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Executive Summary

BDO Seidman Natural Resources 2009 Outlook Survey of CFOs

The BDO Seidman Natural Resources 2009 Outlook Survey is a national telephone survey conducted by Market Measurement, Inc., an independent market research consulting firm, whose executive interviewers spoke directly to 100 chief financial officers, using a telephone survey performed within a scientifically-developed, pure random sample of U.S. oil and gas exploration and production companies. The survey was conducted in Q4 2008.

About BDO Seidman, LLP

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The last several months of 2008 packed a punch for the U.S. oil and gas industry, as both the demand and price for oil dropped significantly and the economy sunk deeper into a recession. A recent study by BDO Seidman, LLP, of chief financial officers (CFOs) at 100 U.S. oil and gas exploration and production companies shows that credit capacity and capital access will be major concerns for the industry in 2009. In addition, the survey identifies CFOs' expectations for executive pay, staffing, and various compliance and regulatory issues in the coming year.

Feel the Heat

One thing was clear at the end of 2008: the energy industry will not be spared from the recession. According to the BDO *Seidman Natural Resources* 2009 *Outlook Survey*, nearly three-quarters (72%) of CFOs expect the economic crisis in the U.S. to impact their ability to borrow money or extend bank debt in 2009. The chief financial challenge for 2009 is "credit capacity restraints, including access to capital" (57%), followed by "falling oil or natural gas prices" (21%).

When the survey was conducted in Q4 2008, 26 percent of respondents said that oil or gas exploration projects were significantly delayed or terminated in the past 12 months. Among those who experienced delays or cancellations, 80 percent claimed "lack of capital to fund project" as a reason. By the end of the year, it was clear project delays were on the uptick and will remain a challenge for 2009 as oil prices and demand continue to drop.

Access to capital (19%) is also one of the top barriers to international growth, according to CFOs. Other barriers include uncertain business or political climate (16%) and international tax or environmental regulations (5%).

Compliance Time Climbs

Energy CFOs will grapple with a number of new accounting and reporting requirements in 2009, and frustrations are expected to follow. The survey asked respondents about several issues:

SEC Oil & Gas Reserve Reporting. The U.S. Securities & Exchange Commission (SEC) adopted changes on December 29, 2008, to modernize oil and gas reserve reporting requirements. When CFOs were asked about the proposed changes in Q4 2008, 58 percent agreed that the rules will provide investors with better information. But, it will take quite a bit of work – 54 percent believe the time required to comply with those proposed rules will be substantial or even unreasonable.

FAS 141R Implementation. Energy companies are required to implement Financial Accounting Standard No.141R for any acquisitions effective as of December 15, 2008. The rule requires acquisitions to be recorded at the fair value of assets received, instead of based on the amounts paid for those assets. A majority (57%) of respondents believe implementation will be moderately to highly difficult.

IFRS Adoption. Only 13 percent of respondents expect to be early adopters of International Financial Reporting Standards (IFRS). A little more than one-third (35%) think that oil and gas companies reporting financial results using IFRS have a competitive advantage over U.S. companies filing under Generally Accepted Accounting Principles (GAAP).

Microscope on Pay

Energy companies are becoming more vigilant when it comes to executive pay, in part due to the proxy disclosure rules mandated by the Securities and Exchange Commission two years ago. Nearly half (49%) of CFOs say their companies' executive compensation programs are now more closely tied to performance than they were before new the rules became effective, and 44% say they employ greater discipline in setting executive compensation opportunities. While there is increased pressure for transparency on executive pay and external constituencies are asking more questions, a majority of CFOs responding to the survey (68%) do not expect to receive a "say on pay" proposal from shareholders of their companies in the next year.

The executive suite isn't the only area under the microscope. Economic conditions are driving companies to reevaluate their 2009 salary budgets regularly and reign in pay at all levels. While salary increases of five percent or more were common in the energy industry in recent years, almost half (46%) of CFOs are budgeting increases of less than three percent for employees in 2009. A little over one-quarter (26%) are planning increases of three to four percent, and 17 percent are planning increases of four to five percent. Few (11%) are planning increases of five percent or more.

Other major findings of the BDO Seidman Natural Resources 2009 Outlook Survey:

Staffing: Proceeding Cautiously. Competition for talent has been high on the industry's list of challenges for some time, and many have been careful not to cut-back their workforce at least in the short-term. Most respondents (63%) plan to keep the same level of field personnel in 2009; 29 percent expect to increase levels at least somewhat and eight percent are decreasing field staff. Twelve percent say that "recruiting or retaining skilled workforce talent" will be their greatest financial challenge in 2009.

Potential Growth Drivers for 2009. When CFO respondents were asked about potential drivers for overall growth for the U.S. oil and gas industry in 2009, increasing demand for oil and gas both internationally (36%) and domestically (22%) came out on top, followed by "new production technologies to increase supply" (17%), "adoption of alternative energies" (12%) and "oil and gas exploration" (10%).

Peak Petroleum Production Rate. In early 2008, worry prevailed that demand was outstripping the world's petroleum supply. Ten months later, 48 percent of CFOs say that the world has reached its peak petroleum (liquid hydrocarbon) production rate or will reach it within the next few years, while another 52 percent disagree with that statement. There are differing opinions regarding when the world's demand for petroleum will peak as well – 31 percent believe it will be in less than 10 years, 43 percent believe it will be in 10 to 20 years, 14 percent believe it will be 20 to 30 years and eight percent think it will reach peak more than 30 years from now.

Market Share for Renewable Energy Sources: Most (64%) CFO respondents believe renewable energy sources will comprise eight to 12 percent of the market in the next five years; currently, these sources make up seven percent of the U.S. energy supply, according to the U.S. Energy Information Administration. Nearly one-quarter of respondents (22%) believe market share will double to 13 percent or higher. Another 14 percent believe market share will remain under eight percent.

Regulation of Greenhouse Gas and Caps on Carbon Emissions: CFO respondents are divided on the best solution for reducing U.S. greenhouse gas emissions and putting caps on carbon emissions for U.S. power plants, oil refineries and other pollution sources. It's nearly an equal split – 33 percent prefer federal regulation over state regulation, 31 percent prefer state legislation and 37 percent believe the industry should be left to self-regulate.

BDO Seidman Energy Industry Practice

BDO Seidman, LLP has been a valued business advisor to energy companies for almost 100 years. The BDO Seidman Energy Practice professionals have specific experience and knowledge working with clients in the upstream, midstream and downstream segments of the industry. Our Houston and Dallas practices serve as the hub of our national energy industry experience.

For more information on BDO Seidman's service offerings to this industry vertical, please contact one our industry leaders below:

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