PIONEER NATURAL RESOURCES CO
Form 10-Q
July 30, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2010

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

Number of shares of Common Stock outstanding as of July 27, 2010 115,994,034

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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, 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, 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, international operations and associated international political and economic instability, litigation, the costs and results of drilling and operations, availability of equipment, services and personnel required to complete the Company s operating activities, access to and availability of transportation, processing 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 impact of climate change, 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 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 and 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, 2009 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.

Bcf means one billion cubic feet.

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 6.0 Mcf of gas to 1.0 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.

CBM means coal bed methane.

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.

MBbl means one thousand Bbls.

MBOE means one thousand BOEs.

Mcf means one thousand cubic feet and is a measure of gas volume.

MMBbl means one million Bbls.

MMBOE means one million BOEs.

MMBtu means one million Btus.

MMcf means one million cubic feet.

MMcfpd means one million cubic feet per day.

Mont Belvieu posted-price 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 Mont Belvieu, Texas.

NGL means natural gas liquid.

NYMEX means the New York Mercantile Exchange.

NYSE means the New York Stock 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 means the quantities of oil and gas, which, by analysis of geosciences 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 geosciences and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons 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 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 is based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing 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.

SEC means the United States Securities and Exchange Commission.

Standardized Measure means the after-tax present value of estimated future net cash flows of proved reserves, determined in accordance with the rules and regulations of the SEC, using prices and costs employed in the determination of proved reserves and a ten percent discount rate.

U.S. means United States.

VPP means volumetric production payment.

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, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 197,686	$ 27,368
Accounts receivable:		
Trade, net of allowance for doubtful accounts of $1,359 and $1,310 as of June 30, 2010 and December 31, 2009, respectively	212,014	330,711
Due from affiliates	807	1,037
Income taxes receivable	1,582	25,022
Inventories	122,393	139,177
Prepaid expenses	19,097	9,011
Deferred income taxes		26,857
Other current assets:		
Derivatives	149,632	48,713
Other, net of allowance for doubtful accounts of $581 and $5,689 as of June 30, 2010 and December 31, 2009, respectively	9,367	8,222
Total current assets	712,578	616,118
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	10,560,753	10,276,244
Unproved properties	179,886	236,660
Accumulated depletion, depreciation and amortization	(3,168,814)	(2,946,048)
Total property, plant and equipment	7,571,825	7,566,856
Deferred income taxes	2,356	387
Goodwill	298,563	309,259
Other property and equipment, net	209,569	154,830
Other assets:		
Derivatives	142,450	43,631
Other, net of allowance for doubtful accounts of $11,164 and $7,300 as of June 30, 2010 and December 31, 2009, respectively	174,981	176,184
	$ 9,112,322	$ 8,867,265

The financial information included as of June 30, 2010 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, 2010 (Unaudited)	December 31, 2009
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$ 316,790	$ 221,359
Due to affiliates	25,466	32,224
Interest payable	54,023	47,009
Income taxes payable	12,941	17,411
Deferred income taxes	43,158	128
Other current liabilities:		
Derivatives	31,211	116,015
Deferred revenue	67,436	90,215
Other	36,260	46,830
Total current liabilities	587,285	571,191
Long-term debt	2,531,431	2,761,011
Derivatives	13,968	133,645
Deferred income taxes	1,638,060	1,470,899
Deferred revenue	64,730	87,021
Other liabilities	218,715	200,467
Stockholders equity:		
Common stock, $.01 par value; 500,000,000 shares authorized; 126,102,932 and 125,203,502 shares issued at June 30, 2010 and December 31, 2009, respectively	1,261	1,252
Additional paid-in capital	3,004,139	2,981,450
Treasury stock, at cost: 10,951,910 and 10,828,171 at June 30, 2010 and December 31, 2009, respectively	(422,837)	(415,211)
Retained earnings	1,323,662	917,688
Accumulated other comprehensive income deferred hedge gains, net of tax	29,166	51,009
Total stockholders equity attributable to common stockholders	3,935,391	3,536,188
Noncontrolling interests in consolidating subsidiaries	122,742	106,843
Total stockholders equity	4,058,133	3,643,031
Commitments and contingencies		
	$ 9,112,322	$ 8,867,265

The financial information included as of June 30, 2010 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 thousands, except per share data)

(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues and other income:				
Oil and gas	$ 462,142	$ 370,692	$ 969,938	$ 738,543
Interest and other	20,263	88,598	40,066	99,258
Derivative gains (losses), net	177,528	(170,224)	443,004	(70,361)
Gain (loss) on disposition of assets, net	7,645	53	24,588	(62)
Hurricane activity, net	(5,184)	(16,075)	2,226	(16,450)
	662,394	273,044	1,479,822	750,928
Costs and expenses:				
Oil and gas production	97,294	84,793	187,009	195,223
Production and ad valorem taxes	25,338	23,715	52,399	51,414
Depletion, depreciation and amortization	150,314	158,673	301,082	346,817
Impairment of oil and gas properties				21,091
Exploration and abandonments	27,123	21,618	47,920	52,788
General and administrative	42,374	33,275	83,322	67,929
Accretion of discount on asset retirement obligations	2,632	2,753	5,592	5,505
Interest	45,368	43,475	92,891	84,613
Other	14,725	36,715	31,301	68,104
	405,168	405,017	801,516	893,484
Income (loss) from continuing operations before income taxes	257,226	(131,973)	678,306	(142,556)
Income tax benefit (provision)	(94,693)	41,724	(255,167)	42,465
Income (loss) from continuing operations	162,533	(90,249)	423,139	(100,091)
Income from discontinued operations, net of tax	26,156	2,731	26,156	1,761
Net income (loss)	188,689	(87,518)	449,295	(98,330)
Net (income) loss attributable to the noncontrolling interests	(21,113)	522	(36,465)	(3,271)
Net income (loss) attributable to common stockholders	$ 167,576	$ (86,996)	$ 412,830	$ (101,601)
Basic earnings per share:				
Income (loss) from continuing operations attributable to common stockholders	$ 1.20	$ (0.78)	$ 3.29	$ (0.91)
Income from discontinued operations attributable to common stockholders	0.22	0.02	0.22	0.02
Net income (loss) attributable to common stockholders	$ 1.42	$ (0.76)	$ 3.51	$ (0.89)
Diluted earnings per share:				
Income (loss) from continuing operations attributable to common stockholders	$ 1.19	$ (0.78)	$ 3.27	$ (0.91)
Income from discontinued operations attributable to common stockholders	0.22	0.02	0.22	0.02

Net income (loss) attributable to common stockholders	$ 1.41	$ (0.76)	$ 3.49	$ (0.89)
Weighted average shares outstanding:				
Basic	115,104	113,979	114,880	114,116
Diluted	116,006	113,979	115,735	114,116
Dividends declared per share	$	$	$ 0.04	$ 0.04
Amounts attributable to common stockholders:				
Income (loss) from continuing operations	$ 141,420	$ (89,727)	$ 386,674	$ (103,362)
Income from discontinued operations	26,156	2,731	26,156	1,761
Net income (loss)	$ 167,576	$ (86,996)	$ 412,830	$ (101,601)

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 STOCKHOLDERS EQUITY

(in thousands, except dividends per share)

(Unaudited)

	Stockholders Equity Attributable To Common Stockholders							
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Stockholders Equity
Balance as of December 31, 2009	114,375	$ 1,252	$ 2,981,450	$ (415,211)	$ 917,688	$ 51,009	$ 106,843	$ 3,643,031
Dividends declared ($0.04 per share)					(4,735)			(4,735)
Exercise of long-term incentive plan stock options	145			5,573	(2,121)			3,452
Treasury stock purchases	(269)			(13,199)			(203)	(13,402)
Tax benefit related to stock-based compensation			4,090					4,090
Compensation costs:								
Vested compensation awards, net	900	9	(8)					1
Compensation costs included in net income			18,607				645	19,252
Cash contributions from noncontrolling interests							1,151	1,151
Cash distributions to noncontrolling interests							(13,451)	(13,451)
Net income					412,830		36,465	449,295
Other comprehensive loss:								
Deferred hedging activity, net of tax:								
Net hedge gains included in continuing operations						(21,843)	(8,708)	(30,551)
Balance as of June 30, 2010	115,151	$ 1,261	$ 3,004,139	$ (422,837)	$ 1,323,662	$ 29,166	$ 122,742	$ 4,058,133

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

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PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash flows from operating activities:		
Net income (loss)	$ 449,295	$ (98,330)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation and amortization	301,082	346,817
Impairment of oil and gas properties		21,091
Exploration expenses, including dry holes	8,057	27,954
Hurricane activity, net	3,500	15,000
Deferred income taxes	243,052	(49,941)
(Gain) loss on disposition of assets, net	(24,588)	62
Accretion of discount on asset retirement obligations	5,592	5,505
Discontinued operations	11,220	5,208
Interest expense	14,920	13,529
Derivative related activity	(442,087)	48,235
Amortization of stock-based compensation	19,049	19,223
Amortization of deferred revenue	(45,070)	(73,695)
Other noncash items	(3,766)	24,840
Change in operating assets and liabilities		
Accounts receivable, net	96,376	53,941
Income taxes receivable	23,440	31,796
Inventories	12,479	(57,689)
Prepaid expenses	(10,204)	(14,187)
Other current assets	(7,192)	66,920
Accounts payable	50,458	(107,388)
Interest payable	7,014	101
Income taxes payable	(4,470)	13,917
Other current liabilities	(14,943)	(44,581)
Net cash provided by operating activities	693,214	248,328
Cash flows from investing activities:		
Proceeds from disposition of assets	297,312	3,742
Additions to oil and gas properties	(461,502)	(242,150)
Additions to other assets and other property and equipment, net	(74,183)	(21,399)
Net cash used in investing activities	(238,373)	(259,807)
Cash flows from financing activities:		
Borrowings under long-term debt	182,997	172,000
Principal payments on long-term debt	(424,107)	(103,000)
Contributions from noncontrolling interests	1,151	150
Distributions to noncontrolling interests	(13,451)	(10,050)
Payments of other liabilities	(20,325)	(699)
Exercise of long-term incentive plan stock options	3,452	2,535

Purchases of treasury stock	(13,402)	(20,399)
Excess tax (costs) benefits from share-based payment arrangements	4,090	(3,918)
Payment of financing fees	(145)	(4,475)
Dividends paid	(4,783)	(4,679)
Net cash provided by (used in) financing activities	(284,523)	27,465
Net increase in cash and cash equivalents	170,318	15,986
Cash and cash equivalents, beginning of period	27,368	48,337
Cash and cash equivalents, end of period	$ 197,686	$ 64,323

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 COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Net income (loss)	$ 188,689	$ (87,518)	$ 449,295	$ (98,330)
Other comprehensive loss:				
Hedge fair value changes, net				12,974
Net hedge gains included in continuing operations	(20,697)	(26,473)	(41,623)	(65,640)
Income tax provision	6,037	23,440	11,072	32,974
Other comprehensive loss	(14,660)	(3,033)	(30,551)	(19,692)
Comprehensive income (loss)	174,029	(90,551)	418,744	(118,022)
Comprehensive (income) loss attributable to noncontrolling interest	(16,740)	6,057	(27,758)	4,270
Comprehensive income (loss) attributable to common stockholders	$ 157,289	$ (84,494)	$ 390,986	$ (113,752)

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, 2010

(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 with continuing operations in the United States, South Africa and Tunisia.

NOTE B. Basis of Presentation

Presentation. In the opinion of management, the consolidated financial statements of the Company as of June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 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 or omitted in this Report pursuant to the rules and regulations of the SEC. These consolidated financial statements should be read in connection 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, 2009.

During the three months ended June 30, 2009, the Company inadvertently overstated its depletion, depreciation and amortization (DD&A) expense by $7.3 million ($4.6 million net of associated income taxes) attributable to oil and gas volumes sold during the period then ended. This overstatement primarily resulted from an exclusion of certain proved reserves from the calculation of the Company s DD&A expense for the three months ended June 30, 2009. As of June 30, 2009, this error also overstated the Company s accumulated depletion, depreciation and amortization and income taxes payable by $7.3 million and $178 thousand, respectively, and understated the Company s deferred tax liabilities by $2.9 million. The Company corrected the error during the three months ended September 30, 2009. The accompanying consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2009, and the accompanying consolidated statement of cash flows for the six months ended June 30, 2009, have been revised for this correction. The correction of this error decreased the Company s diluted net loss by $0.04 per share for the three and six months ended June 30, 2009.

Discontinued operations. During the three months ended June 30, 2009, the Company sold its oil and gas properties in Mississippi and committed to a plan to sell substantially all of its shelf properties in the Gulf of Mexico, which were subsequently sold during August 2009. In accordance with GAAP, the Company classified the results of operations of the Mississippi and shelf properties in the Gulf of Mexico as discontinued in its accompanying consolidated statements of operations for the three and six months ended June 30, 2009.

During the fourth quarter of 2009, the Company recorded a $119.3 million receivable from the United States Department of Interior Minerals Management Service (the MMS, now the Bureau of Ocean Energy Management, Regulation, and Enforcement) for the recovery of excess royalties paid by the Company on qualifying deepwater leases in the Gulf of Mexico. The MMS paid the Company the $119.3 million receivable during the first half of 2010. Additionally, the MMS paid the Company $35.3 million of associated interest on the excess royalty payments during the three months ended June 30, 2010. The properties that were the source of these royalty and interest recoveries were sold by the Company during 2006. Accordingly, the $35.3 million of interest income recorded during the three and six months ended June 30, 2010 is a component of income from discontinued operations, net of tax in the accompanying consolidated statements of operations for the three and six months ended June 30, 2010. See Note S for additional information about discontinued operations.

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PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(Unaudited)

Allowances for doubtful accounts. As of June 30, 2010 and December 31, 2009, the Company s allowances for doubtful accounts totaled $13.1 million and $14.3 million, respectively. Changes in the Company s allowance for doubtful accounts during the three and six months ended June 30, 2010 are summarized in the following table:

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
	(in thousands)	
Beginning allowance for doubtful accounts balance	$ 14,729	$ 14,299
Amount recorded in other expense for bad debt recoveries	(254)	(30)
Other net decreases	(1,371)	(1,165)
Ending allowance for doubtful accounts balance	$ 13,104	$ 13,104

Inventories. Inventories consisted of $193.7 million and $205.6 million of materials and supplies and $3.1 million and $3.2 million of commodities as of June 30, 2010 and December 31, 2009, respectively. As of June 30, 2010 and December 31, 2009, the Company s materials and supplies inventory was net of $1.4 million and $5.2 million, respectively, of valuation reserve allowances. As of June 30, 2010 and December 31, 2009, the Company estimated that $74.3 million and $69.6 million, respectively, of its materials and supplies inventory would not be utilized within one year. Accordingly, those inventory values have been classified as other noncurrent assets in the accompanying consolidated balance sheets.

Derivatives and hedging. Changes in the fair values of derivative instruments are recognized as gains or losses in the earnings of the period in which they occur. Effective February 1, 2009, the Company discontinued hedge accounting on all of its then-existing hedge contracts. Changes in the fair value of effective cash flow hedges prior to the Company s discontinuance of hedge accounting on February 1, 2009 were recorded as a component of accumulated other comprehensive income deferred hedge gains, net of tax (AOCI Hedging), in the stockholders equity section of the accompanying consolidated balance sheets, and are being transferred to earnings during the same periods in which the hedged transactions are recognized in the Company s earnings. Since February 1, 2009, the Company has recognized all changes in the fair values of its derivative contracts 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 executed under master netting arrangements as net current or noncurrent derivative assets or net current or noncurrent derivative liabilities, whichever the case may be, by commodity and master netting counterparty. Net derivative asset values are determined, in part, by utilization of the derivative counterparties credit-adjusted risk-free rate curves and net derivative liabilities are determined, in part, by utilization of the Company s and Pioneer Southwest Energy Partners L.P. s (Pioneer Southwest, a majority-owned and consolidated subsidiary) credit-adjusted risk-free rate curves. The credit-adjusted risk-free rate curves for the Company and the counterparties are based on independent market-quoted credit default swap rate curves for the parties debt plus the United States Treasury Bill yield curve as of June 30, 2010. Pioneer Southwest s credit-adjusted risk-free rate curve is based on independent market-quoted forward London Interbank Offered Rate (LIBOR) curves plus 250 basis points, representing Pioneer Southwest s estimated borrowing rate.

Goodwill. Goodwill is assessed for impairment whenever events or circumstances indicate that impairment of the carrying value of goodwill is likely, but no less often than annually. If the carrying value of goodwill is determined to be impaired, it is reduced for the impaired value with a corresponding charge to pretax earnings in the period in which it is determined to be impaired. During the third quarter of 2009, the Company performed its annual assessment of goodwill impairment and determined that there was no impairment. During the first half of 2010, the

Company sold 45 percent of its interests in South Texas Eagle Ford Shale oil and gas properties and substantially all of its oil and gas properties in the Uinta/Piceance area. Associated therewith, the Company reduced its goodwill attributable to the sold properties by $10.7 million.

Noncontrolling interest in consolidated subsidiaries. The Company owns a 0.1 percent general partner interest and a 61.9 percent limited partner interest in Pioneer Southwest. Pioneer Southwest owns interests in certain oil and gas properties previously owned by the Company 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.

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In addition to Pioneer Southwest, the Company owns the majority interests in certain other subsidiaries with operations in the United States. Noncontrolling interest in the net assets of consolidated subsidiaries totaled $122.7 million and $106.8 million as of June 30, 2010 and December 31, 2009, respectively. The Company recorded net income attributable to the noncontrolling interests of $21.1 million and $36.5 million for the three and six months ended June 30, 2010, respectively, (principally related to Pioneer Southwest) compared to net loss attributable to the noncontrolling interests of $0.5 million and net income attributable to the noncontrolling interests of $3.3 million for the three and six months ended June 30, 2009, respectively.

Investment in unconsolidated affiliate. During the first half of 2010, the Company formed EFS Midstream LLC (EFS Midstream) to own and operate natural gas and liquids gathering, treating and transportation assets in the Eagle Ford Shale area of South Texas. During June 2010, the Company sold a 49.9 percent member interest in EFS Midstream to an unaffiliated third party for $46.4 million of cash proceeds. Associated therewith, the Company recorded a $46.3 million deferred gain that will be amortized as a reduction in production costs over a 20 year period, representing the term of a continuing commitment of Pioneer to deliver production volumes through EFS Midstream handling and gathering facilities. The deferred gain is included in other current and noncurrent liabilities in the Company s accompanying consolidated balance sheet as of June 30, 2010.

The Company does not have voting control of EFS Midstream. Consequently, the Company accounts for this investment under the equity method of accounting for investments in unconsolidated affiliates. Under the equity method, investment in an unconsolidated affiliate is increased for investments made and the investor s share of the investee s net income and decreased for distributions received, the carrying value of member interests sold and the investor s share of the investee s net losses.

Stock-based compensation. For stock-based compensation equity awards, compensation expense is being recognized in the Company s financial statements on a straight line basis over the awards vesting periods based on their fair values on the dates of grant. The amount of compensation expense recognized at any date is at least equal to the portion of the grant-date value of the award that is vested at that date. The Company utilizes (i) the Black-Scholes option pricing model to measure the fair value of stock options, (ii) the prior day s closing stock price on the date of grant for the fair value of restricted stock awards, (iii) the Monte Carlo simulation method for the fair value of performance unit awards and (iv) a probabilistic forecasted fair value method for series B unit awards in the Company s majority-owned drilling subsidiary, Sendero Drilling Company, LLC (Sendero).

Stock-based compensation liability awards are awards that are expected to be settled wholly or partially in cash on their vesting dates, rather than in equity shares or units. Stock-based liability awards are recorded as accounts payable affiliates based on the vested portion of the fair value of the awards on the balance sheet date. The fair values of liability awards are updated at each balance sheet date and changes in the fair values of the vested portions of the awards are recorded as increases or decreases to compensation expense. During February 2010, the Company issued 208,620 restricted stock awards to employees that represent liability awards. As of June 30, 2010, account payable affiliates includes $1.3 million of liabilities attributable to the liability awards.

For the three and six months ended June 30, 2010, the Company recorded $10.5 million and $20.6 million, respectively, of stock-based compensation costs for all plans, as compared to $10.9 million and $20.1 million for the same respective periods of 2009.

In accordance with GAAP, the Company s issued shares, as reflected in the consolidated balance sheets at June 30, 2010 and December 31, 2009, do not include 842,166 and 979,493 common shares, respectively, associated with unvested stock-based compensation awards that have voting rights.

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The following table summarizes all Pioneer equity and liability stock-based awards, lapses and forfeitures that occurred during the six months ended June 30, 2010:

	Restricted Stock Awards	Performance Units	Stock Options
Outstanding at December 31, 2009	2,999,370	347,031	596,033
Awards (a)	715,577	74,482	116,120
Lapsed restrictions	(799,163)		
Exercises			(144,845)
Forfeitures	(59,165)		(1,066)
Outstanding at June 30, 2010	2,856,619	421,513	566,242

(a) Restricted stock awards include 208,620 of liability awards.

Subsidiary issuances of unit-based compensation. During the six months ended June 30, 2010, Pioneer Natural Resources GP LLC (the General Partner), the general partner of Pioneer Southwest, awarded phantom units to certain members of management of the General Partner under Pioneer Southwest s long-term incentive plan (the Phantom Units). The Phantom Units entitle the recipients to receive 35,118 common units of Pioneer Southwest after a three-year vesting period. Associated therewith, Pioneer Southwest and the Company recorded $83 thousand of compensation expense during the six months ended June 30, 2010. During the six months ended June 30, 2010, Sendero entered into Restricted Unit Agreements with two key employees, relating to series B units in Sendero. The series B unit awards vest over a five-year period and do not earn equity rights unless certain defined performance conditions are achieved by Sendero. Associated therewith, the Company recorded $510 thousand of compensation expense during the six months ended June 30, 2010.

During the three months ended June 30, 2010, the General Partner awarded 8,744 Pioneer Southwest restricted common units to directors of the General Partner and restrictions on 13,653 Pioneer Southwest common unit awards lapsed. There were no forfeitures of Pioneer Southwest restricted common units during the six months ended June 30, 2010.

As of June 30, 2010, there was $65.6 million of unrecognized compensation expense related to unvested share- and unit-based compensation plan awards, including $10.6 million attributable to liability awards. This compensation will be recognized over the remaining vesting periods of the awards, which on a weighted average basis is a period of less than three years.

New accounting pronouncements. During February 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-09, Subsequent Events (Topic 855). ASU No. 2010-09 amends Accounting Standards Codification (ASC) Topic 855 to include the definition of SEC filer and alleviate the obligation of SEC filers to disclose the date through which subsequent events have been evaluated. ASU No. 2010-09 became effective during February 2010. See Note T for the Company s disclosures of subsequent events.

Effective December 31, 2009, the Company adopted the SEC s final rule on Modernization of Oil and Gas Reporting (the Reserve Ruling) and the FASB s ASU 2010-03, which conforms ASC 932 to the Reserve Ruling. Among the items, the Reserve Ruling and ASU 2010-03 require companies to report oil and gas reserves using an average price based upon the prior 12-month period rather than a period-end price.

During January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820). ASU No. 2010-06 amends ASC Topic 820 to (i) require separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers, (ii) require separate disclosure of purchases, sales, issuances and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), (iii) clarify the level of disaggregation for fair value measurements of assets and liabilities and (iv) clarify disclosures about inputs and valuation techniques used to measure fair values for both recurring and nonrecurring fair value measurements. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the provisions of ASU No. 2010-06 on January 1, 2010. See Note D for the Company s disclosures about fair value measurements.

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NOTE C. Exploratory Well Costs

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

The following table reflects the Company s capitalized exploratory well activity during the three and six months ended June 30, 2010:

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
	(in thousands)	
Beginning capitalized exploratory well costs	$ 137,581	$ 127,574
Additions to exploratory well costs pending the determination of proved reserves	75,873	114,125
Reclassification due to determination of proved reserves	(46,497)	(74,742)
Disposition of wells sold	(15,526)	(15,526)
Ending capitalized exploratory well costs	$ 151,431	$ 151,431

The following table provides an aging, as of June 30, 2010 and December 31, 2009 of capitalized exploratory well costs and the number of projects for which exploratory well costs have been capitalized for a period greater than one year, based on the date drilling was completed:

	June 30, 2010	December 31, 2009
	(in thousands, except well counts)	
Capitalized exploratory well costs that have been suspended:		
One year or less	$ 39,953	$ 21,634
More than one year	111,478	105,940
	$ 151,431	$ 127,574
Number of projects with exploratory well costs that have been suspended for a period greater than one year	5	8

The following table provides an aging of capitalized costs of exploration projects that have been suspended for more than one year as of June 30, 2010:

	Total	2010	2009	2008	2007	2006
			(in thousands)			
U.S. Cosmopolitan Unit	$ 77,745	$ 10,831	$ 8,253	$ 6,344	$ 51,488	$ 829
Tunisia	33,733	331	466	29,006	(15)	3,945
Total	$ 111,478	$ 11,162	$ 8,719	$ 35,350	$ 51,473	$ 4,774

Cosmopolitan Unit. The Company owns a 100 percent working interest in, and is the operator of, the Cosmopolitan Unit in the Cook Inlet of Alaska. The Company drilled a lateral sidetrack during 2007 from an existing wellbore on an onshore site to further appraise the resource potential of the unit. The initial un-stimulated production test results were encouraging. The Company performed casing repair workover operations on the well during the fourth quarter of 2009, fracture-stimulated the well during the first quarter of 2010 and plans to perform extended flow testing and analysis of the well during the remainder of 2010. The Company will continue to conduct permitting activities and facilities planning and may drill another appraisal well during 2011.

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Tunisia Cherouq. The Company has $17.8 million of suspended well costs recorded for the Hayatt #1 well in the Company s Cherouq production concession area, which is operated by the Company. The Hayatt #1 well began drilling in April 2008 to test several targeted formations. Mechanical failures were encountered during the testing of the well that did not allow completion of the formation assessments. The Company has project personnel at appropriate levels committed to and actively participating in analyzing seismic and other data to determine the optimal plan forward for completing the well, which may utilize the existing wellbore or a new wellbore adjacent to the existing well. The Company expects to finalize its Hayatt #1 plans during 2010 or early 2011 and execute well completion plans during 2011.

Tunisia Borj El Khadra. The Company has $7.8 million of suspended well costs attributable to the Nahkil #1 and Abir #1 wells in the Borj El Khadra exploration permit area, which is operated by a third-party. The Nahkil #1 well encountered oil-bearing sands and the Abir #1 well encountered gas-bearing sands. The Company does not record proved reserves associated with discoveries in exploration permit areas until a production concession is granted. The third-party operator and the Company have project personnel at appropriate levels committed to and actively participating in infrastructure planning and assessment of the permit area. During the first half of 2010, a $13.8 million 3-D seismic program was initiated and future plans include the drilling of an additional exploration well in the permit area during 2010. Additionally, project personnel are evaluating the feasibility of using production handling facilities on a nearby production concession to transport Abir #1 production to sales markets.

Tunisia Anaguid. The Company has $8.2 million of suspended well costs attributable to the Durra #1 well on the Anaguid exploration permit. Project personnel at appropriate levels are committed to and actively participating in the assessment of the Durra #1 well and the Anaguid exploration permit area. During April 2010, the Company and other project participants formally submitted a plan of development for the conversion of the Durra #1 discovery into a concession agreement. Engineering and design work is being progressed, which will allow construction activities to commence once the plan of development is formally approved. During July 2010, government approval was received; however, final approval is subject to publication in the Tunisian Gazette prior to the concession being formally awarded.

NOTE D. Disclosures About Fair Value Measurements

In accordance with GAAP, fair value measurements are based upon inputs that market participants use in pricing an asset or liability, which are classified into two categories: observable inputs and unobservable inputs. 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. These two types of inputs are further prioritized into the following fair value input hierarchy:

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.

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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 June 30, 2010, for each of the fair value hierarchy levels:

	Fair Value Measurements at Reporting Date 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 June 30, 2010
	(in thousands)			
Assets:				
Trading securities	$ 296	$ 101	$	$ 397
Commodity derivatives		265,863	6,311	272,174
Interest rate derivatives		19,908		19,908
Deferred compensation plan assets	29,103			29,103
Total assets	$ 29,399	$ 285,872	$ 6,311	$ 321,582
Liabilities:				
Commodity derivatives	$	$ 40,922	$ 1,672	$ 42,594
Interest rate derivatives		2,585		2,585
Pioneer Southwest credit facility		67,990		67,990
5.875% senior notes due 2016	465,631			465,631
6.65% senior notes due 2017	489,223			489,223
6.875% senior notes due 2018	449,500			449,500
7.50% senior notes due 2020	463,500			463,500
7.20% senior notes due 2028	246,918			246,918
2.875% senior convertible notes due 2038 (a)	562,800			562,800
Total liabilities	$ 2,677,572	$ 111,497	$ 1,672	$ 2,790,741

(a) The fair value of the 2.875% senior convertible notes includes the fair value of the conversion privilege. At the issuance date, the conversion privilege was valued at $81.1 million.

The following tables present the changes in the fair values of the Company s notes receivable and natural gas liquid (NGL) derivative liabilities classified as Level 3 in the fair value hierarchy:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	**Three Months Ended June 30, 2010**		
	NGL Swap Contracts	**Notes Receivable**	**Total**
		(in thousands)	
Beginning asset (liability) balance	$ (1,323)	$ 1,529	$ 206
Total gains (losses):			
Net unrealized gains included in earnings (a)	7,782		7,782
Net realized losses transferred to earnings (a)	(772)		(772)
Notes receivable valuation allowance recoveries included in earnings (b)		307	307
Settlements	(1,048)	(1,836)	(2,884)
Ending asset balance	$ 4,639	$	$ 4,639

(a) The hedge-effective portions of realized gains and losses on commodity derivatives in AOCI Hedging are included in oil and gas revenues, while non-hedge derivatives or ineffective portions of realized and unrealized hedge gains and losses are included in derivative gains, net in the accompanying consolidated statements of operations.

(b) The valuation allowance recoveries associated with the Company s notes receivable is included in other expense in the accompanying consolidated statements of operations.

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Six Months Ended June 30, 2010		
	NGL Swap Contracts	Notes Receivable	Total
		(in thousands)	
Beginning asset (liability) balance	$ (12,904)	$ 4,727	$ (8,177)
Total gains (losses):			
Net unrealized gains included in earnings (a)	21,203		21,203
Net realized losses transferred to earnings (a)	(3,852)		(3,852)
Notes receivable valuation allowance recoveries included in earnings (b)		187	187
Settlements (c)	192	(4,914)	(4,722)
Ending asset balance	$ 4,639	$	$ 4,639

(a) The hedge-effective portions of realized gains and losses on commodity derivatives in AOCI Hedging are included in oil and gas revenues, while non-hedge derivatives or ineffective portions of realized and unrealized hedge gains and losses are included in derivative gains, net in the accompanying consolidated statements of operations.

(b) The valuation allowance recoveries associated with the Company s notes receivable is included in other expense in the accompanying consolidated statements of operations.

(c) During the first quarter of 2010, the Company took possession of a drilling rig that represented $3.0 million of collateral value associated with its notes receivable.

The following table presents the carrying amounts and fair values of the Company s financial instruments as of June 30, 2010 and December 31, 2009:

	June 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
		(in thousands)		
Assets:				
Commodity price derivatives	$ 272,174	$ 272,174	$ 84,080	$ 84,080
Interest rate derivatives	$ 19,908	$ 19,908	$ 8,264	$ 8,264
Trading securities	$ 397	$ 397	$ 335	$ 335
Deferred compensation plan assets	$ 29,103	$ 29,103	$ 27,890	$ 27,890
Notes receivable	$	$	$ 4,727	$ 4,727
Liabilities:				
Commodity price derivatives	$ 42,594	$ 42,594	$ 223,555	$ 223,555
Interest rate derivatives	$ 2,585	$ 2,585	$ 26,105	$ 26,105
Pioneer credit facility	$	$	$ 240,000	$ 259,461
Pioneer Southwest credit facility	$ 72,000	$ 67,990	$ 67,000	$ 61,718
5.875% senior notes due 2012	$	$	$ 6,168	$ 6,154
5.875% senior notes due 2016	$ 392,906	$ 465,631	$ 389,109	$ 437,170
6.65% senior notes due 2017	$ 483,978	$ 489,223	$ 483,914	$ 472,546

6.875% senior notes due 2018	$ 449,176	$ 449,500	$ 449,161	$ 438,402
7.50% senior notes due 2020	$ 446,300	$ 463,500	$ 446,172	$ 449,566
7.20% senior notes due 2028	$ 249,924	$ 246,918	$ 249,924	$ 230,868
2.875% senior convertible notes due 2038 (a)	$ 437,145	$ 562,800	$ 429,563	$ 508,320

(a) The fair value of the 2.875% senior convertible notes includes the fair value of the conversion privilege. At the issuance date, the conversion privilege was valued at $81.1 million.

Trading securities and deferred compensation plan assets. The Company s trading securities represent securities that are both actively traded and not actively traded on major exchanges. The Company s deferred

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compensation plan assets represent investments in equity and mutual fund securities that are actively traded on major exchanges plus unallocated contributions as of the measurement date. As of June 30, 2010, all significant inputs to these asset exchange values represented Level 1 independent active exchange market price inputs except inputs for certain trading securities that are not actively traded on major exchanges, which were provided by broker quotes representing Level 2 inputs.

Interest rate derivatives. The Company s interest rate derivative assets and liabilities as of June 30, 2010 represent (i) swap contracts for $189 million notional amount of debt, whereby the Company pays a fixed rate of interest and the counterparty pays a variable LIBOR-based rate and (ii) swap contracts for $470 million notional amount of debt, whereby the Company pays a variable LIBOR-based rate and the counterparty pays a fixed rate of interest. The net derivative asset values attributable to the Company s interest rate derivative contracts as of June 30, 2010 are based on (i) the contracted notional amounts, (ii) LIBOR rate yield curves provided by counterparties and corroborated with forward active market-quoted LIBOR rate yield curves and (iii) the applicable credit-adjusted risk-free rate yield curve. The Company s interest rate derivative asset and liability measurements represent Level 2 inputs in the hierarchy priority.

Commodity derivatives. The Company s commodity derivatives represent oil, NGL and gas swap contracts, collar contracts and collar contracts with short puts (which are also known as three-way collar contracts). The Company s oil and gas swap, collar and three-way collar derivative contract asset and liability measurements represent Level 2 inputs in the hierarchy priority while NGL derivative contract asset and liability measurements represent Level 3 inputs in the hierarchy priority.

Oil derivatives. The Company s oil derivatives are swap, collar and three-way collar contracts for notional barrels (Bbls) of oil at fixed (in the case of swap contracts) or interval (in the case of collar and three-way collar contracts) New York Mercantile Exchange (NYMEX) West Texas Intermediate (WTI) oil prices. The asset and liability values attributable to the Company s oil derivatives as of June 30, 2010 are based on (i) the contracted notional volumes, (ii) independent active NYMEX futures price quotes for WTI oil, (iii) independent active market-quoted futures Brent price quotes, (iv) the applicable estimated credit-adjusted risk-free rate yield curve and (v) the implied rate of volatility inherent in the collar and three-way collar contracts. The implied rates of volatility inherent in the Company s collar contracts were determined based on average volatility factors provided by certain independent brokers who are active in buying and selling oil options and were corroborated by market-quoted volatility factors.

NGL derivatives. The Company s NGL derivatives include swap and collar contracts for notional blended Bbls of Mont Belvieu-posted-price NGLs or NGL component prices per Bbl. The asset and liability values attributable to the Company s NGL derivatives as of June 30, 2010 are based on (i) the contracted notional volumes, (ii) independent active market-quoted NGL component prices and (iii) the applicable credit-adjusted risk-free rate yield curve. The implied rates of volatility inherent in the Company s collar contracts were determined based on average volatility factors provided by certain independent brokers who are active in buying and selling NGL options and were corroborated by market-quoted volatility factors. Prior to June 30, 2010, the Company s NGL component price inputs were obtained from independent brokers active in buying and selling NGL derivative contracts.

Gas derivatives. The Company s gas derivatives are swap, collar and three-way collar contracts for notional MMBtus of gas contracted at various posted price indexes, including NYMEX Henry Hub (HH) swap contracts coupled with basis swap contracts that convert the HH price index point to other price indexes. The asset and liability values attributable to the Company s gas derivative contracts as of June 30, 2010 are based on (i) the contracted notional volumes, (ii) independent active NYMEX futures price quotes for HH gas, (iii) independent market-quoted forward index prices, (iv) the applicable credit-adjusted risk-free rate yield curve and (v) the implied rate of volatility inherent in the collar and three-way collar contracts. The implied rates of volatility inherent in the Company s collar contracts and three-way collar contracts were determined based on average volatility factors provided by certain independent brokers who are active in buying and selling gas options and were corroborated by market-quoted volatility factors.

Credit facilities. The fair value of Pioneer Southwest s credit facility is based on (i) contractual interest, (ii) forward active market-quoted LIBOR rate yield curves and (iii) the applicable credit-adjusted risk-free rate yield curve. Since there are no outstanding borrowings on Pioneer s credit facility, the fair value is nil at June 30, 2010.

Senior notes. The Company s senior notes represent debt securities that are actively traded on major exchanges.

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NOTE E. Income Taxes

The Company accounts for income taxes in accordance with the provisions of ASC Topic 740, which requires that the Company continually assess both positive and negative evidence to determine whether it is more likely than not that deferred tax assets can be realized prior to their expiration. Pioneer monitors Company-specific, oil and gas industry and worldwide economic factors to assess the likelihood that the Company s net operating loss carryforwards (NOLs) and other deferred tax attributes in the U.S., state, local and foreign tax jurisdictions will be utilized prior to their expiration. As of June 30, 2010 and December 31, 2009, the Company s valuation allowances (relating primarily to foreign tax jurisdictions) were $45.4 million and $44.2 million, respectively.

ASC 740 also clarifies the accounting for uncertainty in income taxes recognized and prescribes a recognition threshold and measurement methodology for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As of June 30, 2010, the Company had no significant unrecognized tax benefits. The Company s policy is to account for interest charges with respect to income taxes as interest expense and any penalties, with respect to income taxes, as other expense in the consolidated statements of operations. The Company files income tax returns in the U.S. federal and various state and foreign jurisdictions. With few exceptions, the Company believes that it is no longer subject to examinations by tax authorities for years before 2004. As of June 30, 2010, no adjustments had been proposed in any jurisdiction that would have a significant effect on the Company s liquidity, future results of operations or financial position.

Income tax (provisions) benefits. The Company s income tax (provisions) benefits attributable to income from continuing operations consisted of the following for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(in thousands)			
Current:				
U.S. federal	$ (2,198)	$ (669)	$ (3,299)	$ 401
U.S. state	(1,800)	(6,259)	(3,124)	(6,935)
Foreign	(6,098)	9,220	(5,692)	(942)
	(10,096)	2,292	(12,115)	(7,476)
Deferred:				
U.S. federal	(71,738)	50,514	(202,796)	53,521
U.S. state	(7,040)	5,521	(16,500)	5,764
Foreign	(5,819)	(16,603)	(23,756)	(9,344)
	(84,597)	39,432	(243,052)	49,941
Income tax (provision) benefit	$ (94,693)	$ 41,724	$ (255,167)	$ 42,465

NOTE F. Long-term Debt

Senior notes redemption. On March 15, 2010, the Company redeemed for cash all of its outstanding 5.875% senior notes due 2012 for $6.3 million, which represented the outstanding principal plus accrued and unpaid interest.

Credit facility repayment. During the six months ended June 30, 2010, the Company repaid its outstanding borrowings under the credit facility.

As of June 30, 2010, the Company and Pioneer Southwest were in compliance with all of their debt covenants.

NOTE G.   Derivative Financial Instruments

The Company uses financial derivative contracts to manage exposures to commodity price, interest rate and foreign currency exchange rate fluctuations. The Company generally does not enter into derivative financial instruments for speculative or trading purposes. The Company also may enter physical delivery contracts to

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(Unaudited)

effectively provide commodity price protection. Because these contracts are not expected to be net cash settled, they are considered to be normal sales contracts and not derivatives. Therefore, physical delivery contracts are not accounted for as derivative financial instruments in the financial statements.

All derivatives are recorded on the balance sheet at estimated fair value. Fair value is generally determined based on the credit-adjusted present value difference between the fixed contract price and the underlying market price at the determination date. The Company accounts for derivative instruments under the mark-to-market accounting rules, which require that all changes in the fair values of the Company s derivative contracts be recognized as gains or losses in the earnings of the period in which they occur.

Changes in the fair value of effective cash flow hedges prior to the Company s discontinuance of hedge accounting on February 1, 2009 were recorded as a component of AOCI Hedging, which has been or will be transferred to earnings when the hedged transaction is recognized in earnings. Any ineffective portion of changes in the fair value of hedge derivatives prior to February 1, 2009 was recorded in the earnings of the period of change. The ineffective portion was calculated as the difference between the change in fair value of the hedge derivative and the estimated change in cash flows from the item hedged.

Fair value derivatives. The Company monitors the debt capital markets and interest rate trends to identify opportunities to enter into and terminate interest rate derivative contracts, with the objective of reducing the Company s costs of capital. As of June 30, 2010 and December 31, 2009, the Company was not a party to any fair value hedges.

Cash flow derivatives. 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, (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 and forward currency exchange rate agreements to reduce the effect of exchange rate volatility.

Oil prices. All material physical sales contracts governing the Company s oil production have been tied directly or indirectly to NYMEX oil prices. The following table sets forth, as of June 30, 2010 the volumes in Bbls underlying the Company s outstanding oil derivative contracts and the weighted average NYMEX prices per Bbl for those contracts:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Outstanding Average
Average daily oil production derivatives (a):					
2010 Swap contracts					
Volume (Bbl)			2,500	2,500	2,500
Price per Bbl			$ 93.34	$ 93.34	$ 93.34
2010 Collar contracts with short puts					
Volume (Bbl)			30,000	30,250	30,125
Price per Bbl:					
Ceiling			$ 84.99	$ 85.09	$ 85.04
Floor			$ 68.37	$ 68.38	$ 68.37
Short put			$ 55.23	$ 55.23	$ 55.23
2011 Swap contracts					
Volume (Bbl)	750	750	750	750	750

Price per Bbl	$ 77.25	$ 77.25	$ 77.25	$ 77.25	$ 77.25
2011 Collar contracts					
Volume (Bbl)	2,000	2,000	2,000	2,000	2,000
Price per Bbl:					
Ceiling	$ 170.00	$ 170.00	$ 170.00	$ 170.00	$ 170.00
Floor	$ 115.00	$ 115.00	$ 115.00	$ 115.00	$ 115.00

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PIONEER NATURAL RESOURCES COMPANY

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2011 Collar contracts with short puts					
Volume (Bbl)	37,000	37,000	37,000	37,000	37,000
Price per Bbl:					
Ceiling	$ 99.22	$ 99.22	$ 99.22	$ 99.22	$ 99.22
Floor	$ 73.92	$ 73.92	$ 73.92	$ 73.92	$ 73.92
Short put	$ 59.41	$ 59.41	$ 59.41	$ 59.41	$ 59.41
2012 Swap contracts					
Volume (Bbl)	3,000	3,000	3,000		