PIONEER NATURAL RESOURCES CO
Form 10-Q
May 12, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

xQUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

or

oTRANSITION 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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes oNo x

Number of shares of Common Stock outstanding as of May 7, 2008	**119,541,600**

PIONEER NATURAL RESOURCES COMPANY

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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, access to and availability of drilling equipment and transportation, processing and refining facilities, Pioneer's ability to replace reserves, implement its business plans (including its plan to repurchase stock) or complete its development projects as scheduled, access to and cost of capital, uncertainties about estimates of reserves and resource potential and the ability to add proved reserves in the future, the assumptions underlying production forecasts, quality of technical data, environmental and weather risks, 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 impact 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 3. Quantitative and Qualitative Disclosures About Market Risk" and "Part II, Item 1A. Risk Factors" in this Report and "Item 1. Business — Competition, Markets and Regulations", "Item 1A. Risk Factors" and "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, 2007 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. The Company undertakes no duty to publicly update these statements except as required by law.

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 and is a measure of natural gas volume.
- ***"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.
- ***"GAAP"*** means accounting principles that are generally accepted in the United States of America.
- ***"IPO"*** means initial public offering.
- ***"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 natural 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.
- ***"NGL"***means natural gas liquid.
- ***"NYMEX"*** means the New York Mercantile Exchange.
- ***"Pioneer"*** or ***"the Company"*** means Pioneer Natural Resources Company and its subsidiaries.
- ***"proved reserves"*** mean the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, *i.e.,* prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

(i) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii)Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(iii)Estimates of proved reserves do not include the following: (A) oil that may become available from known reservoirs but is classified separately as "indicated additional reserves"; (B) crude oil, natural gas and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics or economic factors; (C) crude oil, natural gas and natural gas liquids, that may occur in undrilled prospects; and (D) crude oil, natural gas and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources.

- ***"SEC"***means the United States Securities and Exchange Commission.
- ***"VPP"*** means volumetric production payment.
- ***"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.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED BALANCE SHEETS

(in thousands)

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,320	$ 12,171
Accounts receivable:		
Trade, net of allowance for doubtful accounts of $9,210 and $7,657 as of March 31, 2008 and December 31, 2007, respectively	295,507	283,249
Due from affiliates	375	583
Income taxes receivable	40,121	40,046
Inventories	124,386	97,619
Prepaid expenses	8,567	9,378
Deferred income taxes	163,098	108,073
Other current assets:		
Derivatives	—	33,970
Other	39,263	179,966
Total current assets	688,637	765,055
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	9,271,234	8,973,634
Unproved properties	277,283	277,479
Accumulated depletion, depreciation and amortization	(2,130,805)	(2,028,472)
Total property, plant and equipment	7,417,712	7,222,641
Deferred income taxes	9,780	10,263
Goodwill	310,861	310,870
Other property and equipment, net	156,411	152,990
Other assets:		
Derivatives	—	684
Other, net of allowance for doubtful accounts of $4,550 and $4,573 as of March 31, 2008 and December 31, 2007, respectively	162,566	154,478
	$ 8,745,967	$ 8,616,981

The financial information included as of March 31, 2008 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)

	March 31, 2008 (Unaudited)	December 31, 2007
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$ 327,355	$ 350,782
Due to affiliates	8,258	27,634
Interest payable	28,685	42,020
Income taxes payable	22,033	12,842
Other current liabilities:		
Derivatives	350,990	262,547
Deferred revenue	155,379	158,138
Other	130,651	140,206
Total current liabilities	1,023,351	994,169
Long-term debt	2,803,558	2,755,491
Derivatives	105,127	77,929
Deferred income taxes	1,291,212	1,229,677
Deferred revenue	288,422	325,142
Other liabilities and minority interests	183,393	191,851
Stockholders' equity:		
Common stock, $.01 par value; 500,000,000 shares authorized; 124,431,875 and 123,389,014 shares issued at March 31, 2008 and December 31, 2007, respectively	1,244	1,234
Additional paid-in capital	2,704,372	2,693,257
Treasury stock, at cost: 6,229,698 and 5,661,692 shares at March 31, 2008 and December 31, 2007, respectively	(270,593)	(245,601)
Retained earnings	933,974	822,089
Accumulated other comprehensive loss - deferred hedge losses, net of tax	(318,093)	(228,257)
Total stockholders' equity	3,050,904	3,042,722
Commitments and contingencies		
	$ 8,745,967	$ 8,616,981

The financial information included as of March 31, 2008 has been prepared by management

without audit by independent registered public accountants.

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

PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2008	**2007**
Revenues and other income:		
Oil and gas	$ 558,476	$ 353,582
Interest and other	25,024	13,486
Gain on disposition of assets, net	678	251
	584,178	367,319
Costs and expenses:		
Oil and gas production	132,647	89,448
Depletion, depreciation and amortization	109,627	78,850
Exploration and abandonments	38,677	71,771
General and administrative	36,481	32,624
Accretion of discount on asset retirement obligations	2,142	1,632
Interest	37,453	28,425
Hurricane activity, net	458	13,548
Other	11,626	8,373
	369,111	324,671
Income from continuing operations before income taxes	215,067	42,648
Income tax provision	(87,267)	(14,632)
Income from continuing operations	127,800	28,016
Income from discontinued operations, net of tax	1,940	1,577
Net income	$ 129,740	$ 29,593
Basic earnings per share:		
Income from continuing operations	$ 1.08	$ 0.23
Income from discontinued operations, net of tax	0.02	0.01
Net income	$ 1.10	$ 0.24
Diluted earnings per share:		
Income from continuing operations	$ 1.07	$ 0.23
Income from discontinued operations, net of tax	0.02	0.01
Net income	$ 1.09	$ 0.24
Weighted average shares outstanding:		
Basic	117,934	121,523
Diluted	119,092	122,794

Dividends declared per share	$ 0.14	$ 0.13

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)

	Shares Outstanding	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance as of January 1, 2008	117,727	$ 1,234	$ 2,693,257	$ (245,601)	$ 822,089	$ (228,257)	$ 3,042,722
Dividends declared ($0.14 per share)	—	—	—	—	(16,774)	—	(16,774)
Exercise of long-term incentive plan stock options and employee stock purchases	45	—	—	1,958	(1,081)	—	877
Purchase of treasury stock	(613)	—	—	(26,950)	—	—	(26,950)
Tax benefits related to stock-based compensation	—	—	2,145	—	—	—	2,145
Compensation costs:							
Vested compensation awards	1,043	10	(10)	—	—	—	—
Compensation costs included in net income	—	—	8,980	—	—	—	8,980
Net income	—	—	—	—	129,740	—	129,740
Other comprehensive loss, net of tax:							
Net deferred hedge losses	—	—	—	—	—	(140,267)	(140,267)
Net hedge losses included in continuing operations	—	—	—	—	—	50,431	50,431
Balance as of March 31, 2008	118,202	$ 1,244	$ 2,704,372	$ (270,593)	$ 933,974	$ (318,093)	$ 3,050,904

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.

PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2008	**2007**
Cash flows from operating activities:		
Net income	$ 129,740	$ 29,593
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and amortization	109,627	78,850
Exploration expenses, including dry holes	3,548	43,418
Hurricane activity	—	19,000
Deferred income taxes	66,164	9,476
Gain on disposition of assets, net	(678)	(251)
Accretion of discount on asset retirement obligations	2,142	1,632
Discontinued operations	348	16,442
Interest expense	3,472	4,726
Commodity hedge related activity	7,665	5,899
Amortization of stock-based compensation	8,980	7,738
Amortization of deferred revenue	(39,479)	(45,034)
Other noncash items	(4,640)	(6,283)
Changes in operating assets and liabilities:		
Accounts receivable, net	(14,061)	(15,227)
Income taxes receivable	(76)	12,558
Inventories	(26,172)	1,989
Prepaid expenses	937	1,156
Other current assets, net	1,995	212
Accounts payable	(33,913)	(24,590)
Interest payable	(13,335)	(3,470)
Income taxes payable	9,190	6,814
Other current liabilities	(33,772)	(14,651)
Net cash provided by operating activities	177,682	129,997
Cash flows from investing activities:		
Proceeds from disposition of assets, net of cash sold	132,133	4,765
Additions to oil and gas properties	(297,267)	(438,647)
Additions to other assets and other property and equipment, net	(12,406)	(13,573)
Net cash used in investing activities	(177,540)	(447,455)
Cash flows from financing activities:		
Borrowings under long-term debt	592,000	722,000
Principal payments on long-term debt	(545,777)	(361,555)
Payments of other liabilities	(5,890)	(5,755)
	877	2,369

Exercise of long-term incentive plan stock options and employee stock purchase plan		
Purchase of treasury stock	(26,950)	(31,437)
Excess tax benefits from share-based payment arrangements	2,145	1,540
Payment of financing fees	(11,346)	(3,519)
Dividends paid	(52)	—
Net cash provided by financing activities	5,007	323,643
Net increase in cash and cash equivalents	5,149	6,185
Effect of exchange rate changes on cash and cash equivalents	—	132
Cash and cash equivalents, beginning of period	12,171	7,033
Cash and cash equivalents, end of period	$ 17,320	$ 13,350

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.

PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2008	2007
Net income	$ 129,740	$ 29,593
Other comprehensive income (loss):		
Net hedge activity, net of tax:		
Net deferred hedge losses	(140,267)	(11,075)
Net hedge losses included in continuing operations	50,431	17,057
Net hedge gains included in discontinued operations	—	(4,712)
Translation adjustment	—	3,161
Other comprehensive income (loss)	(89,836)	4,431
Comprehensive income	$ 39,904	$ 34,024

The financial information included herein has been prepared by management

without audit by independent registered public accountants.

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

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PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(Unaudited)

NOTE A. Organization and Nature of Operations

Pioneer 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 unaudited consolidated financial statements of the Company as of March 31, 2008 and for the three month periods ended March 31, 2008 and 2007 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 Form 10-Q 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, 2007.

Discontinued operations. In November 2007, the Company sold its Canadian subsidiaries. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), the Company has reflected the results of operations of this divestiture as discontinued operations, rather than as a component of continuing operations. See Note Q for additional information regarding discontinued operations.

Inventories. Inventories consisted of $120.8 million and $94.3 million of materials and supplies and $3.6 million and $3.3 million of commodities as of March 31, 2008 and December 31, 2007, respectively. The Company's materials and supplies inventory is primarily comprised of oil and gas drilling or repair items, such as tubing, casing, chemicals, operating supplies and ordinary maintenance materials and parts. The materials and supplies inventory is primarily acquired for use in future drilling operations or repair operations and is carried at the lower of cost or market, on a first-in, first-out basis. Commodities inventory is carried at the lower of average cost or market, on a first-in, first-out basis. Any impairments of inventory are reflected in gain (loss) on disposition of assets in the Consolidated Statements of Operations. As of March 31, 2008 and December 31, 2007, the Company's materials and supplies inventory was net of $300 thousand and $1.1 million, respectively, of valuation reserve allowances.

Goodwill. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is not amortized to earnings, but 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 2007, the Company performed its annual assessment of goodwill impairment and determined that there was no impairment.

Minority interests in consolidated subsidiaries. The Company owns the majority interests in certain subsidiaries with operations in the United States. The Company has recognized minority interests in consolidated subsidiaries of $12.7 million and $11.9 million in other liabilities and minority interests in the Consolidated Balance Sheets as of March 31, 2008 and December 31, 2007, respectively.

During the third quarter of 2007, the Company disposed of its interest in a majority-owned Nigerian subsidiary. Minority interests in the net losses associated with the previously owned Nigerian subsidiary totaled $2.1 million for the three months ended March 31, 2007 and are included in other income in the Consolidated Statement of Operations of that period. Minority interests in the net income of the Company's consolidated United

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(Unaudited)

States subsidiaries totaled $738 thousand and $692 thousand for the three month periods ended March 31, 2008 and 2007, respectively, and are included in other expense in the Consolidated Statements of Operations.

Stock-based compensation. For stock-based compensation awards, compensation expense, based on the fair value on the date of grant, is being recognized in the Company's financial statements over the vesting period. The Company utilizes (a) the Black-Scholes option pricing model to measure the fair value of stock options, (b) the stock price on the date of grant for the fair value of restricted stock awards and (c) the Monte Carlo simulation method for the fair value of performance unit awards.

For the three month periods ended March 31, 2008 and 2007, the Company recorded $9.0 million and $7.7 million, respectively, of stock-based compensation costs for all plans.

In accordance with GAAP, the Company's issued shares, as reflected in the Consolidated Balance Sheets at March 31, 2008 and December 31, 2007, do not include 1,261,544 shares and 1,960,475 shares, respectively, related to unvested stock-based compensation awards. During the three months ended March 31, 2008, awards, lapses and forfeitures of stock-based compensation totaled 1,050,680, 1,042,861 and 41,079 units, respectively. Restrictions on 1,038,987 of the remaining stock-based awards will lapse in future periods.

As of March 31, 2008, there was approximately $70.8 million of unrecognized compensation expense related to unvested share-based compensation plan awards, primarily related to restricted stock and performance unit awards. This compensation will be recognized over the remaining vesting periods, which on a weighted average basis is approximately 23 months.

New accounting pronouncements. In September 2006, the FASB issued SFAS No. 157, "Fair Value Measures" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. During February 2008, the FASB issued FASB Staff Position No. 157-2, "FSP FAS 157-2" ("FSP FAS 157-2"). FSP FAS 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis at least annually. On January 1, 2008, the Company adopted the provisions of SFAS 157 as they pertain to financial assets and liabilities. See Note D for additional information regarding the Company's adoption of SFAS 157. The adoption of the provisions of SFAS 157 that were delayed by FSP FAS 157-2 is not expected to have a material effect on the financial condition or results of operations of the Company.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to measure many financial instruments and certain other items at fair value that are not currently required to be measured at

fair value. The Company adopted the provisions of SFAS 159 on January 1, 2008 and its implementation did not have a material effect on the financial condition or results of operations of the Company.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141"). SFAS 141(R) replaces SFAS 141 and provides greater consistency in the accounting and financial reporting of business combinations. SFAS 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction and any noncontrolling interest in the acquiree at the acquisition date, measured at the fair value as of that date. This includes the measurement of the acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance and deferred taxes. SFAS 141(R) is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008, and is to be applied prospectively as of the beginning of the fiscal year in which the statement is applied. The implementation of SFAS 141(R) is not expected to have a material effect on the financial condition or results of operations of the Company.

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(Unaudited)

In December 2007, the FASB issued SFAS No. 160 "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51" ("SFAS 160"). SFAS 160 amends Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure of the amounts of consolidated net income attributable to the parent and to the non-controlling interest on the face of the consolidated income statement. SFAS 160 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for the Company on January 1, 2009 and is not expected to have a material effect on the financial condition or results of operations of the Company.

On May 9, 2008, the FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is assessing the effect that FSP APB 14-1 will have on its financial condition and results of operations.

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 expenses.

The following table reflects the Company's capitalized exploratory well activity during the three months ended March 31, 2008:

	Three Months Ended March 31, 2008 (in thousands)
Beginning capitalized exploratory well costs	$ 130,630
Additions to exploratory well costs pending the determination of proved reserves	77,882
Reclassification due to determination of proved reserves	(55,443)
Exploratory well costs charged to exploration expense	(2,863)
Ending capitalized exploratory well costs	$ 150,206

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The following table provides an aging, as of March 31, 2008 and December 31, 2007, of capitalized exploratory well costs based on the date drilling was completed and the number of projects for which exploratory well costs have been capitalized for a period greater than one year since the date drilling was completed:

	March 31, 2008	**December 31, 2007**
	(in thousands, except well counts)	
Capitalized exploratory well costs that have been capitalized:		
One year or less	$ 93,848	$ 76,237
Greater than one year	56,358	54,393
	$ 150,206	$ 130,630
Number of projects with exploratory well costs that have been capitalized for a period greater than one year	7	8

The following table provides an aging of capitalized costs of exploration projects that have been suspended for more than one year as of March 31, 2008:

	Total	**2008**	**2007**	**2006**	**2005**
	(in thousands)				
United States:					
Lay Creek	$ 42,853	$ 1,350	$ 10,243	$ 31,260	$ —
Other	8,584	440	1,586	5,843	715
Other foreign	4,921	991	(15)	3,945	—
Total	$ 56,358	$ 2,781	$ 11,814	$ 41,048	$ 715

Lay Creek. The Company's Lay Creek project is a coal bed methane pilot program located in northwestern Colorado. The Company has drilled 18 wells in six separate pilot areas and completed workovers and recompletions on 14 wells drilled by a previous operator. The Company completed the water treatment facilities and plans to initiate sales of production in the second quarter of 2008. Determination of success of the pilot project is dependent on the ability to dewater the formation and determine if commercial quantities of gas can be produced. The pilot project is currently in the dewatering phase and if the pilot project is successful then full field development could begin in 2009.

NOTE D. Disclosures About Fair Value Measurements

Effective January 1, 2008, the Company adopted the provisions of SFAS 157 for which delayed adoption is not provided under FSP FAS 157-1. SFAS 157 retains the exchange price notion in the definition of fair value but clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability in the principal or most advantageous market in which the reporting company would transact for the asset or liability.

The SFAS 157 valuation framework is 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:

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- 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.

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 financial assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2008 for each of the fair value input 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 March 31, 2008**
	(in thousands)			
Assets:				
Trading securities	$ 486	$ 76	$ —	$ 562
Deferred compensation plan assets	22,595	—	—	22,595
Total assets	$ 23,081	$ 76	$ —	$ 23,157
Liabilities:				
Commodity derivative obligations	$ —	$ 452,716	$ —	$ 452,716
Interest rate derivative obligations	—	3,401	—	3,401
Total liabilities	$ —	$ 456,117	$ —	$ 456,117

Trading securities and deferred compensation plan assets. The Company's trading securities represent equity securities that are actively traded on major exchange markets and trading securities that are not actively traded on major exchange markets. The Company's deferred compensation plan assets represent investments in equity and mutual fund securities that are actively traded on major exchange markets plus unallocated contributions as of the measurement date. As of March 31, 2008, all significant inputs to these asset exchange values represented Level 1 independent active exchange market price inputs except inputs for trading securities that are not actively traded on major exchange markets, which were provided by broker quotes representing Level 2 inputs.

Commodity derivative obligations. The Company's commodity derivative obligations represent oil, NGL and gas swap and collar contracts. All of the Company's commodity price obligation measurements represent Level 2 inputs in the hierarchy priority.

Oil derivatives. The Company's oil derivatives are swap and collar contracts for notional Bbls of oil at fixed (in the case of swaps contracts) or interval (in the case of collar contracts) NYMEX West Texas Intermediate ("WTI") oil prices. The liability transfer values attributable to the Company's oil derivative obligations as of March 31, 2008 are based on (i) the contracted notional volumes, (ii) independent active NYMEX futures price quotes for WTI oil, (iii) the Company's estimated credit-adjusted risk-free rate yield curve and (iv) the implied rate of volatility inherent in the collar contracts. The Company's credit-adjusted risk-free rate is based on an independent rating agency-supplied global default rate curve for the Company's debt rating category plus the United States Treasury Bill yield curve as of March 31, 2008. The implied rates of volatility inherent in the Company's collar contracts were determined based on implied volatility factors provided by the derivative counterparties, adjusted for estimated volatility skews. The volatility factors are not considered significant to the fair values of the collar contracts since intrinsic and time values are the principal components of the collar values.

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NGL derivatives. The Company's NGL derivatives are swap contracts for notional blended Bbls of Mont Belvieu-posted-price NGLs. The liability transfer values attributable to the Company's NGL derivative obligations as of March 31, 2008 are based on (i) the contracted notional volumes, (ii) independent broker-supplied forward Mont Belvieu-posted-price quotes and (iii) the Company's credit-adjusted risk-free rate yield curve.

Gas derivatives. The Company's gas derivatives are swap contracts for notional MMBtus of gas contracted at various posted price indexes, including NYMEX Henry Hub ("HH") swap contracts coupled with basis swaps contracts that convert the HH price index point to other price indexes. The liability transfer values attributable to the Company's gas derivative obligations as of March 31, 2008 are based on (i) the contracted notional volumes, (ii) independent active NYMEX futures price quotes for HH gas, (iii) averages of forward posted price quotes supplied by independent brokers who are active in buying and selling gas derivatives at the indexes other than HH and (iv) the Company's credit-adjusted risk-free rate yield curve.

The Company corroborated independent broker-supplied forward price quotes by comparing price quote samples to alternate observable market data.

Interest rate derivative obligations. The Company's interest rate derivative obligations represent swap contracts for $400 million notional amount of debt, whereby the Company pays a fixed rate of interest and the counterparty receives a variable LIBOR-based rate. The liability transfer values attributable to the Company's interest rate derivative obligations as of March 31, 2008 are based on (i) the contracted notional amounts, (ii) forward active market-quoted LIBOR rate yield curves and (iii) the Company's credit-adjusted risk-free rate yield curve. The Company's interest rate derivative obligation measurements represent Level 2 inputs in the hierarchy priority.

NOTE E. Income Taxes

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 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. federal and state, local and foreign tax jurisdictions will be utilized prior to their expiration. As of March 31, 2008 and December 31, 2007, the Company's valuation allowances (relating primarily to foreign tax jurisdictions) were $28.4 million and $24.8 million, respectively.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") on January 1, 2007. FIN 48 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 March 31, 2008, the Company had no unrecognized tax benefits (as defined in FIN 48). In connection with the adoption of FIN 48, the Company established a policy to account for (a) interest charges with respect to income taxes as interest expense and (b) penalties 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 2003. As of March 31, 2008, no adjustments had been proposed in any jurisdiction that would have a significant effect on the Company's future results of operations or financial position.

Pursuant to Accounting Principles Board ("APB") Opinion No. 23 "Accounting for Income Taxes – Special Areas", the Company historically treated the undistributed earnings in South Africa as permanently reinvested and did not provide for a U.S. tax on such earnings. During the second quarter of 2007, the Company made the determination that it no longer had identifiable plans to reinvest these earnings in South Africa and accordingly began recording deferred tax expense. The Company recorded $4.9 million of U.S. income taxes in the first quarter of 2008 for the results of operations of its South African subsidiaries.

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Income tax (provisions) benefits. The Company's income tax (provisions) benefits attributable to income from continuing operations consisted of the following for the three-month periods ended March 31, 2008 and 2007:

	Three Months Ended March 31,	
	2008	2007
	(in thousands)	
Current:		
U.S. federal	$ (5,420)	$ 4,776
U.S. state and local	(911)	—
Foreign	(14,772)	(9,932)
	(21,103)	(5,156)
Deferred:		
U.S. federal	(62,207)	(14,653)
U.S. state and local	2,429	(491)
Foreign	(6,386)	5,668
	(66,164)	(9,476)
	$ (87,267)	$ (14,632)

Discontinued operations. The Company's income tax (provisions) benefits attributable to income from discontinued operations consisted of the following for the three-month periods ended March 31, 2008 and 2007:

	Three Months Ended March 31,	
	2008	2007
	(in thousands)	
Current - foreign	$ (519)	$ (4,494)
Deferred - foreign	792	965
	$ 273	$ (3,529)

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NOTE F. Long-term Debt

Lines of credit. During April 2007, the Company entered into an Amended and Restated 5-Year Revolving Credit Agreement (the "Credit Facility") that matures in April 2012, unless extended in accordance with the terms of the Credit Facility. The Credit Facility also provides for initial aggregate loan commitments of $1.5 billion, which may be increased to a maximum aggregate amount of $2.0 billion if the lenders increase their loan commitments or if loan commitments of new financial institutions are added. As of March 31, 2008, the Company had $663 million of outstanding borrowings under the Credit Facility and had $45.8 million of undrawn letters of credit, all of which were undrawn commitments under the Credit Facility, leaving the Company with $791.2 million of unused borrowing capacity under the Credit Facility.

Senior Notes. On January 15, 2008, $3.8 million principal amount of the Company's 6.50% senior notes matured and were paid.

Senior convertible notes. During January 2008, the Company issued $500 million principal amount of 2.875% convertible senior notes due 2038 (the "2.875% Senior Convertible Notes") and received proceeds, net of approximately $11.3 million of underwriter discounts and offering costs, of approximately $488.7 million. The Company used the net proceeds from the offering to reduce outstanding borrowings under the Credit Facility.

The 2.875% Senior Convertible Notes will be convertible under certain circumstances, using a net share settlement process, into a combination of cash and the Company's common stock pursuant to a formula. The initial base conversion price is approximately $72.60 per share (subject to adjustment in certain circumstances), which is equivalent to an initial base conversion rate of 13.7741 common shares per $1,000 principal amount of convertible notes. In general, upon conversion of a note, the holder of such note will receive cash equal to the principal amount of the note and the Company's common stock for the note's conversion value in excess of such principal amount. If at the time of conversion the applicable price of the Company's common stock exceeds the base conversion price, holders will receive up to an additional 8.9532 shares of the Company's common stock per $1,000 principal amount of notes, limited to a maximum of 22.7273 shares per $1,000 principal amount of notes, as determined pursuant to a specified formula.

The 2.875% Senior Convertible Notes mature on January 15, 2038 (the "Maturity Date"). The Company may redeem the 2.875% Senior Convertible Notes for cash at any time on or after January 15, 2013 at a price equal to 100 percent of the principal amount plus accrued and unpaid interest. Holders of the 2.875% Senior Convertible Notes may require the Company to purchase their 2.875% Senior Convertible Notes for cash at a price equal to 100 percent of the principal amount plus accrued and unpaid interest if certain defined fundamental changes occur, as defined in the agreement, or on January 15, 2013, 2018, 2023, 2028 or 2033. Additionally, holders may convert their notes at their option in the following circumstances:

- Following defined periods during which the reported sales price of the Company's common stock exceeds 130 percent of the base conversion price (initially $72.60 per share);
- During five-day periods following defined circumstances when the trading price of the 2.875% Senior Convertible Notes is less than 97 percent of the price of the Company's common stock times a defined conversion rate;
- Upon notice of redemption by the Company; and
- During the period beginning October 15, 2037, and ending at the close of business on the business day immediately preceding the Maturity Date.

Interest on the principal amount of the 2.875% Senior Convertible Notes is payable semiannually in arrears on January 15 and July 15 of each year, beginning July 15, 2008. Beginning on January 15, 2013, during any six-month period thereafter from January 15 to July 14 and from July 15 to January 14, if the average trading day price of a 2.875% Senior Convertible Note for the five consecutive trading days immediately preceding the first day of the applicable six-month interest period equals or exceeds $1,200, interest on the principal amount of the 2.875% Senior Convertible Notes will be 2.375% solely for the relevant interest period.

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NOTE G. Derivative Financial Instruments

The Company uses financial derivative contracts to manage exposures to commodity price, interest rate and foreign currency fluctuations. The Company generally does not enter into derivative financial instruments for speculative or trading purposes. The Company also may enter into physical delivery contracts that effectively provide commodity price hedges. Because physical delivery 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 recorded in the financial statements.

All derivatives are recorded in the balance sheet at estimated fair value. Fair value is generally determined based on the difference between the fixed contract price and the underlying market price at the determination date. Changes in the fair value of effective cash flow hedges are recorded as a component of accumulated other comprehensive loss – deferred hedge losses, net of tax ("AOCI – Hedging"), which is later transferred to earnings when the hedged transaction occurs. Changes in the fair value of derivatives that are not designated as hedges, as well as the ineffective portion of the hedge derivatives, are recorded in earnings. The ineffective portion is calculated as the difference between the change in fair value of the derivative and the estimated change in cash flows from the item hedged.

Fair value hedges. 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 its costs of capital. As of March 31, 2008 and December 31, 2007, the Company was not a party to any open fair value hedges.

As of March 31, 2008, the carrying value of the Company's long-term debt in the Consolidated Balance Sheets included a $3.1 million reduction attributable to net deferred interest rate hedge losses on terminated fair value hedges that are being amortized as increases to interest expense over the original terms of the terminated agreements. During the three-month periods ended March 31, 2008 and 2007, the Company's amortization of deferred hedge losses and gains on terminated interest rate swaps increased the Company's reported interest expense by $118 thousand and $73 thousand, respectively.

The following table sets forth, as of March 31, 2008, the scheduled amortization of net deferred hedge losses on terminated interest rate hedges (including terminated fair value and cash flow hedges) that will be recognized as increases to the Company's future interest expense:

Net deferred interest rate hedge losses		
Fair Value	**Cash Flow**	**Total**
(in thousands)		

2008	$ 195	$ 176	$ 371
2009	$ 281	$ 260	$ 541
2010	$ 307	$ 293	$ 600
2011	$ 337	$ 328	$ 665
2012	$ 369	$ 366	$ 735
Thereafter	$ 1,609	$ 1,594	$ 3,203

Cash flow hedges. The Company utilizes commodity swap and collar contracts to (i) reduce the impact on the Company's results of operations from the price volatility of 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. As of March 31, 2008, all of the Company's open commodity hedges are hedges of United States forecasted sales. The Company also, from time to time, utilizes interest rate contracts to reduce the effect of interest rate volatility on the Company's indebtedness.

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Oil prices. All material physical sales contracts governing the Company's oil production have been tied directly or indirectly to NYMEX prices. The following table sets forth the volumes hedged in Bbls under outstanding oil hedge contracts and the weighted average NYMEX prices per Bbl for those contracts as of March 31, 2008:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Outstanding Average
Average daily oil production hedged:					
2008 – Collar Contracts					
Volume (Bbl)		3,000	3,000	3,000	3,000
Price per Bbl		$ 65.00-$80.80	$ 65.00-$80.80	$ 65.00-$80.80	$ 65.00-$80.80
2008 – Swap Contracts					
Volume (Bbl)		15,000	15,000	15,000	15,000
Price per Bbl		$ 65.46	$ 65.46	$ 65.46	$ 65.46
2009 – Collar Contracts					
Volume (Bbl)	2,000	2,000	2,000	2,000	2,000
Price per Bbl	$ 65.00-$76.50	$ 65.00-$76.50	$ 65.00-$76.50	$ 65.00-$76.50	$ 65.00-$76.50
2009 – Swap Contracts					
Volume (Bbl)	8,000	8,000	8,000	8,000	8,000
Price per Bbl	$ 79.43	$ 79.43	$ 79.43	$ 79.43	$ 79.43
2010 – Swap Contracts					
Volume (Bbl)	4,000	4,000	4,000	4,000	4,000
Price per Bbl	$ 85.21	$ 85.21	$ 85.21	$ 85.21	$ 85.21

The Company reports average oil prices per Bbl including the effects of oil quality adjustments, amortization of deferred volumetric production payment ("VPP") revenue and the net effect of oil hedges. The following table sets forth (i) the Company's oil prices from continuing operations, both reported (including hedge results and amortization of deferred VPP revenue) and realized (excluding hedge results and amortization of deferred VPP revenue), (ii) amortization of deferred VPP revenue to oil revenue from continuing operations and (iii) the net effect of oil price hedges on oil revenue from continuing operations for the three-month periods ended March 31, 2008 and 2007:

	Three Months Ended	
	March 31,	
	2008	2007
Average price reported per Bbl	$ 77.41	$ 54.18
Average price realized per Bbl	$ 98.26	$ 56.73
VPP increase to oil revenue (in millions)	$ 26.0	$ 27.3
Decrease to oil revenue from hedging activity (in millions)	$ 79.4	$ 33.1

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Natural gas liquids prices. All material physical sales contracts governing the Company's NGL production have been tied directly or indirectly to Mont Belvieu prices. The following table sets forth the volumes hedged in Bbls under outstanding NGL hedge contracts and the weighted average Mont Belvieu prices per Bbl for those contracts as of March 31, 2008:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Outstanding Average
Average daily NGL production hedged:					
2008 – Swap Contracts					
Volume (Bbl)		1,000	1,000	1,000	1,000
Price per Bbl		$ 50.74	$ 50.74	$ 50.74	$ 50.74
2009 – Swap Contracts					
Volume (Bbl)	1,000	1,000	1,000	1,000	1,000
Price per Bbl	$ 47.41	$ 47.41	$ 47.41	$ 47.41	$ 47.41
2010 – Swap Contracts					
Volume (Bbl)	1,000	1,000	1,000	1,000	1,000
Price per Bbl	$ 46.15	$ 46.15	$ 46.15	$ 46.15	$ 46.15

The Company reports average NGL prices per Bbl including the effects of NGL quality adjustments and the net effect of NGL hedges. The following table sets forth (i) the Company's NGL prices from continuing operations, both reported (including hedge results) and realized (excluding hedge results) and (iii) the net effect of NGL price hedges on NGL revenue from continuing operations for the three-month period ended March 31, 2008 and 2007:

	Three Months Ended March 31,	
	2008	2007
Average price reported per Bbl	$ 53.89	$ 31.68
Average price realized per Bbl	$ 54.28	$ 31.68
Decrease to NGL revenue from hedging activity (in millions)	$ 0.7	$ —

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Gas prices. The Company employs a policy of hedging a portion of its gas production based on the index price upon which the gas is actually sold in order to mitigate the basis risk between NYMEX prices and actual index prices, or based on NYMEX prices if NYMEX prices are highly correlated with the index price. The following table sets forth the volumes hedged in MMBtus under outstanding gas hedge contracts and the weighted average index prices per MMBtu for those contracts as of March 31, 2008:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Outstanding Average
Average daily gas production hedged:					
2008 – Swap Contracts					
Volume (MMbtu)		215,000	215,000	201,739	210,564
Price per MMBtu		$ 7.41	$ 7.41	$ 7.45	$ 7.42
2009 – Swap Contracts					
Volume (MMbtu)	65,000	5,000	5,000	5,000	19,795
Price per MMBtu	$ 8.64	$ 8.04	$ 8.04	$ 8.04	$ 8.53
2010 – Swap Contracts					
Volume (MMbtu)	5,000	5,000	5,000	5,000	5,000
Price per MMBtu	$ 7.73	$ 7.73	$ 7.73	$ 7.73	$ 7.73

The Company reports average gas prices per Mcf including the effects of Btu content, gas processing, shrinkage adjustments, amortization of deferred VPP revenue and the net effect of gas hedges. The following table sets forth (i) the Company's gas prices from continuing operations, both reported (including hedge results and amortization of deferred VPP revenue) and realized (excluding hedge results and amortization of deferred VPP revenue), (ii) amortization of deferred VPP revenue to gas revenue from continuing operations and (iii) the net effect of gas price hedges on gas revenue from continuing operations for the three-month periods ended March 31, 2008 and 2007:

	Three Months Ended March 31,	
	2008	2007
Average price reported per Mcf	$ 7.74	$ 7.17
Average price realized per Mcf	$ 7.36	$ 6.24

VPP increase to gas revenue (in millions)	$ 13.4	$ 17.7
Increase (decrease) to gas revenue from hedging activity (in millions) (a)	$ (0.5)	$ 6.1

(a) Excludes hedge gains of $6.9 million attributable to discontinued operations for the three months ended March 31, 2007.

Interest rate. During January 2008, the Company entered into interest rate swap contracts and designated the contracts as cash flow hedges of the forecasted interest rate risk associated with a portion of the Company's Credit Facility indebtedness. The interest rate swap contracts are variable-for-fixed-rate swaps on $400 million notional amount of debt at a weighted average fixed annual rate of 2.87 percent, excluding any applicable margins. The interest rate swaps have an effective start date of February 2008, with $200 million terminating during February 2010 and $200 million during February 2011. The Company did not realize any ineffectiveness in connection with the interest rate swap contracts.

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Hedge ineffectiveness. During the three months ended March 31, 2008, the Company recorded net ineffectiveness income of $1.0 million, as compared to net ineffectiveness charges of $.9 million during the three months ended March 31, 2007. Hedge ineffectiveness represents the ineffective portions of changes in fair values of the Company's cash flow hedging instruments. The primary causes of changes in ineffectiveness are changes in correlations and derivative fair values associated with commodity price indexes of financial hedge derivatives and the commodity price indexes of the hedged forecasted production for certain fields.

AOCI - Hedging. As of March 31, 2008 and December 31, 2007, AOCI - Hedging represented net deferred losses of $318.1 million and $228.3 million, respectively. The AOCI - Hedging balance as of March 31, 2008 was comprised of $359.4 million of net deferred losses on the effective portions of open cash flow hedges, $144.2 million of net deferred losses on terminated cash flow hedges (including $3.0 million of net deferred losses on terminated cash flow interest rate hedges) and $185.5 million of associated net deferred tax benefits. The increase in AOCI - Hedging during the three months ended March 31, 2008 was primarily attributable to increases in future oil, NGL and gas prices relative to the commodity prices stipulated in the hedge contracts, partially offset by the reclassification of net deferred hedge losses to net income as derivatives matured. Decreases in forward interest rate yield curves also increased the Company's AOCI – Hedging attributable to the Company's interest rate swap contracts. The net deferred losses associated with open cash flow hedges remain subject to market price fluctuations until the positions are either settled under the terms of the hedge contracts or terminated prior to settlement. The net deferred losses on terminated cash flow hedges are fixed.

During the twelve months ending March 31, 2009, based on current estimates of future commodity prices and interest rates, the Company expects to reclassify approximately $280.5 million of net deferred losses associated with open commodity hedges and $97.7 million of net deferred losses on terminated commodity and interest rate hedges from AOCI - Hedging to oil and gas revenues and interest expense. The Company also expects to reclassify approximately $139.9 million of net deferred income tax benefits associated with commodity and interest rate hedges during the twelve months ending March 31, 2009 from AOCI - Hedging to income tax benefit.

Terminated commodity hedges. At times, the Company terminates open commodity hedge positions when the underlying commodity prices reach a point that the Company believes will be the high or low price of the commodity prior to the scheduled settlement of the open commodity hedge position. This allows the Company to maximize gains or minimize losses associated with the open hedge positions. At the time of termination of the hedges, the amounts are recorded in AOCI – Hedging and amortized to earnings over the periods the production was scheduled to occur.

The following table sets forth, as of March 31, 2008, the scheduled amortization of net deferred losses on terminated commodity hedges that will be recognized as decreases to the Company's future oil and gas revenues:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(in thousands)				
2008 net deferred hedge losses		$ 30,011	$ 29,885	$ 30,076	$ 89,972
2009 net deferred hedge losses	$ 7,488	$ 5,412	$ 5,432	$ 5,990	$ 24,322
2010 net deferred hedge losses	$ 5,101	$ 5,069	$ 5,042	$ 4,978	$ 20,190
2011 net deferred hedge losses	$ 873	$ 889	$ 902	$ 906	$ 3,570
2012 net deferred hedge losses	$ 810	$ 791	$ 783	$ 772	$ 3,156

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NOTE H. Asset Retirement Obligations

The Company's asset retirement obligations primarily relate to the future plugging and abandonment of wells and related facilities. The Company does not provide for a market risk premium associated with asset retirement obligations because a reliable estimate cannot be determined. The Company has no assets that are legally restricted for purposes of settling asset retirement obligations. The following table summarizes the Company's asset retirement obligation transactions during the three-month periods ended March 31, 2008 and 2007:

	Three Months Ended March 31,	
	2008	2007
	(in thousands)	
Beginning asset retirement obligations	$ 208,184	$ 225,913
New wells placed on production and changes in estimates (a)	(8,422)	22,682
Liabilities settled	(1,533)	(17,803)
Accretion of discount on continuing operations	2,142	1,632
Accretion of discount on discontinued operations	—	426
Currency translation	—	257
Ending asset retirement obligation	$ 200,371	$ 233,107

(a) During the three months ended March 31, 2008, the Company recorded $9.0 million decreases in the abandonment estimates and associated insurance recovery estimates for the East Cameron facility that was destroyed by Hurricane Rita in 2005. During the three months ended March 31, 2007, the Company recorded a $19.0 million increase to the abandonment estimates for the East Cameron facility, which is reflected in hurricane activity, net in the Consolidated Statement of Operations for the period then ended. For additional information, see Note O.

The Company records the current and noncurrent portions of asset retirement obligations in other current liabilities and other liabilities and minority interests, respectively, in the Consolidated Balance Sheets. As of March 31, 2008 and December 31, 2007, the current portion of the Company's asset retirement obligations amounted to $77.4 million and $86.9 million, respectively.

NOTE I. Postretirement Benefit Obligations

As of March 31, 2008 and December 31, 2007, the Company had recorded $10.4 million and $10.5 million, respectively, of unfunded accumulated postretirement benefit obligations, the current and noncurrent portions of which are included in other current liabilities and other liabilities and minority interests, respectively, in the Consolidated Balance Sheets. These obligations are comprised of five plans of which four relate to predecessor entities that the Company acquired in prior years. These plans had no assets as of March 31, 2008 or December 31, 2007. Other than the Company's retirement plan, the participants of these plans are not current employees of the Company.

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The following table reconciles changes in the Company's unfunded accumulated postretirement benefit obligations during the three-month periods ended March 31, 2008 and 2007:

	Three Months Ended March 31,	
	2008	2007
	(in thousands)	
Beginning accumulated postretirement benefit obligations	$ 10,494	$ 19,837
Net benefit payments	(298)	(225)
Service costs	48	259
Accretion of interest	157	287
Ending accumulated postretirement benefit obligations	$ 10,401	$ 20,158

NOTE J. Commitments and Contingencies

Legal actions. The Company is party to the legal actions that are described below. The Company is also party to other proceedings and claims incidental to its business. While many of these other matters involve inherent uncertainty, the Company believes that the amount of the liability, if any, ultimately incurred with respect to such other proceedings and claims will not have a material adverse effect on the Company's consolidated financial position as a whole or on its liquidity, capital resources or future annual results of operations. The Company will continue to evaluate its litigation on a quarter-by-quarter basis and will establish and adjust any litigation reserves as appropriate to reflect its assessment of the then current status of litigation.

MOSH Holding. On April 11, 2005, the Company and its principal United States subsidiary, Pioneer Natural Resources USA, Inc., were named as defendants in *MOSH Holding, L.P. v Pioneer Natural Resources Company; Pioneer Natural Resources USA, Inc.; Woodside Energy (USA) Inc.; and JPMorgan Chase Bank, N.A.,* ("JP Morgan") as Trustee of the Mesa Offshore Trust, which is before the Judicial District Court of Harris County, Texas (334th Judicial District). Subsequently, Dagger-Spine Hedgehog Corporation ("Dagger-Spine") and a group of approximately fifty other unitholders ("Wiegand") each filed a Petition in Intervention in the lawsuit to assert the same claims as MOSH Holding, L.P. ("MHLP"). MHLP, Dagger-Spine and Wiegand (collectively, "Plaintiffs") are unitholders in the Trust, which was created in 1982 as the sole limited partner in a partnership that holds an overriding royalty interest in certain oil and gas leases offshore Louisiana and Texas. The Company owns the managing general partner interest in the partnership. Plaintiffs allege that the Company, together with Woodside Energy (USA) Inc. ("Woodside"), concealed the value of the royalty interest and worked to terminate the Mesa Offshore Trust ("MOT") prematurely and to capture for itself and Woodside profits that belong to MOT. Plaintiffs also allege breaches of fiduciary duty, misapplication of trust property, common law fraud, gross negligence, and breach of the conveyance agreement for the overriding royalty interest. The relief sought by the Plaintiffs includes monetary and punitive damages and certain equitable relief, including an accounting of expenses, a setting aside of certain

farmouts, and a temporary and permanent injunction.

In July 2007, the Company filed a motion for summary judgment challenging Plaintiffs' standing to prosecute the case and seeking dismissal. The Company also filed a motion for summary judgment challenging the substantive merits of Plaintiffs' claims and seeking dismissal. These motions are pending before the court. Trial on the merits of the lawsuit is scheduled for December 2008. The Company believes the claims made by the Plaintiffs in the MOSH Holding lawsuit are without merit and intends to defend the lawsuit vigorously. The Company cannot predict whether the outcome of this proceeding will be adverse to the Company and if so, whether such an outcome will materially impact the Company's liquidity, financial position or future results of operations.

Equatorial Guinea Block H Arbitration. On June 14, 2007, a subsidiary of the Company ("Pioneer EG") commenced arbitration in London, England against Roc Oil (Equatorial Guinea) Company ("ROC EG"), Atlas Petroleum International Limited ("Atlas") and Osborne Resources Limited ("Osborne") to determine the parties' respective rights and obligations under a joint operating agreement relating to well operations in Block H in

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deepwater Equatorial Guinea. ROC, Atlas and Osborne have, in turn, brought counterclaims against Pioneer EG in respect to alleged breaches of the farm-in agreements relating to Block H. In late 2006, the Republic of Equatorial Guinea ratified a new hydrocarbons law, which among other things, appears to entitle Equatorial Guinea to increase substantially its carried interest in all concessions, including Block H, either directly or through the National Oil Company. In addition, drilling costs for the well have increased significantly beyond those originally anticipated.

Given these and other factors, Pioneer EG maintains that it does not have an obligation to approve the drilling of a well on the block. The view of the other parties is that Pioneer EG does not have the right to prevent the drilling of the well or to refuse to pay its share of the costs thereof. ROC EG, Atlas and Osborne have also notified Pioneer EG that they reserve the right to claim damages should they suffer any loss, including any loss suffered if the underlying production sharing contract is terminated by Equatorial Guinea.

The parties have consolidated their respective claims under the joint operating agreement and the farm-in agreements into a single arbitration scheduled to be conducted in London, England in September 2008. Pioneer EG intends to vigorously assert its position in the arbitration. The Company cannot predict whether the outcome of this proceeding will be adverse to the Company and if so, whether such an outcome will materially impact the Company's liquidity, financial position or future results of operations.

*Environmental Protection Agency Investigation.*The Company previously reported that on November 4, 2005, the Company learned from the U.S. Environmental Protection Agency that the agency was conducting a criminal investigation into a 2003 spill that occurred at a Company-operated drilling rig located on an ice island offshore Harrison Bay, Alaska. The investigation is being conducted in conjunction with the U.S. Attorney's Office for the District of Alaska. The spill was previously investigated by the Alaska Department of Environmental Conservation ("ADEC") and, following completion of a clean up, the ADEC issued a letter stating its determination that, at that time, the site did not pose a threat to human health, safety or welfare, or the environment. The Company fully cooperated with the government's investigation. The Company does not believe that the outcome of this investigation will be adverse to the Company due to the passage of time and the Company's belief that it is not a target of the investigation.

Obligations following divestitures. In April 2006, the Company provided the purchaser of its Argentine assets certain indemnifications. The Company remains responsible for certain contingent liabilities related to such indemnifications, subject to defined limitations. The Company does not believe that these obligations, which primarily pertain to matters of litigation, environmental contingencies, royalty obligations and income taxes, are probable of having a material impact on its liquidity, financial position or future results of operations.

The Company has also retained certain liabilities and indemnified buyers for certain matters in connection with other divestitures, including the sale in 2007 of its Canadian assets. The Company does not believe that such matters are probable of having a material impact on its liquidity, financial position or future results of operations.

NOTE K. Income Per Share From Continuing Operations

Basic income per share from continuing operations is computed by dividing income from continuing operations by the weighted average number of common shares outstanding for the period. The computation of diluted income per share from continuing operations reflects the potential dilution that could occur if securities or other contracts to issue common stock that are dilutive to income from continuing operations were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the Company.

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The following table is a reconciliation of basic weighted average common shares outstanding to diluted weighted average common shares outstanding for the three-month periods ended March 31, 2008 and 2007:

	Three Months Ended March 31,	
	2008	**2007**
	(in thousands)	
Weighted average common shares outstanding (a):		
Basic	117,934	121,523
Dilutive common stock options	327	467
Restricted stock awards	831	804
Diluted (b)	119,092	122,794

(a) In 2007, the Company's board of directors ("Board") approved a $750 million share repurchase program of which $524.5 million remained as of March 31, 2008. During the first quarter of 2008, the Company purchased $12.8 million of common stock pursuant to the program.

(b) During the three month periods ended March 31, 2008 and 2007, the Company awarded 162,951 and 145,820 performance unit awards, respectively. Associated therewith, awards for 305,277 units and 145,820 units remained outstanding (net of forfeitures and lapses) as of March 31, 2008 and 2007, respectively. These units were excluded from the computations of diluted earnings per share for the presented periods because the criteria for the issuance of shares had not been met as of March 31, 2008 and 2007.

NOTE L. Geographic Operating Segment Information

The Company has operations in only one industry segment, that being the oil and gas exploration and production industry; however, the Company is organizationally structured along geographic operating segments or regions. The Company has reportable operations in the United States, South Africa and Tunisia.

As previously referred to in Note B, during 2007, the Company sold its Canadian assets having a carrying value of $424.4 million. The results of operations for those properties have been reclassified to discontinued operations in accordance with SFAS 144 and are excluded from the geographic operating segment information provided below. See Note Q for information regarding the Company's discontinued operations.

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The following tables provide the Company's geographic operating segment data for the three-month periods ended March 31, 2008 and 2007. Geographic operating segment income tax (provisions) benefits have been determined based on statutory rates existing in the various tax jurisdictions where the Company has oil and gas producing activities. The "Headquarters" table column includes income and expenses that are not routinely included in the earnings measures internally reported to management on a geographic operating segment basis and operations in Equatorial Guinea and Nigeria, where the Company concluded exploration activities during 2007.

	United States	South Africa	Tunisia	Headquarters	Consolidated Total
	(in thousands)				
Three months ended March 31, 2008:					
Revenues and other income:					
Oil and gas	$ 492,037	$ 29,580	$ 36,859	$ —	$ 558,476
Interest and other	—	—	—	25,024	25,024
Gain (loss) on disposition of assets, net	(3)	—	—	681	678
	492,034	29,580	36,859	25,705	584,178
Costs and expenses:					
Oil and gas production	119,430	9,980	3,237	—	132,647
Depletion, depreciation and amortization	96,204	4,392	1,721	7,310	109,627
Exploration and abandonments	25,824	48	10,114	2,691	38,677
General and administrative	—	—	—	36,481	36,481
Accretion of discount on asset retirement obligations	—	—	—	2,142	2,142
Interest	—	—	—	37,453	37,453
Hurricane activity, net	458	—	—	—	458
Other	—	—	—	11,626	11,626
	241,916	14,420	15,072	97,703	369,111
Income (loss) from continuing operations before income taxes	250,118	15,160	21,787	(71,998)	215,067
Income tax benefit (provision)	(92,544)	(4,396)	(14,100)	23,773	(87,267)
Income (loss) from continuing operations	$ 157,574	$ 10,764	$ 7,687	$ (48,225)	$ 127,800

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	United States	South Africa	Tunisia	Headquarters	Consolidated Total
	(in thousands)				
Three months ended March 31, 2007:					
Revenues and other income:					
Oil and gas	$ 318,470	$ 13,188	$ 21,924	$ —	$ 353,582
Interest and other	—	—	—	13,486	13,486
Gain (loss) on disposition of assets, net	1,083	—	—	(832)	251
	319,553	13,188	21,924	12,654	367,319
Costs and expenses:					
Oil and gas production	83,513	4,046	1,889	—	89,448
Depletion, depreciation and amortization	69,384	1,071	1,555	6,840	78,850
Exploration and abandonments	63,652	44	2,829	5,246	71,771
General and administrative	—	—	—	32,624	32,624