sales. While short-term opportunities in the commodity markets are difficult to predict, our Midstream team excels at finding and taking full advantage of such opportunities when they arise.

I'm pleased to say that our first quarter results continue to demonstrate how the quality of the assets, the talent of our teams, and our improved financial position serve as catalysts for strong financial results and provide a solid foundation for free cash flow generation.

Our teams did an excellent job of managing the planned turnarounds and maintenance projects this quarter. We completed turnarounds in Algeria, Al Hosn, and Dolphin and a series of maintenance projects in the Gulf of Mexico. Completing these planned projects increase the reliability and efficiency of our assets. The Al Hosn turnaround involved the first full plant shutdown, during which time we safely completed over 500 tie-ins related to the expansion project. The expansion is progressing as planned with the capacity increase expected to be online towards the middle of next year.

Our Rockies team brought online their largest pad ever with 23 wells and drilled their longest lateral to date at over 15,000 feet. That business continues to perform well, with strong well productivity and higher-than-expected NGL yields driving first quarter performance. Our team in the Midland Basin had similar success bringing online the 12-well 15,000-foot development we mentioned on our most recent earnings call. And in Algeria, we drilled and completed Oxy's first development well in 2022 with time to market for the completion and hookup significantly exceeding prior performance. These are just a few of the many operational achievements our teams continue to deliver each quarter.

In addition to focusing on operational improvements, we continue to pursue new and resourceful ways to reduce emissions. For example, in the DJ and Permian Basins, we successfully trialed a new in-house methane detection system that will help us on our net zero pathway. We also plan to build on the success of our water recycling partnership by developing similar systems and additional locations

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this year.

I'll now turn the call over to Rob, who will walk you through our first quarter results and guidance.

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Thank you, Vicki, and good afternoon. Our cash flow priorities continue to direct free cash flow allocation in the first quarter as we repaid additional debt in April and paid the first distribution of our increased common dividend. On our last call, we detailed our near-term debt reduction targets, including repaying $5 billion of debt and reducing net debt to $20 billion. Our progress towards meeting these targets advanced significantly in the first quarter.

We repaid approximately $3.3 billion of debt and ended the quarter with net debt of $23.3 billion, reflecting the face value of our debt of $25.2 billion and the unrestricted cash balance of $1.9 billion. Repaying $3.3 billion of debt in the first quarter was accomplished through a combination of a $2.9 billion tender offer, exercising a call provision on a note, and open market repurchases. Following quarter end, we retired approximately $300 million in additional debt using open market repurchases, lowering gross debt to approximately $24.9 billion, which is the balance today.

It is reasonable to expect that we could meet our near-term debt targets and then initiate our share repurchase program during the second quarter. Once we complete our near-term debt reduction target and repurchased $3 billion of shares, we will continue to allocate free cash flow to repaying debt as we lower gross debt to the high teens in billions. We believe reducing debt to this level will speed our return to investment grade and better position us to sustain a greater dividend at lower prices. When we reach this stage, we intend to transition from proactively reducing debt to primarily addressing maturities as they come due.

Our debt reduction efforts continue to receive positive recognition. Since our last earnings call, Moody's upgraded our credit rating to Ba1 with a positive outlook. All three of the major credit rating agencies now rate our debt as one notch below investment grade, which we view as recognition of the pronounced and ongoing improvement in our credit profile.

Our consistently strong operational results in combination with the current commodity price environment are driving improved profitability on top of our already robust free cash flow generation. In the first quarter, we announced an adjusted profit of $2.12 per diluted share, our highest adjusted core EPS in over a decade; and reported profit of $4.65 per diluted share. The difference between our adjusted and reported profit for the quarter was mainly driven by the legal entity reorganization described in our most recent 10-K and 10-Q filings. Following the completion of our large-scale, post-acquisition divestiture program, a portion of the existing tax basis was reallocated to operating assets, thus reducing our deferred tax liabilities by approximately $2.6 billion, which was recognized in our reported earnings for the quarter.

We resumed paying U.S. federal cash taxes in the quarter, ahead of our earlier expectation. This was due in part to the strong earnings generated in the first quarter, combined with our expectations for commodity prices and earnings over the remainder of the year. Given current commodity price expectations, we now expect to exhaust our U.S. net operating losses and most of our general business credit carryforwards this year. However, the NOLs and credits that we currently have remaining are expected to limit the amount of cash taxes paid this year. For example, we would expect to pay approximately $600 million in U.S. federal cash taxes if WTI averaged $90 per barrel in 2022.

The increase in commodity prices certainly benefited us during the quarter, as demonstrated by our strong earnings and free cash flow generation. The commodity price environment improvement compared to the previous quarter also resulted in higher accounts receivable balances, which contributed to a negative working capital change. Negative working capital change was also driven by typical first quarter payments such as semi-annual interest payments, annual property tax payments, and payments on our compensation plans. As was the case in 2021, we see the potential for the working capital change to partially reverse over the remainder of the year if commodity prices are stable and due to payments accrued during the year being made in subsequent first quarter.

We are pleased to be able to update our full year guidance for Midstream and OxyChem, reflecting strong first quarter performance and improved market conditions. Our revised full year guidance for OxyChem now includes the expectation of a fourth consecutive record for

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quarterly earnings in the second quarter. We recognize the possibility of softer product prices later in the year but still expect the third and fourth quarters to be exceptionally strong by historical standards.

As Vicki mentioned, our Rockies business continues to perform well. Our expectation of continued strong well performance over the remainder of the year provides us with confidence to raise full year guidance for the Rockies by 5,000 BOE per day.

On previous calls, we've discussed how we've been working closely with Colorado communities and regulators in implementing the state's new permitting process. Our drilling permits we have in hand are sufficient to run a single rig for the remainder of 2022. It is no longer feasible for us to run a multi-rig program for Colorado this year given the current pace of state approvals. As a result, we plan to reallocate activity from the Rockies to the Permian in the second half of the year. This activity change will not impact our 2022 production and is included in domestic onshore activity slide in the appendix to our earnings presentation.

We plan to submit development plans in the coming months that will cover over 1,100 rig days. We are hopeful that as Colorado's new permitting process matures, it will continue to become more efficient. Regulatory certainty earlier on in the process would provide us with the option to add activity back in the Rockies in future years given oil and gas development plans we expect to submit for this year.

While our company-wide full year guidance is unchanged, as Vicki mentioned, we have included a 6,000 BOE per day downward adjustment to our full year international guidance, reflecting the impact of higher oil prices in our production sharing contracts. Our original budget included a forecast of $73 for Brent while our revised guidance reflects a Brent average price of $95 for 2022. Inclusive of these activity changes, our 2022 capital guidance remains at $3.9 billion to $4.3 billion.

We mentioned on our last call that our 2022 capital guidance incorporates approximately $250 million of inflation compared to 2021. Cost of materials and services necessary for operations, especially onshore in the United States, has continued to increase. We are working to offset inflationary pressures through additional efficiencies, but if price increases continue, we may spend near the top end of our capital guidance this year. Certain pricing pressures such as labor and our WTI index CO2 purchase contracts in the EOR business have become pressing, leading to a slight upward adjustment in our full year guidance for domestic OpEx.

We are pleased with our strong start to 2022. With one full quarter behind us, we have completed scheduled turnarounds, continued to pay down debt, established a shareholder return framework, provided a comprehensive update on our low-carbon strategy, and set new quarterly records for earnings and cash flow. We will continue to focus on delivering value for shareholders this year and beyond.

I will now turn the call back over to Vicki.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Thank you, Rob. I would like to thank our shareholders for voting with the Board at our recent Annual Meeting and defeating a proposal that if approved, would have been counterproductive as we work towards achieving our net zero ambition. Our quantitative short-, medium- and long-term goals for Scope 1, 2, and 3 emissions are directly aligned with the goals of the Paris Agreement, our competitive strengths as a carbon management leader, and our strategy to achieve net zero before 2050.

With our journey towards net zero fully underway, we presented a market update in March on our low-carbon business strategy. We provided details of the market opportunity and our plans to deliver climate and business solutions that leverage our assets and capabilities in carbon management, including CCUS. We are advancing the technological solutions that can deliver large scale and rapid emission reduction throughout our value chain. Additionally, our low-carbon strategy creates value for our existing businesses while, at the same time, helping to accelerate the path to net zero for ourselves and other leading companies in multiple industries.

We'll now open the call for your questions.

QUESTIONS AND ANSWERS

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Operator

(Operator Instructions) The first question comes from Michael Scialla with Stifel.

Michael Stephen Scialla ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD***

Rob, you mentioned that you could potentially commence the buyback this quarter. I wanted to see -- as you look beyond this year, based on where the strip prices are right now, can you give any indication of what you're thinking in terms of free cash flow priorities for the longer term?

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes, Michael. Thanks for the question. So we haven't provided any guidance for 2023 and beyond at this point. I think what we've indicated in the notes was that as we complete the $5 billion and the $3 billion this year and then apply the balance of any additional cash to the balance sheet, driving that gross debt down into the high teens, that we would anticipate translating -- less of the debt reductions being the priority and more attack the debt on a -- as it comes to maturity basis. And so that would imply, in the 2023 and beyond, a re-shifting of our priorities such that shareholder returns and other priorities will move towards the higher end of the scale.

Michael Stephen Scialla ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD***

Okay. Understood. And I know your hedges have rolled off at this point. Do you see any need to protect any of the debt reduction targets or the buyback program? Or I guess over the longer term, if you -- the dividend becomes part of the free cash flow, return to shareholders, any need to reinstitute a hedging program to protect any of those things?

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

No. So Michael, our history as a company has been fairly hedge adverse. Our belief is that our shareholders will ultimately receive and the company will receive the best value for the commodities we produce and sell if we just move with the cycle throughout the entire cycle. We did deviate from that because -- in 2020 due to the amount of maturities we had coming due at the time. Since then, the combination of the costs driving out, the moving out of certain maturities, the paying off and certain reduction of debt that we've talked about and the combination of creating a sustainable business at a much lower price has removed some of that.

And also, I would say that there's other pieces to it with our chemical business, our midstream business, international business that operate a little differently in some of those price environments, creates other built-in hedges towards that. And so I don't see us going towards hedging to try and attempt to mitigate any of those risks. I mean we have a pretty manageable debt profile now, particularly for the balance of the decade. With the work that we did in the first quarter, we only have 2 years, '25 and '26, that have any maturity towers that exceed $2 billion, and that will certainly be a focus as we move forward. So I don't really see the need for hedges to mitigate any of the risks moving forward.

And as Vicki outlined on our last call, the dividend approach is meant to be sustainable at low prices. The share repurchases will make that dividend that much cheaper at low prices for us. So I think we're doing the right things to protect from low price environments the business without having to artificially try and protect with hedges.

Operator

The next question comes from Jeanine Wai with Barclays.

Jeanine Wai ***Barclays Bank PLC, Research Division - Research Analyst***

So maybe we can just start back with -- either Rob or Vicki, on your prepared remarks about what's going on next. So we just wanted to clarify the sequencing of further debt reduction and incremental shareholder returns. It sounds like from your commentary that further gross debt reduction beyond the first $5 billion, that, that will be ahead of additional cash returns beyond the $3 billion buyback and not in parallel. And so I guess reducing gross debt versus net debt, that's pretty different logistically. That's pretty easy given your free cash flow. So do you have any color on how long you think it will take to achieve the high-teens gross debt target given what you see in the market for tenders and what you see in the market for open purchases?

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Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes. It's a good question, Jeanine. I think that the -- as we laid out last quarter and what I've tried to convey in my remarks is we would complete the $5 billion of debt reduction and then initiate share purchases. I think that based on being at 3.6 where we are today, and as we've demonstrated, we have a combination of the open-market repurchases, tenders, make-whole provisions, et cetera. All that are attractive in the current environment simply because of the rise in treasuries, that achieving that is not going to be a heavy lift in the quarter. And we anticipate that proceeding with share repurchases during the quarter is reasonable to expect during Q2.

And so the timing of how long it takes to complete the share repurchases is going to be really dictated by the pace at which we're able to retire and bring those shares in. The stock is obviously very liquid. We have at our disposal lots of different mechanisms to actually acquire the shares. We're going to do it in a way that is most constructive and bring most value to the shareholders in the process.

And then, we do have cash available beyond that, which the current pricing environment would certainly suggest we would have cash well above those two pieces of -- $8 billion between those two programs. We would resume applying that back to the balance sheet in the process for the balance of the year.

Jeanine Wai ***Barclays Bank PLC, Research Division - Research Analyst***

Okay. My apologies. I was referring to getting to the high-teens gross debt, but we can take it offline. That's okay.

Our second question, maybe just on growth. How are you thinking about production growth beyond 2022 given the medium-term gross debt reduction target? Is it kind of like an either/or on growth and paying down debt? Or is -- the price environment, is it constructive enough and the balance sheet is improved enough that you can do both?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Well, I think that by the time we get to 2023, certainly, our balance sheet, we believe, is going to be very, very healthy versus where we started. So as Rob has mentioned, we expect to have the cash to be able to go beyond the $8 billion this year and every dollar above the $5 billion. That's the $3 billion of -- including the $3 billion of share repurchases in that $8 billion. So, any free dollar above that would go to debt reduction. So we do expect to make significant progress with that this year.

With respect to production increases for 2023, we are going to increase throughout the rest of this year. And going into 2023, the production that we have is always a result of the programs that we put in place. And so it's going to determine the development programs that are in place by the end of this year, heading into 2023 and what we see as the appropriate pace to deliver the most net present value. And we've said before that, that could be between no growth and 5%. But as we look at the macro towards the end of the year and weigh the uncertainties that we see today, we'll be able to finalize that and as you -- as we always do, let you know towards the beginning of next year.

Operator

The next question comes from David Deckelbaum with Cowen.

David Adam Deckelbaum ***Cowen and Company, LLC, Research Division - MD and Senior Analyst***

Appreciate the time. I wanted to ask an additional question around growth into next year, specifically to the Permian. Your guide obviously implies that you'd be ramping towards almost 600,000 barrel equivalent a day there by the end of '22. Should we think about 16 gross rigs being sufficient to continue growing that profile into 2023?

Richard A. Jackson ***Occidental Petroleum Corporation - SVP***

David, this is Richard. Let me start with that. I think the way I'll try to answer that is kind of talk through the cadence of how we entered the year and maybe how that translates to second quarter into the second half of the year. So very pleased with really where we landed in the first quarter. We had a beat for the onshore U.S. and specifically part the Rockies, but also part in the Permian. And really, that was on a bit of uncertainty at the time we provided that guidance around final recovery of the weather event and then certainly contemplating some of the supply chain challenges that the industry saw.

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And so we are very pleased where we landed in the first quarter. From an activity ramp-up plan, we're able to add the rigs that we started in the fourth quarter into the first quarter. So really, we're at near activity level for the rest of the year. We're at about 17 rigs and 5 frac cores in the first quarter.

I think importantly, as we think about this, the time to market was on pace. And so we actually finished 2 wells online better in the first quarter and increased our total year outlook by 10. And so that was very important for us to continue to deliver that time to market on pace. But as you think about sort of this inflection of growth going into the second quarter and then the back half of the year, March was 24,000 barrels a day better than February. And I think below that, 62% of the first quarter wells were online in March and really late March. So again, very pleased with that sort of ramp-up and then transition.

If you go back into last year, it was really -- I think we talked about on the last call a lot of transition from DUCs in the Rockies, which carried a lot of production into what I would consider a much more steady-state drilling and completion cadence really in the second quarter of this year and to the back half of the next year. So we expect to really benefit from that. And so when we think about really the second quarter, we hit this -- add a couple of rigs, as you mentioned, in the Permian, to hit the 16 and really 18 overall or net rigs. Really not a big change because our net rigs stay about the same with the drop of the Rockies in the back half of the year.

But you can start looking at the Delaware. It's a really important area for us to deliver this growth. We have 30 wells that were online in the first quarter. Really, the second quarter, that goes to about 40. And then the back half of the year, that increases to about 50 per quarter. And so feel good about that delivery schedule in the Delaware. Again, going back to last year, we had about 7.5 rigs in the second half of last year in the Delaware. In the first half of this year, we'll be at 12.

And so again, as we went from DUCs to drilling, that was really the next stage of the steady-state recovery. And then we'll enter into the full sort of completion, online schedule for the back half of the year. And so the good news is those wells are coming online very well. I think of all the wells -- and I pulled out this morning the Texas Delaware. I think we had 23 wells online in the first quarter that averaged -- they all average over 4,000 barrels a day on a 24-hour IP. So time to market is in line, production's in line.

And then the final thing I would say as we think about the back half of the year is really protecting that base. And I think part of the Rockies beat, we were real pleased with -- they're about 2% better on base than what we had in the plan. And so being able to protect that base production makes it a lot better. So when you look at time to market, you look at well performance, and then you look at sort of our takeaway position and flexibility in the portfolio, we feel really good, continue to work with WES on strong uptime and sort of operability, been able to look beyond 2022.

And so that final component of really de-risking what we're trying to do is very important. So I think we -- to kind of land on where you ended your question, I think, we feel really good about where we are this year. I think we've got flexibility in the back half of the year, as Vicki said, to adjust activities and really hit what is the right capital and development program for next year to hit really what the plan needs to be given the macro conditions and what we're trying to do as a company.

David Adam Deckelbaum ***Cowen and Company, LLC, Research Division - MD and Senior Analyst***

I got my value's worth with that question. Appreciate it. Robert, just my follow-up would be -- and I'm sorry to belabor the point, but I want to ask another question around the timing of return of capital and debt paydown. If we understand the sequence correct, once you get to another tranche beyond the buybacks where you're looking to get debt down to the teens, would that then preclude any incremental return of capital via buybacks and dividends? Or should we think about it as once you get through that next tranche of debt pay down and get that into the mid-teens, would you be agnostic as long as you're sort of delivering, call it, like 50% of free cash back to shareholders on how quickly you might be triggering a paydown of the preferred notes?

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes. So the preferred -- so obviously, the preferred -- if you look at the $3 billion of share repurchases and add into that the dividend of $0.13, assuming that those are flat for the course of 4 consecutive quarters -- or 3 consecutive quarters, et cetera, you're still not going to quite be at the level of triggering the $4 per share Berkshire trigger. And so as we've indicated, once we go beyond the $8 billion we've laid out for debt and share repurchases, we would intend to continue reducing debt, again, with the goal being to get that gross debt

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down into the high teens, where, based on our conversations with the three rating agencies, is one of the key waypoints we need to do to achieve investment grade.

There are several other metrics they provide to us that we're doing very well on relative to. We certainly know that they're going to -- that a lot of these metrics are in place today based on commodity prices. And so continuing to make that progress will help those metrics further to be constructive even in a more moderate price environment. So that's the reason why we're talking about going back to the debt beyond the share repurchase. We do think it's very important for us to achieve that investment-grade status or get to those investment-grade type metrics. And so I would look at the Berkshire [preferred] (added by company after the call) as more -- the potential of Berkshire [preferred] (added by company after the call) as more a product of the strategy we're moving this year as a potential, more than being a driver of the strategy this year.

And so if we find ourselves in a constructive commodity price environment, we've achieved those debt targets we've talked about, we've got those investment-grade type metrics, and we're having constructive discussions with those agencies about being investment grade, then I think you are in a position, as both Vicki and I laid out in our comments, that you could see a transition for us away from being -- debt being the predominant consumer of cash that we're generating beyond spending for the business and end up being something more targeted towards shareholder returns. And for us, as we discussed, we laid it out before, that the favorite way of returning value to shareholders beyond the dividend is through share repurchases because it does increase the sustainability of the dividend in lower price environments. We also have outstanding warrants, we know that those are sources of dilution. We also issued common shares as part of the acquisition. So it's a prime way for us to reduce it.

And if we do make a nominal increase in share repurchases in that 12-month period, it will automatically trigger the provision of targeting the Berkshire [preferred] (added by company after the call). So it's not a choice of do you want to trigger the Berkshire. If we cross that $4 threshold, we will begin the process of the common return and the reduction of the Berkshire preferred.

And so sitting here today in May, 8 months away from January of 2023, we're not in a position to forecast where our cash flow is going to be in the first quarter or where it's going to be at. But if we can accomplish these goals, it puts us in a position where we have the optionality, similar to the optionality Richard described and discussed about production exiting the year, of being able to be in a position where through additional shareholder returns, we would trigger the Berkshire [preferred] (added by company after the call) and begin reducing the principal of the Berkshire in the process of doing that.

And so we have some ground to hoe to get there. The commodity price environment is very constructive for us right now. The current -- certainly, the strip prices suggest this is very achievable, and we're doing the right things in the business in terms of driving cost out and keeping costs down in the process. So the combination of that, the chemicals business performance, our portfolio are all setting us up to be successful in that.

We're not very big on forecasting our cash flow in subsequent quarters or what we're going to do quarters away from this. But I think we've provided you with what our expectations are to do with cash for the balance of the year. And if all those things happen, it puts us in a position where to increase share returns, we would be going after the principal on the Berkshire [preferred] (added by company after the call) at that point.

Operator

The next question comes from Matt Portillo with TPH.

Matthew Merrel Portillo ***Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - MD of Exploration and Production Research***

Maybe just to start out on the DJ. I was hoping you might be able to provide a little bit more context around the permitting process and maybe some of the delays you're seeing. And then I was curious, if you hold one rig into 2023, what that might mean from a well count perspective for you all.

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Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes, Matt. I'll let Richard take that.

Richard A. Jackson ***Occidental Petroleum Corporation - SVP***

Matt, so thinking about the DJ this year and then into next year, we feel good about the progress we're actually making with our permits. I think the decision to move the rig to -- allocation to the Delaware is really allowing us to get our development plans in place for 2023. We've got -- I think we mentioned in the prepared comments, we've got permits approved to take that one rig into next year. We've got another 50 sort of wells that are across a couple of pads that are in the various stages of approval, but we feel good about where they're at. And then we have another 200 that are part of a larger sort of program that we're working through the system.

I would say we've got a lot of engagement obviously over the last year thinking about this. We've got a lot of improvements in technology and some things that I think will really fit well into the permitting expectations, both locally and at the state level. So really, as we go into next year, we would be capable of really getting to -- back to that two rig level and perhaps even more.

And so from a well count perspective, it could look very similar to where we started this year for the DJ in terms of count. But the challenge for us is to obviously develop responsibly, work with the local communities, work with the states, put together the best plan we can. But when we do that, we want to be prepared to develop because those are some very good wells for us within our portfolio.

Matthew Merrel Portillo ***Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - MD of Exploration and Production Research***

Perfect. And then a follow-up operational question. Just wanted to see if you might be able to spend a little bit of time talking about the Gulf of Mexico development plans from a tie-in and development perspective over the next couple of years and what that might mean for production. It's obviously a great free cash flow generative asset for the company. So I just was hoping to get a little bit more context around how you're feeling on that front moving forward.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes. We still feel really good about what we're doing in the Gulf of Mexico for the next few years. As you know, we've talked recently about the full-field development look at all the structures and the opportunities and high-graded. And then we've already started now working on a subsea -- or subsurface pumping system that will enable us to increase production.

Also, we're doing some additional work around rescheduling some of our development opportunities based on the exploration success that we've had and that we see. So I think certainly, we have the assets, we have the permitting capability there to continue to maintain that cash flow over the next few years. Beyond that depends on some of the success of the exploration that we will be executing this year and early next year.

Operator

The next question comes from Neil Mehta with Goldman Sachs.

Neil Singhvi Mehta ***Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst***

I had a couple of questions here around supply chain. And Vicki, in early March, you had made the comment that, I guess, caught some press, that the supply chains in the U.S. were relatively in dire shape as it relates to U.S. producers and that would be a constraint on U.S. growth. And a lot of that has proven out, especially around pressure pumping. So can you just talk about your latest views around constraints as it relates to U.S. shale and how you see this evolving from here and tie that into your view of the oil macro?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes. And my comment on that was definitely related to those who don't already have their plans in place and didn't already have their materials lined up to purchase. So anybody trying to increase activity at this point, not only in the Permian but also worldwide, would have a very difficult time being able to do that.

And with respect to the macro, I really don't think there's been a time since I've been in our industry where inventories and spare capacity

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are both very low. And then you couple that with the supply chain challenge. So I think that there are a lot of headwinds to increasing production worldwide. And there's never been a time, I don't think either, that companies have been trying as hard as they can to increase production. But we can't destroy value, and it's almost value destruction if you try to accelerate anything now. And some of the longer-term projects just can't get started because of the costs involved. Now for those of us that had plans in place -- and there are other companies that have done this too. But for those of us that had plans in place and had these plans in place early enough, we've been able to mitigate some of the impact of the inflation. And I'll let Richard detail some of that.

Richard A. Jackson ***Occidental Petroleum Corporation - SVP***

Sure. I'll just give you a few details from the U.S. onshore perspective, where we had factored this into our plans, like Vicki said. If you remember -- if you go back, really our first quarter message, we had up to 10% contemplated in our upstream capital budget. And we've certainly seen that. We feel good still with our capital outlook because of those plans and sort of what we had factored in for uncertainty within that range.

But I'd say a couple of things. One, I'll speak quickly on inflation mitigation. But importantly, for us -- most importantly for us, maintaining those operational efficiencies and that time to market, wells online schedule was very critical. And so you'll continue to hear us talk a lot about what we're trying to do to work with our service partners to protect that.

But from an inflation perspective, I mean, the 2 big ones: oil country tubular goods. We knew going into the year, see that. And we have -- we've had some tubulars over 100%, and that's meaningful. It's about 7% of our capital, and so that has been meaningful.

The one that had a little bit more dynamics, I think from an industry perspective in the U.S. and the Permian, was really sand. But felt good. We've worked through that well in the first quarter and good where we're at today. We think about sort of where is price and where is supply and we feel good about our supply situation. We didn't have any disruptions in the first quarter that impacted that wells online schedules, we were able to maintain schedule there.

Part of that is design. We've been able to work with our development teams to be able to manage really both white and regional sand into our designs based on that supply. The other is our primary sand supplier and the use of Aventine. So again, that facility became very helpful for us in terms of storage and last-mile logistics in terms of what we're doing. And so that was really good.

The last thing around sand that I think played well for us, and we appreciate, again, our service partners with this, we moved back to a bit more of an integrated strategy with our frac providers. And so that included sand -- being able to supply sand, but it also included trucking, and fuel. And so both from a trucking perspective in terms of moving sand to that last mile logistics, we were able to get some help from our frac providers; and then from a use of our Tier 4 dual-fuel perspective, that fuel supply. And so that played out very well for us.

We feel like we're in a good position. We feel like we're mostly locked in on price for the rest of the year. But that sort of decision and work we did with our service partner played out very well.

Neil Singhvi Mehta ***Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst***

And the follow-up is just around the chem side of the business. Nice to see the guidance bump here in terms of pretax income guidance. Can you just talk a little bit about how you see the trajectory of profitability through the year? It sounds like, if I understood the comment, still a strong year, but there might be some downward pressure on pricing as we think about the year playing out. So any color around that would be great.

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes. Sure, Neil. I guess let me answer your question by relaying where we are today. So as you indicated from our comments, the conditions are still very strong in our vinyls and in our caustic soda business. We don't -- from our, first of all, sales, the Russian-Ukraine impact is really the escalation of prices in Europe and in Asia, which is impacting their chlor-alkali operations and chlorine derivative production and leading them to not only reduce operating rates but also increase prices accordingly. That's benefiting both sides of the business because of that.

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And so -- but not only that, domestically, the business remains very strong on the vinyl side of the business. And so we would estimate year-to-date March -- operating rates through March, these lag a bit but were reported by industry at 81.6% year-to-date, which is not as high as you might think it might be. But there's been a lot of controls in that due to the outages that occurred in the industry during the first quarter, which is pretty typical. But domestic demand in the first quarter was up about 10% versus last year. And in fact, domestic demand in March for the U.S. was the highest single month for domestic demand in over a decade, just reflecting that pent-up demand for construction.

And despite what is relatively, based on historical value, high prices for PVC, the demand is still there, and it's being pulled right through the building products. So that's great for the business. Exports are about 7.5% higher than they were this time last -- through March last year, reflecting the fact that there's opportunities to sell PVC internationally. In some ways, the PVC is exporting U.S. gas and ethylene overseas and the places that are being impacted by the higher prices or availability. So that's all -- it's very constructive for the business.

And then we see that demand being very resilient certainly through the first half of the year, a favorable housing sector, et cetera, and the export business being open for as long as it's available simply because of the U.S. advantage on gas, ethylene and energy, et cetera, versus rest of the world. So PVC feels constructive. Obviously, interest rates raising can impact housing starts, et cetera, and demand on that business. And so that's one of those uncertainties. We're not seeing anything that would suggest it's falling off, bringing fractures in the strength of PVC.

We're sitting here in the month of May and watching the news, like everyone else is, regarding the Fed getting more hawkish towards interest rates can have a corollary impact on housing starts and demand at some point. And so we're just a little bit less clear on the trajectory in the second half of the year. So you see a little more cautious outlook for the business on that side.

On the caustic side of things, it's been a -- we don't get operating rates anymore as an industry because of the amount of people that participate in it, and so -- but we would estimate rates are somewhere in the low 80s. But all producers had scheduled and unscheduled downtime, the majors, during the first part of the year so far. There's been several downstream consumers that have had issues and production issues. And we're obviously dealing with some railroad logistics issues as an industry and other industries right now.

And so -- but the core sectors, just like home construction, durable goods, transport, et cetera, they're all very strong right now. The improvement in travel and customer spending is still there. And obviously, just like in the PVC business, we're taking advantage of the fact that with the energy advantage in the U.S. versus the rest of the world right now from a pricing standpoint, despite being high here, it's nowhere near as high as it is in Europe and Asia, which opens up opportunities and will lead some consumers of our products to produce products here versus overseas and then export those products. And so again, similar to the PVC business, the caustic business in the second half of the year -- I think it's very strong through the first half of the year. It's just a little less clear trajectory in the second half of the year only because of those overhanging potential impacts to the economy and associated GDP, which typically drives a big part of the business.

And so I wouldn't say that we're pessimistic towards the second half of the year. If you look at the guidance range we gave and look at what we're doing for the second quarter and look at Slide 33, which had a historical view of chemicals performance, the second quarter guidance alone would have been a great year by many standards for many years prior to '21 and '22. And then if we look at the second half of the year, even if we reach our guidance midyear, you're talking ranges, it will also be close to $1 billion on the high end of our range. Certainly, if things are more constructive, we're on the high end of the range. And I think that's the feeling that we have right now.

We'll get more clarity. We're really in the zone right now where we're trying to understand what might be the impacts of rising interest rates in the business. But all the demand factors today are still very constructive for supply/demand. And the longer that supply/demand balance remains tight on the two sides of the business, the higher we're going to go towards the high end of that guidance, and we'll potentially revise that guidance at some point midyear obviously, once we see how the second quarter turns out. But our guidance that we provided for the year beyond the Q2 guidance just takes into consideration that uncertainty we have in the second half of the year just because of what's going on not only in the U.S. but globally in the economy.

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Operator

The next question comes from Doug Leggate with Bank of America.

Douglas George Blyth Leggate ***BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research***

Appreciate you taking my questions, everybody. Rob, I hate to do this, but I'm going to go back to the capital structure of the company. And I want to ask 2 questions related to the preferred shares. I want to nibble on them some, just a little bit, if I may.

So my first question is you talked about absolute net debt targets. You don't talk about the capital structure, including the prefs. So if I include the prefs as debt, for example, one could argue that once you get back to investment grade, your cost of debt is going to be a substantial potential offset to the premium you need to pay for the prefs, if you chose to raise debt to buy the prefs. See what I mean? 8% money on the prefs, let's say 4% or 5% money on the debt. Even with a 10% premium, that would make sense. Why would you not do that?

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Why would we not retire the pref? Is that what you're saying, Doug? I didn't catch the middle.

Douglas George Blyth Leggate ***BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research***

Yes. Sorry, yes. Why is that not an option? Because it seems to me that the premium is worth paying if you can reduce the cost of overall money, which is what you would do at 4% or 5% debt.

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Oh, go out and borrow to actually fund the retirement of the Berkshire [preferred] (added by company after the call).

Douglas George Blyth Leggate ***BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research***

Once you get -- once you hit investment grade, yes.

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes. The challenge with it is, is this is not just the premium. It's also the return to the shareholders, too. And so it's not just considering the premium on the Berkshire [preferred] (added by company after the call) of the 10% through 2029. It's also that there's got to be an equivalent value returned to the shareholders at the same time. And so versus retiring the debt, like what we're going to do the balance of this year, where every dollar that goes to debt reduces our gross debt, going into -- when we retire the Berkshire [preferred] (added by company after the call), it will reduce shares by an equivalent amount but will also reduce -- possibly split -- bifurcate it into the two. And so $1, half of it goes towards shareholders and half of it goes towards the Berkshire [preferred] (added by company after the call).

And so I think once we achieve the ability -- if we start retiring the Berkshire [preferred] (added by company after the call), we're certainly going to want to deviate and put -- whatever cash we're applying to debt reduction will be going towards the Berkshire [preferred] (added by company after the call), which, the way that our maturity is laid out today, is not very difficult for us to do. I mean we don't have any maturities of any meaningful size until the second half of 2024 at this point. Even that isn't very large in scale. And so we have the ability to allocate all the cash that we have available to us, if we want to, towards shareholders and Berkshire [preferred] (added by company after the call) return, if we're doing that at that point, without having to retire the debt because we don't have any maturities over that period of time.

Douglas George Blyth Leggate ***BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research***

Okay. Well, I apologize for asking. I just wanted to understand if it was a crazy idea or if it was something you would actually consider.

My second question is even nuttier, if you don't mind me going down this route. Berkshire obviously has now a vested interest in a better share price for obvious reasons. They've built up a very large position in your stock. And 8% money on the prefs is obviously still pretty expensive. Is there any consideration, likelihood discussion or anything else you might want to share with us that could ultimately see you swap out of the prefs on favorable terms for ordinary equity with Berkshire given that they have already built a very large position? Just curious if that was a consideration.

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Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Doug, we don't share the discussions that we have with other shareholders, as you know. But I can tell you that we always consider ways to add value to our shareholders, and we'll continue to do that. So we really can't disclose any private conversations with other shareholders.

Operator

The next question comes from Phil Gresh with JP Morgan.

Philip Mulkey Gresh ***JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst***

With respect to capital spending, in the past, you've talked about sustaining CapEx of $3.2 billion at $40 WTI. And obviously, we're in a much higher environment and probably for longer. So I'm curious if you'd have another way to think about that in particular, with the CapEx you think would be required to sustain this 2022 exit rate you're talking about that should be somewhere around 1.2 million barrels a day. And I'm looking at this in the context of your CapEx guide for the year would seem to imply we're exit rating maybe in the high 4s on CapEx, but would just be interested in any color there.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes. This year, we did have some things that we needed to catch up on. As you know, we were at $2.9 billion last year, and that didn't sustain some of our lower-decline assets. So we are -- that's part of the reason that we have a little more OpEx in Permian, that is to restore some CO2 to some of our CO2 floods and also to do some workovers to get some wells back online.

So as we're going toward -- forward and looking at what's the optimum level of capital for the -- these assets to deliver the most value, we are taking into consideration what should we do, where should we allocate capital, so even the assets that in a sustainability scenario would be lower capital. It's just that the lower-decline assets take a little longer to catch up, but then they don't decline as quickly. So if I'm understanding your question, to get us to where we would continually be at a higher rate, which should happen going into next year, I think that we'll be where we need to be to have the capital into every asset that we have optimized.

Philip Mulkey Gresh ***JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst***

So just to clarify, if we're exit rating, call it, at $4.8 billion or something like that in the fourth quarter on CapEx, would you be saying then that there's maybe still some catch-up spend that was embedded in that? Or is that actually the sustaining capital rate?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I would say that, that is probably a little higher than the sustaining rate. But it's the rate that we feel is appropriate on a go-forward basis to optimize the development within each of those portfolios. Our sustaining capital is still at that $3.2 billion in a $40 environment. So we have the increase in prices that comes with not being in the $40 environment, I should say.

We have -- on the waterfall, we show you a little deflation as costs go back down to a cycle that looks more like $40 than where we are today. So there's an uplift in costs associated with that. And then there's the $250 million that we put into the CapEx for this year that's more related to inflation, albeit we're just trying to offset $50 million of that. But that's also dollars that are not going into delivering incremental oil. It's just to pay the costs due to inflation. So it is at the rate that -- going into next year, would be at a rate that should deliver year-over-year a little bit of an increase in production.

Operator

And the last questioner will be Paul Cheng with Scotiabank.

Paul Cheng ***Scotiabank Global Banking and Markets, Research Division - Analyst***

Maybe first one is for Rob. I know that it's too early, that you guys haven't decided what is your program going to look like for next year. But can you tell us roughly what percent of your work may already have some kind of fixed price contract for 2023? And maybe some give and take then on how you see that program like in higher inflation or if inflation will continue pushing higher. Some kind of -- maybe any insight can help.

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And second question is we're quite -- the Midstream full year guidance seems to suggest second half, you're going to, say, go back to a loss. Is that just being conservative or there's some identified items to make you believe the second half of the result is going to be much worse than what we've seen in the second quarter or what you are guiding to?

Richard A. Jackson ***Occidental Petroleum Corporation - SVP***

Paul, this is Richard. Maybe I'll start with just a little bit of the sort of U.S. contract and talk around it in terms of inflation. We can start there to kind of give you a view of how it's going into the back half of this year and into 2023.

I think from -- some of the critical components like rigs and frac core, we have flexibility going into the back half of the year we have some contracts that do not extend into 2023. So again, as we sort of land on what the final 2023 plan is, we've got some flexibility there. We also want to make sure we've got the highest performing crews and rigs that we can.

Again, from an OCTG and sort of sand supply, I think one of the real advantages we have beyond what I mentioned earlier is that we're operating most of our activity within 5 core development plans. So we've got this year about 80% to 90% of our activity within 5 areas and would expect that to continue into next year. And that -- those designs being locked in gives us the advantage of being able to schedule out things like sand delivery and tubular. So both of those we'll order out 6 months in advance. We'll be able to secure the pricing that we can. And those represent really the biggest uncertainties in terms of inflation going into next year.

The rest, we obviously work contracts globally. So work with Ken, whether it's Gulf of Mexico or internationally, to be able to work with our service providers as best we can to sort of do that global view in terms of our need. So we feel good, again, where we stand this year in terms of supply and price, and we'll be looking in the back half of this year to get that firmed up into next year.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I would say, Paul, on the Midstream business, because of all the uncertainties in the world and there are a lot of those, we've taken a very conservative approach on our forecast for pricing of sulfur and NGLs mainly.

And with that, I want to say I very much appreciate all the calls today, and I want to thank our employees for their commitment and their exceptional performance that's been able to help us resume our delivery of return on capital employed and of capital to shareholders. So have a good day. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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