PIONEER NATURAL RESOURCES CO
Form 10-Q
May 09, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________
Commission File Number: 1-13245

PIONEER NATURAL RESOURCES COMPANY
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	75-2702753 (I.R.S. Employer Identification No.)
5205 N. O'Connor Blvd., Suite 200, Irving, Texas (Address of principal executive offices)	75039 (Zip Code)

(972) 444-9001
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý

Number of shares of Common Stock outstanding as of May 5, 2014	143,046,951

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Cautionary Statement Concerning Forward-Looking Statements

The information in this Quarterly Report on Form 10-Q (the "Report") contains forward-looking statements that involve risks and uncertainties. When used in this document, the words "believes," "plans," "expects," "anticipates," "forecasts," "intends," "continue," "may," "will," "could," "should," "future," "potential," "estimate" or the negative of such terms and similar expressions as they relate to Pioneer Natural Resources Company ("Pioneer" or the "Company") are intended to identify forward-looking statements. The forward-looking statements are based on the Company's current expectations, assumptions, estimates and projections about the Company and the industry in which the Company operates. Although the Company believes that the expectations and assumptions reflected in the forward-looking statements are reasonable as and when made, they involve risks and uncertainties that are difficult to predict and, in many cases, beyond the Company's control.

These risks and uncertainties include, among other things, volatility of commodity prices, product supply and demand, competition, the ability to obtain environmental and other permits and the timing thereof, other government regulation or action, the ability to obtain approvals from third parties and negotiate agreements with third parties on mutually acceptable terms, completion of planned divestitures, litigation, the costs and results of drilling and operations, availability of equipment, services, resources and personnel required to complete the Company's operating activities, access to and availability of transportation, processing, fractionation and refining facilities, Pioneer's ability to replace reserves, implement its business plans or complete its development activities as scheduled, access to and cost of capital, the financial strength of counterparties to Pioneer's credit facility and derivative contracts and the purchasers of Pioneer's oil, NGL and gas production, uncertainties about estimates of reserves and the ability to add proved reserves in the future, the assumptions underlying production forecasts, quality of technical data, environmental and weather risks, including the possible impacts of climate change, the risks associated with the ownership and operation of the Company's industrial sand mining and oilfield services businesses, and acts of war or terrorism. These and other risks are described in the Company's Annual Report on Form 10-K, this Report and other filings with the United States Securities and Exchange Commission. In addition, the Company may be subject to currently unforeseen risks that may have a materially adverse effect on it. Accordingly, no assurances can be given that the actual events and results will not be materially different than the anticipated results described in the forward-looking statements. See "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part 1, Item 3. Quantitative and Qualitative Disclosures About Market Risk" and "Part II, Item 1A. Risk Factors" in this Report and "Part I, Item 1. Business — Competition, Markets and Regulations," "Part I, Item 1A. Risk Factors," "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a description of various factors that could materially affect the ability of Pioneer to achieve the anticipated results described in the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. The Company undertakes no duty to publicly update these statements except as required by law.

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PIONEER NATURAL RESOURCES COMPANY

Definitions of Certain Terms and Conventions Used Herein

Within this Report, the following terms and conventions have specific meanings:

- "BBL" means a standard barrel containing 42 United States gallons.
- "BOE" means a barrel of oil equivalent and is a standard convention used to express oil and gas volumes on a comparable oil equivalent basis. Gas equivalents are determined under the relative energy content method by using the ratio of six thousand cubic feet of gas to one BBL of oil or natural gas liquid.
- "BOEPD" means BOE per day.
- "BTU" means British thermal unit, which is a measure of the amount of energy required to raise the temperature of one pound of water one degree Fahrenheit.
- "Conway" means the daily average natural gas liquids components as priced in Oil Price Information Service ("OPIS") in the table "U.S. and Canada LP – Gas Weekly Averages" at Conway, Kansas.
- "DD&A" means depletion, depreciation and amortization.
- "GAAP" means accounting principles that are generally accepted in the United States of America.
- "LIBOR" means London Interbank Offered Rate, which is a market rate of interest.
- "MCF" means one thousand cubic feet and is a measure of gas volume.
- "MMBTU" means one million BTUs.
- "Mont Belvieu" means the daily average natural gas liquids components as priced in OPIS in the table "U.S. and Canada LP – Gas Weekly Averages" at Mont Belvieu, Texas.
- "NGL" means natural gas liquid.
- "NYMEX" means the New York Mercantile Exchange.
- "Pioneer" or the "Company" means Pioneer Natural Resources Company and its subsidiaries.
- "Pioneer Southwest" means Pioneer Southwest Energy Partners L.P. and its subsidiaries.
- "Proved reserves" mean the quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes: (A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons ("LKH") as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil ("HKO") elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

- "U.S." means United States.
- With respect to information on the working interest in wells, drilling locations and acreage, "net" wells, drilling locations and acres are determined by multiplying "gross" wells, drilling locations and acres by the Company's working interest in such wells, drilling locations or acres. Unless otherwise specified, wells, drilling locations and acreage statistics quoted herein represent gross wells, drilling locations or acres.
- Unless otherwise indicated, all currency amounts are expressed in U.S. dollars.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED BALANCE SHEETS
(in millions)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$257	$393
Accounts receivable:		
Trade, net	437	431
Due from affiliates	2	3
Income taxes receivable	—	5
Inventories	231	220
Prepaid expenses	13	16
Assets held for sale	554	584
Other current assets:		
Derivatives	43	76
Other	5	2
Total current assets	1,542	1,730
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	13,909	13,406
Unproved properties	116	123
Accumulated depletion, depreciation and amortization	(5,035)	(4,903)
Total property, plant and equipment	8,990	8,626
Goodwill	274	274
Other property and equipment, net	1,225	1,224
Other assets:		
Investment in unconsolidated affiliate	239	225
Derivatives	62	91
Other, net	133	124
	$12,465	$12,294

The financial information included as of March 31, 2014 has been prepared by management without audit by independent registered public accountants.
The accompanying notes are an integral part of these consolidated financial statements.

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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED BALANCE SHEETS (continued)
(in millions)

	March 31, 2014 (Unaudited)	December 31, 2013
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$925	$910
Due to affiliates	46	150
Interest payable	36	62
Income taxes payable	9	—
Deferred income taxes	20	19
Liabilities held for sale	93	39
Other current liabilities:		
Derivatives	41	12
Other	68	58
Total current liabilities	1,238	1,250
Long-term debt	2,706	2,653
Derivatives	5	10
Deferred income taxes	1,496	1,473
Other liabilities	296	293
Equity:		
Common stock, $.01 par value; 500 million shares authorized; 146 million shares issued as of March 31, 2014 and December 31, 2013, respectively	1	1
Additional paid-in capital	5,105	5,080
Treasury stock at cost: 3 million shares as of March 31, 2014 and December 31, 2013, respectively	(173)	(144)
Retained earnings	1,782	1,665
Total equity attributable to common stockholders	6,715	6,602
Noncontrolling interests in consolidating subsidiaries	9	13
Total equity	6,724	6,615
Commitments and contingencies		
	$12,465	$12,294

The financial information included as of March 31, 2014 has been prepared by management without audit by independent registered public accountants.
The accompanying notes are an integral part of these consolidated financial statements.

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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Revenues and other income:		
Oil and gas	$910	$729
Sales of purchased oil and gas	147	56
Interest and other	4	—
Derivative losses, net	(104)	(42)
Gain on disposition of assets, net	6	24
	963	767
Costs and expenses:		
Oil and gas production	165	150
Production and ad valorem taxes	57	52
Depletion, depreciation and amortization	221	212
Purchased oil and gas	143	56
Exploration and abandonments	31	18
General and administrative	81	62
Accretion of discount on asset retirement obligations	3	3
Interest	45	51
Other	15	20
	761	624
Income from continuing operations before income taxes	202	143
Income tax provision	(53)	(50)
Income from continuing operations	149	93
Income (loss) from discontinued operations, net of tax	(26)	16
Net income	123	109
Net income attributable to noncontrolling interests	—	(8)
Net income attributable to common stockholders	$123	$101
Basic earnings per share attributable to common stockholders:		
Income from continuing operations	$1.03	$0.65
Income (loss) from discontinued operations	(0.18)	0.12
Net income	$0.85	$0.77
Diluted earnings per share attributable to common stockholders:		
Income from continuing operations	$1.03	$0.63
Income (loss) from discontinued operations	(0.18)	0.12
Net income	$0.85	$0.75
Weighted average shares outstanding:		
Basic	143	129
Diluted	143	133
Dividends declared per share	$0.04	$0.04
Amounts attributable to common stockholders:		
Income from continuing operations	$149	$85
Income (loss) from discontinued operations, net of tax	(26)	16

Net income	$ 123	$ 101

The financial information included herein has been prepared by management
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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENT OF EQUITY
(in millions, except dividends per share)
(Unaudited)

	Equity Attributable To Common Stockholders						
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Noncontrolling Interests	Total Equity
Balance as of December 31, 2013	143	$1	$ 5,080	$(144)	$1,665	$ 13	$6,615
Dividends declared ($0.04 per share)	—	—	—	—	(6)	—	(6)
Exercise of long-term incentive plan stock options	—	—	2	2	—	—	4
Purchases of treasury stock	—	—	—	(31)	—	—	(31)
Sendero divestiture	—	—	—	—	—	(4)	(4)
Tax benefits related to stock-based compensation	—	—	2	—	—	—	2
Pioneer Southwest merger transaction costs	—	—	(1)	—	—	—	(1)
Compensation costs included in net income	—	—	22	—	—	—	22
Net income	—	—	—	—	123	—	123
Balance as of March 31, 2014	143	$1	$ 5,105	$(173)	$1,782	$ 9	$6,724

The financial information included herein has been prepared by management without audit by independent registered public accountants.
The accompanying notes are an integral part of these consolidated financial statements.

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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

	Three Months Ended March 31, 2014	2013
Cash flows from operating activities:		
Net income	$123	$109
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and amortization	221	212
Exploration expenses, including dry holes	7	—
Deferred income taxes	41	44
Gain on disposition of assets, net	(6)	(24)
Accretion of discount on asset retirement obligations	3	3
Discontinued operations	96	35
Interest expense	4	5
Derivative related activity	86	96
Amortization of stock-based compensation	22	17
Other noncash items	8	(4)
Change in operating assets and liabilities:		
Accounts receivable, net	(37)	(42)
Income taxes receivable	5	6
Inventories	(16)	1
Prepaid expenses	(1)	—
Other current assets	(3)	(1)
Accounts payable	(70)	(57)
Interest payable	(26)	(30)
Income taxes payable	9	—
Other current liabilities	—	(10)
Net cash provided by operating activities	466	360
Cash flows from investing activities:		
Proceeds from disposition of assets, net of cash sold	86	46
Additions to oil and gas properties	(664)	(697)
Additions to other assets and other property and equipment, net	(48)	(56)
Net cash used in investing activities	(626)	(707)
Cash flows from financing activities:		
Borrowings under long-term debt	150	305
Principal payments on long-term debt	(100)	(1,012)
Proceeds from issuance of common stock, net of issuance costs	—	1,281
Distributions to noncontrolling interests	—	(9)
Payments of other liabilities	(1)	—
Exercise of long-term incentive plan stock options	4	1
Purchases of treasury stock	(31)	(19)
Excess tax benefits from share-based payment arrangements	2	1
Net cash provided by financing activities	24	548
Net increase (decrease) in cash and cash equivalents	(136)	201
Cash and cash equivalents, beginning of period	393	229
Cash and cash equivalents, end of period	$257	$430

The financial information included herein has been prepared by management without audit by independent registered public accountants.

The accompanying notes are an integral part of these consolidated financial statements.

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PIONEER NATURAL RESOURCES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

NOTE A. Organization and Nature of Operations

Pioneer Natural Resources Company ("Pioneer" or the "Company") is a Delaware corporation whose common stock is listed and traded on the New York Stock Exchange. The Company is a large independent oil and gas exploration and production company operating in the United States, with continuing field operations primarily in the Permian Basin in West Texas, the Eagle Ford Shale play in South Texas, the Raton field in southeastern Colorado, the Hugoton field in southwest Kansas and the West Panhandle field in the Texas Panhandle.

NOTE B. Basis of Presentation

Presentation. In the opinion of management, the consolidated financial statements of the Company as of March 31, 2014 and for the three months ended March 31, 2014 and 2013 include all adjustments and accruals, consisting only of normal, recurring accrual adjustments, which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been condensed in or omitted from this report pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). These consolidated financial statements should be read together with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Certain reclassifications have been made to the 2013 financial statement and footnote amounts in order to conform to the 2014 presentation.

New accounting pronouncements. In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 prospectively changes the criteria for reporting discontinued operations while enhancing disclosures around disposals of assets whether or not the disposal meets the definition of a discontinued operation. ASU 2014-08 is effective for annual and interim periods beginning after December 31, 2014 with early adoption permitted but only for disposals that have not been reported in financial statements previously issued. The adoption of this new guidance is not expected to have a material impact on the Company's consolidated financial statements.

NOTE C. Acquisitions and Divestitures

Divestitures Recorded in Continuing Operations

The Company recorded net gains on disposition of assets in continuing operations of $6 million and $24 million during the three months ended March 31, 2014 and 2013, respectively, which were primarily comprised of the following:

- Vertical drilling rigs. During December 2013, the Company committed to a plan to sell the Company's majority interest in Sendero Drilling Company, LLC ("Sendero") to Sendero's minority interest owner. At December 31, 2013, the assets and liabilities of Sendero were classified as held for sale at their estimated fair value. In March 2014, the Company completed the sale of Sendero for cash proceeds of $31 million and recognized a gain of $1 million associated with the completion of the sale during the three months ended March 31, 2014. As part of the sales agreement, the Company committed to lease from Sendero 12 vertical rigs through December 31, 2015, and eight vertical rigs in 2016.
- Permian Basin. During February 2014, the Company completed the sale of proved and unproved properties in Gaines and Dawson counties in the Spraberry field in West Texas for net cash proceeds of $68 million, which resulted in a gain of $3 million.
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West Panhandle. During the first quarter of 2013, the Company completed a sale of its interest in unproved oil and gas properties adjacent to the Company's West Panhandle field operations for net cash proceeds of $38 million, which resulted in a gain of $22 million.

Divestitures Recorded as Discontinued Operations

Alaska. During the fourth quarter of 2013, the Company committed to a plan to sell 100 percent of the capital stock in Pioneer's Alaska subsidiary ("Pioneer Alaska"). In April 2014, the Company completed the sale of Pioneer Alaska to an unaffiliated third party pursuant to an amended purchase and sale agreement for $300 million before normal closing and other adjustments.

The Company has classified (i) Pioneer Alaska's assets and liabilities as held for sale in the accompanying consolidated balance sheets and (ii) Pioneer Alaska's results of operations as income from discontinued operations, net of tax in the accompanying consolidated statements of operations.

Based upon the provisions in the amended purchase and sale agreement for Pioneer Alaska, the Company recorded an additional noncash impairment charge of $97 million in discontinued operations during the three months ended March 31, 2014 to reduce the carrying value of Pioneer Alaska to its sales value, including normal closing adjustments, of $253 million. See Note D for additional information about the Pioneer Alaska impairment charge.

Barnett Shale. During the fourth quarter of 2013, the Company committed to a plan to divest of its net assets in the Barnett Shale field in North Texas. The plan is expected to result in the sale of the Barnett Shale net assets during 2014. The Company has classified its (i) Barnett Shale assets and liabilities as held for sale in the accompanying consolidated balance sheets and (ii) Barnett Shale results of operations as income from discontinued operations, net of tax in the accompanying consolidated statements of operations.

Due to reductions in the fair value of the Barnett Shale net assets, primarily due to cash flow received during the first quarter, an additional impairment charge of $14 million was recorded in discontinued operations during the three months ended March 31, 2014. See Note D for additional information about the Barnett Shale impairment charge.

The Company continues to pursue the sale of its Barnett Shale net assets. No assurance can be given that the sale will be completed in accordance with the Company's plans.

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PIONEER NATURAL RESOURCES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

The following table represents the components of the Company's discontinued operations for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Revenues and other income:		
Oil and gas	$68	$60
Interest and other (a)	29	19
	97	79
Costs and expenses:		
Oil and gas production	18	20
Production and ad valorem taxes	3	3
Depletion, depreciation and amortization	—	19
Impairment of oil and gas properties	111	—
Exploration and abandonments	1	10
General and administrative	2	2
Other	3	—
	138	54
Income (loss) from discontinued operations before income taxes	(41)	25
Current tax provision	—	(1)
Deferred tax (provision) benefit	15	(8)
Income (loss) from discontinued operations	$(26)	$16

(a) Primarily comprised of cash received associated with Alaskan Petroleum Production Tax ("PPT") credits on qualifying capital expenditures.

The carrying values of the Company's ownership in Pioneer Alaska and the Barnett Shale field as of March 31, 2014, and the carrying values of the Company's ownership in Pioneer Alaska, the Barnett Shale field and Sendero as of December 31, 2013, were included in assets and liabilities held for sale in the accompanying consolidated balance sheet and were comprised of the following:

	March 31, 2014	December 31, 2013
	(in millions)	
Composition of assets included in assets held for sale:		
Current assets	$76	$58
Property, plant and equipment	478	526
Total assets	$554	$584
Composition of liabilities included in liabilities held for sale:		
Current liabilities	$79	$29
Other liabilities	14	10
Total liabilities	$93	$39

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PIONEER NATURAL RESOURCES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

NOTE D. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based upon inputs that market participants use in pricing an asset or liability, which are characterized according to a hierarchy that prioritizes those inputs based on the degree to which they are observable. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect a company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. The three input levels of the fair value hierarchy are as follows:

- Level 1 – quoted prices for identical assets or liabilities in active markets.
- Level 2 – quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates) and inputs derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – unobservable inputs for the asset or liability.

Assets and liabilities measured at fair value on a recurring basis. The fair value input hierarchy level to which an asset or liability measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety.

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2014 for each of the fair value hierarchy levels:

	Fair Value Measurement at the End of the Reporting Period Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at March 31, 2014
	(in millions)			
Recurring fair value measurements				
Assets:				
Commodity derivatives	$—	$95	$ —	$95
Interest rate derivatives	—	10	—	10
Deferred compensation plan assets	67	—	—	67
Total assets	67	105	—	172
Liabilities:				
Commodity derivatives	—	42	—	42
Interest rate derivatives	—	4	—	4
Total liabilities	—	46	—	46
Total recurring fair value measurements	$67	$59	$ —	$126

Deferred compensation plan assets. The Company's deferred compensation plan assets represent investments in equity and mutual fund securities that are actively traded on major exchanges. These investments are measured based on observable prices on major exchanges. As of March 31, 2014, the significant inputs to these asset values represented Level 1 independent active exchange market price inputs.

Commodity derivatives. The Company's commodity derivatives represent oil, natural gas liquids ("NGL") and gas swap contracts, collar contracts and collar contracts with short puts. The asset and liability measurements for the Company's commodity derivative contracts represent Level 2 inputs in the hierarchy. The Company utilizes discounted cash flow and option-pricing models for valuing its commodity derivatives.

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PIONEER NATURAL RESOURCES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014
(Unaudited)

The asset and liability values attributable to the Company's commodity derivatives were determined based on inputs that include (i) the contracted notional volumes, (ii) independent active market price quotes, (iii) the applicable estimated credit-adjusted risk-free rate yield curve and (iv) the implied rate of volatility inherent in the collar and collar contracts with short puts, which is based on active and independent market-quoted volatility factors.

Interest rate derivatives. The Company's interest rate derivatives as of March 31, 2014 represent interest rate swap contracts. The Company utilizes discounted cash flow models for valuing its interest rate derivatives. The net derivative values attributable to the Company's interest rate derivative contracts as of March 31, 2014 are based on (i) the contracted notional amounts, (ii) active market-quoted London Interbank Offered Rate ("LIBOR") yield curves and (iii) the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative asset measurements represent Level 2 inputs in the hierarchy.

Assets and liabilities measured at fair value on a nonrecurring basis. Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances. These assets and liabilities can include inventory, proved and unproved oil and gas properties that are written down to fair value when they are impaired and assets and liabilities associated with long-lived assets that have been reduced to fair value when they are held for sale.

Assets classified as held for sale. The Company records assets and liabilities associated with long-lived assets that are classified as held for sale at the lower of the asset's net carrying amount or estimated fair value less costs to sell. The fair value of Pioneer Alaska is based on the sales price, as adjusted for normal closing adjustments, less costs to sell. The fair value of the Barnett Shale field assets is based upon a weighted average calculation that uses management inputs including an estimated sales price and a discounted cash flow model for the proved properties using Level 3 assumptions including management's longer-term commodity price outlooks ("Management's Price Outlooks") for (i) oil and gas prices of $81.58 per barrel ("BBL") for oil and $4.64 per million British thermal units ("MMBTU") for gas, (ii) production costs, (iii) capital expenditures, (iv) production and (v) estimated proved reserves. Management's commodity price outlooks represent longer-term outlooks that are developed based on third-party futures price outlooks as of a measurement date. The expected future net cash flows were discounted using an annual rate of 10 percent to determine estimated fair value. See Note C for additional information regarding the Company's planned divestitures.

The following table presents the estimated fair value less costs to sell as of March 31, 2014 and fair value adjustments for the Company's assets classified as discontinued operations held for sale for the three months ended March 31, 2014:

	Estimated Fair Value Less Costs to Sell	Fair Value Adjustment
	(in millions)	
Alaska	$253	$(97)
Barnett Shale field	$208	$(14)

Financial instruments not carried at fair value. Carrying values and fair values of financial instruments that are not carried at fair value in the consolidated balance sheets as of March 31, 2014 and December 31, 2013 are as follows:

	March 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Long-term debt	$2,706	$3,121	$2,653	$3,019

Long-term debt includes the Company's credit facility and the Company's senior notes. The fair value of debt is determined utilizing inputs that are Level 2 measurements in the fair value hierarchy.
Credit facility. The fair value of the Company's credit facility is calculated using a discounted cash flow model based on (i) forecasted contractual interest and fee payments, (ii) forward active market-quoted United States Treasury Bill rates and (iii) the applicable credit-adjustments.

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Senior notes. The Company's senior notes represent debt securities that are traded on major exchanges but are not actively traded. The fair values of the Company's senior notes are based on their periodic values as quoted on the major exchanges.

The Company has other financial instruments consisting primarily of cash equivalents, receivables, prepaid expenses, payables and other current assets and liabilities that approximate fair value due to the nature of the instrument and their relatively short maturities. Non-financial assets and liabilities initially measured at fair value include certain assets acquired and liabilities assumed in a business combination, goodwill and asset retirement obligations.

NOTE E. Derivative Financial Instruments

The Company utilizes commodity swap contracts, collar contracts and collar contracts with short puts to (i) reduce the effect of price volatility on the commodities the Company produces and sells or consumes, (ii) support the Company's annual capital budgeting and expenditure plans and (iii) reduce commodity price risk associated with certain capital projects. The Company also, from time to time, utilizes interest rate contracts to reduce the effect of interest rate volatility on the Company's indebtedness.

Oil production derivative activities. All material physical sales contracts governing the Company's oil production are tied directly to, or are highly correlated with, New York Mercantile Exchange ("NYMEX") West Texas Intermediate ("WTI") oil prices. The Company uses derivative contracts to manage oil price volatility and basis swap contracts to reduce basis risk between NYMEX prices and actual index prices at which the oil is sold.

The following table sets forth the volumes per day associated with the Company's outstanding oil derivative contracts as of March 31, 2014 and the weighted average oil prices for those contracts:

	Nine Months Ending December 31,	Year Ending December 31,	
	2014	2015	2016
Collar contracts with short puts:			
Volume (BBL) (a)	69,000	86,500	25,000
Price per BBL:			
Ceiling	$114.05	$99.01	$93.30
Floor	$93.70	$88.09	$85.00
Short put	$77.61	$73.18	$70.00
Swap contracts:			
Volume (BBL)	10,000	—	—
Price per BBL	$93.87	$—	$—
Rollfactor swap contracts:			
Volume (BBL)	9,455	5,000	—
NYMEX roll price (b)	$1.08	$0.60	$—

(a) Counterparties have the option to extend for an additional year 1,500 BBLs per day of 2015 collar contracts with short puts with a ceiling price of $100.25 per BBL, a floor price of $90.00 per BBL and a short put price of $80.00 per BBL. The option to extend is exercisable on December 31, 2015. During the period from April 1, 2014 to May 5, 2014, the Company entered into additional collar contracts with short puts for 3,500 BBLs per day of the Company's 2015 production with a ceiling price of $100.00 per BBL, a floor price of $90.00 per BBL and a short put price of $80.00 per BBL. These contracts give the counterparties the option to extend the contracts under the same terms for an additional year if the option to extend is exercised by the counterparties on December 31, 2015.

(b) Represents swaps that fix the difference between (i) each day's price per BBL of WTI for the first nearby month less (ii) the price per BBL of WTI for the second nearby NYMEX month, multiplied by .6667; plus (iii) each day's price per BBL of WTI for the first nearby month less (iv) the price per BBL of WTI for the third nearby NYMEX month, multiplied by .3333.

NGL production derivative activities. All material physical sales contracts governing the Company's NGL production are tied directly or indirectly to either Mont Belvieu or Conway fractionation facilities' NGL component product prices.

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The following table sets forth the volumes per day associated with the Company's outstanding NGL derivative contracts as of March 31, 2014 and the weighted average NGL prices for those contracts:

	Nine Months Ending December 31, 2014
Collar contracts with short puts (a):	
Volume (BBL)	1,000
Price per BBL:	
Ceiling	$ 109.50
Floor	$ 95.00
Short put	$ 80.00
Collar contracts (b):	
Volume (BBL)	3,000
Price per BBL:	
Ceiling	$ 13.72
Floor	$ 10.78
Swap contracts (c):	
Volume (BBL)	2,556
Average price per BBL	$ 48.15

(a) Represent collar contracts with short puts that reduce the price volatility of natural gasoline forecasted for sale by the Company at Mont Belvieu, Texas-posted prices. During the period from April 1, 2014 to May 5, 2014, the Company entered into additional natural gasoline collar contracts with short puts for (i) 1,000 BBLs per day of May through December 2014 production with a ceiling price of $93.24 per BBL, a floor price of $88.20 per BBL and a short put price of $81.90 per BBL and (ii) 1,500 BBLs per day of June through December 2014 production with a ceiling price of $93.35 per BBL, a floor price of $88.20 per BBL and a short put price of $81.90 per BBL.

(b) Represent collar contracts that reduce the price volatility of ethane forecasted for sale by the Company at Mont Belvieu, Texas-posted prices.

(c) Represent swap contracts that reduce the price volatility of propane forecasted for sale by the Company at Mont Belvieu, Texas-posted prices.

Gas production derivative activities. All material physical sales contracts governing the Company's gas production are tied directly or indirectly to NYMEX Henry Hub ("HH") gas prices or regional index prices where the gas is sold. The Company uses derivative contracts to manage gas price volatility and basis swap contracts to reduce basis risk between HH prices and actual index prices at which the gas is sold.

The following table sets forth the volumes per day associated with the Company's outstanding gas derivative contracts as of March 31, 2014 and the weighted average gas prices for those contracts:

	Nine Months Ending December 31,	Year Ending December 31,	
	2014	2015	2016
Collar contracts with short puts:			
Volume (MMBTU)	115,000	285,000	20,000
Price per MMBTU:			
Ceiling	$4.70	$5.07	$5.36
Floor	$4.00	$4.00	$4.00
Short put	$3.00	$3.00	$3.00
Swap contracts:			
Volume (MMBTU)	195,000	20,000	—
Price per MMBTU	$4.04	$4.31	$—
Basis swap contracts:			
Volume (MMBTU) (a)	123,382	30,000	—
Price per MMBTU	$(0.22)	$(0.18)	$—

(a) During the period from April 1, 2014 to May 5, 2014, the Company entered into additional basis swap contracts for 20,000 MMBTU per day of the Company's 2015 production with a negative price differential of $0.25 per MMBTU between the relevant index price and the NYMEX price.

Marketing and basis transfer derivative activities. Periodically, the Company enters into buy and sell marketing arrangements to fulfill firm pipeline transportation commitments. Associated with these marketing arrangements, the Company may enter into index swaps to mitigate price risk. As of March 31, 2014, the Company had (i) marketing gas index swap contracts for 37,782 MMBTU per day for the remainder of 2014 with a price differential of $0.31 per MMBTU between Permian Basin index prices and southern California index prices and (ii) marketing oil index swap contracts for 555 BBL per day for the remainder of 2014 with a price differential of $5.55 per BBL between Cushing WTI and Louisiana Light Sweet crude ("LLS").

Interest rate derivative activities. As of March 31, 2014, the Company was a party to interest rate derivative contracts whereby the Company will receive a fixed interest rate of 3.95 percent in exchange for paying a floating interest rate comprised of the three-month LIBOR plus an average rate of 1.11 percent on a notional amount of $400 million through July 15, 2022.

Tabular disclosure of derivative financial instruments. All of the Company's derivatives are accounted for as non-hedge derivatives and therefore all changes in the fair values of its derivative contracts are recognized as gains or losses in the earnings of the periods in which they occur. The Company classifies the fair value amounts of derivative assets and liabilities as net current or noncurrent derivative assets or net current or noncurrent derivative liabilities, whichever the case may be, by commodity and counterparty. The Company enters into derivatives under master netting arrangements, which, in an event of default, allows the Company to offset payables to and receivables from the defaulting counterparty.

The aggregate fair value of the Company's derivative instruments reported in the consolidated balance sheets by type and counterparty, including the classification between current and noncurrent assets and liabilities, consists of the following:

Fair Value of Derivative Instruments as of March 31, 2014

Type	Consolidated Balance Sheet Location	Fair Value	Gross Amounts Offset in the Consolidated Balance Sheet	Net Fair Value Presented in the Consolidated Balance Sheet
		(in millions)		
Derivatives not designated as hedging instruments				
Asset Derivatives:				
Commodity price derivatives	Derivatives - current	$46	$(13)	$33
Interest rate derivatives	Derivatives - current	$10	$—	10
Commodity price derivatives	Derivatives - noncurrent	$67	$(5)	62
Interest rate derivatives	Derivatives - noncurrent	$12	$(12)	—
				$105
Liability Derivatives:				
Commodity price derivatives	Derivatives - current	$54	$(13)	$41
Commodity price derivatives	Derivatives - noncurrent	$6	$(5)	1
Interest rate derivatives	Derivatives - noncurrent	$16	$(12)	4
				$46

Fair Value of Derivative Instruments as of December 31, 2013

Type	Consolidated Balance Sheet Location	Fair Value	Gross Amounts Offset in the Consolidated Balance Sheet	Net Fair Value Presented in the Consolidated Balance Sheet
		(in millions)		
Derivatives not designated as hedging instruments				
Asset Derivatives:				
Commodity price derivatives	Derivatives - current	$73	$(7)	$66
Interest rate derivatives	Derivatives - current	$10	$—	10
Commodity price derivatives	Derivatives - noncurrent	$95	$(4)	91
Interest rate derivatives	Derivatives - noncurrent	$15	$(15)	—
				$167
Liability Derivatives:				
Commodity price derivatives	Derivatives - current	$19	$(7)	$12
Commodity price derivatives	Derivatives - noncurrent	$4	$(4)	—
Interest rate derivatives	Derivatives - noncurrent	$25	$(15)	10
				$22

The Company uses credit and other financial criteria to evaluate the credit standing of, and to select, counterparties to its derivative instruments. Although the Company does not obtain collateral or otherwise secure the fair value of its derivative instruments, associated credit risk is mitigated by the Company's credit risk policies and procedures.

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The following table details the location of gains and losses recognized on the Company's derivative contracts in the accompanying consolidated statements of operations:

Derivatives Not Designated as Hedging Instruments	Location of Gain / (Loss) Recognized in Earnings on Derivatives	Three Months Ended March 31, 2014	2013
		(in millions)	
Commodity price derivatives	Derivative losses, net	$ (114)	$ (46)
Interest rate derivatives	Derivative losses, net	10	4
Total		$ (104)	$ (42)

NOTE F. Exploratory Costs

The Company capitalizes exploratory well and project costs until a determination is made that the well or project has either found proved reserves, is impaired or is sold. The Company's capitalized exploratory well and project costs are presented in proved properties in the accompanying consolidated balance sheets. If the exploratory well or project is determined to be impaired, the impaired costs are charged to exploration and abandonments expense.

The following table reflects the Company's capitalized exploratory well and project activity during the three months ended March 31, 2014:

	Three Months Ended March 31, 2014
	(in millions)
Beginning capitalized exploratory costs	$ 159
Additions to exploratory costs pending the determination of proved reserves	307
Reclassification due to determination of proved reserves	(210)
Impairment of properties	(7)
Exploratory well costs charged to exploration expense	(1)
Ending capitalized exploratory costs (a)	$ 248

(a) Includes $60 million of capitalized exploratory well costs classified as held for sale in the accompanying consolidated balance sheet as of March 31, 2014.

The following table provides an aging, as of March 31, 2014 and December 31, 2013, of capitalized exploratory costs and the number of projects for which exploratory costs have been capitalized for a period greater than one year based on the date drilling was completed:

	March 31, 2014	December 31, 2013
	(in millions, except project counts)	
Capitalized exploratory costs that have been suspended:		
One year or less	$ 211	$ 116
More than one year	37	43
	$ 248	$ 159
Number of projects with exploratory costs that have been suspended for a period greater than one year	1	1

Alaska - Nuna. The Company's Nuna project, which had $37 million of suspended project costs as of March 31, 2014, includes the Nuna-1 exploration well that was drilled during 2012 to test the Torok formation and a second appraisal well that was drilled and logged during the first quarter of 2013. The Company flow-tested the Nuna-1 well during the second quarter of 2012 and again in the first quarter of 2013. The second appraisal well encountered a mechanical problem and could not be flow-tested

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before the end of the winter drilling season. The results of the flow tests on the Nuna-1 well and the log data from the second Nuna well were both very encouraging. Prior to the sale of Pioneer Alaska, the Company was conducting a front-end engineering design study to evaluate the potential for onshore production facilities to support the project. The capitalized exploratory well costs associated with the Nuna project are classified as held for sale in the accompanying consolidated balance sheet as of March 31, 2014. See Note C for additional information about the Company's sale of Pioneer Alaska.

NOTE G. Long-term Debt

The Company's long-term debt consists of senior notes and a revolving corporate credit facility (the "Credit Facility"), including the effects of net deferred fair value hedge losses and issuance discounts. The Credit Facility is maintained with a syndicate of financial institutions and has aggregate loan commitments of $1.5 billion that expire in December 2017. As of March 31, 2014, the Company had $50 million of outstanding borrowings under the Credit Facility and was in compliance with all of its debt covenants.

NOTE H. Incentive Plans

Stock-based compensation

For the three months ended March 31, 2014, the Company recorded $31 million of stock-based compensation expense for all plans, as compared to $28 million for the same period of 2013. As of March 31, 2014, there was $211 million of unrecognized compensation expense related to unvested share-based compensation plan awards, including $57 million attributable to stock-based awards that are expected to be settled on their vesting date in cash, rather than in equity shares ("Liability Awards"). The unrecognized compensation expense will be recognized over the remaining vesting periods of the awards, which is a period of less than three years on a weighted average basis. As of March 31, 2014 and December 31, 2013, accounts payable – due to affiliates includes $8 million and $33 million, respectively, of liabilities attributable to Liability Awards.

The following table summarizes the activity that occurred during the three months ended March 31, 2014, for each type of share-based incentive award issued by Pioneer:

	Restricted Stock Equity Awards	Restricted Stock Liability Awards	Performance Units	Stock Options
Outstanding as of December 31, 2013	1,371,207	422,382	134,476	289,927
Awards granted	380,586	132,803	67,182	—
Awards vested	(406,302)	(181,131)	(898)	—
Options exercised	—	—	—	(32,098)
Awards forfeited	(2,670)	(6,356)	—	—
Outstanding as of March 31, 2014	1,342,821	367,698	200,760	257,829

Postretirement Benefit Obligations

As of March 31, 2014 and December 31, 2013, the Company had $6 million and $8 million, respectively, of unfunded accumulated postretirement benefit obligations. These obligations are comprised of five unfunded plans, of which four relate to predecessor entities that the Company acquired in prior years. Other than the Company's retirement plan, the participants of these plans are not current employees of the Company. The plans had no assets as of March 31, 2014 or December 31, 2013.

NOTE I. Asset Retirement Obligations

The Company's asset retirement obligations primarily relate to the future plugging and abandonment of wells and facilities. The following table summarizes the Company's asset retirement obligation activity during the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Beginning asset retirement obligations	$ 194	$ 198
New wells placed on production	1	3
Changes in estimates	1	(6)
Dispositions	(1)	(4)
Liabilities settled	(4)	(3)
Accretion of discount	3	3
Ending asset retirement obligations	$ 194	$ 191

The Company records the current and noncurrent portions of asset retirement obligations in other current liabilities and other liabilities, respectively, in the accompanying consolidated balance sheets. As of March 31, 2014 and December 31, 2013, the current portions of the Company's asset retirement obligations were both $19 million.

NOTE J. Commitments and Contingencies

The Company is a party to proceedings and claims incidental to its business. While many of these matters involve inherent uncertainty, the Company believes that the amount of the liability, if any, ultimately incurred with respect to such proceedings and claims will not have a material adverse effect on the Company's consolidated financial position as a whole or on its liquidity, capital resources or future annual results of operations. The Company records reserves for contingencies when information available indicates that a loss is probable and the amount of the loss can be reasonably estimated.

Settlement of Lawsuit relating to the Pioneer Southwest merger. On May 15, 2013, David Flecker, a purported unitholder of Pioneer Southwest, filed a class action petition on behalf of Pioneer Southwest's unitholders and a derivative suit (the "Flecker Lawsuit") on behalf of Pioneer Southwest against the Company, Pioneer Natural Resources USA, Inc. ("Pioneer USA"), Pioneer Natural Resources GP LLC (the "General Partner") and the directors of the General Partner, in the 134th Judicial District of Dallas County, Texas (the "Court"). A similar class action petition and derivative suit was filed against the same defendants on May 20, 2013, in the 160th Judicial District of Dallas County, Texas, by purported unitholder Vipul Patel (the "Patel Lawsuit"). On September 3, 2013, the Patel Lawsuit was consolidated into the Flecker Lawsuit (as consolidated, the "Pioneer Southwest Lawsuit"), and the plaintiffs filed a consolidated derivative and class action petition on September 5, 2013.

The Pioneer Southwest Lawsuit alleged, among other things, that the director defendants: (i) engaged in self-dealing, failed to act in good faith toward Pioneer Southwest, and breached their duties owed to Pioneer Southwest; (ii) failed to properly value Pioneer Southwest and its various assets and operations and ignored or failed to protect against the numerous conflicts of interest arising out of the proposed transaction; and (iii) breached the implied covenant of good faith and fair dealing by engaging in a flawed merger process. The lawsuit also alleged that the Company, Pioneer USA and the General Partner aided and abetted the director defendants in their purported breach of fiduciary duties. Based on these allegations, the plaintiffs sought to have the Pioneer Southwest merger rescinded. The plaintiffs also sought money damages and attorneys' fees.

In September 2013, representatives of the plaintiffs and the defendants entered into a memorandum of understanding (the "Memorandum of Understanding") to settle the claims and allegations made in the lawsuit. As part of the consideration for the settlement, the Agreement and Plan of Merger (the "Merger Agreement") was amended to provide for contractual appraisal rights for the unitholders. In January 2014, the defendants and representatives of the plaintiffs entered into a stipulation of settlement (the "Stipulation of Settlement"). The Stipulation of Settlement provides for a full and complete discharge, dismissal with prejudice, settlement and release of all claims, suits and causes of action by the plaintiffs (other than appraisal rights under the Merger Agreement) against the defendants and their representatives arising out of or relating to the allegations made in the Pioneer Southwest Lawsuit, the Pioneer Southwest merger or any deliberations, negotiations, disclosures, omissions, press releases, statements or misstatements in connection therewith, any fiduciary or other obligations in respect of the merger or any alternative transaction or under Pioneer Southwest's partnership agreement, or any costs and expenses associated with settlement other than as provided in the Stipulation of Settlement.

On March 17, 2014, the Court entered an order approving the settlement of the Pioneer Southwest Lawsuit in accordance with the terms of the Stipulation of Settlement and dismissing the lawsuit with prejudice in its entirety as to the defendants and against plaintiffs and all other members of the Class.

NOTE K. Interest and Other Income

The following table provides the components of the Company's interest and other income for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Equity interest in income of EFS Midstream (a)	3	3
Other income	1	