



ENERGY AND NATURAL RESOURCES

KPMG Global Energy Conference

Accounting and Tax Impacts in Uncertain Times

KPMG LLP

Mark L. Zajac
Audit Partner
Houston, Texas
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Concurrent Session I-A

10:15 a.m. – 11:45 a.m.

Accounting and Tax Impacts in Uncertain Times

KPMG Moderator: Mark Zajac, Partner, *KPMG LLP*

Chad Libertus

Partner, *KPMG LLP*

Mike Pearl

Corporate Controller, *Anadarko Petroleum*

Frank A. Pici

Executive Vice President and Chief Financial Officer, *Penn Virginia*



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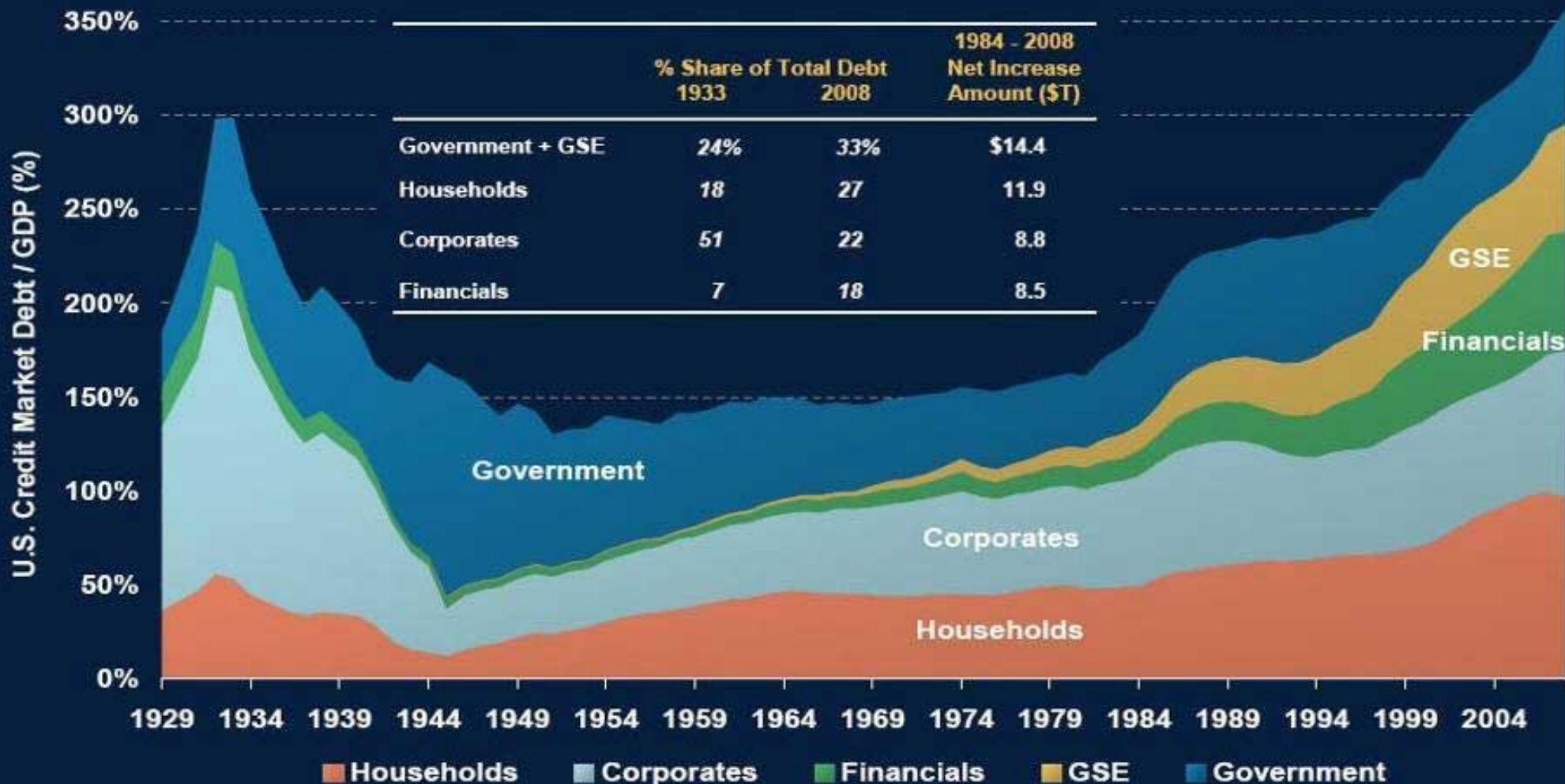


Open Comments

- ◆ **Introductions**
- ◆ **Where are we?**
- ◆ **Factors contributing to uncertainty**

Debt to GDP

**U.S. Total Credit Market Debt as % of GDP, 1929 – 2008
& Sector Share Breakdown**



Morgan Stanley

Note: GSE (Government Sponsored Enterprises) debt includes various agency-backed mortgages; Source: Federal Reserve, Ben Wattenberg, *The Statistical History of the United States, From Colonial Times to the Present*, Morgan Stanley Research.



Creating Uncertainty

- ◆ **BOA matter**
- ◆ **NY Fed Chairman**
- ◆ **SCAP and Fannie**
- ◆ **FDIC \$500 billion borrowing authority**



Chad Libertus
KPMG LLP
Tax Partner

Tax Accounting Challenges

◆ Impairment Testing (EITF 02-13)

- Fair Value of the Reporting Unit (taxable vs. nontaxable exchange)
- Measuring Deferred Tax Assets & Liabilities with Implied Fair Value

◆ Valuation Allowance Considerations

- Resulting from Impairment
- FASB 141R: Business Combinations
- Interim Period Considerations

◆ Control Considerations

- Communication and review procedures between tax and financial reporting
- Forecasting controls

Mike Pearl
Anadarko Petroleum Corporation
Corporate Controller

Key Energy Tax Proposals

Business Tax Increase	Revenue Est.
International Tax enforcement, and “reform” of deferral	\$210 billion
Repeal LIFO	\$61.1 billion
Eliminate Traditional Oil and Gas Tax Preferences	Revenue Est.
Create new excise tax on Gulf of Mexico oil and gas	\$5.3 billion
Repeal expensing of intangible drilling costs	\$3.3 billion
Repeal section 199 manufacturing deduction	\$13.3 billion
Increase geological and geophysical amortization period from 5 years to 7 years	\$1.5 billion
Increase fee on nonproducing leases (“use or lose”)	\$1.2 billion
	(Total: \$295.7 billion)

Accounting Issues

◆ Impairments

- Triggering events
- Goodwill

◆ Depletion with no reserves

◆ Impact on MD&A

Cost Control and Cash Management

◆ Resources

- Impact of economy on “back office” functions
- Filling the accounting “pipeline”

◆ Cost Allocations

- Rig termination fees
- Rig mobilization / demobilization costs

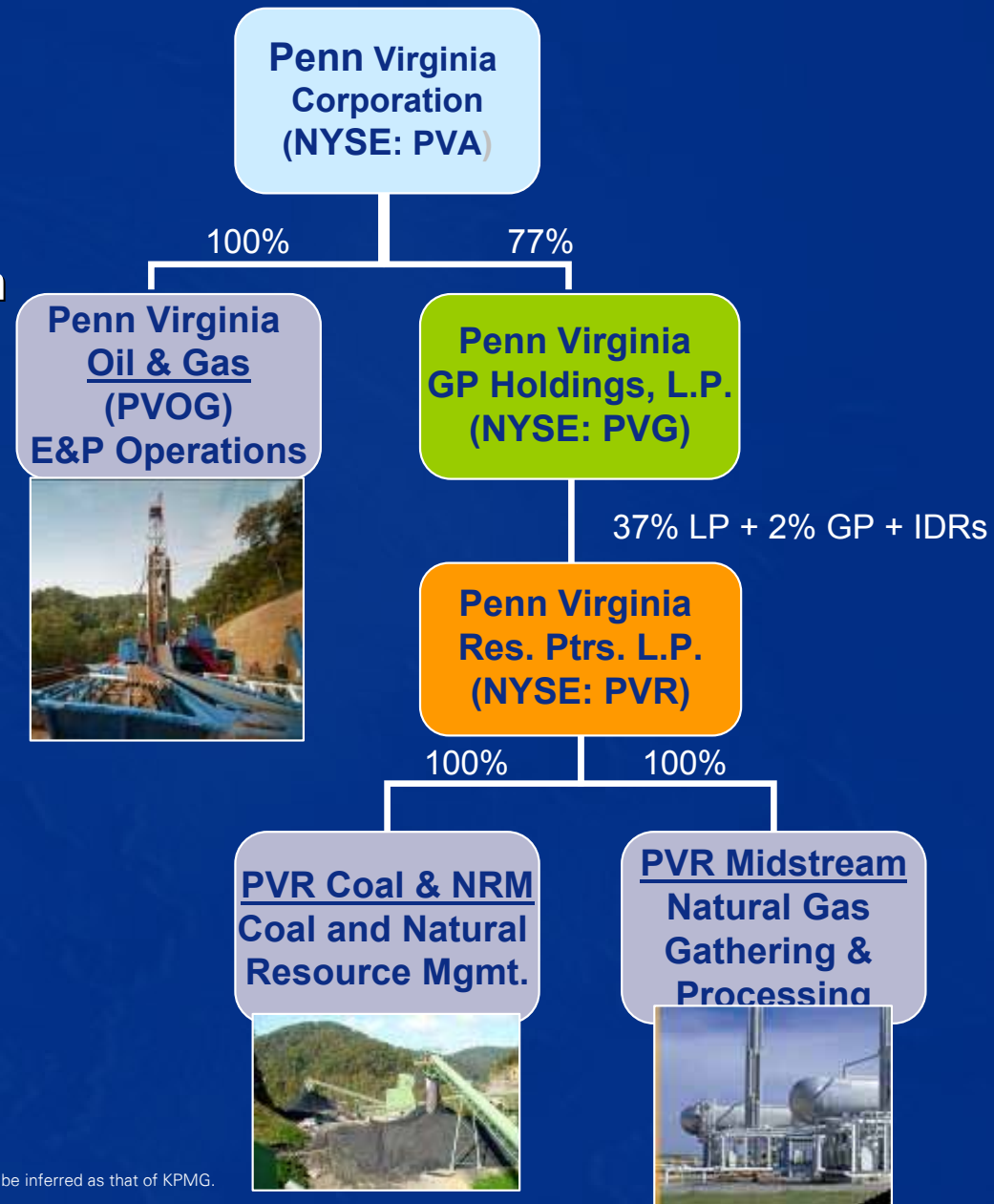
◆ JOA Management

- Cash calls
- Rights of offset
- Legal remedies / recoupment

Frank Pici, Sr.
Penn Virginia Corporation
Executive Vice President
and CFO

Company Snapshot

- ◆ PVA “Family” comprised of 3 small-cap public entities.
- ◆ Oil & Gas Exploration & Production through PVOG
- ◆ Large Stake in a Master Limited Partnership (PVG), which owns a large part of PVR (another MLP), which operates in 2 business segments (Coal & Midstream)
- ◆ Domestic; Geographically diverse
- ◆ Approx. 350 employees (~70 in Accounting/Finance/IT/Audit/Tax)



What a Difference a Year Makes

◆ Global Recession

◆ Deterioration of Commodity Prices

	<u>May</u> <u>2008</u>	<u>May</u> <u>2009</u>
Natural gas (\$/Mcf NYMEX)	\$11.50	\$4.50
Crude oil (\$/Bbl NYMEX)	\$126	\$55
NGL (\$/Bbl NYMEX)	\$55-60	\$24-27
Coal (\$/ton)	\$70-90	\$45-60

◆ Collapse of Financial & Capital Markets

	<u>2008</u>	<u>2009</u>
New revolver debt (est.)	<4%	>10%
High yield debt (est.)	8-9%	10-15%

What a Difference a Year Makes

◆ Increased Regulation & Taxation

- No coal permits being granted
- Rising compliance fees
- Environmental extremism being encouraged
- “Cap and Trade”
- Potential repeal of drilling tax credits

◆ Crises of Confidence

- No “real” recovery probable before 2011

Challenges

- ◆ Access to Capital to fuel growth & provide liquidity buffer
 - Resource plays in several basins are highly capital intensive
 - Master Limited Partnerships require capital to grow due to structure
 - Tight capital and low commodity prices put pressure on cash liquidity
- ◆ Cost of Capital has increased across the board
 - For all forms of debt and equity capital

Challenges

- ◆ Increasing need for analysis without adding people
 - Need for more data like “Drinking from a fire hydrant”
 - Quicker turnaround to aid decision making
 - Stresses already lean staffing levels
- ◆ Ever-increasing accounting complexity
 - Principles have been replaced by rules (for everything)
 - Too many standard setters / authoritative sources (e.g. SEC, FASB, EITF, IFRS)
 - Resultant financial statements often make it harder to understand the business

Possible Actions to Counter Challenges

◆ Strengthen Balance Sheet

- Reduce CAPEX
- Consider longer tenor debt
- Sell non-core assets
- Explore JVs and partnerships
- Issue equity

◆ More Active Hedging Program

◆ Improve Processes / Develop Skills

- Rework procedures / policies where needed to increase efficiency
- Training and more training

◆ Play to Our Strengths

- Horizontal drilling to maintain production
- Re-evaluate asset base
- As capital becomes available
 - Modest leasehold acquisition program
 - Limited exploration

◆ Adjust Strategy as needed

- Take a long term view

Cautionary Statements/Definitions

Forward-Looking Statements

Certain statements contained herein that are not descriptions of historical facts are “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Because such statements include risks, uncertainties and contingencies, actual results may differ materially from those expressed or implied by such forward-looking statements. These risks, uncertainties and contingencies include, but are not limited to, the following: the volatility of commodity prices for natural gas and crude oil; our ability to develop and replace oil and gas reserves and the price for which such reserves can be acquired; the actual amount of our capital expenditures; the projected demand for and supply of natural gas and crude oil; the availability and costs of required drilling rigs, production equipment and materials; our ability to obtain adequate pipeline transportation capacity for our oil and gas production; competition among producers in the oil and natural gas industry generally; operating risks, including unanticipated geological problems, incidental to our business; the occurrence of unusual weather or operating conditions including force majeure events; delays in anticipated start-up dates of our oil and natural gas production; environmental risks affecting the drilling and producing of oil and gas wells; the timing of receipt of necessary governmental permits by us; hedging results; reductions in our cash flow from operations; our ability to access external sources of capital; reductions in the borrowing base under our credit facility; accidents; changes in governmental regulation or enforcement practices, especially with respect to environmental, health and safety matters; and risks and uncertainties relating to general domestic and international economic (including inflation, interest rates and financial and credit markets) and political conditions (including the impact of potential terrorist attacks); and the other risks, uncertainties and contingencies set forth in PVA’s annual report on Form 10-K for the fiscal year ended December 31, 2008. Additional information concerning these and other factors can be found in our press releases and public periodic filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2008. Many of the factors that will determine our future results are beyond the ability of management to control or predict. Readers should not place undue reliance on forward-looking statements, which reflect management’s views only as of the date hereof. We undertake no obligation to revise or update any forward-looking statements, or to make any other forward-looking statements, whether as the result of new information, future events or otherwise.

Unproved Reserves

The U.S. Securities and Exchange Commission (“SEC”) permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. We use certain terms in this presentation, such as “3P,” “EUR,” “probable,” “possible” and “non-proved” reserves, “unrisked exploratory potential,” “resource,” “upside” or other descriptions of volumes of reserves potentially recoverable through additional drilling or recovery techniques, that the SEC’s guidelines strictly prohibit us from including in filings with the SEC. These estimates are by their nature significantly more speculative than estimates of proved reserves and accordingly are subject to substantially greater risk of being actually realized by us. Readers are urged to consider closely the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2008 and our other filings with the SEC, which are available from us in the “For Investors” section of our website, www.pennvirginia.com, or by writing us at Penn Virginia Corporation, 3 Radnor Corporate Center, Suite 300, Radnor, PA 19087.

Definitions

Proved reserves are those estimated quantities of crude oil, condensate and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known oil and gas reservoirs under existing economic and operating conditions at the end of the respective years.

Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable (there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves).

Possible reserves are those unproved reserves which analysis of geological and engineering data suggests are less likely to be recoverable than probable reserves (there should be at least a 10% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable plus possible reserves).

“3P” reserves refer to the sum of proved, probable and possible reserves.

Unrisked exploratory potential is used to describe the potential reserve value as evaluated geologically for each prospect that is the highest supportable reserve value that the prospect could potentially produce. Unrisked exploratory potential reflects a best case scenario and does not reflect expectations. It is very unlikely that all reserves included in unrisked exploratory potential will be recovered.

In Summary

Questions & Concluding Comments





Presenter's contact details

Mark L. Zajac

KPMG LLP

(713) 319 - 2496

Mzajac@kpmg.com

www.kpmg.com