determination
## Financial Highlights

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>% Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$3,700</td>
<td>$3,566</td>
<td>4</td>
</tr>
<tr>
<td>Operating profit (loss)</td>
<td>(139)</td>
<td>883</td>
<td>NM</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>(485)</td>
<td>486</td>
<td>NM</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>1,159</td>
<td>1,792</td>
<td>(35)</td>
</tr>
<tr>
<td>Dividends declared</td>
<td>181</td>
<td>176</td>
<td>3</td>
</tr>
<tr>
<td>Total assets</td>
<td>9,909</td>
<td>11,076</td>
<td>(11)</td>
</tr>
<tr>
<td>Total debt</td>
<td>3,904</td>
<td>4,574</td>
<td>(15)</td>
</tr>
<tr>
<td>Stockholders’ equity</td>
<td>$2,536</td>
<td>$3,174</td>
<td>(20)</td>
</tr>
<tr>
<td>Common shares outstanding</td>
<td>100,384</td>
<td>100,185</td>
<td>–</td>
</tr>
<tr>
<td>Per common share</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>$(4.84)</td>
<td>4.74</td>
<td>NM</td>
</tr>
<tr>
<td>Stockholders’ equity</td>
<td>23.01</td>
<td>28.83</td>
<td>(20)</td>
</tr>
<tr>
<td>Dividends declared</td>
<td>1.80</td>
<td>1.80</td>
<td>–</td>
</tr>
<tr>
<td>Market prices –</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>63.58</td>
<td>74.10</td>
<td>(14)</td>
</tr>
<tr>
<td>Low</td>
<td>38.02</td>
<td>46.94</td>
<td>(19)</td>
</tr>
<tr>
<td>Year-end</td>
<td>44.30</td>
<td>54.80</td>
<td>(19)</td>
</tr>
</tbody>
</table>

**NM:** not meaningful

## Operating Highlights

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>% Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net production of crude oil and condensate (thousands of barrels per day)</td>
<td>191</td>
<td>189</td>
<td>1</td>
</tr>
<tr>
<td>Average price of crude oil sold (per barrel)</td>
<td>$22.04</td>
<td>$22.60</td>
<td>(2)</td>
</tr>
<tr>
<td>Natural gas sales (millions of cubic feet per day)</td>
<td>760</td>
<td>596</td>
<td>28</td>
</tr>
<tr>
<td>Average price of natural gas sold (per thousand cubic feet)</td>
<td>$2.95</td>
<td>$3.83</td>
<td>(23)</td>
</tr>
<tr>
<td>Titanium dioxide pigment production (thousands of tonnes)</td>
<td>508</td>
<td>483</td>
<td>5</td>
</tr>
<tr>
<td>Number of employees at year-end</td>
<td>4,470</td>
<td>4,638</td>
<td>(4)</td>
</tr>
</tbody>
</table>

*This report contains forward-looking information. The text should be read in conjunction with the cautionary statement on the inside back cover.*

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**PROFILE**

Kerr-McGee is an energy and chemical company with assets of approximately $10 billion and two worldwide businesses: oil and gas exploration and production and the production and marketing of titanium dioxide pigment.

A billion barrels of oil equivalent in proved reserves and leaseholdings of 64 million gross undeveloped acres at year-end 2002 make Kerr-McGee one of the largest U.S.-based independent exploration and production companies. Primary areas of oil and gas production are the United States and the North Sea. The company’s exploration program targets high-potential deepwater prospects in the Gulf of Mexico and selected international basins.

The chemical unit is the world’s third-largest producer and marketer of titanium dioxide, an inorganic white pigment used in paint, plastics, paper and many other products.

Founded in 1929, Kerr-McGee is based in Oklahoma City and has been listed on the New York Stock Exchange since 1956 under the ticker symbol KMG.
With determination and skill, the ice climber on the cover of this report focuses on the goal of reaching the top. The climber knows the challenge and manages the risk. At Kerr-McGee, we focus on the profitable growth of our businesses. We have the expertise, the technology and effective teamwork. We manage the risks and are accountable for our decisions. We are determined to achieve top performance through the flawless execution of our business strategy.
After a difficult year, we are more determined than ever to achieve our goal of consistently providing shareholder returns in the top quartile of our peer groups. Kerr-McGee has the people and the assets to deliver superior performance, safely and with care for our natural environment. Few companies can match the expertise and technology of our deepwater team or the high potential of our large acreage portfolio. In the chemical business, our fast-growing titanium dioxide operations rank as the world’s third-largest producer and marketer of this essential white pigment.

Our operating units achieved a number of successes in 2002. We continued an active exploration program and brought on stream three fields in the deepwater Gulf of Mexico and two in the North Sea. In our pigment business, we increased sales volumes and reduced unit production costs by implementing innovative process improvements at minimal capital cost.

The cash flow of $1.4 billion from 2002 operations funded capital investments of $1.2 billion that are strengthening our competitive position in our core operating areas. Shareholders received dividends equal to a 3.5% return based on the year’s average stock price. However, we also saw our stock price decline 19%, and Kerr-McGee ended the year with a net loss of $485 million due to the impact of several charges.

After taxes, the charges include $565 million for asset impairments and $132 million for a tax rate increase in the United Kingdom. The impairments include $335 million to write down the value of the Leadon field in the North Sea. Oil production at Leadon is lower than projected due to the field’s unexpected reservoir complexity. We are evaluating options for generating the best value from Leadon and its state-of-the-art floating facility.

While the 2002 financial results are disappointing, we start 2003 in a stronger position as a result of our program to sell noncore and higher-cost oil and gas assets. These sales yielded proceeds of $760 million by year-end, with completion of additional transactions expected in 2003. The proceeds enabled us to reduce total debt by 15%. Our goal is a debt-to-capitalization ratio below 50%.

As we benefit from the sale of the higher-cost fields and ramp up production from efficient new deepwater projects, we expect to reduce our lifting costs by about 20% per barrel of oil equivalent (BOE).

Kerr-McGee begins 2003 with proved reserves of approximately 1 billion BOE, about one-third lower than a year earlier largely due to the asset sales and reduction of Leadon reserves.

Exploration, especially in deep water, is a multiyear effort. It takes time to acquire and evaluate seismic data, acquire leases, select well locations and contract for drilling rigs. Discoveries in relatively unexplored areas with no infrastructure require additional appraisal wells to minimize risk before investing in field development.
We therefore view exploration results in a three-year context. Unusually low 2002 reserve additions increased our average three-year finding and development cost to about $9 per BOE and reduced our three-year production replacement rate through the drill bit to 129%. While these results remain competitive within our peer group, we are determined to improve our performance through our active and highly focused exploration program.

An ongoing challenge for oil and gas producers is price volatility, especially in the current climate of political uncertainty. During 2002, per-barrel oil prices dropped below $20 in January and climbed above $30 in December. Prices for natural gas followed the same pattern, dropping to about $2 in February and closing the year at about $4.80 per thousand cubic feet. To provide greater certainty of cash flows to fund our exploration and capital programs, we hedged about 40% of our 2002 production and currently have hedged approximately half of our 2003 production.

In the titanium dioxide pigment business, sales prices began to improve in 2002 after a difficult period for the entire industry. Consumption of titanium dioxide closely tracks global economic trends. We achieved a 17% increase in 2002 sales volumes while also reducing unit costs by 6%.
Board of outside directors strengthens corporate governance

At a time when corporate governance is much in the news, it is appropriate to note that Kerr-McGee has long benefited from the guidance of a strong board of outside directors. The company's chief executive officer is the only employee who serves on the board.

In 2003, the directors adopted corporate governance guidelines that further strengthen board independence and effectiveness. The board's audit, executive compensation, and nominating and corporate governance committees consist entirely of independent, nonemployee directors.

We seek diversity on our board and in our worldwide workforce. A rich mix of viewpoints and ideas enhances our knowledge base and makes our company a more effective competitor in the global marketplace.

Kerr-McGee's employees around the world are committed to the high ethical standards outlined in the company's code of conduct. From these ethical standards flow social responsibility and honest financial reporting. We believe in full financial disclosure and conservative accounting methods.

Strategy focuses on profitable growth

We will continue to focus on creating shareholder value through the profitable growth of our oil and gas and pigment businesses. Strategic acquisitions may supplement the internal growth from drilling success and technology improvements. We will also remain flexible and prepared to seize new opportunities that allow us to capitalize on our expertise.

Ongoing cost-control programs help create value, and we are intensifying these efforts throughout our operations. In a world striving for “better-faster-cheaper,” the low-cost producer wins. By careful management of our supply chain, we are building on past achievements to generate additional savings and add value for shareholders and customers.

Oil and gas

Kerr-McGee is an exploration-oriented company, and our primary growth will be derived from exploration success in deep water, where we have established a competitive edge. Our strategy is straightforward. Our extensive acreage inventory — concentrated in deepwater basins — allows continuous “highgrading” of drilling prospects.

Once we have a discovery, we rapidly apply cost-effective and sometimes innovative development solutions. We focus on reducing development costs as well as the time from discovery to initial production. This maximizes the value of each discovery. We also cluster our exploration leases in core areas to improve the incremental economics of smaller discoveries near hub facilities.

Consistent with this strategy, 80% of our 64 million gross undeveloped acres lie in deep water in the Gulf of Mexico, along the Atlantic Margin and offshore Australia. Kerr-McGee will continue active bidding for leases in the deepwater gulf, our primary growth engine. We are the largest leaseholder in this prolific oil and gas region among independent exploration and production companies, and No. 5 among all operators.

Our 2003 exploration expense budget of $250 million is expected to fund an active drilling program of 30 to 45 wells, including 10 to 15 wells in the deepwater gulf. We are also drilling deepwater prospects offshore Western Australia and doing seismic work in preparation for deepwater wells offshore Brazil, Morocco and Nova Scotia. In addition, more seismic data will be acquired in Benin, where we have drilled two deepwater wells.

The deepwater program is balanced by lower-risk exploration and field exploitation onshore in the United
States, the Gulf of Mexico’s continental shelf and the North Sea. These mature areas provide long-life cash flow potential from existing production. We also are evaluating exploration opportunities on fallow North Sea blocks near our existing infrastructure. These are inactive blocks held by other operators.

Exploration and development continue in China’s Bohai Bay, where we have made five oil discoveries since 1996 and expect to establish a new core operating area. Development of two fields is under way, with first production projected for late 2004. We are drilling additional exploration wells to assess the full resource potential of the area.

Other major projects funded in the $860 million oil and gas capital budget for 2003 are the Gunnison and Red Hawk developments in the deepwater gulf. Gunnison is being developed with Kerr-McGee’s third truss spar, a cost-efficient production system pioneered at our Nansen and Boomvang fields. The next spar evolution – the industry’s first cell spar – will take us into 5,300 feet of water at Red Hawk. This innovative spar design will further reduce the reserve volumes needed for profitable development of deepwater fields.

Overall, about 80% of the capital budget is allocated to projects that will provide new production to balance the natural decline of existing fields. The investments in mature areas – the gulf’s shelf, U.S. onshore and the North Sea – provide good returns and stable cash flow.

**Chemicals**

The global titanium dioxide business is recovering from its most severe downturn in more than 20 years, and Kerr-McGee is in an excellent position to increase market share as pigment demand resumes normal growth. We anticipate an annual demand growth rate of 3% during the next several years. Our plants in the United States, Germany, Netherlands and Australia are strategically located to serve major world markets and can be expanded to meet customer needs.

Following five years of rapid growth through plant expansions and acquisitions, we are focusing on improving earnings and cash flow from pigment operations. Technology improvements will expand production capacity at minimal capital cost and reduce unit operating costs. We see a profitable future for our global pigment business.

We are implementing our plan to exit the forest products business, which represents less than 1% of total assets. We also will close a plant in Alabama that produces synthetic rutile, a feedstock for pigment production. Future feedstock can be purchased at lower cost than we can make it.

New opportunities for capitalizing on our expertise are carefully considered. One such opportunity is AVESTOR. This joint venture with Hydro-Québec, one of North America’s largest utilities, was formed in 2001 to produce a revolutionary lithium-metal-polymer battery. Commercial sales will begin in 2003 with batteries that increase the reliability of telecommunication networks during power outages. Work is under way on future applications, including peak-power shaving and use in electric and hybrid electric vehicles.

The future success of our company depends on new ideas and the quality of our people and assets around the world. We will continue to build both through recruitment, career development, partnerships and alliances, and careful management of our assets as we strive to deliver results that will rank at the pinnacle of our peer groups.

Luke R. Corbett  
Chairman and Chief Executive Officer  
March 2003

Fabrication of the truss spar for Kerr-McGee’s deepwater Gunnison field is on schedule in Finland.
Some 130 miles from the Texas coast, Kerr-McGee is producing oil and natural gas from fields in water depth that was beyond cost-effective reach just a few years ago. Developed in nearly 3,700 feet of water with the world’s first truss spar platforms, the Nansen and Boomvang projects prove the success of the company’s deepwater technology and hub-and-spoke approach to offshore field development.

Nansen began production in January 2002, followed in June by Boomvang just 9 miles away. By year-end, the twin platforms were processing combined gross production of about 56,000 barrels of oil and 340 million cubic feet of gas per day from 14 wells, including a satellite field. Five additional Nansen wells will come on line in 2003. Each spar can process up to 40,000 barrels of oil and 200 million cubic feet of gas per day.

The success of these pioneering developments is the result of the expertise, ingenuity and determination of all involved, from lease acquisition and exploration through field development, production and marketing.

Creative minds devised means of overcoming the forces of nature, including the very low temperatures near the seafloor, to keep oil flowing up to the floating platforms for processing and into the export pipeline for the long journey to shore.

Minds dedicated to environmental excellence made sure that the new spar platforms also were equipped with state-of-the-art technology for managing safety and environmental protection.

Deep water, the primary target of Kerr-McGee’s worldwide exploration program, represents the latest chapter in the company’s 74-year history of innovation in the search for oil and gas.
Innovation more often results from the evolution of technology than from leaps into untried concepts. Where it is prudent, with due diligence and full confidence in its deepwater team, Kerr-McGee is among the first to adopt new concepts.

The company worked on several pioneering projects with its contractors in the 1990s, gaining experience in the design and operation of most of the major types of production systems suitable for deep water. Kerr-McGee's project success rivals that of the major oil companies, and its experience represents an important competitive advantage as the search for oil and gas expands into new international areas. During 2003, the company plans to drill additional wells offshore Australia and to continue seismic work on deepwater blocks offshore Benin, Brazil, Morocco and Nova Scotia.

Growing production from deepwater fields accounted for more than 20% of Kerr-McGee's oil and gas volumes in 2002 and is expected to reach almost 30% in 2003.

**Spars expand deepwater opportunities**

Spar systems are reducing the size of oil and gas reserves needed for economical development. The Nansen and Boomvang truss spars represent the second generation of spar technology, first introduced in 1996 at Kerr-McGee's Neptune field in 1,930 feet of water. The truss design reduces platform size and cost while increasing the topsides payload that can be floated by the spar hull.
Fabrication of another truss spar is under way for the Gunnison field, operated by Kerr-McGee with 50% interest. This development in 3,100 feet of water is expected to come on stream in the first quarter of 2004 and peak in 2005 at about 60,000 barrels of oil equivalent (BOE) per day from 10 wells. Use of three nearly identical truss spars reduces design and engineering costs, and each project improves on the previous one.

Development of a field in even deeper water is under way in the gulf with yet another innovation, a cell spar. This new platform design provides another option and will lower the reserve threshold for economical development of deepwater fields. The cell spar will be installed in 5,300 feet of water over Kerr-McGee’s Red Hawk field, where development drilling was completed in early 2003. Production is expected to begin in the second quarter of 2004 and reach 120 million cubic feet of gas per day in the third quarter. The company has a 50% interest in the field.

**Hub concept reduces costs in the gulf**

Kerr-McGee combines innovative production technology with a core-area approach for cost-efficient field development. The spar platforms are designed as processing hubs in deepwater areas where Kerr-McGee holds multiple blocks. Future discoveries of satellite fields can be developed more quickly and at lower cost with subsea wells tied back to the spars.

The first satellite field tied back to the Nansen truss spar is Navajo, which came on stream in June 2002 as a subsea completion. By year-end, nearly 50 million cubic feet of gas per day were flowing from Navajo to the Nansen platform. Two additional satellite wells will be connected to Nansen in 2003.

The Merganser natural gas discovery in the gulf’s Atwater Valley area in about 8,000 feet of water has potential to form another deepwater hub. Kerr-McGee discovered natural gas in the nearby Vortex prospect in late 2002. Additional exploration wells will be drilled in 2003 to more fully determine the area’s resource potential.

**New fields come on stream in core North Sea area**

Kerr-McGee’s successful core area strategy also is reducing cycle time and development cost of fields in the North Sea.

The Tullich and Maclure fields came on stream ahead of schedule in August 2002 in the central North Sea. Tullich, owned 100% by Kerr-McGee, is expected to peak at 18,000 to 20,000 barrels per day in the 2003 first quarter. Both fields are tied back to Kerr-McGee’s floating production, storage and offloading (FPSO) facility at the Gryphon field. The additional production is using spare capacity on the facility, which began processing Gryphon oil in 1993.

Exploration and field exploitation will continue in the company’s core North Sea areas. Explorationists are working on plans to drill five to seven wells in 2003. They also are evaluating opportunities on inactive blocks in which Kerr-McGee currently holds no interest, where future discoveries could be tied back to company facilities.

Kerr-McGee’s 2002 divestitures of mature assets in the northern North Sea will further improve operating efficiency and unit cost. The transactions have yielded almost $200 million in proceeds and an additional 5% interest in the high-quality Harding field in a core operating area.
**U.S. onshore operations contribute strong cash flow**

Almost 30% of Kerr-McGee’s total 2002 oil and gas production flowed from fields in Colorado, Louisiana, New Mexico, Oklahoma and Texas. The focus in these onshore areas is on natural gas to meet growing demand. The U.S. onshore operations contribute strong cash flow, and their already low unit operating cost will decline further as a result of 2002 divestments of higher-cost fields.

Operations in Colorado’s giant Wattenberg field near Denver, acquired in 2001, made their first full-year contribution to Kerr-McGee’s production in 2002. Highly efficient teams continue to enhance recovery of the field’s vast natural gas reserves through fracture stimulation, drilling of new wells and deepening of existing wells. About 550 such projects were completed in 2002 to maintain production levels and help supply the energy for one of the nation’s fastest-growing areas.

Successful field exploitation activities continued with the drilling of 44 wells – primarily in Oklahoma and Texas – that will help maintain future production levels.

**Kerr-McGee develops new operating area in Bohai Bay**

Kerr-McGee’s newest operating area is China’s Bohai Bay, where the company has announced five oil discoveries in two of its three blocks. Development of discoveries in block 04/36 is under way. A leased FPSO facility and two fixed platforms for dry wellheads will establish a hub-and-spoke type of development in about 75 feet of water, some 50 miles from shore. Production is expected to begin by year-end 2004. Kerr-McGee operates the project with 81.8% foreign contractor’s interest. China’s CNOOC Limited is expected to participate with a 51% interest, reducing Kerr-McGee’s interest to 40.1%.

The FPSO facility and related infrastructure will allow timely, cost-efficient development of future discoveries. Kerr-McGee has identified additional prospects in its blocks and plans to drill six to eight wells in Bohai Bay during 2003.

As the company expands its exploration and production activities into new regions and deeper waters, the combined skills of dedicated employees will ensure that the potential rewards balance the risks. Innovative technology, operating expertise, and an ongoing commitment to safety and environmental stewardship will continue to shape a business strategy designed to deliver top-quartile results.
Innovative people with new ideas are transforming all aspects of Kerr-McGee's titanium dioxide pigment operations. New feedstock sources, process improvements, supply chain initiatives and enhanced customer service are further strengthening the company's position as the world's third-largest producer and marketer of this essential white pigment.

Kerr-McGee is one of five major producers that supplied about 75% of the 4 million tonnes of pigment consumed worldwide in 2002.

The global titanium dioxide industry saw difficult market conditions in 2002. While the overall trend has been improving since the second quarter, results for Kerr-McGee's pigment business were disappointing, reflecting low prices and a slow recovery from the severe downturn the industry endured in 2001.

Expansions and acquisitions nearly doubled Kerr-McGee's gross annual production capacity during the past five years to 607,000 tonnes. This enabled the company to take advantage of improving demand in 2002. Kerr-McGee's pigment sales volume increased 17%, nearly three times the industry's 6% average increase in 2002 compared with the previous year.

The company expects to increase capacity by another 10% by the end of 2003, advancing toward the No. 2 position among major producers. Worldwide pigment consumption is expected to increase 4% during 2003, a growth level that should support stronger prices and profit margins.

Kerr-McGee's pigment operations in the United States, Germany, Netherlands and Australia serve both regional and a growing number of multinational customers. Six plants produce pigment grades under the TRONOX® label for virtually all titanium dioxide applications. Four of these plants use the chloride process, which produces grades preferred by paint, coatings and plastics manufacturers. These uses provide growth potential and account for about 80% of world pigment consumption. The company's other two plants use the alternate sulfate process to produce pigment grades that also are used in paint and coatings and are preferred in paper, ink, rubber, food, cosmetics and other specialty applications.

Other chemical businesses represented less than 15% of the company's chemical assets at year-end 2002. Kerr-McGee has announced plans to exit the forest products business and is evaluating options for the electro-chemical operations.
Technology improvements add value

Kerr-McGee’s chemical team is adding value through innovative process improvements that allow rapid capacity expansion with a minimum of new hardware while increasing productivity.

These improvements in the company’s proprietary chloride technology include a new high-productivity oxidizer that will increase the operating rate of lines in the current production system. The first conversion of an existing line to the new system will be implemented at the plant in Savannah (Georgia), United States, by the end of 2003. The new line will have capacity of about 70,000 tonnes per year, about three times the rate of each of the plant’s existing lines. Over time, Kerr-McGee expects to increase capacity by deployment of this technology at other locations. This will result in fewer, larger lines that are streamlined mechanically and therefore less costly to operate and maintain.

The technology improvements, combined with ongoing supply chain activities, are creating new opportunities to broaden the range of cost-effective feedstocks for pigment production. This led to the decision to close the synthetic rutile plant in Mobile (Alabama), United States, by the end of 2003. Future feedstock can be procured at lower cost on the open market. As a result, the company expects significant savings.

Such initiatives will continue to improve the chemical unit’s financial performance while increasing production capacity. The process improvements also enhance product consistency, ensuring that customers receive the same high-quality pigment grades from any one of Kerr-McGee’s chloride plants.

Cost control is an ongoing effort. The company was able to reduce its unit cost by 6% during 2002 and anticipates further cost reduction in 2003 with implementation of the process improvements.
Incremental expansions add low-cost capacity

Expansions under way in 2003 should position Kerr-McGee to comfortably supply customer requirements for the next two years. The capacity of Kerr-McGee’s largest plant, located in Hamilton (Mississippi), United States, is expected to reach 225,000 tonnes, a 20% increase since 2000. Savannah’s chloride plant should add a net 19,000 tonnes once the new high-productivity line is commissioned. The Botlek plant in the Netherlands is expected to add 10,000 tonnes.

These expansions account for most of the 58,000 tonnes of annual capacity Kerr-McGee plans to add by year-end 2003 at a cost of about $760 per tonne. This compares very favorably with a cost of about $4,000 per tonne of annual capacity for construction of a new plant.

Customer services expand worldwide

Along with operational improvements and supply chain initiatives, Kerr-McGee is expanding and enhancing services for customers around the world. Invoicing and other services for European customers were consolidated in 2002 into an efficient, single entity based in centrally located Zurich, Switzerland. China accounts for an increasing portion of Kerr-McGee’s pigment sales in the fast-growing Asia-Pacific region. A new office in Shanghai will supplement services provided by company personnel based in Singapore and Perth, Australia.

The process improvements and capacity expansions under way in 2003 will allow Kerr-McGee to meet the rising demand for TRONOX CR-826. This multipurpose grade commercialized in 1999 now is the top-selling product in Kerr-McGee’s strong portfolio and one of the best-performing grades in the global titanium dioxide industry. Customers give CR-826 high marks for excellent performance in paint and coatings as well as plastics.

AVESTOR starts production of revolutionary battery

While focusing on core businesses, Kerr-McGee remains prepared to take advantage of attractive opportunities with good growth potential. Such an opportunity is the revolutionary battery technology developed by AVESTOR. This joint venture was formed in 2001 by Kerr-McGee and Montreal-based Hydro-Québec, a major North American producer and distributor of hydroelectric energy, to commercialize the new technology. AVESTOR will start commercial sales of its lithium-metal-polymer (LMP) batteries in 2003.

The joint-venture partners believe that this technology will replace lead-acid, nickel-cadmium and other conventional rechargeable-battery technologies in high-performance market segments such as telecommunications, utilities, and electric and hybrid electric vehicles.

Compared with traditional lead-acid batteries, the AVESTOR batteries provide superior performance at one-third the size and one-fifth the weight. They also provide an environmentally preferred alternative that contains no acid or liquid that can leak or spill.

The market potential is large and exciting. Telecommunications companies are the initial target customers. The LMP batteries can significantly increase the reliability of wireline and wireless networks during power outages and reduce maintenance costs for telecommunications companies. Development of AVESTOR batteries for other applications is under way.

STRATEGY

- Focus on technology improvements and cost control.
- Continue low-cost plant capacity expansions consistent with market growth.
- Exit noncore businesses.
- Grow AVESTOR.
Kerr-McGee’s pigment operations are strategically located to serve the world’s major markets.

Voluntary industry programs promote continuous improvement

Kerr-McGee’s chemical operations participate in a number of voluntary industry programs as part of continuous improvement efforts.

All the pigment plants have achieved certification under the international ISO 9000 quality standard, which promotes consistency across country borders in quality processes and management. Third-party registrars verify compliance.

Kerr-McGee also participates in the Responsible Care® program of the American Chemistry Council and the European Chemical Industry Council and in the Coatings Care® initiative of the National Paint and Coatings Association. Both programs promote continuous improvement in safety, health and environmental performance.

Responsible Care is the chemical industry’s premier voluntary environmental, health and safety initiative. Participating companies seek better ways to improve performance in these areas, communicate with the public, and share successful ideas with other member companies.

KERR-McGEE
PIGMENT PLANTS
(Annual capacity at year-end 2002)

CHLORIDE PROCESS
Hamilton, United States
200,000 tonnes
Savannah, United States
91,000 tonnes
Botlek, Netherlands
62,000 tonnes
Kwinana, Australia
95,000 tonnes (KM 50% interest)

SULFATE PROCESS
Uerdingen, Germany
105,000 tonnes
Savannah, United States
54,000 tonnes

The Savannah sulfate-process plant supplied the pigment for the paper of this report.

Titanium dioxide pigment production
(thousands of tonnes)

<table>
<thead>
<tr>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>508</td>
<td>483</td>
</tr>
</tbody>
</table>

(1) The 2002 operating profit includes $34 million in pretax charges ($23 million after taxes) related to provisions for exiting the forest products business, write-downs of chemical engineering projects, environmental provisions and other costs. The 2001 operating loss includes $105 million in pretax charges ($66 million after taxes) related to asset impairments, plant closure provisions, product discontinuation costs, severance and other costs.

Kerr-McGee Corporation 2002 Annual Report

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The strength of Kerr-McGee’s commitment to safe working practices, responsible care for the environment and corporate citizenship is demonstrated daily around the world. All employees participate in the ongoing effort to prevent injuries and minimize the environmental impact of their operations. Likewise, the company and individual employees support activities that improve the quality of life in the communities where Kerr-McGee conducts operations.

Offshore and onshore, employees excel in safe working practices

By any measure, Kerr-McGee’s employees and contractors excel in safe working practices. In the Gulf of Mexico, where the company conducts an active drilling program and operates more than 400 wells and 235 structures, Kerr-McGee ranks among the safest operators. For six consecutive years starting with 1996, Kerr-McGee placed among the finalists for the prestigious National Offshore Safety Award for Excellence (SAFE). Three of those years, Kerr-McGee won the award, presented by the Minerals Management Service of the U.S. Department of the Interior to the safest environmental stewards.

The Star Worksite banner is flying over 10 of Kerr-McGee’s 13 chemical operations in the United States. Star is the highest recognition under the Voluntary Protection Programs of the Occupational Safety and Health Administration of the U.S. Department of Labor.

During 2002, the company operated with 75% fewer injuries and occupational illnesses than the U.S.-based industry overall.

Proactive approach enhances environmental performance

Kerr-McGee takes a proactive approach in its environmental management programs. Significant effort and resources are devoted to minimizing the environmental footprint of current activities through new and often innovative initiatives while also remediating the impact of past operations.

Waste minimization and recycling are ongoing efforts on land and offshore. The company’s pigment operations are finding commercial uses for more and more co-products, thus reducing waste and developing new sources of revenue. Co-product acid from U.S. pigment plants is sold for use in treating oil and gas wells, and the pigment plant in the Netherlands is recovering spent acid for reuse by the company’s pigment plant in Germany.

In the North Sea, after extensive public consultation and with government approval, Kerr-McGee decommissioned the tension-leg platform in its depleted Hutton field. After sale of the structure for use in another field and recycling of some materials, only 4% by weight of the field’s infrastructure had to be disposed of onshore.

Preservation and better understanding of the marine environment is of special interest to a company involved in offshore exploration and production. In Scotland, Kerr-McGee helps sponsor a three-year project to research the changing distribution and behavior of bottlenose dolphins along the northeast coast. The research is led by the Sea Watch Foundation in association with Aberdeen University.
Care for the environment becomes a personal goal for employees who spend their working hours outdoors. In the vast Wattenberg field near Denver, employees driving long distances on daily rounds are the ideal lookouts for creatures in distress. They work with the Rocky Mountain Raptor Program to ensure assistance and rehabilitation for birds of prey, and the company supports the “Adopt-A-Raptor” program. Houston-based employees work with Wildlife Rehab & Education and support the projects of this non-profit organization.

Employees in several U.S. states and Canada’s Nova Scotia province organize cleanup efforts in their communities or along adopted beaches and miles of highway.

**Support for education, local services strengthens communities**

Around the world, Kerr-McGee and its employees strive to make a difference by contributing time, talent and money to organizations and projects that create stronger communities and enhance the quality of life.

Education ranks high on the list of priorities, and the company supports partnerships with schools.

In Oklahoma City, some 60 employees and retirees tutor students one-on-one at the inner-city Columbus Elementary Enterprise School. Now in its 11th year, the program wins praise from teachers and parents for raising test scores and building students’ self-confidence.

Sharing knowledge and resources with students and staff also is providing mutual benefits and rewards at U.S. chemical operations in Alabama, Georgia, Idaho, Mississippi and Nevada, and at the joint-venture pigment operations in Western Australia. In Aberdeen, Scotland, home of Kerr-McGee’s North Sea operations, employees have formed a partnership with Portlethen Academy.

In Houston and Oklahoma City, Kerr-McGee provides summer internships and scholarships through INROADS. This nonprofit organization trains and develops ethnically diverse students for professional careers. Several former INROADS interns now work at Kerr-McGee.

Agencies that provide essential services in local communities or fund medical research receive generous support from Kerr-McGee and its U.S. employees through the United Way and March of Dimes fund-raising campaigns. In the United Kingdom, the company donates funds to a range of organizations in London and Aberdeen for local social and community projects.

Many other community projects receive company funding. In Oklahoma City, young swimmers have been learning discipline and self-confidence through the Kerr-McGee Swim Club for more than 40 years. The club’s annual Pro-Am Elite Meet is one of only three in the United States that bring together Olympians and young swimmers.

Excellence in safety, environmental stewardship and community support reflects corporate values that build pride in the company and strengthen employees’ resolve to strive for continuous improvement.
Acreage: Land or offshore area leased or licensed for oil and gas exploration and production.

Appraisal drilling: Drilling carried out after the discovery of a new field to obtain more information on the physical extent, amount of reserves and likely production rate.

b/d: Barrel per day (42 U.S. gallons).

BOE: Barrel of oil equivalent. One barrel of oil equals 6,000 cubic feet of natural gas.

Cell spar: The third generation of the spar production system. The hull consists of several long cylinders attached to a center cylinder of the same diameter. The cell spar will be easier to construct and install than previous spars. The resulting cost savings reduce the reserve threshold required for economical development of deepwater fields.

Chloride process: One of two processes used to produce titanium dioxide pigment. This process accounts for about 75% of Kerr-McGee’s gross worldwide pigment production capacity.

Condensate: Hydrocarbon liquids that exist in gaseous form in the reservoir but condense to liquids as the gas flows to the surface.

Continental shelf: The extension of a continental land mass into the ocean in relatively shallow water.

Deep water: More than 1,000 feet deep.

Development: Drilling of wells following an oil or gas discovery, and bringing a field into production.

Discovery well: An exploratory well that finds a new petroleum deposit or opens a new formation in an established field.

Exploitation: Additional drilling or application of new technology to further extend production and reserves of an existing field.

Exploratory well: A well drilled to test the presence of oil or gas in an undeveloped area.

Floating production, storage and offloading (FPSO) system: A moored ship-shaped facility capable of producing oil from subsea wells and storing and offloading the oil into shuttle tankers. Kerr-McGee’s Gryphon and Leadon fields in the North Sea use FPSOs.

Gross acres or gross production: The total number of acres or the total production volume in which a company owns an interest.

Independent: An oil and gas exploration and production company not engaged in petroleum refining and marketing or “downstream” operations. Kerr-McGee became an independent after selling its refining business in 1995.

MMcf/d: Million cubic feet of natural gas per day.

Prospect: A specified location or an area targeted for leasing and drilling.

Proved reserves: Estimated quantities of oil and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

Reservoir: A porous, permeable sedimentary rock formation containing oil and/or natural gas, enclosed or surrounded by layers of less-permeable or impervious rock.

Seismic survey: Technique for determining the structure of underground rock formations by sending energy waves or sound waves into the earth and recording the wave reflections. Three-dimensional seismic surveys provide enhanced data for determining well locations.

Spar: A deep-floating cylindrical hull. Kerr-McGee operates the industry’s first production spar, installed in 1996 at the Neptune field in the Gulf of Mexico. This field began production in 1997.

Subsea tieback: An offshore field developed with one or more wells completed on the seafloor, using subsea trees. The wells are connected by flowlines and umbilicals – the pathways for electrical and hydraulic signals – to a production facility in another area.

Sulfate process: One of two processes used to produce titanium dioxide pigment.

TiO₂: Molecular formula for titanium dioxide pigment.

Titanium dioxide pigment: The world’s preferred whitener, brightener and opacifier for paint, coatings, plastics, paper and many other products. This inorganic white pigment is Kerr-McGee’s major chemical product.

Tonne: Metric ton (1,000 kilograms or 2,204.62 pounds).

Truss spar: A new version of the “classic” spar in Kerr-McGee’s Neptune field. A truss structure replaces the lower portion of the cylindrical hull, improving performance while reducing size and cost. The industry’s first truss spars were installed in 2001 over Kerr-McGee’s Nansen and Boomvang fields in the deepwater Gulf of Mexico. Fabrication of the company’s third truss spar is under way for the Gunnison field.

Working interest: A cost-bearing interest in a well expressed as a percentage of the whole.

Luke R. Corbett, 56, Director since 1995. Chairman and Chief Executive Officer of the company since 1999 and from 1997 to 1999; Chief Executive Officer from February to May 1999; President and Chief Operating Officer from 1995 to 1997. Director, OGE Energy Corp., BOK Financial Corporation and Noble Corporation.


Martin C. Jischke, 61, Director since 1993. President of Purdue University since 2000; President of Iowa State University from 1991 to 2000. Director, Wabash National Corporation.

Leroy C. Richie, 61, Director since 1998. Chairman and Chief Executive Officer of Q Standards World Wide, Inc., since 2000; Chairman and Chief Executive Officer of Capitol Coating Technologies, Inc., from 1999 to 2000; President of Intrepid World Communications from 1998 to 1999; Vice President and General Counsel for Automotive Legal Affairs, Chrysler Corporation, 1990 to 1997. Director, Infiniti, Inc., and the companies in the Seligman family of investment companies, with the exception of Seligman Cash Management Fund, Inc.

Matthew R. Simmons, 59, Director since 1999. Chairman and Chief Executive Officer of Simmons & Company International, a specialized investment banking firm that serves the worldwide energy services industry, since founding the company in 1974. Director, Brown-Forman Corporation.


Nicholas J. Sutton, 58, Director since January 2002. Founder, Chairman and Chief Executive Officer of HS Resources, Inc., an independent energy company, from 1978 to August 2001, when the company was acquired by Kerr-McGee.

Farah M. Walters, 58, Director since 1993. Retired as President and Chief Executive Officer of University Hospitals Health System, Cleveland, Ohio, in 2002. Director, PolyOne Corporation and Alpharma Inc.

Matthew R. Simmons (Chair)

Leroy C. Richie, Chairman of the Los Angeles Opera in 2001; Chairman of U.S. Borax, Inc., a provider of borax and borate products, from 1996 to 1999; President and Chief Executive Officer from 1988 to 1999; Chief Executive Officer, Rio Tinto Borax Ltd., from 1995 to 1999.

* Mr. Morris will retire from the Kerr-McGee board on March 15, 2003, the date of the annual meeting of shareholders, after 25 years of service as a director.

David A. Hager, 46, Senior Vice President (oil and gas exploration and production) since March 2003; Vice President of Exploration and Production from 2002 to 2003; Vice President of Gulf of Mexico and Worldwide Deepwater Exploration and Production, 2001 to 2002; Vice President of Worldwide Deepwater Exploration and Production, 2000 to 2001; Vice President of International Operations, 2000; previously Vice President of Gulf of Mexico operations. Joined Sun Oil Co., predecessor of Oryx Energy Company, in 1981. Oryx and Kerr-McGee merged in 1999.

Carol A. Schumacher, 46, Senior Vice President of Corporate Affairs since February 2002; Vice President of Public Relations, The Home Depot, 1998 to 2001; Executive Vice President and General Manager, Atlanta office of Edelman Worldwide, 1997 to 1998; previously Executive Vice President of Cohn & Wolfe, a division of Young & Rubicam, Inc.

George D. Christiansen, 58, Vice President (safety and environmental affairs) since 1998; Vice President of Environmental Assessment and Remediation from 1996 to 1998; previously Vice President of Minerals Exploration, Hydrology and Real Estate. Joined the company in 1968.


John F. Reichenberger, 50, Vice President, Deputy General Counsel and Assistant Secretary since July 2000; Assistant Secretary and Deputy General Counsel from 1999 to 2000; Deputy General Counsel from 1998 to 1999; previously Associate General Counsel for Remediation and Risk Management and Claims. Joined the company in 1985.

Elizabeth T. Wilkinson, 45, Vice President and Treasurer since November 2002. Previously Assistant Treasurer - Corporate Finance, GlobalSantaFe Corporation (Global Marine Inc. until 2001 merger); Manager of Planning and Analysis from 1998 to 1999 and Manager of Budgets and Planning from 1994 to 1998, Global Marine Inc.

March 2003
Stock Exchange Listing
Kerr-McGee common stock is listed on the New York Stock Exchange under the ticker symbol KMG and also is traded on the Boston, Chicago, Pacific and Philadelphia stock exchanges.

2003 Annual Meeting
Kerr-McGee’s annual meeting will be held at 9 a.m. Central Time on May 13, 2003, in the Robert S. Kerr Auditorium at Kerr-McGee Center in Oklahoma City.

Shareholder Assistance
Contact UMB Bank, N.A., of Kansas City, Missouri, at (877) 860-5820 or (800) 884-4225 (toll-free in the U.S. and Canada) for assistance with:
- Direct deposit of cash dividends
- Direct stock purchase and dividend reinvestment plan
- Transfer of stock certificates
- Replacement of lost or destroyed stock certificates and dividend checks

Shareholder Information and Publications
Contact the Office of the Corporate Secretary at (800) 786-2556 toll-free in the U.S. and Canada for general information and assistance or to request the company's annual report on Form 10-K and quarterly reports on Form 10-Q, as filed with the U.S. Securities and Exchange Commission, and the company’s annual report.

Information also is available on the company’s website at http://www.kerr-mcgee.com, including webcasts of conference calls discussing quarterly financial and operating results.

Direct Purchase and Dividend Reinvestment Plan
This plan allows shareholders to buy Kerr-McGee common stock directly from the company and to reinvest quarterly dividends in additional shares. The company pays all fees and commissions for these services. For a prospectus, please call (800) 786-2556 toll-free in the U.S. and Canada.

Investor Information
Shareholders, security analysts and other interested parties may direct inquiries to Richard C. Buterbaugh, Vice President of Investor Relations, at (866) 378-9899 toll-free in the U.S. and Canada.

Transfer Agent and Registrar
UMB Bank, N.A.
Securities Transfer Division
Post Office Box 410064
Kansas City, MO 64141-0064
Telephones: (877) 860-5820 and (800) 884-4225, toll-free in the U.S. and Canada

Corporate Headquarters
Kerr-McGee Corporation
Kerr-McGee Center
123 Robert S. Kerr Avenue
Oklahoma City, OK 73102
Mailing address:
Post Office Box 25861
Oklahoma City, OK 73125
Telephone: (405) 270-1313

Forward-Looking Information
Statements in this annual report regarding the company’s or management’s intentions, beliefs or expectations, or that otherwise speak to future events, are “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Future results and developments discussed in these statements may be affected by numerous factors and risks, such as the accuracy of the assumptions that underlie the statements, the success of the oil and gas exploration and production program, drilling risks, the market value of Kerr-McGee’s products, uncertainties in interpreting engineering data, demand for consumer products for which Kerr-McGee’s businesses supply raw materials, the financial resources of competitors, changes in laws and regulations, the ability to respond to challenges in international markets, including changes in currency exchange rates, political or economic conditions, trade and regulatory matters, general economic conditions, and other factors and risks identified in the Risk Factors section of the company’s annual report on Form 10-K and other U.S. Securities and Exchange Commission filings. Actual results and developments may differ materially from those expressed or implied in this annual report.