

PIONEER NATURAL RESOURCES CO
Form 10-Q
August 06, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

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)
(972) 444-9001
(Registrant's telephone number, including area code)

75039
(Zip 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 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 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 Accelerated filer

Non-accelerated filer (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

Number of shares of Common Stock outstanding as of July 30, 2013 138,546,648

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PIONEER NATURAL RESOURCES COMPANY

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, 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 an industrial sand mining business and acts of war or terrorism. These and other risks are described in the Company's Annual Report on Form 10-K, this and other Quarterly Reports on Form 10-Q and other filings with the United States Securities and Exchange Commission (the "SEC"). 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, 2012 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 thousands)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$695,625	\$229,396
Accounts receivable:		
Trade, net	345,812	316,854
Due from affiliates	4,676	3,299
Income taxes receivable	927	7,447
Inventories	198,650	197,056
Prepaid expenses	23,634	13,438
Other current assets:		
Derivatives	191,697	279,119
Other	4,171	3,746
Total current assets	1,465,192	1,050,355
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	15,373,058	14,259,708
Unproved properties	133,172	231,555
Accumulated depletion, depreciation and amortization	(4,859,716)	(4,412,913)
Total property, plant and equipment	10,646,514	10,078,350
Goodwill	279,687	298,142
Other property and equipment, net	1,231,127	1,217,694
Other assets:		
Investment in unconsolidated affiliate	228,475	204,129
Derivatives	137,898	55,257
Other, net	173,694	165,103
	\$14,162,587	\$13,069,030

The financial information included as of June 30, 2013 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 thousands, except share data)

	June 30, 2013 (Unaudited)	December 31, 2012
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$813,532	\$729,942
Due to affiliates	65,151	96,935
Interest payable	61,464	68,083
Income taxes payable	938	208
Deferred income taxes	25,344	86,481
Other current liabilities:		
Derivatives	6,453	13,416
Other	39,246	39,725
Total current liabilities	1,012,128	1,034,790
Long-term debt	2,823,428	3,721,193
Derivatives	—	12,307
Deferred income taxes	2,390,144	2,140,416
Other liabilities	288,730	293,016
Equity:		
Common stock, \$.01 par value; 500,000,000 shares authorized; 145,814,643 and 134,966,740 shares issued at June 30, 2013 and December 31, 2012, respectively	1,458	1,350
Additional paid-in capital	4,844,720	3,683,934
Treasury stock at cost: 7,269,817 and 11,611,093 at June 30, 2013 and December 31, 2012, respectively	(327,927)	(510,570)
Retained earnings	2,947,040	2,514,640
Total equity attributable to common stockholders	7,465,291	5,689,354
Noncontrolling interests in consolidating subsidiaries	182,866	177,954
Total equity	7,648,157	5,867,308
Commitments and contingencies	\$14,162,587	\$13,069,030

The financial information included as of June 30, 2013 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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CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Revenues and other income:				
Oil and gas	\$845,136	\$641,737	\$1,632,991	\$1,360,693
Interest and other	1,159	(714)	20,474	21,194
Derivative gains, net	144,445	275,812	102,202	367,562
Gain on disposition of assets, net	190,987	1,140	215,404	44,736
	1,181,727	917,975	1,971,071	1,794,185
Costs and expenses:				
Oil and gas production	179,488	150,081	348,628	281,862
Production and ad valorem taxes	53,837	44,495	108,134	90,291
Depletion, depreciation and amortization	249,590	200,921	480,353	382,339
Impairment of oil and gas properties	—	444,880	—	444,880
Exploration and abandonments	23,973	37,178	51,600	90,465
General and administrative	66,654	54,957	130,405	118,024
Accretion of discount on asset retirement obligations	3,166	2,444	6,319	4,874
Interest	42,805	49,008	93,540	95,866
Other	18,711	30,651	40,060	54,258
	638,224	1,014,615	1,259,039	1,562,859
Income (loss) from continuing operations before income taxes	543,503	(96,640)	712,032	231,326
Income tax benefit (provision)	(192,029)	45,086	(251,358)	(72,617)
Income (loss) from continuing operations	351,474	(51,554)	460,674	158,709
Income (loss) from discontinued operations, net of tax	—	12,017	(465)	22,712
Net income (loss)	351,474	(39,537)	460,209	181,421
Net income attributable to noncontrolling interests	(14,211)	(30,855)	(22,283)	(37,194)
Net income (loss) attributable to common stockholders	\$337,263	\$(70,392)	\$437,926	\$144,227
Basic earnings per share:				
Income (loss) from continuing operations attributable to common stockholders	\$2.42	\$(0.67)	\$3.24	\$0.98
Income (loss) from discontinued operations attributable to common stockholders	—	0.10	—	0.18
Net income (loss) attributable to common stockholders	\$2.42	\$(0.57)	\$3.24	\$1.16
Diluted earnings per share:				
Income (loss) from continuing operations attributable to common stockholders	\$2.40	\$(0.67)	\$3.19	\$0.95
Income (loss) from discontinued operations attributable to common stockholders	—	0.10	—	0.18
Net income (loss) attributable to common stockholders	\$2.40	\$(0.57)	\$3.19	\$1.13
Weighted average shares outstanding:				
Basic	137,539	123,028	133,263	122,754
Diluted	138,829	123,028	135,762	125,772
Dividends declared per share	\$—	\$—	\$0.04	\$0.04

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Amounts attributable to common stockholders:

Income (loss) from continuing operations	\$337,263	\$(82,409)	\$438,391	\$121,515
Income (loss) from discontinued operations, net of tax	—	12,017	(465)	22,712
Net income (loss)	\$337,263	\$(70,392)	\$437,926	\$144,227

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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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income (loss)	\$351,474	\$(39,537)	\$460,209	\$181,421
Other comprehensive activity:				
Net hedge losses included in continuing operations	—	2,347	—	4,855
Income tax benefit	—	(797)	—	(1,725)
Other comprehensive activity	—	1,550	—	3,130
Comprehensive income (loss)	351,474	(37,987)	460,209	184,551
Comprehensive income attributable to the noncontrolling interests	(14,211)	(30,855)	(22,283)	(37,194)
Comprehensive income (loss) attributable to common stockholders	\$337,263	\$(68,842)	\$437,926	\$147,357

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 STATEMENT OF EQUITY
(in thousands, except dividends per share)
(Unaudited)

	Equity Attributable To Common Stockholders						Total Equity
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Noncontrolling Interests	
Balance as of December 31, 2012	123,356	\$ 1,350	\$ 3,683,934	\$(510,570)	\$ 2,514,640	\$ 177,954	\$ 5,867,308
Issuance of common stock	10,350	103	1,280,813	—	—	—	1,280,916
Dividends declared (\$0.04 per share)	—	—	—	—	(5,526)	—	(5,526)
Exercise of long-term incentive plan stock options	111	—	(1,293)	5,026	—	—	3,733
Treasury stock purchases	(152)	—	—	(19,615)	—	—	(19,615)
Conversion of 2.875% senior convertible notes	4,381	—	(197,240)	197,232	—	—	(8)
Tax benefit related to conversion of 2.875% senior convertible notes	—	—	38,415	—	—	—	38,415
Tax benefit related to stock-based compensation	—	—	6,574	—	—	—	6,574
Compensation costs:							
Vested compensation awards, net	499	5	(5)	—	—	—	—
Compensation costs included in net income	—	—	33,522	—	—	580	34,102
Cash distributions to noncontrolling interests	—	—	—	—	—	(17,951)	(17,951)
Net income	—	—	—	—	437,926	22,283	460,209
Balance as of June 30, 2013	138,545	\$ 1,458	\$ 4,844,720	\$(327,927)	\$ 2,947,040	\$ 182,866	\$ 7,648,157

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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CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$460,209	\$181,421
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and amortization	480,353	382,339
Impairment of oil and gas properties	—	444,880
Exploration expenses, including dry holes	12,293	39,730
Deferred income taxes	233,738	57,291
Gain on disposition of assets, net	(215,404)	(44,736)
Accretion of discount on asset retirement obligations	6,319	4,874
Discontinued operations	(158)	3,597
Interest expense	8,907	18,152
Derivative related activity	(14,488)	(144,000)
Amortization of stock-based compensation	34,027	30,970
Amortization of deferred revenue	—	(20,919)
Other noncash items	(4,706)	(7,513)
Change in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable, net	(32,928)	33,881
Income taxes receivable	6,520	(1,452)
Inventories	(679)	(33,318)
Prepaid expenses	(10,196)	(13,425)
Other current assets	2,537	(8,846)
Accounts payable	(9,172)	30,580
Interest payable	(6,620)	82
Income taxes payable	730	(7,907)
Other current liabilities	(15,422)	(20,271)
Net cash provided by operating activities	935,860	925,410
Cash flows from investing activities:		
Proceeds from disposition of assets	675,075	62,945
Payments for acquisition, net of cash acquired	—	(295,974)
Additions to oil and gas properties	(1,388,180)	(1,424,807)
Additions to other assets and other property and equipment, net	(100,591)	(164,230)
Net cash used in investing activities	(813,696)	(1,822,066)
Cash flows from financing activities:		
Borrowings under long-term debt	418,864	1,339,093
Principal payments on long-term debt	(1,322,771)	(596,000)
Proceeds from issuance of common stock, net of issuance costs	1,280,916	—
Distributions to noncontrolling interests	(17,951)	(17,956)
Payments of other liabilities	(143)	(744)
Exercise of long-term incentive plan stock options	3,733	1,008
Purchases of treasury stock	(19,615)	(56,317)
Excess tax benefits from share-based payment arrangements	6,574	17,545

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Payments of financing fees	(8) (4,660)
Dividends paid	(5,534) (5,028)
Net cash provided by financing activities	344,065	676,941	
Net increase (decrease) in cash and cash equivalents	466,229	(219,715)
Cash and cash equivalents, beginning of period	229,396	537,484	
Cash and cash equivalents, end of period	\$695,625	\$317,769	

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
June 30, 2013
(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 field operations in the Permian Basin in West Texas, the Eagle Ford Shale play in South Texas, the Barnett Shale Combo play in North Texas, the Raton field in southeastern Colorado, the Hugoton field in southwest Kansas, the West Panhandle field in the Texas Panhandle and in Alaska.

NOTE B. Basis of Presentation

Presentation. In the opinion of management, the consolidated financial statements of the Company as of June 30, 2013 and for the three and six months ended June 30, 2013 and 2012 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, 2012.

Certain reclassifications have been made to the 2012 financial statement and footnote amounts in order to conform to the 2013 presentation.

Issuance of common stock. In February 2013, the Company issued 10.35 million shares of its common stock and realized \$1.3 billion of cash proceeds, net of associated underwriting and offering expenses.

Noncontrolling interest in consolidated subsidiaries. The Company owns a 0.1 percent general partner interest and a 52.4 percent limited partner interest in Pioneer Southwest Energy Partners L.P. ("Pioneer Southwest"). The Company owns and controls Pioneer Natural Resources GP LLC (the "General Partner"), which manages Pioneer Southwest. Pioneer Southwest owns interests in certain oil and gas properties in the Spraberry field in the Permian Basin of West Texas. The financial position, results of operations and cash flows of Pioneer Southwest are consolidated with those of the Company. Noncontrolling interests in consolidated subsidiaries includes \$169.3 million attributable to outstanding Pioneer Southwest common units held by unitholders other than Pioneer or its subsidiaries as of June 30, 2013. See Note C for additional discussion of Pioneer Southwest.

NOTE C. Acquisitions and Divestitures

Premier Silica Business Combination

On April 2, 2012, a wholly-owned subsidiary of the Company acquired an industrial sand mining business that is now called Premier Silica LLC ("Premier Silica"). Premier Silica's primary mine operations are in Brady, Texas. The Brady mine facilities primarily produce, process and provide sand to the Company for use as proppant in its fracture stimulation of oil and gas wells in Texas. Premier Silica's sand production that is in excess of the Company's sand needs for fracture stimulation and sand production that is not usable for fracture stimulation is primarily sold to third parties for industrial and recreational purposes. The aggregate purchase price of Premier Silica was \$297.1 million, including closing adjustments.

Divestitures Recorded in Continuing Operations

Southern Wolfcamp. In January 2013, the Company signed an agreement with Sinochem Petroleum USA LLC ("Sinochem"), a U.S. subsidiary of the Sinochem Group, an unaffiliated third party, to sell 40 percent of Pioneer's

interest in 207,000 net acres leased by the Company in the horizontal Wolfcamp Shale play in the southern portion of the Spraberry field in West Texas for total consideration of \$1.8 billion, including normal closing adjustments. In May 2013, the Company completed the sale to Sinochem for net cash proceeds of \$614.5 million, including normal closing adjustments, resulting in a second quarter 2013 pretax gain of \$180.9 million. The Company reduced the carrying value of goodwill and the gain recognized associated with the sale by \$18.5 million, reflecting the portion of the Company's goodwill that related to the horizontal Wolfcamp Shale assets that were

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PIONEER NATURAL RESOURCES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

sold. Sinochem will pay the remaining \$1.2 billion of the transaction price by carrying 75 percent of Pioneer's portion of future drilling and facilities costs attributable to the Company's joint operations with Sinochem in the horizontal Wolfcamp Shale play.

Sales of unproved oil and gas properties. For the three and six months ended June 30, 2013, the Company's pretax gains on disposition of assets from continuing operations of \$191.0 million and \$215.4 million, respectively, were primarily associated with the Southern Wolfcamp transaction noted above. Additionally, the Company sold (i) its interest in unproved oil and gas properties adjacent to the Company's West Panhandle field operations during the first quarter of 2013 for net cash proceeds of \$38.1 million, which resulted in a pretax gain of \$22.4 million, and (ii) its interest in certain unproved oil and gas properties in the Barnett Shale during the second quarter of 2013 for net cash proceeds of \$11.2 million, which resulted in a pretax gain of \$8.3 million. For the three and six months ended June 30, 2012, the Company's pretax gains on disposition of assets amounted to \$1.1 million and \$44.7 million, respectively. The Company's gain on disposition of assets during the six months ended June 30, 2012 is primarily associated with the first quarter 2012 sale of a portion of its interest in an unproved oil and gas property in the Eagle Ford Shale field for net cash proceeds of \$54.7 million, which resulted in a pretax gain of \$42.6 million.

Divestitures Recorded as Discontinued Operations

South Africa. During the first quarter of 2012, the Company agreed to sell its assets in South Africa ("Pioneer South Africa"), effective January 1, 2012, for \$60.0 million of cash proceeds before normal closing and other adjustments, and the buyer's assumption of certain liabilities associated with the assets. In August 2012, the Company completed the sale of Pioneer South Africa for net cash proceeds of \$15.9 million, including normal closing adjustments for cash revenues and costs and expenses from the effective date through the date of the sale, resulting in a third quarter 2012 pretax gain of \$28.6 million. The Company classified Pioneer South Africa's results of operations as income from discontinued operations, net of tax, in the accompanying consolidated statements of operations.

For the three and six months ended June 30, 2012, the Company recognized revenues and other income of \$20.2 million and \$39.8 million, respectively, and pretax earnings of \$16.6 million and \$34.0 million, respectively, associated with discontinued operations, principally related to the results of operations of Pioneer South Africa prior to its divestiture in August 2012.

Acquisition Proposal

On May 7, 2013, the Company delivered a proposal to the chairman of the Conflicts Committee (the "Conflicts Committee") of the General Partner to acquire all of the outstanding common units of Pioneer Southwest held by unitholders other than Pioneer or its subsidiaries for consideration of .2234 of a share of common stock of Pioneer for each outstanding common unit of Pioneer Southwest held by such unitholders in a transaction to be structured as a merger of Pioneer Southwest with a wholly-owned subsidiary of Pioneer (the "Pioneer Southwest Merger Proposal"). The Company's proposal was made based on the assumption that Pioneer Southwest would declare and pay the distribution for the period April 1, 2013 to June 30, 2013 (which was declared in July 2013 and is to be paid on August 9, 2013, to unitholders of record on August 2, 2013) and then suspend future common unit distributions pending the execution of a definitive agreement and the consummation of a transaction.

The consummation of the transaction contemplated by the Pioneer Southwest Merger Proposal is subject to approval of the Company's Board of Directors (the "Board"), approval of the Conflicts Committee and the Board of Directors of the General Partner and the negotiation of a definitive agreement. There can be no assurance that a definitive agreement will be executed or that any transaction will be approved or consummated. See Note J for a description of

the litigation contingencies associated with the Pioneer Southwest Merger Proposal.

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.

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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 as of June 30, 2013: