OCCIDENTAL PETROLEUM CORP /DE/
Form 10-K
February 27, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2006
Commission File Number 1-9210

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Occidental Petroleum Corporation

(Exact name of registrant as specified in its charter)

State or other jurisdiction of incorporation or organization	**Delaware**
I.R.S. Employer Identification No.	**95-4035997**
Address of principal executive offices	**10889 Wilshire Blvd., Los Angeles, CA**
Zip Code	**90024**
Registrant s telephone number, including area code	**(310) 208-8800**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
10 1/8% Senior Debentures due 2009	New York Stock Exchange
9 1/4% Senior Debentures due 2019	New York Stock Exchange
Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ YES o NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. (Note: Checking the box will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections). o YES þ NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ YES o NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. (See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act).
þ Large Accelerated Filer o Accelerated Filer
o Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). o YES þ NO

The aggregate market value of the voting stock held by nonaffiliates of the registrant was approximately $42.6 billion, computed by reference to the closing price on the New York Stock Exchange composite tape of $51.28 per share of Common Stock on June 30, 2006. Shares of Common Stock held by each executive officer and director have been excluded from this computation in that such persons may be deemed to be affiliates. This determination of potential

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

affiliate status is not a conclusive determination for other purposes.

At January 31, 2007, there were approximately 838,100,111 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement, filed in connection with its May 4, 2007, Annual Meeting of Stockholders, are incorporated by reference into Part III.

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Part I
ITEMS 1 AND 2 BUSINESS AND PROPERTIES

In this report, "Occidental" refers to Occidental Petroleum Corporation, a Delaware corporation (OPC), and/or one or more entities in which it owns a majority voting interest (subsidiaries). Occidental conducts its operations through various oil and gas, chemical and other subsidiaries and affiliates. Occidental s executive offices are located at 10889 Wilshire Boulevard, Los Angeles, California 90024; telephone (310) 208-8800.

GENERAL

Occidental s principal businesses consist of two industry segments operated by OPC's subsidiaries. The subsidiaries and other affiliates in the oil and gas segment explore for, develop, produce and market crude oil and natural gas. The subsidiaries and other affiliates in the chemical segment (OxyChem) manufacture and market basic chemicals, vinyls and performance chemicals. For financial information by segment and by geographic area, see Note 15 to the Consolidated Financial Statements of Occidental (Consolidated Financial Statements).

For information regarding Occidental's current developments, see the information in the "Management s Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) section of this report.

OIL AND GAS OPERATIONS
General

Occidental s domestic oil and gas operations are principally located at the Permian Basin in west Texas and New Mexico, Elk Hills and other locations in California, the Hugoton field in Kansas and Oklahoma, the Gulf of Mexico and western Colorado. International operations are located in Argentina, Bolivia, Colombia, Libya, Oman, Pakistan, Qatar, Russia (sold in January 2007), the United Arab Emirates (UAE) and Yemen. Occidental also has exploration interests in several other countries. For additional information regarding Occidental's oil and gas segment, see the information under the caption "Oil and Gas Segment" in the MD&A section of this report.

Proved Reserves, Production and Properties

The table below shows Occidental s total oil and natural gas proved reserves and production in 2006, 2005 and 2004. See the MD&A section of this report, Note 18 to the Consolidated Financial Statements and the information under the caption "Supplemental Oil and Gas Information" in Item 8 of this report for certain details regarding Occidental s oil and gas proved reserves, the estimation process and production by country. On May 12, 2006, Occidental reported to the United States Department of Energy on Form EIA-28 proved oil and gas reserves at December 31, 2005. The amounts reported were the same as the amounts reported in Occidental s 2005 Annual Report.

Comparative Oil and Gas Proved Reserves and Production

Oil in millions of barrels; natural gas in billions of cubic feet; BOE in millions of barrels of oil equivalent

	2006			2005			2004		
RESERVES	**Oil** [a]	**Gas**	**BOE** [b]	Oil [a]	Gas	BOE [b]	Oil [a]	Gas	BOE [b]
United States	**1,678**	**2,442**	**2,085**	1,636	2,338	2,026	1,494	2,101	1,844
International	**556**	**1,368**	**784**	350	1,140	540	395	874	541
Consolidated Subsidiaries [c]	**2,234**	**3,810**	**2,869** [d]	1,986	3,478	2,566 [d]	1,889	2,975	2,385 [d]

Other Interests [e]	**30**		**30**	45		45	43		43
PRODUCTION									
United States	**98**	**217**	**134**	92	202	126	93	186	124
International	**68**	**51**	**77**	50	44	57	49	47	57
Consolidated Subsidiaries [c]	**166**	**268**	**211**	142	246	183	142	233	181
Other Interests [e]	**7**	**8**	**8**	7	6	8	9		9

(a) Includes natural gas liquids and condensate.

(b) Natural gas volumes have been converted to BOE based on energy content of 6,000 cubic feet (one thousand cubic feet is referred to as an "Mcf") of gas to one barrel of oil.

(c) Occidental has classified its Ecuador block 15 operations as discontinued operations on a retrospective application basis and excluded them from this table.

(d) Stated on a net basis and after applicable royalties. Includes reserves related to production-sharing contracts (PSCs) and other economic arrangements. Proved reserves from PSCs in the Middle East/North Africa and from other economic arrangements in the United States were 486 million barrels of oil equivalent (MMBOE) and 119 MMBOE in 2006, 472 MMBOE and 104 MMBOE in 2005 and 450 MMBOE and 90 MMBOE in 2004, respectively.

(e) Includes Occidental's share of reserves and production from equity investees in Russia (sold in January 2007) and Yemen, partially offset by minority interests for a Colombian affiliate.

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Competition and Sales and Marketing

As a producer of crude oil and natural gas, Occidental competes with numerous other domestic and foreign private and government producers. Crude oil and natural gas are commodities that are sensitive to prevailing global and, in certain cases, local conditions of supply and demand and are sold at "spot" or contract prices or on futures markets to refiners and other market participants. Occidental competes by developing and producing its worldwide oil and gas reserves cost-effectively and acquiring rights to explore in areas with known oil and gas deposits. Occidental also competes by increasing production through enhanced oil recovery projects in mature and underdeveloped fields and making strategic acquisitions. Occidental focuses on operations in its core areas of the United States, the Middle East/North Africa and Latin America.

CHEMICAL OPERATIONS

General

OxyChem manufactures and markets basic chemicals, vinyls and performance chemicals. For additional information regarding Occidental s chemical segment, see the information under the caption Chemical Segment in the MD&A section of this report.

Products and Properties

OxyChem owns and operates chemical manufacturing plants at 23 sites in the United States and 3 sites internationally. OxyChem permanently shut down its mercaptans facility in Baytown, Texas in the fourth quarter of 2006 and its polyvinyl chloride (PVC) facility in Alberta, Canada in the first quarter of 2006. OxyChem produces the following chemical products:

Principal Products	Major Uses	Annual Capacity [a]	Location
Basic Chemicals			
Chlorine	Chlorovinyl chain and water treatment	3.7 million tons [b]	Alabama, Kansas, Louisiana, New York and Texas
		0.3 million tons [c]	Brazil and Chile
Caustic Soda	Pulp, paper and aluminum production	3.9 million tons [b]	Kansas, Louisiana, New York, and Texas
		0.4 million tons [c]	Brazil and Chile
Chlorinated organics	Silicones, paint stripping, pharmaceuticals and refrigerants	0.9 billion pounds	Louisiana and Kansas
Potassium chemicals	Glass, fertilizers, cleaning products and rubber	0.3 million tons	Alabama
Ethylene dichloride (EDC)	Raw material for vinyl chloride monomer (VCM)	2.1 billion pounds	Louisiana
		0.3 billion pounds [c]	Brazil
Vinyls			
VCM	Precursor for PVC	6.2 billion pounds [b]	Texas
PVC	Piping, insulation, flooring, medical and automotive products and packaging	3.7 billion pounds [b]	Kentucky, New Jersey and Texas
		0.6 billion pounds	Canada
Performance Chemicals			
Chlorinated isocyanurates	Swimming pool sanitation and disinfecting products	131 million pounds	Illinois and Louisiana
Resorcinol		50 million pounds	Pennsylvania

	Tire manufacture, wood adhesives and flame retardant synergist		
Sodium silicates	Soaps, detergents and paint pigments	0.7 million tons	Georgia, Ohio, Illinois, New Jersey, Texas and Alabama

(a) Estimated at December 31, 2006.
(b) Includes gross capacity of the OxyVinyls partnership, owned 76 percent by Occidental.
(c) Includes gross capacity of a joint venture in Brazil, owned 50 percent by Occidental.

CAPITAL EXPENDITURES

For information on capital expenditures, see the information under the heading "Capital Expenditures" in the MD&A section of this report.

EMPLOYEES

Occidental employed 8,886 people at December 31, 2006, 6,711 of whom were located in the United States. Occidental employed 4,429 people in oil and gas operations and 3,160 people in chemical operations. An additional 1,297 people were employed in administrative and headquarters functions. Approximately 900 United States-based employees and 250 foreign-based employees are represented by labor unions.

Occidental has a long-standing policy to provide fair and equal employment opportunities to all people without regard to race, color, religion, ethnicity, gender, national origin, disability, age, sexual orientation, veteran status or any other legally impermissible factor. Occidental maintains diversity and outreach programs.

ENVIRONMENTAL REGULATION

For environmental regulation information, including associated costs, see the information under the heading "Environmental Liabilities and Expenditures" in the MD&A section of this report.

AVAILABLE INFORMATION

Occidental makes the following information available free of charge through its web site at www.oxy.com:

- Ø Forms 10-K, 10-Q, 8-K and amendments to these forms as soon as reasonably practicable after they are filed electronically with the Securities and Exchange Commission (SEC);
- Ø Other SEC filings, including Forms 3, 4 and 5; and
- Ø Corporate governance information, including its corporate governance guidelines, board-committee charters and Code of Business Conduct. (See Part III Item 10 of this report for further information.)

ITEM 1A RISK FACTORS

Volatile global commodity pricing strongly affects Occidental s results of operations.

Occidental s financial results typically correlate closely to the volatile prices it obtains for its commodities. Drilling and exploration activity levels, inventory levels, production disruptions, the actions of OPEC (influencing prices or limiting Occidental's production), competing fuel prices, price speculation, changes in consumption patterns, weather and geophysical and technical limitations affect the supply of oil and gas and contribute to price volatility.

Demand, and consequently, the price obtained, for Occidental s chemical products correlate strongly to the health of the global economy, as well as industry expansion cycles. Occidental also depends on feedstocks and energy to produce chemicals, both of which are commodities subject to significant price fluctuations.

Occidental s oil and gas business operates in highly competitive environments, which affects, among other things, its profitability and its ability to grow production and replace reserves.

Occidental s future oil and gas production and its results of operations depend, in part, on its ability to profitably acquire, develop or find additional reserves. Over the past several years Occidental increasingly has replaced reserves through acquisitions. Occidental has many competitors, some of which are larger and better funded, may be willing to accept greater risks or have special competencies. Industry competition for reserves may influence Occidental to:

- Ø shift toward higher risk exploration activity;
- Ø pay more for reinvestment opportunities;
- Ø purchase lesser quality properties; or
- Ø delay expected reserve replacement efforts.

In addition, rising exploration and development activity in the industry generally increases the competition for and costs of, and delays access to, services needed to increase production.

Governmental actions and political instability may affect Occidental s results of operations.

Occidental s domestic and foreign oil and gas business is subject to the decisions of many governments and political interests. As a result, Occidental faces risks of:

- Ø changes in laws and regulations, including those related to taxes, royalty rates, permitted production rates, import, export and use of products, environmental protection and climate change, all of which may increase costs;

- Ø expropriation or reduction of entitlements to produce hydrocarbons; and
- Ø refusal to extend exploration, production or development contracts.

Occidental may experience adverse consequences, such as risk of loss or production limitations, because certain of its foreign operations are located in countries occasionally affected by political instability, armed conflict, terrorism, insurgency, civil unrest, security problems, restrictions on production equipment imports and sanctions that prevent continued operations. Exposure to such risks may increase as a greater percentage of Occidental s future oil and gas production comes from foreign sources.

Occidental s businesses may experience uninsured catastrophic events.

The occurrence of natural disasters, such as earthquakes, hurricanes and floods, in locations where Occidental operates and events such as well blowouts, oilfield fires, and industrial accidents may affect Occidental s businesses. Third-party insurance may not provide adequate coverage or Occidental may be self-insured with respect to the related losses.

Occidental s reserves are based on professional judgments and may be subject to revision.

Calculations of reserves depend on estimates concerning reservoir characteristics and recoverability, as well as oil and gas prices, capital costs and operating costs. If Occidental were required to make unanticipated significant negative reserve revisions, its prospects and stock price may be adversely affected.

Occidental may incur significant losses in exploration or cost overruns in development efforts.

Occidental may misinterpret geologic or engineering data, encounter unexpected geologic conditions or find reserves of disappointing quality or quantity, which may result in significant losses on exploration or development efforts. Occidental bears the risks of project delays and cost overruns due to escalating costs for materials and labor, equipment failures, approval delays, construction delays, border disputes and other associated risks.

Occidental faces risks associated with its mergers, acquisitions and divestitures.

Occidental s merger, acquisition and divestiture activities carry risks that it may: not fully realize anticipated benefits due to delays, miscalculation of reserves or production or changed circumstances; bear unexpected integration costs or experience other integration difficulties; experience share price declines based on the market s evaluation of the activity; assume or retain liabilities that are greater than anticipated; or be unable to resell acquired assets as planned or at planned prices.

Information related to competition, foreign operations, litigation, environmental matters, derivatives and market risks, and oil and gas reserve estimation fluctuations appears under the headings: Business and Properties Oil & Gas Operations Competition and Sales and Marketing;" MD&A "Oil & Gas Segment Business Review ," and " Industry Outlook" and "Chemical Segment Business Review," and " Industry Outlook," "Lawsuits, Claims, Commitments, Contingencies and Related Matters," "Environmental Liabilities and Expenditures," "Foreign Investments and "Critical Accounting Policies and Estimates," and "Derivative Activities and Market Risk."

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 3 LEGAL PROCEEDINGS

For information regarding legal proceedings, see the information in Note 9 to the Consolidated Financial Statements, which is incorporated herein by reference.

An OPC subsidiary is engaged in discussions with the Texas Commission on Environmental Quality (TCEQ) to voluntarily resolve alleged environmental law violations. The alleged violations include exceeding emissions limitations, and failing to meet operating, reporting and recordkeeping requirements relating to a natural gas processing plant in west Texas acquired by the subsidiary in 2005. The TCEQ seeks an administrative penalty of approximately $200,000 although the subsidiary expects to resolve the allegations for less.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of Occidental s security holders during the fourth quarter of 2006.

EXECUTIVE OFFICERS

The current term of employment of each executive officer of Occidental will expire at the May 4, 2007 organizational meeting of the Board of Directors or when a successor is selected. The following table sets forth the executive officers and significant employees of Occidental:

Name	Age at February 27, 2007	Positions with Occidental and Subsidiaries and Five-Year Employment History
Dr. Ray R. Irani	72	Chairman and Chief Executive Officer since 1990; President since 2005; Director since 1984; Member of Executive Committee and Dividend Committee.
Stephen I. Chazen	60	Senior Executive Vice President since 2004; Chief Financial Officer since 1999; 1994-2004, Executive Vice President Corporate Development.

Donald P. de Brier	66	Executive Vice President, General Counsel and Secretary since 1993.
Richard W. Hallock	62	Executive Vice President Human Resources since 1994.
James M. Lienert	54	Executive Vice President Finance and Planning since 2006; 2004-2006, Vice President; Occidental Chemical Corporation: 2004-2006, President; 2000-2002, Senior Vice President Basic Chemicals; OxyVinyls: 2002-2004, Senior Vice President.
John W. Morgan	53	Executive Vice President since 2001; 1998-2001, Executive Vice President Operations; Occidental Oil and Gas Corporation (OOGC): President Western Hemisphere since 2005; 2004, President; 2001-2004, Executive Vice President Worldwide Production.
R. Casey Olson	53	Executive Vice President since 2005; 2001-2005, Vice President; OOGC: President - Eastern Hemisphere since 2005; Occidental Development Company: 2004, President; Occidental Middle East Development Company: 2001-2003, President.
James R. Havert	65	Vice President and Treasurer since 1998.
Jim A. Leonard	57	Vice President and Controller since 2005; 2000-2005, Senior Assistant Controller; OOGC: 2000-2005, Senior Vice President Finance.
B. Chuck Anderson	47	Occidental Chemical Corporation: President since 2006; 2004-2006, Executive Vice President Chlorovinyls; 2002-2004, Senior Vice President Basic Chemicals; 2000-2002, President OxyVinyls.

Part II
ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES

TRADING PRICE RANGE AND DIVIDENDS

This section incorporates by reference the quarterly financial data appearing under the caption "Quarterly Financial Data (Unaudited)" after the Notes to the Consolidated Financial Statements and the information appearing under the caption "Liquidity and Capital Resources" in the MD&A section of this report. Occidental s common stock was held by 41,949 stockholders of record at December 31, 2006, with an estimated 306,994 additional stockholders whose shares were held for them in street name or nominee accounts. The common stock is listed and traded principally on the New York Stock Exchange. The quarterly financial data, which are included in this report after the Notes to the Consolidated Financial Statements, set forth the range of trading prices for the common stock as reported on the composite tape of the New York Stock Exchange and quarterly dividend information.

In May 2006, Occidental amended its Restated Certificate of Incorporation to increase the number of authorized shares of common stock to 1.1 billion. The par value per share remained unchanged.

On August 1, 2006, Occidental effected a two-for-one stock split in the form of a stock dividend to shareholders of record as of that date with distribution of the shares on August 15, 2006. The total number of authorized shares of common stock authorized for issuance and associated par value per share were unchanged by this action. All share and per-share amounts have been adjusted to reflect this stock split.

In 2006, the quarterly dividends declared for the common stock were $0.18 per share for the first two quarters of 2006 and $0.22 for the last two quarters of 2006 ($0.80 for the year). On February 15, 2007, a quarterly dividend of $0.22 per share ($0.88 on an annualized basis) was declared on the common stock, payable on April 15, 2007 to stockholders of record on March 9, 2007. The declaration of future cash dividends is a business decision made by the Board of Directors from time to time, and will depend on Occidental s financial condition and other factors deemed relevant by the Board.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

All of Occidental's equity compensation plans for its employees and non-employee directors, pursuant to which options, rights or warrants may be granted, have been approved by the stockholders. See Note 12 to the Consolidated Financial Statements for further information on the material terms of these plans.

The following is a summary of the shares reserved for issuance as of December 31, 2006, pursuant to outstanding options, rights or warrants granted under Occidental s equity compensation plans:

(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a))
12,852,466	$32.45	31,327,693 *

* Includes, with respect to:

(a) the 1995 Incentive Stock Plan, 571,438 shares reserved for issuance pursuant to deferred stock unit awards;

(b)

the 2001 Incentive Compensation Plan, 2,406,382 shares at maximum payout level (1,203,191 at target level) reserved for issuance pursuant to outstanding performance stock awards, 758,410 shares reserved for issuance pursuant to restricted stock unit awards, 2,226,172 shares reserved for issuance pursuant to deferred stock unit awards and 1,842 shares reserved for issuance as dividend equivalents on deferred stock unit awards; and

(c) the 2005 Long-Term Incentive Plan, 396,640 shares at maximum payout level (198,320 at target level) reserved for issuance pursuant to outstanding performance stock awards, 2,392,114 shares reserved for issuance pursuant to restricted stock unit awards, 1,516,000 shares at maximum payout level (758,000 at target level) reserved for issuance pursuant to outstanding performance-based restricted share units and 367,736 shares reserved for issuance pursuant to deferred stock unit awards.

Of the 21,894,150 shares that are not reserved for issuance under the 2005 Long-Term Incentive Plan, approximately 14.5 million shares are available after giving effect to the provision of the plan that each award, other than options and stock appreciation rights, must be counted against the number of shares available for issuance as three shares for every one share covered by award. Subject to the share count requirement, not more than the approximate 14.5 million shares may be issued or reserved for issuance for options, rights and warrants as well as performance stock awards, restricted stock awards, performance restricted stock awards, stock bonuses and dividend equivalents.

SHARE REPURCHASE ACTIVITIES

Occidental s share repurchase activities for the year ended December 31, 2006, were as follows:

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [b]	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs	
First Quarter 2006	**4,823,880**	[a]	**$ 45.89**	**4,410,800**		
Second Quarter 2006	**15,252,546**	[a]	**$ 49.05**	**15,080,600**		
Third Quarter 2006	**6,629,901**	[a]	**$ 47.98**	**6,118,800**		
October 1 - 31, 2006	**1,421,400**		**$ 45.64**	**1,421,400**		
November 1 - 30, 2006	**444,900**		**$ 47.67**	**444,900**		
December 1 - 31, 2006	**1,994,301**	[a]	**$ 49.85**	**1,847,300**		
Fourth Quarter 2006	**3,860,601**		**$ 48.05**	**3,713,600**		
Total 2006	**30,566,928**		**$ 48.20**	**29,323,800**	**10,676,200**	[b,c]

(a) Amount includes shares purchased from the trustee of Occidental's defined contribution savings plan totaling 413,080 shares in the first quarter, 171,946 shares in the second quarter, 511,101 shares in the third quarter and 147,001 shares in December.

(b) In 2005, Occidental announced a common stock repurchase program. Occidental is authorized to repurchase 40 million shares of its common stock under the program.

(c) In February 2007, Occidental increased the number of shares authorized for its previously announced share repurchase program from 40 million to 55 million.

PERFORMANCE GRAPH

The following graph compares the yearly percentage change in Occidental s cumulative total return on its common stock with the cumulative total return of the Standard & Poor's 500 Stock Index and with that of Occidental s peer group over the five-year period ended on December 31, 2006. The graph assumes that $100 was invested in Occidental common stock, in the stock of the companies in the Standard & Poor's 500 Index and in a portfolio of the peer group companies weighted by their relative market values each year and that all dividends were reinvested. The peer group used in the analysis consists of Anadarko Petroleum Corporation, Apache Corporation, Chevron Corporation, ConocoPhillips, Devon Energy Corporation, ExxonMobil Corporation, Hess Corporation and Occidental. The peer group changed from the prior year since certain companies which were included in the peer group have been acquired.

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	**12/31/2006**
Occidental	$100	$111	$170	$240	$334	**$415**
Peer Group	100	88	111	144	172	**225**
S&P 500	100	78	100	111	117	**135**

The information provided in this Performance Graph shall not be deemed "soliciting material" or "filed" with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 (Exchange Act), other than as provided in Item 201 to Regulation S-K under the Exchange Act, or subject to the liabilities of Section 18 of the Exchange Act and shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent Occidental specifically requests that it be treated as soliciting material or specifically incorporates it by reference.

ITEM 6 SELECTED FINANCIAL DATA

Five-Year Summary of Selected Financial Data

Dollar amounts in millions, except per-share amounts

For the years ended December 31,	2006	2005	2004	2003	2002
RESULTS OF OPERATIONS [a]					
Net sales	$17,661	$14,597	$10,879	$9,020	$7,149
Income from continuing operations	$4,435	$5,040	$2,406	$1,559	$1,167
Net income	$4,182	$5,281	$2,568	$1,527	$989
Basic earnings per common share from continuing operations	$5.20	$6.25	$3.04	$2.03	$1.55
Basic earnings per common share	$4.90	$6.55	$3.24	$1.99	$1.31
Diluted earnings per common share	$4.86	$6.45	$3.20	$1.97	$1.30
Core earnings [b]	$4,349	$3,732	$2,299	$1,599	$1,003
FINANCIAL POSITION [a]					
Total assets	$32,355	$26,108	$21,391	$18,168	$16,548
Long-term debt, net and trust preferred securities [c]	$2,619	$2,873	$3,345	$4,446	$4,452
Stockholders equity	$19,184	$15,032	$10,550	$7,929	$6,318
MARKET CAPITALIZATION	$42,515	$32,129	$23,153	$16,349	$10,750
CASH FLOW					
Cash provided by operating activities	$6,353	$5,337	$3,878	$3,074	$2,100
Capital expenditures	$(3,005)	$(2,324)	$(1,720)	$(1,523)	$(1,145)
Cash used by all other investing activities, net	$(1,378)	$(837)	$(708)	$(608)	$(551)
DIVIDENDS PER COMMON SHARE	$0.80	$0.645	$0.55	$0.52	$0.50
BASIC SHARES OUTSTANDING (thousands)	852,550	806,600	791,159	767,887	752,380

(a) See the MD&A section of this report and the "Notes to Consolidated Financial Statements" for information regarding accounting changes, asset acquisitions and dispositions, discontinued operations, environmental remediation, other costs and other items affecting comparability.

(b) For an explanation of core earnings and reconciliation to net income, see "Significant Items Affecting Earnings" in the MD&A section of this report.

(c) On January 20, 2004, Occidental redeemed the trust preferred securities.

ITEM 7

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) (Incorporating Item 7A)

In this report, the term "Occidental" refers to Occidental Petroleum Corporation (OPC) and/or one or more entities in which it owns a majority voting interest (subsidiaries). Occidental s business is divided into two segments conducted through oil and gas subsidiaries and their affiliates and chemical subsidiaries and their affiliates (OxyChem).

STRATEGY

General

Occidental aims to generate superior total returns to stockholders using the following strategy:

Ø Focus on large, long-lived oil and gas assets with long-term growth potential;
Ø Maintain financial discipline and a strong balance sheet; and
Ø Manage the chemical segment to provide cash in excess of normal capital expenditures.

Occidental prefers to own large, long-lived "legacy" oil and gas assets, like those in California and the Permian Basin, that tend to have moderate decline rates, enhanced secondary and tertiary recovery opportunities and economies of scale that lead to cost-effective production. Management expects such assets to contribute substantially to earnings and cash flow after invested capital.

At Occidental, maintaining financial discipline means investing capital in projects that management expects will generate above-cost-of-capital returns throughout the business cycle. During periods of high commodity prices, Occidental expects to use most of its cash flow after capital expenditures and dividends to improve the potential for future earnings by making such investments.

The chemical business is not managed with a growth strategy. Capital is expended to operate the chemical business in a safe and environmentally sound way, to sustain production capacity and to focus on projects designed to lower manufacturing costs. Asset acquisitions may be pursued when they are expected to enhance the existing core chlor-alkali and PVC businesses. Historically, the chemical segment has generated cash flow exceeding its normal capital expenditure requirements. Occidental intends to invest this cash mainly in strategically attractive assets.

Oil and Gas

Segment Income
($ millions)

The oil and gas business seeks to add new oil and natural gas reserves at a pace ahead of production while keeping costs incurred for finding and development among the lowest in the industry. The oil and gas business implements this strategy within the limits of the overall corporate strategy primarily by:

Ø Continuing to add commercial reserves through a combination of focused exploration and development programs conducted in and around Occidental s core areas, which are the United States, the Middle East/North Africa and Latin America;
Ø Pursuing commercial opportunities in core areas to enhance the development of mature fields with large volumes of remaining oil by applying appropriate technology and advanced reservoir-management practices; and
Ø Maintaining a disciplined approach in buying and selling assets at attractive prices.

Over the past several years, Occidental has strengthened its asset base within each of the core areas. Occidental has invested in, and disposed of, assets with the goal of raising the average performance and potential of its assets. See "Oil and Gas Segment Business Review" for a discussion of these changes.

In addition, Occidental has continued to make capital contributions and investments in the Dolphin Project in Qatar and the UAE and in Libya, and assumed operations in the Mukhaizna field in Oman for future growth opportunities, not for current production.

In 2006, Occidental acquired Vintage Petroleum, Inc. (Vintage) which it expects to provide growth in production, primarily from the Vintage Argentina assets.

Occidental s overall performance during the past several years reflects the successful implementation of its strategy to enhance the development of mature fields, beginning with the acquisition of the Elk Hills oil and gas field in California, followed by a series of purchases in the Permian Basin in west Texas and New Mexico and the integration of the Vintage and Plains Exploration and Production Company (Plains) operations acquired in 2006.

At the end of 2006, the Elk Hills and Permian assets made up 64 percent of Occidental s consolidated proven oil reserves and 43 percent of its consolidated proven gas reserves. On a barrels of oil equivalent (BOE) basis, they accounted for 59 percent of Occidental s consolidated reserves. In 2006, the combined production from these assets averaged approximately 290,000 BOE per day.

Chemical

Segment Income
($ millions)

OxyChem s strategy is to be a low-cost producer so that it can maximize its cash flow generation. OxyChem concentrates on the chlorovinyls chain beginning with chlorine, which is coproduced with caustic soda, and then chlorine and ethylene are converted, through a series of intermediate products, into polyvinyl chloride (PVC). OxyChem's focus on chlorovinyls permits it to take advantage of economies of scale.

Key Performance Indicators

General

Occidental seeks to ensure that it meets its strategic goals by continuously measuring its success in maintaining below average debt levels and top quartile performance compared to its peers in:

- Total return to stockholders;
- Return on equity;
- Return on capital employed; and
- Other segment-specific measurements such as profit per unit produced, cost to produce each unit, cash flow per unit, cost to find and develop new reserves, reserve replacement percentage and other similar measures.

Debt Structure

Occidental's total debt and total debt-to-capitalization ratios are shown in the table below:

Date ($ amounts in millions)	Total Debt [(a)]	Total Debt-to-Capitalization Ratio
12/31/02	$4,759	43%
12/31/03	$4,570	37%
12/31/04	$3,905	27%
12/31/05	$3,019	17%
12/31/06	**$2,890**	**13%**

(a) Includes trust preferred securities (redeemed January 20, 2004), natural gas delivery commitment (terminated in 2002), subsidiary preferred stock and capital lease obligations.

As shown, Occidental s year-end 2006 total debt-to-capitalization ratio declined to 13 percent from the 43-percent level that existed at the end of 2002. The decrease in the total debt-to-capitalization ratio in 2006 compared with 2002 resulted from total debt reductions of 39 percent combined with an increase in stockholders' equity of 204 percent over the same period.

Since the second quarter of 2005, Occidental s long-term senior unsecured debt has been rated A- by Standard and Poor s Corporation, A3 by Moody s Investors Service, A- by Fitch Ratings and A(Low) by Dominion Bond Rating Service. A security rating is not a recommendation to buy, sell or hold securities, may be subject to revision or withdrawal at any time by the assigning rating organization and should be evaluated independently of any other rating.

Return on Equity

Annual 2006 [(a)]	Three-Year Average 2004 - 2006 [(b)]
24%	**30%**

(a) The Return on Equity for 2006 was calculated by dividing Occidental's 2006 earnings applicable to common stock by the average equity balance in 2006.

(b) The three-year average Return on Equity was calculated by dividing the average earnings applicable to common stock over the three-year period 2004-2006 by the average equity balance over the same period.

Occidental has focused on achieving top quartile return on equity. In 2006, Occidental's return on equity was 24 percent and the three-year average return on equity was 30 percent. During the same three-year period, Occidental increased its stockholders equity by 142 percent and its quarterly dividend by 60 percent while its stock price increased by 131 percent.

OIL AND GAS SEGMENT

Business Environment

Oil and gas prices are the major variables that drive the industry s short and intermediate term financial performance. Average yearly oil prices strengthened in 2006 over 2005 levels but ended the year even with

2005 year-end levels. During the year, Occidental experienced an increase in its price differential between the average West Texas Intermediate (WTI) price and Occidental's realized prices. Occidental s realized price as a percentage of WTI was approximately 85 percent and 87 percent for 2006 and 2005, respectively. Prices and differentials can vary significantly, even on a short-term basis, making it difficult to forecast realized prices. The average WTI market price for 2006 was $66.23 per barrel compared with $56.56 per barrel in 2005. Occidental's average realized price for oil in 2006 was $56.57, compared with $49.18 in 2005.

The average NYMEX domestic natural gas prices decreased approximately 4 percent from 2005. For 2006, NYMEX gas prices averaged $7.82/Mcf compared with $8.11/Mcf for 2005.

Business Review

All production and reserve figures are net to Occidental unless otherwise specified.

Worldwide Production
(thousands BOE/day)

Acquisitions

In January 2006, Occidental completed the merger of Vintage into a wholly-owned Occidental subsidiary. As a result, Occidental acquired assets in Argentina, California, Yemen, Bolivia and the Permian Basin in Texas. See the applicable sections below for further information. Occidental paid $1.3 billion in cash to former Vintage shareholders, issued approximately 56 million shares of Occidental common stock, which were valued at $2.1 billion, and assumed Vintage s debt, which had an estimated fair value of $585 million at closing. During 2006, Occidental divested a portion of Vintage s assets for consideration of approximately $1.0 billion.

In September 2006, Occidental acquired oil and gas assets from Plains for $859 million. The principal properties acquired are adjacent to Occidental s existing operations in California and the Permian Basin in west Texas.

Occidental s production from the Vintage acquisition averaged 53,000 BOE per day in 2006. During the fourth quarter of 2006, production from the Plains assets averaged 6,000 BOE per day.

Elk Hills

Occidental operates the Elk Hills oil and gas field in the southern portion of California s San Joaquin Valley with an approximate 78-percent interest. The field was acquired in 1998 for $3.5 billion and is the largest producer of gas in California. In 2006, Occidental made additional acquisitions of oil and gas producing properties near the field for approximately $434 million. Most of these properties were obtained as part of the acquisition from Plains discussed above. Oil and gas production in 2006 from these properties and the field was approximately 91,000 BOE per day. During 2006, Occidental performed infill drilling, field extensions and recompletions identified by advanced reservoir characterization techniques resulting in 277 new wells being drilled and 479 wells being worked over. In addition, an air separation unit was installed to enhance oil recovery with nitrogen injection. As a result of these activities and acquisitions, Occidental was able to maintain production at 2005 levels. Since its acquisition, total Elk Hills oil and gas production has been approximately 301 million BOE. At the end of 2006, the property had an estimated 484 million BOE of proved reserves, compared to the 425 million BOE that were recorded at the time of the acquisition.

Permian Basin

The Permian Basin extends throughout southwest Texas and southeast New Mexico and is one of the largest and most active oil basins in the United States, with the entire basin accounting for approximately 18 percent of the total United States oil production. Occidental is the largest producer in the Permian Basin with an approximate 16-percent net share of the total Permian Basin oil production. Occidental also produces and processes natural gas and natural gas liquids (NGL) in the Permian Basin.

Most of Occidental's Permian Basin interests were obtained through the acquisition of Altura in 2000 for approximately $3.6 billion. In 2005 and 2006, Occidental made several additional acquisitions of oil and gas producing property interests for approximately $1.7 billion and $290 million (including approximately $175 million related to the acquisition of Vintage and the property acquisitions from Plains), respectively.

Occidental's total share of Permian Basin oil, gas and NGL production averaged 199,000 BOE per day in 2006 compared to 189,000 BOE per day in 2005. At the end of 2006, Occidental's Permian Basin properties had 1.2 billion BOE in proved reserves. Occidental's Permian Basin production is diversified across a large number of producing areas. The largest producing areas in 2006 included Wasson San Andres, Slaughter, Levelland, North Cowden, Wasson Clearfork and Salt Creek, which contributed 20 percent, 9 percent, 5 percent, 4 percent, 4 percent and 4 percent, respectively, to Occidental s 2006 Permian BOE production.

Occidental s interests in the Permian Basin offer additional development and exploitation potential. During 2006, Occidental drilled approximately 260 wells on its operated properties and participated in wells drilled on outside operated interests. Occidental conducted significant development activity on eight carbon dioxide (CO_2) projects during 2006, including implementation of new floods and expansion of existing CO_2 floods. Occidental also focused on improving the performance of existing wells. Occidental had an average of 122 well service units working in the Permian area during 2006 performing well maintenance and workovers.

Approximately 60 percent of Occidental s Permian Basin oil production is from fields that actively employ the application of CO_2 flood technology, an enhanced oil recovery (EOR) technique. This involves injecting CO_2 into oil reservoirs where it acts as a solvent, causing the oil to flow more freely into producing wells. These CO_2 flood operations make Occidental a world leader in the application of this technology.

Vintage California

In 2006, Occidental combined its California properties acquired from Vintage and Plains with existing California properties (excluding the Elk Hills, THUMS and Tidelands Oil Production Company (Tidelands) properties). The combined properties produce oil and gas from more than 50 fields, spread over 500 miles mainly in the Ventura, San Joaquin and Sacramento basins. Oil and gas average production in 2006 was approximately 17,000 BOE per day. At the end of 2006, the combined properties had an estimated 128 million BOE of proved reserves.

THUMS

Occidental purchased THUMS, the field contractor for an oil production unit offshore Long Beach, California, in 2000. Since then, Occidental has implemented a successful development plan. Occidental's share of production from THUMS is subject to contractual arrangements similar to a production sharing contract (PSC), whereby Occidental s share of production varies inversely with oil prices. For 2006, production from THUMS averaged 19,000 BOE per day.

Gulf of Mexico

Occidental has a one-third interest in the deep-water Horn Mountain oil field, which is Occidental's only property in the Gulf of Mexico. BP p.l.c. (BP) is the operator. For 2006, Occidental's production at Horn Mountain averaged 13,000 BOE per day.

Hugoton and Other

Occidental owns a large concentration of gas reserves, production interests and royalty interests in the Hugoton area of Kansas and Oklahoma.

Also, Occidental has over 28,000 net acres in the Piceance Basin in western Colorado. During 2006, Occidental drilled 43 development wells and started operation of a newly constructed gas processing facility.

Occidental acquired Tidelands in 2006. Tidelands is the field contractor for an onshore oil production unit in Long Beach, California. Occidental s share of production from Tidelands is subject to contractual arrangements similar to a PSC, whereby Occidental s share of production varies inversely with oil prices. Tidelands also is subject to cost-plus contracts.

Occidental s Hugoton and other operations produced 26,000 BOE per day.

Middle East/North Africa
Dolphin Project

Occidental's investment in the Dolphin Project, which was acquired in 2002, consists of two separate economic interests held through two separate legal entities. One entity, OXY Dolphin E&P, LLC, owns a 24.5-percent undivided interest in the assets and liabilities associated with a Development and Production Sharing Agreement (DPSA) with the Government of Qatar to develop and produce natural gas and condensate in Qatar s North Field for 25 years from the start of production, with a provision to request a 5-year extension. The purchase price of the undivided working interest in the DPSA was approximately $60 million and was recorded in property, plant & equipment (PP&E). This undivided interest is proportionately consolidated in Occidental's financial statements.

A second entity, OXY Dolphin Pipeline, LLC, owns 24.5 percent of the stock of Dolphin Energy Limited (Dolphin Energy). The purchase price of Dolphin Energy stock totaled approximately $250 million and was recorded as an equity investment.

Dolphin Energy is the operator under the DPSA on behalf of the three DPSA participants, including Occidental. Dolphin Energy also has the rights to build, own and operate a 260-mile-long, 48-inch natural gas pipeline, which will transport dry natural gas from Qatar to the UAE.

The Dolphin Project is expected to cost approximately $4.8 billion in total, including investments in the local UAE eastern gas distribution system and the Al Ain-Fujairah pipelines, which were added to improve the natural gas distribution system but were not contained in the original scope of the Dolphin Project. Occidental expects to invest approximately $1.2 billion of this total. The project is being financed by a combination of participant investment and project financing. During 2007, Occidental expects to spend a combined total of approximately $185 million for the gas exploration and development activity and the investment in Dolphin Energy, compared to $361 million in 2006.

In 2003, the Government of Qatar approved the final field development plan for the Dolphin Project. Construction of an onshore gas processing and compression plant at Ras Laffan in Qatar commenced in 2004 and is continuing. The pipeline is projected to start up with temporary third-party gas volumes in the first quarter of 2007. The gas volumes produced under the Dolphin DPSA are expected to replace the temporary third-party gas commencing with the start-up of the onshore gas plant in mid-2007.

Based on existing supply contracts, the Dolphin Project is expected to export approximately 2.0 billion cubic feet (Bcf) of natural gas per day (plus associated liquids and byproducts). However, the pipeline is expected to have capacity to transport up to 3.2 Bcf of natural gas per day. Demand for natural gas in the UAE and Oman continues to grow and Dolphin Energy s customers have requested additional gas supplies. To help fulfill this growing demand, Dolphin Energy will continue to pursue an agreement to secure an additional supply of gas from Qatar.

To date, Occidental has recorded 265 million BOE of proved oil and gas reserves for the Dolphin Project DPSA activity. Proved developed, non-producing oil and gas reserves are 133 million BOE, with the rest included in proved undeveloped reserves. No revenue or production costs were recorded in 2006 for the Dolphin Project gas exploration and development activity.

Qatar

In addition to the Dolphin Project, Occidental participates in two production projects in Qatar: Idd El Shargi North Dome (ISND) and Idd El Shargi South Dome (ISSD). Occidental continues to target the development and recovery of additional reserves in both the ISND and ISSD fields by applying advanced drilling systems and improved reservoir management techniques. Capital expenditures in Qatar for the ISSD and ISND projects were $257 million in 2006.

Occidental s net share of combined production from the two fields averaged 43,000 barrels per day in 2006.

Yemen

Occidental owns interests in four blocks in Yemen, including a 38-percent direct-working interest in the Masila fields, a 40.4-percent interest in the East Shabwa field, comprising a 28.6-percent direct-working interest and an 11.8-percent equity interest in an unconsolidated entity, and a 75-percent interest in Block S-1, which was part of the Vintage acquisition. Average production was 30,000 barrels of oil per day in 2006, with 19,000 coming from Masila, 6,500 from East Shabwa and the remainder from Block S-1. In addition, Occidental owns and operates an 80-percent working interest in Block 20 and is finalizing the PSC for Block 75, which was acquired in an exploration bid round.

Oman

Occidental's Oman business includes Block 9 and Block 27, where it holds a 65-percent working interest in each, Block 53, where it holds a 45-percent working interest and Block 54, where it holds a 70-percent working interest. Occidental is the operator of all four blocks where production averaged 23,000 BOE per day in 2006, with 19,000 BOE coming from Block 9, 3,000 BOE from Block 53 and the remainder from Block 27. The Block 9 agreement provides for two ten-year extensions and Occidental has agreed with the Government of Oman to the first ten-year extension through December 7, 2015.

Occidental (and its Block 53 partners) signed a new PSC for the Mukhaizna field with the Government of Oman in 2005. In September 2005, Occidental assumed operations of the Mukhaizna field, where it holds a 45-percent working interest. The Mukhaizna field, located in Oman s south central interior, was discovered in 1975 and was brought into production in 2000. Primary production peaked in the same year at 15,000 barrels of oil per day and by September 2005, had declined to 8,500 barrels of oil per day. By the end of 2006, Occidental had increased gross production to 11,000 barrels of oil per day. Occidental plans to use horizontal well steamflood technology to steadily increase production.

In October 2005, Occidental received approval for development of the Khamilah field in Block 27. The exploitation term of the agreement is 30 years beginning in September 2005. Occidental began production in June 2006, well ahead of the planned start-up timing of October 2006.

Occidental (and its Block 54 partners) signed a new PSC for Block 54 with the Government of Oman in June 2006. The initial exploration phase is four years beginning in July 2006.

In March 2004, Occidental began selling gas from Block 9 to the Government of Oman under a gas sales agreement. Under the agreement, Occidental (and its Block 9 partner) must supply approximately 114 MMcf per day of natural gas until December 31, 2007. Occidental s minimum delivery obligation is approximately 89 percent of the expected average gross production. In 2006, Occidental (and its partner) supplied an average of approximately 116 MMcf per day of natural gas under the agreement. As of December 31, 2006, the gross proved gas reserves from Block 9 comprise approximately 590 percent of the minimum gas still to be delivered under the agreement.

Libya

Occidental suspended all activities in Libya in 1986 as a result of economic sanctions imposed by the United States government. During the imposition of sanctions, Occidental derived no economic benefit from its Libyan interests. In 2004, the United States government lifted all of the principal economic sanctions against Libya.

In 2006, the United States effectively eliminated the last of the economic sanctions.

In 2005, the Libyan authorities approved the terms of Occidental s participation in the assets that it left in 1986. This re-entry agreement allowed Occidental to return to its Libyan operations on generally the same terms in effect when activities were suspended. Those assets consist of three producing contracts in the Sirte Basin and four exploration blocks. Occidental paid approximately $133 million in re-entry bonuses, capital adjustment and work-in-progress payments and is required to pay $10 million per year while it continues to operate in Libya, as reimbursements for past development costs associated with these assets. In addition, Occidental committed to spend $90 million over the next five years in the four exploration blocks. Currently, Occidental s rights in the producing fields extend through 2009 and early 2010. Occidental had its first lifting from its Libyan operations in September 2005 and production during 2006 averaged 23,000 BOE per day.

Separately, in early 2005, Occidental participated in the EPSA IV exploration bid round in Libya. Occidental successfully bid on nine of the 15 areas available. Occidental is the operator for five onshore areas and has a 90-percent exploration working interest in each area. In addition, Occidental holds a 35-percent exploration working interest in four offshore areas. Woodside Petroleum Ltd. is the operator for the offshore areas. Occidental paid approximately $90 million in exploration lease bonuses for these nine new areas and committed to perform a minimum exploration work program valued at $125 million over the commitment period.

In 2006, approximately 10,000 kilometers of seismic data was acquired for the onshore areas which will provide the basis for analysis and selection of the initial exploration prospects to be drilled by Occidental. Onshore seismic acquisition and analysis activity is planned to continue into 2007. In the offshore areas, the operator acquired approximately 9,400 kilometers of seismic data in preparation for the planned 2007 drilling program.

In November 2006, Occidental commenced drilling of the first exploration well in the onshore program, which is undergoing evaluation. A second rig is expected to begin drilling in the first quarter of 2007 and a substantial portion of the exploration drilling obligations is expected to be completed during the next 18-month period.

Other Eastern Hemisphere

Pakistan

Occidental holds oil and gas working interests, that vary from 25 to 50 percent, in four Badin Blocks in Pakistan. BP is the operator. Occidental s share of production was approximately 17,000 BOE per day in 2006.

Russia

In January 2007, Occidental sold its 50-percent interest in the Vanyoganneft joint venture to TNK-BP for approximately $485 million. At year-end, Occidental's proved Vanyoganneft reserves were an estimated 33 million BOE and its production was approximately 27,000 BOE per day in 2006. Occidental recorded a gain of approximately $400 million resulting from the sale in the first quarter of 2007.

Latin America

Argentina

Substantially all of Occidental s Argentina assets were obtained as part of the acquisition of Vintage in 2006. The assets consist of 22 concessions, 19 of which Occidental operates with a 100-percent working interest, located in the San Jorge Basin in Southern Argentina and the Cuyo Basin and Neuquén Basin in Western Argentina.

During 2006, Occidental drilled 135 new wells and performed a number of recompletions and well repairs. Occidental expects to significantly increase production over the next five years through aggressive drilling, waterflooding and EOR projects. Occidental is planning to drill 190 wells and implement a number of waterflood projects in 2007.

Occidental s share of production from Argentina averaged 36,000 BOE per day in 2006.

Bolivia

In 2006, Occidental s operating subsidiary acquired working interests in four Blocks located in the Tarija, Chuquisaca and Santa Cruz regions of Bolivia as part of the Vintage acquisition. Production for 2006 was approximately 3,000 BOE per day. In 2006, Bolivia initiated a nationalization process pursuant to which Occidental's operating subsidiary entered into two new operations contracts with commercial terms that, among other things, provide Bolivia greater operational control and control over the commercialization of hydrocarbons.

Colombia

Occidental is the operator of the Caño Limón field where its share of production averaged 28,000 barrels of oil per day in 2006. Colombia's national oil company, Ecopetrol, operates the Caño Limón-Coveñas oil pipeline and marine-export terminal. The pipeline transports oil produced from the Caño Limón field for export to international markets.

In 2005, Ecopetrol approved development of the Caricare field, an exploration discovery under the Rondon Association Contract, adjacent to Caño Limón. Production from this field, where Occidental holds a 35-percent working interest, commenced in May 2006. Production from the field and two adjacent fields was 4,000 BOE per day in 2006.

In 2005, Occidental signed a new agreement with Ecopetrol for an EOR project in the La Cira-Infantas field, located in central Colombia. In December 2006, Occidental completed the second pilot phase and agreed with Ecopetrol to enter into a third and commercial phase of the project. In 2006, Occidental s share of production was 1,000 BOE per day. Production from La Cira-Infantas is transported by the Ecopetrol pipeline and sold to an Ecopetrol refinery.

Additionally, Occidental holds various working interests in eight exploration blocks.

Ecuador

In May 2006, Ecuador terminated Occidental's contract for the operation of Block 15, which comprised all of its oil-producing operations in the country, and seized Occidental's Block 15 assets. The process resulting in this action began shortly after Occidental prevailed, by unanimous decision of an international arbitration panel subsequently upheld by a London court, in a legal dispute over tax refunds that Ecuador wrongfully withheld. Occidental immediately filed an arbitration claim against Ecuador, seeking redress for illegal confiscation of the Block 15 operations with the International Centre for Settlement of Investment Disputes in Washington, D.C., invoking the protections of the U.S. - Ecuador Bilateral Investment Treaty. As a result of the seizure, Occidental classified its Block 15 operations as discontinued operations. In 2006, Occidental recorded a net after-tax charge of $296 million in discontinued operations. This amount consists of after-tax charges for the write-off of the investment in Block 15 in Ecuador, as well as ship-or-pay obligations entered into with respect to the Oleoducto de Crudos Pesados, Ltd. (OCP) pipeline in Ecuador to ship oil produced in Block 15, partially offset by $109 million after-tax income from operations for the first five months of 2006. Occidental s Block 15 assets and liabilities are classified as assets and liabilities of discontinued operations on the consolidated balance sheets on a retrospective basis.

In addition, Occidental has a 14-percent interest in the OCP oil export pipeline. See also "Off-Balance-Sheet Arrangements Ecuador" for further information about the OCP pipeline.

Production-Sharing Contracts

Occidental conducts its operations in Qatar, Oman and Yemen under PSCs and, under such contracts, receives a share of production to recover its costs and an additional share for profit. In addition, Occidental's share of production from THUMS and Tidelands are subject to contractual arrangements similar to a PSC. Occidental s share of production from these contracts decreases when oil prices rise and increases when oil prices decline. Overall, Occidental s net economic benefit from these contracts is greater at higher oil prices.

Proved Reserves - Evaluation and Review Process

A senior corporate officer of Occidental is responsible for the internal audit and review of its oil and gas reserves data. In addition, a Corporate Reserves Review Committee (Reserves Committee) has been established, consisting of senior corporate officers, to monitor and review Occidental's oil and gas reserves. The Reserves Committee reports to the Audit Committee of Occidental's Board of Directors periodically throughout the year. Occidental has retained Ryder Scott Company, L.P. (Ryder Scott), independent petroleum engineering consultants, to review its annual oil and gas reserve estimation processes since 2004.

Again in 2006, Ryder Scott has compared Occidental s methods and procedures for estimating oil and gas reserves to generally accepted industry standards and has reviewed certain data, methods and procedures used in estimating reserves volumes, the economic evaluations and reserves classifications. Ryder Scott reviewed the specific application of such methods and procedures for a selection of oil and gas fields considered to be a valid representation of Occidental s total reserves portfolio. In 2006, Ryder Scott reviewed 10.5 percent of Occidental s oil and gas reserves. Since being engaged in 2004, Ryder Scott has reviewed Occidental s reserve estimation methods and procedures for approximately 49 percent of Occidental s oil and gas reserves.

Based on this review, including the data, technical processes and interpretations presented by Occidental, Ryder Scott has concluded that the methodologies used by Occidental in preparing the relevant estimates generally comply with current Securities and Exchange Commission (SEC) standards. Ryder Scott has not been engaged to render an opinion as to the reserves volumes reported by Occidental.

Proved Reserve Additions

Occidental consolidated subsidiaries had proved reserves at year-end 2006 of 2,869 million BOE, as compared with the year-end 2005 amount of 2,566 million BOE. Additionally, Occidental s investments in other interests had proved reserves of 30 million and 45 million BOE at year-end 2006 and 2005, respectively. The increase in the consolidated subsidiaries reserves from all sources was 518 million BOE, of which 289 million BOE were from proved developed reserves and 229 million BOE were from proved undeveloped reserves.

Proved developed reserves represent approximately 78 percent of Occidental s total proved reserves at year-end 2006 compared to 74 percent at year-end 2005.

Proved Reserve Additions - Consolidated Subsidiaries - 2006

In Millions of BOE	Proved Developed	Proved Undeveloped	Proved Total
Revisions of previous estimates	(5)	22	17
Improved Recovery	40	101	141
Extensions and Discoveries	22	12	34
Purchases	232	94	326
Total Additions	289	229	518

Proved reserves consist of 78 percent crude oil and condensate and 22 percent natural gas.

Revisions of Previous Estimates

In 2006, Occidental added net reserves of 17 million BOE through revisions of previous estimates, primarily in Libya, the Dolphin Project and Argentina, partially offset by negative revisions in the United States reflecting a reduction in gas prices. Oil price changes would affect proved reserves recorded by Occidental. For example, if oil prices increased by $5 per barrel, less oil volume is required to recover costs, and PSCs would reduce Occidental's share of proved reserves by approximately 9 million BOE. Conversely, if oil prices dropped by $5 per barrel, Occidental's share of proved reserves would increase by a similar amount. Oil price changes would also tend to affect the economic lives of proved reserves from other contracts, in a manner partially offsetting the PSC reserve volume changes. Apart from the effects of product prices, Occidental's approach to interpreting technical data regarding oil and gas reserves makes it more likely future reserve revisions will be positive rather than negative.

Improved Recovery

In 2006, Occidental added reserves of 141 million BOE through improved recovery. In the United States, improved recovery additions were 43 million BOE in the Permian Basin and 28 million BOE in the Elk Hills field. Foreign additions included 23 million BOE in Argentina and 11 million BOE in Colombia. The Elk Hills operations employ infill drilling and both gas flood and water flood techniques. In the Permian Basin, the increased reserves were primarily attributable to enhanced recovery techniques, such as drilling additional CO2 flood and water flood wells.

Extensions and Discoveries

Occidental obtains reserve additions from extensions and discoveries, which are dependent on successful exploitation programs. In 2006, as a result of such programs, Occidental added reserves of 34 million BOE, consisting of 13 million BOE in the United States, 14 million BOE in the Middle East/North Africa and 7 million BOE in Argentina. In western Colorado, Occidental added approximately 4 million BOE from the extension of gas reserves, most of which will require additional development capital.

The success of improved recovery, extension and discovery projects depends on reservoir characteristics and technology improvements, as well as oil and gas prices, capital costs and operating costs. Many of these factors are outside of management's control, and will affect whether or not these historical sources of reserve additions continue at similar levels.

Purchases of Proved Reserves

In 2006, Occidental purchased reserves of 326 million BOE, of which 143 million BOE were in the United States and 178 million BOE were in Latin America. The Vintage acquisition added proved reserves of 160 million BOE in Argentina and 8 million BOE in Bolivia with the remainder in the United States and Yemen, of which 66 percent were proved developed reserves. Occidental continues to add reserves through acquisitions when properties are available at reasonable prices. Acquisitions are dependent on successful bidding and negotiating of oil and gas contracts at attractive terms. As market conditions change, the available supply of properties may increase or decrease accordingly.

Proved Undeveloped Reserves

Occidental had proved undeveloped reserve additions of 207 million BOE resulting from improved recovery, extensions and discoveries and purchases, primarily in Argentina, the Permian Basin and the Elk Hills field. Argentina provided 46 percent of this increase. These proved undeveloped reserve additions were offset by reserve transfers of 275 million BOE to the proved developed category as a result of 2006 development programs. The Dolphin Project transferred 133 million BOE to the proved developed category during 2006. This transfer, along with other revisions, reduced the Dolphin Project's proved undeveloped reserves to 132 million BOE at December 31, 2006 from 250 million BOE at December 31, 2005. Overall, Occidental's proved undeveloped reserves decreased by 47 million BOE in 2006.

Industry Outlook

The petroleum industry is highly competitive and subject to significant volatility due to numerous market forces. Crude oil and natural gas prices are affected by market fundamentals such as weather, inventory levels, competing fuel prices, overall demand and the availability of supply.

Worldwide oil prices in 2006 remained at or near historical highs during the first three quarters of the year, but fell in the fourth quarter. Continued economic growth, resulting in increased demand, and concerns about supply availability, could result in continued high prices. A lower demand growth rate could result in lower crude oil prices.

Oil prices have significantly affected profitability and returns for Occidental and other upstream producers. Oil prices cannot be predicted with any certainty. The WTI price has averaged approximately $33 per barrel over the past ten years. However, the industry has historically experienced wide fluctuations in prices. During 2006, Occidental experienced an increase in its price differential of the average WTI price over Occidental's realized prices. See the "Oil and Gas Segment Business Environment" section above for further information.

While local supply/demand fundamentals are a decisive factor affecting domestic natural gas prices over the long term, day-to-day prices may be more volatile in the futures markets, such as on the NYMEX and other exchanges, making it difficult to forecast prices with any degree of confidence. Over the last ten years, the NYMEX gas price has averaged approximately $4.60 per Mcf.

CHEMICAL SEGMENT

Business Environment

The chemical segment results improved in 2006 due to better margins despite higher feedstock costs. OxyChem also benefited from the mid-year 2005 acquisition of two basic chemical manufacturing facilities from Vulcan Materials Company (Vulcan) and realized substantial synergies and higher sales volumes.

Business Review

Basic Chemicals

During 2006, demand and pricing for basic chemical products generally remained strong while energy costs fell, which enabled OxyChem to realize above average margins. OxyChem s chlor-alkali operating rate for 2006 was 91 percent, just slightly above the industry average operating rate of 90 percent. Industry demand for liquid caustic soda in 2006 was virtually flat compared to the prior year. Demand increased in the refining industry but was offset by reduced demand primarily in the organics and inorganics chemical market segments. Industry pricing for caustic soda started the year strong, but subsequently softened throughout the first three quarters of 2006. Caustic soda supply tightened in the fourth quarter due to lower chlorine demand resulting from a weakening vinyls sector and lower imports of caustic soda. This led to caustic soda price stabilization in the fourth quarter.

Vinyls

The PVC industry realized record level pricing and margins for 2006. Ethylene cost increases of 9 percent were partially offset by lower natural gas prices. Total PVC industry-wide demand in 2006 was 3 percent lower as compared with 2005. OxyChem operated its PVC facilities at an average operating rate of 82 percent for 2006, compared to the North American industry average of 87 percent.

Industry Outlook

In 2006, Occidental's chemical business core earnings increased by 16 percent compared to 2005, primarily due to the continued strong United States economy, higher sales volumes, largely due to the full year impact of the Vulcan operating assets, and improving margins.

Future performance will depend on global economic activity, the competitiveness of the United States in the world economy, feedstock and energy pricing, and the impact of additional production capacity entering the market place.

Basic Chemicals

Forecasts of a slowing economy offset by a stabilizing residential construction market in 2007 are expected to result in demand levels similar to average 2006 levels. Despite first quarter pressure on pricing from a weak vinyls market, margins in 2007 are expected to remain strong, but could weaken in the fourth quarter due to the anticipated impact of capacity additions in late 2007.

Vinyls

Industry-wide PVC operating rates are expected to be lower in 2007 as a result of weak demand in the first quarter coupled with the start-up of new capacity later in the year.

Lower cost Far East Asian PVC production has resulted in a significant increase in imports of PVC and finished goods into the Western Hemisphere.

CORPORATE AND OTHER

Corporate and Other includes the investments in Lyondell Chemical Company (Lyondell) and Premcor, Inc., (Premcor), a leased cogeneration facility in Taft, Louisiana and a 1,300-mile oil pipeline and gathering system located in the Permian Basin, which is used in corporate-directed oil and gas marketing and trading operations. It also includes a cogeneration facility at Ingleside, Texas, in which Occidental held a 50-percent interest, and acquired the remaining 50-percent interest in October 2006. The Premcor investment was sold in 2005.

Since December 31, 2006, Occidental has resolved certain legal disputes that it expects will result in a gain of approximately $108 million in the first quarter of 2007.

On August 1, 2006, Occidental effected a two-for-one stock split in the form of a stock dividend to shareholders of record as of that date with distribution of the shares on August 15, 2006. All share and per share amounts discussed and disclosed in this Annual Report on Form 10-K reflect the effect of the stock split.

Lyondell

In May 2006, Occidental lost significant influence over Lyondell and classified its Lyondell shares as an available-for-sale investment. In October 2006, Occidental sold 10 million shares of Lyondell's common stock in a registered public offering for a pre-tax gain of $90 million and gross proceeds of $250 million. At December 31, 2006, Occidental owned 20.3 million Lyondell shares of common stock (8-percent ownership), with a carrying value of $519 million, and warrants to purchase an additional five million shares of Lyondell common stock. In February 2007, Occidental exercised these warrants and received approximately 700,000 shares of Lyondell stock. Following this transaction, Occidental owned approximately 21 million shares of Lyondell common stock.

Premcor

Valero Energy Corp. s (Valero) acquisition of Premcor resulted in a $704 million pre-tax gain and the subsequent sale of all of the Valero shares received resulted in an additional $22 million pre-tax gain in 2005.

SEGMENT RESULTS OF OPERATIONS

The following discussion of Occidental s two operating segments and corporate items should be read in conjunction with Note 15 to the Consolidated Financial Statements.

Segment earnings generally exclude income taxes, interest income, interest expense, environmental remediation expenses, unallocated corporate expenses, discontinued operations and the cumulative effect of changes in accounting principles, but include gains and losses from dispositions of segment assets and results and other earnings from the segments' equity investments.

The following table sets forth the sales and earnings of each operating segment and corporate items:

In millions, except per share amounts For the years ended December 31,	**2006**	2005	2004
SALES			
Oil and Gas	**$12,676**	$9,805	$7,093
Chemical	**4,815**	4,641	3,675
Other [(a)]	**170**	151	111
	$17,661	$14,597	$10,879
EARNINGS(LOSS)			
Oil and Gas [(b)]	**$7,239**	$5,968	$4,021
Chemical [(c)]	**901**	607	414
	8,140	6,575	4,435
Unallocated corporate items			
Interest expense, net [(d)]	**(131)**	(201)	(240)
Income taxes [(e)]	**(3,466)**	(1,927)	(1,639)
Other [(f)]	**(108)**	593	(150)
Income from continuing operations	**4,435**	5,040	2,406
Discontinued operations, net [(g)]	**(253)**	238	162
Cumulative effect of changes in accounting principles, net		3	
Net Income	**$4,182**	$5,281	$2,568
Basic Earnings per Common Share	**$4.90**	$6.55	$3.24

(a) These amounts represent revenue from a Taft, Louisiana cogeneration plant and the Permian Basin pipeline and gathering system.

(b) The 2006, 2005 and 2004 amounts include interest income of $10 million, $11 million and $18 million, respectively, from loans made to an equity investee.

(c) The 2005 amount includes a $139 million charge for the write-off of two previously idled chemical plants and one operating plant and an additional charge of $20 million for the write-down of another chemical plant.

(d) The 2006, 2005 and 2004 amounts include $31 million, $42 million and $17 million, respectively, of interest charges to redeem or purchase and retire various debt issues.

(e) As a result of changes in compensation programs in 2006, Occidental wrote off approximately $40 million of the related deferred tax asset that had been recognized in the financial statements prior to the changes. The 2005 amount includes a $335 million tax benefit due to the reversal of tax reserves no longer required, a $619 million tax benefit resulting from a closing agreement with the U.S. Internal Revenue Service resolving certain foreign tax credit issues and a $10 million charge related to a state income tax issue. The 2004 amount includes $47 million of credits related to tax settlements with the IRS.

(f) The 2006 amount includes a $90 million pre-tax gain from the sale of 10 million shares of Lyondell, a $108 million pre-tax gain related to litigation settlements, $54 million of corporate equity-method investment income and $47 million of environmental remediation expenses. The 2005 amount includes a $726 million pre-tax gain from Valero s acquisition of Premcor and the subsequent sale of the Valero shares received, a $140 million pre-tax gain from the sale of 11 million shares of Lyondell common stock, $71 million of corporate equity-method investment income and $62 million of environmental remediation expense. The 2004 amount includes a $121 million pre-tax gain on the issuance of Lyondell common stock, $12 million of corporate equity-method investment income and $59 million of environmental remediation expense.

(g) In the second quarter of 2006, Ecuador s Minister of Energy terminated Occidental s contract for the operation of Block 15 and the Government of Ecuador seized Occidental s Block 15 assets shortly thereafter. As a result of the seizure, Occidental has classified its Block 15 operations as discontinued operations on a retrospective application basis. The 2006 discontinued operations amount also includes income from Vintage properties that were held for sale. The 2004 amount also includes the specialty resins business that was classified as a discontinued operation in 2004.

Oil and Gas

In millions, except as indicated	**2006**	2005	2004
Segment Sales	**$12,676**	$9,805	$7,093
Segment Earnings	**$7,239**	$5,968	$4,021
Core Earnings (a)	**$7,239**	$6,012	$4,021
Net Production per Day			
United States			

Crude oil and liquids (MBBL)			
California	**86**	76	78
Permian	**167**	161	154
Horn Mountain	**12**	13	19
Hugoton and other	**3**	3	3
Total	**268**	253	254
Natural Gas (MMCF)			
California	**256**	242	237
Hugoton and other	**138**	133	127
Permian	**194**	170	130
Horn Mountain	**7**	8	13
Total	**595**	553	507
Latin America			
Crude oil (MBBL)			
Argentina	**33**		
Colombia	**38**	36	37
Total	**71**	36	37
Natural Gas (MMCF)			
Argentina	**17**		
Bolivia	**17**		
Total	**34**		
Middle East/North Africa			
Crude oil (MBBL)			
Oman	**18**	17	13
Qatar	**43**	42	45
Yemen	**29**	28	32
Libya	**23**	8	
Total	**113**	95	90
Natural Gas (MMCF)			
Oman	**30**	44	55
Other Eastern Hemisphere			
Crude oil (MBBL)			
Pakistan	**4**	5	7
Natural Gas (MMCF)			
Pakistan	**76**	77	75
Barrels of Oil Equivalent (MBOE) (b)			
Subtotal Consolidated Subsidiaries	**578**	501	494
Colombia-minority interest	**(5)**	(4)	(4)
Russia-Occidental net interest (c)	**27**	28	29
Yemen-Occidental net interest	**1**	1	1
Total Worldwide Production (MBOE) (d)	**601**	526	520

(See footnotes on next page)

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Oil and Gas (continued)

In millions, except as indicated	**2006**	2005	2004
Average Sales Prices			
Crude Oil Prices ($ per bbl)			
United States	**$58.13**	$50.21	$37.72
Latin America	**$52.40**	$51.18	$36.85
Middle East/North Africa (e)	**$61.58**	$49.88	$34.88
Other Eastern Hemisphere	**$56.70**	$46.84	$33.13
Total consolidated subsidiaries	**$57.95**	$50.19	$36.79
Other interests	**$34.25**	$36.16	$23.83
Total worldwide (d)	**$56.57**	$49.18	$35.79
Gas Prices ($ per Mcf)			
United States	**$6.51**	$7.11	$5.35
Latin America	**$2.00**	$	$
Middle East/North Africa (e)	**$0.97**	$0.96	$0.97
Other Eastern Hemisphere	**$2.94**	$2.44	$2.25
Total consolidated subsidiaries	**$5.66**	$6.11	$4.56
Other interests	**$0.14**	$0.16	$
Total worldwide (d)	**$5.50**	$5.98	$4.56
Expensed Exploration (f)	**$295**	$314	$214
Capital Expenditures			
Development	**$2,394**	$1,769	$1,335
Exploration	**$132**	$258	$83
Other (g)	**$195**	$110	$108

(a) For an explanation of core earnings and reconciliation to net income, see "Significant Items Affecting Earnings."
(b) Natural gas volumes have been converted to equivalent BOE based on energy content of 6,000 cubic feet (one thousand cubic feet is referred to as a Mcf) of gas to one barrel of oil.
(c) Sold in January 2007.
(d) Occidental has classified its Ecuador Block 15 operations as discontinued operations on a retrospective application basis and excluded them from this table. Excluded production from the Block 15 operations averaged 43,000 BOE per day for the first five months of 2006, 42,000 BOE per day in 2005 and 46,000 BOE per day in 2004.
(e) These prices exclude the impact of taxes owed by Occidental but paid by governmental entities on its behalf.
(f) Includes dry hole write-offs and lease impairments of $114 million in 2006, $220 million in 2005 and $155 million in 2004.
(g)

Includes capitalized portion of injected CO_2 of $64 million, $59 million and $54 million in 2006, 2005 and 2004, respectively. Excludes acquisitions.

Core earnings in 2006 were $7.2 billion, compared to $6.0 billion in 2005. The increase in core earnings is primarily due to higher crude oil prices and oil and gas production, partially offset by higher operating expenses, including a depreciation, depletion and amortization (DD&A) increase, which was driven by higher volumes and rates.

Core earnings in 2005 were $6.0 billion, compared with $4.0 billion in 2004. The increase in core earnings is primarily due to higher prices and volumes for crude oil and natural gas, partially offset by higher operating expenses, higher exploration expense and increased DD&A rates.

Average consolidated production costs for 2006 were $11.23 per BOE, compared to the average 2005 production cost of $8.81 per BOE. At least 41 percent of the increase was a result of higher energy prices pushing up utility costs, gas plant costs and ad valorem and export taxes, and the impact on Occidental's PSCs of lower volumes due to higher energy prices. These cash operating cost increases included $0.57 per barrel for taxes and $0.33 per barrel for higher energy costs. The remaining increase of $1.52 per barrel was the result of higher workover, maintenance and lifting costs. Maintenance costs increased by $116 million, while workovers, ad valorem taxes and utilities each accounted for approximately $55 million in higher costs during 2006.

Also, see "Production-Sharing Contracts" above.

Chemical

In millions	**2006**	2005	2004
Segment Sales	**$4,815**	$4,641	$3,675
Segment Earnings	**$901**	$607	$414
Core Earnings (a)	**$901**	$777	$414
Capital Expenditures	**$251**	$173	$155

(a) For an explanation of core earnings and reconciliation to net income, see "Significant Items Affecting Earnings."

Core earnings in 2006 were $901 million, compared to $777 million in 2005. The increase in core earnings is primarily due to higher margins in chlorine, caustic soda and PVC.

Core earnings in 2005 were $777 million, compared with $414 million in 2004. The increase in core earnings is primarily due to higher margins resulting from higher prices for chlorine, caustic soda and PVC, partially offset by higher energy and feedstock costs.

SIGNIFICANT ITEMS AFFECTING EARNINGS

Occidental s results of operations often include the effects of significant transactions and events affecting earnings that vary widely and unpredictably in nature, timing and amount. Therefore, management uses a measure called "core earnings," which excludes those items. This non-Generally Accepted Accounting Principles (GAAP) measure is not meant to disassociate those items from management s performance, but rather is meant to provide useful information to investors interested in comparing Occidental s earnings performance between periods. Reported earnings are considered representative of management s performance over the long term. Core earnings is not considered to be an alternative to operating income in accordance with GAAP.

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Significant Items Affecting Earnings

Benefit (Charge) (in millions)	2006	2005	2004
NET INCOME	**$4,182**	$5,281	$2,568
OIL AND GAS			
Segment Earnings	**$7,239**	$5,968	$4,021
Less:			
Contract settlement		(26)	
Hurricane insurance charge		(18)	
Segment Core Earnings	**$7,239**	$6,012	$4,021
CHEMICAL			
Segment Earnings	**$901**	$607	$414
Less:			
Write-off of plants		(159)	
Hurricane insurance charge		(11)	
Segment Core Earnings	**$901**	$777	$414
TOTAL SEGMENT CORE EARNINGS	**$8,140**	$6,789	$4,435
CORPORATE			
Results [(a)]	**$(3,958)**	$(1,294)	$(1,867)
Less:			
Debt purchase expense	**(31)**	(42)	
Trust preferred redemption charge			(11)
Gain on sale of Lyondell shares	**90**	140	
Gain on sale of Premcor-Valero shares		726	
Gain on Lyondell stock issuance			121
State tax issue charge [(b)]		(10)	
Settlement of federal tax issue [(b)]		619	47
Reversal of tax reserves [(b)]		335	
Deferred tax write-off due to compensation program changes [(b)]	**(40)**		
Equity investment impairment		(15)	
Equity investment hurricane insurance charge		(2)	
		(10)	(15)

Hurricane insurance charge			
Litigation settlements	**108**		
Tax effect of pre-tax adjustments	**(41)**	(219)	(35)
Discontinued operations, net of tax (b)	**(253)**	238	162
Cumulative effect of changes in accounting principles, net of tax (b)		3	
CORPORATE CORE RESULTS	**$(3,791)**	$(3,057)	$(2,136)
TOTAL CORE EARNINGS	**$4,349**	$3,732	$2,299

(a) Includes net interest expense, income taxes, general and administrative and other expense, and certain non-core items.
(b) Amounts shown after tax.

TAXES

Deferred tax liabilities, net of deferred tax assets of $1.4 billion, were $2.1 billion at December 31, 2006. The current portion of the deferred tax assets of $190 million is included in prepaid expenses and other. The net deferred tax assets are expected to be realized through future operating income and reversal of temporary differences.

Worldwide Effective Tax Rate

The following table sets forth the calculation of the worldwide effective tax rate for reported income from continuing operations and core earnings:

In millions	**2006**	2005	2004
REPORTED INCOME			
Oil and Gas (a)	**$7,239**	$5,968	$4,021
Chemical	**901**	607	414
Corporate and Other	**(239)**	392	(390)
Pre-tax income	**7,901**	6,967	4,045
Income tax expense			
Federal and State	**1,713**	665	941
Foreign (a)	**1,753**	1,262	698
Total	**3,466**	1,927	1,639
Income from continuing operations	**$4,435**	$5,040	$2,406
Worldwide effective tax rate	**44%**	28%	41%
CORE INCOME			
Oil and Gas (a)	**$7,239**	$6,012	$4,021
Chemical	**901**	777	414
Corporate and Other	**(406)**	(405)	(485)
Pre-tax income	**7,734**	6,384	3,950
Income tax expense			

Federal and State	**1,632**	1,390	953
Foreign [(a)]	**1,753**	1,262	698
Total	**3,385**	2,652	1,651
Core income	**$4,349**	$3,732	$2,299
Worldwide effective tax rate	**44%**	42%	42%

(a) Revenues, oil and gas pre-tax income and income tax expense include taxes owed by Occidental but paid by governmental entities on its behalf of $1.1 billion, $887 million and $525 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Occidental's 2006 worldwide effective tax rate was 44 percent for both reported and core income. The lower income tax rate for reported income in 2005, compared to 2006, resulted from a $335 million 2005 tax benefit due to the reversal of tax reserves no longer required and a $619 million 2005 tax benefit resulting from a closing agreement with the IRS resolving certain foreign tax credit issues.

CONSOLIDATED RESULTS OF OPERATIONS

Selected Revenue Items

In millions	**2006**	2005	2004
Net sales	**$17,661**	$14,597	$10,879
Interest, dividends and other income	**$381**	$181	$144
Gain on disposition of assets, net	**$118**	$870	$1

The increase in net sales in 2006, compared to 2005, reflects higher crude oil prices and oil and gas production and higher chemical prices, partially offset by lower natural gas prices.

The increase in net sales in 2005, compared to 2004, reflects higher crude oil, natural gas and chemical prices.

The increase in interest, dividends and other income in 2006, compared to 2005, is primarily due to a $108 million gain related to litigation settlements and interest income earned on a higher level of cash and cash equivalents.

The increase in interest, dividends and other income in 2005, compared to 2004, reflects higher interest income earned on a higher level of cash and cash equivalents.

Gains on disposition of assets, net in 2006, includes a gain of $90 million from the sale of 10 million shares of Lyondell stock.

Gain on disposition of assets, net in 2005 includes a gain of $726 million resulting from Valero s acquisition of Premcor and the subsequent sale of all of the Valero shares received and a gain of $140 million on the sale of 11 million shares of Lyondell stock.

Selected Expense Items

In millions	**2006**	2005	2004
Cost of sales (a)	**$6,284**	$5,425	$4,418
Selling, general and administrative and other operating expenses	**$1,371**	$1,324	$936
Depreciation, depletion and amortization	**$2,042**	$1,422	$1,251
Exploration expense	**$295**	$314	$214
Interest and debt expense, net	**$291**	$293	$260

(a) Excludes depreciation, depletion and amortization of $2,011 million in 2006, $1,383 million in 2005 and $1,213 million in 2004.

Cost of sales increased in 2006, compared to 2005, due to higher oil and gas production, maintenance, workover and utility costs and higher ad valorem and export taxes.

Cost of sales increased in 2005, compared to 2004, mainly due to higher oil and gas production costs and higher energy and feedstock costs.

Selling, general and administrative and other operating expenses increased in 2006, compared to 2005, due to higher oil and gas production taxes and increases in share-based and incentive compensation expense.

Selling, general and administrative and other operating expenses increased in 2005, compared to 2004, due to the chemical plant write-offs and writedowns in 2005, higher costs in oil and gas, including higher production-related taxes, and increases in share-based compensation expense.

DD&A increased in 2006, compared to 2005, due to increased production, mainly from the Vintage acquisition and higher costs of new reserve additions resulting in a higher DD&A rate.

DD&A increased in 2005, compared to 2004, due to higher costs of new reserve additions resulting in a higher DD&A rate.

The increase in exploration expense in 2005, compared to 2004, was due mostly to higher dry hole write-offs and impairment costs and higher seismic and geological and geophysical costs.

Interest and debt expense in 2006, 2005 and 2004 included pre-tax debt repayment expenses of $35 million, $42 million and $17 million, respectively. Excluding the effects of these debt repayment charges, interest expense increased in 2005, compared to 2004, due to higher interest rates which were partially offset by lower debt levels.

Selected Other Items

In millions	2006	2005	2004
Provision for income taxes	$ 3,466	$ 1,927	$ 1,639
Income from equity investments	$ (182)	$ (232)	$ (113)
Gain on Lyondell stock issuance	$	$	$ (121)

The increase in the provision for income taxes in 2006, compared to 2005, was due to an increase in income before taxes in 2006, a $335 million 2005 tax benefit due to the reversal of tax reserves no longer required, and a $619 million 2005 tax benefit related to the resolution of certain IRS tax issues.

The decrease in income from equity investments in 2006, compared to 2005, is mainly due to the change in Occidental s accounting for its Lyondell shares from equity method to available-for-sale investment in May 2006.

The increase in income from equity investments in 2005, compared to 2004, was due to improved results from the Lyondell equity investment and higher income from a Russian oil and gas equity investee.

The gain on Lyondell stock issuance in 2004 represents Occidental's share of the increase in Lyondell's net equity resulting from Lyondell's issuance of stock to purchase Millennium.

CONSOLIDATED ANALYSIS OF FINANCIAL POSITION

The changes in the following components of Occidental s balance sheet are discussed below:

Selected Balance Sheet Components

In millions	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	$ 1,339	$ 2,188
Short-term investments	240	252
Trade receivables, net	2,825	2,531
Receivables from joint ventures, partnerships and other	499	568
Inventories	825	716
Prepaid expenses and other	256	255
Assets of discontinued operations	22	427
Total current assets	$ 6,006	$ 6,937
Long-term receivables, net	$ 231	$ 377
Investments in unconsolidated entities	$ 1,344	$ 1,209
Property, plant and equipment, net	$ 24,316	$ 17,171

CURRENT LIABILITIES		
Current maturities of long-term debt and capital lease liabilities	**$171**	$46
Accounts payable	**2,263**	2,046
Accrued liabilities	**1,575**	1,569
Dividends payable	**188**	147
Domestic and foreign income taxes	**396**	326
Liabilities of discontinued operations	**131**	138
Total current liabilities	**$4,724**	$4,272
Long-term debt, net	**$2,619**	$2,873
Deferred credits and other liabilities-income taxes	**$2,326**	$970
Deferred credits and other liabilities-other	**$2,966**	$2,621
Long-term liabilities of discontinued operations	**$195**	$
Stockholders equity	**$19,184**	$15,032

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Assets

See   Cash Flow Analysis   for discussion about the change in cash and cash equivalents. The increase in trade receivables is due to higher worldwide oil prices and higher oil and gas production volumes during the fourth quarter of 2006 versus 2005. The increase in inventories is due to an increase in materials and supplies, mainly in Oman and Colombia, and increases in chemical inventory volumes during the fourth quarter of 2006 versus 2005. The decrease in assets of discontinued operations is due to the write-off of the investment in Block 15 in Ecuador during the second quarter of 2006.

The decrease in long-term receivables reflects lower mark-to-market adjustments on long-term derivative financial instruments. The increase in investments in unconsolidated entities is due to mark-to-market adjustments on the Lyondell investment, which became an available-for-sale investment in May 2006 and additional capital investments made on the Dolphin Project during 2006, partially offset by the sale of 10 million shares of Lyondell common stock. The increase in PP&E is due to the acquisitions of Vintage and properties from Plains completed in the first and third quarters of 2006, respectively, and oil and gas capital expenditures during 2006.

Liabilities and Stockholders' Equity

Debt to Capitalization [(a)]

(a) This ratio is computed by dividing year-end Total Debt, as shown in the "MD&A-Strategy-Key Performance Indicators-Debt Structure," by the sum of year-end Total Debt plus year-end Stockholders   Equity.

The increase in current maturities of long-term debt and capital leases is due to the 4.0-percent medium-term notes, which were reclassified from long-term to current since they mature in 2007. The increase in accounts payable is due to the Vintage acquisition, higher prices and volumes for purchased oil in the marketing and trading operations, and higher chemical volume and feedstock price increases during 2006.

The decrease in long-term debt, net is due to various debt redemptions and repurchases throughout 2006, offset by the debt assumed in the Vintage acquisition. The increase in deferred credits and other liabilities income taxes is due to the additional deferred taxes recorded as part of the Vintage acquisition purchase accounting. The increase in deferred credits and other liabilities   other is due to additional pension liabilities recorded in connection with Occidental s adoption of Statement of Financial Accounting Standards (SFAS) 158. The increase in long-term liabilities of discontinued operations was due to accruing the OCP ship-or-pay obligations in Ecuador.

The increase in stockholders' equity reflects the stock issued as consideration for the Vintage acquisition and net income for 2006, partially offset by treasury stock repurchases and dividend payments.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2006, Occidental had approximately $1.6 billion in cash and short-term investments on hand. Although income and cash flows are largely dependent on oil and gas prices and production, Occidental believes that cash and short-term investments on hand and cash generated from operations will be sufficient to fund its operating needs, capital expenditure requirements, dividend payments, potential acquisitions, its announced common stock repurchase program and debt repurchases. If needed, Occidental could access its existing credit facilities.

Available but unused lines of committed bank credit totaled approximately $1.5 billion at December 31, 2006. In September 2006, Occidental amended and restated its $1.5 billion bank credit (Credit Facility) to, among other things, lower the interest rate and extend the term to September 2011. The Credit Facility provides for the termination of the loan commitments and requires immediate repayment of any outstanding amounts if certain events of default occur or if Occidental files for bankruptcy. Occidental had not drawn down any amounts on the Credit Facility at December 31, 2006. None of Occidental's committed bank credits contain material adverse change (MAC) clauses or debt rating triggers that could restrict Occidental's ability to borrow under these lines. Occidental's credit facilities and debt agreements do not contain rating triggers that could terminate bank commitments or accelerate debt in the event of a ratings downgrade.

At December 31, 2006, under the most restrictive covenants of certain financing agreements, Occidental's capacity for additional unsecured borrowing was approximately $44.8 billion, and the capacity for the payment of cash dividends and other distributions on, and for acquisitions of, Occidental's capital stock was approximately $17.2 billion, assuming that such dividends, distributions and acquisitions were made without incurring additional borrowing.

In January 2006, Occidental completed the Vintage acquisition and paid $1.3 billion in cash to former Vintage shareholders and issued approximately 56 million shares of Occidental common stock, which were valued at $2.1 billion. In addition, Occidental assumed Vintage s debt, which had an estimated fair market value of $585 million at closing.

In 2006, Occidental redeemed or repurchased $274 million of this newly acquired debt, including all of its 7.875-percent Vintage senior subordinated notes due 2011 and $74 million of its 8.25-percent Vintage senior notes due 2012. Additionally, Occidental redeemed all of its 7.375-percent senior notes due 2008 and purchased and retired a total of $120 million of its 4-percent medium-term notes due 2007, its 4.25-percent medium-term notes due 2010, its 6.75-percent senior notes due 2012, its 9.25-percent senior debentures due 2019, its 8.75-percent senior notes due 2023 and its 8.45-percent senior notes due 2029.

In 2005, Occidental redeemed all of its 5.875-percent senior notes due 2007, all of its 4.101-percent medium-term senior notes due 2007, all of its 7.65-percent senior notes due 2006 and three of its unsecured subsidiary notes due 2028 through 2030. In addition, Occidental purchased and retired a total of $213 million of its 6.75-percent senior notes due 2012, its 10.125-percent senior notes due 2009, its 4-percent medium-term senior notes due 2007 and its 4.25-percent medium-term senior notes due 2010.

In July 2005, Dolphin Energy entered into a bridge loan in an amount of $2.45 billion. The proceeds of the new bridge loan were used to pay off amounts outstanding on a previous bridge loan and are being used to fund the construction of the Dolphin Project. The new bridge loan has a term of four years, is a revolving credit facility for the first two years and may be converted to a term loan thereafter. In September 2005, Dolphin Energy entered into an agreement with banks to provide a $1.0 billion Islamic-law-compliant facility to fund the construction of a certain portion of the Dolphin Project. This four-year financing facility is structured as a transaction in which Dolphin Energy constructs part of the midstream portion of the Dolphin Project on behalf of a group of Islamic investors and enters into a lease to use such assets upon construction completion. Occidental guarantees 24.5 percent of both of these obligations of Dolphin Energy. At December 31, 2006, Occidental s portion of the bridge loan and Islamic-law-compliant facility draw downs were $469 million and $184 million, respectively. Occidental had recorded $473 million on the balance sheet at December 31, 2006, for the combined bridge loan and Islamic-law-compliant facility. The remaining amounts of the bridge loan and Islamic-law-compliant facility draw downs are included in guarantees discussed in Off-Balance-Sheet Arrangements Guarantees below.

In the first quarter of 2005, Occidental filed a shelf registration statement for up to $1.5 billion of various securities. As of December 31, 2006, no securities had been issued under this shelf.

In January 2007, Occidental completed a cash tender offer for its 10.125-percent senior debentures due 2009, 9.25-percent senior debentures due 2019, 8.75-percent senior notes due 2023, 7.2-percent senior debentures due 2028 and 8.45-percent senior notes due 2029, resulting in the repurchase of a portion of these debt instruments totaling $659 million. The repurchases were funded with Occidental s cash on hand and resulted in debt repurchase expenses of $165 million.

Cash Flow Analysis

In millions	**2006**	2005	2004
Net cash provided by operating activities	**$6,353**	$5,337	$3,878

The significant increase in operating cash flow in 2006, compared to 2005, resulted from several factors. The most important drivers were higher crude oil prices, higher oil and gas production and, to a much lesser extent, higher chemical margins, partially offset by the effects of lower gas prices and reduced cash flow from discontinued operations. In 2006, Occidental s realized crude oil prices increased by 15 percent and its oil and gas production increased by over 14 percent compared to 2005. The increase in production was mainly due to the 11 months of production from the Vintage acquisition.

Increases in the costs of producing oil and gas, such as purchased goods and services, and higher utility costs, gas plant costs and ad valorem and export taxes, partially offset the effect of oil price increases. Other cost elements, such as labor costs and overheads, are not significant drivers of cash flow because they are mainly fixed within a narrow range over the short to intermediate term. The cost increases had a smaller effect on cash flow than the higher crude oil prices and the higher crude oil and natural gas production.

Most major chemical prices increased in 2006, compared to 2005, at a higher rate than ethylene costs, thereby improving chemical margins. The overall impact of the chemical price changes on cash flow was much less than for oil and gas price changes because the chemical segment earnings and cash flow are significantly smaller than those for the oil and gas segment. Sales volumes for certain chemical products were slightly lower in 2006, however, this did not have a significant effect on Occidental s earnings and cash flow.

The significant increase in operating cash flow in 2005, compared to 2004, resulted from several factors. The most important drivers were the significantly higher oil and natural gas prices and, to a much lesser extent, chemical prices. Although the changes in realized prices varied among the regions in which Occidental operates, in 2005, Occidental's realized oil prices were higher overall by 37 percent. Occidental s realized natural gas price increased over 33 percent in the United States, where approximately 80 percent of Occidental s natural gas was produced in 2005.

Increases in the costs of producing oil and gas, such as purchased goods and services, and higher utility, gas plant and production taxes, partially offset oil and gas sales price increases, but such cost increases had a much lower effect on cash flow than the realized price increases. Other cost elements, such as labor costs and overheads, are not significant drivers of cash flow because they are mainly fixed within a narrow range over the short to intermediate term.

Most major chemical prices increased in 2005 at a higher rate than the energy-driven increase in feedstock and power costs, thereby improving profits and cash flow. The overall impact of the chemical price changes on cash flow was much less than for oil and gas price changes, not only because the chemical segment earnings and cash flow are significantly smaller than those for the oil and gas segment, but also because of increases in energy price-driven feedstock and electric power costs, which are major elements of manufacturing cost for the chemical segment's products. Sales volumes for chemical products generally were higher in 2005, but this did not have a significant effect on Occidental's earnings and cash flow.

Other non-cash charges to income in 2006 included stock incentive plan amortization, deferred compensation and environmental remediation accruals. Other non-cash charges to income in 2005 included chemical asset write-downs, deferred compensation, stock incentive plan amortization and environmental remediation accruals. Other non-cash charges in 2004 included deferred compensation, stock incentive plan amortization, environmental remediation accruals and a chemical asset write-down.

In millions	**2006**	2005	2004
Net cash used by investing activities	**$(4,383)**	$(3,161)	$(2,428)

The 2006 amount includes the cash payments associated with the acquisition of Vintage and the property acquisition from Plains, partially offset by cash proceeds from the Vintage assets subsequently sold and from the sale of Lyondell shares.

The 2005 amount includes the cash payments for several Permian Basin acquisitions, the acquisition of the Vulcan chlor-alkali manufacturing facilities and the payments to re-enter Libya and to assume operations of the Mukhaizna field in Oman. These were partially offset by the cash proceeds from the sale of the Premcor-Valero shares and the Lyondell shares.

The 2004 amount includes the purchase of a pipeline and gathering system in the Permian Basin and a $204 million advance to the Elk Hills Power LLC (EHP) equity investment, which EHP used to repay a portion of its debt.

Also, see the "Capital Expenditures" section below.

In millions	**2006**	2005	2004
Net cash used by financing activities	**$(2,819)**	$(1,187)	$(821)

The 2006 amount consists of $1.5 billion of cash paid for Occidental s stock repurchase plan and net debt payments of approximately $900 million.

The 2005 amount includes net debt payments of approximately $900 million.

The 2004 amount includes $466 million paid to redeem the trust preferred securities in January 2004 and $159 million paid to redeem Occidental's 6.5-percent senior notes.

Occidental paid common stock dividends of $646 million in 2006, $483 million in 2005 and $424 million in 2004.

Capital Expenditures

In millions	**2006**	2005	2004
Oil and Gas	**$2,721**	$2,137	$1,526
Chemical	**251**	173	155
Corporate and Other	**33**	14	39
Total [(a)]	**$3,005**	$2,324	$1,720

(a) Excludes acquisitions. Amounts are included in net cash used by investing activities discussed above.

Occidental s capital spending estimate for 2007 is approximately $3.3 to $3.4 billion. Most of the capital spending will be allocated to oil and gas exploration, production and development activities for the Oman Mukhaizna project, the Vintage properties in Argentina and California, Libya, Qatar, the Permian Basin and Elk Hills.

Commitments at December 31, 2006, for major capital expenditures during 2007 and thereafter were approximately $787 million. Occidental will fund these commitments and capital expenditures with cash from operations.

OFF-BALANCE-SHEET ARRANGEMENTS

In the course of its business activities, Occidental pursues a number of projects and transactions to meet its core business objectives. The accounting and financial statement treatment of these transactions is a result of the varying methods of funding employed. Occidental also makes commitments on behalf of unconsolidated entities. These transactions, or groups of transactions, are recorded in compliance with GAAP and, unless otherwise noted, are not reflected on Occidental s balance sheets. The following is a description of the business purpose and nature of these transactions.

Dolphin Project

See "Oil and Gas Segment Business Review Middle East/North Africa Dolphin Project" and "Liquidity and Capital Resources" for further information.

Ecuador

In Ecuador, Occidental has a 14-percent interest in the OCP oil export pipeline. As of December 31, 2006, Occidental s net investment in and advances to the project totaled $72 million. Occidental reports this investment in its consolidated financial statements using the equity method of accounting. The project was funded in part by senior project debt. The senior project debt is to be repaid with the proceeds of ship-or-pay tariffs of certain upstream producers in Ecuador. In May 2006, Ecuador terminated Occidental s contract for the operation of Block 15, which comprised all of its oil-producing operations in the country, and seized Occidental s Block 15 assets. Occidental s guarantee of its share of the ship-or-pay obligations provides the lenders the right to require Occidental to make an advance tariff payment as a result of the expropriation. At December 31, 2006, the total pre-tax advance tariff payment of approximately $95 million was accrued in Occidental s consolidated financial statements, and was included in the net after-tax charge of $296 million discussed in the Business Review Latin America Ecuador section. This advance tariff would be used by the pipeline company to service or prepay project debt. At December 31, 2006, Occidental also had obligations relating to performance bonds totaling $14 million.

Leases

Occidental has entered into various operating-lease agreements, mainly for railcars, power plants, manufacturing facilities and office space. Occidental leases assets when it offers greater operating flexibility. Lease payments are expensed mainly as cost of sales. See the Contractual Obligations table below.

Guarantees

Occidental has entered into various guarantees including performance bonds, letters of credit, indemnities, commitments and other forms of guarantees provided by Occidental to third parties, mainly to provide assurance that OPC or its subsidiaries and affiliates will meet their various obligations (guarantees).

At December 31, 2006, the notional amount of the guarantees that are subject to the reporting requirements of Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 45 was approximately $270 million, which consists of Occidental s guarantee of equity investees debt, primarily from the Dolphin Project equity investment, and other commitments.

Contractual Obligations

The table below summarizes and cross-references certain contractual obligations that are reflected in the Consolidated Balance Sheets as of December 31, 2006 and/or disclosed in the accompanying Notes.

Contractual Obligations (in millions)	Total	Payments Due by Year 2007	2008 to 2009	2010 to 2011	2012 and thereafter
Consolidated Balance Sheet					
Long-term debt (Note 5) [a]	$2,774	$171	$705	$307	$1,591
Capital leases (Note 6)	38	1	2	2	33
Other liabilities [b]	5,353	3,754	620	347	632
Other Obligations					
Operating leases (Note 6) [c]	1,418	175	271	187	785
Purchase obligations [d, e]	6,637	1,660	1,969	1,613	1,395
Total	$16,220	$5,761	$3,567	$2,456	$4,436

(a) Excludes unamortized debt premiums and interest expense on the debt. As of December 31, 2006, interest on long-term debt totaling $1.8 billion is payable in the following years: 2007 - $174 million, 2008 to 2009 - $317 million, 2010 to 2011 - $258 million and 2012 and thereafter - $1,053 million. In January 2007, Occidental completed a cash tender offer and repurchased $659 million of long-term debt included in the table, which will reduce future interest payments by approximately $880 million over the original maturities of the repurchased debt.

(b) Includes accounts payable, certain accrued liabilities and obligations under postretirement benefit and deferred compensation plans.

(c) Amounts have not been reduced for sublease rental income.

(d)

Includes long-term purchase contracts and purchase orders and contracts for goods and services used in manufacturing and producing operations in the normal course of business. Some of these arrangements involve take-or-pay commitments but they do not represent debt obligations. Due to their long-term nature, purchase contracts with terms greater than 5 years are discounted using a 7-percent discount rate.

(e) Amounts exclude purchase obligations related to oil and gas marketing and trading activities where an offsetting sales position exists.

LAWSUITS, CLAIMS, COMMITMENTS, CONTINGENCIES AND RELATED MATTERS

OPC or certain of its subsidiaries have been named in many lawsuits, claims and other legal proceedings. These actions seek, among other things, compensation for alleged personal injury, breach of contract, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. OPC or certain of its subsidiaries also have been named in proceedings under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and similar federal, state, local and foreign environmental laws. These environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages and civil penalties; however, Occidental is usually one of many companies in these proceedings and has to date been successful in sharing response costs with other financially sound companies. With respect to all such lawsuits, claims and proceedings, including environmental proceedings, Occidental accrues reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated.

Since 2004, Occidental Chemical Corporation (OCC) has been served with ten lawsuits filed in Nicaragua by approximately 2,600 individual plaintiffs. These individuals allege that they have sustained several billion dollars of personal injury damages as a result of their alleged exposure to a pesticide. OCC is aware of, but has not been served in, 24 additional cases in Nicaragua, which Occidental understands make similar allegations. In the opinion of management, the claims against OCC are without merit because, among other things, OCC believes that none of the pesticide it manufactured was ever sold or used in Nicaragua. Under the applicable Nicaraguan statute, defendants are required to pay pre-trial deposits so large as to effectively prohibit defendants from participating fully in their defense. OCC filed a response to the complaints contesting jurisdiction without posting such pre-trial deposit. In 2004, the judge in one of the cases (Osorio Case), ruled the court had jurisdiction over the defendants, including OCC, and that the plaintiffs had waived the requirement of the pre-trial deposit. In order to preserve its jurisdictional defense, OCC elected not to make a substantive appearance in the Osorio Case. In 2005, the judge in the Osorio Case entered judgment against several defendants, including OCC, for damages totaling approximately $97 million. In December 2006, the court in a second case in Nicaragua (Rios Case) entered a judgment against several defendants, including OCC, for damages totaling approximately $800 million. While preserving its jurisdictional defenses, OCC has appealed the judgments in the Osorio and Rios Cases. OCC has no assets in Nicaragua and, in the opinion of management, any judgment rendered under the statute, including in the Osorio and Rios Cases, would be unenforceable in the United States.

During the course of its operations, Occidental is subject to audit by tax authorities for varying periods in various federal, state, local and foreign tax jurisdictions. Taxable years prior to 2001 are generally closed for U.S. federal corporate income tax purposes. Corporate tax returns for taxable years 2001 through 2003 are in various stages of audit by the U.S. Internal Revenue Service. Disputes may arise during the course of such audits as to facts and matters of law.

Occidental has entered into agreements providing for future payments to secure terminal and pipeline capacity, drilling services, electrical power, steam and certain chemical raw materials. At December 31, 2006, the net present value of the fixed and determinable portion of the obligations under these agreements, which were used to collateralize financings of the respective suppliers, aggregated $16 million, which was payable as follows (in millions): 2007 $12 and 2008 $4. Fixed payments under these agreements were $18 million in 2006, $17 million in 2005 and $19 million in 2004. See "Off-Balance-Sheet Arrangements Contractual Obligations" for further information.

Occidental has certain other commitments under contracts, guarantees and joint ventures, including purchase commitments for goods and services at market-related prices and certain other contingent liabilities. See "Off-Balance-Sheet Arrangements" for further information. Some of these commitments, although not fixed or determinable, involve capital expenditures and are part of the $3.3 to $3.4 billion in capital expenditures estimated for 2007.

Occidental has indemnified various parties against specified liabilities that those parties might incur in the future in connection with purchases and other transactions that they have entered into with Occidental. These indemnities usually are contingent upon the other party incurring liabilities that reach specified thresholds. As of December 31, 2006, Occidental is not aware of circumstances that it believes would reasonably be expected to lead to future indemnity claims against it in connection with these transactions that would result in payments materially in excess of reserves.

It is impossible at this time to determine the ultimate liabilities that OPC and its subsidiaries may incur resulting from any lawsuits, claims and proceedings, audits, commitments, contingencies and related matters or the timing of these liabilities. If these matters were to be ultimately resolved unfavorably at amounts substantially exceeding Occidental s reserves, an outcome not currently anticipated, it is possible that such outcome could have a material adverse effect upon Occidental s consolidated financial position or results of operations. However, after taking into account reserves, management does not expect the ultimate resolution of any of these matters to have a material adverse effect upon Occidental s consolidated financial position or results of operations.

ENVIRONMENTAL LIABILITIES AND EXPENDITURES

Occidental s operations are subject to stringent federal, state, local and foreign laws and regulations relating to improving or maintaining environmental quality. Costs associated with environmental compliance have increased over time and are expected to rise in the future. Environmental expenditures related to current operations are factored into the overall business planning process and are considered an integral part of production in manufacturing quality products responsive to market demand.

Environmental Remediation

The laws that require or address environmental remediation may apply retroactively to past waste disposal practices and releases of substances to the environment. In many cases, the laws apply regardless of fault, legality of the original activities or current ownership or control of sites. OPC or certain of its subsidiaries are currently participating in environmental assessments and cleanups under these laws at federal Superfund sites, comparable state sites and other domestic and foreign remediation sites, including currently owned facilities and previously owned sites. Also, OPC or certain of its subsidiaries have been involved in a substantial number of governmental and private proceedings involving historical practices at various sites including, in some instances, having been named in proceedings under CERCLA and similar federal, state and local environmental laws. These proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages and civil penalties.

Occidental manages its environmental remediation efforts through a wholly owned subsidiary, Glenn Springs Holdings, Inc., which reports its results directly to Occidental s corporate management.

The following table presents Occidental s environmental remediation reserves at December 31, 2006, 2005 and 2004, grouped by three categories of environmental remediation sites:

$ amounts in millions	**2006**		2005		2004	
	# of Sites	**Reserve Balance**	# of Sites	Reserve Balance	# of Sites	Reserve Balance

CERCLA & equivalent sites	**105**	**$ 226**	128	$ 236	125	$ 239
Active facilities	**21**	**116**	18	114	16	75
Closed or sold facilities	**40**	**70**	39	68	39	61
Total	**166**	**$ 412**	185	$ 418	180	$ 375

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

In millions	**2006**	2005	2004
Balance - Beginning of Year	**$ 418**	$ 375	$ 372
Remediation expense and interest accretion	**48**	63	60
Changes from acquisitions	**17**	45	6
Payments	**(71)**	(71)	(63)
Other		6	
Balance - End of Year	**$ 412**	$ 418	$ 375

Occidental expects to expend funds equivalent to about half of the current environmental reserve over the next three years and the balance over the next ten or more years. Occidental believes it is reasonably possible that it will continue to incur additional liabilities beyond those recorded for environmental remediation at these sites. The range of reasonably possible loss for existing environmental remediation matters could be up to $430 million beyond the amount accrued.

For management s opinion, refer to the "Lawsuits, Claims, Commitments, Contingencies and Related Matters" section above.

CERCLA and Equivalent Sites

As of December 31, 2006, OPC or certain of its subsidiaries have been named in 105 CERCLA or state equivalent proceedings, as shown below.

Description ($ amounts in millions)	**# of Sites**	**Reserve Balance**
Minimal/No exposure [(a)]	**85**	**$ 6**
Reserves between $1-10 MM	**14**	**55**
Reserves over $10 MM	**6**	**165**
Total	**105**	**$ 226**

(a) Includes 32 sites for which Maxus Energy Corporation has retained the liability and indemnified Occidental, 5 sites where Occidental has denied liability without challenge, 15 sites where Occidental s reserves are less than $50,000 each, and 33 sites where reserves are between $50,000 and $1 million each.

The six sites with individual reserves over $10 million in 2006 include a former copper mining and smelting operation in Tennessee, two closed landfills in western New York and groundwater treatment facilities at three closed chemical plants (Montague, Michigan, western New York and Tacoma, Washington).

Active Facilities

Certain subsidiaries of OPC are currently addressing releases of substances from past operations at 21 active facilities. Five facilities a chemical plant in Louisiana, a phosphorus recovery operation in Tennessee, a chemical plant in Texas, a chemical plant in Kansas and certain oil and gas properties in the southwestern United States account for 69 percent of the reserves associated with these facilities.

Closed or Sold Facilities

There are 40 sites formerly owned or operated by certain subsidiaries of OPC that have ongoing environmental remediation requirements in which OPC or its subsidiaries are involved. Five sites account for 70 percent of the reserves associated with this group. The five sites are: an active refinery in Louisiana where Occidental indemnifies the current owner and operator for certain remedial actions, a water treatment facility at a former coal mine in Pennsylvania, a closed OCC chemical plant in Pennsylvania, a closed landfill in western New York and a water treatment facility at a former OCC chemical plant in North Carolina.

Environmental Costs

Occidental s costs, some of which may include estimates, relating to compliance with environmental laws and regulations, are shown below for each segment:

In millions	**2006**	2005	2004
Operating Expenses			
Oil and Gas	**$ 95**	$ 65	$ 51
Chemical	**73**	67	59
	$ 168	$ 132	$ 110
Capital Expenditures			
Oil and Gas	**$ 55**	$ 43	$ 44
Chemical	**25**	21	12
	$ 80	$ 64	$ 56
Remediation Expenses			
Corporate	**$ 47**	$ 62	$ 59

Operating expenses are incurred on a continual basis. Capital expenditures relate to longer-lived improvements in currently operating facilities. Remediation expenses relate to existing conditions caused by past operations and do not contribute to current or future revenue generation. Although total costs may vary in any one year, over the long term, segment operating and capital expenditures for environmental compliance generally are expected to increase.

Occidental presently estimates that capital expenditures for environmental compliance will be approximately $94 million for 2007 and $100 million for 2008.

FOREIGN INVESTMENTS

Portions of Occidental s assets are located outside of North America. Occidental conducts its financial affairs so as to mitigate its exposure against risks associated with the locations of these assets. At December 31, 2006, the carrying value of Occidental s assets in countries outside North America aggregated approximately $9.2 billion, or approximately 28 percent of Occidental s total assets at that date. Of such assets, approximately $5.0 billion are located in the Middle East/North Africa, approximately $3.9 billion are located in Latin America, and substantially all of the remainder are located in the Other Eastern Hemisphere region. For the year ended December 31, 2006, net sales outside North America totaled $5.6

billion, or approximately 31 percent of total net sales.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The process of preparing financial statements in accordance with GAAP requires the management of Occidental to make estimates and judgments regarding certain items and transactions. It is possible that materially different amounts could be recorded if these estimates and judgments change or if the actual results differ from these estimates and judgments. Occidental considers the following to be its most critical accounting policies and estimates that involve the judgment of Occidental s management. There has been no material change to these policies over the past three years. The selection and development of these critical accounting policies and estimates have been discussed with the Audit Committee of the Board of Directors.

Oil and Gas Properties

Occidental uses the successful efforts method to account for its oil and gas properties. Under this method, costs of acquiring properties, costs of drilling successful exploration wells and development costs are capitalized. The costs of exploratory wells are initially capitalized pending a determination of whether proved reserves have been found. At the completion of drilling activities, the costs of exploratory wells remain capitalized if a determination is made that proved reserves have been found. If no proved reserves have been found, the costs of each of the related exploratory wells are charged to expense. In some cases, a determination of proved reserves cannot be made at the completion of drilling, requiring additional testing and evaluation of the wells. Occidental's practice is to expense the costs of such exploratory wells if a determination of proved reserves has not been made within a twelve-month period after drilling is complete. Occidental has no proved oil and gas reserves for which the determination of commercial viability is subject to the completion of major additional capital expenditures.

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

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and NGLs that geological and engineering data demonstrate, with reasonable certainty, can be recovered in future years from known reservoirs under existing economic and operating conditions considering future production and development costs.

Several factors could change Occidental s recorded oil and gas reserves. Occidental receives a share of production from PSCs to recover its costs and an additional share for profit. Occidental s share of production and reserves from these contracts decreases when oil prices rise and increases when oil prices decline. Overall, Occidental s net economic benefit from these contracts is greater at higher oil prices. In other contractual arrangements, sustained lower product prices may lead to a situation where production of proved reserves becomes uneconomical. Estimation of future production and development costs is also subject to change partially due to factors beyond Occidental's control, such as energy costs and inflation or deflation of oil field service costs. These factors, in turn, could lead to changes in the quantity of recorded proved reserves. An additional factor that could result in a change of proved reserves is the reservoir decline rates being different from those estimated when the reserves were initially recorded. Occidental s revisions to proved reserves were positive for 2006 and amounted to less than 1 percent of the total reserves for the year. In 2005, revisions to proved reserves were negative and amounted to less than 1 percent of the total reserves for the year. In 2004, revisions to proved reserves were positive and amounted to approximately 2 percent of the total reserves. Additionally, Occidental is required to perform impairment tests pursuant to SFAS No. 144, generally when prices decline and/or reserve estimates change significantly. There have been no SFAS No. 144 impairments of oil and gas assets over the past three years.

If Occidental s consolidated oil and gas reserves were to change based on the factors mentioned above, the most significant impact would be on the DD&A rate. For example, a 5-percent increase in the amount of consolidated oil and gas reserves would change the rate from $8.35 per barrel to $7.94 per barrel, which would increase pre-tax income by $88 million annually. A 5-percent decrease in the oil and gas reserves would change the rate from $8.35 per barrel to $8.77 per barrel and would result in a decrease in pre-tax income of $88 million annually.

DD&A of oil and gas producing properties is determined by the unit-of-production method and could change with revisions to estimated proved reserves. The change in the DD&A rate over the past three years due to revisions of previous proved reserve estimates has been immaterial.

A portion of the carrying value of Occidental s oil and gas properties is attributable to unproved properties. At December 31, 2006, the capitalized costs attributable to unproved properties, net of accumulated valuation allowance, were $1.7 billion. The acquisition of Vintage resulted in an addition of $1.3 billion of unproved properties in 2006. No goodwill was recorded on this transaction. During 2006, approximately $300 million of the unproved property amount was moved to proved properties. The unproved amounts are not subject to DD&A or impairment until a determination is made as to the existence of proven reserves. As exploration and development work progresses, if reserves on these properties are proven, capitalized costs attributable to the properties will be subject to depreciation and depletion. If the exploration and development work were to be unsuccessful, the capitalized costs of the properties related to this unsuccessful work would be expensed in the year in which the determination was made. The timing of any writedowns of these unproven properties, if warranted, depends upon the nature, timing and extent of future exploration and development activities and their results. Occidental believes its exploration and development efforts will allow it to realize the unproved property balance.

Chemical Assets

The most critical accounting policy affecting Occidental s chemical assets is the determination of the estimated useful lives of its PP&E. Occidental's chemical plants are depreciated using either the unit-of-production or straight-line method, based upon the estimated useful life of the facilities. The estimated useful lives of Occidental s chemical assets, which range from 3 years to 50 years, are used to compute depreciation expense and are also used for impairment tests. The estimated useful lives used for the chemical facilities are based on the assumption that Occidental will provide an appropriate level of annual expenditures to ensure productive capacity is sustained. Without these continued expenditures, the useful lives of these plants could significantly decrease. Other factors that could change the estimated useful lives of Occidental s chemical plants include sustained higher or lower product prices, which are particularly affected by both domestic and foreign competition, feedstock costs, energy prices, environmental regulations and technological changes. Over the prior three years, the change in the depreciation rate due to changes in estimated useful lives has been immaterial.

Occidental performs impairment tests on its assets whenever events or changes in circumstances lead to a reduction in the estimated useful lives or estimated future cash flows that would indicate that the carrying amount may not be recoverable, or when management s plans change with respect to those assets. Occidental compares the undiscounted future cash flows of an asset to its carrying value. The key factors that could significantly affect future cash flows are future product prices, which are particularly affected by both domestic and foreign competition, feedstock costs, energy costs, regulations and remaining estimated useful life. Impaired assets are written down to their estimated fair values.

Subsequent to the purchase of the Vulcan chemical assets, Occidental reviewed all of its chemical assets and decided to close its least competitive plants and upgrade the remaining operations. As a result of this review, Occidental recorded a $139 million pre-tax charge for the write-off of two previously idled chemical plants and one operating plant and a pre-tax additional charge of $20 million for the write-down of another chemical plant in 2005.

Occidental's net PP&E for chemicals is approximately $2.6 billion and its depreciation expense for 2007 is expected to be approximately $256 million. If the estimated useful lives of Occidental s chemical plants were to decrease based on the factors mentioned above, the most significant impact would be on depreciation expense. For example, a reduction in the remaining useful lives of one year would increase depreciation and reduce pre-tax earnings by approximately $17 million per year.

Environmental Liabilities and Expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Reserves for estimated costs that relate to existing conditions caused by past operations and that do not contribute to current or future revenue generation are recorded when environmental remedial efforts are probable and the costs can be reasonably estimated. In determining the reserves and the reasonably possible range of loss, Occidental refers to currently available information, including relevant past experience, available technology, regulations in effect, the timing of remediation and cost-sharing arrangements. The environmental reserves are based on management s estimate of the most likely cost to be incurred and are reviewed periodically and adjusted as additional or new information becomes available. Environmental reserves are recorded on a discounted basis only when a reserve is initially established and the aggregate amount of the estimated costs for a specific site and the timing of cash payments are reliably determinable. The reserve methodology for a specific site is not modified once it has been established. Recoveries and reimbursements are recorded in income when receipt is probable. As of December 31, 2006 and 2005, Occidental has not accrued any reimbursements or indemnification recoveries for environmental remediation matters as assets.

Many factors could result in changes to Occidental s environmental reserves and reasonably possible range of loss. The most significant are:

- The original cost estimate may have been inaccurate.
- Modified remedial measures might be necessary to achieve the required remediation results. Occidental generally assumes that the remedial objective can be achieved using the most cost-effective technology reasonably expected to achieve that objective. Such technologies may include air sparging or phyto-remediation of shallow groundwater, or limited surface soil removal or in-situ treatment producing acceptable risk assessment results. Should such remedies fail to achieve remedial objectives, more intensive or costly measures may be required.
- The remedial measure might take more or less time than originally anticipated to achieve the required contaminant reduction. Site-specific time estimates can be affected by factors such as groundwater capture rates, anomalies in subsurface geology, interactions between or among water-bearing zones and non-water-bearing zones, or the ability to identify and control contaminant sources.
- The regulatory agency might ultimately reject or modify Occidental s proposed remedial plan and insist upon a different course of action.

Additionally, other events might occur that could affect Occidental s future remediation costs, such as:

- The discovery of more extensive contamination than had been originally anticipated. For some sites with impacted groundwater, accurate definition of contaminant plumes requires years of monitoring data and computer modeling. Migration of contaminants may follow unexpected pathways along geologic anomalies that could initially go undetected. Additionally, the size of the area requiring remediation may change based upon risk assessment results following site characterization or interim remedial measures.
- Improved remediation technology might decrease the cost of remediation. In particular, for groundwater remediation sites with projected long-term operation and maintenance, the development of more effective treatment technology, or acceptance of alternative and more cost-effective treatment methodologies such as bioremediation, could significantly affect remediation costs.
- Laws and regulations might change to impose more or less stringent remediation requirements.

At sites involving multiple parties, Occidental provides environmental reserves based upon its expected share of liability. When other parties are jointly liable, the financial viability of the parties, the degree of their commitment to participate and the consequences to Occidental of their failure to participate are evaluated when estimating Occidental's ultimate share of liability. Based on these factors, Occidental believes that it will not be required to assume a share of liability of other potentially responsible parties, with whom it is alleged to be jointly liable, in an amount that would have a material effect on Occidental s consolidated financial position, liquidity or results of operations.

Most cost sharing arrangements with other parties fall into one of the following three categories:

Category 1: CERCLA or state-equivalent sites wherein Occidental and other alleged potentially responsible parties share the cost of remediation in accordance with negotiated or prescribed allocations;

Category 2: Oil and gas joint ventures wherein each joint venture partner pays its proportionate share of remedial cost; and

Category 3: Contractual arrangements typically relating to purchases and sales of property wherein the parties to the transaction agree to methods of allocating the costs of environmental remediation.

In all three of these categories, Occidental records as a reserve its expected net cost of remedial activities, as adjusted by recognition for any nonperforming parties.

In addition to the costs of investigating and implementing remedial measures, which often take in excess of ten years at CERCLA sites, Occidental s reserves include management s estimates of the cost of operation and maintenance of remedial systems. To the extent that the remedial systems are modified over time in response to significant changes in site-specific data, laws, regulations, technologies or engineering estimates, Occidental reviews and changes the reserves accordingly on a site-specific basis.

If the environmental reserve balance were to either increase or decrease based on the factors mentioned above, the amount of the increase or decrease would be immediately recognized in earnings. For example, if the reserve balance were to decrease by 10 percent, Occidental would record a pre-tax gain of $41 million. If the reserve balance were to increase by 10 percent, Occidental would record an additional remediation expense of $41 million.

Other Loss Contingencies

Occidental is involved with numerous lawsuits, claims, proceedings and audits in the normal course of its operations. Occidental records a loss contingency for these matters when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. In addition, Occidental discloses, in aggregate, its exposure to loss in excess of the amount recorded on the balance sheet for these matters if it is reasonably possible that an additional material loss may be incurred. Occidental reviews its loss contingencies on an ongoing basis so that they are adequately reserved on the balance sheet.

These reserves are based on judgments made by management with respect to the likely outcome of these matters and are adjusted as appropriate. Management s judgments could change based on new information, changes in laws or regulations, changes in management s plans or intentions, the outcome of legal proceedings, settlements or other factors.

SIGNIFICANT ACCOUNTING CHANGES

Listed below are significant changes in accounting principles.

SFAS No. 158

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). This statement requires an employer to recognize the overfunded or underfunded amounts of its defined benefit pension and postretirement plans as an asset or liability and recognize changes in the funded status of these plans in the year in which the changes occur through other comprehensive income (OCI), if they are not recognized in the income statement. The statement also requires a company to use the date of its fiscal year-end to measure the plans. The recognition and disclosure provisions of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. The requirement to use the fiscal year-end as the measurement date is effective for fiscal years ending after December 15, 2008. Occidental adopted this statement on December 31, 2006, and recorded an additional liability of $233 million and a reduction of accumulated OCI, deferred tax liabilities, other assets and minority interest of $168 million, $104 million, $42 million and $3 million, respectively.

SAB 108

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) 108, Financial Statements Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 requires quantification of the impact of all prior year misstatements from both an income statement and a balance sheet perspective to determine if the misstatements are material. SAB 108 is effective for financial statements issued for fiscal years ending after November 15, 2006. Occidental adopted SAB 108 effective December 31, 2006 and there was no material effect on the financial statements upon adoption.

FIN 48

In June 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. This interpretation specifies that benefits from tax positions should be recognized in the financial statements only when it is more-likely-than-not that the tax position will be sustained upon examination by the appropriate taxing authority having full knowledge of all relevant information. A tax position meeting the more-likely-than-not recognition threshold should be measured at the largest amount of benefit for which the likelihood of realization upon ultimate settlement exceeds 50 percent. It also requires additional disclosures related to these tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. Occidental will adopt FIN 48 in the first quarter of 2007 and expects there will not be a material effect on the financial statements upon adoption.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Occidental is currently assessing the effect of SFAS No. 157 on its financial statements.

FSP AUG AIR-1

In September 2006, the FASB issued FASB Staff Position (FSP) AUG AIR-1, Accounting for Planned Major Maintenance Activities. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. FSP AUG AIR-1 is effective for the first fiscal year beginning after December 15, 2006. Occidental will adopt FSP AUG AIR-1 in the first quarter of 2007 and expects there will not be a material effect on the financial statements upon adoption.

EITF Issue No. 06-4

In September 2006, the Emerging Issues Task Force (EITF) finalized the provisions of EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements . This EITF Issue provides accounting guidance for endorsement split-dollar life insurance arrangements and require employers to recognize liability for future benefits in accordance with SFAS 106 or Accounting Principles Board (APB) Opinion No. 12. The recognition and disclosure provisions of EITF Issue No. 06-4 are effective for fiscal years ending after December 15, 2007. Occidental is currently assessing the effect of this EITF Issue on its financial statements.

EITF Issue No. 06-5

In September 2006, the EITF finalized the provisions of EITF Issue No. 06-5, Accounting for Purchase of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical bulletin No. 85-4. This EITF Issue provides accounting guidance for life insurance policies and requires employers to consider and account for any additional amounts or restrictions under the terms of such policies. The recognition and disclosure provisions of EITF Issue No. 06-5 are effective for fiscal years beginning after December 15, 2006. Occidental will adopt this EITF Issue in the first quarter of 2007 and expects there will not be a material effect on the financial statements upon adoption.

SFAS No. 123(R)

On July 1, 2005, Occidental early adopted the fair value recognition provisions of SFAS No. 123(R), "Share-Based Payments", under the modified prospective transition method. Since most of Occidental s existing stock-based compensation was already being recorded in the income statement, Occidental decided to early adopt SFAS 123(R) so that the remaining awards would be accounted for in a similar manner. Prior to July 1, 2005, Occidental applied the APB Opinion No. 25 intrinsic value accounting method for its stock incentive plans. Under the modified prospective transition method, the fair value recognition provisions apply only to new awards or awards modified after July 1, 2005. Additionally, the fair value of existing unvested awards at the date of adoption is recorded in compensation expense over the remaining requisite service period. Results from prior periods have not been restated. As a result of adopting this statement in the third quarter of 2005, Occidental recorded a $3 million after-tax credit as a cumulative effect of a change in accounting principles.

EITF Issue No. 04-13

In September 2005, the EITF finalized the provisions of EITF Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty", which provides accounting guidance about whether buy/sell arrangements should be accounted for at historical cost and whether these arrangements should be reported on a gross or net basis. Buy/sell arrangements typically are contractual arrangements where the buy and sell agreements are entered into in contemplation of one another with the same counterparty. Occidental reports all buy/sell arrangements on a net basis and at historical cost. This Issue was effective in the first interim period beginning after March 15, 2006. Occidental prospectively adopted this Issue in the second quarter of 2006 and there was no material effect on the financial statements upon adoption.

DERIVATIVE ACTIVITIES AND MARKET RISK

General

Occidental's market risk exposures relate primarily to commodity prices and, to a lesser extent, interest rates and foreign currency exchange rates. Occidental has entered into derivative instrument transactions to reduce these price and rate fluctuations. A derivative is an instrument that, among other characteristics, derives its value from changes in another instrument or variable.

In general, the fair value recorded for derivative instruments is based on quoted market prices, dealer quotes and the Black Scholes or similar valuation models.

Commodity Price Risk

General

Occidental s results are sensitive to fluctuations in crude oil and natural gas prices. Based on current levels of production, if oil prices vary overall by $1 per barrel, it would have an estimated annual effect on pre-tax income of approximately $150 million. If natural gas prices vary by $0.25 per Mcf, it would have an estimated annual effect on pre-tax income of approximately $51 million. If production levels change in the future, the sensitivity of Occidental s results to oil and gas prices also would change.

Occidental s results are also sensitive to fluctuations in chemical prices; however, changes in cost usually offset part of the effect of price changes on margins. If chlorine and caustic soda prices vary by $10/ton, it would have approximately a $15 million and $30 million pre-tax annual effect on income, respectively. If PVC prices vary by $.01/lb, it would have approximately a $25 million pre-tax annual effect on income. If ethylene dichloride (EDC) prices vary by $10/ton, it would have approximately a $5 million pre-tax annual effect on income. Historically, price changes either precede or follow raw material and feedstock price changes; therefore, the margin improvement of price changes can be mitigated. According to Chemical Market Associates, Inc., December 2006 average contract prices were: chlorine $318/ton, caustic soda $338/ton, PVC $0.55/lb and EDC $310/ton.

Marketing and Trading Operations

Occidental periodically uses different types of derivative instruments to achieve the best prices for oil and gas. Derivatives have been used by Occidental to reduce its exposure to price volatility and to mitigate fluctuations in commodity-related cash flows. Occidental enters into low-risk marketing and trading activities through its separate marketing organization, which operates under established policy controls and procedures. With respect to derivatives used in its oil and gas marketing operations, Occidental utilizes a combination of futures, forwards, options and swaps to offset various physical transactions. Occidental's use of derivatives in marketing and trading activities relates primarily to managing cash flows from third-party purchases, which includes Occidental s periodic gas storage activities.

Risk Management

Occidental conducts its risk management activities for energy commodities (which include buying, selling, marketing, trading, and hedging activities) under the controls and governance of its Risk Control Policy. The Chief Financial Officer and the Risk Management Committee, comprising members of Occidental's management, oversee these controls, which are implemented and enforced by the Trading Control Officer. The Trading Control Officer provides an independent and separate check on results of marketing and trading activities. Controls for energy commodities include limits on value at risk, limits on credit, limits on trading, segregation of duties, delegation of authority and a number of other policy and procedural controls.

Fair Value of Marketing and Trading Derivative Contracts

The following tables reconcile the changes in the net fair value of Occidental s marketing and trading contracts, a portion of which are hedges, during 2006 and 2005 and segregate the open contracts at December 31, 2006 by maturity periods.

In millions	**2006**	2005
Fair value of contracts outstanding at beginning of year unrealized (losses) gains	**$(457)**	$30
Losses on changes for contracts realized or otherwise settled during the year	**106**	56
Changes in fair value attributable to changes in valuation techniques and assumptions		
Losses or other changes in fair value	**(4)**	(543)[(a)]
Fair value of contracts outstanding at end of year unrealized losses	**$(355)**	$(457)

(a) Primarily relates to production hedges.

Source of Fair Value unrealized (losses) gains	Maturity Periods 2007	2008 to 2009	2010 to 2011	2012 and thereafter	Total Fair Value
Prices actively quoted	$(43)	$6	$2	$ 2	$(33)
Prices provided by other external sources	62	18	3	(1)	82
Prices based on models and other valuation methods [(a)]	(63)	(187)	(154)		(404)
Total	$(44)	$(163)	$(149)	$ 1	$(355)

(a) The underlying prices utilized for the 2007 through 2011 fair value calculations of the options are based on monthly NYMEX published prices. The underlying prices for years 2012 and thereafter are based on the year-end NYMEX published prices, as published monthly prices are not available. These prices are entered into an industry standard options pricing model to determine fair value.

Production Hedges

In 2005, Occidental entered into a series of fixed price swaps and costless collar agreements that qualify as cash-flow hedges for the sale of a portion of its crude oil production. Additionally, Occidental acquired oil and gas fixed price and basis swaps with the Vintage acquisition. These hedges continue to the end of 2011. The 2006 volume that was hedged was less than 4 percent of Occidental s 2006 crude oil and natural gas production. Information about these cash-flow hedges, which are included in the total fair value of ($355) million in the table above, is presented in a tabular presentation below as of December 31, 2006 (volumes in thousands of barrels):

	Crude Oil Fixed Price Swaps		Costless Collars		
	Daily Volume	Average Price	Daily Volume	Average Floor	Average Cap
2007	9	$39.67	7	$40.43	$45.21
2008			14	$34.07	$47.47
2009			13	$33.15	$47.41
2010			12	$33.00	$46.35
2011			12	$32.92	$46.27

	Natural Gas Swaps			
	Fixed Price		Basis	
(MMBTU/Day) (a)	Daily Volume	Average Price	Daily Volume	Average Price
2007	2,500	$6.00	2,500	$0.03

(a) One MMBTU is one million British thermal units, which equals approximately 1 MCF.

($ millions)	Crude Oil Fixed Price Swaps	Costless Collars	Natural Gas Swaps Fixed Price	Basis	Total
Fair value liability	($81)	($392)	($1)	($1)	($475)

Quantitative Information

Occidental uses value at risk to estimate the potential effects of changes in fair values of commodity-based derivatives and commodity contracts used in marketing and trading activities. This method determines the maximum potential negative short-term change in fair value with a 95-percent level of confidence. The marketing and trading value at risk was immaterial during all of 2006.

Interest Rate Risk

General

Occidental's exposure to changes in interest rates relates primarily to its long-term debt obligations. In 2005, Occidental terminated all of its interest-rate swaps that were accounted for as fair-value hedges. These hedges had effectively converted approximately $1.7 billion of fixed-rate debt to variable-rate debt. The fair value of the swaps at termination resulted in a gain of approximately $20 million, which was recorded into income when the debt was paid in 2005 and 2006. The amount of interest expense recorded in the income statement was lower, as a result of the swaps and recognition of the gain, by approximately $13 million, $21 million and $56 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Occidental was a party to a series of forward interest-rate locks, which qualified as cash-flow hedges. The hedges were related to the construction of a cogeneration plant leased by Occidental that was completed in December 2002. The unamortized loss on the hedges at December 31, 2006 was approximately $18 million after-tax, which is recorded in accumulated OCI and is being recognized in earnings over the lease term of 26 years on a straight-line basis.

Tabular Presentation of Interest Rate Risk

In millions of U.S. dollars, except rates

The table below provides information about Occidental's debt obligations which are sensitive to changes in interest rates. Debt amounts represent principal payments by maturity date.

Year of Maturity	U.S. Dollar Fixed-Rate Debt	U.S. Dollar Variable-Rate Debt	Grand Total [a]
2007	$ 171	$	$ 171
2008	10		10
2009	222	473	695
2010	239		239
2011		68	68
2012	644		644
Thereafter	901	46	947
Total	$ 2,187	$ 587	$ 2,774
Average interest rate	7.54%	5.25%	7.06%
Fair Value	$ 2,497	$ 587	$ 3,084

(a) Excludes unamortized net premiums of $16 million.

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Credit Risk

Occidental s energy contracts are spread among several counterparties. Creditworthiness is reviewed before doing business with a new counterparty and on an ongoing basis. Occidental monitors aggregated counterparty exposure relative to credit limits. Credit exposure for each customer is monitored for outstanding balances, current month activity, and forward mark-to-market exposure. Losses associated with credit risk have been immaterial for all years presented.

Foreign Currency Risk

A few of Occidental s foreign operations have currency risk. Occidental manages its exposure primarily by balancing monetary assets and liabilities and maintaining cash positions only at levels necessary for operating purposes. Most international crude oil sales are denominated in U.S. dollars. Additionally, all of Occidental s consolidated foreign oil and gas subsidiaries have the U.S. dollar as the functional currency. At December 31, 2006 and 2005, Occidental had not entered into any foreign currency derivative instruments. The effect of exchange-rate transactions in foreign currencies is included in periodic income and is immaterial.

SAFE HARBOR DISCUSSION REGARDING OUTLOOK AND OTHER FORWARD-LOOKING DATA

Portions of this report, including Items 1 and 2 and the information appearing under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," including the information under the sub captions "Strategy," "Oil and Gas Segment Industry Outlook," and "Chemical Segment Industry Outlook," contain forward-looking statements and involve risks and uncertainties that could materially affect expected results of operations, liquidity, cash flows and business prospects. Words such as "estimate," "project," "predict," "will," "anticipate," "plan," "intend," "believe," "expect" or similar expressions that convey the uncertainty of future events or outcomes generally identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, Occidental does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise. Certain of the risks that may affect Occidental s results of operations and financial position appear in Part I, Item 1A "Risk Factors."

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S ANNUAL ASSESSMENT OF AND REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Occidental Petroleum Corporation (Occidental) is responsible for establishing and maintaining adequate internal control over financial reporting. Occidental s system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Occidental s internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Occidental s assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that Occidental s receipts and expenditures are being made only in accordance with authorizations of Occidental s management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Occidental s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of Occidental s internal control system as of December 31, 2006 based on the criteria for effective internal control over financial reporting described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2006, Occidental s system of internal control over financial reporting is effective.

Occidental s independent auditors, KPMG LLP, have issued an attestation report on management s assessment of Occidental s internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors and Stockholders
Occidental Petroleum Corporation:

We have audited the accompanying consolidated balance sheets of Occidental Petroleum Corporation and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the consolidated financial statements, we also have audited the accompanying financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Occidental Petroleum Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As explained in Note 3 to the consolidated financial statements, effective December 31, 2006, the Company changed its method of accounting for defined benefit pension and other postretirement plans. Effective July 1, 2005, the Company changed its method of accounting for share-based payments.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Occidental Petroleum Corporation s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2007 expressed an unqualified opinion on management s assessment of, and the effective operation of, internal control over financial reporting

Los Angeles, California
February 27, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Stockholders
Occidental Petroleum Corporation:

We have audited management's assessment, included in the accompanying Management s Annual Assessment of and Report on Occidental s Internal Control Over Financial Reporting, that Occidental Petroleum Corporation and its subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Occidental Petroleum Corporation and subsidiaries as of December 31, 2006 and 2005 and the related consolidated statements of income, stockholders equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2006 and our report dated February 27, 2007 expressed an unqualified opinion on those consolidated financial statements.

Los Angeles, California
February 27, 2007

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Consolidated Statements of Income
In millions, except per-share amounts

Occidental Petroleum Corporation and Subsidiaries

For the years ended December 31,	2006	2005	2004
REVENUES			
Net sales	$ 17,661	$ 14,597	$ 10,879
Interest, dividends and other income	381	181	144
Gains on disposition of assets, net	118	870	1
	18,160	15,648	11,024
COSTS AND OTHER DEDUCTIONS			
Cost of sales (excludes depreciation, depletion and amortization of $2,011 in 2006, $1,383 in 2005 and $1,213 in 2004)	6,284	5,425	4,418
Selling, general and administrative and other operating expenses	1,371	1,324	936
Total depreciation, depletion and amortization	2,042	1,422	1,251
Environmental remediation	47	62	59
Exploration expense	295	314	214
Interest and debt expense, net	291	293	260
	10,330	8,840	7,138
INCOME BEFORE TAXES AND OTHER ITEMS	7,830	6,808	3,886
Provision for domestic and foreign income and other taxes	3,466	1,927	1,639
Minority interest	111	73	75
Income from equity investments	(182)	(232)	(113)
Gain on Lyondell stock issuance			(121)
INCOME FROM CONTINUING OPERATIONS	4,435	5,040	2,406
Discontinued operations, net	(253)	238	162
Cumulative effect of changes in accounting principles, net		3	
NET INCOME	$ 4,182	$ 5,281	$ 2,568
BASIC EARNINGS PER COMMON SHARE			
Income from continuing operations	$ 5.20	$ 6.25	$ 3.04
Discontinued operations, net	(0.30)	0.30	0.20
BASIC EARNINGS PER COMMON SHARE	$ 4.90	$ 6.55	$ 3.24
DILUTED EARNINGS PER COMMON SHARE			
Income from continuing operations	$ 5.15	$ 6.16	$ 3.00
Discontinued operations, net	(0.29)	0.29	0.20
DILUTED EARNINGS PER COMMON SHARE	$ 4.86	$ 6.45	