OCCIDENTAL PETROLEUM CORP /DE/
Form 10-Q
November 04, 2008
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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, 2008

OR

o 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 (State or other jurisdiction of incorporation or organization)	**95-4035997** (I.R.S. Employer Identification No.)
10889 Wilshire Boulevard **Los Angeles, California** (Address of principal executive offices)	**90024** (Zip Code)

(310) 208-8800

(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. R Yes £ No

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

Large Accelerated FilerR Accelerated Filero Non-Accelerated Filero Smaller Reporting Companyo

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

£ Yes R 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, 2008
Common stock $.20 par value	809,877,220 shares

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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, 2008 AND DECEMBER 31, 2007

(Amounts in millions)

		2008		2007
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	1,452	$	1,964
Receivables, net		6,878		5,389
Inventories		957		910
Prepaid expenses and other		333		332
Total current assets		9,620		8,595
LONG-TERM RECEIVABLES, net		203		203
INVESTMENTS IN UNCONSOLIDATED ENTITIES		1,250		783
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation, depletion and amortization of $15,398 at September 30, 2008 and $13,638 at December 31, 2007		30,854		26,278
OTHER ASSETS		662		660
	$	42,589	$	36,519

TOTAL ASSETS

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

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OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

SEPTEMBER 30, 2008 AND DECEMBER 31, 2007

(Amounts in millions)

	2008	2007
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt and notes payable	$ 714	$ 47
Accounts payable	4,907	4,263
Accrued liabilities	2,005	1,611
Domestic and foreign income taxes	322	227
Liabilities of discontinued operations	116	118
Total current liabilities	8,064	6,266
LONG-TERM DEBT, net of current maturities and unamortized discount	1,057	1,741
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred and other domestic and foreign income taxes	2,874	2,324
Long-term liabilities of discontinued operations	160	174
Other	3,466	3,156
	6,500	5,654
MINORITY INTEREST	31	35
STOCKHOLDERS EQUITY		
Common stock, at par value	176	175
Treasury stock	(4,121)	(2,610)
Additional paid-in capital	7,083	7,071
Retained earnings	24,501	18,819
Accumulated other comprehensive loss	(702)	(632)
	26,937	22,823
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 42,589	$ 36,519

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

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OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(Amounts in millions, except per-share amounts)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
REVENUES AND OTHER INCOME				
Net sales	$ 7,060	$ 4,841	$ 20,196	$ 13,267
Interest, dividends and other income	59	57	192	298
Gains on disposition of assets, net		157	25	877
	7,119	5,055	20,413	14,442
COSTS AND OTHER DEDUCTIONS				
Cost of sales	2,844	2,297	7,987	6,553
Selling, general and administrative and other operating expenses	393	405	1,273	1,129
Environmental remediation	(2)	10	28	71
Exploration expense	61	126	193	321
Interest and debt expense, net	24	48	94	297
	3,320	2,886	9,575	8,371
Income before taxes and other items	3,799	2,169	10,838	6,071
Provision for domestic and foreign income and other taxes	1,546	862	4,511	2,450
Minority interest	38	16	104	44
Income from equity investments	(57)	(25)	(168)	(53)
Income from continuing operations	2,272	1,316	6,391	3,630
Discontinued operations, net	(1)	8	23	318
NET INCOME	$ 2,271	$ 1,324	$ 6,414	$ 3,948
BASIC EARNINGS PER COMMON SHARE				
Income from continuing operations	$ 2.79	$ 1.58	$ 7.79	$ 4.34
Discontinued operations, net		0.01	0.03	0.38
Basic earnings per common share	$ 2.79	$ 1.59	$ 7.82	$ 4.72
DILUTED EARNINGS PER COMMON SHARE				
Income from continuing operations	$ 2.78	$ 1.57	$ 7.76	$ 4.31
Discontinued operations, net		0.01	0.03	0.38
Diluted earnings per common share	$ 2.78	$ 1.58	$ 7.79	$ 4.69
DIVIDENDS PER COMMON SHARE	$ 0.32	$ 0.25	$ 0.89	$ 0.69
WEIGHTED AVERAGE BASIC SHARES	815.3	833.1	820.1	837.0

WEIGHTED AVERAGE DILUTED SHARES	817.7	837.0	823.8	840.9

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

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OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(Amounts in millions)

		2008		2007
CASH FLOW FROM OPERATING ACTIVITIES				
Net income	$	6,414	$	3,948
Adjustments to reconcile net income to net cash provided by operating activities:				
Discontinued operations, net		(23)		(318)
Depreciation, depletion and amortization of assets		1,957		1,740
Deferred income tax provision (benefit)		397		(25)
Other non-cash charges to income		484		632
Gain on disposition of assets, net		(25)		(877)
Income from equity investments		(168)		(53)
Dry hole and impairment expense		134		186
Changes in operating assets and liabilities		(822)		(846)
Other operating, net		(245)		(217)
Operating cash flow from continuing operations		8,103		4,170
Operating cash flow from discontinued operations		33		154
Net cash provided by operating activities		8,136		4,324
CASH FLOW FROM INVESTING ACTIVITIES				
Capital expenditures		(3,223)		(2,510)
Purchase of businesses and assets, net		(3,315)		(991)
Sale of businesses and disposal of property, plant, and equipment, net		22		460
Short term investments - purchases				(10)
Short term investments - sales				250
Sale of equity investments and available-for-sale investments		51		1,157
Equity investments and other investing, net		(105)		(124)
Investing cash flow from continuing operations		(6,570)		(1,768)
Investing cash flow from discontinued operations				(9)
Net cash used by investing activities		(6,570)		(1,777)
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from long-term debt		51		97
Payments of long-term debt and notes payable		(71)		(1,145)
Proceeds from issuance of common stock		22		15
Purchases of treasury stock		(1,487)		(910)
Excess tax benefits related to share-based payments		74		44
Cash dividends paid		(677)		(557)
Stock options exercised		10		25
Net cash used by financing activities		(2,078)		(2,431)
(Decrease) Increase in cash and cash equivalents		(512)		116
Cash and cash equivalents beginning of period		1,964		1,339
Cash and cash equivalents end of period	$	1,452	$	1,455

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

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OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

September 30, 2008

1. General

In these unaudited consolidated condensed financial statements, Occidental means Occidental Petroleum Corporation (OPC) and/or one or more entities in which it owns a majority voting interest (subsidiaries). Occidental has made its disclosures in accordance with accounting principles generally accepted in the United States of America as they apply to interim reporting, but condensed or omitted certain information and disclosures normally included in notes to consolidated financial statements in accordance with the Securities and Exchange Commission s rules and regulations. The consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Occidental s Annual Report on Form 10-K for the year ended December 31, 2007.

In the opinion of Occidental s management, the accompanying 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, 2008, and the consolidated statements of income and cash flows for the three and nine months ended September 30, 2008 and 2007, as applicable. The income and cash flows for the periods ended September 30, 2008 and 2007, are not necessarily indicative of the income or cash flows to be expected for the full year.

2. Asset Acquisitions, Dispositions and Other Transactions

In October 2008, Occidental issued $1 billion of 7% senior notes receiving $985 million of net proceeds. Interest on the notes will be payable semi-annually in arrears on May 1 and November 1 of each year, beginning on May 1, 2009. The notes will mature on November 1, 2013.

In February 2008, Occidental purchased from Plains Exploration & Production Company (Plains) a 50-percent interest in oil and gas properties in the Permian Basin and Colorado. In September 2008, Occidental entered into an agreement with Plains to purchase all of Plains remaining interests in the Permian Basin and Colorado for the approximate purchase price of $1.25 billion, which is expected to close in the fourth quarter of 2008.

In July 2008, Occidental purchased a 15-percent interest in the Joslyn Oil Sands Project in northern Alberta, Canada for approximately $500 million in cash. Occidental expects to spend approximately $2 billion over a number of years with production expected to commence in 2014.

In June 2008, Occidental signed an agreement with a third party to construct a west Texas gas processing plant and pipeline infrastructure that will provide carbon dioxide (CO_2) for Occidental s enhanced oil recovery projects in the Permian Basin. Occidental will own and operate the new facility and pipeline system and is expected to incur capital expenditures of approximately $1.1 billion constructing this project over several years.

On June 23, 2008, Occidental signed 30-year agreements with the Libyan National Oil Company (NOC) to upgrade its existing petroleum contracts. Total expected capital investment is estimated to be $5 billion over the next five years, of which Occidental s portion will be approximately $1.9 billion. NOC will contribute 50 percent, Occidental will contribute 37.5 percent and its partner will contribute 12.5 percent of the development capital. Under these contracts, Occidental and its partner will pay a signature bonus of $1 billion, of which Occidental s share, 75 percent, is $750 million. Occidental and its partner made the first payment of $600 million, of which Occidental s share was $450 million, in June 2008. The remaining annual payments of $200 million, of which Occidental s share is $150 million, are due in each of the next two years. The new agreements allow NOC and Occidental to design and implement major field redevelopment and exploration programs in the Sirte Basin.

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3. Accounting Changes

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) Issue No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. This FSP concluded that instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, should be included in the earnings allocations in computing basic earnings per share (EPS) under the two-class method that is described in FASB Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share. FSP EITF Issue No. 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 with prior period retrospective application. Occidental is currently assessing the effect of this FSP on its financial statements, which is not expected to be material.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133. SFAS No. 161 provides new disclosure requirements for an entity s derivative and hedging activities. SFAS No. 161 is effective for periods beginning after November 15, 2008. Occidental is currently assessing the effect of SFAS No. 161 on its financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement provides a fair value option that allows companies to measure certain financial instruments, on an instrument by instrument basis, at fair value. SFAS No. 159 is effective for financial statements issued for periods beginning after November 15, 2007. Since Occidental did not elect the fair value option on any qualifying financial assets and liabilities when it adopted SFAS No. 159 on January 1, 2008, or during the first three quarters of 2008, this statement has had no impact on Occidental s financial statements.

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 periods beginning after November 15, 2007. In February 2008, the FASB issued FSP FAS 157-2, which defers the effective date of SFAS No. 157 for non-financial assets and liabilities that are not recorded at fair value on a recurring basis until periods beginning after November 15, 2008. Occidental adopted the non-deferred portion of SFAS No. 157 on January 1, 2008 on a prospective basis. See Note 11 for further information. In October 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active. FSP FAS 157-3 clarifies the application of SFAS No. 157, in a market that is not active. FSP FAS 157-3 became effective upon issuance, October 10, 2008, and includes prior periods for which financial statements have not been issued. The adoption of FSP FAS 157-3 has not had a material impact on Occidental s financial statements.

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4. Comprehensive Income

The following table presents Occidental s comprehensive income items for the three and nine months ended September 30, 2008 and 2007 (in millions):

	Periods Ended September 30			
	Three months		Nine months	
	2008	2007	2008	2007
Net income	$ 2,271	$ 1,324	$ 6,414	$ 3,948
Other comprehensive income (loss) items				
Foreign currency translation adjustments	(20)	4	(9)	11
Derivative mark-to-market adjustments	404	(21)	(158)	(81)
Pension and post-retirement adjustments	6	3	(4)	7
Reclassification of realized (gains) losses (a)	20	1	87	(197)
Unrealized gains (losses) on securities	(2)		14	93
Other comprehensive income (loss), net of tax	408	(13)	(70)	(167)
Comprehensive income	$ 2,679	$ 1,311	$ 6,344	$ 3,781

(a) Amounts include the reclassification of the after-tax gain on the sale of approximately 2.4 and 21.0 million shares of Lyondell Chemical Company (Lyondell) common stock in the three and nine months ended September 30, 2007. Additionally, these amounts include reclassification of realized losses on derivatives of $20 million and $103 million for the three and nine months ended September 30, 2008, respectively, and $27 million and $20 million for the three and nine months ended September 30, 2007, respectively.

5. Supplemental Cash Flow Information

During the nine months ended September 30, 2008 and 2007, net cash payments for federal, foreign and state income taxes paid by continuing operations were approximately $2.1 billion and $1.7 billion, respectively. These amounts exclude taxes owed by Occidental but paid by government entities on its behalf which totaled $1,801 million and $919 million for the nine months ended September 30, 2008 and 2007, respectively. Net cash payments for federal, foreign and state income taxes paid by discontinued operations for the nine months ended September 30, 2008 and 2007, were approximately $7 million and $17 million, respectively. During the first nine months of 2008, Occidental received a net payment of $61 million from Ecuador for disputed tax refunds. Interest paid (net of interest capitalized of $43 million and $46 million, respectively) totaled approximately $38 million and $250 million for the nine months ended September 30, 2008 and 2007, respectively. The 2007 amount includes $178 million of interest paid for the partial repurchase of various debt issues in the open market.

6. Inventories

A portion of inventories is valued under the LIFO method. The valuation of LIFO inventory for interim periods is based on Occidental s estimates of year-end inventory levels and costs. Inventories consist of the following (in millions):

Balance at	September 30, 2008	December 31, 2007
Raw materials	$ 108	$ 92
Materials and supplies	403	349
Finished goods	548	571
	1,059	1,012
LIFO reserve	(102)	(102)
Total	$ 957	$ 910

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7. Asset Retirement Obligations

The asset retirement obligations at September 30, 2008 and 2007, were $515 million and $392 million, respectively, of which $492 million and $379 million, respectively, are included in deferred credits and other liabilities-other and the remaining balance is included in accrued liabilities. The following summarizes the activity of the asset retirement obligations for the nine months ended September 30, 2008 and 2007 (in millions):

Nine months ended September 30,	2008	2007
Beginning balance	$ 471	$ 362
Liabilities incurred in the period	17	11
Liabilities settled in the period	(8)	(12)
Acquisitions and other	13	14
Accretion expense	22	17
Ending balance	$ 515	$ 392

8. 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. 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 participate in environmental assessments and cleanups under these laws at currently-owned facilities, previously-owned sites and third-party sites.

At September 30, 2008, the current portion of Occidental s environmental remediation reserves ($69 million) is included in accrued liabilities and the remaining amount ($375 million) is included in deferred credits and other liabilities-other. The following table presents the environmental remediation reserves in three categories of sites at September 30, 2008:

	Number of Sites	Reserve Balance (in millions)
CERCLA (a) & equivalent sites	103	$198
Active facilities	17	103
Closed or sold facilities	44	143
Total	164	$444

(a) Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA).

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 $410 million beyond the amount accrued. In determining the environmental remediation 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.

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The following table shows additional detail regarding reserves for CERCLA or CERCLA-equivalent proceedings in which OPC or certain of its subsidiaries were involved at September 30, 2008:

Description	Number of Sites	Reserve Balance (in millions)
Minimal/No Exposure (a)	83	$ 6
Reserves between $1-10 million	14	45
Reserves over $10 million	6	147
Total	103	$ 198

(a) Includes 32 sites for which Maxus Energy Corporation has retained the liability and indemnified Occidental, including the Diamond Alkali Superfund Site in Newark, New Jersey. In connection with that site, Occidental Chemical Corporation (OCC) and Tierra Solutions, Inc., Maxus affiliate, signed a Settlement Agreement and Order on Consent for Removal Action with the U.S. EPA in June 2008. Maxus and Tierra will fund and perform the work required under the Consent Order. Also included are 3 sites where Occidental has denied liability without challenge, 30 sites where Occidental s reserves are less than $50,000 each, and 18 sites where reserves are between $50,000 and $1 million each.

9. 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 recovery of other losses, or injunctive or declaratory relief. OPC or certain of its subsidiaries also have been named 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 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, 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. In September 2007, the plaintiffs in the Osorio Case filed an action in state court in Florida seeking to enforce the Nicaraguan judgment. That action was removed to and is presently pending in federal court. 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.

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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 and state corporate income tax purposes. Taxable years 2001 through the current year are in various stages of audit by the U.S. Internal Revenue Service. Foreign government tax authorities are in various stages of auditing Occidental, and income taxes for taxable years from 2002 through 2007 remain subject to examination in certain tax jurisdictions. Disputes may arise during the course of such audits as to facts and matters of law.

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 other affiliates will meet their various obligations (guarantees). At September 30, 2008, the notional amount of the guarantees subject to reporting requirements was approximately $260 million, which consists of Occidental s guarantees of equity investees debt, primarily from the Dolphin Project equity investment, and other commitments.

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.

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10. Retirement Plans and Postretirement Benefits

The following table sets forth the components of the net periodic benefit costs for Occidental s defined benefit pension and postretirement benefit plans for the three and nine months ended September 30, 2008 and 2007 (in millions):

Three months ended September 30	**2008**		**2007**	
Net Periodic Benefit Costs	Pension Benefit	Postretirement Benefit	Pension Benefit	Postretirement Benefit
Service cost	$ 2	$ 3	$ 1	$ 3
Interest cost	7	10	6	8
Expected return on plan assets	(9)		(12)	
Recognized actuarial loss		4	3	6
Total	$	$ 17	$ (2)	$ 17

Nine months ended September 30	**2008**		**2007**	
Net Periodic Benefit Costs	Pension Benefit	Postretirement Benefit	Pension Benefit	Postretirement Benefit
Service cost	$ 6	$ 10	$ 7	$ 9
Interest cost	21	29	21	27
Expected return on plan assets	(28)		(28)	
Recognized actuarial loss	1	12	3	12
Total	$	$ 51	$ 3	$ 48

Occidental contributed $1 million and $3 million to its defined benefit pension plans for the three and nine months ended September 30, 2008, respectively, and expects to contribute an additional $1 million in the remainder of 2008. Occidental contributed $1 million and $3 million to its defined benefit pension plans for the three and nine months ended September 30, 2007, respectively.

11. Fair Value Measurements

As discussed in Note 3, Occidental adopted the non-deferred portion of SFAS No. 157 on January 1, 2008 on a prospective basis. In accordance with SFAS No. 157, Occidental has categorized its assets and liabilities that are measured at fair value, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy: Level 1 is the use of quoted prices in active markets for identical assets or liabilities; Level 2 is the use of other observable inputs other than quoted prices; and Level 3 is the use of unobservable inputs.

As permitted under SFAS No. 157, Occidental utilizes the mid-point price between bid and ask prices for valuing the majority of its assets and liabilities measured and reported at fair value. Occidental utilizes market data and assumptions in pricing the assets or liabilities, including assumptions about risk and the risks inherent in the inputs to the valuation technique. Occidental primarily applies the market approach for recurring fair value measurements and utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Certain of Occidental s financial instruments are valued using industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

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The following table provides fair value measurement information for such assets and liabilities that are measured on a recurring basis (in millions):

Description	Total Fair Value	Fair Value Measurements at September 30, 2008 Using Level 1	Level 2	Level 3
Assets:				
Derivative financial instruments				
Receivables, net	$ 179	$	$ 179	$
Long-term receivables, net	39		39	
Investments in unconsolidated entities - available for sale securities	4	4		
Total assets	$ 222	$ 4	$ 218	$
Liabilities:				
Derivative financial instruments				
Accrued liabilities	$ 473	$ 79	$ 394	$
Deferred credits and other liabilities-other	566		566	
Total liabilities	$ 1,039	$ 79	$ 960	$

12. Industry Segments

Occidental conducts its continuing operations through three operating segments: (1) oil and gas, (2) chemical and (3) midstream, marketing and other activities. The oil and gas segment explores for, develops and produces crude oil, natural gas and natural gas liquids (NGLs). The chemical segment manufactures and markets basic chemicals, vinyls and performance chemicals. The midstream, marketing and other segment gathers, processes, transports, stores and markets crude oil, natural gas, NGLs and CO_2 production, and generates electricity at various facilities.

Occidental changed its alignment of operating segments at the beginning of 2008. In previous years, oil and gas and a portion of the midstream, marketing and other activities were reported as a single oil and gas segment and some of the corporate-directed midstream, marketing and other activities were reported under corporate and other. In the last two years, the Dolphin pipeline began transporting natural gas to the United Arab Emirates and Occidental acquired a common carrier pipeline system in the Permian Basin, various gas processing plants and the remaining ownership interest in a cogeneration facility. The addition of these activities to the existing midstream and marketing infrastructure caused management to realign its operating segments in order to increase its focus on its midstream, marketing and other activities on a stand-alone basis. All segment information for prior periods has been revised to retrospectively reflect the current segment reporting structure. The change to segment reporting has no effect on Occidental s reported consolidated earnings.

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The following table presents Occidental s industry segment and corporate disclosures (in millions):

Nine months ended September 30, 2008	Oil and Gas	Chemical	Midstream, Marketing and Other	Corporate and Eliminations		Total
Net sales	$ 15,441	$ 4,107	$ 1,204	$ (556)	(a)	$ 20,196