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OXY.N - Q2 2025 Occidental Petroleum Corp Earnings Call

EVENT DATE/TIME: AUGUST 07, 2025 / 5:00PM GMT

## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Jordan Tanner** *Occidental Petroleum Corp - Vice President, Investor Relations*

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

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

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

**Richard Jackson** *Occidental Petroleum Corp - President Operations, U.S. Onshore Resources and Carbon Management*

## CONFERENCE CALL PARTICIPANTS

**Arun Jayaram** *JPMorgan Chase & Co - Analyst*

**Doug Leggate** *Wolfe Research - Analyst*

**Betty Jiang** *Barclays - Analyst*

**Nitin Kumar** *Mizuho Securities USA LLC - Analyst*

**Neil Mehta** *Goldman Sachs Group Inc - Analyst*

**Paul Cheng** *Scotiabank GBM - Analyst*

**Kevin MacCurdy** *Pickering Energy Partners - Analyst*

**Matthew Portillo** *Tudor Pickering Holt & Co Securities LLC - Equity Analyst*

**Scott Gruber** *Citigroup - Analyst*

## PRESENTATION

### Operator

Good afternoon, and welcome to Occidental's second quarter 2025 earnings conference call. (Operator Instructions) Please note this event is being recorded.

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

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**Jordan Tanner** - *Occidental Petroleum Corp - Vice President, Investor Relations*

Thank you, Drew. Good afternoon, everyone, and thank you for participating in Occidental's second quarter 2025 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, President Operations, U.S. Onshore Resources and Carbon Management; 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'll 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'll now turn the call over to Vicki.

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

Thank you, Jordan, and good afternoon, everyone. I'd like to first thank our teams for another quarter of strong performance, delivering \$2.6 billion of operating cash flow in the second quarter. This helps to generate more operating cash flow in the first half of 2025 than we did in the first half of 2024, despite much lower oil prices in the first half of 2025. In fact, WTI averaged \$11 per barrel lower in the first half of 2025. And for reference, those cash flows are talking about cash flows before working capital.

Next, I'd like to congratulate our teams for their ability to optimize our portfolio in a way that strengthened our future development plans while creating divestment opportunities that along with cash flow made it possible for us to repay \$7.5 billion of debt and less than a year from closing the CrownRock acquisition -- that's well ahead of target. This equates to almost a 70% reduction of the debt raised for the acquisition.

Also, I'm pleased to report that STRATOS has achieved a significant milestone, and we're on track to start capturing CO2 this year. This timing is perfect as there is growing momentum behind direct air capture to generate meaningful value from CO2 enhanced oil recovery, or EOR, in carbon dioxide removal credits or CDRs.

Before I turn the call over to Sunil, I'll now provide a little more detail on operations, debt reduction, and STRATOS. In the second quarter, our oil and gas business produced 1.4 million BOE per day, exceeding the midpoint of our production guidance.

This reflects both the operational strength of our teams and the caliber of our diverse portfolio, with outperformance in the Rockies and an uplift to our Oman volumes due to the Mukhaizna contract extension, more than offsetting production impacts primarily due to third-party constraints in the Gulf of America.

Back to cash flow generation. Despite much lower oil prices, the teams achieved higher cash flow from operations this year versus the same period last year, due in part to the additional production from CrownRock as well as some production growth from legacy Oxy.

But important to note is that our oil and gas teams were able to achieve enough operating cost reductions to offset the operating costs associated with the incremental 180,000 BOE per day of production.

In other words, despite oil production rates of 1.395 million BOE per day in the first half of this year versus 1.215 million barrels of oil equivalent per day in the first half of 2024 absolute operating cost in those two periods were essentially the same.

I'll highlight some of those activities that have contributed to reductions in our total cost structure. In our onshore US operations, we announced in our first quarter earnings call, \$150 million in expected operating cost savings this year through significant cost reductions.

As I just highlighted, holding absolute cost level with increased production resulted in a meaningful reduction of per barrel cost to \$8.55. By integrating automation, field sensors and artificial intelligence to prioritize lease operator routes, we have transitioned approximately 40% of our onshore production to routeless operations.

And in our EOR business, increased field interconnectivity has enabled us to optimize our use of recycled CO2 and advanced subsurface modeling has helped to improve the effectiveness of each molecule we inject thus enabling us to reduce our purchased CO2 volumes.

In our international operations, we have implemented similar efficiencies to reduce OpEx for the year by an estimated \$50 million. We are confident in the sustainability of these cost reductions as the majority are structural in nature. Across the Permian, our teams have consistently driven down well costs through enhanced efficiencies, enabling us to reduce the midpoint of our capital guidance by an additional \$100 million this quarter.

In the Delaware Basin, drilling times have improved by 20%, bringing well cost below our 2025 target. Meanwhile, in the Midland Basin, our best of the best workshops have facilitated the rapid sharing of valuable well design and operational insights across the organization, yielding impressive results.

In the first half of this year, well costs for both our legacy Midland Basin assets and our CrownRock assets were lower than the expectations we set earlier this year. Collectively, these advancements have resulted in a 13% reduction in year-to-date Permian unconventional well costs compared to 2024. The capital efficiencies, along with continued improvements in recoveries have yielded robust economics from secondary benches and have helped to sustain year-on-year improvements in our capital intensity.

We also delivered strong well performance offshore. I'd like to highlight two recent standout wells in the Gulf of America with one of the best at Horn Mountain in 22 years and the best at Caesar Tonga in 13 years. Both are on production now and ramping up through the end of the year. This is due to the success of our subsurface engineering and the resource potential across our existing fields, which will be enhanced by future water flooding that will unlock significant value going forward. Our Midstream and Marketing segment had another impressive quarter, generating positive earnings on an adjusted basis and outperforming the high end of guidance. This was largely due to improved crude marketing margins, gas marketing optimization and higher sulfur pricing. We also benefited from new oil transportation contracts that began during the second quarter.

Turning now to our Low Carbon Ventures business. In just two years since groundbreaking, STRATOS has achieved a significant milestone with Trains 1 and 2 now moving over to operations. We've commenced wet commissioning with water circulation and are on track to start capturing CO2 this year.

We are immensely proud of the achievements to date and the exceptional record of safety performance as we advance towards commercial startup. As I've shared in the past, we see immense value from taking a phased approach to STRATOS' development. Even though this is a first-of-its-kind facility at this scale, we're already benefiting from continuous evaluation and learnings along the way.

For example, we've been able to capture lessons from commissioning as we move into operations and are incorporating the latest R&D out of our Carbon Engineering Innovation Centre into Phase 2. Not only will this improve the project's economics when the full capacity is online, but it will accelerate the cost down curve for future DAC projects.

Since the first quarter, we signed two additional commercial agreements for carbon dioxide removal sales with JPMorgan and Palo Alto Networks. The majority of volumes through 2030 from STRATOS are now contracted, demonstrating the strength of the growing CDR market and increasing appetite for durable carbon removal technologies.

We also announced an agreement to evaluate a potential joint venture to develop a DAC facility in South Texas with XRG, which is the UAE's investment company in gas, chemicals and low-carbon energy solutions. Agreements like this, along with the U.S. Department of Energy support, highlight Oxy's unique capabilities and signal confidence in DAC as an investable technology to provide both high-integrity carbon removal and support energy development through enhanced oil recovery in the United States.

The recently enacted One Big Beautiful Bill included a number of provisions that will help Oxy continue to deliver differential value to our shareholders. One of these is the extension and expansion of the 45Q credit driven by the recognition of the need to capture CO2 for use in EOR to support US energy security. The new law levels the playing field between carbon storage and utilization pathways like DAC-to-EOR. Both can and likely will play an important role across global energy supply chains and carbon management. We believe that carbon capture and DAC, in particular, will be instrumental in shaping the future energy landscape. First, captured CO2 can be used for enhanced oil recovery in conventional and shale reservoirs. We believe this proven technology could recover an additional 50 billion to 70 billion barrels of oil in the United States which could extend our energy independence by 10 years.

Second, CO2 removed from the atmosphere via DAC can be used today to address emissions related to products or services. Specifically CDRs from DAC can be paired with any fuel or energy source to provide a low-cost, scalable solution for growing low carbon intensity fuel or energy markets.

Oxy is uniquely positioned to deliver both through our leadership in DAC technology, sequestration, and EOR operations. We have over 50 years of experience in carbon management and nearly 3 billion barrels of Permian EOR conventional resources along with extensive CO2 infrastructure in the Permian. In addition, we have our expanded U.S. unconventional runway and our well-positioned sequestration hubs.

As the largest acreage holder in the Permian, we have the scale, along with the ability to add secondary benches and EOR to provide lower emission barrels and further support US energy security.

Before turning to Sunil, I'd like to highlight the recent success of our portfolio high-grading efforts. Since the end of the first quarter, we announced \$950 million of additional divestitures, selling non-core largely non-operated assets in our US onshore business. This brings our total of announced divestitures to nearly \$4 billion since January of 2024, enabling us to accelerate our debt repayments and improve our balance sheet. Through our high-grading efforts, we have strengthened our portfolio, divesting assets with limited near-term opportunities and growing our inventory of competitive high-margin opportunities. We have seen tremendous success so far across our CrownRock acreage, realizing significant improvements in well cost and efficiencies, and it keeps getting better. We expect value creation to expand as we continue to harness cross operational synergies throughout our Permian operations.

I'll now hand the call over to Sunil to review our financial performance and discuss our second half guidance in more detail.

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

Thank you, Vicki. In the second quarter, we generated an adjusted profit of \$0.39 per diluted share and a reported profit of \$0.26 per diluted share. The difference was largely driven by an impairment in our equity investment income, partially offset by positive mark-to-market adjustments.

Strong operational performance and a continued focus on capital efficiencies, enabled us to generate approximately \$700 million in free cash flow before working capital despite lower realized oil prices and high market volatility.

We had a positive working capital change primarily driven by reductions in commodity prices, fewer barrel shipments on the water and lower interest payments, which is typical for the second and fourth quarters. These impacts were partially offset by a \$110 million tax payment related to 2024.

After warrant proceeds and debt repayments, we exited the quarter with approximately \$2.3 billion of unrestricted cash on the balance sheet. Our effective tax rate increased in the second quarter due to a shift in the jurisdictional mix of income driven by lower anticipated full-year oil prices compared to original expectations.

We are guiding to an adjusted effective tax rate of approximately 32% for the third quarter with our full-year effective tax rate in a similar range based on current commodity prices. Our strong operational and financial performance can largely be attributed to higher volumes across our U.S. onshore and international portfolio, offsetting lower-than-expected production out of the Gulf of America.

New well and base production outperformance in the Rockies and the net production uplift in Oman from the Mukhaizna contract extension, enabled us to outperform the midpoint of guidance. Our domestic lease operating expense in the second quarter notably outperformed guidance at \$8.55 per barrel.

This outperformance was due in large part to early success in delivering U.S. onshore operating cost improvements plus timing impacts of offshore production engineering work shifting from the second to third quarter.

As Vicki shared, this reflects our commitment to achieving operational efficiencies and continuous improvement with notable savings realized in the Permian. Looking ahead, the outlook for the second half of the year remains strong. In the third quarter, we expect our total company production range to increase to 1.42 million to 1.46 million BOE per day as we sustain operational momentum and anticipate higher volumes in all of our main operating areas.

Though we expect a quarter-on-quarter increase in produced volumes in the Gulf of America, the recent curtailments and the shift in program timing will have lingering effects prompting a reduction in our offshore second half production guidance.

We are maintaining total company production guidance for the year as a stronger outlook on new well and base performance across our US onshore assets and increased production in Oman from our Mukhaizna contract extension are expected to offset lower volumes in the Gulf of America.

This modified production mix is expected to slightly reduce annual total company oil cuts. As Vicki shared, our Midstream and Marketing segment performed exceptionally well in the second quarter, generating positive earnings on an adjusted basis of approximately \$206 million above the midpoint of guidance.

This was largely driven by enhanced crude marketing margins due to timing impacts of cargo sales and fluctuations in commodity prices. We also benefited from gas marketing optimization and higher sulfur prices at Al Hosn during the quarter.

Given the strong second quarter performance, we have raised full-year Midstream and Marketing guidance by \$85 million. We anticipate a more muted third quarter, assuming the Waha to Gulf Coast natural gas spread continues to narrow, and we'll be prepared for any marketing optimization opportunities as they arise.

Our second quarter OxyChem pre-tax income came in below guidance due to weaker than anticipated pricing for caustic and PVC. Demand held firm, but excess supply in both the global and domestic markets compressed margins.

While the domestic PVC demand is typically the strongest in the third quarter, it is not expected to be strong enough to offset the oversupply in the market. Based on these market conditions, we are lowering OxyChem's full year guidance range to \$800 million to \$900 million.

Turning now to our capital program. We expect the remaining 2025 capital spend to be more weighted to the third quarter due to the timing of oil and gas activities and the construction schedule for the Battleground expansion.

Continued momentum in operational efficiencies across our Permian assets has enabled us to further reduce our 2025 capital guidance range by \$100 million without impacting total company production. Together with the \$50 million in operating cost reductions from our international assets and the cost reductions of \$350 million announced in May, we now expect \$500 million in total reductions relative to the original plan.

In the first quarter earnings call, we highlighted several key non-oil and gas items contributing to incremental pre-tax free cash flow in 2026. Another impactful driver is the recent passing of the One Big Beautiful Bill. In addition to the benefits Vicki highlighted, from the preservation of 45Q credits and EOR parity, the bill will provide significant cash tax benefits to Oxy for the remainder of 2025 and 2026 relative to prior law.

Based on our preliminary assessment, we estimate a potential \$700 million to \$800 million reduction in cash taxes with roughly 35% expected to be realized in 2025 and the remainder in 2026. These benefits are primarily due to changes to bonus depreciation, R&D expensing, and limitations on interest deductibility.

Before I close, I would like to provide an update on our strengthening financial position. As Vicki shared, our portfolio high-grading efforts are progressing with the announcement of \$950 million of additional divestitures since the end of the first quarter.

Of this, \$370 million has closed, and we expect the remaining \$580 million to close in the third quarter. This brings the total of announced divestitures to nearly \$4 billion since the first quarter of 2024. The success of our divestiture program to date, coupled with warrant proceeds and strong free cash flow have enabled us to be ahead of the schedule on the debt reduction targets outlined when we announced the CrownRock acquisition.

In the last 13 months, we repaid approximately \$7.5 billion of debt, far exceeding our near-term goal of paying down \$4.5 billion of debt within 12 months of closing the CrownRock acquisition. This reduces annual interest expense by approximately \$410 million and also results in a much more manageable debt maturity profile.

We are extremely pleased with the progress of our divestiture program and the trajectory of our debt reduction plans. Together with recent step changes in operational efficiency and key non-oil and gas catalysts, our continued focus on strengthening the balance sheet will support a stronger foundation for delivering long-term shareholder value.

I will now turn the call back over to Vicki.

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

Thank you, Sunil. To close, I'd like to reiterate the strength of our upstream portfolio. I believe we have built Oxy's best-ever portfolio of high-quality, complementary assets. These are a diversified mix of short-cycle, high-return unconventional assets, along with lower decline, solid return conventional reservoirs.

And we have the best talent and capabilities in our history, and with our team's continued focus on performance and innovation enabling us to deliver outstanding results and to position us for the future. We have an incredible runway in front of us with over 14 billion barrels in total resources, much of which is well suited for EOR application.

Our industry-leading experience in carbon management and EOR operations is a key differentiator for Oxy and will enable us to unlock additional resources and deliver long-term value for our shareholders.

With that, we'll now open the call for questions. As Jordan mentioned, Richard Jackson and Ken Dillon are here with us today for the Q&A session.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Arun Jayaram, JP Morgan.

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**Arun Jayaram** - JPMorgan Chase & Co - Analyst

Yeah, good afternoon. Sunil, I wanted to just follow up on the cash tax rate or your expectations of tailwinds from the One Big Beautiful Bill. You mentioned \$700 million to \$800 million of tailwinds. I think you said 35% in '25 and the balance in '26. Is that correct? And maybe help us think about what that would translate into a cash tax rate perhaps in '26?

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

Hi, Arun, firstly, that is correct. 35% of the \$700 million to \$800 million benefit will be in '25 and the balance is going to be in 2026. So the way to look at it is the adjusted income effective tax rate will not be impacted by the cash tax benefit but what you're going to see is an increased deferred tax expense primarily driven by the acceleration of depreciation and R&D expenses for cash tax purpose.

So you can go based on the guidance in terms of the book tax rate, but what you're going to see the difference is on the deferred tax expense increasing due to this benefit.

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**Operator**

Doug Leggate, Wolfe Research.

**Doug Leggate** - Wolfe Research - Analyst

Thank you for taking my question, guys. Vicki, it's a long time since we heard much about Mukhaizna. I seem to remember when Ray had that contract signed, gosh, about 20 years ago now. The press has you spending committing \$30 billion over through 2050.

And I recall that there are significant cost recovery benefits from stepping back up the spending. So I just wonder if you can walk us through what the free cash implications are. We obviously saw the initial step up in production in Q2.

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

Yeah. I'd say, Doug, that was an incredible agreement that we made with Oman because it benefits both Oxy and Oman, and allows us the flexibility and possibility to invest over there because now the economics will be comparable. And Ken, did you have anything to --

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

Yeah. Doug, it's Ken. I can't really comment on specific numbers around the contract. But if you think of that number being both capital and expense perhaps, and then you look at our equity in the block, which is less than 50%.

And you start looking at that capital between now and 2050, you get into the sort of numbers you would expect for us. The other thing I would say as you look back to the days that you mentioned since then, we've produced 640 million barrels to date.

And originally, it was very focused on the steam floods. With all the work we've done there, what we see is multiple stack pays across a very large block. And in the North, we've been producing the Thuleilat wells for some time now, which are totally different and don't need any steam.

So we see the extension is a win-win for Oxy and the government and sustainable. And as Sunil said on the last call, you'll see the numbers roll through the books over time.

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

And you'll know, Doug, that we much prefer those areas that have stacked pay and gives you multiple options and lower cost on infrastructure ultimately.

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**Doug Leggate** - Wolfe Research - Analyst

Will be limited to one? Or can I have a follow-up?

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

You can have a follow-up.

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**Doug Leggate** - Wolfe Research - Analyst

Okay, thanks. So my follow-up, Vicki, is the \$1 billion of noncore asset sales kind of came out of nowhere, especially the sale to Enterprise. So I wonder if you could take a kind of five year forward look or however long you would like to put on it and say, well, we actually have another x billion dollars of non-core asset sales that can augment the free cash flow in terms of deleveraging, what would the scale of that non-core asset bucket look like for potential sales over that period of time? Thanks.



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

Well, another thing that we have is we have scattered acreage that goes all the way from here through the Rockies and into even the Virginia's. So we have a lot of acreage because of the acquisitions that have been made over time to create what we have today.

A lot of that has not a lot of value, but needs to be cleaned up, accumulated and sold. And so at some point, we'll sell that. Those would not be big dollars. So -- and so currently, I think the team is working on rounding that up and getting that ready for sale.

**Operator**

And I apologize, I have Arun Jayaram, for his follow-up. Please go ahead. His line is disconnected. We'll go to the next person.

Betty Jiang, Barclays.

**Betty Jiang** - Barclays - Analyst

Hi, good afternoon. Thank you for taking my question. Vicki, just given your comment about OBB's benefit on 45Q and the carbon business, I was wondering if that changes your strategic focus around the carbon business towards potentially more point-source opportunities for EOR purposes? Just given that you are -- the utilization parity you mentioned?

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

Yeah. We've always been interested in point-source capture. In fact, we -- that's what kicked off our desire to get and to make the technology of direct air capture better because since 2008, from about 2008 to about -- until we found direct air capture, we were trying to get point-source capture.

But back then, the carbon credits for that kind of capture were so low that we couldn't convince any industry to do it. And so now with the parity for CO2 enhanced oil recovery, we've never given up on that effort. So we've continued that. And so we'll continue looking for point-source.

And there's quite a bit of emissions that are within pipelines that could get the CO2 to the Permian. So we'll still be working that. And now what I'm hoping this will do is it will make the industrial sources of CO2 more willing to work out an arrangement with us.

**Richard Jackson** - Occidental Petroleum Corp - President Operations, U.S. Onshore Resources and Carbon Management

Betty, just one quick one, this is Richard, to add. I would say one sort of tailwind that's helping is natural gas to power generation, especially in places like the Permian. And so for us, we see that link not only for the power supply, but from a CO2 source as well as we're able to incorporate carbon capture into some of those installations.

**Betty Jiang** - Barclays - Analyst

Got it. That makes sense. It's very impactful for the EOR business for sure. My follow-up actually back to cash taxes. What will be the cash tax saving potential beyond 2027? Do you go back to where it was before? Or you continue to expect savings?

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

Beyond '26, it will depend on the capital trajectory and on the proportion of domestic spending. So today, if you look at our capital, around 90% of it is domestic and we don't expect any significant change in that mix. And the reason we highlighted the '26 estimate is because we have the battleground expansion project that is expected to come online next year. And so we're expecting more 100% bonus depreciation qualifying assets in '26 compared to '25.

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**Betty Jiang** - Barclays - Analyst

Thank you for that color.

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**Operator**

Arun, JP Morgan.

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**Arun Jayaram** - JPMorgan Chase & Co - Analyst

Yeah, thanks for that. Apologies about that. I forgot how to use a phone. A quick question on the Gulf of America. I wanted to get your thoughts on how you think about the production capacity in the Gulf of Mexico trending over a multi-year basis as you implement some of your Gulf of America 2.0 projects and I think this year also was impacted by a higher degree of turnarounds and maintenance.

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

Yeah. I think looking forward, the first layer that builds in is the water floods, which we've talked about briefly before. Having those projects online will reduce the average decline rate for our fields and lead to flat, low-cost, steady barrels. We have a large number of projects lined up for most of our facilities. If you look in the East, some of the modifications we made recently, offshore increases the capacity from our eastern facilities.

I think in the central GoA area as Vicki mentioned at the start of this, we're seeing wells that are coming in with very large EUR's. One of them could potentially end up as one of the best Gulf wells we have ever drilled.

So I think the combination of the subsurface engineering that's being carried out along with the geoscience, I think layered on to what we've done over the last three years in terms of getting equipment reliability and availability up means that we're positioned incredibly well going forward for the production ramp-up.

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**Operator**

Nitin Kumar, Mizuho.

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**Nitin Kumar** - Mizuho Securities USA LLC - Analyst

Great. Good afternoon, everyone, and thanks for taking my questions. I want to start off on the pretty impressive cost savings you highlighted both in the Delaware and the Midland. CapEx for the year was only down about \$100 million. So I know you won't give me a budget for next year, but as I think about rolling those savings, could you talk about how lower 48 spending might trend in 2026, given the efficiencies you're seeing?

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

Yeah. I would say that you're right. Next year, we will have a reduction in our OxyChem spend by about \$300 million, reduction in LCV by \$250 million. That along with the efficiencies that the onshore team is building and achieving – that could create some opportunities for our capital. You want to comment some on that, Richard?

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**Richard Jackson** - Occidental Petroleum Corp - President Operations, U.S. Onshore Resources and Carbon Management

Sure. No, I appreciate the opportunity. The team has done an outstanding job across capital and operating expense. But speaking to the capital, again, like you said, another incremental \$100 million down this quarter. This is on top of the \$100 million in the first quarter.

So \$200 million below our original plan. For us, we do see opportunities going forward to not only sustain that but continue to improve it. We are having good success really when drilling efficiency, whether that's non-productive time reduction or larger pads, we're moving from sort of two to three well pads in the first half of the year to four to six. Our completion frac teams continue to deliver efficiency results. So as we couple that together, we expect to continue to see that.

As we think about 2026, though, I think we're at a point we're really working to optimize activity levels for efficiency. And so while we're not targeting growth, it's really the outcome of what do we need to do to maintain these efficiencies.

And so I think today, we're largely near optimized activity level. And so we'll watch it over the next several months to see as things -- efficiencies may move activity continue to the left. On our schedule, we'll anticipate that to make sure we have the right bridge into that 2026 activity.

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

And I'd say the other place that we could shift some capital would be to the lower decline, low F&D, high-margin, waterflood projects that Ken has genned--up for the Gulf of America.

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**Nitin Kumar** - Mizuho Securities USA LLC - Analyst

That's a perfect segue to my next question. So I appreciate you teeing me up, but I just want to follow up on Arun's question. As you put behind the Horn Mountain pipeline issues that have dogged Gulf of America this year, what would be a good, steady sort of run rate for the Gulf of America, let's say, in '26 and '27 from a production standpoint? And could you help us bridge the gap from where we are today between new developments, these water floods, et cetera, base declines, and also a return or sort of curtailed constrained production right now?

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

Hi, good afternoon. Thanks for the question. I think if we maybe do in reverse order, operationally, we experienced a mix of things, including pipeline constraints. But as Vicki highlighted, we've also seen incredibly positive results in our wells this year. We modified our pumps in Eastern GOA to handle the constraints. This work was done successfully in Q2, so really great work by our teams, both onshore and offshore.

Going forward this year, we were hurt by the late arrival of a stimulation vessel, which had been doing work for another operator. But these elements have all been built into our ramp-up plan, and we expect a very strong exit rate as you can see from the numbers.

In terms of next year's guidance, with the Gulf, it's all about optimization and planning. Over the last few years, as you know, we've really improved the availability and planned uptime. The next phase of our OpEx optimization is to move to turnarounds every two years.

And that multi-year schedule is being poured at the moment, including mapping resources internally, externally and ties to vendors that can service us through the long-term. So we're considering starting that next year. So more information to come on the '26 plan later this year.

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**Operator**

Neil Mehta, Goldman Sachs.

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**Neil Mehta** - *Goldman Sachs Group Inc - Analyst*

Yeah. Thanks so much. Looking at slide 34, you talk about advanced subsurface characterization and technological improvements. And I think a lot of investors are just wondering what inning are we in terms of digital application in the oil fields and how are you employing it? And do you think it's going to fundamentally change the industry and our ability to drive volumes?

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

We are so excited about what we've been able to do internally within Oxy to start building our AI capabilities. And I think we've talked on this on the calls previously about our AI effort in the Gulf of America. That subsurface is so incredibly complex that we do believe that we can make a big difference with the project that we're working right now.

And we expect that maybe by the end of this year, we'll be prepared to start having the team look at actually executing some things in the year to two years following. So Gulf of America, that's going to be an area that where AI is really going to be applicable.

It's already helping us with the subsurface in the Permian and in the other onshore areas in the US. It's also helping with not just the subsurface, it's helping with operational efficiencies. So we have really put a big effort into making sure that we have actually focused teams.

These are teams that are focused on specific areas. One, is right now working operations. The other is working in the Gulf of America. Then we have a group that's working with the broader challenges of logistics and supply chain and things like that. So we put a big effort forth on it, and I do believe it's going to deliver significant results.

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**Neil Mehta** - *Goldman Sachs Group Inc - Analyst*

Vicki, maybe tie that into your perspective on US oil production and how you see that evolving as we apply these technologies, we've got to contrast that with maturity in a number of these key basins and limited exploration success on the oil side at least. And so just how do you see the US production profile evolving over the next five years?

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

Well, we've been talking about this a lot. We believe that the US could hit peak production between 2027 and 2030. And we've modeled that based on Hubbert curves and the current data that we have. We've taken the model down to look at conventional separate from unconventional and also to look at EOR.

So we believe that right now, there's going to be significant potential and maybe the extension of our US energy independence by about 10 years with the development of 50 billion to 70 billion barrels of oil developed by and through CO2 EOR.

So it's, to us, incredibly important because energy independence for the United States really impacts our ability to keep maintaining our leverage in the world. So we believe this is critically important. And for us, it's always been a strategy to use CO2 for enhanced oil recovery.

We're a company that's always been known for getting the most barrels out of any reservoir that we work. And CO2 is in our experience, over the 50 years that we've been doing it, it's been able to get more than any other technique that we've tried beyond primary production and water flooding.

So we do believe that out of the estimated 1.5 trillion barrels of oil that the United States has in terms of total resource in the ground. Currently, only 22% will be recovered unless we can apply CO2 EOR. And CO2 EOR will get us double-digit increases from that amount, we believe.

And again, the 50 billion to 70 billion barrels. So, we're working on that. That's our strategy. We're working the technology to get the CO2 because the other challenge is that there's not enough naturally occurring CO2 in the United States to support the development of that kind of volume.

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**Neil Mehta** - *Goldman Sachs Group Inc - Analyst*

Thanks, Vicki. Appreciate it.

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

Thanks.

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**Operator**

Paul Cheng, Scotiabank.

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**Paul Cheng** - *Scotiabank GBM - Analyst*

Thank you. Good morning, Vicki, or good afternoon to you guys. Vicki, on Oman, the terms sounds fantastic, and you guys know what to do, and there's a lot of opportunity. Is the activity level, right now it's being constrained by your capital or is there any other thing that's constraining the activity level so that you can't do or go a bit faster?

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

Well, what's happened with this contract is certainly going to make that project a lot more competitive. So there's no restrictions with respect to what we can consider there, but the main restriction for us in terms of capital and for the industry itself is right now, we have an oversupplied market.

And so there's, in our view, no reason for companies to get too aggressive with growth right now. You're just making the problem worse if we do that. And for us, we are absolutely determined to get our debt down sooner rather than later.

So we are now running at a level where our activity level is designed to ensure that we can maintain our production and that we generate the projects at the pace that we need to. So we're not looking for growth. As Richard had said, we're looking for the activities that can help us continue to optimize, reduce our costs and lower our cost structure.

And I can tell you that every one of our asset teams, including Midstream and Chemicals works every day to find ways to lower our cost because we believe at the end of the day, it's going to be the lower-cost company that really is profitable through all the cycles and the one that has the sustainability over time. With the portfolio we have, we have the chance to do that.

And we're doing it now. We'll continue doing it. But the next step is to get our DAC costs down to the point where the CO2 cost enables us to generate maximum returns from those CO2 floods. And with respect to Oman in particular, it's ultimately going to be a place where there will be incremental capital. We'll just have to figure out when that's going to be. What do you think, Ken?

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

Yeah. Just one thing to build on what Vicki said, in the same way that US onshore is improving both in terms of capital efficiency and operational efficiency. In Block 53, our drilling rigs are now running at their lowest cost per foot and their highest feet per day rates ever.

And OpEx efficiency or artificial lift equipment is running at its highest reliability ever, and our workover rigs are performing at their best level ever. All done with the best safety performance with great help from our teams in the center also using AI.

So we're doing more -- just doing it much smarter. And it's a combination of the engineering-related activities, but it's also through supply chain also. We're working on supply chain around the world, and we're seeing the effects roll through onshore, effects rolling through offshore and rolling through in our assets around the world, and we see more opportunities to come. So a lot more with less also.

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**Paul Cheng** - Scotiabank GBM - Analyst

Can I just continue on this subject because let's assume, say, several years down the road, you guys already restored your balance sheet and that that's a [call] on oil. And so the oil is needed. At that point, I'm trying to understand that how big is the scale of the Oman business can get to? And what is the constraining factor at that moment?

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

The constraint for us would be our value proposition because it's not just about growth for us. Our value proposition is that we want to deliver a growing dividend, but at a moderate pace. We want to, in the near term, lower our debt.

But over time, we want to add share repurchases to our program in addition to investing appropriately in our organic assets. So we will, over time, need to increase our production, but it would be at the appropriate time.

And when that happens, we'll allocate capital based on not just what the returns are, but how it fits within our long-term plan because as we've said, our portfolio is diverse. We have the high-return shale, but high-decline. We have the low-return assets like Oman and where Oman comes in is providing us those lower decline and lower capital cost projects.

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

Just maybe I could add something to that. If you look at the portfolio in Oman, what we have is a number of blocks where we already have partners. If you look at the south, it's predominantly heavy oil, but with some lighter oil. In the Northwest, it's light oil. And then in the East, it's gas, and we mentioned our Baqiyah discovery recently.

Some of these blocks, we do not have partners. So we have opportunities to use partnerships as a way of funding projects also to accelerate things, but without digging into our own capital going forward. So we have a huge range of options with very low option-cost at the moment as we work through things.

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**Operator**

Kevin MacCurdy, Pickering Energy Partners.

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**Kevin MacCurdy** - *Pickering Energy Partners - Analyst*

Hey, good morning. Thanks for taking my question. I wanted to ask on the trajectory of OxyChem income. Do you view the PVC oversupply and price decrease is temporary? And how is that factored into your outlook for a big free cash flow uplift in Chem's next year? And just one for me. Thank you.

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

So in terms of the '26 market, it's going to a large extent, depend on the timing of the supply-demand balance. And so currently, the global supply demand for PVC and caustic is being burdened by additional Chinese capacity, which, again, is burdening the export prices and ultimately burdening the domestic prices. So if you look at the Chinese exports on the PVC side, it's growing from almost nothing in 2020 to almost 30% currently. And the same with caustic. It's been increasing and it's still growing.

So some of the announced capacity rationalization in Europe and US will potentially mitigate some of those capacity additions, but we don't see a meaningful impact of that in 2026. Also, we believe that the integrated margins between PVC and caustic are close to variable cost of many international producers, including China. So we don't anticipate further sustained declines in margins but as far as '26 goes, we believe it is more likely to be what we saw in 2025.

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**Kevin MacCurdy** - *Pickering Energy Partners - Analyst*

Thank you.

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**Operator**

Matt Portillo, TPH.

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**Matthew Portillo** - *Tudor Pickering Holt & Co Securities LLC - Equity Analyst*

Good afternoon. Just a question on the Permian. I'm curious, as you guys think about the production in the basin. We've seen a little bit of a downtick in the oil cut and a rise in your gas and NGL recoveries. I was curious if that is a function of the secondary zones being developed or if you're having just better recoveries overall in the gas and NGL side? And then as you look into the back half of this year, especially given the high TIL count in Q2, do you expect that oil cut to stabilize or even improve a bit into the second half of 2025?

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**Richard Jackson** - *Occidental Petroleum Corp - President Operations, U.S. Onshore Resources and Carbon Management*

Yeah. Great. Appreciate the question. Let me walk through a few pieces of that. I would say overall, US onshore -- so if you're looking at Permian plus Rockies, as we think about not only '25 versus '24 but also second half versus first half, we expect that to go up a bit.

With respect to the Permian, we do expect an increase in the second half of the year from where we have been in the first half. And you got it exactly right. We have much more secondary benches as a part of our portfolio. The good news is, I think you know as part of our strategy, it's really reusing the infrastructure and so being able to refill existing production processing equipment can deliver exceptional returns.

And so that is a big part of it. Really, the oil cut is an outcome of that well mix. It's drilling completion efficiencies as we move production to the left that can change some of our outlooks. And so those are really the variables that change it. But as you say, we do expect it to stabilize and actually increase in the second half of the year.

**Matthew Portillo** - *Tudor Pickering Holt & Co Securities LLC - Equity Analyst*

Great. And then as a follow-up in the Permian, there's been a lot of industry discussion around water handling and disposal in the basin as you're a very large player. I'm just curious how you guys are looking at that business?

Any constraints that might be on the horizon? And any opportunities that you may see to further reduce your cost on the water-front, especially as you develop these secondary zones, which I think, in some cases, tend to carry a higher water cut?

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**Richard Jackson** - *Occidental Petroleum Corp - President Operations, U.S. Onshore Resources and Carbon Management*

Right. No, great question. A couple of aspects to that. I want to start with where you sit on the secondary benches. I would say one key thing that I think we've done really well, and this is with respect to our well performance, which has continued to outpace really the industry is thinking about well placement to optimize the oil, not the water.

And so I think we've had great success just from that standpoint, starting in the subsurface. As you think about -- as it comes to surface, obviously, having the partnerships, having the long sort of connection with Western Midstream and others thinking about that takeaway, we've tried to be proactive for the last several years looking at that.

And then the final thing I would note is just the technology. I think we continue to highlight our technology advancements and recycling and others, and we do think that's going to be a meaningful part of this solution going forward.

And so Midland Basin has been a big thing we've highlighted, but we actually did quite a bit in the Delaware Basin as well. It's another synergy that CrownRock brought into our portfolio as well. So you're exactly right. It's a very important thing to watch. I think we're well positioned to maintain our cost structure and really be smart about that water as we go into the future.

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**Operator**

Matt -- excuse me, Scott Gruber, Citigroup.

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**Scott Gruber** - *Citigroup - Analyst*

Yes, good afternoon. I want to dig into the EOR opportunity a bit more. You have a lot of EOR experience in conventional oil, but shale EOR has been in the, call it, a valuation phase for a number of years. Is shale EOR economically viable now at current crude prices and with the 45Q enhancement? Is it really just a CO2 availability constraint that needs to be addressed? And if it is economically viable, just some thoughts on potential timing of a commercial shale EOR project? Thank you.

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

For us, it's really more about the availability of the CO2. That's why DAC is so important for us. And that's why going and looking at point-source capture to get it to the Permian is important, and we're doing that work and trying to get prepared for it.

But we have right now the conventional CO2 floods are taking as much -- almost as much CO2 as we can get right now reasonably for the life of the floods. So it's going to take a little while for us to make the shale CO2 happen. But it is going to be economical and our teams are getting prepared for a project in the Delaware Basin.

And so we'll be putting that on within the next probably year to two years. So we have modeled it enough. We've done four pilots. We've done the modeling, the pilots were better than the model. So we've recalibrated.



So we know that it will work. It's just a matter of getting the incremental CO2. And in Oman, we've also tested some reservoirs in North Oman and CO2 enhanced oil recovery did well there too. So that's going to be another place where we'll apply hopefully, DAC and or Net Power.

Net Power, as you know, it not only generates electricity to run the equipment, but it creates CO2 as a side stream -- pure CO2 that can be used in EOR. So we'd like to apply that in Oman as well as in the Permian.

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**Scott Gruber** - Citigroup - Analyst

That's interesting. It's good to hear. And then turning to a second potential DAC facility in South Texas, does the potential JV and contribution from XRG tilt you towards sanctioning that project, if you can work through the details or would you look to forward sell a certain percentage of the volumes? Just some thoughts on the factors that could impact your decision to sanction a second facility?

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

Well, we intend to go with the second facility. We have a DOE grant for that as well. So that's going to be helpful. But we do intend to FID. The timing is not set yet, but we will FID it. We're going to take advantage of some of the innovations that's being developed right now on carbon engineering to make sure that we get that in the second facility, just like we're getting in Phase 2 of the current facility.

But we will FID. We've got a lot of interest in others that want to be a part of that and a lot of interest in the sales. And we presold the credits for STRATOS and so we'll pre-sell for that one, too, but probably not sign contracts until we've done the FID.

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**Operator**

In the interest of time, this concludes our question-and-answer session. I would like to turn the conference back over to Vicki Hollub for any closing remarks.

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

I just want to thank you all for joining our call and for your questions, and have a great day. Bye.

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**Operator**

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

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