

Rating: Buy  
 S&P 500: 1235

## Occidental Petroleum

### Raise Net Present Value to \$120 a Share

|                                       |        |  |       |
|---------------------------------------|--------|--|-------|
| <i>Symbol</i>                         | OXY    | <i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i> | 8,900 |
| <i>Rating</i>                         | Buy    | <i>North American Natural Gas/Ebitda (%)</i>             | 13    |
| <i>Price (US\$/sh)</i>                | 82.78  | <i>Natural Gas and Oil Production/Ebitda (%)</i>         | 89    |
| <i>Pricing Date</i>                   | 8/1/05 | <i>Adjusted Reserves/Production NTM</i>                  | 11.3  |
| <i>Shares (mm)</i>                    | 406    | <i>EV/Ebitda</i>   | 4.5   |
| <i>Market Capitalization (US\$mm)</i> | 33,600 | <i>PV/Ebitda</i>   | 6.2   |
| <i>Debt (US\$mm)</i>                  | 5,900  | <i>Undeveloped Reserves (%)</i>                          | 22    |
| <i>Enterprise Value (EV) (US\$mm)</i> | 39,500 | <i>Natural Gas and Oil Ebitda (US\$/boe)</i>             | 39.60 |
| <i>Present Value (PV) (US\$mm)</i>    | 54,600 | <i>Present Value Proven Reserves(US\$/boe)</i>           | 19.10 |
| <i>Net Present Value (US\$/share)</i> | 120    | <i>Present Value Proven Reserves(US\$/mcf)</i>           | 3.18  |
| <i>Debt/Present Value</i>             | 0.11   | <i>Earnings Next Twelve Months (US\$/sh)</i>             | 10.89 |
| <i>McDep Ratio - EV/PV</i>            | 0.72   | <i>Price/Earnings Next Twelve Months</i>                 | 8     |
| <i>Dividend Yield (%/year)</i>        | 1.5    | <i>Indicated Annual Dividend (US\$/sh)</i>               | 1.24  |

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

### Summary and Recommendation

We raise our estimated net present value of buy-recommended **Occidental Petroleum (OXY)** to \$120 a share from \$94 on the basis of an expected long-term real price for oil of \$50 a barrel up from \$40 for Light Sweet Crude. We also raise our long-term real price for natural gas to \$10 a million BTU, up from \$8 for the Henry Hub location. The stock has 45% appreciation potential to net present value. The main risk in independent producer stocks is commodity price, the flip side of the opportunity.

Kurt H. Wulff, CFA

#### Occidental Petroleum Corporation

##### Functional Cash Flow and Present Value

|                             | <i>NTM Ebitda</i> | <i>Adjusted</i> | <i>PV/</i>    | <i>Present</i>  |      |
|-----------------------------|-------------------|-----------------|---------------|-----------------|------|
|                             | <i>(US\$mm)</i>   | <i>R/P</i>      | <i>Ebitda</i> | <i>Value</i>    |      |
|                             |                   |                 |               | <i>(US\$mm)</i> |      |
| North American Natural Gas  | 1,187             | 9.4             | 6.8           | 8,100           | 15%  |
| Rest of World Natural Gas   | 62                | 11.0            | 8.0           | 500             | 1%   |
| Oil                         | 6,607             | 11.8            | 6.0           | 39,800          | 73%  |
| Downstream                  | 1,000             |                 | 6.2           | 6,200           | 11%  |
|                             | 8,856             | 11.3            | 6.2           | 54,600          | 100% |
| Debt (US\$mm)               |                   |                 |               | 5,900           |      |
| Net Present Value (US\$mm)  |                   |                 |               | 48,700          |      |
| Shares (mm)                 |                   |                 |               | 406             |      |
| Net Present Value (US\$/sh) |                   |                 |               | 120             |      |

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**Occidental Petroleum**  
**Next Twelve Months Operating and Financial Estimates**

|                            | <i>Q4</i>       | <i>Year</i>    | <i>Q1</i>      | <i>Q2</i>      | <i>Q3E</i>     | <i>Q4E</i>      | <i>Year</i>   | <i>Q1E</i>     | <i>Q2E</i>     | <i>Next</i>    |
|----------------------------|-----------------|----------------|----------------|----------------|----------------|-----------------|---------------|----------------|----------------|----------------|
|                            | <i>12/31/04</i> | <i>2004</i>    | <i>3/31/05</i> | <i>6/30/05</i> | <i>9/30/05</i> | <i>12/31/05</i> | <i>2005E</i>  | <i>3/31/06</i> | <i>6/30/06</i> | <i>Twelve</i>  |
|                            |                 |                |                |                |                |                 |               |                |                | <i>Months</i>  |
|                            |                 |                |                |                |                |                 |               |                |                | <i>6/30/06</i> |
| <b>Volume</b>              |                 |                |                |                |                |                 |               |                |                |                |
| Natural Gas (mmcf)         |                 |                |                |                |                |                 |               |                |                |                |
| U.S. (or North America)    | 499             | <b>508</b>     | 528            | 548            | 548            | 548             | <b>543</b>    | 548            | 548            | <b>548</b>     |
| Overseas (or Int'l)        | 145             | <b>131</b>     | 134            | 133            | 133            | 133             | <b>133</b>    | 133            | 133            | <b>133</b>     |
| Total                      | 644             | <b>639</b>     | 662            | 681            | 681            | 681             | <b>676</b>    | 681            | 681            | <b>681</b>     |
| Oil (mbd)                  | 427             | <b>436</b>     | 427            | 416            | 430            | 430             | <b>426</b>    | 430            | 430            | <b>430</b>     |
| Total gas & oil (mmb)      | 49              | <b>198</b>     | 48             | 48             | 50             | 50              | <b>197</b>    | 49             | 49             | <b>198</b>     |
| Total gas & oil (mbd)      | 534             | <b>541</b>     | 537            | 530            | 544            | 544             | <b>538</b>    | 544            | 544            | <b>544</b>     |
| <b>Price</b>               |                 |                |                |                |                |                 |               |                |                |                |
| Natural gas (\$/mcf)       |                 |                |                |                |                |                 |               |                |                |                |
| Henry Hub (\$/mmbtu)       | 7.10            | <b>6.15</b>    | 6.27           | 6.76           | 7.60           | 8.69            | <b>7.33</b>   | 9.44           | 8.04           | <b>8.44</b>    |
| U.S. (or North America)    | 5.65            | <b>5.35</b>    | 5.94           | 6.18           | 6.95           | 7.95            | <b>6.77</b>   | 8.63           | 7.35           | <b>7.72</b>    |
| Overseas (or Int'l)        | 1.53            | <b>1.70</b>    | 1.69           | 1.67           | 1.67           | 1.67            | <b>1.68</b>   | 1.67           | 1.67           | <b>1.67</b>    |
| Total                      | 4.72            | <b>4.60</b>    | 5.08           | 5.30           | 5.92           | 6.72            | <b>5.76</b>   | 7.27           | 6.24           | <b>6.54</b>    |
| Oil (\$/bbl)               |                 |                |                |                |                |                 |               |                |                |                |
| WTI Cushing                | 48.31           | <b>41.44</b>   | 49.65          | 53.05          | 60.62          | 63.32           | <b>56.66</b>  | 64.52          | 63.88          | <b>63.09</b>   |
| Worldwide                  | 39.11           | <b>35.87</b>   | 41.71          | 46.32          | 52.93          | 55.28           | <b>49.14</b>  | 56.33          | 55.78          | <b>55.07</b>   |
| Total gas & oil (\$/bbl)   | 36.95           | <b>34.25</b>   | 39.40          | 43.21          | 49.29          | 52.16           | <b>46.10</b>  | 53.68          | 51.95          | <b>51.76</b>   |
| <b>Revenue (\$mm)</b>      |                 |                |                |                |                |                 |               |                |                |                |
| Natural Gas                |                 |                |                |                |                |                 |               |                |                |                |
| U.S. (or North America)    | 259             | <b>991</b>     | 282            | 308            | 350            | 401             | <b>1,341</b>  | 426            | 367            | <b>1,543</b>   |
| Overseas (or Int'l)        | 20              | <b>81</b>      | 20             | 20             | 20             | 20              | <b>82</b>     | 20             | 20             | <b>81</b>      |
| Total                      | 280             | <b>1,073</b>   | 303            | 328            | 371            | 421             | <b>1,423</b>  | 446            | 387            | <b>1,625</b>   |
| Oil                        | 1,536           | <b>5,707</b>   | 1,603          | 1,753          | 2,094          | 2,187           | <b>7,637</b>  | 2,180          | 2,182          | <b>8,643</b>   |
| Other                      | 1,266           | <b>4,707</b>   | 1,434          | 1,436          | 1,436          | 1,436           | <b>5,743</b>  | 1,436          | 1,436          | <b>5,744</b>   |
| Total                      | 3,082           | <b>11,487</b>  | 3,340          | 3,518          | 3,901          | 4,044           | <b>14,803</b> | 4,062          | 4,006          | <b>16,012</b>  |
| <b>Expense (\$mm)</b>      |                 |                |                |                |                |                 |               |                |                |                |
| Fixed                      | 174             | <b>901</b>     | 211            | 270            | 270            | 270             | <b>1,021</b>  | 270            | 270            | <b>1,080</b>   |
| Variable                   | 174             | <b>901</b>     | 211            | 270            | 320            | 338             | <b>1,139</b>  | 341            | 333            | <b>1,332</b>   |
| Other                      | 1,069           | <b>4,044</b>   | 1,152          | 1,140          | 1,186          | 1,186           | <b>4,664</b>  | 1,186          | 1,186          | <b>4,744</b>   |
| <b>Ebitda (\$mm)</b>       |                 |                |                |                |                |                 |               |                |                |                |
| Exploration and Production | 1,469           | <b>4,977</b>   | 1,483          | 1,542          | 1,875          | 2,000           | <b>6,900</b>  | 2,015          | 1,966          | <b>7,856</b>   |
| Other                      | 197             | <b>663</b>     | 283            | 296            | 250            | 250             | <b>1,079</b>  | 250            | 250            | <b>1,000</b>   |
| Total Ebitda               | 1,665           | <b>5,640</b>   | 1,766          | 1,838          | 2,125          | 2,250           | <b>7,979</b>  | 2,265          | 2,216          | <b>8,856</b>   |
| Exploration                | 88              | <b>219</b>     | 47             | 111            | 111            | 111             | <b>380</b>    | 111            | 111            | <b>444</b>     |
| Deprec., Deplet., & Amort. | 333             | <b>1,305</b>   | 344            | 356            | 356            | 356             | <b>1,412</b>  | 356            | 356            | <b>1,424</b>   |
| Other non cash             |                 |                |                |                |                |                 |               |                |                |                |
| <b>Ebit</b>                | 1,244           | <b>4,116</b>   | 1,375          | 1,371          | 1,658          | 1,783           | <b>6,187</b>  | 1,798          | 1,749          | <b>6,988</b>   |
| Interest                   | 63              | <b>255</b>     | 75             | 47             | 47             | 47              | <b>216</b>    | 47             | 47             | <b>188</b>     |
| <b>Ebt</b>                 | 1,181           | <b>3,861</b>   | 1,300          | 1,324          | 1,611          | 1,736           | <b>5,971</b>  | 1,751          | 1,702          | <b>6,800</b>   |
| Income Tax                 | 413             | <b>1,264</b>   | 455            | 463            | 564            | 607             | <b>2,090</b>  | 613            | 596            | <b>2,380</b>   |
| <b>Net Income (\$mm)</b>   |                 |                |                |                |                |                 |               |                |                |                |
| Exploration and Production | 977             | <b>3,544</b>   | 1,349          | 1,351          |                |                 |               |                |                |                |
| Other                      | 130             | <b>402</b>     | 214            | 225            |                |                 |               |                |                |                |
| Unallocated                | (339)           | <b>(1,349)</b> | (718)          | (715)          |                |                 |               |                |                |                |
| Total                      | 768             | <b>2,597</b>   | 845            | 861            | 1,047          | 1,128           | <b>3,881</b>  | 1,138          | 1,106          | <b>4,420</b>   |
| <b>Shares (millions)</b>   |                 |                |                |                |                |                 |               |                |                |                |
| Per share (\$)             | 1.89            | <b>6.46</b>    | 2.08           | 2.12           | 2.58           | 2.78            | <b>9.56</b>   | 2.80           | 2.73           | <b>10.89</b>   |
| Ebitda Margin (E&P)        | 81%             | <b>73%</b>     | 78%            | 74%            | 76%            | 77%             | <b>76%</b>    | 77%            | 77%            | <b>77%</b>     |
| Tax Rate                   | 35%             | <b>33%</b>     | 35%            | 35%            | 35%            | 35%             | <b>35%</b>    | 35%            | 35%            | <b>35%</b>     |

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**Oil and Gas Producers**  
**Rank by McDep Ratio: Market Cap and Debt to Present Value**

|  | <i>Symbol/</i> | <i>Rating</i> | <i>Price</i><br><i>(\$/sh)</i> | <i>Shares</i> | <i>Market</i>  | <i>Net</i>     | <i>Debt/</i>   | <i>McDep</i> |
|--|----------------|---------------|--------------------------------|---------------|----------------|----------------|----------------|--------------|
|  |                |               | <i>1-Aug</i>                   | <i>(mm)</i>   | <i>Cap</i>     | <i>Present</i> | <i>Present</i> | <i>Ratio</i> |
|  |                |               | <i>2005</i>                    |               | <i>(\$mm)</i>  | <i>Value</i>   | <i>Value</i>   |              |
| <b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b> |                |               |                                |               |                |                |                |              |
| Encana Corporation   | ECA            | B             | 41.86                          | 892           | 37,300         | 51.00          | 0.16           | 0.85         |
| CNOOC Limited (29%)  | CEO            | B             | 69.33                          | 119           | 8,270          | 84.00          | 0.01           | 0.83         |
| Unocal Corporation   | UCL            | B             | 64.39                          | 275           | 17,700         | 85.00          | 0.15           | 0.79         |
| XTO Energy Inc.  | XTO            | B             | 35.58                          | 370           | 13,150         | 48.00          | 0.17           | 0.79         |
| Burlington Resources   | BR             | B             | 65.03                          | 385           | 25,000         | 86.00          | 0.09           | 0.78         |
| Devon Energy Corporation                                       | DVN            | B             | 56.63                          | 496           | 28,100         | 82.00          | 0.13           | 0.73         |
| Occidental Petroleum Corp.                                     | OXY            | B             | 82.78                          | 406           | 33,600         | 120.00         | 0.11           | 0.72         |
| Anadarko Petroleum Corp.                                       | APC            | B             | 88.72                          | 238           | 21,100         | 140.00         | 0.11           | 0.67         |
|  |                |               | <i>Total or Median</i>         |               | <i>184,000</i> |                | <i>0.12</i>    | <i>0.78</i>  |

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