

## **CHAPTER 3**

### **COMPANY PROFILE**

The Kerr-McGee Corporation was an energy company involved in the exploration and production of oil and gas resources. The company, founded in 1929, listed on NYSE since 1956, had about 1.4 billion U.S. dollars in assets as of March 31, 2006. Kerr-McGee was initially focused in mostly off-shore oil exploration and production, being one of the first companies to use drill ships in the Gulf of Mexico, and later one of the first companies to use a Spar type platform in the area. With the acquisition of the Oryx Energy Company of Dallas, Texas in 1999, Kerr-McGee gained more onshore assets, as well as significant assets in several foreign areas, most notably Algeria and western Kazakhstan. Later acquisitions of HS Resources and Westport Energy established the base of operations in Denver, Colorado and added large resource areas throughout the Rocky Mountains.

Until 2005, Kerr-McGee had two major divisions: chemical and oil-related. On November 21, 2005, the chemical division of the company, based in Oklahoma City, was sold off by IPO as Tronox, thereby making Oklahoma City home to the administrative side of Kerr-McGee, while all exploration and production management was located in Denver and Houston.

On June 23, 2006, Houston-based Anadarko Petroleum Corporation agreed to acquire Kerr-McGee in an all-cash transaction totaling \$16.5 billion plus the assumption of \$2.6 billion in debt. Kerr-McGee shareholders voted to approve the offer on August 10, 2006 and Kerr-McGee immediately ceased to exist as an independent entity. Many aspects of company procedure and policy (such as healthcare and benefits) will be retained until late 2006/early 2007. As a result of the takeover, all operations (with the exception of Tronox which was spun off as a separate company in 2005) moved out of the State of Oklahoma, where Kerr-McGee employed approximately 200 people at its Oklahoma City headquarters.

Kerr-McGee has several locations for their operations and projects. Main operations centers in the United States were the Rocky Mountains and the Gulf of Mexico region. Main offices were located in downtown Denver and the Greenspoint area of Houston.

Corporate headquarters were located in Downtown Oklahoma City. The other location is taking place in Mainland China. Kerr-McGee had exploration, development, and production projects in Bohai Bay, China, near Beijing. Additional exploration was planned for the South China Sea. These operations were run primarily from an office in Beijing. Some other locations of Kerr-McGee and its subsidiaries were spread in western Kazakhstan, western Australia, Brazil, Trinidad, Benin, the United Kingdom and several other more minor locations around the world at various times. The holdings varied as part of a continuing process of expansion and then re-focus on domestic rather than international exploration.

### **3.1 History**

Anderson & Kerr Drilling Company was founded near Oklahoma City, Oklahoma, in July 1929 by James L. Anderson who had the ability to drill more economically than others and Robert S. Kerr who was a talented capital raiser. The company's assets amounted to three boilers and two steam rigs, and the company was one of many small oil-related firms competing for drilling contracts in a city that was booming.

In 1932 the company opened an office for its staff of 11 in Oklahoma City and was incorporated as A&K Petroleum Company. In 1935 its first public offering of 120,000 shares of common stock was made available at \$5.00 per share. In 1936 when the company was negotiating a second stock offering, Anderson decided that the company was growing to a size he no longer felt comfortable managing, and he opted to sell his interest in the A&K.

Two men from Phillips Petroleum, Robert Lynn and Dean A. McGee were hired. Robert Lynn became executive vice-president of the company which, in

these formative years, restructured and renamed its operations several times. He played a prominent role in the company, and then called Kerlyn Oil Company, for five years. Dean A. McGee was to direct the company on a new course almost immediately and brought the company to its first major oil discovery- the Magnolia field in Columbia County, Arkansas. The revenues from the Magnolia discovery fueled further expansion.

In 1942, when Kerr made his move into politics, Robert Lynn decided to leave the company. McGee was the logical choice to move into Lynn's leadership role, and in 1946 the company changed its name to Kerr-McGee Oil Industries, Inc. McGee became executive vice-president in 1942 and was made president of Kerr-McGee in 1957.

In 1945 the company also moved into downstream operations with the purchase of its first refinery to seek the chance to capitalize on the increased need for refined oil products. Exploration activities continued to increase as Kerr-McGee expanded its drilling operations to the Gulf of Mexico.

In 1952 Kerr-McGee was the first oil company to enter the uranium industry when it acquired mining properties on a Navaho reservation in Arizona. In 1955 the company moved into major retailing with its purchase of the Deep Rock Oil Corporation.

In 1965 Kerr-McGee Oil Industries, Inc. became Kerr-McGee Corporation, a name that better represented the company's diversified holding. In 1967 the company enters the industrial chemical industry. In 1974 the company increased its refining capabilities significantly with the acquisition of the Southwestern Refining Company, Inc., in Corpus Christi, Texas. In 1976 the company expanded its production activities into the Arabian Gulf and the North Sea, and participated in the discovery of the Beatrice oil field, off Scotland's shore.

In 1983 earnings dropped from \$211 million in 1981 to \$118 million. Many analysts felt that Kerr-McGee suffered from too much diversification. Dean

McGee stepped aside as chairman and Frank A. McPherson was elected CEO and chairman.

By the end of 1991 Kerr-McGee was focused exclusively on oil and natural gas, chemicals, and coal, but McPherson was not finished cutting. Kerr-McGee was achieving success through exploration ventures in Indonesia (onshore), the Gulf of Mexico (the deepwater Pompano project), the South China Sea (through a partnership with Amoco Corp.), and China's Bohai Bay. Overall, the company's proven crude-oil reserves in 1996 stood at 170 million barrels, 45 percent more than in 1989.

In late 1995 and 1996 the company divested some of its North American onshore fields. As a result, Kerr-McGee was a much smaller company with \$1.93 billion in 1996 sales, compared to \$3.68 billion in 1990 and \$3.15 billion in 1985 but also a much more profitable one with net income was a record \$220 million in 1996, compared to \$150 million in 1990 and \$137 million in 1985.

In 1999, a merger with Oryx Energy Company increased Kerr-McGee's exploratory prospects and reserves. In 2000 Kerr-McGee purchased plants in Savannah, Georgia and Botlek in the Netherlands from the Kemira Corporation. The deal made Kerr-McGee the third-largest producer of the compound in the world, with 16 percent of total market share.

In the spring of 2002 the company and its partner in the operation, Ocean Energy, announced that they had uncovered large natural gas deposits at a deep-water well in the Gulf of Mexico. At the same time Kerr-McGee expanded its interests in natural-gas drilling in the North Sea, off the coast of the British Isles. According to a report in *Offshore*, the company had committed almost half of its annual budget for exploration and production to develop sites in the area.

On June 2004, Kerr-McGee completed a merger with Westport Resources Corp. creating one of the largest independent oil & gas companies in the U.S. The merger increased Kerr-McGee's proved reserves by approximately 30%, bringing

the proved reserves from the combined companies at the end of 2003 is more than 1.3 billion barrels of oil equivalent had the merger occurred.

### **3.2 Policy and Commitments**

Kerr-McGee is committed to quality, safety, environmental responsibility and ethical conduct. Kerr-McGee is committed to meeting high ethical standards in its world-wide operations. This includes treating everyone fairly and with respect, maintaining a safe and healthful workplace, and improving the quality of life wherever Kerr-McGee does business. Kerr-McGee's code of conduct and ethics defines the fundamental principles which guide and help its employees perform with integrity, respect for the individual, ethical business dealings, safe working practices, responsible corporate citizenship, responsible care for the environment and continuous.

Kerr-McGee's strategy is to enhance value for their stockholders through the development of a well balanced portfolio of high quality oil and natural gas assets that provides a large inventory of repeatable, low risk exploitation projects and high potential exploration opportunities.

### **3.3 Ownership**

Kerr-McGee has listed on NYSE as KMG since 1956 until Anadarko Petroleum Company acquired Kerr-McGee. Post-merger with Anadarko Petroleum Company, Kerr-McGee is owned 100% by Kerr-McGee Worldwide Corporation, a subsidiary of Anadarko Petroleum Company. Par value of Kerr-McGee Oil & Gas Corporation's common stock is \$1.00 with 10,000 shares authorized, 1,000 shares issued.

### **3.4 Kerr-McGee's Activities**

Kerr-McGee Corporation is a global energy and inorganic chemical company based in Oklahoma City. Kerr-McGee is a recognized leader in oil and natural gas exploration and production. Kerr-McGee was also the world's third

largest producer and marketer of titanium dioxide pigment to customers in about 100 countries before in 2005 Kerr-McGee sold off its chemical division by IPO as Tronox. With the completion of the separation of Tronox, Kerr-McGee is now a pure-play oil and natural gas exploration and production company.

Kerr-McGee has the resources and expertise to take advantage of oil and natural gas exploration and production opportunities in established areas as well as in industry frontiers such as deep water with its offshore and onshore exploration on six continents.

Kerr-McGee's major producing operations are located onshore in the United States, the U.S. Gulf Mexico and offshore China. In addition, Kerr-McGee explore for oil and gas in these core areas and in proven hydrocarbon basins worldwide, including the North Slope of Alaska and offshore West Africa, Brazil and Trinidad and Tobago.

Kerr-McGee's exploration program leverages its success to high quality projects in high potential trends. In each of its major areas of activity, Kerr-McGee continues to build its leasehold position, taking meaningful working interests and maximizing its capital investments through partnerships and strategic alliances.

On June 2004, Kerr-McGee has approximately 63 million gross undeveloped acres with more than 55 million acres in global deepwater locations. As of December 31, 2005 with nearly one billion barrels of oil equivalent (boe) pf proved reserves, Kerr-McGee became one of the largest U.S. based independent oil and gas exploration and production companies.

On June 22, 2006, Kerr-McGee and Anadarko Petroleum Corporation (Anadarko) entered into a definitive agreement which provides for the company's merger with a subsidiary of Anadarko. Under the terms of the agreement, each outstanding share of Kerr-McGee Corporation common stock will be converted into the right to receive \$70.50 in cash, without interest, subject to increase at the rate of \$.01255 per day for each day after August 10, 2006 that the merger has not

been completed, but not exceeding \$71.0271 per share. The transaction, which is subject to approval by Kerr-McGee's stockholders and customary terms and conditions, is expected to close during the third quarter of 2006. A special meeting of stockholders to vote on the proposed merger is to be held on August 10, 2006. Following completion of the merger, the company will become as a wholly-owned subsidiary of Anadarko.

Other recent developments which have been happening in Kerr-McGee were:

- On May 9, 2006, the company's Board of Directors (the Board) authorized a two-for-one split of Kerr-McGee's outstanding common stock. The stock split was accomplished through a stock dividend issued on June 14, 2006 to stockholders of record at the close of business on June 2, 2006. The par value of Kerr-McGee's common stock remains \$1 per share.
- The Board approved a 25% increase in the company's quarterly dividend effective with the dividend paid on July 3, 2006. On a post-split basis, the quarterly dividend increased from \$.025 to \$.03125 per share.
- In January 2006, Kerr-McGee entered into an agreement to sell its interest in certain Gulf of Mexico shelf oil and natural gas properties to W&T Offshore, Inc. for approximately \$1.34 billion in cash, subject to certain adjustments. The transaction, which has an effective date of October 1, 2005 and is subject to customary closing conditions and regulatory approvals, is expected to close in the third quarter.
- In January 2006, the Board approved a \$1 billion stock repurchase program. During the first six months of 2006, approximately 3.4m million shares of stock (on a pre-split basis) were repurchased at an aggregate cost of \$356 million.
- In November 2005, Tronox Incorporated, a former wholly owned subsidiary that held Kerr-McGee's chemical business, completed an IPO of 17.5 million shares of Class A common stock, which reduced Kerr-McGee's equity interest in Tronox to 57%. On March 30, 2006, Kerr-

McGee completed a pro rata distribution to its stockholders in the form of a dividend of shares of Tronox Class B common stock it owned and no longer has any ownership or voting interest in Tronox.

### **3.5 Organization Structure and Human Resources**

The organization structure of Kerr-McGee consists of Board of Directors, Executive Officers and Corporate Officers.

On July 2006 post-merger with Anadarko Petroleum Company, the Executive Committee is already working with Anadarko's Board of Directors to define the top three levels of the new organization. Anadarko Petroleum Company plans to have those top levels identified and communicated after closing, when each company will immediately become a subsidiary of Anadarko. Anadarko Petroleum Company will clearly define new reporting lines for each new subsidiary, so that the new Anadarko can continue transacting and moving forward seamlessly. Anadarko Petroleum Company's goal is to have the majority of organizational charts complete and communication made to the majority of employees about their positions in the new Anadarko by the end of September.

In order to start removing some of the uncertainties surrounding the future of the integrated companies, Anadarko Petroleum Company defined its senior management team and their primary areas of responsibility, beginning with the leaders who will report to Executive Chairman, President and CEO and make up Executive Committee. Kerr-McGee's impressive record of innovation in developing deepwater and tight gas resources is complementary to Anadarko Petroleum Company's strategy and growth aspirations, therefore the Executive Officers at Kerr-McGee will be an important element of Anadarko Petroleum Company's future success.

### **3.6 Operational Performance**

On June 25, 2004, Kerr-McGee completed a merger with Westport Resources Corporation (Westport), an independent exploration and production company with operations onshore in The Rocky Mountain, Mid-Continent and



Gulf Coast areas in the U.S. and in the Gulf Mexico. The merger added 281 MMboe to Kerr-McGee's proved reserves, including natural gas reserves in the Greater Natural Buttes area in Utah. In exchange for Westport's common stock and options, Kerr-McGee issued stock valued at \$2.4 billion, options valued at \$34 million and assumed debt of \$1 billion, for a total of \$3.5 billion (net of \$43 million of cash acquired). The fair value assigned to assets acquired and goodwill totaled \$4.6 billion. Kerr-McGee believe this merger improved the risk profile of their assets by adding low-risk exploitation opportunities and increasing the proportion of U.S. onshore natural gas reserves in Kerr-McGee's portfolio.

Table 3.2  
Assets and Revenues per Segment from 2001-2005

(Millions of dollars)	2005	2004	2003	2002	2001
Assets-					
Exploration and production	\$ 11,127	\$ 10,260	\$ 5,348	\$ 4,919	\$ 4,958
Chemical	1,750	1,543	1,734	1,655	1,631
Corporate and other	1,399	2,715	3,168	3,335	4,487
Total	<u>\$ 14,276</u>	<u>\$ 14,518</u>	<u>\$ 10,250</u>	<u>\$ 9,909</u>	<u>\$ 11,076</u>
Revenues					
Exploration and production	\$ 4563	\$ 3096	\$ 2132	\$ 1514	\$ 1493
Chemical	1364	1302	1157	1065	1023
Total	<u>\$ 5927</u>	<u>\$ 4398</u>	<u>\$ 3289</u>	<u>\$ 2579</u>	<u>\$ 2516</u>
Income (loss) from continuing operations	\$ 946	\$ 264	\$ 155	\$ -97	\$ 279

Source: KERR-MCGEE CORP/DE. 10-K, March 15, 2006

Table 3.2 provides an overview of Kerr-McGee's operating performance and the composition of Kerr-McGee's assets and revenues by segment. As mentioned earlier, the chemical business is conducted by Tronox through its operating subsidiaries. Corporate and other assets presented below include assets of discontinued operations, while revenues relate only to the company's continuing operations.

Kerr-McGee's crude oil and natural gas sales volumes and revenues from continuing operations for each of the three years in the period ended December 31, 2005 is summarized in the following table.

Table 3.3  
Crude Oil and Natural Gas Sales Volumes and Revenues based on Geographic Area

<b>(Dollars in millions)</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Crude oil and condensate (million barrels)			
U.S. Gulf of Mexico	20	22	21
U.S. onshore	13	10	7
China	7	3	1
	<u>40</u>	<u>35</u>	<u>29</u>
Crude oil and condensate sales revenues			
U.S. Gulf of Mexico	\$ 878	645	541
U.S. onshore	522	293	188
China	311	92	23
	<u>\$ 1711</u>	<u>1030</u>	<u>752</u>
Natural gas (billion cubic feet)			
U.S. Gulf of Mexico	138	133	101
U.S. onshore	213	173	129
	<u>351</u>	<u>306</u>	<u>230</u>
Natural gas sales revenues			
U.S. Gulf of Mexico	\$ 988	724	493
U.S. onshore	1350	878	554
	<u>\$ 2338</u>	<u>1602</u>	<u>1047</u>

Source: KERR-MCGEE CORP/DE. 10-K, March 15, 2006

Kerr-McGee's average daily oil production from continuing operations for 2005 was 109 thousands barrels per day or almost 40 million barrels per year, a 14% increase from 2004. Kerr-McGee's average realized oil price was \$42.89 per barrel for 2005, including the impact of hedges, compared with \$29.38 per barrel for 2004, there was a 46% increase; resulting 66% increase in sales revenues for crude oil. During 2005, average daily natural gas production from continuing operations averaged 962 million cubic feet per day or 351 billion cubic feet per year, up 15% from 2004. The 2005 average realized natural gas price was \$6.66 per thousand cubic feet (Mcf), including the impact of hedges, compared with \$5.24 per Mcf in 2004, there was a 27% increase; resulting 46% increase in sales revenues for natural gas.

The number of productive oil and gas wells in which Kerr-McGee had an interest at December 31, 2005 is shown in the following table. These wells include 1,143 gross or 487 net wells associated with improved recovery projects, and 2,532 gross or 2,436 net wells that have multiple completions but are included as single wells.

Table 3.4  
Gross and Net Productive Wells

Location	Crude Oil		Natural gas		Total	
	Gross	Net	Gross	Net	Gross	Net
United States	3,498	2,303	7,531	4,593	11,029	6,896
China	53	21	-	-	53	21
Total	3,551	2,324	7,531	4,593	11,082	6,917

Source: KERR-MCGEE CORP/DE. 10-K, March 15, 2006