

KERR MCGEE CORP /DE
Form 425
April 08, 2004

Form 425

Filed by Westport Resources Corporation
pursuant to Rule 425 under the Securities Act of 1933
and deemed filed pursuant to Rule 14a-12
of the Securities Exchange Act of 1934

Subject Company: Kerr-McGee Corporation
Commission File No.: 001-16619

The communication filed herewith is a transcript of a conference call held by Kerr McGee Corporation and Westport Resources Corporation with investors and interested parties on April 7, 2004 at 12 p.m. EDT regarding the proposed merger of Kerr-McGee Corporation and Westport Resources Corporation. The webcast of the conference call is temporarily archived on Westport Resources Corporation's website.

- 9 SPEAKERS:
- 10
- 11 RICK BUTERBAUGH - Vice President, Investor
Relations
- 12 LUKE CORBETT - Chairman and CEO,
Kerr-McGee Corp.
- 13
- 14 DON WOLF - Chairman and CEO,
Westport Resources
- 15 DAVE HAGER - Senior Vice President,
Kerr-McGee Corp.
- 16
- 17 BOB WOHLBER - Senior Vice President and
Chief Financial Officer,
Kerr-McGee Corp.

2

1

2 P R O C E E D I N G S

3 MR. BUTERBAUGH: Ladies and

4 gentlemen, I would like to welcome you

5 to the presentation this morning

6 regarding the merger between

7 Kerr-McGee and Westport Resources.

8 I will remind you that throughout
9 today's presentation, we will be
10 making forward-looking statements.
11 You may remember that the actual
12 results or events may differ
13 materially from our expectations or
14 projections.

15 Information concerning the
16 factors and risks that could cause
17 materially differences IS identified
18 in the Risk Factors section of our
19 company's Annual Report and Form 10K
20 as well as our SEC filings.

21 We would ask that you hold your
22 questions today until after the
23 presentation is complete. At that
24 time, we will take your questions. At
25 this time, I would like to introduce

3

1
2 Luke Corbett, Kerr-McGee's chairman
3 and chief executive officer to discuss
4 the transaction.

5 MR. CORBETT: Thank you, Rick.
6 Let me add my welcome to you here. We
7 appreciate the fact for you to come
8 out to hear what we believe is a
9 compelling story on short notice. And
10 this is a compelling transaction in
11 our view, particularly as it creates

12 value for Kerr-McGee shareholders and
13 certainly Westport shareholders.

14 The bottom line from my
15 perspective is this adds depth,
16 breadth and balance to Kerr-McGee's
17 story here, allowing us to put forward
18 a more predictable performance profile
19 in the years to come and it is
20 underpinned by what we believe are
21 tremendous exploration opportunities
22 in secured areas here from what we
23 believe will be core area resources
24 for our company.

25 In addition, it does delever the

4

1
2 company. You see the financial
3 benefits of that. And beyond that,
4 this lessens the pressure on the drill
5 bit story from Kerr-McGee's regarding
6 exploration opportunities.

7 So we believe at the end of the
8 day, you are going to see a company
9 that has tremendous balance and depth,
10 and the ability to create value as we
11 go forward.

12 Now, before we delve into the
13 presentation, I'd like to ask Don
14 Wolf, the chairman and CEO of Westport

15 Resources, to come up and make a few
16 comments. Don.

17 MR. WOLF: Thank you, Luke. We
18 are excited about this transaction
19 primarily because of the company that
20 results, the combination of these two
21 organizations.

22 One of the pleasures that I've
23 had over a number of years in this
24 business and building several
25 companies is trying to assemble a

5

1
2 high-quality set of assets while
3 continuing to position the company for
4 future growth.

5 As we think at Westport, we have
6 been fortunate in doing that over the
7 last three and a half years since our
8 IPO. We went through about 450 BCF
9 and 1.8 TCF. In the meantime, several
10 number of properties, some of which
11 will be reviewed later on.

12 But as we think strategically
13 about our growth, given the size and
14 scale that we have developed, the
15 issue really is how do you maintain
16 that rate of growth going forward. If
17 you rely entirely on acquisitions and
18 exploitations, that's one business

19 model that works. But there is always
20 the issue of maintaining good
21 discipline and being able to find the
22 right properties and prevailing in the
23 market.

24 So, as we think strategically
25 about the company two or three years

6

1
2 out, and we would like to position the
3 company so it has a dominant position
4 in some of the high-growth projects
5 around the world -- and certainly
6 domestically -- with that in mind, you
7 can do it organically. And organic
8 basis takes time; it takes a lot of
9 money; it takes steep learning curves;
10 and in many cases you just can't break
11 in to a really high-potential project
12 or area.

13 So, if you don't do it
14 organically, you look around to see if
15 a combination makes sense to better
16 position your company. And we have
17 done that a couple of times with
18 respect to assets and companies that
19 we have acquired over the last three
20 years.

21 So we're always looking at the

22 possibility of either acquiring or
23 being acquired if we can better
24 position the shares for growth going
25 forward.

7

1
2 We consider a lot of acquisitions.
3 Merger possibilities, in many cases.
4 You just get big for big sake. You
5 basically have a property issue where
6 you're either diluting your own assets
7 that you tend to like really well, or
8 you just simply get sized. And that's
9 really not what we're all about. We
10 really want to try to position this
11 thing clearly for long term.

12 We began to look at the
13 Kerr-McGee assets and looked at it in
14 some depth. We spent the last month,
15 I would say in detailed meetings with
16 outside advisors, with our senior
17 management, with several of our Board
18 members, really trying to get a good
19 look at the prospect, quality, at the
20 reserves, at the position of the
21 company.

22 We became really excited about
23 how this company looks together. Not
24 very often can you find a deal where
25 you really believe that the company is

1
2 better together than it is stand
3 alone, and I would say that's true in
4 both sides of this equation.

5 So, we think that Kerr-McGee has
6 a reputable positioning in the deep
7 waters of the Gulf of Mexico. We
8 think the combination -- we have 66
9 percent of our reserves in the Rockies
10 in some very nice projects.
11 Kerr-McGee had a premiere Rocky
12 Mountains asset.

13 The combined companies have a
14 dominant position in the Rocky
15 Mountains with 30 percent of assets.

16 They have another 30 percent of their
17 assets in the Gulf of Mexico. They
18 have a very strong position in several
19 key core areas. I can't really
20 emphasize enough the power of the
21 dominant position in the core area.

22 I think that is part of the
23 Kerr-McGee story with respect to deep
24 water. All studies would report or
25 would conclude that the best growth

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

opportunity remaining in North America
would be deep water in the Gulf of
Mexico and Rocky Mountains.

This company is uniquely
positioned in both of those areas with
a very strong set of assets.

So I think that this combination,
with respect to the balance sheet,
with the core positions in some of the
best areas really uniquely positions
the company.

We became very comfortable and
very impressed with the technical work
that Kerr-McGee has done on our
projects and the prospects, the
quality of their management. And I
would say on behalf of the Board and
some of our significant shareholders,
that we are enthused about this
transaction. I think on a longer-term
position basis, we really have
positioned this company for good
future growth.

Kerr-McGee is at a point where I

10

1
2
3

think they are just going to be able
to reap a lot of their position, which

4 has been put in place with a lot of
5 effort and time over the last half a
6 dozen years. Thank you.

7 MR. CORBETT: Thank you, Don. I
8 can emphasize what Don says also. I
9 think you can see from his comments
10 why we believe that we have a
11 compelling value story as we go
12 forward collectively in this merger.

13 What we would like to do now is
14 take you through the operational
15 aspects of the transaction to get you
16 comfortable with the value.

17 Following that, we will go
18 through the financial benefits
19 associated with the transaction.

20 So first let me introduce Dave
21 Hager, our senior vice president of
22 exploration and production to carry
23 you through the operational aspects of
24 the transaction. Dave?

25 MR. HAGER: Thank you, Luke. I

11

1
2 must tell you, I am very excited about
3 this transaction. The benefits of
4 these combined assets are going to be
5 truly outstanding.

6 I would like to start off talking
7 about some of the strategic asset

8 rationale for this transaction.

9 First off, we're going to be
10 enhancing our core area. We have a
11 transaction here that fits extremely
12 well with our strategy of enhancing
13 our core areas, just as Don spoke of
14 previously. This enhances our core
15 areas in the Rocky Mountains, the Gulf
16 Coast, and the Gulf of Mexico. It
17 makes us a major player in each of
18 these areas.

19 The company will have 47 percent
20 of its reserves in the U.S. onshore,
21 76 percent will be U.S. based, and 97
22 percent either in the U.S. or the U.K.
23 The two most politically stable areas
24 in the world for reserves.

25 This also increases our

12

1
2 production profile, not only just the
3 absolute production levels that will
4 be higher, but our growth profile will
5 also be enhanced on the order of
6 between 10 and 12 percent when you
7 look at the time period from 2003 to
8 2007. And in addition, the profile of
9 our production, the risk profile of
10 our production will be lower.

11 And Kerr-McGee has historically
12 had low cost, high-margin production.
13 And this transaction not only
14 maintains that, it also enhances that
15 position. Our barrels will be high
16 cash flow per BOE. They will be
17 primarily gas in the U.S. and oil
18 internationally. That's exactly what
19 you want to maximize your cash flow
20 per BOE.

21 This will also strengthen our
22 inventory of the low-risk exploitation
23 opportunities. In total, we will have
24 over 9,000 low-risk exploitation
25 opportunities. I will take you

13

1

2 through that throughout the
3 presentation.

4 This will also allow us to
5 capitalize on our tight-gas and
6 supply-chain expertise, a new core
7 area in Uinta Basin, this is a greater
8 a Natural Buttes field located in the
9 northeast of the Utah area.

10 Finally, this all provides a very
11 strong base to support our
12 high-potential exploration.

13 The addition of the Westport

14 assets build significantly on our U.S.
15 onshore position. Kerr-McGee already
16 has concentrated assets in the DJ
17 basin at the Wattenberg field, in the
18 Anadarko basin and along the South
19 Texas and East Texas Gulf Coast area
20 as west as the Gulf of Mexico.

21 Now, what Westport brings is the
22 Uinta Basin, the Greater Natural
23 Buttes field, which we feel is very
24 similar to our Wattenberg field in the
25 DJ basin just outside Colorado; also

14

1
2 have quality assets in the Williston,
3 Powder River and Green River basin in
4 the Rockies, have very complementary
5 mid continent, South Texas Gulf Coast
6 assets, as well as Gulf of Mexico
7 shelf production and increased
8 exploration exposure in the deep shelf
9 exploration points.

10 We will be a prominent player in
11 each of these basins, and the strategy
12 of enhancing our core is going to work
13 extremely well with this transaction.
14 It adds primarily very high margin,
15 U.S. gas, coupled with significant
16 upside potential.

17 As a result of the transaction,
18 Kerr-McGee's proven reserves will
19 increase by about 29 percent over 1.3
20 billion barrels of oil equivalent. It
21 does complement. These reserves, are
22 complementing each of our core areas;
23 it adds overall balance and stability
24 to our reserve base; and it also
25 provides a great deal of outside

15

1
2 potential from the probable and
3 possible locations.

4 We have an additional 1.8 TCF
5 equivalent, or about 300 million
6 barrels of oil equivalent of probable
7 and possible resources that will be
8 acquired as part of this transaction.
9 And 2,500 drilling locations have
10 already been identified to take
11 advantage of the proven undeveloped
12 and probable and the possible resource
13 base. As a reminder, 87 percent of
14 Westport reserves have been prepared
15 by a third-party engineering firm.

16 Our reserves will become -- will
17 become slightly more weighted through
18 very toward the very attractive North
19 American gas. By product, it will be
20 57 percent gas, 43 percent oil. 89

21 percent of our gas will be in the U.S.
22 We will have a little over four TCF of
23 gas reserves after this transaction.
24 Very high margin reserves. We will
25 still have significantly oil exposure,

16

1
2 about 43 percent of our reserve base
3 will be oil.

4 As a reminder, 73 percent of our
5 international reserves are oil, and
6 all of the international gas reserves
7 we have are located in the U.K. North
8 Sea where there is already established
9 a very quality gas market. So we have
10 reserves where you need to to maximize
11 margins.

12 By category, about 54 percent of
13 our reserves will be proved developed
14 and about 46 percent are undeveloped.
15 Kerr-McGee has moved more than 300
16 million barrels of oil equivalent from
17 the proven undeveloped category to the
18 proved developed category over the
19 past three years.

20 As a reminder, most of our -- or
21 all of our proven undeveloped reserves
22 are either associated with our
23 existing infrastructure such as

24 Grhyphon and Hardin field, or are
25 under development in major projects

17

1
2 such as Gunnison, Red Hawk, Bohai,
3 Constitution, or associated with
4 ongoing exploitation.

5 The cost to move legacy
6 Kerr-McGee's proven undeveloped, and
7 proved developed is just under five
8 dollars per BOE, and it will be just
9 about four dollars per BOE to move the
10 Westport proven undeveloped to the
11 proved developed producing category.

12 76 percent -- as Don mentioned,
13 76 percent of our combined reserves
14 will be in the U.S. By region, 29
15 percent will be in the Gulf of Mexico,
16 17 percent in the mid-continent Gulf
17 Coast area, 30 percent in the Rockies.
18 And in the international side will
19 have 21 percent located in the U.K.,
20 the other three percent that's
21 indicated in the "other international"
22 is located in the Bohai Bay of China
23 where our project is going on very
24 well right now, on time, on budget.

25 Now, assuming an August 1 closing

18

1

2 date, our 2004 production volumes will
3 increase to 300,000 barrels of oil
4 equivalent per day. That's a 15
5 percent increase versus our previous
6 guidance.

7 In 2005, we will have a full year
8 impact of this transaction, as well as
9 a full year impact from the major
10 developments we have going on right
11 now at Gunnison, Red Hawk and Bohai
12 Bay. You can see that those volumes
13 will increase on the order of 18 to 23
14 percent going from '04 to '05.

15 Then we have additional upside to
16 this from exploration success that we
17 may have in the Gulf of Mexico on the
18 shelf in the U.K. or onshore where we
19 have quick-cycle time projects going
20 on.

21 In '06, our volumes will likely
22 be greater, with some exploration
23 success. And overall, our compound
24 average growth rate on this four-year
25 time frame from 2003 to 2007 is 10 to

19

1

2 12 percent. So we're back on the

3 growth track and we're back on the
4 growth track in a big way.

5 Here you can see our projected
6 oil and gas production split for 2005.
7 Now, for this case, we have taken for
8 the 360,000 barrels of oil equivalent
9 per day, which is on the lower range
10 of guidance I gave you on the previous
11 side.

12 Natural gas will make up about 54
13 percent of those volumes in 2005.
14 That's nearly 1.2 BCF per day
15 worldwide, and 94 percent of those gas
16 volumes will be located in the U.S.

17 You will also have in 2005
18 approximately 165,000 barrels of oil
19 per day.

20 70 percent of the total U.S.
21 volumes will be natural gas. That
22 will be about 1.1 BCF a day, and about
23 80,000 barrels a day strictly in the
24 U.S.

25 So again, the products are

20

1
2 exactly where you want to maximize the
3 margins. Natural gas primarily in the
4 U.S., oil internationally. As a
5 reminder, 88 percent of our production
6 on the international side will be oil.

7 And in total, 51 percent of our
8 total volumes are now going to be U.S.
9 gas volumes.

10 The Kerr-McGee has historically
11 has been a low-cost producer, and this
12 transaction is going to further
13 improve our unit costs. It's going to
14 reduce our cost by about four percent.

15 This does assume the full benefit
16 of \$40 million and pre-tax synergies
17 that will be realized in 2005. We're
18 projecting that our lease operating
19 expense will decline by about 20 cent
20 per BOE. That will be for the benefit
21 of gas properties, which typically
22 tend to be lower LOE as well as
23 \$15 million in synergy savings.

24 Our unit production taxes will
25 increase by about 30 cents per BOE due

21

1
2 to the onshore nature of the
3 properties. Partially offsetting
4 that, will have the transportation
5 cost decreasing about ten cents per
6 BOE, again, due to the onshore nature
7 of the property, which tend to have
8 lower transportation costs. Our G&A
9 will decrease about 25 cents per BOE,

10 assuming about \$25 million in
11 synergies.

12 Now, the results from all these
13 four categories, lease operating
14 expenses, production tax,
15 transportation and G&A will result in
16 a cash cost from these categories
17 which will be approximately \$6.50 in
18 2005.

19 So, to summarize all this, we
20 already had very high-margin
21 productions, and this transaction will
22 maintain or enhance a high-margin
23 production.

24 There are also some other very
25 real synergies that we will be

22

1
2 realizing.

3 This is an excellent strategic
4 fit with Kerr-McGee core areas: G&G
5 knowledge, drilling experience,
6 completions technology, operational
7 expertise, all will be complemented as
8 a part of this transaction.

9 This really goes both ways. We
10 will be taking the Kerr-McGee
11 knowledge, and we will be taking the
12 Westport knowledge, technology and

13 expertise, and taking the best of the
14 best -- both in terms of people,
15 technology and expertise.

16 Our added strengths in our core
17 areas will also allow us to leverage
18 our supply chain efficiencies and
19 increase greater capital efficiencies.

20 I'd like to give you just one
21 simple example of how that might be
22 accomplished. I'm going to talk a
23 little later about the Greater Natural
24 Buttes field and we will be adding in
25 the Uinta basin of Utah.

23

1
2 The typical cost out there,
3 depending on where you're drilling the
4 well, to walk formation you drill a
5 well out there, whether the Wasatch or
6 Mesa Verde, is on the order currently
7 of about 640- to \$850,000 per well.

8 We're currently drilling wells to
9 equivalent depth in the Wattenberg
10 field, about 8,000 feet, for \$330,000
11 per well. Now, I don't know if we're
12 going to be able to realize all that
13 difference, but I think there is
14 obviously some potential for some
15 additional capital efficiencies as we
16 move forward with this transaction.

17 And we have a large number of
18 locations to drill in this Greater
19 Natural Buttes field, and which we
20 will review those in detail with you.

21 These are also areas where we
22 demonstrated the ability to add
23 reserve and add value, the Rockies and
24 the South Texas, Gulf Coast, and the
25 Gulf of Mexico area. We've added

24

1
2 value consistently at Kerr-McGee in
3 each of these areas, and we think we
4 will be able to add value from these
5 transactions.

6 It will also allow us the
7 opportunity to high-grade the
8 exploration program, and really to
9 drill the best of the best of the
10 combined prospects. These are all
11 very real synergies, however, none of
12 these have been included in the
13 \$40 million synergies that I included
14 on the previous slide.

15 We believe we paid a very fair
16 value for the Westport assets, and
17 when combined with the future
18 development costs, they are very
19 attractive. I would like to go

20 through this slide very thoroughly
21 through, to make sure I communicate
22 the message on this well.

23 I recognize it is very tempting
24 to say, to take the total purchase
25 price of \$3,427,000, divide it by the

25

1
2 \$297 million barrels of BOE and say,
3 on a proved basis, we paid about
4 \$11.54 for this transaction. But that
5 really misses the heart of the
6 transaction, which is the low risk,
7 probable, possible and exploitation
8 upside associated with the transaction.

9 We have allocated about
10 \$2.15 billion to the proven reserves,
11 which gives us a purchase price of
12 \$7.23 per BOE on a proven reserve.

13 We went through a very thorough
14 analysis of the probable, possible and
15 exploitation, exploration upside by
16 our technical teams.

17 Based on that very thorough
18 analysis that we did in each area on
19 each field, we have assigned a
20 probable and possible purchase price
21 of \$930 million for 300 million
22 barrels, or the 1.8 TCF, I mentioned

23 earlier of possible and probable
24 resources, which gives an acquisition
25 cost on the possible and probable for

26

1
2 \$3.10.

3 We estimate that the cost to
4 develop these probable and possibles
5 to the proved developed producing
6 category will be about \$3.75. You get
7 the 3.75 plus the purchase price, you
8 can see an all-end cost of about \$7
9 per BOE for probable and possible
10 resources.

11 Now, we went through a very
12 similar exercise on the exploitation
13 and exploration opportunities where we
14 see a potential of 500 million barrels
15 of reserves. This is primarily low
16 risk exploitation in and around the
17 existing fields that Westport has.

18 We have 1.6 million gross
19 undeveloped acres, about 770,000 net
20 undeveloped acreage. And based on
21 that, you see a purchase price of
22 about 60 percent per BOE for the
23 exploitation and exploration upside.

24 We also saw about \$50 million to
25 the gathering assets that exist in the

1
2 Greater Natural Buttes field in the
3 Uinta basin. That business cash flow
4 is about \$8 million per year based on
5 the equity and third-party gas that
6 goes through the gathering system.

7 And so in total, and the point I
8 want to make here very clearly, we
9 studied in great detail these assets.
10 We feel very comfortable with the
11 value allocation.

12 As I mentioned, we have
13 identified probable and possible
14 resources, about 1.8 TCF equivalent,
15 or about 300 million barrel of oil
16 equivalent. This is primarily in the
17 Rockies. About 63 percent of that is
18 in the Rockies, and the Greater
19 Natural Buttes field represents about
20 50 of the total. We feel we can apply
21 key technologies and reserve
22 development expertise from our
23 Wattenberg field.

24 The Gulf Coast is driven by the
25 high value South Texas assets which

1
2 are complementary to our current

3 Kerr-McGee assets, where we have
4 considerable G&G experience and have
5 achieved very solid returns on those
6 areas in recent years.

7 The Gulf of Mexico is driven
8 primarily by the 3.7 percent override
9 in Green Canyon 640, that is the
10 Tahiti project.

11 Now, within the proved reserves,
12 the Greater Natural Buttes fields
13 makes up the largest value component,
14 and we will become Kerr-McGee's third-
15 largest field.

16 This is a listing that shows the
17 fields; the top 30 fields ranked on an
18 SEC PV10 value as of December 31,
19 2003. You can see the seven fields
20 from the Westport side will be in our
21 combined top 30 fields. And all of
22 these fields have a great deal of
23 value associated with them.

24 Even excluding the Greater
25 Natural Buttes field, which transfers

29

1
2 to number three, if you just take the
3 other six fields that listed over
4 there in 21 through 30, each of those
5 have a value individually between \$100

6 and \$200 million in MPV value
7 associated with them.

8 These 30 fields I'm showing you
9 here make about 73 percent of the
10 total present value of the company.

11 So what I would like to do now is
12 take you through a little more detail
13 on some of the key assets that will be
14 part of this transaction. I would
15 like to start off with the Greater
16 Natural Buttes field in the Uinta
17 basin in Northeast Utah.

18 As we come, as I said, Kerr-McGee
19 third highest field based on SEC PV10
20 value at the end of 2003.

21 In summary, this is a very
22 immature field at this point, with
23 tremendous upside opportunity. And
24 it's an asset where we can apply the
25 expertise in tight-gas sand

30

1
2 development and supply-chain
3 management.

4 In short it's very similar to the
5 Wattenberg field where development has
6 been extremely successful, and has
7 reserves and production ratios of
8 approximately 20 years. And we see

9 growth, the scope for continued growth
10 of this asset both in terms of
11 production and reserves.

12 Production is from the Wasatch
13 and the deeper Mesa Verde formations,
14 with additional potential for
15 development in each of these
16 intervals. We will also own and
17 operate a gathering system in the
18 Greater Natural Buttes field, which
19 moves up to 180 million cubic feet per
20 day of third-party gas. The system is
21 composed of about 700 miles of
22 gathering lines and 22,000 horse power
23 of compression.

24 Owning this system allow us,
25 gives us the advantage to assure that

31

1
2 we can transport our equity gas on a
3 priority basis, get our wells hooked
4 up faster, and make improvements and
5 make modifications in conjunction with
6 our production growth.

7 Here you can see the heart of the
8 Greater Natural Buttes field and the
9 existing production wells are shown in
10 here in red. In total, there are a
11 little over 1100 wells that will come

12 with this transaction.

13 We will have about 271,000 gross
14 acres, 229,000 net acres, and operate
15 about 88 percent of the net present
16 value. The current production out
17 here is about 92 million cubic feet
18 equivalent per day.

19 Now, there are already more than
20 600 identified PUD locations that are
21 shown in green. These are offsets to
22 existing producers, either in the
23 Wasatch, Mesa Verde, or both.

24 Current production is more
25 heavily weighted towards the Wasatch.

32

1
2 Mesa Verde wells will be drilled
3 primarily in the next two to three
4 years.

5 Total reserves, both developed
6 and undeveloped are 658 BCF equivalent
7 or about 110 million barrels of oil
8 equivalent at year end 2003.

9 What's really impressive is the
10 amount of low-risk, probable and
11 possible resources in these areas.
12 These possible and probable cases are
13 shown here in blue.

14 Now, the majority of these

15 resources are associated with drilling
16 Wasatch and Mesa Verde wells east and
17 south of the core Natural Buttes
18 field. There have been some wells
19 drilled in the Bonanza Creek, Archie's
20 Bench, and East Bench of the field
21 that show these are very low risk,
22 probable and possible resources.

23 In total over 700 possible and
24 probable locations have been
25 identified. And the probable and

33

1
2 possible locations since we fill in
3 the gaps in each of these areas.

4 Now, in addition to that, there
5 are over 900 BCF equivalent of
6 exploitation potential not captured
7 anywhere in the three key numbers. I
8 would like to detail that 900 BCF
9 beyond three key potentials a little
10 later.

11 About 350 of that 900 BCF
12 equivalent is associated with drilling
13 the Wasatch on 28 acres spacing in the
14 core of the field. There are not any
15 regulatory restrictions since the
16 federal unit is not spaced, so the
17 only risk really comes from the aerial
18 extent of the multi-layered Wasatch

19 sands.

20 There is about another 300 BCF
21 equivalent associated with drilling
22 the majority of the Wasatch PUD
23 locations to the deeper Mesa Verde
24 locations.

25 So far there have been about 75

34

1

2 Mesa Verde wells drilled to date, and
3 they have had good success.

4 But this is the equivalent where
5 we talk about our same day deepening
6 from the Codown to the J sands
7 (phonetics). This will be doing the
8 equivalent thing in the Greater
9 Natural Buttes field. You have a PUD
10 location going to the shower of
11 transformation, you take it deeper to
12 the Mesa Verde formation.

13 Then there is an additional 250
14 BCF of exploitation potential relating
15 to field extensions in the Bonanza and
16 surrounding areas. And the probable
17 and possible reserve assumption, this
18 assumed those will be developed on 80
19 acre spacings, it is very possible
20 that eventually these will be drilled
21 on 40 acres spacing, so that provides

22 additional exploitation potential.

23 I would like to summarize all
24 this detail I've just said with a very
25 simple statement. The gas is here.

35

1
2 It is just exploited in through
3 technology, just as we have done in
4 the Wattenberg field.

5 In total, this represents about
6 1.8 TCF equivalent of upside potential
7 from this field alone; 900 BCF from
8 the probable, possible, and another
9 900 BCF equivalent from the
10 exploration and exploitation
11 potential. We estimate the cost to
12 develop the probable, possible as well
13 as the proven undeveloped locations is
14 about .85 cents per MCF.

15 We do feel, as I've mentioned,
16 the Greater Natural Buttes field area
17 offers very similar potential to what
18 we have done to Wattenberg field in
19 the DJ basin which we acquired about
20 two years ago, so I would like to
21 highlight our accomplishment since we
22 added that field.

23 We added in the Wattenberg field
24 over 350 BCF of proven reserves
25 through our continued development. We

1
2 successfully executed over 1100
3 projects while increasing the project
4 inventory, in the development of
5 concepts such as "fifth spot"
6 locations, refrac and trifracs. You
7 can see overall we increased the
8 project inventory by 12 percent.

9 We've also created incremental
10 value of nearly a quarter of a million
11 dollars beyond that made in our
12 acquisition assumption by adding new
13 reserves, increase in our capital
14 efficiencies, as well as operating
15 expense reductions.

16 So in summary, this is a play
17 time we know extremely well. We are
18 excited to have this opportunity to
19 apply these skills to a similar play
20 concept with a large upside potential.
21 The current proved reserves in the
22 Greater Natural Buttes area are about
23 half of our Wattenberg field, where we
24 see the potential to grow to a similar
25 size as Wattenberg.

2 I would like to move now to talk
3 about some of the other areas, move
4 over and talk about the Moxa Arch area
5 in the Green River basin of Wyoming, a
6 sizeable long-life gas field that
7 offers similar opportunities.

8 Currently the development
9 drilling is taking place there on
10 about 168 acres spacing, primary willy
11 in the Frontier formation, with a
12 deeper program targeting the Dakota
13 formation.

14 These Moxa Arch wells tend to be
15 long lives, with the potential really
16 of 25 years of reserve life, proved
17 reserves in these area are about 100
18 BCF equivalent or about 17 million
19 barrels of oil. And now Westport, and
20 now through this combination, we plan
21 to drill about 35 to 40 wells in these
22 area in 2004.

23 Once again, these are stable
24 long-life, low-risk resource
25 opportunities.

38

1
2 The Moxa Arch area also offers
3 upside potential using the "fifth
4 spot," concept very similar to what we

5 have been doing at Wattenberg.

6 There are currently about 60 BCF
7 equivalents or probable resources
8 associated with "fifth spot" locations
9 at the center of a section. These are
10 the locations shown here in yellow.

11 This is essentially down-spacing
12 the reservoir from 160 acres to 128
13 acres spacing.

14 And we see additional potential
15 for what we call section line "fifth
16 spots," as they are made available.
17 These potential well locations are
18 shown here in blue.

19 These are opportunities that are
20 not captured anywhere in the key 3P
21 resource base. Currently, we see
22 potential around 60 BCF, but we think
23 it can easily double beyond that.

24 Beyond that, there is potential
25 for adding resources through improved

39

1
2 stimulation design.

3 We've seen Wattenberg to have
4 in-house dedicated technical team can
5 greatly improve the quality of the
6 design of the stimulation work versus
7 relying on the contracting community.

8 In the end, that adds reserves and
9 that lowers costs. So we see using
10 that same type approach for these
11 assets.

12 We will also be acquiring coalbed
13 methane opportunities in the Powder
14 River basin in Wyoming shown here.
15 The Wyoak Coal area is currently
16 producing 15 -- plans for about 15 to
17 20 additional well plans for 2004 in
18 this area.

19 In the Big George area, there is
20 a pilot program going on right now.
21 We are going to control about 30,000
22 gross acres, about 9500 net acres.
23 This pilot program is going to consist
24 of 10 to 16 wells.

25 Big George production has been

40

1
2 established on trend, both north and
3 south of this acreage. Actually on
4 this acreage, they drilled through the
5 perspective formation going through an
6 oil field below this.

7 If you take 80 acreage spacing,
8 about 1.5 BCF per well, this is on the
9 order of about 150 BCF resource
10 potential, and there are no proven

11 reserves booked in the Big George
12 area.

13 In addition to this, we are going
14 to be acquiring acreage in some other
15 active unconventional gas plays,
16 including the Bakken Horizontal Play
17 in the Williston basin in Eastern
18 Montana -- where we will have 5,000
19 acres in the heart of the play -- in
20 the Barnett Shale play in North Texas
21 -- where we will have 55,000 gross
22 acres and about 18,900 net acres.

23 You can see the interest on this
24 on the order of about 33 percent.
25 Some of the leases are a little bit

41

1
2 higher. But if you assume 150 to 200
3 acre spacing on this, about 1.5 BCF
4 average per well, you can easily have
5 about 100 locations or about 150 BCF
6 just off that acreage as well.

7 So once again, we are going to
8 add low-risk, repeatable play types to
9 our development inventory. This just
10 provides a stable base for our high-
11 impact exploration program, which are
12 extremely proud of and will continue
13 forward with full vigor.

14 Moving on to the Gulf Coast area.
15 The Westport south and southeast Texas
16 properties are really in the heart of
17 Kerr-McGee's historic operating area,
18 where we have extensive experience.

19 Westport currently has four rigs
20 active on these opportunities. They
21 are long trend rigs, synergistic with
22 out existing production on this side.
23 On this side, Kerr-McGee's activities
24 are shown in orange, and additional
25 opportunities are shown in red.

42

1
2 These will make us some major
3 players in South Texas and southeast
4 Texas, adding about 280 BCF equivalent
5 of proved reserves.

6 95 percent of these proved
7 reserves of gas are obviously very
8 high-margin properties. Now, in
9 addition to the proved reserve, there
10 is substantial upside throughout this
11 area, including about 160 BCF
12 equivalent of probable and possible
13 resources, and an estimated 190 to 340
14 BCF equivalent of net unrisk
15 exploration potential.

16 Our net production in this area
17 shown on this map will be

18 approximately 215 million equivalent
19 per day after close of the transaction,
20 or about ten percent of the pro forma
21 production of the company.

22 Once again, we are acquiring
23 opportunities in our core producing
24 area. This will create additional
25 scale for cost savings, allow us to

43

1
2 take advantage of our technical
3 expertise.

4 Kerr-McGee has been active in
5 southeast Texas for many, many years.
6 Kerr-McGee already had a planned
7 program on the order of 20 to 30 wells
8 in this area for 2004. Kerr-McGee has
9 developed about 30 million barrels of
10 oil equivalent over the past three
11 years in this area; a rate of return
12 of around 30 to 35 percent for the
13 program in South Texas, 65 to 75
14 percent along the Gulf Coast.

15 We have extensive 3D coverage
16 throughout the area. As a reminder,
17 another property we acquired late last
18 year was the Rincon field in South
19 Texas, where we have 133 development
20 locations identified. So a large

21 number of development opportunities in
22 this area.

23 This details out a little bit
24 more the upside potential that we have
25 there. It will be an active area for

44

1
2 us in 2004 as well as in the
3 foreseeable future. We have an
4 inventory of over 200 identified
5 exploitation opportunities. As I
6 said, Westport is active right now
7 with four rigs currently drilling on
8 these opportunities.

9 We are operating over 85 percent
10 of the reserves and the production.
11 That allows us to maintain the timing
12 over -- the control of the timing, the
13 management of the project
14 implementation.

15 So in summary, these Gulf Coast
16 opportunities fit our core strategy
17 very well by adding high-margin
18 production, strong growth
19 opportunities in an area that we
20 consider in our own backyard.

21 In North Louisiana, production
22 from the Elm Grove field is continuing
23 to grow, generates very strong cash
24 flow, and many additional

25 opportunities in this area as well.

45

1

2 It continues to be an area of active
3 drilling, targeting primarily Hosston
4 and Cotton Valley sands.

5 There are about 35 wells planned
6 here for 2004, with an average working
7 interest of 37 percent. There is a
8 good inventory of proven undeveloped
9 probable locations yet to be drilled
10 in this field. And once again, this
11 provides low risk development
12 opportunities to supplement our
13 overall program.

14 So before I move to offshore, I
15 really would like to summarize the
16 U.S. onshore program a little bit.

17 As I said in the beginning, we
18 have about 2500 locations associated
19 with the PUDs, probables and possibles
20 who will be part of this transaction
21 with Westport. You can find now with
22 about 6500 projects that we have. In
23 Wattenberg alone, we have an inventory
24 right there of about 9,000
25 opportunity, not counting any of the

46

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

other development opportunity we have onshore.

If we can just modestly expand this portfolio, we expanded Wattenberg by about 12 percent in two and a half years, we can easily have a portfolio of ten times active projects to execute in the onshore area. And all of this provides stability and underpinning for our high profile and high growth exploration program which is oriented primarily towards the deep water.

Moving on to the Gulf of Mexico. Westport has meaningful assets that complement our existing deep water opportunities there. About 20,000 barrels of oil per day production. About 68 percent of this is gas. About 80 percent operated.

The Westport assets are going to be enhanced by our strong operating presence there. I will mention a little bit about the probables and

1
2
3

possibles associated with the Gulf of Mexico. They can be characterized

4 primarily as either awaiting sanction
5 -- Tahiti will be the example of this
6 -- or performance related for the
7 probables and possibles for you to
8 have resources below the lowest
9 hydrocarbons that's been penetrated by
10 a well, but within the amplitude and
11 extent indicated by science.

12 In summary, there is very minimal
13 capital requirement to move these
14 possible and probable resources to the
15 proven category. As the size of
16 Kerr-McGee will increase by
17 approximately 20 percent onshore, it
18 allow us to improve our combined cost
19 structure through synergies.

20 We have the potential to combine
21 shore basis, to increase our leverage,
22 to supply chain activities, greater
23 efficiencies, the field personnel,
24 leverage our operation experience, our
25 drilling experience, and it also

48

1
2 allows us the opportunity for
3 high-grade property mix.

4 Westport retained a 3.7 percent
5 overriding interest in Tahiti, that
6 Green Canyon 640. This is a little
7 bit northeast of our institution field

8 that we're currently developing with
9 our Six Spar project.

10 There are about 14 million
11 barrels of oil equivalent of unbooked,
12 probable and possible resources
13 associated with this override. We
14 anticipate it will sanction next year.
15 First production is anticipated to be
16 in 2008.

17 Obviously no capital requirement
18 and no operating expense are
19 associated with these rolling volumes,
20 so there will be very high margin
21 barrels.

22 You can see here how the Westport
23 acreage expands our shelf presence.
24 It adds about 13 percent, or a total
25 gross acreage position of a little

49

1
2 over 100 blocks. Existing Westport
3 shelf properties are less mature.
4 They are going to provide additional
5 exploitation opportunities, and there
6 are also about 12 deep water blocks,
7 some of which are near our existing
8 Kerr-McGee prospects.

9 Westport has already identified a
10 number of exploratory opportunities in

11 the Gulf of Mexico. There is an
12 existing joint venture with Chevron
13 which will expose Kerr-McGee to an
14 additional deep shelf opportunities.
15 There are four wells currently
16 drilling on the shelf. Three of those
17 are Westport operated. That will be
18 the high island of 119, the
19 Mississippi Canyon 707, as well as the
20 Eugene Island 29 prospect that's part
21 of the Chevron joint venture. And
22 there is one outside operated well
23 drilling at West Hammer in 295.

24 I think the most important thing,
25 though, is that the addition that the

50

1
2 Westport properties will provide
3 additional opportunities for us to,
4 for -- really and for our combined
5 existing exploratory program. We will
6 be able to combine both of these
7 programs, high-grade the programs and
8 drill the best of the present
9 prospects.

10 It is also possible that we can
11 even accelerate our exploration
12 program with the additional cash flow
13 that is generated from this transaction.

14 Bob Wohleber will tell you a little
15 bit more about the incremental cash
16 flow that's generated by this
17 transaction in a few minutes.

18 Our exploration program is
19 working and is working very well. We
20 announced the Constitution development
21 early this year. We've had success
22 with the deep water program already at
23 the Dawson Deep we talked about
24 previously.

25 We had success in Alaska, that we

51

1
2 have alluded to in a couple of our
3 previous conference calls. And I can
4 tell you today we've had even another
5 success. The Ticon Coyota (phonetic)
6 prospect will is a 50 percent property
7 for Kerr-McGee and we operate -- Noble
8 is our partner in that property -- has
9 had very encouraging results. This is
10 a satellite opportunity to our
11 Constitution field and will greatly
12 enhance the overall Constitution
13 economics.

14 So we're having great success
15 with our exploration program. We know
16 how to execute a deep-water
17 exploration program and a large

18 exploration program in total.

19 We see this transaction as
20 providing additional stability to
21 underpin that exploration program and
22 is very consistent with our core area
23 strategy, which is working very well.

24 So, in summary, the benefits of
25 this transaction are just outstanding.

52

1
2 This is going to enhance our core
3 areas, it's going to shift our reserve
4 risk, it's going to increase our
5 production profile. It will also
6 enhance our low cost, high margin
7 production base. It strenghtens our
8 inventory of low risk exploitation
9 projects, brings us into a new core
10 area that will allow us to take
11 advantage of our tight gas, supply-
12 chain expertise in the Uinta basin,
13 and provides a very strong base to
14 support high-potential exploration.

15 I would like to say in summary of
16 all this, we are extremely excited
17 about the benefits of this transaction,
18 and very confident that we will
19 deliver on the value associated with
20 this transaction.

21 With that, I will like to turn
22 the podium to Bob Wohleber to review
23 the financial impact and benefits of
24 this transaction.

25 MR. WOHLBER: Thank you, Dave.

53

1
2 And good afternoon ladies and
3 gentlemen, it is my pleasure to be
4 here to talk about this transaction.

5 As excited as Dave is about the
6 operational benefits of this
7 transaction, I am equally exited about
8 the financial benefits of what this is
9 going to do for Kerr-McGee going
10 forward.

11 Let me get into the financial
12 benefits here. Let me summarize
13 number one: This transaction is
14 accretive both on a cash and earnings
15 per share basis in 2005 and 2006. It
16 is going to generate free cash flow
17 from the incremental assets coming in
18 from Westport, 150 to \$250 million of
19 incremental cash flow available to
20 Kerr-McGee.

21 It also will prove our balance
22 sheet, taking us from a net debt
23 capital number of 54 percent number at
24 the end of '03, to approximately 42

25 percent pro forma at the end of 2004.

54

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

The synergy cost savings that Dave has talked about will generate \$40 million of pre-tax annual cash flow benefits. As I said, the increase and financial flexibility of this transaction is very substantial. Let's go through those benefits one-by-one.

The first part of the transaction, I think you need to understand that we have underpinned the financials with hedging program.

We have hedged up to 90 percent of the Westport production, oil and gas volumes, for the latter half of 2004 -- actually starting August 1st of 2004 through 2006. These hedges are in place, locked in, we completed the last ones yesterday, and they are very attractive as you can see on the slide.

The gas hedges we put in place, we put a fixed price hedge for the second half of 2004 at \$5.96 on gas,

55

1

2 and \$32.60 on oil. For gas in 2005,
3 Westport has about 25 percent of their
4 production currently hedged. We moved
5 that, again, hedged position up to a
6 90 percent level with these collars.
7 A \$5.00 floor price with a \$6.25
8 ceiling price in '05, and a \$4.75
9 floor price in 06, with \$5.51 ceiling
10 price in 2006.

11 This gives us a lot of
12 flexibility and adds additional
13 volume. So the ranges that I
14 mentioned relative to the cash flow
15 and earnings accretion and cash flow
16 accretion are based upon the ranges of
17 what we will generate from the
18 earnings and cash flow standpoint
19 within these collars.

20 The bottom part of this slide is
21 also important. Obviously Kerr-McGee
22 has been a company that has hedged.
23 We have hedged approximately 80 to 85
24 percent of our oil production in '04
25 and 75 percent of our gas production.

56

1

2 You can see what this does again for
3 the second half of '04 for gas and

4 oil.

5 For 2005 and '06, Kerr-McGee has
6 not done any hedging, so we have

7 simply overlaid the hedges from this
8 Westport transaction to the total
9 volumes that we have. So we have
10 approximately 32 percent of our gas
11 hedge for '05 and '06, and 12 percent
12 of our oil production hedged in '05
13 and '06. Obviously this leaves plenty
14 of opportunity for upside potential.

15 Let's go into the accretion
16 analysis here for 2005 and 2006.
17 Again, the accretion analysis is based
18 upon First Call estimates.

19 In 2005, First Call is using a
20 \$4.75 gas price and \$27 oil price. So
21 you can see the floor price of our
22 hedges -- again, primarily gas is the
23 main driver here -- at the \$5 floor
24 price, it is three percent accretive
25 to earnings, and positively accretive

57

1
2 on a cash flow basis.

3 But if prices move up to the
4 high-end of the range within the
5 collar up to the ceiling, we will get
6 the full benefit of that taking us

7 close to a 19 percent accretion number
8 of our earnings per share. It is
9 about 70 cents per share accretive in
10 2005. Almost five percent accretive
11 on a cash flow basis.

12 In 2006, First Call numbers are
13 \$3.75 per gas and \$23 for oil, so the
14 magnitude again of what these hedges
15 do is rather significant.

16 There is only about three data
17 points relative to the earnings
18 number. But, again, based upon those
19 numbers that are out there, we are
20 looking at earnings per share having
21 accretive effect of 25 to 51 percent
22 in 2006, and cash flow from three
23 percent to eight percent.

24 Very significant, very important
25 benefits that this transaction has.

58

1
2 We locked in the economics associated
3 with this transaction based upon the
4 floor price. So the evaluation that
5 we have used for this acquisition is
6 tied to the floor price.

7 We had the opportunity with the
8 strong gas and oil market to basically
9 use the collars to not only have the

10 floor prices locked in, and our base
11 level of economics locked in, but then
12 again have the upside potential if the
13 prices should be realized within these
14 collars.

15 The cash flow contribution that I
16 mentioned of 150 to 250 million is
17 shown here. Westport is, again, from
18 the Westport assets only, we are
19 projecting \$600 to \$700 million of
20 operating cash flow. Again, depending
21 upon the floor-to-ceiling on the hedge
22 prices.

23 The capital allocation to the
24 Westport asset is \$387 million. This
25 is really Westport's existing

59

1
2 management plan.

3 After-tax synergy savings of
4 \$26 million give us 239 to
5 \$339 million of cash flow. Prior to
6 the dividend payout -- we are issuing
7 approximately 49 million additional
8 Kerr-McGee shares associated with this
9 at \$1.80 per share, that will result
10 in an \$89 million additional payout in
11 our dividend.

12 So after accounting for all those
13 factors in the incremental free cash

14 flow, 150 to \$250 million for
15 Kerr-McGee exploration, exploitation
16 and other purposes.

17 Let me spend a moment just on
18 price sensitivity, showing '05. The
19 price sensitivities that are shown
20 here for oil and gas. Really, the
21 sensitivities assume that the prices
22 move within the collars.

23 So in effect, we get the full
24 benefit and the full sensitivity of
25 price ranges within \$5 to 6.25 on the

60

1
2 gas side, and on oil from 28.50 to
3 29.81. It is based upon the total
4 production of Kerr-McGee/Westport
5 combined.

6 So you can see that a dollar
7 change in oil will generate
8 \$37 million in earnings in cash flow,
9 23 cents per share; a ten-cent change
10 in gas price will result in
11 \$26 million impact on earnings in cash
12 flow, approximately 16 cents per share.

13 The credit improvements for this
14 transaction we think are very
15 significant as well. We think this
16 transaction does a lot of things for

17 us from the financial flexibility
18 standpoint. Let me go through each of
19 these one-by-one. We have already
20 talked about the net debt to cap from
21 54 percent to 42 percent on a pro
22 forma basis. That's a 22 percent
23 improvement in our debt to cap number.

24 It also basically recognizes the
25 promise that we made that we were

61

1
2 going to bring our debt below 50
3 percent following the HS Resources
4 acquisition. The same promise we made
5 in 1999 when we made the Orich (phonetic)
6 transaction.

7 Kerr-McGee manages within its
8 budget, within its cash flow, within
9 its plan, and we deliver on our
10 promises.

11 Interest coverage is also
12 significant. We are going from seven
13 and a half times interest coverage to
14 11 times interest coverage on an
15 EBITDA basis. 47 percent improvement
16 on the amount of cash flow that we
17 have to cover our interest cost.

18 Operating cash flow: Kerr-McGee
19 in 2003 generate approximately
20 \$1.6 billion. Again, Westport will

21 add about \$600 million on an operating
22 cash flow number. Again, at the
23 low-end of the floor prices. So about
24 38 percent improvement in our
25 operating cash flow.

62

1
2 Cash margin per BOE is a very, I
3 think important number. We talked
4 about this number a number of times at
5 our conferences, but the reason it's
6 important, it takes into account all
7 of the metrics of our production, our
8 costs and realized prices. So this is
9 looking at our cash flow per BOE
10 equivalent.

11 The realized prices we receive on
12 oil and gas, including the impact of
13 hedges that we had in 2003, less our
14 cash production cost.

15 \$21.67 was one of the highest
16 numbers within our peer group. Number
17 three within our peer group in 2003.
18 We further improved upon that measure
19 in 2004 during the \$23.14 as a result
20 of this transaction on a pro forma
21 basis. That's a seven percent
22 improvement in their cash margin
23 number.

24 The production Dave talked about,
25 going from 271,000 barrels of oil

63

1
2 equivalent per day to 300,000 barrels
3 of oil equivalent per day. This is
4 bringing in the Westport production
5 only from the assumed closing date of
6 August 1 through the end of the year.

7 So it's not an annualized number.
8 We are just taking Kerr-McGee's
9 production of 260,000 barrels of oil
10 equivalent adding in the Westport
11 contribution for the last five months
12 of the years -- 11 percent change in
13 that production number.

14 Proven reserves are up 29 percent.
15 Reserve life are very strong. Ten
16 years of reserve life. That gives us
17 good stability to run our program.

18 Total debt to proved reserve. We
19 are going from \$3.08 total debt to our
20 reserves to \$2.63, an 18 percent
21 reduction in the amount of debt we
22 have behind every barrel of oil.

23 The final number is a number that
24 the rating agencies focused on;
25 adjusted debt which takes into account

64

1
2 some of our operational leases and
3 other factors, into our total debt,
4 against proved development reserves.
5 You can see that metric is also
6 improving from \$6.62 to \$5.13; 23
7 percent improvement on a pro forma
8 basis at the end of 2004.

9 So good improvement across all
10 the metrics, very strong financial
11 transaction.

12 Let me go through some of the
13 capital structure numbers, so you
14 understand where the debt is now and
15 where the debt is going to be on a pro
16 forma basis. At the end of 2003,
17 Kerr-McGee had \$3.6 billion of debt,
18 \$2.6 billion of equity, for a debt to
19 cap number of 54 percent, as I
20 mentioned.

21 On a stand-alone basis, we've
22 announced that we plan to pay down
23 approximately \$550 million of debt.
24 That will take us to 3.1 billion, and
25 earnings will increase based upon our

65

1
2 earnings projection for this year.

3 Again, resulting in about 51 percent
4 debt to cap number. So we were
5 already in the process of improving on
6 our capital structure.

7 But then on a pro forma basis,
8 adding in the U factor of the Westport
9 transaction, we'll be adding
10 approximately \$880 million of debt of
11 Westport. Now, Westport's debt at the
12 end of 2003 was \$980 million. What we
13 are assuming is \$180 million paydown
14 of that debt throughout this year.
15 Conservative number, given again that
16 we are expecting 150 to 250 million of
17 cash flow generation from this entity.

18 But also look at the equity. We
19 are increasing our equity by three-
20 fold to 5.3 billion, giving us book
21 capitalization of 9.3 billion or 42
22 percent, again, debt to cap number.

23 We also thought it would be
24 helpful for you for us to walk through
25 the purchase price allocation.

66

1
2 This is a preliminary number.
3 Obviously the number will get
4 finalized as we close the transaction.
5 The equity price of Kerr-McGee at that
6 time will be the equity purchase price

7 that will be utilized, and there will
8 be some reallocation of the asset
9 values.

10 But this is a close approximation
11 to what we see as the purchase price
12 allocation for this transaction.

13 Based upon last night's close of
14 \$51.51, 49.4 million shares that we
15 expect to issue in this transaction
16 will result in a \$2.5 billion increase
17 or equity purchase price number.

18 The \$882 million of debt is
19 assumed to come in from the Westport
20 assets giving an enterprise value of
21 \$3.4 billion, which is the total value
22 we have assumed for this transaction.

23 Westport has other liabilities.
24 Primarily in this number is accounts
25 payable, abandonment, some of the

67

1
2 existing hedge contracts basically are
3 out of the money, and we factored in
4 the liability associated with those
5 hedges.

6 And then we added deferred income
7 taxes of \$664 million. This is a
8 calculated number based upon the tax
9 cost basis of the Westport assets,

10 which is \$1.5 billion.

11 We are paying \$3.4 billion
12 approximately of enterprise value.
13 That leaves \$2 billion of differential.
14 The tax effect on that differential,
15 on a 35 percent tax rate, grosses up
16 at \$664 million for deferred tax.

17 So the total transaction value
18 about 4.5 billion. The allocation of
19 that purchase price will go to the
20 following areas. These again match
21 the numbers that Dave has mentioned
22 earlier.

23 Proved properties will be
24 allocated a value of approximately 2.1
25 billion; 1.2 billion for the unproved,

68

1
2 50 million for gathering assets, 120
3 million for others.

4 Goodwill basically is
5 representing the deferred income tax
6 component of that. That is, again,
7 consistent with the accounting
8 methodology that has been used over
9 the last ten MP transactions. So we
10 feel very comfortable with the
11 goodwill and the numbers that are
12 shown here.

13 You should also recognize that as
14 a result of this transaction, the DD&A
15 rate for Kerr-McGee, which is
16 approximately \$6.75 will be going to a

17 number of around \$8.00 of BOE. We
18 recognize with our cash cost, which
19 David mentioned earlier around \$6.50,
20 this still puts us as full-up cost of
21 less than \$15 of BOE, which is very
22 competitive within the industry.

23 Also remember the cash flow per
24 BOE, which is one of the highest in
25 the industry averaging the \$21.63.

69

1
2 Let me spend a moment on the
3 transaction terms. I think again
4 David well recognized and outlined in
5 the term sheet -- or, excuse me, in
6 the press release.

7 This transaction does represent
8 .71 shares of Kerr-McGee for each
9 outstanding share of Westport share.
10 That's a fixed exchange ratio. It
11 will be tax free, Section 368
12 reorganization.

13 There will be customary
14 nonsolicitation provisions subject to
15 the fiduciary outs. There is a

16 \$90 million plus expense and
17 termination fee. Westport's major
18 shareholders, representing 42 percent
19 of the outstanding shares, agreed to
20 vote in favor of the merger.

21 The conditions to closing,
22 Kerr-McGee and Westport shareholder
23 approvals will be required and there
24 is Hardscott-Rodino filing approval
25 that will be necessary as well.

70

1
2 We expect to close this
3 transaction some time during the third
4 quarter of 2004.

5 Let me just recap again the
6 rationale for the merger again. We
7 think the operational and the
8 financial benefits to this transaction
9 are very compelling.

10 As Dave mentioned, this enhances
11 our U.S. core areas with quality and
12 natural gas assets. We expand our
13 base of lows risk exploitation
14 projects. We accelerate our
15 production growth profile 10 to 12
16 percent over the next three years. We
17 are looking to generate additional
18 free cash flow of \$150 to
19 \$250 million. Accretive to earnings

20 in cash flow 2005 and 2006, which have
21 been underpinned by very attractive
22 hedges.

23 As you can see, we're very
24 excited about the operational and
25 financial benefits of this

71

1
2 transaction. We feel it is going to
3 provide significant long-term value to
4 our shareholders.

5 I would like to turn the program
6 back now to our chairman and CEO, Luke
7 Corbett.

8 MR. CORBETT: Thank you, Bob, I
9 think you can see from this presentation
10 that is a valued transaction. We are
11 creating value today, value in the
12 future; breadth, depth, balance to the
13 Kerr-McGee program, but the upside
14 potential still remains.

15 This follows totally what we set
16 out as our strategic plan beginning in
17 1998: Organic growth, supplemented
18 with strategic and tactical
19 transactions to create value.

20 Again, we are doing that today.
21 We are excited about this transaction.
22 We hope you are, too. We are now

23 prepared to take your questions.

24 We are going to use microphones

25 here so those on the Webcast can hear.

72

1

2 AUDIENCE MEMBER: On the probable

3 and possible reserves 1.8 tcn you

4 mentioned, over what time period do

5 you expect to be able to realize,

6 assuming you realize on that

7 potential?

8 MR. HAGER: The bulk of those

9 will be realized over the next five

10 years.

11 AUDIENCE MEMBER: Are you

12 accelerating spending the Westport

13 plan to do stand-alone?

14 MR. HAGER: I think we have to

15 take a little closer look before I can

16 commit to that for sure. Certainly we

17 see the opportunities are there, but I

18 would like to get in and study it in a

19 little more detail before I can

20 commit.

21 AUDIENCE MEMBER: Do you have an

22 estimate for the combined company's

23 budget for '05 and '06?

24 MR. HAGER: No further guidance

25 other than what's already out there.

1
2 On the Kerr-McGee side, we are going
3 to spend about \$900 million on the
4 capital side, about \$300 million on
5 the exploration side; and on the
6 Westport side is about \$370 million
7 including core capital and
8 exploration.

9 MR. CORBETT: That's for 2004.
10 We have not put forward a budget for
11 2005 as yet.

12 AUDIENCE MEMBER: Thank you.

13 AUDIENCE MEMBER: Luther, are
14 there potential areas of the Westport
15 portfolio that you might deem to be
16 non-core going forward and, therefore,
17 candidates of monetization?

18 MR. CORBETT: Mark, not at this
19 time. I think what we want to do is
20 the gist of the transaction, certainly
21 look at those areas where we can
22 appreciate we can create value.

23 And as we do with all
24 transactions of this type, we want to
25 flesh out the maturity level of those

1
2 transactions before we make any

3 tactical decision like that.

4 Dave, do you want to add anything
5 like that?

6 MR. HAGER: I think that
7 summarizes it well. These are all
8 very high margin properties,
9 considering excellent cash flow. You
10 can see the average lease operating
11 expense on these are very compelling,
12 very competitive, and so just like the
13 Kerr-McGee assets for a longer time
14 period, we will look at. But there is
15 no need. There is some good set of
16 assets.

17 AUDIENCE MEMBER: Hi, a question
18 for Bob. On the 90 percent hedge,
19 what sort of a basis differential are
20 we speaking historically for these
21 synergies on oil and gas?

22 MR. WOHLEBER: Overall on the
23 Westport, as is 20 to 25 percent now.
24 Obviously with their Rocky Mountains
25 and their Western assets, the

75

1
2 differential there is about 75 to 80
3 cents.

4 We have not yet put in basis
5 differential in hedges, but we will be

6 looking to do that in the future.
7 We've done that with the Wattenberg
8 hedging as you know. The market has
9 remained fairly constant really over
10 the last six months, in the 75 to 80
11 cents range. The current record, the
12 Chyian pipeline is coming in I think
13 are beginning to moot the effect
14 there.

15 But again to get the fully
16 effective hedge, we will be adding
17 basis differentials over time.

18 AUDIENCE MEMBER: Is it 20, 25
19 cents for the oil?

20 MR. WOHLBER: Yeah. Really the
21 overall basis differential is 20 to 25
22 cents when you look at the combined
23 basis of oil and gas.

24 MR. CORBETT: Doctor?

25 AUDIENCE MEMBER: Hi. Can you

76

1
2 guys discuss the background of the
3 merger, how you guys got together on
4 the topic?

5 MR. CORBETT: I think Don
6 summarized from their standpoint what
7 they were searching for. The
8 opportunities that they were looking
9 towards, issues that face them.

10 Kerr-McGee has always -- as I
11 mentioned just a few minutes ago, we
12 have always searched for tactical and
13 strategic opportunities that add value
14 to our company. That's how we grow.

15 And when you look at these assets
16 and appreciate what they bring to this
17 portfolio, it accomplished the very
18 things we were looking for, breadth,
19 balance to the portfolio.

20 I take a great deal of comfort
21 when I appreciate that 30 percent of
22 our gas volumes are coming out of the
23 Rocky Mountain areas, and we got
24 identified already, without enhancements,
25 some 9,000 projects. So there is a

77

1
2 lot of balance and breadth associated
3 with that.

4 So any time you can look towards
5 a transaction of this magnitude and
6 create that kind of value and underpin
7 it with quality assets, you should be
8 talking. And we found an opportunity
9 to have that kind of conversation
10 simply because of what they were and
11 part of their progress and where we
12 were in our progress.

13 AUDIENCE MEMBER: S&P put the
14 Company on watch negative this morning
15 for its staff rating, and Moody's
16 placed it negative outlook last week.

17 Can you comment on where you
18 would like your debt ratings to be
19 going forward and what the status of
20 your discussions with the rating
21 agencies are?

22 MR. CORBETT: I'm going to let Bob
23 answer that. My answer is probably
24 higher than his. Bob, why don't you
25 take that question?

78

1
2 MR. WOHLEBER: I think an answer
3 to the question of where we would like
4 to be. We want to be a strong
5 investment grade credit. Kerr-McGee
6 is committed to its capital structure,
7 and we think that's important and we
8 continue to do that.

9 We, again, manage our affairs
10 from a financial standpoint using
11 hedges, making sure we have the
12 available cash to pay down debt.

13 So we're looking to be a strong
14 investment grade credit is where we
15 want to be. We think this transaction
16 moves us closer to that.

17 S&P basically came out on the
18 credit watch, but also within their
19 announcement said they wanted to meet
20 with the company before they made a
21 final decision. They have not made a
22 final decision. They need more
23 information.

24 We have not met with the S&P on
25 this transaction other than giving

79

1
2 them preliminary information.

3 As to Moody's, we had a meeting
4 with Moody's on the Kerr-McGee
5 projections for 2004, 2005 prior to
6 this transaction and, again, it was
7 before they were able to take into
8 account the full benefits of what this
9 transaction does.

10 I can tell you that based upon my
11 recent conversations, they do see it
12 as a positive transaction, basically
13 the balance it adds to our program,
14 adding the U.S. domestic gas position,
15 again, the hedges underpinning it.

16 It is positive. They need to --
17 again, what they want to look at is
18 those pro forma numbers that we put up
19 there, which I think everyone will

20 agree are very compelling. Obviously,
21 they need to look at that as of
22 12/31/2004.

23 So I think it will come in time.
24 We intend to go up and talk to them,
25 both Moody's and S&P -- and Fitch also

80

1
2 provides a rating service for
3 Kerr-McGee. And really give them
4 the full benefit of hearing this
5 story.

6 I think you have to hear the
7 story; you have to understand what
8 this does for us. And we will be
9 spending our time to make those
10 efforts to improve the rating to a
11 stronger investment grade credit.

12 AUDIENCE MEMBER: When as you
13 list today 42 percent shareholders --
14 for the merger, does that mean if
15 there is a high -- I'm not suggesting
16 there is a highgrade. If there is a
17 highgrade, they cannot opt out and
18 vote for the new offer if there is one
19 on the table in?

20 MR. CORBETT: No. You always
21 have fiduciary outs in any kind of
22 transaction like this.

23 AUDIENCE MEMBER: But I mean, 42

24 percent shareholders, the Board has
25 that. But how about the shareholders?

81

1

2 MR. CORBETT: Greg?

3 MR. PILCHER: If the transaction
4 is submitted to the shareholders, and
5 they are obligated under the Voting
6 Agreements to vote for the
7 transaction.

8 As Luke mentioned, the Company
9 has the customary fiduciary outs. If
10 there was a superior proposal and it
11 was not submitted to the shareholder,
12 then of course they would not be
13 voting for it.

14 AUDIENCE MEMBER: The second
15 question relates, there was a footnote
16 over there for \$500 million debt
17 allocated to the chemist.

18 Is that included in the total
19 debt when you calculate your 42
20 percent debt to equity ratio? Or is
21 that excluded or off balance sheet
22 type of debt?

23 MR. WOHLEBER: The 42 percent
24 includes the \$500 million. The
25 purpose of that is really in the last

1
2 component of that slot where we have
3 adjusted debt to prove developed
4 reserves. It is basically a rating
5 agency calculation. And when we look
6 at that, obviously they are looking at
7 debt to barrels of oil.

8 We have a chemical business, if
9 you're familiar with Kerr-McGee
10 Titanium Dioxide, that generates
11 strong cash flow on its own.

12 So really to be fair, relative to
13 the amount of debt supportive by those
14 barrels, there is a component of debt
15 that our chemical business could
16 support. So we just allocated \$500
17 million which we feel is reasonable
18 for the debts that can go to those
19 chemical assets.

20 But it is only in that one
21 calculation of adjusted debt to
22 approved development reserves if that
23 is used.

24 MR. CORBETT: As a footnote to
25 that. There has been a proxy in the

1
2 last few months here for evaluating

3 chemical companies. TI-2 assets, if
4 you look at Millennium, and the range
5 was about ten times cash flow.

6 So if you take our chemical
7 assets and look at \$150 to
8 \$200 million cash flow, you are
9 looking at one and a half to
10 \$2 million in terms of value so we can
11 handle the debt capacity.

12 Mark?

13 AUDIENCE MEMBER: Luke, I got a
14 couple of quick things I could. Can I
15 assume the Tahiti reserves were not
16 booked as proven as of year end of
17 '03?

18 MR. CORBETT: That's correct.
19 Probable, possible.

20 AUDIENCE MEMBER: Who is the
21 consulting engineer they referred to
22 in terms of the 87 percent?

23 MR. HAGER: Westport's historic
24 engineer has been Rider Scott.
25 Westport did a transaction where they

84

1
2 acquired the assets of United
3 Resources late in 2003.

4 United Resources had historically
5 used Netherlands Stool. So for the

6 purpose of 2003, United Assets were
7 still using Netherland Stool, and the
8 bulk were Rider Scott.

9 AUDIENCE MEMBER: Are there any
10 headcount reduction numbers, Luke,
11 that you might be able to cite that
12 underpins the \$40 million in
13 synergies?

14 MR. CORBETT: No headcount
15 reductions, per se. But, Mark, I
16 think it is fair for all of us to all
17 appreciate that there is absolutely no
18 reason to replicate corporate
19 functions and staff style functions.

20 You will also appreciate, we want
21 to do as we did with HS Resources. We
22 want to maintain operating personnel.
23 This is where we can extract value and
24 apply synergies to the program.

25 AUDIENCE MEMBER: One more if I

85

1
2 could. You have a provision, Bob for
3 calling the converts, I guess, is the
4 intention. Is it about 100 million
5 bucks and is there an opportunity to
6 call it as opposed to a forced
7 conversion?

8 MR. WOHLEBER: Yes. There is a

9 \$75 million convertible preferred on
10 Westport's books, six and a half
11 percent yield.

12 The provision is that Westport
13 will redeem that issue between now and
14 closing, and they have that option to
15 do that. There is 2.9 million shares.
16 The call price is \$25.65 resulting in
17 that \$75 million figure that I quoted.

18 AUDIENCE MEMBER: Are you
19 planning on leaving Westport's bonds
20 outstanding?

21 MR. CORBETT: Bob?

22 MR. WOHLEBER: At the present
23 time, we will be assuming Westport's
24 bonds, yes.

25 MR. CORBETT: Another question in

86

1
2 the back.

3 AUDIENCE MEMBER: Given the
4 opportunity that you realized in
5 Westport portfolio and the fact you
6 are issuing 50 million shares, has
7 Kerr-McGee's Board given any
8 consideration to changing the
9 dividend?

10 MR. CORBETT: The Board is
11 comfortable with where the dividend
12 is. We have looked at this

13 opportunity several times with the
14 Board, and they have chosen to
15 continue with the dividends. That's
16 why you saw the pro forma number of
17 \$89 million.

18 AUDIENCE MEMBER: Are any of the
19 Westport major shareholders locked up
20 in this transaction so that we
21 don't -- are any of the major
22 shareholders from Westport locked up?

23 MR. CORBETT: Greg, do you want
24 to answer that?

25 MR. PILCHER: The three major

87

1
2 Westport shareholders have existing
3 Registration Rights Agreements with
4 Westport now. We are not assuming the
5 Registration Rights Agreement, but we
6 are putting a shelf in place for them
7 so they can maintain the flexibility
8 they have now with Westport.

9 As to the specifics of a lockout,
10 they're prohibited by their Voting
11 Agreement from selling between now and
12 closing. Following closing, they'll
13 have the same ability to sell as they
14 have had at Westport.

15 MR. CORBETT: Any other questions?

Edgar Filing: KERR MCGEE CORP /DE - Form 425

16 Well, ladies and gentlemen, thank
17 you very much. We appreciate your
18 time. And again, we believe we are
19 creating a value story here and we
20 hope you have enjoyed this
21 presentation. Thank you.

IMPORTANT LEGAL INFORMATION

THIS TRANSCRIPT IS NOT AN OFFER TO SELL THE SECURITIES OF KERR-McGEE CORPORATION AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES.

INVESTOR AND SECURITY HOLDERS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS REGARDING THE PROPOSED TRANSACTION WHEN IT BECOMES AVAILABLE BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION.

The joint proxy statement/prospectus will be filed with the U.S. Securities and Exchange Commission (SEC) by Kerr-McGee Corporation and Westport Resources Corporation. Investors and security holders may obtain a free copy of the joint proxy statement/prospectus when it becomes available and other documents filed or furnished by Kerr-McGee Corporation or Westport Resources Corporation with the SEC at the SEC's website at www.sec.gov. The joint proxy statement/prospectus and other documents filed or furnished by Kerr-McGee Corporation or Westport Resources Corporation may also be obtained for free by directing a request to Kerr-McGee Corporation, Attn: Corporate Secretary, P.O. Box 25861, Oklahoma City, Oklahoma 73125 or to Westport Resources Corporation, Attn: Investor Relations, 1670 Broadway, Suite 2800, Denver, Colorado 80202.

Kerr-McGee, Westport Resources and their respective directors and officers may be deemed to be participants in the solicitation of proxies with respect to the transactions contemplated by the merger agreement. Information regarding Kerr-McGee's directors and officers is available in the Proxy Statement for its 2004 Annual Meeting of Stockholders, filed March 26, 2004 with the SEC, and its Annual Report on Form 10-K, filed March 12, 2004 with the SEC. Information regarding Westport Resources' directors and officers is available in the Proxy Statement for its 2003 Annual Meeting of Stockholders, filed April 21, 2003 with the SEC. Other information about the participants in the solicitation will be set forth in the Joint Proxy Statement/Prospectus and other relevant materials to be filed with the SEC.

Safe Harbor Language on Forward Looking Statements:

(Statements in this transcript regarding the company's or management's intentions, beliefs or expectations, or that otherwise speak to future events, including resource estimates, production rate estimates, development schedule and cost estimates, are "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements include those statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "estimates," "projects," "target," "budget," "goal," "plans," "objective," "outlook," "should," or similar words. These "forward-looking" statements also include statements relating to (1) the impact the companies expect the proposed transaction to have on the combined entity's operations, financial condition, and financial results, (2) the companies' expectations about their ability to successfully integrate the combined businesses, (3) the amount of cost savings

and overall operational efficiencies the companies expect to realize as a result of the proposed transaction, (4) when the companies expect to close the proposed transaction, (5) anticipated drilling and development opportunities and (6) the ability of the companies to meet their stated financial goals. In addition, any statements regarding possible commerciality, development plans, capacity expansions, drilling of new wells, ultimate recoverability of reserves, future production rates, future cash flows and changes in any of the foregoing are forward-looking statements.

Matters discussed in these statements involve risks and uncertainties which may cause results to differ materially from those set forth in these statements. The following factors, among others, could cause actual results to differ from those set for in these forward-looking statements: the ability to obtain governmental approvals of the merger on the proposed terms and schedule; the failure of Kerr-McGee or Westport Resources stockholders to approve the merger; the risk that the businesses will not be integrated successfully; the risk that the cost savings and any synergies from the merger may not be fully realized or may take longer to realize than expected; disruption from the merger making it more difficult to maintain relationships with customers, employees or suppliers; the accuracy of the assumptions that underlie the statements, the success of the oil and gas exploration and production program, the price of oil and gas, drilling risks, uncertainties in interpreting engineering data, demand for consumer products for which Kerr-McGee's oil and gas business supplies 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 identified in the Risk Factors sections of Kerr-McGee's Annual Report on Form 10-K and Westport Resources' Annual Report on Form 10-K as well as other of their SEC filings.

The SEC permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves. We use certain terms in this transcript, such as "probable and possible" resources, that the SEC's guidelines strictly prohibit us from including in filings with the SEC. Investors are urged to consider closely the disclosures and risk factors in Kerr-McGee's Forms 10-K and 10-Q, File No. 1-16619, available from its offices or web site, www.kerr-mcgee.com, and in Westport Resources' Forms 10-K and 10-Q, File No. 1-14256, available from its offices or web site, www.westportresourcescorp.com. You can also obtain these forms from the SEC by calling 1-800-SEC-0330.)