

KERR MCGEE CORP /DE  
Form DEFA14A  
March 16, 2005

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

**Kerr-McGee Corporation**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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EXPLANATORY NOTE

Kerr-McGee Corporation (the Company ) is filing the materials contained in this Schedule 14A with the Securities and Exchange Commission on March 16, 2005 in connection with the solicitation of proxies for the election of two directors to the Company 's Board of Directors at the Company 's 2005 Annual Meeting of Stockholders.

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[GRAPHIC]

**BALANCE**

**Kerr-McGee Corporation**

## **Delivering Value for Stockholders**

**March, 2005**

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[LOGO]

**Forward-Looking Statement**

**The company makes certain forward-looking statements in this presentation that are subject to risks and uncertainties. Future results and developments discussed in these statements may be affected by numerous factors and risks, such as the accuracy of the assumptions that underlie the statements, the success of the oil and gas exploration and production program, drilling risks, the market value of Kerr-McGee's products, uncertainties in interpreting engineering data, demand for consumer products for which Kerr-McGee's businesses supply raw materials, the financial resources of competitors, changes in laws and regulations, the ability to respond to challenges in international markets, including changes in currency exchange rates, political or economic conditions in areas where Kerr-McGee operates, trade and regulatory matters, general economic conditions, and other factors and risks discussed herein and in the company's other SEC filings, and many such factors and risks are beyond Kerr-McGee's ability to control or predict. Forward-looking statements are not guarantees of performance. Actual results and developments may differ materially from those expressed or implied in this presentation. Readers are cautioned not to place any undue reliance on any forward-looking statements. Forward-looking statements speak only as of the date of this presentation. Kerr-McGee undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. For such statements, Kerr-McGee claims the protection of the safe harbor for forward-looking statements set forth in the Private Securities Litigation Reform Act of 1995.**

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**Delivering Value for Stockholders**

**Chemical separation**

**Under valued in current structure**

**KMG Chemical has critical mass and strong business plan**

**Business cycle is prime**

**Share repurchase**

**\$1 billion initially**

**Expect to expand with Chemical separation**

**E&P is well-positioned for per share growth**

**Balanced portfolio of high-quality assets**

**Balanced strategy to deliver repeatable, consistent performance**

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**KMG Stock Performance**

Through March 11, 2005

[CHART]

Returns	12/31/02	12/31/03	12/31/04
<b>Simple price appreciation</b>	<b>78%</b>	<b>70%</b>	<b>37%</b>
<b>Total stockholder return</b>	<b>93%</b>	<b>77%</b>	<b>38%</b>
<b>TSR - Annualized</b>	<b>35%</b>	<b>61%</b>	<b>428%</b>

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**Chemical Business Separation**

*Pursuing separation of chemical business via a spinoff or sale to unlock value for stockholders*

**Critical mass and profitability enhancements have been achieved**

**Value not adequately reflected in KMG stock price**

**Market conditions are ideal**

**Dual track will maximize value**

**Proceeding expeditiously**

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**Share Repurchase Program**

*Board authorized \$1 billion share repurchase program*

**Stock is undervalued**

**Company is generating significant free cash**

**Underpinned with commodity hedges**

**Evaluating additional, longer-term hedges**

**Expect to maintain investment-grade credit**

**Board expects to expand repurchase program with separation of Chemical**

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**Balanced portfolio**

**High-quality assets**

**Large inventory of repeatable, low-risk exploitation projects**

**Balanced exploration program focused in proven hydrocarbon basins**

**Operational and development expertise**

**Proven record of value-enhancing transactions**

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**Return on Average Capital Employed %**

[CHART]

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**\*From continuing operations**

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**Gross Production Margin Per BOE**

Nine Months 2004 - \$ / BOE

**Peer Group**

[CHART]

Source - Company earnings reports: Gross production margin = oil & gas revenues - LOE - production tax - transportation, adjusted for hedges

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**5-Year Changes in Reserves**

MM BOE

[CHART]

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## Financial Performance

	2003	2004	Change
Adjusted net income* (\$MM)	405.5	623.4	54%
Adjusted EPS* (\$)	3.86	4.71	22%
Cash flow from operations** (\$MM)	1,560	2,136	37%
Return on equity (%)	8.5	10.2	20%
Return on average capital (%)***	6.7	7.4	10%
Production (M BOE/D)	271	312	15%
Gross production margin per BOE (\$)	24.09	30.20	25%
Dividends per share (\$)	1.80	1.80	

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\*Non-GAAP measure and excludes the effects of certain items affecting comparability totaling \$141.4 million and \$208.8 million for 2003 and 2004.

\*\*Non-GAAP measure and excludes changes in assets and liabilities.

\*\*\*From continuing operations

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**Reduced Leverage**

\$MM

[CHART]

---

**Delivering Value to Stockholders**

**Chemical separation**

**Under valued in current structure**

**KMG Chemical has critical mass and strong business plan**

**Business cycle is prime**

**Share repurchase**

**\$1 billion initially**

**Expect to expand with Chemical separation**

**E&P is well-positioned for per share growth**

**Balanced portfolio of high-quality assets**

**Balanced strategy to deliver repeatable, consistent performance**

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[GRAPHIC]

**BALANCE**

**Kerr-McGee Corporation**

## **Delivering Value for Stockholders**

**March, 2005**

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[GRAPHIC]

## **Kerr McGee Oil & Gas**

*Balanced portfolio with proven record of success*

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[LOGO]

**Kerr-McGee Oil & Gas Today**

**Balanced portfolio**

**High-quality assets**

**Large inventory of repeatable, low-risk exploitation projects**

**Balanced exploration program focused in proven hydrocarbon basins**

**Operational and development expertise**

**Proven record of value-enhancing transactions**

---



**Kerr-McGee Oil & Gas Activity**

[GRAPHIC]

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**Creating Value through Balanced Growth**

**Balanced growth strategy**

**Exploration**

**Exploitation**

**Tactical transactions**

**Discoveries**

**Brazil BM-C-7  
Alaska  
China CFD 14-5  
Blind Faith**

[GRAPHIC]

**Developments**

**Nansen  
Boomvang  
Gunnison  
HSR acquisition  
Red Hawk  
Constitution  
China CFD 11-1/2  
Atwater Valley  
Westport acquisition**

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**Reserve Balance**

As of Jan. 1, 2005

*1,218 MM BOE of Reserves*

**By Location**

[CHART]

**By Category**

[CHART]

**By Product**

[CHART]

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**5-Year Changes in Reserves**

MM BOE

[CHART]

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[GRAPHIC]

## **Exploitation**

*Large inventory of repeatable, low-risk projects*

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[LOGO]

**Rocky Mountain Basins**

**Long-life gas adds balance**

[GRAPHIC]

**Capitalizing on tight-gas expertise**

**Large inventory of low-risk repeatable plays**

*Provides balance with predictable production, cash flow and repeatable low-risk reserve adds*

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**Exploitation**

Rockies

**Track record of execution in the Rockies**

**Repeatability of play**

**Rigs contracted to carry out 2005 program**

**Using scale to maximize efficiencies**

**Over 9,000 projects identified**

**Attractive full-cycle development costs**

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**Growth in the Rockies**

**Reserves**

**MM BOE**

[CHART]

**Daily Production**

**M BOE/D**

[CHART]

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**Exploitation**

Greater Natural Buttes

**Key Program Statistics**

[GRAPHIC]

	2004	2005
<b>Capital (\$MM)</b>	\$ 160	\$ 245
<b>Number of wells</b>	140	>200
<b>IRR:</b>	>60%*	

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\*Assumes budget prices

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**Estimated Full-Cycle Development Costs**

\$ / BOE

**Greater Natural Buttes**

	Reserves MM BOE	Allocated Purch. Cost	Develop. Cost	Full-cycle Cost
<b>Proved Developed</b>	<b>51</b>	<b>\$ 5.20</b>	<b>\$</b>	<b>5.20</b>
<b>Proved Undeveloped</b>	<b>59</b>	<b>5.20</b>	<b>5.00</b>	<b>10.20</b>
<b>Average Full-cycle Cost</b>			<b>\$</b>	<b>7.88</b>

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**Exploitation**

Wattenberg

**Key Program Statistics**

[GRAPHIC]

	2004	2005
<b>Capital (\$MM)</b>	<b>\$110</b>	<b>\$120</b>
<b>Number of wells</b>	<b>180</b>	<b>220</b>
<b>Total projects</b>	<b>310</b>	<b>400</b>
<b>IRR average:</b>	<b>&gt;75%*</b>	

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\*Assumes budget prices

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[GRAPHIC]

## **Exploration**

*Focused on proven hydrocarbon basins with track record of success*

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[LOGO]

**2005 Exploration Program**

\$380 MM

[GRAPHIC]

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**Deepwater Gulf of Mexico**

**Past five years results**

**50 new-field wildcats**

**>100 total exploration wells**

**Developed fields including: Nansen Boomvang, Gunnison Red Hawk,**

**Constitution**

**Producing >80 MBOE/D, net**

[GRAPHIC]

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**Production Growth from Deep Water**

[CHART]

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**Sampling of Large Prospect Inventory**

[GRAPHIC]

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**Alaska**

Nikaichuq Discovery

**#4 Horizontal Test**  
**Schrader Bluff reservoir**  
**Tested up to 1,200 BOPD**  
**16°-17°API**

[GRAPHIC]

**#3 Horizontal Well**  
**Sag River reservoir**  
**Drilling new fault block**

**#1 Discovery Well**  
**Initial vertical test at 960 BOPD of 38°API in Sag River reservoir**

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**Alaska**

Exploration

**Tuvaaq Discovery**

[GRAPHIC]

**Proved extension of Schrader Bluff reservoir three miles west  
KMG: increased WI to 82%**

**Kigun Prospect**

**Drilling**

**KMG: 55% WI**

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**Ataruq Prospect**

**Potential extension of Kuparuk and Palm fields**

**1-2 exploratory wells in 2005 drilling season**

**KMG: 50% WI**

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[GRAPHIC]

[GRAPHIC]

## **Execution Excellence**

*Industry Leader in drilling and development performance*

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[LOGO]

**IPA Benchmarking Study - Facilities**

**12 companies**

**Mostly major operators**

**Key findings: Kerr-McGee has . . .**

**Lowest cost facilities**

**Fastest execution**

**Lowest cost variability**

*UIBC 2003*

[GRAPHIC]

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**Comparative Facility Costs**

**KMG is a low-cost developer compared to industry**

**Facilities Cost Performance**  
*Most project systems within +/- 5% of industry*

**Facilities cost index**

[CHART]

**Source: Independent Project Analysis**

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**Comparative Development Performance**

**KMG is considered faster than the rest of industry at developing projects**

**Schedule Performance**

*Schedule performance varies widely*

**Execution schedule index\***

[CHART]

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\*Measured from start of detailed engineering through first oil

Source: Independent Project Analysis

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*Summarizing Cost-Schedule Trade-off for UIBC Companies*

[CHART]

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\*Compared to industry norm

Source: Independent Project Analysis

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**Deepwater Hubs**

[GRAPHIC]

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[GRAPHIC]

## **Transactions**

*Capitalizing on core competencies to enhance value*

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[LOGO]

**Comparative Rockies Transactions**

[CHART]

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**HSR Acquisition Lookback**

*Since acquisition. . .*

**Completed >1,100 projects in Wattenberg**

**Added >400 BCFe of proved reserves**

**Produced 300 BCFe**

**Increased project inventory 12%**

**Created core area to exploit tight-gas expertise**

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**Blind Faith Discovery**

*Exchanged declining legacy Arkoma assets for 37.5% WI in Blind Faith*

**Potential to capitalize on KMG's industry-leading cycle time**

**Adds new hub in central gulf**

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**Production Consistency**

M BOE/D

*Delivering as promised!*

[CHART]

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**A Balanced Portfolio**

**High-impact exploration in proven basins**

**Low-risk repeatable plays in established basins**

**Evaluating tactical transactions**

**Operational Execution**

**Efficient and effective operator**

**Meeting production targets consistently**

**Growing infrastructure in deepwater Gulf of Mexico**

**Financially Sound**

**Strong cash generating capability**

**Reduced debt-to-cap to approximately 32%**

**Initiated \$1 B share repurchase program**

[GRAPHIC]

## **Kerr-McGee Chemical**

*World's third-largest producer and marketer of titanium dioxide pigment*

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[LOGO]

**Titanium Dioxide Pigment - TiO<sub>2</sub>**

**Foundational pigment**

**Unsurpassed opacifying and whitening properties**

**Primarily used in paints, coatings, plastics & paper**

**Kerr-McGee is the world's third-largest producer & marketer**

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[GRAPHIC]

**TiO<sub>2</sub> Markets**

*Global TiO<sub>2</sub> market 4 MM tonnes per year*

**Global Demand by End Use**

[CHART]

**Global Demand by Geographic Region**

[CHART]

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**Production Processes**

Sulfate

Chloride

**Mature technology**

**Proprietary technology**

**Hardware-intensive**

**Preferred products**

**Specialty applications**

**Growth segment**

**Kerr-McGee Chemical TiO<sub>2</sub> Production Facilities**

M tonnes / year

[GRAPHIC]

[CHART]

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**KERR-McGEE CORPORATION**

Investor Relations Contact: Rick Buterbaugh (405) 270-3561

P.O. Box 25861, Okla. City, OK 73125

(Millions of dollars, except per share amounts)	2004 (1) Year	2003 (1) Year
Net Income (GAAP)	\$ 404.0	\$ 218.6
Discontinued Operations	10.6	10.8
Change in Accounting Principle		34.7
Adjustment for Other Items	208.8	141.4
Adjusted After-Tax Income (Non-GAAP)	\$ 623.4	\$ 405.5
Diluted Earnings Per Share		
Net Income (GAAP)	\$ 3.11	\$ 2.17
Discontinued Operations	0.08	0.09
Change in Accounting Principle		0.32
Adjustment for Other Items	1.52	1.28
Adjusted After-Tax Income (Non-GAAP)	\$ 4.71	\$ 3.86
Average Common Shares Outstanding Assuming Dilution (millions)	136.9	110.7
Other Items:		
Nonhedge commodity derivatives and Devon stock revaluation	\$ (6.6)	\$ (4.0)
Foreign currency losses	(14.0)	(39.5)
Asset impairments	(18.1)	(8.8)
Gain (loss) associated with assets held for sale	(18.9)	28.9
Litigation costs	(4.1)	(5.8)
Mobile plant shutdown	(4.5)	(30.3)
Savannah plant write-down	(79.4)	
Environmental expenses, net of reimbursements	(55.3)	(38.9)
Gain (Loss) on sale of Devon stock	5.8	11.1
Curtailement of pension and postretirement plans and other costs related to the 2003 workforce reduction program	(1.3)	(34.8)
Insurance premium adjustment	(9.8)	
Compensation expense related to ESOP loan repayments		(14.0)
Other items	(2.6)	(5.3)
Total	\$ (208.8)	\$ (141.4)

(1) Reflects results of operations of the forest products business as discontinued operations.

Adjusted after-tax income and the related measure per diluted share exclude items that management deems to not be reflective of the company's core operations. These measures are non-GAAP financial measures. Management believes that these measures provide valuable insight into the company's core earnings from operations and enable investors and analysts to better compare core operating results with those of other companies by eliminating items that may be unique to the company. Other companies may define these items differently, and the company cannot assure that adjusted after-tax income is comparable with similarly titled amounts for other companies.

(Millions of dollars, except per-share amounts)	2004 Year	2003 (1) Year
<b>RECONCILIATION OF CASH PROVIDED BY OPERATING ACTIVITIES PER SHARE BEFORE CHANGES IN ASSETS AND LIABILITIES</b>		
Net Cash Provided by Operating Activities (GAAP)	\$ 2,050.2	\$ 1,517.9
Less Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(236.0)	45.1
(Increase) decrease in inventories	82.8	21.5
(Increase) decrease in deposits, prepaids and other assets	48.3	12.4
Increase (decrease) in accounts payable and accrued liabilities	135.8	(57.1)
Increase (decrease) in taxes payable	28.2	65.9
Environmental expenditures	(99.1)	(103.6)
Other	(45.7)	(25.8)
Cash Provided by Operating Activities Before Changes in Assets and Liabilities (Non-GAAP)	\$ 2,135.9	\$ 1,559.5
Average Shares Outstanding (millions)	126.3	100.1
<b>Cash Provided by Operating Activities Per Share Before Changes in Assets and Liabilities (Non-GAAP)</b>	<b>\$ 16.91</b>	<b>\$ 15.58</b>

(1) Certain prior year amounts have been updated to conform to the 2004 presentation.

Cash provided by operating activities before changes in assets and liabilities and the related measure per share exclude items that management deems to not be reflective of the company's core operations. These measures are non-GAAP financial measures. Management believes these measures provide valuable insight into the company's ability to generate cash flows from operations and enable investors and analysts to better compare operating results with those of other companies in the industry. However, similarly titled measures used by other companies may not be determined on the same basis and, therefore, may not be comparable to the measures presented above.

**Kerr-McGee Corporation**  
**Range of Projected Daily Average Production Volumes**

As of January 2005

	2005 Production Forecast														
	1-Qtr Projected		2-Qtr Projected		3-Qtr Projected		4-Qtr Projected		Year Projected						
<b>Crude Oil</b>															
<i>(BOPD)</i>															
Onshore	32,500	-	35,000	32,500	-	34,000	31,500	-	34,000	31,000	-	34,000	31,900	-	34,200
Offshore	48,000	-	52,000	45,000	-	48,000	40,000	-	43,000	38,000	-	40,500	42,700	-	45,800
U.S.	80,500	-	87,000	77,500	-	82,000	71,500	-	77,000	69,000	-	74,500	74,600	-	80,000
North Sea	66,500	-	72,000	62,000	-	67,500	52,500	-	57,000	64,000	-	67,000	61,200	-	65,800
China	24,500	-	26,500	18,000	-	19,500	14,000	-	15,500	18,000	-	20,000	18,600	-	20,300
<b>Total</b>	<b>171,500</b>	<b>-</b>	<b>185,500</b>	<b>157,500</b>	<b>-</b>	<b>169,000</b>	<b>138,000</b>	<b>-</b>	<b>149,500</b>	<b>151,000</b>	<b>-</b>	<b>161,500</b>	<b>154,400</b>	<b>-</b>	<b>166,100</b>
<b>Natural Gas</b>															
<i>(MMCF/D)</i>															
Onshore*	612	-	652	612	-	652	637	-	682	672	-	702	633	-	672
Offshore	440	-	475	455	-	500	445	-	480	460	-	490	450	-	486
U.S.	1,052	-	1,127	1,067	-	1,152	1,082	-	1,162	1,132	-	1,192	1,083	-	1,158
North Sea	90	-	100	65	-	75	45	-	50	75	-	85	70	-	75
Other	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0
<b>Total</b>	<b>1,142</b>	<b>-</b>	<b>1,227</b>	<b>1,132</b>	<b>-</b>	<b>1,227</b>	<b>1,127</b>	<b>-</b>	<b>1,212</b>	<b>1,207</b>	<b>-</b>	<b>1,277</b>	<b>1,153</b>	<b>-</b>	<b>1,233</b>
<b>BOE/D **</b>	<b>361,800</b>	<b>-</b>	<b>390,000</b>	<b>346,200</b>	<b>-</b>	<b>373,500</b>	<b>325,800</b>	<b>-</b>	<b>351,500</b>	<b>352,200</b>	<b>-</b>	<b>374,300</b>	<b>352,000</b>	<b>-</b>	<b>367,000</b>

\* Adjusted to reflect sale of Arkoma basin asset to BP in exchange for 37.5% interest in Blind Faith discovery.

\*\* Annual sums reflect the company's expectations.

**\*\* Cautionary Statement Concerning Forward-Looking Statements \*\***

The information contained in this table regarding Kerr-McGee's projected production volume forecasts are only estimated projections that may or may not occur in the future, and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Future results and developments set forth in this statement may be affected by numerous uncertainties, factors and risks, such as but not limited to the accuracy of the assumptions that underlie the statement, the success of the oil and gas exploration and production program, drilling risks, market value of oil and gas, uncertainties in interpreting engineering data, changes in laws and regulations, the ability to respond to challenges in international markets, political or economic conditions in areas where Kerr-McGee operates, trade and regulatory matters, and other factors and risks identified in the Risk Factors section of Kerr-McGee's Annual Report on Form 10-K and other SEC filings. Actual results and developments may differ materially from those expressed or implied in this statement. Therefore, the information contained in this statement may not be accurate. Kerr-McGee does not undertake

**to update, revise or correct any of the forward-looking information.**

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As of February 2005

	2005 Production Forecast														
	1-Qtr Projected		2-Qtr Projected		3-Qtr Projected		4-Qtr Projected		Year Projected						
<b>Crude Oil</b>															
<i>(BOPD)</i>															
Onshore	33,500	-	36,000	34,000	-	36,000	33,000	-	35,500	32,500	-	35,000	33,200	-	35,600
Offshore	56,000	-	60,000	50,000	-	53,000	44,000	-	47,000	44,000	-	46,500	48,500	-	51,600
U.S.	89,500	-	96,000	84,000	-	89,000	77,000	-	82,500	76,500	-	81,500	81,700	-	87,200
North Sea	67,000	-	72,000	62,000	-	67,500	52,000	-	56,500	64,000	-	67,000	61,200	-	65,700
China	22,000	-	24,000	20,000	-	21,500	14,000	-	15,500	18,000	-	20,000	18,500	-	20,200
<b>Total</b>	<b>178,500</b>	<b>-</b>	<b>192,000</b>	<b>166,000</b>	<b>-</b>	<b>178,000</b>	<b>143,000</b>	<b>-</b>	<b>154,500</b>	<b>158,500</b>	<b>-</b>	<b>168,500</b>	<b>161,400</b>	<b>-</b>	<b>173,100</b>
<b>Natural Gas</b>															
<i>(MMCF/D)</i>															
Onshore*	600	-	640	600	-	640	625	-	670	670	-	700	624	-	663
Offshore	400	-	420	420	-	465	400	-	435	425	-	465	411	-	446
U.S.	1,000	-	1,060	1,020	-	1,105	1,025	-	1,105	1,095	-	1,165	1,035	-	1,109
North Sea	90	-	100	75	-	85	45	-	50	80	-	90	72	-	81
Other	0	-	0	0	-	0	0	-	0	0	-	0	0	-	0
<b>Total</b>	<b>1,090</b>	<b>-</b>	<b>1,160</b>	<b>1,095</b>	<b>-</b>	<b>1,190</b>	<b>1,070</b>	<b>-</b>	<b>1,155</b>	<b>1,175</b>	<b>-</b>	<b>1,255</b>	<b>1,107</b>	<b>-</b>	<b>1,190</b>
<b>BOE/D **</b>	<b>360,200</b>	<b>-</b>	<b>385,300</b>	<b>348,500</b>	<b>-</b>	<b>376,300</b>	<b>321,300</b>	<b>-</b>	<b>347,000</b>	<b>354,300</b>	<b>-</b>	<b>377,700</b>	<b>352,000</b>	<b>-</b>	<b>367,000</b>

\* Adjusted to reflect sale of Arkoma basin asset to BP in exchange for 37.5% interest in Blind Faith discovery.

\*\* Annual sums reflect the company's expectations.

**\*\* Cautionary Statement Concerning Forward-Looking Statements \*\***

The information contained in this table regarding Kerr-McGee's projected production volume forecasts are only estimated projections that may or may not occur in the future, and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Future results and developments set forth in this statement may be affected by numerous uncertainties, factors and risks, such as but not limited to the accuracy of the assumptions that underlie the statement, the success of the oil and gas exploration and production program, drilling risks, market value of oil and gas, uncertainties in interpreting engineering data, changes in laws and regulations, the ability to respond to challenges in international markets, political or economic conditions in areas where Kerr-McGee operates, trade and regulatory matters, and other factors and risks identified in the Risk Factors section of Kerr-McGee's Annual Report on Form 10-K and other SEC filings. Actual results and developments may differ materially from those expressed or implied in this statement. Therefore, the information contained in this statement may not be accurate. Kerr-McGee does not undertake to update, revise or correct any of the forward-looking information.

## Kerr-McGee Corporation

## Oil and Gas Derivatives

As of January 26, 2005

	2004							
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	Avg Price/Collar	BOPD	Avg Price/Collar	BOPD	Avg Price/Collar	BOPD	Avg Price/Collar	BOPD
<b>Crude Oil (\$/Barrel)</b>								
Fixed-price swaps (WTI)	\$ 29.03	52,352	\$ 28.23	54,300	\$ 27.93	65,882	\$ 28.54	68,015
Fixed-price swaps (Brent)	\$ 26.76	49,286	\$ 26.27	51,800	\$ 26.45	46,850	\$ 26.71	52,000
Costless collars (WTI)								
Three-way Collars (NYMEX)					\$24.38 - \$27.71	4,000(2)	\$24.38 - \$27.71	4,000(2)
Three-way average floor					\$ 19.25		\$ 19.25	
<b>Total</b>		<b>101,638</b>		<b>106,100</b>		<b>116,732</b>		<b>124,015</b>

	2004							
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	Avg Price/Collar	MMBtu/D	Avg Price/Collar	MMBtu/D	Avg Price/Collar	MMBtu/D	Avg Price/Collar	MMBtu/D
<b>Natural Gas (\$/MMBtu) (1)</b>								
Fixed-price swaps (NYMEX)	\$ 5.33	195,000	\$ 4.74	565,000	\$ 4.89	807,663	\$ 4.96	870,000
Fixed-price swaps (NWPRM)					\$ 3.33	30,000	\$ 3.33	30,000
Costless collars (NYMEX)	\$4.48 - \$6.00	85,000			\$3.70 - \$4.00	44,674(2)	\$3.70 - \$4.00	44,674(2)
	\$4.64 - \$7.00	50,000						
	\$4.71 - \$7.50	50,000						
	\$5.00 - \$6.74	50,000						
	\$5.00 - \$6.06	100,000						
	\$5.00 - \$6.01	25,000						
Three-way collars (NYMEX)					\$4.00 - \$5.00	10,000(2)	\$4.00 - \$5.00	10,000(2)
Three-way average floor					\$ 3.15		\$ 3.15	

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	555,000		565,000		892,337		954,674					
	2004		2004		2004		2004					
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter					
	Avg		Avg		Avg		Avg					
	Price/Collar	MMBtu/D	Price/Collar	MMBtu/D	Price/Collar	MMBtu/D	Price/Collar	MMBtu/D				
<b>Basis swaps versus NYMEX (\$/MMBtu) (1)</b>												
CIG	\$	0.62	120,000	\$	0.59	46,703	\$	0.65	75,000	\$	0.68	161,196
CIG										\$	0.80	3,316(2)
NWPRM	\$	0.20	15,000	\$	0.20	15,000	\$	0.38	25,000	\$	0.44	31,630
NWPRM										\$	0.78	16,576(2)
<b>Total</b>			<b>135,000</b>			<b>61,703</b>			<b>100,000</b>			<b>212,718</b>

Notes:

MMBtu/D = million British thermal units per day

NWPRM = Northwest Pipeline Rocky Mountain Index

(1) Derivative transactions are on a million Btu (MMBtu) basis. Kerr-McGee reports production/sales on a MCF basis. The conversion rate is 1.080 MMBtu to 1 MCF.

(2) Derivatives that have not been designated as hedges or that do not qualify for hedge accounting treatment.

For further disclosure regarding accounting treatment of derivatives, please refer to the Quarterly Report on Form 10-Q for the third quarter 2004, filed on November 9, 2004.

**\*\* Cautionary Statement Concerning Forward-Looking Statements \*\***

The information contained in this table represents Kerr-McGee's current derivative contracts. These derivative contracts were entered into based on projected production volume forecasts. These forecasts are estimated projections that may or may not occur in the future, and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, in those documents in which such projections are provided. Future results and developments set forth in this statement may be affected by numerous uncertainties, factors and risks, such as but not limited to the accuracy of the assumptions that underlie the statement, the success of the oil and gas exploration and production program, drilling risks, market value of oil and gas, uncertainties in interpreting engineering data, changes in laws and regulations, the ability to respond to challenges in international markets, political or economic conditions, trade and regulatory matters, and other factors and risks identified in the Risk Factors section of Kerr-McGee's Annual Report on Form 10-K and other SEC filings. Actual results and developments may differ materially from those expressed or implied in this statement. Therefore, the information contained in this statement may not be accurate. Kerr-McGee does not undertake to update, revise or correct any of the forward-looking information.

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As of February 23, 2005

	2005								2006	
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Full Year	
	Avg Price/Collar	BOPD	Avg Price/Collar	BOPD	Avg Price/Collar	BOPD	Avg Price/Collar	BOPD	Avg Price/Collar	BOPD
<b>Crude Oil (\$/Barrel)</b>										
Hedge										
Fixed Price										
Swaps (WTI)	\$ 29.23	3,000	\$ 29.23	3,000	\$ 29.23	3,000	\$ 29.23	3,000		
	\$ 43.78	4,589	\$ 43.78	7,000	\$ 43.78	7,000	\$ 43.78	7,000		
Fixed Price										
Swaps (Brent)	\$ 41.03	16,000	\$ 41.03	16,000	\$ 41.03	16,000	\$ 41.03	16,000		
Costless Collars (WTI)	\$28.50 - \$31.89	14,000	\$28.50 - \$31.89	14,000	\$28.50 - \$31.89	14,000	\$28.50 - \$31.89	14,000	\$27.00 - \$30.58	19,000
	\$40.00 - \$49.18	10,089	\$40.00 - \$49.05	12,500	\$40.00 - \$49.05	12,500	\$40.00 - \$49.05	12,500		
Costless Collars (Brent)	\$38.00 - \$48.38	13,778	\$38.00 - \$48.48	15,500	\$38.00 - \$48.48	15,500	\$38.00 - \$48.48	15,500		
Non-hedge										
Three-way Collars (WTI)	\$25.00 - \$28.23	5,000	\$25.00 - \$28.23	5,000	\$25.00 - \$28.23	5,000	\$25.00 - \$28.23	5,000	\$25.00 - \$28.65	2,000
Three-way Average Floor	\$ 20.93	66,456	\$ 20.93	73,000	\$ 20.93	73,000	\$ 20.93	73,000	\$ 20.88	21,000

	2005								2006	
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Full Year	
	Avg Price/Collar	MMBtu/D	Avg Price/Collar	MMBtu/D	Avg Price/Collar	MMBtu/D	Avg Price/Collar	MMBtu/D	Avg Price/Collar	MMBtu/D
<b>Natural Gas (\$/MMBtu)</b>										
Hedge										
Fixed Price										
Swaps (NYMEX)	\$ 4.42	55,000	\$ 4.42	55,000	\$ 4.42	55,000	\$ 4.42	55,000		
			\$ 6.29	150,000	\$ 6.29	150,000	\$ 6.29	50,544		
Costless Collars (NYMEX)	\$5.00 - \$6.25	280,000	\$5.00 - \$6.25	280,000	\$5.00 - \$6.25	280,000	\$5.00 - \$6.25	280,000	\$4.75 - \$5.50	340,000
	\$6.50 - \$10.31	225,000	\$6.00 - \$7.33	195,000	\$6.00 - \$7.33	195,000	\$6.00 - \$7.33	65,707		
Non-hedge										
Costless Collars (NYMEX)	\$4.09 - \$5.57	60,000	\$4.09 - \$5.57	60,000	\$4.09 - \$5.57	60,000	\$4.09 - \$5.57	60,000		
Three-way Collars (WTI)									\$4.00 - \$6.00	20,000
Three-way Average Floor									\$ 3.04	
		620,000		740,000		740,000		511,251		360,000

	2005				2006
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	MMBtu/D	MMBtu/D	MMBtu/D	MMBtu/D	MMBtu/D

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	Avg Price/Collar		Avg Price/Collar		Avg Price/Collar		Avg Price/Collar		Avg Price/Collar
<b>Basis swaps versus NYMEX (\$/MMBtu)</b>									
<b>Hedge</b>									
CIG	\$ 0.39	20,000	\$ 0.61	50,000	\$ 0.61	50,000	\$ 0.51	21,109	
NWPL	\$ 0.43	25,000	\$ 0.62	67,500	\$ 0.62	67,500	\$ 0.54	39,321	
HSC			\$ 0.13	70,000	\$ 0.13	70,000	\$ 0.13	23,587	
<b>Non-hedge</b>									
CIG	\$ 0.71	175,000						\$ 0.39	20,000
NWPL	\$ 0.71	70,000						\$ 0.20	15,000
HSC	\$ 0.35	54,500					\$ 0.33	13,261	
		344,500		187,500		187,500		97,278	35,000

Acquired in the Westport merger

Placed by Kerr-McGee in connection with the Westport merger

(1) Derivative transactions are on a million Btu (MMBtu) basis. Kerr-McGee reports production/sales on a MCF basis. The conversion rate is 1.095 MMBtu to 1 MCF.

Certain collars are presented on a weighted-average basis. Actual collar prices may differ.

**\*\* Cautionary Statement Concerning Forward-Looking Statements \*\***

The information contained in this table represents Kerr-McGee's current derivative contracts. These derivative contracts were entered into based on projected production volume forecasts. These forecasts are estimated projections that may or may not occur in the future, and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, in those documents in which such projections are provided. Future results and developments set forth in this statement may be affected by numerous uncertainties, factors and risks, such as but not limited to the accuracy of the assumptions that underlie the statement, the success of the oil and gas exploration and production program, drilling risks, market value of oil and gas, uncertainties in interpreting engineering data, changes in laws and regulations, the ability to respond to challenges in international markets, political or economic conditions, trade and regulatory matters, and other factors and risks identified in the Risk Factors section of Kerr-McGee's Annual Report on Form 10-K and other SEC filings. Actual results and developments may differ materially from those expressed or implied in this statement. Therefore, the information contained in this statement may not be accurate. Kerr-McGee does not undertake to update, revise or correct any of the forward-looking information.

**Kerr-McGee Corporation**

**Budget Pricing Assumptions**

	<b>2005</b>	<b>2006</b>	<b>2007 &amp; Thereafter</b>
Crude Oil (WTI \$/Bbl)	\$ 38.00	\$ 34.00	\$ 32.00
Natural Gas (NYMEX \$/MM Btu)	\$ 6.00	\$ 5.50	\$ 5.00

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## Kerr-McGee Corporation

## Return on Average Capital Employed

(Millions of Dollars)

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## Return on Average Capital Employed - Consolidated

	2004	2003	2002	2001	2000
Income (loss) from continuing operations, net of tax	\$ 415	\$ 264	\$ (590)	\$ 480	\$ 812
Add: Interest and debt expense, net of tax	159	163	179	127	135
Income (loss) from continuing operations before interest and debt expense, net of tax	\$ 574	\$ 427	\$ (411)	\$ 607	\$ 947
Average capital employed	\$ 7,759	\$ 6,385	\$ 6,948	\$ 6,220	\$ 4,419
<b>Return on average capital employed</b>	<b>7.40%</b>	<b>6.69%</b>	<b>-5.92%</b>	<b>9.76%</b>	<b>21.43%</b>

## Return on Average Capital Employed - Exploration and Production

	2004	2003	2002	2001	2000
Net operating profit (loss) from continuing operations <sup>(1)</sup>	\$ 787	\$ 629	\$ (269)	\$ 580	\$ 927
Allocated share of corporate and other income (expense) <sup>(2)</sup>	(80)	(91)	(74)	26	(28)
Net operating profit (loss) after deducting a share of corporate and other income (expense)	\$ 707	\$ 538	\$ (343)	\$ 606	\$ 899
Average capital employed	\$ 6,554	\$ 5,003	\$ 5,578	\$ 4,909	\$ 3,345
<b>Return on average capital employed</b>	<b>10.78%</b>	<b>10.75%</b>	<b>-6.14%</b>	<b>12.33%</b>	<b>26.88%</b>

## Return on Average Capital Employed - Exploration and Production

(excluding effects of commodity derivatives)

	2004	2003	2002	2001	2000
Net operating profit (loss) from continuing operations <sup>(1)</sup>	\$ 787	\$ 629	\$ (269)	\$ 580	\$ 927
Allocated share of corporate and other income (expense) <sup>(2)</sup>	(80)	(91)	(74)	26	(28)
Net operating profit (loss) after deducting a share of corporate and other income (expense)	707	538	(343)	606	899
Add: Losses on commodity derivatives, net of taxes	488	179	51		
Net operating profit (loss) excluding effects of commodity derivatives	\$ 1,194	\$ 717	\$ (291)	\$ 606	\$ 899
Average capital employed	\$ 6,765	\$ 5,079	\$ 5,603	\$ 4,909	\$ 3,345
<b>Return on average capital employed</b>	<b>17.65%</b>	<b>14.11%</b>	<b>-5.19%</b>	<b>12.33%</b>	<b>26.88%</b>

(1) Net operating profit represents segment results of operations before considering general corporate expenses, interest and debt expense, environmental provisions related to businesses in which the company's affiliates are no longer engaged and other income (expense).

(2) Computation of estimated share of corporate and other income (expense) is provided below.

#### Calculation of Allocated Corporate and Other Income (Expense)

	2004	2003	2002	2001	2000
Income from continuing operations	\$ 415	\$ 264	\$ (590)	\$ 480	\$ 812
Add: Interest and debt expense, net of tax	159	163	179	127	135
Income (loss) from continuing operations before interest and debt expense	574	427	(411)	607	947
Less: Net operating (profit) loss from continuing operations - Exploration & Production	(787)	(629)	269	(580)	(927)
Less: Net operating (profit) loss from continuing operations - Chemical	54	20	(5)	24	(76)
Unallocated corporate and other income (expense)	\$ (159)	\$ (182)	\$ (147)	\$ 51	\$ (56)
One half of corporate and other income (expense) to be allocated	\$ (80)	\$ (91)	\$ (74)	\$ 26	\$ (28)



## Kerr-McGee Corporation

## Capital Employed and Average Capital Employed

(Millions of Dollars)

## Capital Employed and Average Capital Employed - Consolidated

	2004	2003	2002	2001	2000
Total Assets	\$ 14,518	\$ 10,250	\$ 9,909	\$ 11,076	\$ 7,666
Total Liabilities	9,200	7,614	7,373	7,902	5,033
Capital Employed	\$ 5,318	\$ 2,636	\$ 2,536	\$ 3,174	\$ 2,633
Adjustments:					
Deduct: Net assets related to discontinued exploration and production operations			(178)	(318)	(245)
Deduct: Discontinued forest products operations	(3)	(4)	(5)	(5)	(5)
Add: Minority interest in subsidiary companies	4	7	4	3	24
Add: Long-term debt including current portion	3,699	3,655	3,904	4,574	2,425
Add: Interest payable	97	109	105	100	81
Adjusted Capital Employed	\$ 9,115	\$ 6,403	\$ 6,366	\$ 7,528	\$ 4,913
<b>Average Capital Employed</b>	\$ 7,759	\$ 6,385	\$ 6,948	\$ 6,220	\$ 4,419

## Capital Employed and Average Capital Employed - Exploration and Production

	2004	2003	2002	2001	2000
Total Assets <sup>(1)</sup>	\$ 12,246	\$ 7,385	\$ 7,030	\$ 8,076	\$ 4,849
Total Liabilities <sup>(1)</sup>	4,073	2,731	2,194	2,182	1,164
Capital Employed <sup>(1)</sup>	\$ 8,173	\$ 4,654	\$ 4,836	\$ 5,894	\$ 3,685
Adjustments:					
Allocated share of corporate and other capital employed	(28)	308	208	217	21
Adjusted Capital Employed <sup>(1)</sup>	\$ 8,145	\$ 4,962	\$ 5,044	\$ 6,111	\$ 3,706
<b>Average Capital Employed</b>	\$ 6,554	\$ 5,003	\$ 5,578	\$ 4,909	\$ 3,345

## Capital Employed and Average Capital Employed - Exploration and Production

(excluding effects of commodity derivative assets and liabilities)

	2004	2003	2002	2001	2000
Total Assets <sup>(1)</sup>	\$ 12,246	\$ 7,385	\$ 7,030	\$ 8,076	\$ 4,849
Total Liabilities <sup>(1)</sup>	4,073	2,731	2,194	2,182	1,164
Capital Employed <sup>(1)</sup>	\$ 8,173	\$ 4,654	\$ 4,836	\$ 5,894	\$ 3,685
Adjustments:					
Allocated share of corporate and other capital employed	(28)	308	208	217	21
Add: E&P commodity derivative liabilities, net of tax	321	101	51		
Adjusted Capital Employed <sup>(1)</sup>	\$ 8,466	\$ 5,063	\$ 5,095	\$ 6,111	\$ 3,706
<b>Average Capital Employed</b>	\$ 6,765	\$ 5,079	\$ 5,603	\$ 4,909	\$ 3,345

## Calculation of Allocated Corporate and Other Capital Employed

	2004	2003	2002	2001	2000
Adjusted Consolidated Capital Employed <sup>(1)</sup>	\$ 9,115	\$ 6,403	\$ 6,366	\$ 7,528	\$ 4,913
E&P Capital Employed <sup>(1)</sup>	8,173	4,654	4,836	5,894	3,685
Chemical Capital Employed <sup>(1)</sup>	997	1,134	1,114	1,200	1,186
Corporate and Other Capital Employed <sup>(1)</sup>	\$ (55)	\$ 615	\$ 416	\$ 434	\$ 42
One half of corporate and other capital employed	\$ (28)	\$ 308	\$ 208	\$ 217	\$ 21

(1) Excludes assets and liabilities related to discontinued operations.

## IMPORTANT INFORMATION

Kerr-McGee filed an amended preliminary proxy statement with the U.S. Securities and Exchange Commission on March 11, 2005 relating to Kerr-McGee's solicitation of proxies from the stockholders of Kerr-McGee with respect to the Kerr-McGee 2005 annual meeting of stockholders. Kerr-McGee and its directors and certain of its officers and other employees may be deemed to be participants in the solicitation of proxies for the 2005 annual meeting. The amended preliminary proxy statement contains detailed information regarding the names, affiliation and interests of individuals who may be deemed participants in the solicitation of proxies of Kerr-McGee's stockholders. Kerr-McGee will also

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be filing a definitive proxy statement and other relevant documents. KERR-MCGEE ADVISES SECURITY HOLDERS TO READ THE DEFINITIVE PROXY STATEMENT AND ANY OTHER RELEVANT DOCUMENTS TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Kerr-McGee's proxy statement and other relevant documents may be obtained without charge from the SEC's website at [www.sec.gov](http://www.sec.gov) and from Kerr-McGee at [www.kerr-mcgee.com](http://www.kerr-mcgee.com). You may also obtain a free copy of Kerr-McGee's definitive proxy statement, when it becomes available, by contacting Georgeson Shareholder Communications Inc. toll free at 877-278-6310. This presentation contains expressions of opinion and belief. Except as otherwise expressly attributed to another individual or entity, these opinions and beliefs are the opinions and beliefs of Kerr-McGee Corporation.

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