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OXY.N - Q1 2026 Occidental Petroleum Corp Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good afternoon, and welcome to Occidental's first quarter 2026 earnings conference call. (Operator Instructions) Please note this event is being recorded.

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

Babatunde Cole - *Occidental Petroleum Corp - Vice President, Investor Relations*

Thank you, Betsy, and good afternoon, everyone. Thank you for participating in Occidental's first quarter 2026 earnings conference call.

On the call with us today are Vicki Hollub, President and Chief Executive Officer; Sunil Mathew, Senior Vice President and Chief Financial Officer; Richard Jackson, Senior Vice President and Chief Operating Officer; and Ken Dillon, Senior Vice President and President, International Oil and Gas Operations.

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.

We will also reference a few non-GAAP financial measures today. Reconciliations to the nearest corresponding GAAP measure can be found in the schedules to our earnings release and on our website.

I will now turn the call over to Vicki.

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

Thank you, Babatunde, and good afternoon, everyone. I want to take a moment to acknowledge the ongoing challenges and uncertainty in the Middle East. First and foremost, I want to thank our frontline employees in the region for their professionalism and focus under very difficult conditions. Their safety remains our top priority and thankfully, our teams continue to operate safely, with no adverse impacts to our personnel. Also, I want to recognize the continued support of our partners and host governments in the UAE, Oman, and Qatar. Their collaboration and shared focus on safety and asset integrity remain critical as conditions continue to evolve.

Recent developments have driven sharp price movements and increased volatility across global markets. These dynamics underscore how quickly supply expectations and trade flows can change and why reliability, resilience and financial strength matter.

While volatility can influence near-term prices, long-term value is created by companies that execute consistently across cycles while protecting their people and assets. During this period, Oxy executed as we planned. More importantly, we demonstrated that the strategy we have built over more than a decade can perform well through disruption.

Over the past 10 years, we have fundamentally transformed Oxy's portfolio to emphasize quality, balance, and durability. From the beginning, we operated with clear conviction that the world will continue to need oil for decades to come and that the Permian would play a critical role in meeting that demand. That conviction shaped the strategy grounded in subservice capability and operational excellence to lower full-cycle cost across the portfolio.

As we sharpen that focus, we exited non-core assets and redirected capital to competitive positions where our technical capabilities could create the greatest value. We invested consistently in our people, knowing that subsurface expertise and disciplined execution will be key differentiators for Oxy over the long-term.

As part of that deliberate work, we shifted to a substantially more domestic portfolio. Today, 83% of our current production, and 88% of our total oil and gas resources are in the United States, concentrating our operations in a more stable operating environment. Recent global events reinforce the importance of those decisions.

Through this transformation, we built both scale and depth. Since 2015, we more than doubled production going from 650,000 BOE per day to over 1.4 million BOE per day. We also more than doubled our reserves and resources, increasing reserves from 2.2 billion to 4.6 billion barrels of oil equivalent, and total resources from 8 billion BOE to approximately 16.5 billion. These resources are high quality and low-cost, with a runway of more than 30 years.

At the same time, we diversified and balanced our mix of assets in the portfolio, with roughly half of our resources in short-cycle unconventional assets and the other half anchored in lower-decline assets across EOR, the Gulf of America, Oman, Abu Dhabi, and Algeria. This balance positions us to reduce our base decline to below 20% by the end of the decade, and support lower sustaining capital over time.

Subsurface and technical excellence have also been core to our success. Over the past decade, we have invested in data acquisition, reservoir characterization, and development design to build a superior understanding of the subsurface. This enables us to optimize development plans by basin, section, and formation rather than rely on a one-size-fits-all approach.

Our teams have delivered and the data backs it up. Quarter after quarter, we have achieved industry-leading unconventional well performance across every basin in which we operate. Since 2016, we have maintained a reserves replacement ratio above 100%. This capability continues to expand and improve our resource base, unlocking new opportunities across EOR, the Gulf of America, and our international assets. Looking ahead, this capability will only get stronger as we combine our data and technical foundation with advanced analytics and AI to further optimize development and performance.

Today, with the portfolio, resource base, and capabilities we've built – Oxy is positioned to deliver even greater value for decades to come. In the first quarter of this year, we remain disciplined in our capital allocation, maintaining a steady development program aligned with our 2026 plan. And we continue to prioritize balance sheet strength to preserve flexibility and support sustainable shareholder returns. Our first quarter results reflect that progress.

Now I want to take a minute to reflect on the leadership succession plan we announced last week. As I'm sure you saw, I will be retiring as President and CEO of Occidental on June 1, And with the approval of the Board of Directors, Richard Jackson will succeed me as President and CEO. I will continue to serve on Oxy's Board, and Richard will join the Board as well on June 1. I've worked with Richard for almost 20 years and have always been impressed with his drive for excellence, his integrity, and ethics. He brings deep experience across our business and a strong track record of execution, making him a great choice for the next phase of our strategy, which includes the development of our extensive portfolio. The Board and I have full confidence in his leadership as he carries forward the strong performance and foundation we've built at Oxy.

As Oxy enters this next stage, I also have great confidence in our innovative leadership team and our employees who will continue to excel at what we do best, and that is oil and gas development and operations. This is our forte. Oxy's future is in excellent hands.

With that, I'll now turn the call over to Richard to discuss our forward trajectory in more detail.

Richard Jackson - *Occidental Petroleum Corp - Senior Vice President and Chief Operating Officer*

Thank you, Vicki. I appreciate being able to speak with you all today, and I'm grateful for the opportunity in front of us at Oxy. It's a privilege to be part of our team, and I'm looking forward to my new role to help support and drive value delivery.

I want to start by acknowledging the strong foundation that Vicki's leadership has built over the last decade. It has been a remarkable transformation of resources and capability across Oxy. Her vision of transformation, combined with a strong drive to deliver has positioned us where we are today. More personally, all of us at Oxy recognize and appreciate the impact Vicki has had on our team and each of us individually. Her passion to develop our team and her people-first approach is something that will endure and shape how we grow together in the future.

As we look forward, our focus now is on execution and delivery. As Vicki noted, we have a 30-plus year resource base that is high quality, rightsized, and balanced. We believe each of these are important to help drive our results across any cycle. We're operating from a well-understood resource position with significant value upside, and are now set for organic development to achieve our objectives.

Our focus starts with continuing to improve our advantaged resource base through sustained improvements in new well performance and base production. Today, we are a leader in US unconventional well performance, where much of our future resource development will occur. In 2025, we were top-tier in every basin where we operate, delivering at least 10% better new well performance than industry average on a six-month oil per lateral foot basis. We continue to see opportunity for further new well performance improvement across our global assets.

Base production is also a key contributor to our results, where we have improved uptime in all operating areas. I want to give special recognition to our Gulf of America team, whose focus on maintenance and platform reliability has led to strong base production performance, with a record topside uptime of 98% in Q1.

Beyond well performance, we will continue to improve our resources through advanced recovery across four differentiated capabilities: US unconventional secondary bench development, expansion of EOR across the portfolio, low-cost development and waterflood projects in the Gulf of America, and focused exploration strategy in both our GoA and our international operating areas. These are all areas where our subsurface capabilities and approach are delivering results and where we have significant opportunities to unlock more value.

Another key focus will be continuing to deliver cost efficiencies. Since 2023, we've delivered $2 billion in annual cost savings through operational efficiencies. And in 2026, we are on track for an additional $500 million in oil and gas cost savings across new well and facility costs, operating costs, and transportation.

Looking ahead, in the near term, we see a clear pathway to grow free cash flow and value at any price with significant upside opportunities. Our value improvement starts with executing from a strong balance sheet, continuing to organically improve our resources, and further driving cost efficiencies.

2026 is an important first step as we are targeting more than $1.2 billion of incremental free cash flow relative to 2025 before the positive impacts of higher prices. As a next step, we are developing plans to deliver significant additional cash flow by 2029 through continued oil and gas cost efficiency and lower decline rates, improvements from midstream and LCV, and lower corporate costs driven from lower debt interest and workforce efficiency.

Our forward plan gives us a clear pathway to grow value through any cycle. At lower prices, we will be able to sustain production and grow the dividend. At higher prices, we have the opportunity to further accelerate value by adding measured reinvestment and share repurchases aligned with our disciplined cash flow priorities. We will also remain leveraged to higher oil price, enabling us to generate substantial incremental cash during these times. Simply put – advantaged resources, lower cost, and lower decline rates drive lower sustaining capital and durable free cash flow to grow value in any cycle.

Now let me turn to our first quarter results and progress. In our Middle East operations, our core focus has been on the safety of our people and operations. We want to thank our teams and partners as we continue to work through events in the region. Sunil will talk through these impacts as he covers guidance for the second quarter and total year.

We exceeded the high end of guidance in both our Oil & Gas and Midstream and Marketing segments in the first quarter. We delivered 1.426 million BOE per day production, a 21,000 BOE per day beat against the midpoint of guidance, largely driven by strong new well performance and uptime across our domestic portfolio.

We also made strong progress on our US onshore oil and gas cost savings this quarter, where we are delivering top-tier capital efficiency. We're building on the successful improvements we have made over the last few years, and we're on track to deliver approximately 7% new well cost improvement in our 2026 plan.

Additionally, last month, we announced the Bandit discovery in the Gulf of America. This is the third GoA exploration discovery we've had in the last three years, highlighting our subsurface capability and success of our infrastructure-adjacent, capital-efficient exploration approach.

I also want to provide an update on STRATOS. The construction of Phase 2 is now complete. This is the second 250,000 tons per year of capacity. It includes the final two air contactor trains and updated pellet reactors based on the new design. We also completed commissioning of the Phase 1 unit operations, which includes operating air contactors and the central processing facility. During commissioning, the technology and process unit operations performed as expected.

After these Phase 1 commissioning activities, we identified an issue related to non-process components of the facility, unrelated to the technology. We are currently evaluating the repair timeline and assessing the impact on the operations schedule, and will provide an update next quarter. While still early in our assessment for repair, we do not expect this to impact Oxy's capital range for the year.

I want to close again by thanking Vicki for her leadership and commitment to Oxy. Many of us have grown and developed together over the years, and the team and capability we've built is one of the strengths I'm most proud to be a part of. We've made important progress, but we also recognize there's more to do. Our focus will be on consistent execution of our priorities to deliver enhanced, durable value for our shareholders, employees and partners.

I'll now turn the call over to Sunil to review the financials.

Sunil Mathew - *Occidental Petroleum Corp - Senior Vice President and Chief Financial Officer*

Thank you, Richard. In the first quarter of 2026, we generated adjusted earnings of $1.06 per diluted share and reported earnings of $3.13 per diluted share. The difference was largely driven by the gain on the OxyChem sale, partially offset by the impact of derivative losses and early debt retirement premiums.

Strong operational execution, along with higher commodity prices, enabled us to generate approximately $1.7 billion of free cash flow before working capital in the first quarter, and we exited the quarter with more than $3.8 billion of unrestricted cash. Even with oil prices roughly in line with the first quarter of 2025, we generated approximately 52% higher free cash flow from continuing operations, demonstrating our continued focus on cost and operational efficiency. We had higher first quarter working capital use, driven primarily by higher receivables associated with stronger oil prices in March. This was in addition to normal first quarter items, including semi-annual interest payments, annual property taxes, and compensation plan payments.

As Vicki and Richard highlighted, our Oil & Gas and Midstream segments delivered exceptional results and exceeded our original expectations. Our production averaged 1.43 million BOE per day in the quarter, exceeding the high end of guidance. Strong base and new well performance in the Permian and Rockies, along with strong uptime in the Gulf of America, drove domestic outperformance, exceeding the midpoint of guidance by 33,000 BOE per day. This was partially offset by lower international production due to Middle East disruptions and PSC impacts due to higher oil prices.

We also continued to deliver on our cost efficiency targets. Domestic lease operating expense outperformed at $7.85 per BOE, a 5% improvement compared to our first quarter guidance, due to maintenance schedule optimization in the Gulf of America and higher production.

Our Midstream segment outperformed in the first quarter, generating positive earnings on an adjusted basis of approximately $400 million above the midpoint of guidance. This was driven by gas marketing optimization and higher sulfur prices at Al Hosn, partially offset by lower sulfur sales. We also benefited from higher crude marketing margins due to timing impacts of cargo sales and fluctuations in commodity prices, which are offset in mark-to-market. While the duration of these impacts remain uncertain, our performance highlights the ability of our midstream business to capture value during periods of volatility.

We have continued to make significant progress on our deleveraging. We reduced principal debt below the $14.3 billion level announced on our last call and today, our principal debt stands at $13.3 billion. This brings our go-forward run rate on interest payments to $845 million per year, which is approximately $550 million lower than our interest payment in 2025. This progress reflects the strength and durability of our free cash flow, and our continued commitment to disciplined capital allocation.

Our near-term cash flow priority is to reduce principal debt to $10 billion. Reaching this milestone will further strengthen the balance sheet and enhance our financial flexibility across cycles. As discussed on our fourth quarter call, near-term debt maturities remained low, with $415 million due through the end of 2029. This provides meaningful support through periods of market volatility. In the current environment, higher oil prices are generating incremental cash flow that continues to support this deleveraging path. After we achieve the $10 billion principal debt milestone, we will reassess our cash flow priorities based on the macro environment, including the appropriate balance between building cash on the balance sheet ahead of preferred equity redemption in August 2029, additional principal debt reduction, and opportunistic share repurchases.

Any increase in reinvestment would be driven by clear macro conditions and supported by continued cost and operating efficiency. Until these conditions are met, we intend to remain disciplined and balanced in how we deploy incremental cash flow. We are well positioned to increase reinvestment from a highly advantaged resource base at the appropriate time.

Let me briefly comment on hedging. We have not historically been active in hedging as we believe we create more value for shareholders over the long term by maintaining exposure to commodity prices. That said, we have selectively hedged under specific circumstances. In February, prior to the conflict escalation in the Middle East, we put in place a modest amount of oil hedges using costless collars. At that time, we saw increased downside oil price risk, and an opportunity to take measured action to preserve operational momentum and support our 2026 capital plan with a steady development program and without using the balance sheet. We hedged 100,000 barrels of oil per day from March through December 2026, with a floor of $55 WTI, and a volume-weighted average ceiling of approximately $76 WTI. This was primarily an operational decision and not a change in our hedging strategy. As volatility increased and prices moved higher, we stopped adding new hedges, and do not intend to do more.

Looking ahead to the second quarter, we expect performance to remain strong, reflecting disciplined execution and durable efficiency gains across our domestic portfolio. Our forward outlook incorporates a few discrete impacts driven primarily by two factors. First, in the Middle East, modest operational constraints at Al Hosn are expected to impact volumes. These began in mid-March and are anticipated to normalize before the end of the second quarter. In addition, higher prices under PSC terms will result in lower net production.

Second, we executed transactions to further optimize our EOR portfolio, increasing working interest in our core operated floods while divesting scattered non-core fields and associated facilities. While this lowers our EOR production modestly, these actions are free cash flow accretive, shifting the portfolio towards higher-margin, oilier production and meaningfully lower operating costs. Overall, this improves both the quality and durability of our EOR asset base.

Strong US onshore execution is expected to partially offset the impact of our EOR portfolio optimization. In the Permian, unconventional production is expected to increase in the second quarter, supported by higher activity and resilient base performance. In the Rockies, second quarter volumes are expected to be roughly flat, excluding prior period adjustments. In the Gulf of America, second quarter volumes are expected to decline modestly, reflecting planned facility maintenance and the beginning of tropical weather season.

As a result of the Middle East disruptions and strategic EOR actions, we are adjusting the midpoint of full year production guidance to 1.44 million BOE per day. We are maintaining our previous guidance for domestic lease operating expense, as increasing CO2 cost pressure related to higher oil prices is offset by the benefits of the EOR optimization transactions.

Turning to Midstream, we expect earnings to remain strong in the second quarter, driven by gas marketing optimization opportunities, given the wide Waha to Gulf Coast natural gas spread, seen quarter-to-date. Our guidance assumes impacts to sulfur sales in the quarter due to disruption in logistics from the ongoing Middle East conflict. We expect sales to normalize in the second half of the year, recognizing conditions in the region can change quickly.

Given strong performance year-to-date, we are raising the midpoint of full year Midstream guidance to $1.1 billion, an increase of approximately $800 million from the full-year guidance provided in our last call. We continue to expect the Waha to Gulf Coast spread to narrow later this year, as additional pipeline capacity comes online, and we believe we remain well positioned to capture marketing optimization opportunities as they emerge.

Capital spending in the first quarter was in line with our 2026 plan, with activity weighted toward the first half of the year. We are maintaining our full year capital guidance range of $5.5 billion to $5.9 billion, with the second quarter capital expected to be higher than the first quarter.

Even in a highly dynamic macro environment, our outlook remains strong. Our short-cycle US onshore portfolio continues to be a key competitive advantage, with low breakevens enabling efficient stable activity while providing significant capital flexibility in extreme price scenarios. We complement our US unconventional onshore investments with selective lower-decline, mid-cycle investments that reduces sustaining capital and strengthen cash flow durability across price environments. Together with continued balance sheet progress, and disciplined capital allocation, we are well positioned for the future, delivering strong, consistent operational results, providing resilience through volatility and the ability to opportunistically return capital.

I will now turn the call back to Vicki.

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

Thank you, Sunil. Since becoming CEO in 2016, I have worked with our Board and management team to operate with integrity and discipline, and we have invested in technical capabilities that differentiate Oxy, and we built a portfolio designed to endure. The progress we made reflects that focus, and above all, the expertise and commitment of our people. I again want to thank our leadership team and our employees throughout the company for their performance over the past 10 years. They consistently exceeded my expectations with incredible passion, perseverance, and loyalty.

I also want to thank our Board for their strong guidance and support. And in addition, I want our owners to know that I very much appreciated your trust and long-term perspective. I found our one-on-one meetings to be very valuable and informative. It's been a privilege to spend my 45-year career at Oxy and to lead this company alongside such talented and dedicated employees.

With that, we'll be happy to take your questions, as Babatunde and Ken will also join us today for the Q&A, and we're ready now to begin.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Doug Leggate, Wolfe Research.

Douglas Leggate - *Wolfe Research LLC - Equity Analyst*

Vicki, it's been fun watching you reposition the company. I'm sure you're not going to miss us, but we're all going to miss you. So, congratulations and good luck to you.

Now Richard, you are taking the seat, obviously. And I think the obvious question to ask is, if anything, how do you see things for Oxy strategically? I don't know if you're able to give your top priorities, but as CEO, what does the strategy look like under Richard Jackson's tenure? I've got a follow-up, please.

Richard Jackson - *Occidental Petroleum Corp - Senior Vice President and Chief Operating Officer*

Yes. Great to be with you, Doug. Appreciate to answer this. I think I'll start with a couple of perspectives. I think near-term, there are several things that we're very focused on in terms of delivery. And I think that's key thing that I'll continue to repeat.

I think first of all, execution of our current program, '26 as we go into '27 is critical. We came out this year very proud of the program that we put together. I think, really highlights the efficiency that we have in the program and the quality of the resources that we've been talking about. So certainly, we want to spend time with our teams, making sure that we have those put together – partners as we extend those opportunities to our global operations. So, focusing on near-term execution is critical.

I'd say the second piece maybe gets a bit more strategic. There's a couple of elements. I think one thing we've been working on, and we mentioned it in our script, is talking about free cash flow improvement near-term. So as we go -- certainly, this year was a big step with the free cash flow that we identified but over the next several years, we feel like there's some very clear drivers that at any price, we'll be able to significantly improve our cash flow outlook.

Continuing cost efficiency, one, we're talking more about -- which is our low decline of our production that's coming forward, having the opportunity this year to invest in things like the GoA waterfloods and even EOR is significantly contributing to lower decline as we go over the next few years. And then improvements in our Midstream and LCV, and then of course, debt interest as we continue to make great progress on deleveraging. So being very clear on that free cash flow plan's important.

And then that turns into a value plan. And so I think for us, it's simple as we think about driving value. How do we drive sustainable cash flow up? Both free cash flow, or we think about it a lot internally – cash from operations. And then those things that I described drive our sustaining capital down. And so when we do that, we're really built to generate significant cash flow at any price.

Lower prices, we can continue to grow our dividend. At higher prices, we get the opportunity to further grow our dividend but also reinvest in this high-quality resource base that we have and then look at opportunistic share repurchases. So I think being aligned on those plans, articulating what those clear drivers are, and then we really want to engage and help our investors understand when and how these improvements show up.

The last thing I'll say, while I've got the opportunity, is obviously our people. Mentioned, obviously, the role that Vicki has played over the last 10 years, but we have great people. And I think these are always opportunities to work, look at growth, succession planning, how do we continue to develop. And then we've been doing quite a bit of work on workforce efficiency, whether that's technologies like AI, or simply relooking at our processes and priorities to make sure we're focused on this delivery that I'm describing.

So those are the big ones that we'll be focused on initially. But again, look forward to delivering in the near-term as well.

Douglas Leggate - *Wolfe Research LLC - Equity Analyst*

Well, congratulations to you as well, Richard. It's been fun watching you evolve as well.

Maybe my follow-up, if you don't mind, I don't want to be too predictable, but I'm looking at slide 20 on the deck. And Sunil, you talked about getting to the $10 billion principal debt milestone. Obviously, your net debt is sitting a little over $11 billion, at least it was before you paid down the May bonds. But the next line item on slide 20 says ongoing net debt reduction, and I really want to understand what that means. Are you prepared to take this balance sheet to a level that essentially pre-positions to redeem the prefs when they come due? I mean that would essentially mean zero net debt. What are you signaling?

Sunil Mathew - *Occidental Petroleum Corp - Senior Vice President and Chief Financial Officer*

Doug, just to put things in context, let me first walk through the progress we have made with respect to deleveraging in the last six months. So at the end of Q3 last year, our principal debt was approximately $20.8 billion. And since December last year, we have paid down $7.5 billion. And today, our principal debt is at $13.3 billion, which is below the target we set in Q4 last year of $14.3 billion. So we want to further strengthen our balance sheet. So our near-term focus in terms of cash flow priority is to reduce principal debt to $10 billion.

Now once we get to the $10 billion of principal debt, we will reassess based on the macro, and we have multiple options. So, one is to build cash on the balance sheet to redeem the preferred in August of 2029, when we can redeem the preferred without the $4 per share return of capital trigger. So like you mentioned, that is the option of reducing net debt and being ready to redeem the preferred in August of 2029. So that is one option we have. The other option is reduced principal debt beyond that $10 billion. And the third is opportunistic share repurchases if there is a major dislocation between share price and oil price.

So we don't have a specific net debt target, but ultimately, it's going to depend on the macro, and we will take the appropriate action at that point based on what we believe maximizes shareholder value. And a couple of other options, I mean, as we also think about potential reinvestment opportunities, once we have a clear clarity on the macro and supported by continued cost and operating efficiency, that is something we would consider because of the portfolio that we have and our operational performance.

And the last thing I want to highlight is, I know Richard mentioned about having a sustainable and growing dividend even at a low oil price. So if you think about it, in 2029, after we have redeemed the preferred, and even if you were to assume no principal debt reduction after $10 billion – the cash flow improvement between preferred dividend and interest payment will be approximately $1.2 billion better compared to 2025. So if you look at our current common dividend payment, it's approximately $1 billion. So what that means or implies is a significant opportunity to have a sustainable and growing dividend, even at lower oil price.

Operator

Nitin Kumar, Mizuho.

Nitin Kumar - *Mizuho Securities USA LLC - Analyst*

Vicki, first of all, congratulations on the milestone, and thanks for your support over the years. Richard, you've been very clear about this new $10 billion target, and that's the first priority. A lot of your peers have formulaic return of cash programs in place. You're still talking about opportunistic buybacks. What is the hesitation in adopting something like that? And is it because you feel the macro is too volatile? Or is there any other reasons for not adopting something like that?

Richard Jackson - *Occidental Petroleum Corp - Senior Vice President and Chief Operating Officer*

Yes. Thank you for that. You're right, we have preferred not to have a formula-based approach to our returns. I think for us, the cash flow priorities lay out how we think about, and then as I walk through the value proposition, how we turn what we do into shareholder value. And so having flexibility through uncertainties has given us advantages to be able to move to do that.

And so what I can say with clarity is that what doesn't change are the fundamentals of driving the cost efficiency into our program. If you think about how do we create additional cash, capital efficiency, lower operating expense, and lower decline. That's where we fundamentally are focused.

In terms of our cash flow priorities, I think bigger picture, I think dividend, as Sunil was mentioning, is where we go. If we think about share repurchases, we do want to be able to create those opportunities. But as we look to the future, and especially after we build an even stronger balance sheet, continuous share repurchases through the cycles gives us opportunity, and it even helps our dividend growth as we're able to do that on a consistent basis. So for us, a lot of what we do really focuses to the opportunity to grow the dividend as we put these pieces together. So hopefully, that helps.

Nitin Kumar - *Mizuho Securities USA LLC - Analyst*

No, that's great. Thank you for that clarity. And then just you talked about discipline and maybe staying the course on at least '26, and maybe not chasing growth. One of your peers talked about increased non-operated activity in the Delaware Basin. Anything that you're seeing on the ground, you have a big position and a big operation there in terms of others chasing growth?

Richard Jackson - *Occidental Petroleum Corp - Senior Vice President and Chief Operating Officer*

I think we're managing that. That was one of the uncertainties we had early in terms of our capital range for the year. And so our teams have been continuing to work that and haven't seen anything that put us out of our plan.

What I do think that the teams have done, even after the EOR optimization that we talked about, the core components of our production were strong, with over 9,000 barrels a day on the total year that we improved. And so even in the Permian, for us, we're growing. GoA, we're growing.

As we've been able to think through the current price environment within our plan, within our spend, we are seeing time-to-market optimization. We're seeing opportunities in our operating expense categories, both in GoA and EOR, to accelerate. And so these are -- these are the type of things that we're seeing. I'm sure others are having some of those opportunities, but those have been the controllables that we've been really focused on staying within the plan for the year.

Operator

Arun Jayaram, JPMorgan.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Vicki, yes, I also wanted to express my best to you as you move into the next chapter, and Richard, congratulations to you as well. My question is you guys are targeting for principal debt to reach a $10 billion number, call it this year just given the improvement in strip pricing. I was wondering how you're thinking about capital allocation post reaching this objective. Richard, you mentioned the potential to shift into some measurement -- measured reinvestment, pardon me, to deliver kind of a modicum of growth. And I was wondering, walk us through how that pivot into a little bit more reinvestment could look like for Oxy. Is this a '26 opportunity, or more longer dated? And talk to us about between short-cycle and long-cycle, where your thought process is.

Richard Jackson - *Occidental Petroleum Corp - Senior Vice President and Chief Operating Officer*

Yes. I appreciate that. Like I said, this year, we know delivery is critical. Always is, but we really wanted to demonstrate the capital efficiency that we had in the program. And certainly, the milestone of $10 billion, what we're able to deliver this year, is helping.

As you think about reinvestment conditions, a few things. I think Sunil laid it out as well, but I'll add maybe a couple of additional points. I think the macro being more clear is important. Obviously, the dollar we spend today, does it turn into production, or at least peak production until next year? And so that, in addition to the efficiencies that we're delivering this year, are largely built on what I call development efficiencies. So more wells per pad, longer laterals, more simulfrac, these take integrated development planning to put those together. And so while we are always looking to improve the program and optimize, these are things that are more difficult to change without impacting that efficiency. So clear macro support before we add is important.

I would say the other one is decline rate. We like what we're doing this year in terms of the investment into EOR and the GoA waterfloods. Being able to go from mid-20s towards 20 or less over the next few years in terms of decline rate reduces our sustaining capital hundreds of millions of dollars, which gives us more headroom for return of capital. And so at low prices, that's an important one to establish.

And then I would just say, when we do feel like reinvestment comes, we want to provide clear outcomes. What's the returns? What's the cash flow timing? What's the decline rate? We want to be able to demonstrate that everything we do improves this value proposition that we talk about. So when I say measured, it's kind of just taking that approach.

With that said, we do have an amazing resource base, and it is very balanced. And so we have the opportunity, and we know that to accelerate value over the long term, whether we're sustaining production or growing production – that reinvestment, getting that right, as you're describing, is really important. And so I do think, going forward, our ideal is to be more balanced in terms of how we not only put it together for returns, but also decline rate.

And Sunil, yes.

Sunil Mathew - *Occidental Petroleum Corp - Senior Vice President and Chief Financial Officer*

Yes. Arun, I just want to add, in the last quarter, we did mention that for 2027, you can use $5.9 billion as a starting point for the sustaining capital. So the assumptions behind that $5.9 billion was US onshore capital was assumed to be flat compared to this year, and the growth is largely going to be driven by capital efficiency, like what we've been demonstrating for the last few years.

And Richard mentioned about the balance between unconventional and the conventional to manage the base decline and reduce sustaining capital. So in Gulf of America next year, related to the Horn Mountain waterflood projects, we'll be drilling two injectors, so you're going to see some increase in Gulf of America next year. Exploration, we typically participate in three wells, with around 30% working interest. This year, we had actually reduced activity in exploration, so that might go back to on an average of around $150 million, which is what we have done over the last few years. And then you have the rolloff of the LCV capital.

So $5.9 billion would be a starting point in terms of sustaining capital, and like Richard said, any increase in reinvestment is largely going to be driven by the macro, but we are well positioned to do it at the appropriate time.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

That's super clear. For my follow-up, Richard, I cover some of the North American service companies as well, and they are talking about being able to push some price on rigs, frac, and consumables. You did reiterate your CapEx range at $5.5 billion – $5.9 billion for the full-year. I was wondering if you could talk about some of these inflationary pressures. And does it change kind of where you expect to land within that range?

Richard Jackson - *Occidental Petroleum Corp - Senior Vice President and Chief Operating Officer*

Yes. I'll start, but invite Ken to help a little bit too, from his perspective. I would say highlighting, I guess, new well costs, the 7%, that's largely driven by efficiencies today. So we've seen some ups and downs in terms of pricing, but are largely holding flat.

But the thing I would say with our service partners, we've done for a long time, but I think we just continue to get better at this too, and that's really finding, how do we work together for performance? And so much of what you'll see us do is try to find ways to address their needs in terms of utilization or even pricing, but make sure that our performance is being delivered. And so we're obviously more levered to the cost of the well. And so we've done quite a bit to work with them to -- while we largely hold flat to continue to drive our cost down. So things like diesel and other things certainly are playing a role, but not a major role. So to directly answer your question, we do not see that as an impact on our range. And in fact, our cost improvement is intact through efficiencies.

But let me ask Ken to add.

Kenneth Dillon - *Occidental Petroleum Corp - Senior Vice President and President, International Oil and Gas Operations*

Yes. Sorry about that. Middle East, we've seen supply chain as a huge success during this period. Everyone's worked really well, so we've not had any shortages, impacts on production due to material deliveries or costs. All of our vendors have really stuck with us. And we've seen what Richard said there. We've seen increases in some areas, offset by other areas. We still see vendors really interested in market share as opposed to individual line-item wins. And I think given our scale and mass in each of our locations, that's really paying off for us, especially as we concentrate activities on one pad, for example, utilization becomes really clear for the vendor. So overall, a very good story by supply chain, I think.

Operator

Betty Jiang, Barclays.

Betty Jiang - *Barclays Services Corp - Analyst*

I want to share my congratulations to Vicki, and Richard. My first question, probably a bigger-picture one. Your slide 3, I think, really laid out what Oxy was focused on in the last 10 years versus where the next 10 years could look like. You already have built the foundation for the portfolio today. So a question for Richard. Where do you think is the biggest opportunity to extract value from the current portfolio from here in the next phase, in this execution phase? The free cash flow expansion, we can clearly see, but where are you most excited about, whether that's the resource expansion or from the cost efficiency side?

Richard Jackson - *Occidental Petroleum Corp - Senior Vice President and Chief Operating Officer*

Great. Really appreciate that question. There's a lot I could say there, but I'll try to narrow it down. A lot to be excited about.

I think a few things. I think our advanced recovery that we're doing, whether that's in, again, the Gulf of America with the waterfloods, CO2 EOR. We talk about our conventional opportunities, but now our unconventional, even internationally. I think when we look at our resource base over the next 10 years, that is going to be a distinct advantage. And this has been building for some time. I think I got to work with Vicki the first time we were in EOR. And so this has just been exciting for us to see that mature. And we really believe that the time is now. That translates back to lower sustaining capital and more value for our shareholders. So excited about that part as well.

I think operational excellence continues. I think we have got a great team that understands how to put things together, not only for CapEx, but as we think about operating expense and base production. I think one of the best things we've demonstrated over the last year, if you go back and look at our production beats, was production uptime and the base production. And the people that work on that are some of the best, I think, in the world, that we have.

I also think workforce efficiency. I think we have a talented group and we -- as we look forward, being able to continue to be innovative, deploy technology, I think AI is taking on a larger and larger role across all disciplines in the company, is a big part of that.

And then one thing that maybe doesn't change is partnership. I think we've done a great job in our core operating areas. Internationally, being able to find ways to create win-win. Things like our exploration program. I think Oman, I think it's such a great example of what we mean about how we're different in exploration, being able to take things more difficult, new reservoirs, and really grow them to scale, and we're able to do that near existing facilities.

So all of these things coming together at the end of the day to drive that value proposition that we're talking about. But it certainly starts with the resources, and we're in an outstanding position today.

Betty Jiang - *Barclays Services Corp - Analyst*

No, that sounds great. And maybe digging a bit more into the base optimization. I really appreciate that there's a lot of focus on mitigating that decline. Can we just get an update on the unconventional EOR projects. What do you need to see to scale these projects? And what are some of the limiting factors, longer term?

Richard Jackson - *Occidental Petroleum Corp - Senior Vice President and Chief Operating Officer*

Yes, great. I mean we have the three commercial projects that we had talked about that we were starting. Most of that this year is kind of getting the early construction and the long-lead items moving, mainly compression. Those, again, are expected to be online in 2028.

But we have continued in some demo work. We've had continued demo in the Midland Basin around -- actually Barnett, which we're really happy about our primary production, but we're now excited about what we can do with CO2 EOR there and seeing very good results on our first-cycle. So I'd say the proof points continued on CO2 EOR.

The other one that's happening, maybe in EOR, that's a little bit different than what we've talked about in the past. We've had some great success with some sidetracks in San Andres on the edge of the Central Basin Platform -- in the Central Basin Platform. We feel like this is one of the things we've been able to optimize in the program to actually add production this year. One of the advantages of the divestment and acquisition or optimization in EOR is we've concentrated now, our working interest, where some of these opportunities lie.

And so I think EOR, I think we disclosed -- or planning to disclose that we, today, we're about 100,000 barrels a day. But we really see that we're concentrated with the right low-cost structure, with all of these advantages that we can take into both our conventional and unconventional assets.

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Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs Group Inc - Analyst*

Congratulations, Vicki. And congratulations, Richard as well. Maybe I think, Vicki, I'd give you an opportunity to share your perspective. The last 10 years have been very volatile for the energy sector, but any perspective on the decade ahead and what leaves you optimistic? And what are the biggest concerns that you think we as an investment community should be spending time on?

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

Well, I think the volatility is just -- it's going to be with our industry forever. It's always been volatile. It'll continue to be. It seems more volatile now because we just see the numbers as they change daily. A lot of things that happened in the history of our industry, going all the way back to the Suez crisis, Yom Kippur, Iranian Revolution, Iran-Iraq War back in the '70s, the price wars, , I think when the oil price -- real oil prices changed dramatically was when PDVSA strike in Venezuela, Iraq war, Asian growth, and a weaker dollar. That's when WTI prices started being driven up.

But through all the volatility, there are some things that are pretty consistent. So if you look at January -- from January 1974 to today, WTI averaged $76 in real prices, averaged $76.32. And if you go back and you look at this century, let's say, forget about the last century, look at this century from 2001 to now, the average real price was $81.67. And if you take out the nine years in this century, that prices were above $100, that takes prices down still to a pretty healthy level at $66.76.

But we tend to remember the bad prices and the bad times versus the times when things were okay. And that's -- that's why we've built our portfolio to last through the cycles and no matter what cycle to be able to add value and create value for our shareholders now and going forward into the future.

Because two big things are really important. First, the pricing that I talked about. I think that if you're built to last and make it with cash flow generation through the cycles and the dividend that you can support in the years where the prices are lower, you got to make sure you're prepared to pay the dividend through the cycles.

Then the other thing that's really important to think about is that in the US, we expect that between 2027 and 2030, the US is going to hit a plateau. So the production then will start to decline. And where we sit today is with a better inventory than, I believe, any company with respect to their US base. And so we'll be prepared in the US to be able to help with that, help offset the decline that's happening because we not only have great assets in the United States, we have the ability, as Richard just described, to apply EOR to get more oil out of the reservoirs that we have.

And we're not going to do that just in the United States. We'll be doing it in our international operations as well. And internationally, we're in three places that -- where we have great relationships with the government. We've been there on longer term in Oman and Abu Dhabi than Algeria, but the ability to do more there, too.

And now that resources are becoming a real issue for some companies because of the fact that 80% of the current oil reserves in the world are held by NOCs or governments, and so trying to get reserves, if you don't have a strong and large inventory today, is getting more and more challenging. And needing to go to international to locations where we decided, as a part of this transformation, not to go to, you can get better contracts in bad places, but that doesn't end up with, usually, with a better result.

And so we're really happy that we believe that for decades to come, oil is going to be needed, that peak supply will occur before peak demand, not just for the United States but for the world. And we're perfectly positioned with where we are today, the capabilities and the portfolio, to be a part of helping to address that.

Neil Mehta - *Goldman Sachs Group Inc - Analyst*

Yes. Great perspective, Vicki. And then the follow-up is -- and I think you responded to this in the last quarter of your now long inventory through M&A and good reserve replacement, and so the probability of needing to do large M&A is really diminished. Richard, I'd just love your perspective on that as well. Is that a viewpoint that the leadership team shares? And it's really an organic story, so both of you guys, love your perspective.

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

Yes. I just want to say, we did not go through what we went through to build this portfolio to let it sit there for 30 years. So Richard, to you.

Richard Jackson - *Occidental Petroleum Corp - Senior Vice President and Chief Operating Officer*

Yes, we're very focused on organic development. So I think what's been done has been -- put us in an outstanding place. Our responsibility now is to extract value from it. And I think we are laser-focused on all the fundamentals that come through capital efficiency, operating efficiency, the subsurface work to continue to do that.

And so there'll be opportunities around assets to continue to improve. Those type of things always occur, whether it's trades or other things, but couldn't be more excited about the balance and, I'd like to call it, rightsized resource base that we have. Working to deliver the most value, and we look at a lot of scenarios, I like to do scenarios, we are put together to deliver the most value. And so that is clearly what we're focused on and just excited to do that, and appreciative, very appreciative of all we have to work with.

Vicki Hollub - *Occidental Petroleum Corp - President and Chief Executive Officer*

And thank you, Neil, for the question, and helping us to clarify that.

And with that, I think we're done with the Q&A. And thank you all for joining us and for your questions, and have a great day.

Operator

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