OCCIDENTAL PETROLEUM CORP /DE/
Form 10-Q
November 05, 2018
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________

Commission file number 1-9210

OCCIDENTAL PETROLEUM CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	95-4035997
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5 Greenway Plaza, Suite 110
Houston, Texas 77046
(Address of principal executive offices) (Zip Code)

(713) 215-7000
(Registrant’s telephone number, including area code)

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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
þ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer a smaller reporting company, or an emerging growth company. (See definition of "accelerated filer", "large accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act):

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o
Smaller Reporting Company o Emerging Growth Company o

If an Emerging Growth Company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at September 30, 2018
Common stock $.20 par value	755,025,938

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
SEPTEMBER 30, 2018, AND DECEMBER 31, 2017
(Amounts in millions)

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$2,954	$1,672
Trade receivables, net	6,000	4,145
Inventories	1,009	1,246
Assets held for sale	—	474
Other current assets	1,149	733
Total current assets	11,112	8,270
INVESTMENTS IN UNCONSOLIDATED ENTITIES	1,568	1,515
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation, depletion and amortization of $41,825 at September 30, 2018, and $39,072 at December 31, 2017	31,155	31,174
LONG-TERM RECEIVABLES AND OTHER ASSETS, NET	1,122	1,067
TOTAL ASSETS	$44,957	$42,026

The accompanying notes are an integral part of these consolidated condensed financial statements.

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
SEPTEMBER 30, 2018, AND DECEMBER 31, 2017
(Amounts in millions except share amounts)

	2018	2017
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	$116	$500
Accounts payable	5,443	4,408
Accrued liabilities	2,813	2,492
Total current liabilities	8,372	7,400
LONG-TERM DEBT, NET	10,198	9,328
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred domestic and foreign income taxes	1,162	581
Asset retirement obligations	1,249	1,241
Pension and postretirement obligations	828	1,005
Environmental remediation reserves	740	728
Other	915	1,171
	4,894	4,726
STOCKHOLDERS' EQUITY		
Common stock, at par value (894,874,771 shares at September 30, 2018 and 893,468,707 shares at December 31, 2017)	179	179
Treasury stock (140,886,833 shares at September 30, 2018, and 128,364,195 shares at December 31, 2017)	(10,162)	(9,168)
Additional paid-in capital	7,991	7,884
Retained earnings	23,635	21,935
Accumulated other comprehensive loss	(154)	(258)
Total equity attributable to common stock	21,489	20,572
Noncontrolling interest	4	—
Total stockholders' equity	21,493	20,572
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$44,957	$42,026

The accompanying notes are an integral part of these consolidated condensed financial statements.

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018, AND 2017
(Amounts in millions, except per-share amounts)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
REVENUES AND OTHER INCOME				
Net sales	$5,216	$2,999	$13,062	$9,016
Interest, dividends and other income	34	20	101	72
Gain on sale of assets, net	926	86	969	598
	6,176	3,105	14,132	9,686
COSTS AND OTHER DEDUCTIONS				
Cost of sales	1,786	1,357	4,614	4,269
Selling, general and administrative and other operating expenses	431	352	1,140	976
Taxes other than on income	110	76	333	221
Depreciation, depletion and amortization	1,023	995	2,891	2,926
Asset impairments and related items	214	11	256	24
Exploration expense	24	8	60	27
Interest and debt expense, net	96	91	290	258
	3,684	2,890	9,584	8,701
Income before income taxes and other items	2,492	215	4,548	985
Provision for domestic and foreign income taxes	(710)	(85)	(1,351)	(448)
Income from equity investments	87	60	228	277
NET INCOME	1,869	190	3,425	814
BASIC EARNINGS PER COMMON SHARE	$2.44	$0.25	$4.46	$1.06
DILUTED EARNINGS PER COMMON SHARE	$2.44	$0.25	$4.45	$1.06
DIVIDENDS PER COMMON SHARE	$0.78	$0.77	$2.32	$2.29

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OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018, AND 2017
(Amounts in millions)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Net income	$1,869	$190	$3,425	$814
Other comprehensive income (loss) items:				
Foreign currency translation gains	—	2	—	3
Unrealized gains (losses) on derivatives [(a)]	(1)	8	(5)	14
Pension and postretirement gains [(b)]	144	4	153	12
Reclassification of realized (gains) losses on derivatives [(c)]	10	—	13	(1)
Other comprehensive income, net of tax	153	14	161	28
Comprehensive income	$2,022	$204	$3,586	$842

(a) Net of tax of zero and $(5) for the three months ended September 30, 2018, and 2017, respectively, and $1 and $(8) for the nine months ended September 30, 2018, and 2017, respectively.

(b) Net of tax of $(40) and $(3) for the three months ended September 30, 2018, and 2017, respectively, and $(43) and $(7) for the nine months ended September 30, 2018, and 2017, respectively. The three and nine months ended September 30, 2018 include $139 ($178 pre-tax) of other comprehensive income related to a postretirement benefit plan design change. Please refer to Note 9.

(c) Net of tax of $(3) and zero for the three months ended September 30, 2018, and 2017, respectively, and $(4) and $1 for the nine months ended September 30, 2018, and 2017, respectively.

The accompanying notes are an integral part of these consolidated condensed financial statements.

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018, AND 2017
(Amounts in millions)

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	$3,425	$814
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization of assets	2,891	2,926
Deferred income tax provision (benefit)	550	(111)
Other noncash charges to income	74	170
Gain on sale of assets, net	(969)	(598)
Asset impairments and related items	256	24
Undistributed earnings from affiliates	(16)	(70)
Dry hole expenses	27	8
Changes in operating assets and liabilities, net	(1,069)	(445)
Other operating, net	—	722
Net cash provided by operating activities	5,169	3,440
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditures	(3,638)	(2,439)
Change in capital accrual	7	20
Payments for purchases of assets and businesses	(726)	(1,060)
Sales of assets, net	2,745	1,293
Equity investments and other, net	(88)	60
Net cash used by investing activities	(1,700)	(2,126)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long-term debt, net	978	—
Payments of long-term debt	(500)	—
Proceeds from issuance of common stock	17	25
Purchases of treasury stock	(908)	(12)
Cash dividends paid	(1,780)	(1,754)
Contributions from noncontrolling interest	4	—
Other financing, net	2	—
Net cash used by financing activities	(2,187)	(1,741)
Increase (decrease) in cash and cash equivalents	1,282	(427)
Cash and cash equivalents — beginning of period	1,672	2,233
Cash and cash equivalents — end of period	$2,954	$1,806

The accompanying notes are an integral part of these consolidated condensed financial statements.

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

1. General

In these unaudited, consolidated, condensed financial statements, "Occidental" means Occidental Petroleum Corporation, a Delaware corporation (OPC), or OPC and one or more entities in which it owns a controlling interest (subsidiaries). Occidental has made its disclosures in accordance with United States generally accepted accounting principles (GAAP) as they apply to interim reporting, and condensed or omitted, as permitted by the Securities and Exchange Commission’s rules and regulations, certain information and disclosures normally included in consolidated financial statements and the notes. These unaudited consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in Occidental’s Annual Report on Form 10-K for the year ended December 31, 2017.

In the opinion of Occidental’s management, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to fairly present Occidental’s consolidated financial position as of September 30, 2018, and the consolidated statements of operations, comprehensive income for the three and nine months ended September 30, 2018, and 2017, and cash flows for the nine months ended September 30, 2018, and 2017. Certain data in the financial statements and notes for prior periods have been reclassified to conform to the current presentation. The income and cash flows for the periods ended September 30, 2018, and 2017, are not necessarily indicative of the income or cash flows to be expected for the full year.

2. Asset Acquisitions, Dispositions and Other

In September 2018, Occidental divested non-core domestic midstream assets for total consideration of $2.6 billion, of which approximately $2.4 billion was received at closing, resulting in a pre-tax net gain of $902 million. These assets include the Centurion common carrier oil pipeline and storage system, Southeast New Mexico oil gathering system, and Ingleside Crude Terminal. Following the transaction, Occidental retained its long-term flow assurance, pipeline takeaway and export capacity through its retained marketing business.

In July 2018, Occidental acquired the previously leased power and steam cogeneration facility in Louisiana for $443 million, with one payment of approximately $60 million remaining to be settled in the fourth quarter of 2018.

In March 2018, Occidental divested non-core midstream assets for approximately $150 million, resulting in a pre-tax gain of $43 million.

In March 2018, Occidental issued $1.0 billion of 4.2-percent senior notes due 2048. Occidental received net proceeds of approximately $985 million. Interest on the notes will be payable semi-annually in arrears in March and September of each year, beginning on September 15, 2018. The proceeds were used to refinance the repayment of the $500 million aggregate principal amount of Occidental's 1.5-percent senior notes due in February 2018, with the remainder to be used for general corporate purposes.

In January 2018, Occidental entered into a new five-year, $3.0 billion revolving credit facility (2018 Credit Facility), replacing the previous credit facility that was scheduled to expire in August 2019. The 2018 Credit Facility has similar terms to the previous credit facility and does not contain material adverse change clauses or debt ratings triggers that could restrict Occidental's ability to borrow under the facility.

3. Accounting and Disclosure Changes

In February 2018, the Financial Accounting Standards Board (FASB) released standards that allow the reclassification from accumulated other comprehensive income to retained earnings of stranded tax effects resulting from changes to U.S. federal tax law from the 2017 Tax Cuts and Jobs Act enacted in December 2017. Occidental early adopted this standard in the first quarter of 2018, resulting in the reclassification of $58 million in stranded tax effects from accumulated other comprehensive income to retained earnings.

In the first quarter of 2018, Occidental adopted the new revenue recognition standard Topic 606 - Revenue from Contracts with Customers and related updates (ASC 606). The new standard requires more detailed disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Occidental adopted the standard using the modified retrospective method. The cumulative-effect adjustment to retained earnings upon adoption was not material. See Note 4 Revenue Recognition.

In March 2017, FASB issued guidance related to presentation of net periodic pension cost and net periodic postretirement benefit cost. The rules became effective in the first quarter of 2018. These rules did not have a material impact to Occidental's financial statements upon adoption.

In January 2017, FASB issued new guidance clarifying the definition of a business under the topic Business Combinations. The rules became effective in the first quarter of 2018, and did not have a material impact to Occidental's financial statements upon adoption.

In November 2016, FASB issued new guidance related to the cash flow classification and presentation of the changes in restricted cash on the statement of cash flows. The rules became effective in the first quarter of 2018 and must be applied retrospectively. Occidental did not have restricted cash as of September 30, 2018, or December 31, 2017.

In August 2016, FASB issued new guidance related to the classification of certain cash receipts and payments on the statement of cash flows. The rules were adopted for the first quarter of 2018 and resulted in the retrospective reclassification of $135 million of cash receipts from operating cash flows to investing cash flows for the nine months ended September 30, 2017, within the Statement of Cash Flows.

In February 2016, FASB issued rules which require Occidental to recognize most leases, including operating leases, on the balance sheet. The new rules require lessees to recognize a right-of-use asset and lease liability for all leases with lease terms of more than 12 months. The lease liability represents the discounted obligation to make future minimum lease payments. The corresponding right-of-use asset includes the discounted obligation in addition to any upfront payment or cost incurred during contract execution of the lease. Recognition, measurement and presentation of expenses and cash flows arising from a lease will depend on classification as a finance or operating lease. Occidental is the lessee under various agreements for real estate, equipment, plants and facilities, aircraft and information technology hardware that are currently accounted for as operating leases. As a result, these new rules will increase reported assets and liabilities. Occidental will not be an early adopter of this standard. Occidental will apply the revised lease rules for its interim and annual reporting periods starting January 1, 2019, using a modified retrospective approach, including several optional practical expedients related to leases that commenced before the effective date. Occidental is currently evaluating the effect of these rules on its financial statements, training employees, working with third-party consultants and has developed an internal interim software solution for the identification, documentation, tracking and accounting of leases as a means of an adoption plan based on Occidental's population of leases under the revised definition of leases. Occidental is currently in the test phase and continues to evaluate existing and new lease contracts for compliance, including performing various procedures to assess completeness in population and evaluating right-of-way contract structures under the new guidance to determine future impacts from adoption. The quantitative impacts of the new standard are dependent on the leases in force at the time of adoption. As a result, the evaluation of the effect of the new standard is ongoing.

4. Revenue Recognition

On January 1, 2018, Occidental adopted ASC 606 using the modified retrospective method. Results for reporting periods beginning after January 1, 2018, are presented under ASC 606, while prior period amounts have not been adjusted. There was no impact of adopting ASC 606 to the opening balance of retained earnings. There was no impact to the timing or amount of revenue recognized in the nine months ended September 30, 2018, as a result of the adoption of ASC 606.

Revenue from customers is recognized when obligations under the terms of a contract with our customer are satisfied; this generally occurs with the delivery of oil, gas, natural gas liquids ("NGL"), chemicals or services such as transportation. Revenue from customers is measured as the amount of consideration Occidental expects to receive in exchange for the delivery of goods or services. Contracts may last from one month to one year or more, and may have renewal terms that extend indefinitely at the option of either party. Price is typically based on market indexes. Volumes fluctuate due to production and, in certain cases, customer demand and transportation availability. Occidental records revenue net of certain taxes, such as sales taxes, that are assessed by governmental authorities on Occidental's customers. Occidental has elected a practical expedient under ASC 606 and will not disclose revenue recognizable in future periods for unsatisfied performance obligations because the consideration related to those performance obligations is based on volume or market prices, which are variable.

Occidental does not incur significant costs to obtain contracts. Incidental items that are immaterial in the context of the contract are recognized as expense. Sales of hydrocarbons and chemicals to customers are invoiced and settled on a monthly basis. Occidental is not usually subject to obligations for warranties, returns or refunds except in the case of customer incentive payments as discussed for the chemical segment below. Occidental does not typically receive payment in advance of satisfying its obligations under the terms of its sales contracts with customers; therefore, liabilities related to such payment are immaterial to Occidental. As of September 30, 2018, trade receivables, net, of $6.0 billion, represent rights to payment for which Occidental has satisfied its obligations under a contract and its right to payment is conditioned only on the passage of time.

Oil and Gas Segment

Revenue from oil and gas production is recognized when it is delivered and control passes to the customer. Revenues from the production of oil and gas properties in which Occidental has an interest with other producers are recognized on the basis of Occidental’s net revenue interest.

Chemical Segment

Revenue from chemical product sales is recognized when control passes to the customer. Certain incentive programs may provide for payments or credits to be made to customers based on the volume of product purchased over a defined period. Customer incentives are estimated and recorded as a reduction to revenue ratably over the contract period. Such estimates are evaluated and revised as warranted. Revenue from exchange contracts is excluded from revenue from customers.

Midstream and Marketing Segment

Revenue from pipeline and gas processing is recognized upon the completion of the transportation or processing service. Revenue from power sales is recognized upon delivery. Net marketing margin is included in net sales, but excluded from revenue from customers. Net marketing margin is recognized upon completion of contract terms that are a prerequisite to payment and upon title transfer for physical deliveries. Unless normal sales treatment has been elected, net marketing margin is classified as a derivative, reported on a net basis, recorded at fair value and changes in fair value are reflected in net sales.

The following table shows a reconciliation of revenue from customers to total net sales (in millions):

	Three Months Ended September 30, 2018	Nine months Ended September 30, 2018
Revenue from customers	$ 4,257	$ 11,813
All other revenues [(a)]	959	1,249
Total net sales	$ 5,216	$ 13,062

[(a)] Includes net marketing margin and chemical exchange contracts.

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The following table presents Occidental's revenue from customers by segment, product and geographical area. Because the oil and gas segment typically sells its hydrocarbons at the lease or concession area, oil, gas and NGL are assumed to be sold in the area where they are produced. Chemical and midstream revenues are shown by area based on the location of the sale (in millions):

For the three months ended September 30, 2018

Revenue by Product	United States	Middle East	Latin America	Other International	Total
Oil and Gas Segment					
Oil	$1,326	$1,016	$ 197	$ —	$2,539
NGL	139	77	—	—	216
Gas	47	80	5	—	132
Other	3	—	(1)	—	2
Segment Total	$1,515	$1,173	$ 201	$ —	$2,889
Chemical Segment	$1,112	$—	$ 51	$ 21	$1,184
Midstream Segment					
Marketing and Trading	$3	$—	$ —	$ —	$3
Gas Processing	148	108	—	—	256
Pipelines	115	—	—	—	115
Power and Other	35	—	—	—	35
Segment Total	$301	$108	$ —	$ —	$409
Intersegment Eliminations	$(225)	$—	$ —	$ —	$(225)
Consolidated	$2,703	$1,281	$ 252	$ 21	$4,257

For the nine months ended September 30, 2018

Revenue by Product	United States	Middle East	Latin America	Other International	Total
Oil and Gas Segment					
Oil	$3,907	$2,507	$ 547	$ —	$6,961
NGL	339	192	—	—	531
Gas	141	218	12	—	371
Other	10	1	—	—	11
Segment Total	$4,397	$2,918	$ 559	$ —	$7,874
Chemical Segment	$3,294	$—	$ 154	$ 59	$3,507
Midstream Segment					
Marketing and Trading	$11	$—	$ —	$ —	$11
Gas Processing	416	308	—	—	724
Pipelines	310	—	—	—	310
Power and Other	73	—	—	—	73
Segment Total	$810	$308	$ —	$ —	$1,118
Intersegment Eliminations	$(686)	$—	$ —	$ —	$(686)

Consolidated	$7,815	$3,226	$ 713	$ 59	$11,813

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5. Supplemental Cash Flow Information

Occidental paid foreign and domestic state income taxes of $838 million and $553 million during the nine months ended September 30, 2018, and 2017, respectively. Occidental received domestic tax refunds of $2 million and $756 million during the nine months ended September 30, 2018, and 2017, respectively. Interest paid totaled $298 million and $266 million during the nine months ended September 30, 2018, and 2017, respectively.

6. Inventories

Finished goods primarily represents crude oil, caustic soda and vinyl products. Inventories as of September 30, 2018, and December 31, 2017, consisted of the following (in millions):

	2018	2017
Raw materials	$69	$66
Materials and supplies	434	447
Finished goods	549	776
	1,052	1,289
Revaluation to LIFO	(43)	(43)
Total	$1,009	$1,246

7. Environmental Liabilities and Expenditures

Occidental's operations are subject to stringent federal, state, local and foreign laws and regulations related to improving or maintaining environmental quality. The laws that require or address environmental remediation, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and similar federal, state, local and foreign laws, may apply retroactively and regardless of fault, the legality of the original activities or the current ownership or control of sites. OPC or certain of its subsidiaries participate in or actively monitor a range of remedial activities and government or private proceedings under these laws with respect to alleged past practices at operating, closed and third-party sites. Remedial activities may include one or more of the following: investigation involving sampling, modeling, risk assessment or monitoring; cleanup measures including removal, treatment or disposal of hazardous substances; or operation and maintenance of remedial systems. These environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages, civil penalties, injunctive relief and government oversight costs.

As of September 30, 2018, Occidental participated in or monitored remedial activities or proceedings at 146 sites. The following table presents Occidental's current and non-current environmental remediation reserves as of September 30, 2018, which were included in current liabilities ($136 million) and deferred credits and other liabilities - environmental remediation reserves ($740 million). The reserves are grouped as environmental remediation sites listed or proposed for listing by the United States Environmental Protection Agency on the CERCLA National Priorities List (NPL sites) and three categories of non-NPL sites — third-party sites, Occidental-operated sites and closed or non-operated Occidental sites.

	Number of Sites	Reserve Balance (in millions)
NPL sites	34	$ 453
Third-party sites	69	172
Occidental-operated sites	14	114

Closed or non-operated Occidental sites	29	137
Total	146	$ 876

As of September 30, 2018, Occidental's environmental reserves exceeded $10 million each at 16 of the 146 sites described above, and 90 of the sites each had reserves of $1 million or less. Based on current estimates, Occidental expects to expend funds corresponding to approximately 50 percent of the environmental reserves at the sites described above over the next three to four years and the balance at these sites over the subsequent 10 or more

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years. Occidental believes its estimable amount of reasonably possible additional losses beyond those liabilities recorded for environmental remediation at these sites could range up to $1.1 billion. The status of Occidental's involvement with the sites and related significant assumptions, including those sites indemnified by Maxus Energy Corporation (Maxus), has not changed materially since December 31, 2017.

Maxus Environmental Sites

When Occidental acquired Diamond Shamrock Chemicals Company (DSCC) in 1986, Maxus, a subsidiary of YPF S.A. (YPF), agreed to indemnify Occidental for a number of environmental sites, including the Diamond Alkali Superfund Site (Site) along a portion of the Passaic River. On September 17, 2016, Maxus and several affiliated companies filed for Chapter 11 bankruptcy in Federal District Court in the State of Delaware. Prior to filing for bankruptcy, Maxus defended and indemnified Occidental in connection with clean-up and other costs associated with the sites subject to the indemnity, including the Site.

In March 2016, the EPA issued a Record of Decision (ROD) specifying remedial actions required for the lower 8.3 miles of the Lower Passaic River. The ROD does not address any potential remedial action for the upper nine miles of the Lower Passaic River or Newark Bay. During the third quarter of 2016, and following Maxus’s bankruptcy filing, Occidental and the EPA entered into an Administrative Order on Consent (AOC) to complete the design of the proposed clean-up plan outlined in the ROD at an estimated cost of $165 million. The EPA announced that it will pursue similar agreements with other potentially responsible parties.

Occidental has accrued a reserve relating to its estimated allocable share of the costs to perform the design and the remediation called for in the AOC and the ROD, as well as for certain other Maxus-indemnified sites. Occidental's accrued estimated environmental reserve does not consider any recoveries for indemnified costs. Occidental’s ultimate share of this liability may be higher or lower than the reserved amount, and is subject to final design plans and the resolution of Occidental's allocable share with other potentially responsible parties. Occidental continues to evaluate the costs to be incurred to comply with the AOC, the ROD and to perform remediation at other Maxus-indemnified sites in light of the Maxus bankruptcy and the share of ultimate liability of other potentially responsible parties. In June 2018, Occidental filed a complaint under CERCLA in Federal District Court in the State of New Jersey against numerous potentially responsible parties for reimbursement of amounts incurred or to be incurred to comply with the AOC, the ROD or to perform other remediation activities at the Site.

In September 2017, the court overseeing the Maxus bankruptcy approved a Plan of Liquidation (Plan) to liquidate Maxus and create a trust to pursue claims against YPF, Repsol and others to satisfy claims by Occidental and other creditors for past and future cleanup and other costs. In July 2017, the court-approved Plan became final and the trust became effective. Among other responsibilities, the trust will pursue claims against YPF, Repsol and others and distribute assets to Maxus' creditors in accordance with the trust agreement and Plan. In June 2018, the trust filed its complaint against YPF and Repsol in Delaware bankruptcy court asserting claims based upon, among other things, fraudulent transfer and alter ego.

8. Lawsuits, Claims, Commitments and Contingencies

Legal Matters

Occidental or certain of its subsidiaries are involved, in the normal course of business, in lawsuits, claims and other legal proceedings that seek, among other things, compensation for alleged personal injury, breach of contract, property damage or other losses, punitive damages, civil penalties, or injunctive or declaratory relief. Occidental or certain of its subsidiaries also are involved in proceedings under CERCLA and similar federal, state, local and foreign environmental laws. These environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages, civil penalties and injunctive relief. Usually Occidental or such subsidiaries are among many companies in these environmental proceedings and have to date been successful in sharing response costs with other financially sound companies. Further, some lawsuits, claims and legal proceedings involve acquired or disposed assets with respect to which a third party or Occidental retains liability or indemnifies the other party for conditions that existed prior to the transaction.

In 2016, Occidental received payments from the Republic of Ecuador of approximately $1.0 billion pursuant to a November 2015 arbitration award for Ecuador's 2006 expropriation of Occidental's Participation Contract for Block 15. The awarded amount represented a recovery of 60 percent of the value of Block 15. In 2017, Andes Petroleum Ecuador Ltd. (Andes) filed a demand for arbitration, claiming it is entitled to a 40 percent share of the judgment amount obtained by Occidental. Occidental contends that Andes is not entitled to any of the amounts paid under the 2015 arbitration award because Occidental's recovery was limited to Occidental's own 60 percent economic interest in the block. Occidental intends to vigorously defend against this claim in arbitration.

In accordance with applicable accounting guidance, Occidental accrues reserves for outstanding lawsuits, claims and proceedings when it is probable that a liability has been incurred and the liability can be reasonably estimated. In Note 7, Environmental Liabilities and Expenditures, Occidental has disclosed its reserve balances for environmental remediation matters that satisfy this criteria. Reserve balances for matters, other than environmental remediation, that satisfy this criteria as of September 30, 2018, and December 31, 2017, were not material to Occidental's consolidated balance sheets.

The ultimate outcome and impact of outstanding lawsuits, claims and proceedings on Occidental cannot be predicted. Management believes that the resolution of these matters will not, individually or in the aggregate, have a material adverse effect on Occidental's consolidated balance sheet. If unfavorable outcomes of these matters were to occur, future results of operations or cash flows for any particular quarterly or annual period could be materially adversely affected. Occidental's estimates are based on information known about the legal matters and its experience in contesting, litigating and settling similar matters. Occidental reassesses the probability and estimability of contingent losses as new information becomes available.

Tax Matters

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. Although taxable years through 2012 for United States federal income tax purposes have been audited by the United States Internal Revenue Service (IRS) pursuant to its Compliance Assurance Program, subsequent taxable years are currently under review. Taxable years from 2002 through the current year remain subject to examination by foreign and state government tax authorities in certain jurisdictions. In certain of these jurisdictions, tax authorities are in various stages of auditing Occidental's income taxes. During the course of tax audits, disputes have arisen and other disputes may arise as to facts and matters of law. Occidental believes that the resolution of outstanding tax matters would not have a material adverse effect on its consolidated financial position or results of operations.

Indemnities to Third Parties

Occidental, its subsidiaries, or both, have indemnified various parties against specified liabilities those parties might incur in the future in connection with purchases and other transactions that they have entered into with Occidental. These indemnities usually are contingent upon the other party incurring liabilities that reach specified thresholds. As of September 30, 2018, Occidental is not aware of circumstances that it believes would reasonably be expected to lead to indemnity claims that would result in payments materially in excess of reserves.

Purchase Obligations and Commitments

Occidental has entered into agreements providing for future payments to secure terminal and pipeline capacity, drilling rigs and services, electrical power, steam and certain chemical raw materials. Occidental has certain other commitments under contracts, guarantees and joint ventures, including purchase commitments for goods and services at market-related prices and certain other contingent liabilities. In the third quarter of 2018, Occidental secured approximately $2 billion of additional long-term commitments related to pipeline and terminal capacity that extend over the next ten years.

9. Retirement and Postretirement Benefit Plans

The following tables set forth the components of the net periodic benefit costs for Occidental's defined benefit plans for the three and nine months ended September 30, 2018, and 2017 (in millions):

Three months ended September 30	2018		2017	
Net Periodic Benefit Costs	Pension Benefit	Postretirement Benefit	Pension Benefit	Postretirement Benefit
Service cost	$—	$ 5	$2	$ 5
Interest cost	4	8	4	9
Expected return on plan assets	(7)	—	(6)	—
Recognized actuarial loss	2	2	2	3
Additional settlement cost	3	—	—	—
Total	$2	$ 15	$2	$ 17

Nine months ended September 30	2018		2017	
Net Periodic Benefit Costs	Pension Benefit	Postretirement Benefit	Pension Benefit	Postretirement Benefit
Service cost	$4	$ 17	$6	$ 15
Interest cost	12	26	12	29
Expected return on plan assets	(19)	—	(18)	—
Recognized actuarial loss	4	12	6	11
Additional settlement cost	3	—	—	—
Total	$4	$ 55	$6	$ 55

Occidental contributed approximately $2 million and $1 million in the three months ended September 30, 2018, and 2017, and approximately $4 million and $3 million in the nine months ended September 30, 2018, and 2017, to its defined benefit plans.

During the third quarter of 2018, Occidental adopted a postretirement benefit plan design change, which replaced the previous self-insured benefit with a Medicare Advantage PPO plan for Medicare-eligible retirees. As a result of this change, the postretirement benefit obligation was remeasured as of August 31, 2018. The remeasurement resulted in a decrease to the benefit obligation of $178 million, with a corresponding offset to accumulated other comprehensive income.

10. Fair Value Measurements

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

The following tables provide fair value measurement information for such assets and liabilities that are measured on a recurring basis as of September 30, 2018, and December 31, 2017 (in millions):

Fair Value Measurements at September 30, 2018: Embedded derivatives	Level 1	Level 2	Level 3	Netting and Collateral	Total Fair Value
Liabilities:					
Accrued liabilities	$ —	$ 11	$ —	$ —	$ 11
Deferred credits and other liabilities - other	$ —	$ 53	$ —	$ —	$ 53

Fair Value Measurements at December 31, 2017: Embedded derivatives	Level 1	Level 2	Level 3	Netting and Collateral	Total Fair Value
Liabilities:					
Accrued liabilities	$ —	$ 39	$ —	$ —	$ 39
Deferred credits and other liabilities - other	$ —	$ 147	$ —	$ —	$ 147

Fair Values — Nonrecurring

During the three months ended September 30, 2018, Occidental recognized pre-tax impairment charges of $196 million on proved oil and gas properties and inventory as a result of Qatar Petroleum's decision to take over operatorship and ownership of the Idd El-Shargi North Dome offshore field in Qatar following the contract expiration in October 2019. The fair value of the proved properties was measured based on the income approach, which incorporated a number of assumptions involving expectations of future cash flows. These assumptions included estimates of future product prices, which Occidental based on forward price curves, estimates of oil and gas reserves, estimates of future expected operating and capital costs and a risk-adjusted discount rate. These inputs are categorized as Level 3 in the fair value hierarchy. As the end of the contract period approaches, significant changes to estimated future cash flows could result in additional impairment charges. In addition, for the nine months ended September 30, 2018, Occidental recognized pre-tax impairment charges of $42 million related to non-core proved Permian acreage and an investment in gas processing facilities. During the year ended December 31, 2017, Occidental recognized pre-tax impairment charges of $397 million primarily related to held-for-sale, non-core, proved and unproved Permian acreage.

Other Financial Instruments

The carrying amounts of cash and cash equivalents and other on-balance-sheet financial instruments, other than long-term, fixed-rate debt, approximate fair value. The cost, if any, to terminate Occidental's off-balance-sheet financial instruments is not significant. Occidental estimates the fair value of fixed-rate debt based on the quoted market prices for those instruments or on quoted market yields for similarly rated debt instruments, taking into account such instruments' maturities. The estimated fair value of Occidental's debt as of September 30, 2018, and December 31, 2017, was $10.4 billion. The remaining principal payments, less the discount on long-term debt, aggregated approximately $10.4 billion and $9.9 billion as of September 30, 2018, and December 31, 2017, respectively.

11. Derivatives

Occidental uses a variety of derivative financial instruments and physical contracts, including those designated as cash flow hedges, to manage its exposure to commodity price fluctuations, transportation commitments and to fix margins on the future sale of stored volumes of oil and natural gas. Where Occidental buys product for its own consumption or sells its production to a defined customer, Occidental elects normal purchases and normal sales exclusions. Occidental usually applies cash flow hedge accounting treatment to derivative financial instruments to lock in margins on the forecast sales of its natural gas storage volumes, and at times for other strategies to lock in margins. Occidental also enters into derivative financial instruments for speculative or trading purposes; however, the results of any transactions are immaterial to the marketing portfolio.

The financial instruments not designated as hedges will impact Occidental's earnings through mark-to-market until the offsetting future physical commodity is delivered. For GAAP purposes, any physical inventory is carried at lower of cost or market on the balance sheet. A substantial majority of Occidental's physical derivative contracts are index-based and carry no mark-to-market value in earnings. Net gains and losses associated with derivative instruments not designated as hedging instruments are recognized currently in net sales. Net gains and losses attributable to derivative instruments subject to hedge accounting reside in accumulated other comprehensive loss and are reclassified to earnings as the transactions to which the derivatives relate are recognized in earnings.

Credit Risk

The majority of Occidental's counterparty credit risk is related to the physical delivery of energy commodities to its customers and any potential inability to meet their settlement commitments. Occidental manages credit risk by selecting counterparties that it believes to be financially strong, by entering into netting arrangements with counterparties and by requiring collateral or other credit risk mitigants, as appropriate. Occidental actively evaluates the creditworthiness of its counterparties, assigns appropriate credit limits and monitors credit exposures against those assigned limits. Occidental also enters into future contracts through regulated exchanges with select clearinghouses and brokers, which are subject to minimal credit risk as a significant portion of these transactions settle on a daily margin basis.

Certain of Occidental's over-the-counter derivative instruments contain credit-risk-contingent features, primarily tied to credit ratings for Occidental or its counterparties, which may affect the amount of collateral that each would need to post. Occidental believes that if it had received a one-notch reduction in its credit ratings, it would not have resulted in a material change in its collateral-posting requirements as of September 30, 2018, and December 31, 2017.

Cash flow Hedges

Occidental’s marketing operations store natural gas purchased from third parties at Occidental’s leased storage facilities. Derivative instruments are used to fix margins on the future sales of the stored volumes. As of September 30, 2018, Occidental had approximately 6 billion cubic feet (Bcf) of natural gas held in storage, and had cash flow hedges for the forecast sales, to be settled by physical delivery, of approximately 4 Bcf of stored natural gas. As of December 31, 2017, Occidental had approximately 7 Bcf of natural gas held in storage, and had cash flow hedges for the forecast sales, to be settled by physical delivery, of approximately 7 Bcf of stored natural gas. The amount of cash flow hedges, including the ineffective portion, was immaterial for the nine months ended September 30, 2018, and the year ended December 31, 2017.

Derivatives Not Designated as Hedging Instruments

Forward unrealized instruments that are derivatives not designated as hedging instruments are required to be recorded on the income statement and balance sheet at fair value. The fair value represents an unrealized gain or loss between executed sales prices and market prices at the end of the period. The fair value does not reflect the realized or cash value of the instrument. Substantially all of the fair value of Occidental's derivative instruments not designated as hedges are used to manage its exposure to commodity price fluctuations and settle within three months at a weighted average contract price of $69.98 and $2.67 for crude oil and natural gas, respectively, at September 30, 2018. The remaining fair value of derivative instruments not designated as hedges was immaterial. The weighted average contract price was $57.38 and $2.73 for crude oil and natural gas, respectively, at December 31, 2017.

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The following table summarizes the amounts reported in net sales related to the outstanding commodity derivatives not designated as hedging instruments as of September 30, 2018, and December 31, 2017.

(in millions, except Long/(Short) volumes)	2018	2017
Unrealized gain (loss) on derivatives not designated as hedges		
Crude Oil Commodity Contracts	$(37)	$(47)
Natural Gas Commodity Contracts	$(1)	$1
Outstanding net volumes on derivatives not designated as hedges		
Crude Oil Commodity Contracts		
Volume (MMBL)	73	61
Natural Gas Commodity Contracts		
Volume (Bcf)	(88)	(47)

Fair Value of Derivatives

The following table presents the gross and net fair values of Occidental's outstanding derivatives as of September 30, 2018, and December 31, 2017 (in millions):

As of September 30, 2018 (in millions)	Fair Value Measurements Using			Netting [b]	Total Fair Value
Balance Sheet Location	Level 1	Level 2	Level 3		
Assets:	Derivatives not designated as hedging instruments [a]				
Other current assets	1,210	631	—	(1,235)	606
Long-term receivables and other assets, net	101	4	—	(101)	4
Liabilities:	Cash flow hedges [a]				
Accrued liabilities	—	1	—	—	1
	Derivatives not designated as hedging instruments [a]				
Accrued liabilities	1,252	627	—	(1,235)	644
Deferred credits and other liabilities -	101	4	—	(101)	4

other

As of December 31, 2017 (in millions)	Fair Value Measurements Using			Netting (b)	Total Fair Value
Balance Sheet Location	Level 1	Level 2	Level 3		
Assets: Cash flow hedges (a)					
Other current assets	—	3	—	—	3
Derivatives not designated as hedging instruments (a)					
Other current assets	485	227	—	(517)	195
Long-term receivables and other assets, net	1	2	—	(1)	2
Liabilities: Derivatives not designated as hedging instruments (a)					
Accrued liabilities	535	222	—	(517)	240
Deferred credits and other liabilities - other	1	3	—	(1)	3

(a) Fair values are presented at gross amounts, including when the derivatives are subject to master netting arrangements and presented on a net basis in the consolidated condensed balance sheets.

(b) These amounts do not include collateral. As of September 30, 2018, no collateral received has been netted against derivative assets and collateral paid of $64 million has been netted against derivative liabilities. As of December 31, 2017, no collateral received has been netted against derivative assets and collateral paid of $54 million has been netted against derivative liabilities. Select clearinghouse and brokers require Occidental to post an initial margin deposit. Collateral deposited by Occidental, mainly for initial margin, of $73 million and $53 million as of September 30, 2018 and December 31, 2017, respectively, has not been reflected in these derivative fair -value tables. This collateral is included in other current assets in the consolidated condensed balance sheets.

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12. Industry Segments

Occidental conducts its operations through three segments: (1) oil and gas; (2) chemical; and (3) midstream and marketing. The oil and gas segment explores for, develops and produces oil and condensate, NGL and natural gas. The chemical segment mainly manufactures and markets basic chemicals and vinyls. The midstream and marketing segment gathers, processes, transports, stores, purchases and markets oil, condensate, NGL, natural gas, carbon dioxide (CO_2) and power. It also trades around its assets, including transportation and storage capacity. Additionally, the midstream and marketing segment invests in entities that conduct similar activities.

Results of industry segments generally exclude income taxes, interest income, interest expense, environmental remediation expenses, unallocated corporate expenses and discontinued operations, but include gains and losses from dispositions of segment and geographic-area assets and income from the segments' equity investments. Intersegment sales eliminate upon consolidation and are generally made at prices approximating those that the selling entity would be able to obtain in third-party transactions. The following tables present Occidental's industry segments (in millions):

	Oil and Gas	Chemical	Midstream and Marketing	Corporate and Eliminations	Total
Three months ended September 30, 2018					
Net sales	$2,889	$ 1,185	$ 1,367	$ (225)	$5,216
Pre-tax operating profit (loss)	$767 [(a)]	$ 321	$ 1,698 [(b)]	$ (207) [(c)]	$2,579
Income taxes	—	—			