

PIONEER NATURAL RESOURCES CO  
Form DEF 14A  
April 07, 2003

SCHEDULE 14A  
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14a INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (AMENDMENT NO. )

Filed by the Registrant [ X ]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

- [ ] Preliminary Proxy Statement [ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- [ X ] Definitive Proxy Statement
- [ ] Definitive Additional Materials
- [ ] Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

Pioneer Natural Resources Company

-----  
(Name of Registrant as Specified in Its Charter)

-----  
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- [ X ] No fee required.
- [ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

-----

(2) Aggregate number of securities to which transaction applies:

-----

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

-----

(4) Proposed maximum aggregate value of transaction:

-----

(5) Total fee paid:

-----

[ ] Fee paid previously with preliminary materials.

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or Schedule and the date of its filing.

(1) Amount Previously Paid:

-----

(2) Form, Schedule or Registration Statement No.:

-----

(3) Filing Party:

-----

(4) Date Filed:

-----

1

PIONEER NATURAL RESOURCES COMPANY  
5205 North O'Connor Boulevard  
Suite 1400  
Irving, Texas 75039

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Pioneer Natural Resources Company:

Notice is hereby given that the Annual Meeting of Stockholders of Pioneer Natural Resources Company (the "Company") will be held in the Britain Room at the Dallas Marriott Las Colinas Hotel, 223 West Las Colinas Blvd., Irving, Texas 75039, on Thursday, May 15, 2003, at 9:00 a.m. (the "Annual Meeting"). The Annual Meeting is being held for the following purposes:

1. To elect three directors, each for a term of three years.
2. To ratify the selection of Ernst & Young LLP as the auditors of the Company for the current year.
3. To transact such other business as may properly come before the Annual Meeting.

These proposals are described in the accompanying proxy materials. You will be able to vote at the Annual Meeting only if you are a stockholder of record at the close of business on March 19, 2003.

YOUR VOTE IS IMPORTANT

Please date, sign, and return the enclosed Proxy promptly so that your shares may be voted in accordance with your wishes and so we may have a quorum at the Annual Meeting. Instead of returning the paper proxy, you may vote through the Internet by accessing our transfer agent's website at

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

www.continentalstock.com. You will need the control numbers that are printed on your personalized proxy card.

By Order of the Board of Directors

/s/ Mark L. Withrow

-----  
Mark L. Withrow, Secretary

Irving, Texas  
April 7, 2003

2

PIONEER NATURAL RESOURCES COMPANY  
5205 North O'Connor Boulevard  
Suite 1400  
Irving, Texas 75039

PROXY STATEMENT

2003 ANNUAL MEETING OF STOCKHOLDERS

The board of directors of Pioneer Natural Resources Company (the "Board of Directors") requests your Proxy for the Annual Meeting of Stockholders that will be held at 9:00 a.m., on Thursday, May 15, 2003, in the Britain Room at the Dallas Marriott Las Colinas Hotel, Irving, Texas 75039. By granting the Proxy, you authorize the persons named on the Proxy to represent you and vote your shares at the Annual Meeting. Those persons will also be authorized to vote your shares to adjourn the Annual Meeting from time to time and to vote your shares at any adjournments or postponements of the Annual Meeting.

You may grant your Proxy by signing, dating and returning the enclosed paper proxy card. Instead of returning the paper proxy card, you may complete a proxy card electronically through the Internet by accessing the website of the Company's transfer agent at [www.continentalstock.com](http://www.continentalstock.com). You will need the control numbers that are printed on your personalized paper proxy card. See "Internet Voting."

If you attend the Annual Meeting, you may vote in person. If you are not present at the Annual Meeting, your shares may be voted only by a person to whom you have given a proper proxy, such as the accompanying Proxy or the Internet Proxy. You may revoke the Proxy in writing at any time before it is exercised at the Annual Meeting by delivering to the Secretary of the Company a written notice of the revocation, or by signing and delivering to the Secretary of the Company a proxy with a later date or by submitting your vote electronically through the Internet with a later date. Your attendance at the Annual Meeting will not revoke the Proxy unless you give written notice of revocation to the Secretary of the Company before the Proxy is exercised or unless you vote your shares in person at the Annual Meeting.

This Proxy Statement and the accompanying Notice of Annual Meeting and

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

Proxy are first being sent or given to stockholders of the Company on or about April 9, 2003.

### QUORUM AND VOTING

Voting Stock. The Company has one outstanding class of securities that entitle holders to vote generally at meetings of the Company's stockholders: common stock, par value \$.01 per share. Each share of common stock outstanding on the record date is entitled to one vote.

Record Date. The record date for stockholders entitled to notice of and to vote at the Annual Meeting is the close of business on March 19, 2003. At the record date, 117,610,782 shares of common stock were outstanding and entitled to be voted at the Annual Meeting.

Quorum and Adjournments. The presence, in person or by proxy, of the holders of a majority of the votes eligible to be cast at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting.

If a quorum is not present, the stockholders entitled to vote who are present in person or by proxy at the Annual Meeting have the power to adjourn the Annual Meeting from time to time, without notice other than an announcement at the Annual Meeting, until a quorum is present. At any adjourned Annual Meeting at which a quorum is present, any business may be transacted that might have been transacted at the Annual Meeting as originally notified.

Vote Required. Directors will be elected by a plurality of the votes present and entitled to be voted at the Annual Meeting. Ratification of the selection of the Company's auditors will require the affirmative vote of the holders of a majority of the shares present and entitled to be voted at the

3

Annual Meeting. An automated system that the Company's transfer agent administers will tabulate the votes. Brokers who hold shares in street name for customers are required to vote shares in accordance with instructions received from the beneficial owners. Brokers are permitted to vote on discretionary items if they have not received instructions from the beneficial owners, but they are not permitted to vote (a "broker non-vote") on non-discretionary items absent instructions from the beneficial owner. Abstentions and broker non-votes will count in determining whether a quorum is present at the Annual Meeting. Both abstentions and broker non-votes will not have any effect on the outcome of voting on director elections. For purposes of voting on the ratification of the selection of auditors, abstentions will be included in the number of shares voting and will have the effect of a vote against the proposal, and broker non-votes will not be included in the number of shares voting and therefore will have no effect on the outcome of the voting.

Default Voting. A Proxy that is properly completed and returned will be voted at the Annual Meeting in accordance with the instructions on the Proxy. If you properly complete and return a Proxy, but do not indicate any contrary voting instructions, your shares will be voted as follows:

- o FOR the election of the three persons named in this Proxy Statement as the Board of Directors' nominees for election to the Board of Directors.
- o FOR the ratification of the selection of Ernst & Young LLP as the

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

Company's auditors.

If any other business properly comes before the stockholders for a vote at the meeting, your shares will be voted in accordance with the discretion of the holders of the Proxy. The Board of Directors knows of no matters, other than those previously stated, to be presented for consideration at the Annual Meeting.

### ITEM ONE

#### ELECTION OF DIRECTORS

The Board of Directors has nominated the following individuals for election as Class III directors of the Company with their terms to expire at the annual meeting of stockholders in 2006 when their successors are elected and qualified:

Jerry P. Jones  
Charles E. Ramsey, Jr.  
Robert A. Solberg

Messrs. Jones, Ramsey and Solberg are currently serving as directors of the Company. Their biographical information is contained in "Directors and Executive Officers."

The Board of Directors has no reason to believe that any of its nominees will be unable or unwilling to serve if elected. If a nominee becomes unable or unwilling to accept nomination or election, either the number of the Company's directors will be reduced or the persons acting under the Proxy will vote for the election of a substitute nominee that the Board of Directors recommends.

The Board of Directors recommends that stockholders vote FOR the election of each of the nominees.

### ITEM TWO

#### SELECTION OF AUDITORS

The Audit Committee of the Board of Directors has selected Ernst & Young LLP as the auditors of the Company for 2003. Ernst & Young LLP have audited the Company's financial statements since 1998. The 2002 audit was completed on January 24, 2003.

4

**Audit Fees.** The aggregate fees billed by Ernst & Young LLP for professional services rendered for the audits of the Company's annual financial statements and reviews of reports on Forms 10-Q for the years ended December 31, 2002 and 2001 were \$448,326 and \$469,078, respectively.

**Audit Related Fees.** The aggregate fees billed by Ernst & Young LLP for audit related services totaled \$101,091 and \$115,885 during the years ended December 31, 2002 and 2001, respectively. Audit related services were primarily comprised of audits of the Company's benefit plans, reviews of merger and acquisition transactions and procedures associated with the Company's registered

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

securities offerings.

**Tax Services Fees.** The aggregate fees billed by Ernst & Young LLP for tax services totaled \$73,116 and \$40,830 during the years ended December 31, 2002 and 2001.

**Other Fees.** During the year ended December 31, 2002, the Company and the Audit Committee engaged Ernst & Young LLP to perform audits, audit related procedures and tax services. No other professional services were provided to the Company by Ernst & Young LLP during the year ended December 31, 2002. Ernst & Young LLP billed the Company \$385,000 of fees for internal audit services provided during 2001.

The Company expects that representatives of Ernst & Young LLP will be present at the Annual Meeting to respond to appropriate questions and to make a statement if they desire to do so.

The audit report of Ernst & Young LLP on the Company's annual financial statements for 2002, 2001 and 2000 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty or audit scope.

In connection with the audits of the Company's annual financial statements for 2002, 2001 and 2000, there were no disagreements with Ernst & Young LLP on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures which, if not resolved to the satisfaction of such independent accountants, would have caused such independent accountants to make reference to the matter in their audit report.

The Board of Directors recommends that stockholders vote FOR ratification of the selection of Ernst & Young LLP.

### DIRECTORS AND EXECUTIVE OFFICERS

After the Annual Meeting, assuming the stockholders elect the nominees of the Board of Directors as set forth in "Item One - Election of Directors," the Board of Directors and executive officers of the Company will be:

Name	Age	Position
Scott D. Sheffield.....	50	Chairman of the Board, President and Chief Executive Officer
Chris J. Cheatwood	42	Executive Vice President - Worldwide Exploration
Timothy L. Dove.....	46	Executive Vice President and Chief Financial Officer
Dennis E. Fagerstone....	54	Executive Vice President - International Operations
Danny L. Kellum.....	48	Executive Vice President - Domestic Operations
Mark L. Withrow.....	55	Executive Vice President, General Counsel and Secretary
James R. Baroffio.....	71	Director
Edison C. Buchanan.....	48	Director
R. Hartwell Gardner.....	68	Director
James L. Houghton.....	72	Director
Jerry P. Jones.....	71	Director
Linda K. Lawson.....	57	Director
Charles E. Ramsey, Jr...	66	Director
Robert A. Solberg.....	57	Director

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

The Company has classified its Board of Directors into three classes. Directors in each class are elected to serve for three-year terms and until their successors are elected and qualified. Each year, the directors of one class stand for re-election as their terms of office expire. Messrs. Gardner and Houghton, and Mrs. Lawson, are designated as Class I directors, and their terms of office expire in 2004. Messrs. Baroffio, Buchanan and Sheffield are designated as Class II directors, and their terms of office expire in 2005. Messrs. Jones, Ramsey and Solberg are designated as Class III directors, and their terms of office expire at the Annual Meeting.

Executive officers serve at the discretion of the Board of Directors.

Set forth below is biographical information about each of the Company's directors and executive officers named above.

Scott D. Sheffield. Mr. Sheffield, a distinguished graduate of the University of Texas with a Bachelor of Science degree in Petroleum Engineering, has been the President and Chief Executive Officer of the Company since August 1997, and assumed the position of Chairman of the Board in August 1999. He was the President and a director of Parker & Parsley Petroleum Company ("Parker & Parsley") since May 1990 and was the Chairman of the Board and Chief Executive Officer of Parker & Parsley since October 1990. Mr. Sheffield was the sole director of Parker & Parsley from May 1990 until October 1990. Mr. Sheffield joined Parker & Parsley Development Company ("PPDC"), a predecessor of Parker & Parsley, as a petroleum engineer in 1979. Mr. Sheffield served as Vice President - Engineering of PPDC from September 1981 until April 1985, when he was elected President and a director. In March 1989, Mr. Sheffield was elected Chairman of the Board and Chief Executive Officer of PPDC. Before joining PPDC, Mr. Sheffield was employed as a production and reservoir engineer for Amoco Production Company.

Chris J. Cheatwood. Mr. Cheatwood was elected Executive Vice President - Worldwide Exploration in January 2002. Mr. Cheatwood joined the Company in August 1997 and was promoted to Vice President of Domestic Exploration in July 1998 and Senior Vice President Exploration in December 2000. Before joining the Company, Mr. Cheatwood spent ten years with Exxon where his focus included exploration in the Deepwater Gulf of Mexico. Mr. Cheatwood is a graduate of the University of Oklahoma with a Bachelor of Science degree in Geology and earned his Master of Science degree in Geology from the University of Tulsa.

Timothy L. Dove. Mr. Dove was elected Executive Vice President and Chief Financial Officer in February 2000. Prior to that, Mr. Dove held the position of Executive Vice President - Business Development since August 1997. Mr. Dove joined Parker & Parsley in May 1994 as Vice President - International and was promoted to Senior Vice President - Business Development in October 1996, in which position he served until August 1997. Before joining Parker & Parsley, Mr. Dove was employed with Diamond Shamrock Corp., and its successor, Maxus Energy Corp., in various capacities in international exploration and production, marketing, refining, and planning and development. Mr. Dove earned a Bachelor of Science degree in Mechanical Engineering from Massachusetts Institute of Technology in 1979 and received his M.B.A. in 1981 from the University of Chicago.

Dennis E. Fagerstone. Mr. Fagerstone, a graduate of the Colorado School of Mines with a Bachelor of Science degree in Petroleum Engineering, became an Executive Vice President of the Company in August 1997. Mr. Fagerstone served as

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

Executive Vice President and Chief Operating Officer of MESA Inc. ("Mesa") from March 1997 until August 1997. Mr. Fagerstone served as Senior Vice President and Chief Operating Officer of Mesa from October 1996 to February 1997, as Vice President - Exploration and Production of Mesa from May 1991 to October 1996 and as Vice President - Operations of Mesa from June 1988 until May 1991.

Danny L. Kellum. Mr. Kellum, who received a Bachelor of Science degree in Petroleum Engineering from Texas Tech University in 1979, was elected Executive Vice President - Domestic Operations in May 2000. From January 2000 until May 2000, Mr. Kellum served as Vice President - Domestic Operations. Mr. Kellum served as Vice President - Permian Division from August 1997 until December 1999. From 1989 until 1994 he served as Spraberry District Manager and as Vice President of the Spraberry and Permian Division for Parker & Parsley until August of 1997. Mr. Kellum joined Parker & Parsley as an operations engineer in 1981 after a brief career with Mobil Oil Corporation.

6

Mark L. Withrow. Mr. Withrow, a graduate of Abilene Christian University with a Bachelor of Science degree in Accounting and Texas Tech University with a Juris Doctorate degree, has been the Executive Vice President, General Counsel and Secretary of the Company since August 1997. He served as Vice President - General Counsel of Parker & Parsley from February 1991 until January 1995, and served as Senior Vice President, General Counsel of Parker & Parsley from January 1995 until August 1997. He was Parker & Parsley's Secretary from August 1992 until August 1997. Mr. Withrow joined Parker & Parsley in January 1991. Before joining Parker & Parsley, Mr. Withrow was the managing partner of the law firm of Turpin, Smith, Dyer, Saxe & MacDonald in Midland, Texas.

James R. Baroffio. Dr. Baroffio received a Bachelor of Arts degree in Geology at the College of Wooster, Ohio, an M.S. in Geology at Ohio State University, and a Ph.D. in Geology at the University of Illinois. Before becoming a director of the Company in December 1997, Dr. Baroffio enjoyed a long career with Standard Oil Company of California, the predecessor of Chevron Corporation where he served as President, Chevron Research and Technology Center from 1980 to 1985 and eventually retired as President of Chevron Canada Resources in 1994. Dr. Baroffio was a member of the Board of Directors of the Rocky Mountain Oil & Gas Association, and Chairman of the U.S. National Committee of the World Petroleum Congress. His community leadership positions included membership on the Board of Directors of Glenbow Museum and the Nature Conservancy of Canada, as well as serving as President of the Alberta Nature Conservancy.

Edison C. Buchanan. Mr. Buchanan received a Bachelor of Science degree in Civil Engineering from Tulane University in 1977 and an M.B.A. in Finance and International Business from Columbia University Graduate School of Business in 1981. From 1981 to 1997, Mr. Buchanan was a Managing Director of various groups in the Investment Banking Division of Dean Witter Reynolds in their New York and Dallas offices. In 1997, Mr. Buchanan joined Morgan Stanley Dean Witter as a Managing Director in the Real Estate Investment Banking group. In 2000, Mr. Buchanan became Managing Director and head of the domestic Real Estate Investment Banking Group of Credit Suisse First Boston. In 2001, Mr. Buchanan began working for The Trust for Public Land, a land conservation organization, in Santa Fe, New Mexico. Mr. Buchanan became a director of the Company in 2002.

R. Hartwell Gardner. Mr. Gardner became a director of the Company in August 1997. He served as a director of Parker & Parsley from November 1995



## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

until August 1997. Mr. Gardner graduated from Colgate University with a Bachelor of Arts degree in Economics and then earned an M.B.A. from Harvard University. Until October 1, 1995, Mr. Gardner was the Treasurer of Mobil Oil Corporation and Mobil Corporation from 1974 and 1976, respectively. Mr. Gardner is a member of the Financial Executives Institute of which he served as Chairman in 1986/1987 and is a Director and Chairman of the Investment Committee of Oil Investment Corporation Ltd. and Oil Casualty Investment Corporation Ltd. in Pembroke, Bermuda.

James L. Houghton. Mr. Houghton is a Certified Public Accountant and a graduate of Kansas University with a Bachelor of Science degree in Accounting, as well as a Bachelor of Laws degree. Mr. Houghton has served as a director of the Company since August 1997, and as a director of Parker & Parsley from October 1991 until August 1997. Until October 1, 1991, Mr. Houghton was the lead oil and gas tax specialist for the accounting firm of Ernst & Young, was a member of Ernst & Young's National Energy Group, and had served as its Southwest Regional Director of Tax. Mr. Houghton is a member of the American Institute of Certified Public Accountants, a member of the Oklahoma Society of Certified Public Accountants and a former Chairman of its Federal and Oklahoma Taxation Committee, and past President of the Oklahoma Institute on Taxation. He has also served as a Director for the Independent Petroleum Association of America and as a member of its Tax Committee. Mr. Houghton presently serves as a Trustee of the J. E. and L. E. Mabee Foundation in Tulsa, Oklahoma.

Jerry P. Jones. Mr. Jones earned a Bachelor of Science degree from West Texas State College in 1953 and a Bachelor of Laws degree from the University of Texas School of Law in 1959. Mr. Jones has served as a director of the Company since August 1997, and as a director of Parker & Parsley from May 1991 until August 1997. Mr. Jones was an attorney with the law firm of Thompson & Knight, L.L.P. in Dallas, Texas, since September 1959 and was a shareholder in that firm until January 1998, when he retired and became of counsel to the firm. Mr. Jones specialized in civil litigation, especially in the area of energy disputes.

7

Linda K. Lawson. Mrs. Lawson holds a Bachelor of Science degree in Accounting from the University of Denver. Mrs. Lawson was employed by business units of The Williams Companies, as well as the parent organization from 1980 to her retirement in 2001. During her tenure she served in a variety of capacities including accounting and finance positions of the parent, and Controller of a FERC regulated energy business unit, Vice President of Investor Relations, Vice President of Human Resources, and as COO of several telecommunication start-up businesses. She is a Certified Public Accountant and served the Tulsa community in a variety of non-profit organizations. Mrs. Lawson became a director of the Company in 2002, and resides in Denver, Colorado.

Charles E. Ramsey, Jr. Mr. Ramsey is a graduate of the Colorado School of Mines with a Petroleum Engineering degree and a graduate of the Smaller Company Management program at the Harvard Graduate School of Business Administration. Mr. Ramsey has served as a director of the Company since August 1997. Mr. Ramsey served as a director of Parker & Parsley from October 1991 until August 1997. Since October 1991, he has operated an independent management and financial consulting firm. From June 1958 until June 1986, Mr. Ramsey held various engineering and management positions in the oil and gas industry and, for six years before October 1991, was a Senior Vice President in the Corporate Finance Department of Dean Witter Reynolds Inc. in the Dallas, Texas office. His industry experience includes 12 years of senior management experience with May Petroleum Inc. in the positions of President, Chief Executive Officer and

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

Executive Vice President. Mr. Ramsey is also a former director of MBank Dallas, the Dallas Petroleum Club and Lear Petroleum Corporation.

Robert A. Solberg. Mr. Solberg earned a Bachelor of Science in Civil Engineering from the University of North Dakota in 1969, and is a licensed Petroleum Engineer in Louisiana. Mr. Solberg spent his entire career working for Texaco Inc. in Houston and Midland, Texas, London and the Middle East, holding the positions of Division President, President of International Exploration and Production, President of Upstream Commercial Development, and retired in March 2002 as Vice President of Texaco Inc. He became a director of the Company in 2002. Mr. Solberg recently served as a director of Greater Houston Partnership, Central Houston Chamber of Commerce and Houston Grand Opera.

### MEETINGS AND COMMITTEES OF DIRECTORS

The Board of Directors of the Company held ten meetings during 2002. No director attended fewer than 75 percent of the total number of meetings of the Board of Directors. No director attended fewer than 75 percent of the total number of meetings of all committees of the Board of Directors on which that director served.

The Board of Directors has three standing committees: the "Audit Committee", the "Compensation Committee" and the "Nominating and Corporate Governance Committee".

Information regarding the functions performed by the Audit Committee and its membership is set forth in the "Audit Committee Report", included herein, and the "Audit Committee Charter" that is attached to this proxy statement as Annex A. The members of the Audit Committee are Messrs. Houghton (Chairman), Gardner, Jones and Solberg and Mrs. Lawson. The Audit Committee held seven meetings during 2002.

The Compensation Committee periodically reviews the compensation, employee benefit plans and fringe benefits paid to, or provided for, executive officers of the Company, and approves the annual salaries, bonuses and stock option awards of the Company's executive officers. The Compensation Committee also administers the Company's Long-Term Incentive Plan. Additional information regarding the functions performed by the Compensation Committee and its membership is set forth in the "Compensation Committee Report on Executive Compensation", included herein, and the "Compensation Committee Charter" that is attached to this proxy statement as Annex B. The members of the Compensation Committee are Messrs. Ramsey (Chairman), Baroffio and Buchanan. The Compensation Committee held six meetings during 2002.

The Nominating and Corporate Governance Committee assists the Board of Directors in evaluating potential new members of the Board of Directors, recommending committee members and structure, and advising the Board of Directors about corporate governance practices. Additional information regarding the functions performed by the Nominating and Corporate Governance Committee and

its membership is set forth in "Corporate Governance", included herein, and the "Nominating and Corporate Governance Committee Charter" that is attached to this proxy statement as Annex C. The members of the Nominating and Corporate Governance Committee include all non-employee directors; however, any director whose term is expiring and who would be eligible for election at the Annual

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

Meeting shall not participate in the meeting(s) called for such nomination. The Nominating and Corporate Governance Committee was formed in 2003 and did not hold any meetings during 2002.

### MANAGEMENT COMPENSATION

#### Compensation of Directors

Each non-employee director receives an annual base retainer fee of \$40,000 and an annual fee of \$10,000 for service on one or more committees. Audit committee members receive an additional \$7,500 annual fee and Mr. Baroffio in his role as geosciences advisor to the Board of Directors receives an additional \$7,500 annual fee. The chairman of the audit committee also receives a \$5,000 annual fee and other committee chairmen receive a \$2,500 annual fee. Each non-employee director is also reimbursed for travel expenses to attend meetings of the Board of Directors or its committees. No additional fees are paid for attendance at Board of Directors or committee meetings. The Company's Chief Executive Officer does not receive additional compensation for serving on the Board of Directors.

Under the Company's Long-Term Incentive Plan, non-employee directors are eligible to receive their fees in the form of non-qualified stock options, stock appreciation rights, restricted stock, or performance units. The Company can use these awards instead of cash to pay its non-employee directors all or part of their annual fees. The Board of Directors determines the form (or combination of forms) of consideration each year, based on the economic and other circumstances at the time and based on its view of which awards will best align the interests of the stockholders and the directors.

For the year following the Company's 2002 annual stockholders' meeting, the Board of Directors were given a choice to be compensated in (a) 100 percent cash, (b) 100 percent stock options, (c) 100 percent restricted stock, or (d) a combination of 50/50 of any two, in payment of the non-employee directors' annual fees. Messrs. Baroffio, Jones, Ramsey and Solberg and Mrs. Lawson elected 100 percent cash compensation; Mr. Gardner elected to receive 100 percent of his compensation in stock options; Mr. Buchanan elected to receive 100 percent of his compensation in restricted stock; and Mr. Houghton elected to receive 50 percent of his compensation in cash and 50 percent in restricted stock. The number of shares granted to non-employee directors electing stock options was determined by dividing the directors' annual fees by the value of an option for one share on May 13, 2002 (the last closing sale price before the date of the grant). The options have a fair-market value exercise price, and the value of each option was calculated using the Black-Scholes method based on assumptions provided by the Company's executive compensation consulting firm. These options vested 25 percent each quarter with the first vesting date on August 14, 2002. The number of shares granted to non-employee directors electing restricted stock was determined by dividing the director's fees elected to be paid by restricted stock by the closing price of one share of the Company stock on May 13, 2002 (the last closing sale price before the date of the grant). The restricted stock grants vested 25 percent each quarter with the first vesting date on August 14, 2002. On May 14, 2002, Mr. Gardner received a grant of 5,017 stock options to compensate him for his annual fees (each stock option granted has an exercise price of \$24.60). Mr. Buchanan received a restricted stock grant of 2,032 shares to compensate him for 100 percent of his annual fees, and Mr. Houghton received a restricted stock grant of 1,270 shares to compensate him for 50 percent of his annual fees.

Each non-employee director, upon commencement of initial service as a director, receives \$125,000 of restricted stock. The price used to calculate the number of shares to be granted is based on the closing stock price on the day prior to the day the director is elected to serve on the Board of Directors. The shares granted are subject to vesting and transfer restrictions that lapse with

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

respect to one-third of the shares each year following the grant over a three year period. The vesting of ownership and the lapse of transfer restrictions may be accelerated in the event of the death, disability or retirement of the director or a change in control of the Company. Each recipient is required to make an election under the Internal Revenue Code to include the value of the restricted stock in the recipient's income in the year of grant, and the Company agrees to provide a cash award to the non-employee director in an amount

9

sufficient to pay the federal income taxes due with respect to the grant and such cash payment. On May 14, 2002, Mrs. Lawson and Messrs. Buchanan and Solberg, as newly elected non-employee directors, each received a grant of 5,081 shares of Company common stock (which number was calculated by dividing \$125,000 by \$24.60, the closing stock price on May 13, 2002) and a cash payment of \$83,500 to pay the federal income taxes on the grant and the cash payment.

For the year following the Company's 2003 annual scheduled meeting, directors can again elect to receive their annual fees 100 percent in cash, stock options or restricted stock or 50 percent each in any two of those three forms of compensation.

### Compensation of Executive Officers

The compensation paid to the Company's executive officers generally consists of base salaries, annual bonuses, awards under the Long-Term Incentive Plan, contributions to the Company's 401(k) retirement plan, contributions to the Company's deferred compensation retirement plan, and miscellaneous perquisites. The following table summarizes the total compensation for 2002, 2001 and 2000 awarded to, earned by or paid to the following persons:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards	
		Salary	Bonus (a)	Other Annual Compensation (b)	Value of Restricted Stock (c)	Shares Underlying Options
Scott D. Sheffield President and Chief Executive Officer	2002	\$700,000	\$971,250	\$ 19,211	\$1,766,880	150,000
	2001	\$660,000	\$617,891	\$ 18,279	\$ -	138,000
	2000	\$638,000	\$626,350	\$ 18,051	\$ -	120,000
Timothy L. Dove Executive Vice President and Chief Financial Officer	2002	\$315,000	\$349,650	\$ 4,954	\$ 588,960	50,000
	2001	\$300,000	\$224,688	\$ 4,816	\$ -	53,000
	2000	\$290,000	\$174,000	\$ 4,611	\$ -	46,000
Dennis E. Fagerstone Executive Vice President - International Operations	2002	\$315,000	\$349,650	\$ 9,776	\$ 588,960	50,000
	2001	\$300,000	\$224,688	\$ 9,488	\$ -	53,000
	2000	\$290,000	\$174,000	\$ 9,295	\$ -	46,000
Danny L. Kellum Executive Vice President -	2002	\$315,000	\$349,650	\$ 8,981	\$ 588,960	50,000
	2001	\$270,000	\$201,563	\$ 8,166	\$ -	53,000

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

Domestic Operations	2000	\$240,000	\$144,000	\$ 2,923	\$ -	46,000
Mark L. Withrow	2002	\$315,000	\$349,650	\$ 10,858	\$ 588,960	50,000
Executive Vice President	2001	\$300,000	\$224,688	\$ 5,770	\$ -	53,000
and General Counsel	2000	\$290,000	\$174,000	\$ 5,577	\$ -	46,000

Long-Term Incentive Plan. The Long-Term Incentive Plan (the "Plan") provides for employee and non-employee director grants in the form of stock options, stock appreciation rights, restricted stock, and performance units payable in stock or cash. The maximum number of shares of common stock that may be issued under the Plan is equal to 10 percent of the total number of shares of common stock equivalents outstanding from time to time minus the total number of shares of stock subject to outstanding grants on the date of calculation under any other stock-based plan for employees or directors of the Company. The Plan had 4,306,586 shares available for additional awards at December 31, 2002.

No performance units or stock appreciation rights have been awarded under the Plan.

The following table sets forth information about stock option grants made during 2002 to the named executive officers.

OPTION GRANTS IN LAST FISCAL YEAR ENDING DECEMBER 31, 2002

Name	Individual Grants					Gra Val
	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees In Fiscal Year	Exercise or Base Price Per Share (c)	Expiration Date		
Scott Sheffield.....	90,000 (a)	5.48	\$ 18.30	2/19/08-09-10	\$ 7	
	60,000 (b)	3.65	\$ 24.72	8/12/08-09-10	\$ 5	
Timothy Dove.....	30,000 (a)	1.83	\$ 18.30	2/19/08-09-10	\$ 2	
	20,000 (b)	1.22	\$ 24.72	8/12/08-09-10	\$ 1	
Dennis Fagerstone....	30,000 (a)	1.83	\$ 18.30	2/19/08-09-10	\$ 2	
	20,000 (b)	1.22	\$ 24.72	8/12/08-09-10	\$ 1	
Danny Kellum.....	30,000 (a)	1.83	\$ 18.30	2/19/08-09-10	\$ 2	
	20,000 (b)	1.22	\$ 24.72	8/12/08-09-10	\$ 1	
Mark Withrow.....	30,000 (a)	1.83	\$ 18.30	2/19/08-09-10	\$ 2	
	20,000 (b)	1.22	\$ 24.72	8/12/08-09-10	\$ 1	

The following table sets forth, for each named executive officer, information concerning the exercise of stock options during 2002, and the value of unexercised stock options as of December 31, 2002.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES

Number of Shares Acquired on	Value	Number of Securities Underlying Unexercised Options at Fiscal Year End	Value of Unexercised In-the-Money Options at Fiscal
------------------------------	-------	--	---

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

	Exercise	Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
	-----	-----	-----	-----	-----	-----
Scott Sheffield.....	-	\$ -	213,500	262,000	\$1,707,204	\$ -
Timothy Dove.....	11,667	\$146,633	116,500	100,665	\$ 693,886	\$ -
Dennis Fagerstone.....	-	\$ -	208,689	100,665	\$ 788,518	\$ -
Danny Kellum.....	52,334	\$767,501	52,667	100,665	\$ 239,450	\$ -
Mark Withrow.....	15,835	\$160,531	124,333	100,665	\$ 870,091	\$ -

Retirement Plan. The Company does not provide a defined benefit retirement plan or a restoration plan. Hewitt Associates, the Company's compensation consultant, advised the Company that it was not providing competitive retirement benefits for its officers by offering only a 401(k) plan. To maintain a competitive position, the Company also provides a non-qualified deferred compensation retirement plan for officers of the Company. Each participant is allowed to contribute up to 25 percent of base salary. The Company provides a matching contribution of 100 percent of the participant's contribution limited to the first 10 percent of the officer's base salary. The Company's matching contribution vests immediately.

Severance Agreements. The Company has entered into severance agreements with its officers. Salaries and bonuses are set by the Compensation Committee independent of these agreements, and the Compensation Committee can increase or reduce base salaries at its discretion.

Either the Company or the officer may terminate the officer's employment under the severance agreement at any time. The Company must pay the officer an amount equal to one year's base salary if the officer's employment is terminated because of death, disability, or normal retirement. The Company must pay the officer an amount equal to one year's base salary and continue health insurance for the officer's family for one year if the Company terminates the officer's employment without cause or if the officer terminates employment for good reason, which is when reductions in the officer's base annual salary exceed specified limits or when the officer's responsibilities have been significantly reduced. If within one year after a change in control of the Company, the Company terminates the officer without cause, or if the officer terminates employment for good reason, the Company must pay the officer an amount equal to 2.99 times the sum of the officer's base salary plus target bonus for the year and continue health insurance for the officer's family for three years. If the officer terminates employment with the Company without reason between six months and one year after a change in control, or at any time within one year after a change in control if the officer is required to move, then the Company must pay the officer one year's base salary and continue health insurance for the officer's family for one year. Officers are also entitled to additional payments for certain tax liabilities that may apply to severance payments following a change in control.

Indemnification Agreements. The Company has entered into indemnification agreements with each of its directors and officers, including the named executive officers. Those agreements require the Company to indemnify the directors and officers to the fullest extent permitted by the Delaware General Corporation Law and to advance expenses in connection with certain claims against directors and officers. The Company expects to enter into similar

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

agreements with persons selected to be directors and officers in the future. Each indemnification agreement also provides that, upon a potential change in control of the Company and if the indemnified director or officer so requests, the Company will create a trust for the benefit of the indemnified director or officer in an amount sufficient to satisfy payment of all liabilities and suits against which the Company has indemnified the director or officer.

### EQUITY COMPENSATION AND PLAN INFORMATION

The following table summarizes information about the Company's equity compensation plans as of December 31, 2002:

	(a) Number of securities to be issued upon exercise of outstanding options*	(b) Weighted average exercise price of outstanding options	Number remain for fu un compe (exclud reflecte
	-----	-----	-----
Equity compensation plans approved by security holders:			
Pioneer Natural Resources Company:			
Long-Term Incentive Plan	6,779,621	\$ 19.11	4
Employee Stock Purchase Plan	-	\$ -	
Predecessor plans	488,671	\$ 26.44	
	-----		---
Total	7,268,292		4
	=====		==

The Company has no equity compensation plans that have not been approved by security holders.

### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal year 2002, no member of the Compensation Committee also served as an executive officer of the Company. During fiscal year 2002, there were no Compensation Committee interlocks with other companies.

### COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors submits the following report with respect to the executive compensation program of the Company.

#### Compensation Principles and Philosophy

The overriding responsibility of the committee is to maintain the Company's executive compensation program so that it attracts and retains a capable and highly motivated senior management team and aligns the compensation of the Company's executives with the Company's strategic business plan to

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

increase stockholder value. During 2002 the committee retained an executive compensation consulting firm ("Hewitt Associates") to assist and advise it in its efforts to establish and administer fair and competitive compensation and incentive policies. These policies emphasize variable compensation, structure the annual bonus and long-term incentive awards to be a significant portion of an executive's total compensation and result in total compensation that is reflective of Company performance. A combination of stock option awards and restricted stock will be emphasized as part of each executive's compensation package to align stockholder and executive interests. The committee has adopted a policy of not repricing stock options and incorporated that policy into the Company's long-term incentive plan. Other critical elements of the Company's compensation and incentive policies provide for:

- o Base salaries at or slightly above median levels compared to industry survey information and peer group proxy analysis
- o Annual target bonus levels slightly above median with payouts that are based on both individual and Company performance
- o Long-term incentive award levels that are above median
- o Significant stock ownership by directors and the Chief Executive Officer.

To support the commitment to significant stock ownership, the Company's current common stock ownership guidelines are as follows:

- o Non-employee directors' stock value equal to at least three times each director's annual base retainer fee
- o Chairman of the Board and Chief Executive Officer stock value equal to at least five times his annual base salary.

In determining compliance with these guidelines, the committee considers its expectations of the long-term value of the Company's common stock and the current trading levels. Mr. Sheffield and all directors are in compliance with the ownership guidelines.

The Omnibus Budget Reconciliation Act of 1993 ("OBRA93") placed restrictions on the deductibility of executive compensation paid by public companies. Under the restrictions, the Company is not able to deduct compensation paid to any of the named executive officers in excess of \$1,000,000 unless the compensation meets the definition of "performance based compensation" in the legislation. Non-deductibility could result in additional tax costs to the Company. While the committee cannot assess with certainty how the Company's compensation program will ultimately be affected by OBRA93, the committee generally tries to preserve the deductibility of all executive compensation if it can do so without interfering with the Company's ability to attract and retain capable and highly motivated senior management.

### Elements of Compensation

The elements of the compensation program the committee administers for executive officers, including the Chief Executive Officer, consist of base salaries, annual bonuses, awards made under the Company's Long-Term Incentive Plan, contributions to the Company's 401(k) retirement plan, contributions to the Company's deferred compensation retirement plan, and miscellaneous



perquisites. Base salaries, annual bonuses and long-term incentives are discussed separately below; however, the committee considers the aggregate remuneration of executives when evaluating the executive compensation program.

**Base Salaries.** An executive's base salary is viewed as a fixed component of total compensation that should be competitive with companies of similar size and business to the Company. The committee has targeted base salaries at or slightly above the median level for companies of similar size and business to the Company. The committee evaluates the base salaries of the Company's executive officers on the basis of competitive base salary survey data provided by its consultant and consideration of each officer's duties and responsibilities. The committee views the executives below the Chief Executive Officer level as a team with diverse duties but with similar authority and responsibility. Hewitt Associates historically has provided base salary survey data on the majority of the Company's peer group companies, a group of independent exploration and production companies with similar asset, revenue and capital investment profiles as the Company. While the peer group provided by Hewitt Associates includes some of the members of the Dow Jones U.S. Oil Companies, Secondary Index (the "DJ Secondary Oil Index") reflected in the performance graph set forth under "Company Performance" below, it does not include all of the companies in that peer group and includes other companies with which the Company competes. The committee determines the base salary for all executives, including Mr. Sheffield, using the same methodology.

For 2003, Mr. Sheffield's annual base salary was not increased and will remain at the 2002 level of \$700,000. Hewitt Associates indicated Mr. Sheffield's annual base salary is at or slightly above the 50th percentile. The base salaries of the other named executive officers were also not increased for 2003, and Hewitt Associates advised their 2003 base salaries are, as a group, slightly above the median.

**Annual Bonuses.** Each year the committee establishes a target bonus for each executive based on the target bonus median levels of executives in similar positions at peer group companies. To maintain internal equity, the level of responsibility, scope and complexity of the executive's position are considered. The range of awards for the annual incentive bonus plan can range from 0 to 200 percent of target. The target bonus levels for Mr. Sheffield and the executive officers did not change from the 2002 target bonus levels and were identified by Hewitt Associates as being slightly above the median level. In awarding 2002 bonuses, the Company reviewed the following criteria that are important to the success of the Company's business plan.

- o Operating cost per BOE
- o Debt/Book capitalization
- o Reserve replacement
- o Growth of share value
- o Finding and development cost per BOE
- o Production growth
- o General and administrative costs
- o Net asset value

In determining the executive officers' annual bonus awards, the committee also evaluated the Company's stock performance in relation to its peer group. The committee did not employ a formula, specific targets or predetermined weighting of the above financial and operational performance criteria. The committee evaluates Company performance in light of oil and gas industry fundamentals and assesses how effectively management adapts to changing industry conditions and opportunities during the year. The committee observes and evaluates the individual performance of executive officers through the year and

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

specifically evaluates Mr. Sheffield's performance relative to the Company's performance in achieving the Company's goals.

For 2002, the committee awarded Mr. Sheffield and the other executives cash bonuses above the target bonus levels. Specific Company performance which resulted in bonus payouts above target for 2002 included:

- o Base operating costs of \$2.86 per BOE
- o Maintained leverage position
- o Reserve replacement of 258 percent
- o Finding and development costs of \$6.30 per BOE
- o General and administrative cost of \$1.17 per BOE
- o 2002 stock price increase of 31 percent

15

Regarding stock performance, for the third consecutive year, the Company's annual stock price performance compared to other peer group companies achieved top quartile ranking. Also, the Company's three year cumulative total return based on stock price performance has exceeded both the Standard & Poor's 500 Index (the "S&P 500") and the DJ Secondary Oil Index per the graph below. In addition, the Company's stock price hit a four year high of \$27.50 in October, 2002.

COMPARISON OF THREE YEAR CUMULATIVE TOTAL RETURN \*  
AMONG PIONEER NATURAL RESOURCES COMPANY, THE STANDARD & POOR'S 500 INDEX  
AND THE DOW JONES U.S. OIL COMPANIES, SECONDARY INDEX

Measurement (Fiscal Year Covered)	Pioneer Natural Resources Company	DJ Secondary Oil Index	S&P 500
1999	100	100	100
2000	220	160	91
2001	215	147	80
2002	283	150	62

16

Long-term Incentives. A significant portion of an executive officers' total compensation opportunity is comprised of long-term incentive awards, which are intended to align executive management's interests in long-term growth and success more closely with the interests of the Company's stockholders. The committee has determined that a combination of stock option and restricted stock awards is the most appropriate method to meet the Company's long-term incentive plan objectives of rewarding for long-term performance and encouraging retention. The additional emphasis on restricted stock was achieved by reducing

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

the value of the stock options awarded over a three-year period by the value of the restricted stock awards. The restricted stock includes a three year cliff vesting restriction and was designed to be a one time award to replace a like value of stock options that would have been issued over the next three years.

The value of the long-term incentive awards granted to Mr. Sheffield in 2002 was determined by a comparison of long-term incentive grants made to the Chief Executive Officers' of peer group companies. The other executive officers were reviewed as a team. The value of long-term incentives granted to each executive was determined by comparing the value of awards granted to peer company executives holding similar positions, and their individual award levels were averaged to determine the actual awards to executives of the Company. The award levels were not influenced by the current stock holdings of the executives. The Company's philosophy is to award long-term incentives with values that are above market average. For 2002, Mr. Sheffield was awarded 150,000 stock options and 72,000 shares of restricted stock. Hewitt Associates concluded the 2002 award levels placed Mr. Sheffield and the other executives as a group slightly above the 60th percentile for long-term incentive awards among the peer group.

In summary, the Company believes a significant portion of executive compensation should be variable and performance-based so that an executive's total compensation opportunity is linked to the performance of the individual, the Company and its stock price. The majority of an executive officers' total compensation is variable and at-risk. This structure allows the Company to administer overall compensation that rises or falls based on the Company's performance while maintaining a balance between the Company's short-term and long-term objectives.

Compensation Committee of  
The Board of Directors

Charles E. Ramsey, Jr., Chairman  
James R. Baroffio, Member  
Edison C. Buchanan, Member

17

### AUDIT COMMITTEE REPORT

The Audit Committee's purpose is to assist the Board of Directors in its oversight of the Company's internal controls, financial statements and the audit process. The Board of Directors, in its business judgment, has determined that all members of the committee are independent as required under the listing standards of the New York Stock Exchange. The committee operates pursuant to a charter adopted by the Board of Directors. A copy of the current charter is attached to this proxy statement as Annex A.

Management is responsible for the preparation, presentation and integrity of the Company's financial statements, accounting and financial reporting principles, and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors, Ernst & Young LLP, are responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards.

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

In performing its oversight role, the committee has reviewed and discussed the audited financial statements with management and the independent auditors. The committee has also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as currently in effect. The committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, Independent with Audit Committees, as currently in effect. The committee has also considered whether the performance of other non-audit services by the independent auditors is compatible with maintaining the auditor's independence and has discussed with the auditors the auditors' independence.

Based on the reports and discussions described in this Report, and subject to the limitations on the roles and responsibilities of the committee referred to below and in the charter, the committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2002, for filing with the Securities and Exchange Commission (the "SEC"). The committee has also recommended the selection of the Company's independent auditors.

The members of the committee are not professionally engaged in the practice of auditing or accounting for the Company and are not experts in auditor independence standards. Members of the committee rely without independent verification on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the committee's considerations and discussions referred to above do not assure that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles, or that Ernst & Young LLP is in fact independent.

Audit Committee of  
The Board of Directors

James L. Houghton, Chairman  
R. Hartwell Gardner, Member  
Jerry P. Jones, Member  
Linda K. Lawson, Member  
Robert A. Solberg, Member

### CORPORATE GOVERNANCE

#### Corporate Governance Principles

The Board of Directors believes that sound governance practices and policies provide an important framework to assist it in fulfilling its duty to shareholders. In March 2003, the Board of Directors formally adopted the Pioneer Natural Resources Company Corporate Governance Principles, which cover the following principal subjects:

- o Role and functions of the board

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

- o Qualifications and independence of directors
- o Committee functions and independence of committee members
- o Meetings of non-employee directors
- o Self-evaluation
- o Ethics and conflicts of interest policy (a copy of the current Code of Business Conduct and Ethics is attached to this annual proxy statement as Annex D)
- o Reporting of concerns to non-employee directors or the Audit Committee
- o Compensation of the board and stock ownership requirements
- o Succession planning and annual compensation review of senior management
- o Access to senior management and to independent advisors
- o Director orientation and continuing education
- o Evaluation of corporate governance principles

The Corporate Governance Principles are attached to this proxy statement as Annex E and are posted on the Company's website at [www.pioneernc.com](http://www.pioneernc.com). The Corporate Governance Principles will be reviewed periodically and as necessary by the Company's Nominating and Corporate Governance Committee, and any proposed additions to or amendments of the Corporate Governance Principles will be presented to the Board of Directors for its approval.

The New York Stock Exchange (the "NYSE") has proposed rules that would require listed companies to adopt governance guidelines covering certain matters. The Company believes that the Corporate Governance Principles comply with the proposed rules.

### Director Independence

The Company's existing standards for determining director independence require the assessment of directors' independence on an annual basis. In March 2003, the Board of Directors assessed the independence of each director in accordance with its then-effective independence standards for directors, which generally define an independent director as one who does not have any relationship with management or the Company that may interfere with the exercise of his or her independent judgement. The Board of Directors has determined, after careful review, that each member of the Board of Directors is independent, with the exception of Mr. Sheffield, who is an employee of the Company. Accordingly, eight out of the nine current members of the Board of Directors are independent directors.

The NYSE has proposed rules that would adopt a revised definition of director independence for listed companies. Upon final approval of such rules, the Board of Directors will amend the Corporate Governance Principles as necessary to ensure that the Company's standards for director independence meet or exceed those in the final rules, and will thereafter evaluate director independence in accordance with those standards. Based on the rules as proposed at the time of the Board of Director's evaluation of independence in March 2003, the Board of Directors believes that all non-employee directors would be independent under the proposed rules.

### Election of Lead Director

In February 2003, the Board of Directors elected Mr. Ramsey, a non-employee director, to serve as chairman of the regular private meetings of the independent directors, and as Chairman of the Company's Nominating and Corporate Governance Committee (the "Lead Director"). Utilizing input from all

directors, the Lead Director will work with the CEO and Chairman of the Board to determine the appropriate agenda and information package for Board of Director meetings; meet with the CEO and Chairman of the Board, senior management and individual directors, as required, to facilitate effective communications and information flow; take a leadership role in CEO succession and senior management development; take a leadership role in director evaluation, continuing education, recruiting and orientation; and serve as the Board of Directors contact in the process for direct employee and stockholder communications with the Board of Directors.

#### Financial Literacy of Audit Committee and Designation of Financial Experts

In March 2003, the Board of Directors evaluated the members of the Audit Committee for financial literacy and the attributes of a financial expert. The Board of Directors determined that each of the Audit Committee members is financially literate and that three of the Audit Committee members (Mrs. Lawson and Messrs. Gardner and Houghton) are financial experts as recently defined by the SEC.

#### Procedure for Directly Contacting the Board and Whistleblower Policy

A means for stockholders and employees to contact the Board of Directors directly has been established, and is published on the Company's website at [www.pioneernc.com](http://www.pioneernc.com). Matters for which this contact may be used include allegations about actions of the Company or its directors, officers or employees involving (a) questionable accounting, internal controls and auditing matters; (b) materially misleading statements or omissions in SEC reports, press releases, or other public statements or other forms of wire, mail or securities fraud; or (c) dishonest or unethical conduct, conflicts of interest, violations of the Company's codes of ethics or business conduct, or violation of laws. Information may be submitted confidentially and anonymously, although the Company may be obligated by law to disclose the information or identity of the person providing the information in connection with government or private legal actions and in some other circumstances. The Company's policy is not to retaliate against any director, officer or employee who provides truthful information relating to a violation of law or Company policies.

20

#### COMPANY PERFORMANCE

The following graph and chart compare the Company's cumulative total stockholder return on common stock during the period from December 31, 1997 to December 31, 2002, with cumulative total stockholder return during the same period for the DJ Secondary Oil Index and the S&P 500 as prescribed by the SEC rules. The graph and chart show the value, at December 31 in each of 1998, 1999, 2000, 2001 and 2002 of \$100 invested at December 31, 1997, and assume the reinvestment of all dividends.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN \*  
AMONG PIONEER NATURAL RESOURCES COMPANY, THE STANDARD & POOR'S 500 INDEX  
AND THE DOW JONES U.S. OIL COMPANIES, SECONDARY INDEX

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

Measurement (Fiscal Year Covered)	Pioneer Natural Resources Company	DJ Secondary Oil Index	S&P 500
1997	100	100	100
1998	30	69	129
1999	31	79	156
2000	68	126	141
2001	67	116	125
2002	88	119	97

	Fiscal year ending December 31,				
	1997	1998	1999	2000	2001
Pioneer Natural Resources Company	100	30	31	68	67
DJ Secondary Oil Index	100	69	79	126	116
S&P 500	100	129	156	141	125

21

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of common stock as of March 19, 2003, by (a) each person who is known by the Company to own beneficially more than five percent of the outstanding shares of common stock, (b) each director of the Company, (c) each named executive officer of the Company, and (d) all directors and executive officers as a group.

Name of Person or Identity of Group	Number of Shares	Percentage Of Class (1)
Southeastern Asset Management, Inc. (2).....	20,588,394	17.5
Longleaf Partners Fund O. Mason Hawkins 6410 Poplar Avenue, Suite 900 Memphis, Tennessee 38119		
Scott D. Sheffield (3) (4) (5).....	517,722	*
Timothy L. Dove (3) (5) (6).....	197,097	*

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

Dennis E. Fagerstone (3) (5).....	288,929	*
Danny L. Kellum (3) (5) (7).....	114,536	*
Mark L. Withrow (3) (5) (8).....	235,213	*
James R. Baroffio (3) (9).....	58,849	*
Edison C. Buchanan (5).....	7,113	*
R. Hartwell Gardner (3).....	70,480	*
James L. Houghton (3) (5) (10).....	52,807	*
Jerry P. Jones (3).....	56,648	*
Linda K. Lawson (5) (11).....	5,981	*
Charles E. Ramsey, Jr. (3).....	45,307	*
Robert A. Solberg (5) .....	5,581	*
All directors and executive officers as a group (14 persons) (5) (12).....	1,764,524	1.5

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The executive officers and directors of the Company are required to file reports with the SEC, disclosing the amount and nature of their beneficial ownership in common stock, as well as changes in that ownership.

Based solely on its review of reports and written representations that the Company has received, the Company is aware that Susan A. Spratlen, the Company's Vice President - Investor Relations and Communication, did not timely file one report on Form 4 covering one transaction effected during 2002. Other than as discussed above, the Company believes that all required reports were filed on time for 2002.

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During 2002, the Company did not enter into any transactions with management and others, nor was it a party to business relationships or other arrangements or transactions, that would be reportable as certain relationships and related transactions. Mr. Jones is of counsel to the firm of Thompson & Knight, L.L.P. since his retirement from the firm in January 1998. Thompson & Knight, L.L.P. provide periodic legal services to the Company. Thompson & Knight, L.L.P. customarily gives the "of counsel" title to retired partners of the firm. Mr. Jones has no role in, and receives no pay from, Thompson & Knight, L.L.P. except payments under a retirement savings plan. Accordingly, the Board of Directors does not consider this relationship to be relevant to Mr. Jones' independence.

### STOCKHOLDER PROPOSALS

Any stockholder of the Company who desires to submit a proposal for action at the Company's annual meeting of stockholders for 2004 and wishes to have such proposal (a "Rule 14a-8 Proposal") included in the Company's proxy materials, must submit such Rule 14a-8 Proposal to the Company at its principal executive offices no later than December 11, 2003, unless the Company notifies



## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

the stockholders otherwise. Only those Rule 14a-8 Proposals that are timely received by the Company and proper for stockholder action (and otherwise proper) will be included in the Company's proxy materials.

Any stockholder of the Company who desires to submit a proposal for action at the annual meeting of stockholders in 2004, but does not wish to have such proposal (a "Non-Rule 14a-8 Proposal") included in the Company's proxy materials, must submit such Non-Rule 14a-8 Proposal to the Company at its

23

principal executive offices no later than February 24, 2004, unless the Company notifies the stockholders otherwise. If a Non-Rule 14a-8 Proposal is not received by the Company on or before February 24, 2004, then the Company intends to exercise its discretionary voting authority with respect to such Non-Rule 14a-8 Proposal.

"Discretionary voting authority" is the ability to vote proxies that stockholders have executed and returned to the Company, on matters not specifically reflected in the Company's proxy materials, and on which stockholders have not had an opportunity to vote by proxy.

Stockholders desiring to propose action at the annual meeting of stockholders must also comply with Article Ninth of the Amended and Restated Certificate of Incorporation of the Company. Under Article Ninth, a stockholder must submit to the Company, no later than 60 days before the annual meeting or ten days after the first public notice of the annual meeting is sent to stockholders, a written notice setting forth (i) the nature of the proposal with particularity, including the written text of the proposal, (ii) the stockholder's name, address and other personal information, (iii) any interest of the stockholder in the proposed business, (iv) the name of any persons nominated to be elected or reelected as a director by the stockholder, and (v) with respect to each such nominee, the nominee's name, address and other personal information, the number of shares of each class and series of stock of the Company held by such nominee, all information required to be disclosed pursuant to Regulation 14A of the Securities and Exchange Act of 1934, and a notarized letter containing such nominee's acceptance of the nomination, stating his or her intention to serve as director if elected, and consenting to be named as a nominee in any proxy statement relating to such election. The person presiding at the annual meeting will determine whether business is properly brought before the meeting and will not permit the consideration of any business not properly brought before the meeting.

Written requests for inclusion of any stockholder proposal should be addressed to Corporate Secretary, Pioneer Natural Resources Company, 5205 North O'Connor Boulevard, Suite 1400, Irving, Texas 75039. The Company suggests that any such proposal be sent by certified mail, return receipt requested.

The Nominating and Corporate Governance Committee will consider any nominee recommended by stockholders for election at the annual meeting of stockholders to be held in 2004 if that nomination is submitted in writing, not later than January 9, 2004, to Corporate Secretary, Pioneer Natural Resources Company, 5205 North O'Connor Boulevard, Suite 1400, Irving, Texas 75039. Each submission must include a statement of the qualifications of the nominee, a notarized consent signed by the nominee evidencing a willingness to serve as a director, if elected, and a commitment by the nominee to meet personally with members of the Board of Directors and its committees.

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

### SOLICITATION OF PROXIES

Solicitation of Proxies may be made by mail, personal interview, telephone or telegraph by officers, directors and regular employees of the Company. The Company may also request banking institutions, brokerage firms, custodians, nominees and fiduciaries to forward solicitation material to the beneficial owners of the common stock that those companies or persons hold of record, and the Company will reimburse the forwarding expenses. In addition, the Company has retained D.F. King & Co., Inc. to assist in solicitation for a fee estimated not to exceed \$7,500.00. The Company will bear all costs of solicitation.

### STOCKHOLDER LIST

In accordance with the Delaware General Corporation Law, the Company will maintain at its corporate offices in Irving, Texas, a list of the stockholders entitled to vote at the Annual Meeting. The list will be open to the examination of any stockholder, for purposes germane to the Annual Meeting, during ordinary business hours for 10 days before the Annual Meeting.

### ANNUAL REPORT

The Company's Annual Report to Stockholders for the fiscal year ended December 31, 2002, is being mailed to stockholders concurrently with this Proxy Statement and does not form part of the proxy solicitation material.

24

A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the SEC, will be sent to any stockholder without charge upon written request addressed to Investor Relations, Pioneer Natural Resources Company, 5205 North O'Connor Boulevard, Suite 1400, Irving, Texas 75039. A copy of this proxy statement or our Annual Report on Form 10-K will also be sent upon written or oral request to any stockholder of a shared address to which a single copy of this proxy statement or Annual Report on Form 10-K was delivered. Requests may be made by writing to Investor Relations at the address previously given or by calling 972-969-3583. The Annual Report on Form 10-K is also available at the SEC's web site in its EDGAR database ([www.sec.gov](http://www.sec.gov)).

### INTERNET VOTING

For shares of stock that are registered in your name, you have the opportunity to vote through the Internet using a program provided by the Company's transfer agent, Continental Stock Transfer & Trust Company ("Continental"). Votes submitted electronically through the Internet under this program must be received by 5:00 p.m., New York time, on Wednesday, May 14, 2003. The giving of such a proxy will not affect your right to vote in person should you decide to attend the Annual Meeting. The Company has been advised by counsel that the Internet voting procedures that have been made available through Continental are consistent with the requirements of applicable law.

To vote through the Internet, please access Continental on the World Wide Web at [www.continentalstock.com](http://www.continentalstock.com). Select "ContinentalLink Proxy Voting" on the screen. At the next screen, you will need to enter the Company Number, Proxy

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

Number and Account Number that are printed on your personalized proxy card.

The Internet voting procedures are designed to authenticate stockholder identities, to allow stockholders to give their voting instructions, and to confirm that stockholders' instructions have been recorded properly. Stockholders voting through the Internet should remember that the stockholder must bear costs associated with electronic access, such as usage charges from Internet access providers and telephone companies.

\*\*\*\*\*

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO COMPLETE, SIGN, AND RETURN THE PROXY IN THE ENCLOSED POSTAGE-PAID, ADDRESSED ENVELOPE OR TO VOTE THROUGH THE INTERNET.

By Order of the Board of Directors

/s/ Mark L. Withrow

-----  
Mark L. Withrow  
Secretary

Irving, Texas  
April 7, 2003

25

### Annex A

PIONEER NATURAL RESOURCES COMPANY  
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS  
CHARTER

#### I Purpose

The Board of Directors (the "Board") of Pioneer Natural Resources Company (the "Company") has established the Audit Committee (the "Committee") of the Board. The purposes of the Committee are to assist the Board in fulfilling its oversight responsibilities by:

- A. overseeing the reliability and integrity of the Company's financial statements, accounting policies, and financial reporting and disclosure practices,
- B. overseeing the Company's compliance with legal and regulatory requirements,
- C. overseeing the independent auditor's qualifications and independence,
- D. overseeing the performance of the Company's internal audit

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

function and any independent internal auditors,

- E. overseeing the Company's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established,
- F. reviewing and appraising the audit efforts of the Company's independent auditors and internal auditing department (reference to internal auditors or the internal audit department in this Charter shall include both internal audit activities and functions conducted by employees of the Company or by outside auditors engaged for such purposes) and, where appropriate, replacing the independent auditors or internal audit department,
- G. providing an open avenue of communication among the independent auditors, financial and senior management, the internal auditors or department, and the Board, always emphasizing that the independent auditors are ultimately accountable to the Committee and the Board, and
- H. preparing annually the report the SEC rules require be included in the proxy statement relating to the Company's annual meeting of stockholders, and
- I. performing such other duties as are directed by the Board.

Consistent with this Purpose, the Committee should encourage continuous improvement of, and should foster adherence to, the Company's policies, procedures and practices at all levels. The Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section V of this Charter.

### II Composition

The Committee shall be comprised of three or more Directors, as determined by the Board or a nominating committee of the Board, none of whom shall be an affiliate of the Company or an employee or a person who receives any compensation from the Company other than fees paid for service as a Director. The members of the Committee shall be elected by the Board or a nominating committee of the Board annually and shall serve until their successors shall be duly elected and qualified. Each member shall be "independent" as defined from time to time by the listing standards of the New York Stock Exchange (the "NYSE") and by applicable regulations of the Securities and Exchange Commission

26

(the "SEC") and shall meet any other applicable independence requirements of the NYSE and SEC. Accordingly, the Board shall determine annually whether each member is free from any relationship that may interfere with his or her independence from management and the Company. No member shall serve on an audit committee of more than two other public companies unless the Board determines that such simultaneous service would not impair the ability of such director to effectively serve on the Committee.

Each member shall be (or shall become within a reasonable time after appointment) financially literate, and at least one member shall be a "financial expert" as defined from time to time by applicable regulations of the SEC.

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

Members of the Committee may enhance their familiarity with finance and accounting principles by participating in educational programs that the Company or an outside consultant conducts.

Notwithstanding the foregoing membership requirements, no action of the Committee shall be invalid by reason of any such requirement not being met at the time such action is taken.

### III Meetings and Structure

The Committee shall meet at least four times per year to review the financial information of the Company, consistent with its duties and responsibilities, and as many additional times as the members deem necessary. As a part of its effort to foster open communications, the Committee should meet at least annually with management, the director of the internal auditing department, and the independent auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

Unless the Board designates a Chair of the Committee, the members of the Committee shall, by majority vote of the full Committee membership, appoint one member of the Committee as chairperson. He or she shall be responsible for leadership of the Audit Committee, including preparing the agenda, presiding over the meetings, making committee assignments and reporting to the Board. The chairperson will also maintain regular liaison with the Chief Executive Officer, the Chief Financial Officer, the lead audit partner of the Company's independent auditors and the Company's internal auditor.

### IV Accountability of the Independent Auditors

The independent auditors are accountable to the Committee. The Committee shall have the sole authority and responsibility with respect to the selection, engagement, compensation, oversight, evaluation and, where appropriate, dismissal of the Company's independent auditors. The Committee, or a member thereof, must pre-approve any non-audit service provided to the Company by the Company's independent auditors.

### V Authority and Responsibilities

The Committee shall have the authority to take all actions it deems advisable to fulfill its responsibilities and duties. The Committee shall have the authority to retain professional advisors including, without limitation, special legal counsel, accounting experts, or other consultants to advise the Committee, which may be the same as or different from the Company's primary legal counsel, accounting experts and other consultants as the Committee deems necessary or advisable in connection with the exercise of its powers and responsibilities as set forth in this Audit Committee Charter, all on such terms as the Committee deems necessary and advisable. The Committee may require any officer or employee of the Company or any of its subsidiaries, the Company's outside legal counsel, and the Company's external auditors to attend a meeting of the Committee or to meet with any member of, or consultant to, the Committee. The Committee chairperson, or other designee of the Committee, may also meet with the Company's investment bankers or financial analysts who follow the Company.

The Committee shall be responsible for the resolution of any disagreements between the independent auditors and management regarding the Company's financial reporting.

The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditors employed by

the Company for the purpose of rendering or issuing an audit report and to any special legal counsel, accounting experts or other consultants employed by the Committee.

To further fulfill the purpose, powers and responsibilities set forth above, the Committee shall also:

A. Independent Auditors

- o Annually select and engage the Company's independent auditors retained to audit the financial statements of the Company with such selection to be submitted to the stockholders for ratification, if the Board of Directors so chooses.
- o Review the performance of the independent auditors and approve any proposed discharge of the independent auditors when circumstances warrant.
- o Review and pre-approve the plan and scope of the independent auditors' auditing services (including comfort letters), non-audit services and related fees. The Company shall disclose any non-audit services approved by the Audit Committee in the Company's periodic reports filed with the SEC.
- o Ensure that the lead audit partner and reviewing audit partner of the Company's independent auditors are rotated at least every five years.
- o Set clear hiring policies for employees or former employees of the Company's independent auditors.
- o Periodically obtain and review a report from the independent auditors regarding all relationships between the independent auditors and the Company that may affect the independent auditors' objectivity and independence, and discuss the report with the independent auditors. The Committee shall also recommend any appropriate action to the Board in response to the written report necessary to satisfy itself of the independence and objectivity of the independent auditors.
- o Periodically obtain and review reports from the independent auditors that include (i) all alternative treatments of financial information within generally accepted accounting principles ("GAAP") that have been discussed with management, their ramifications and the preferences of the independent auditors, and (ii) other material written communications between the independent auditors and management.
- o Review and approve the appointment, termination or replacement by management of a Director of Internal Auditing or, at the discretion of the Board, select and contract with

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

outside auditors to perform the function of an internal audit department.

- o Direct the scope of the duties and activities of the Director of Internal Auditing or any outside auditors serving as internal auditors, who shall report directly to the Audit Committee.

### B. Review

- o Periodically obtain and review reports from the independent auditors that include all critical accounting policies and practices used.
- o Review with management and the independent auditors the Company's quarterly or annual financial information including matters required to be reviewed under applicable legal, regulatory or NYSE requirements prior to the filing of the Company's Quarterly Report on Form 10-Q or Annual Report on Form 10-K, as the case may be, or prior to the release of earnings.

28

- o Discuss with financial management the Company's earnings releases, including the use of "pro forma", "adjusted" or other non-GAAP measures, as well as financial information and earnings guidance, if any, provided to the public, analysts or rating agencies.
- o Review and discuss with management and the independent auditors the disclosures made in management's discussion and analysis of financial condition and results of operations in any of the Company's reports on Form 10-Q or Form 10-K.
- o Upon completion of any annual audit, meet separately with the independent auditors and management and review the Company's financial statements and related notes, the results of their audit, any report or opinion rendered in connection therewith, any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information, any significant disagreements with management concerning accounting or disclosure matters and any significant adjustment proposed by the independent auditors.
- o Regularly review with the Company's independent auditors any audit problems or difficulties and management's response.
- o Review and consider with the independent auditors and management the matters required to be discussed by Statement of Auditing Standards No. 61. These discussions shall include consideration of the quality of the Company's accounting principles as applied in its financial reporting, including review of estimates, reserves and accruals, review of judgmental areas, review of audit adjustments whether or not recorded and such other inquiries as may be appropriate.

- o Based on the foregoing review, make recommendation to the Board as to the inclusion of the Company's audited financial statements in the Company's annual report on Form 10-K.
- o Review any disclosures provided by the Chief Executive Officer or the Chief Financial Officer to the Committee regarding significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize, and report financial data.
- o Review with management and the independent auditors any significant transactions that are not a normal part of the Company's operations and changes, if any, in the Company's accounting principles or their application.
- o At least annually, obtain and review a report by the independent auditors describing the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.
- o Periodically meet and review with the Director of Internal Auditing the regular internal reports to management prepared by the internal auditing department and the progress of activities and any findings of major significance stemming from internal audits.

C. Financial Reporting Processes

- o Periodically discuss separately with management, the independent auditors and the internal auditors the adequacy and integrity of the Company's accounting policies and procedures and internal accounting controls, the completeness and accuracy of the Company's financial disclosure and the extent to which major recommendations made by the independent auditors or the internal auditors have been implemented or resolved.

- o Consider and approve, if appropriate, major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditors, management, or the internal auditing department.
- o Review with the independent auditors, the internal auditing department and management the extent to which such changes have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes, as the Committee determines.



## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

### D. Process Improvement

- o Establish regular and separate systems of reporting to the Audit Committee by each of management, the independent auditors and the Director of Internal Auditing regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.
- o Conduct annual evaluation with the Board regarding the performance of the Audit Committee.
- o Discuss with management and the Director of Internal Accounting policies with respect to risk assessment and risk management.
- o Regularly apprise the Board, through minutes and special presentations as necessary, of significant developments in the course of performing these duties.

### E. Ethical and Legal Compliance

- o Establish procedures for the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls, auditing matters and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.
- o Review any disclosures provided by the Chief Executive Officer or the Chief Financial Officer to the Committee regarding (i) significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data; and (ii) any fraud, including that which involves management or other employees who have a significant role in the Company's internal controls.
- o Investigate at its discretion any matter brought to its attention by, without limitation, reviewing the books, records and facilities of the Company and interviewing Company officers or employees.
- o Review management's monitoring of the Company's compliance programs and evaluate whether management has review systems in place designed to ensure that the Company's financial statements, reports and other financial information disseminated to governmental organizations and the public satisfy applicable legal, regulatory or NYSE requirements.
- o Review with the Company's in-house or outside legal counsel any legal matter that could have a significant effect on the Company's financial statements, including the status of pending litigation, taxation matters and other areas of oversight to the legal and compliance area as may be appropriate.

- o Review with management and the independent auditors the Company's policies and procedures regarding compliance with its internal policies as well as applicable laws and regulations, including without limitation with respect to maintaining books, records and accounts and a system of internal accounting controls in accordance with Section 13(b)(2) of the Securities Exchange Act of 1934.

F. General

- o Perform any other activities consistent with this Charter, the Company's Certificate of Incorporation and Bylaws, the rules of the NYSE applicable to its listed companies, and governing law as the Audit Committee or the Board deems necessary or appropriate.

VI Review of Committee Charter

At least annually, the Committee shall review and reassess the adequacy of this Charter. The Committee shall report the results of the review to the Board and, if necessary, make recommendations to the Board to amend this Charter.

VII Limitations

While the Committee has the responsibilities and powers set forth in this Charter and management and the independent auditors for the Company are accountable to the Committee, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with GAAP. This is the responsibility of management.

Annex B

PIONEER NATURAL RESOURCES COMPANY

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

I Purposes

The Board of Directors (the "Board") of Pioneer Natural Resources Company (the "Company") has established the Compensation Committee (the "Committee") of the Board. The purposes of the Committee are to discharge the Board's responsibilities relating to:

1. the compensation of the Company's executive officers;
2. the publishing in the annual meeting proxy statement a report on executive compensation, and compliance with the compensation

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

reporting requirements of the Securities and Exchange Commission, New York Stock Exchange, and any other regulatory bodies;

3. administering the Company's employee benefit plans; and
4. formulating and monitoring the Company's overall employee compensation and benefits philosophy and strategy.

The Committee shall have such additional powers, authority and duties as are described in this Charter, as are reasonably necessary to carry out the general purposes of this Charter and the plan documents referred to herein, and as may be assigned from time to time by the Board.

### II Composition

The Committee will consist of a minimum of three (3) directors as determined by the Board. Unless the Board designates a chair of the committee, the members of the committee may designate a chair by majority vote of the full committee membership. All members of the Committee at all times during his/her tenure on the Committee must meet the definition of:

- o A "non-employee director" within the meaning of Rule 16b-3 promulgated under the Securities and Exchange Act of 1934;
- o An "outside director" within the meaning Section 162(m) of the Internal Revenue Code of 1986, as amended; and
- o An "independent director" within the meaning of the New York Stock Exchange Inc. rules and regulations.

In appointing members to the Committee, the Board shall keep in mind the following:

- o Whether an individual has sufficient time to commit to services to the Committee;
- o Whether an individual has experience or knowledge with setting compensation policies, procedures and programs, and the review and administration of executive and director compensation programs;
- o Whether an individual has a strong understanding of financial performance measurements; and

32

- o Whether an individual brings skills and abilities not otherwise possessed by other Committee members that would aid the Committee in the execution of its duties and responsibilities.

The Board may remove or replace the chairperson and any other member of the Committee at any time.

### III Meetings

The Committee customarily conducts a minimum of four (4) regularly scheduled meetings each year, including executive sessions, as needed.

## Edgar Filing: PIONEER NATURAL RESOURCES CO - Form DEF 14A

A majority of the Committee members will constitute a quorum. The Committee shall have the authority to act on the affirmative vote of a majority of members present at a meeting at which a quorum is present, and such act will be the act of the Committee.

Attendance at meetings shall be permitted in person, by telephone conference call or other means which allows members to effectively interact with one another and fully discuss proposed actions, or in any other manner in which the Board is permitted to meet under law or the Company's bylaws. Any action permitted or required to be taken at a meeting of the Committee will be deemed the action of the Committee if the Committee members execute, either before or after the action is taken, a unanimous written consent and the consent is filed with the Company's Corporate Secretary.

Regular meetings of the Committee shall be called according to the schedule for the year approved by the Committee. Special meetings of the Committee can be called by the chairperson, a majority of the members of the Committee, the Chairman of the Board, or by a majority of the Board.

The Vice President - Administration, or such other officer as may from time to time be designated by the Committee, shall act as management liaison to the Committee and shall work with the Committee chairperson to prepare an agenda for regularly scheduled meetings. The Committee chairperson will make the final decision regarding the agenda for regularly scheduled meetings and shall develop the agenda for special meetings based on the information supplied by the party(ies) requesting the special meeting.

The agenda and all materials to be reviewed at the meetings should be received by the Committee members as far in advance of the meeting day as practicable (which for regularly scheduled meetings will normally be five days.)

The office of the Corporate Secretary shall coordinate and be responsible for all mailings to the Committee members, to the extent practicable, and shall be responsible for recording accurate Minutes of all Committee meetings and distributing them to Committee members.

#### IV Duties and Responsibilities

The Committee shall have the following duties and responsibilities and the necessary power and authority, including budgetary and fiscal authority, to carry out such duties and responsibilities:

##### Executive Compensation

- o Periodically review the Company's compensation philosophy and how the pay programs align with philosophy, especially in relation to the Company's business goals and strategies, determine whether any change is needed or desired, and if so, modify and revise the Company's compensation philosophy or compensation programs, plans or awards accordingly.
- o Annually review market data to assess the Company's competitive position for each component of executive compensation (especially base salary, annual incentives, long-term incentives and benefits) by reviewing appropriate peer companies' market data compiled by third party consultants.

- o Approve, subject where appropriate to submission to stockholders, all equity-related incentive compensation plans (including specific provisions) in which the Company officers and any others subject to the reporting and short-swing liability provisions of Section 16 of the Securities Exchange Act of 1934 are participants, and perform such acts and duties as are necessary to administer such plans
- or. Imperfect correlation between the Reference Asset's portfolio securities and those in the rounding of prices, changes to the underlying index and regulatory requirements may cause tracking Reference Asset's performance from that of the underlying index.

In addition, the performance of the Reference Asset will reflect additional transaction costs and fees that are not included in the calculation of the underlying index and this may increase the tracking error of the Reference Asset. Also, corporate actions with respect to the sample of equity securities (such as mergers and spin-offs) may impact the performance differential between the Reference Asset and the underlying index. Finally, because the shares of the Reference Asset are traded on the NYSE Arca and are subject to market supply and investor demand, the market value of one share of the Reference Asset may differ from the net asset value per share of the Reference Asset.

For all of the foregoing reasons, the performance of the Reference Asset may not correlate with the performance of the underlying index. Consequently, the return on the Notes will not be the same as investing directly in the Reference Asset or in the underlying index or in Reference Asset stocks or in the Reference Asset's underlying assets, and will not be the same as investing in a debt security with payments linked to the performance of the underlying index.

#### **Time Zone Differences Between the Cities Where the Underlying Assets of the Reference Asset and the Reference Asset Trade May Create Discrepancies in Trading Prices**

As a result of the time zone difference between the cities where the underlying assets comprising the Reference Asset trade and where the shares of the Reference Asset trade, there may be discrepancies between the values of the underlying assets and the market value of the Notes. In addition, there may be periods when the foreign securities markets are closed for trading (for example, during holidays in a country other than the United States) that may result in the values of the underlying assets remaining unchanged for multiple trading days in the city where the shares of the Reference Asset trade. Conversely, there may be periods in which the applicable foreign securities markets are open, but the securities market on which the Reference Asset trades is closed.

#### **The Notes are Subject to Currency Exchange Rate Risk**

The Reference Asset invests in securities that are traded and quoted in foreign currencies on non-U.S. markets. Therefore, holders of the Notes will be exposed to currency exchange rate risk with respect to the currencies in which

such securities trade. The values of the currencies of the countries in which the Reference Asset may invest may be subject to a high degree of fluctuation due to changes in interest rates, the effects of monetary policies issued by the United States, foreign governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. An investor's net exposure will depend on the extent to which the relevant non-U.S. currencies strengthen or weaken against the U.S. dollar and the relative weight of each non-U.S. security in the portfolio of Reference Asset. If, taking into account such weighting, the U.S. dollar strengthens against the relevant non-U.S. currencies, the value of securities in which the Reference Asset invests will be adversely affected and the value of the Notes may decrease.

It has been reported that the U.K. Financial Conduct Authority and regulators from other countries are in the process of investigating the potential manipulation of published currency exchange rates. If such manipulation has occurred or is continuing, certain published exchange rates may have been, or may be in the future, artificially lower (or higher) than they would otherwise have been. Any such manipulation could have an adverse impact on any payments on, and the value of, your notes and the trading market for your notes. In addition, we cannot predict whether any changes or reforms affecting the determination or publication of exchange rates or the supervision of currency trading will be implemented in connection with these investigations. Any such changes or reforms could also adversely impact your notes.

**The Notes are Subject to Non-U.S. Securities Market Risk**

The Notes are linked to shares of the Reference Asset and therefore, are subject to risks associated with non-U.S. securities markets. An investment in securities linked directly or indirectly to the value of securities issued by non-U.S. companies involves particular risks. Generally, non-U.S. securities markets may be more volatile than U.S. securities markets, and market developments may affect non-U.S. markets differently from U.S. securities markets. Direct or indirect government intervention to stabilize these non-U.S. markets, as well as cross shareholdings in non-U.S. companies, may affect trading prices and volumes in those markets. There is generally less publicly available information about non-U.S. companies than about those U.S. companies that are subject to the reporting requirements of the SEC, and non-U.S. companies are subject to accounting, auditing and financial reporting standards and requirements that differ from those applicable to U.S. reporting companies. Securities prices in non-U.S. countries are subject to political, economic, financial and social factors that may be unique to the particular country. These factors, which could negatively affect the non-U.S. securities markets, include the possibility of recent or future changes in the non-U.S. government's economic and fiscal policies, the possible imposition of, or changes in, currency exchange laws or other non-U.S. laws or restrictions applicable to non-U.S. companies or investments in non-U.S. equity securities and the possibility of fluctuations in the rate of exchange between currencies. Moreover, certain aspects of a particular non-U.S. economy may differ favorably or unfavorably from the U.S. economy in important respects, such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency. Finally, it will likely be more costly and difficult to enforce the laws or regulations of a non-U.S. country or exchange. All of these factors could have a material adverse effect on the value of the Notes.

**The Notes are Subject to Emerging Markets Risk**

The Notes are linked to shares of the Reference Asset and therefore, are subject to emerging markets risk. Investments in securities linked directly or indirectly to emerging market equity securities involve many risks, including, but not limited to: economic, social, political, financial and military conditions in the emerging market; regulation by national, provincial, and local governments; less liquidity and smaller market capitalizations than exist in the case of many large U.S. companies; different accounting and disclosure standards; and political uncertainties. Securities of emerging market companies may be more volatile and may be affected by market developments differently than U.S. companies. Government interventions to stabilize securities markets and cross-shareholdings may affect prices and volume of trading of the securities of emerging market companies. Economic, social, political, financial and military factors could, in turn, negatively affect such companies' value. These factors could include changes in the emerging market government's economic and fiscal policies, possible imposition of, or changes in, currency exchange laws or other laws or restrictions applicable to the emerging market companies or investments in their securities, and the possibility of fluctuations in the rate of exchange between currencies. Moreover, emerging market economies may differ favorably or unfavorably from the U.S. economy in a variety of ways, including growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency. You should carefully consider the risks related to emerging markets, to which the Notes are susceptible, before making a decision to invest in the Notes.

**The Price at Which the Notes May Be Sold Prior to Maturity will Depend on a Number of Factors and May Be Substantially Less Than the Amount for Which They Were Originally Purchased**

The price at which the Notes may be sold prior to maturity will depend on a number of factors. Some of these factors include, but are not limited to: (i) actual or anticipated changes in the price of the Reference Asset over the full term of the Note, (ii) volatility of the price of the Reference Asset and the market's perception of future volatility of the price of the Reference Asset, (iii) changes in interest rates generally, (iv) any actual or anticipated changes in our credit ratings or credit spreads, and (v) time remaining to maturity. In particular, because the provisions of the Note relating to the Payment at Maturity and the Digital Coupon behave like options, the value of the Note will vary in ways which are non-linear and may not be intuitive.

Depending on the actual or anticipated price of the Reference Asset and other relevant factors, the market value of the Notes may decrease and you may receive substantially less than 100% of the issue price if you sell your Notes prior to maturity.

### **The Notes Lack Liquidity**

The Notes will not be listed on any securities exchange or automated quotation system. Therefore, there may be little or no secondary market for the Notes. Scotia Capital (USA) Inc. and the Dealer may, but are not obligated to, make a market in the Notes. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Notes easily. Because we do not expect that other broker-dealers will participate significantly in the secondary market for the Notes, the price at which you may be able to trade your Notes is likely to depend on the price, if any, at which Scotia Capital (USA) Inc. and the Dealer are willing to purchase the Notes from you. If at any time Scotia Capital (USA) Inc. and the Dealer were not to make a market in the Notes, it is likely that there would be no secondary market for the Notes. Accordingly, you should be willing to hold your Notes to maturity.



**Hedging Activities by the Bank and the Dealer May Negatively Impact Investors in the Notes and Cause Our Respective Interests and Those of Our Clients and Counterparties to Be Contrary to Those of Investors in the Notes**

The Bank or one or more of our respective affiliates and the Dealer or one or more of its affiliates has hedged or expects to hedge the obligations under the Notes by purchasing futures and/or other instruments linked to the Reference Asset. The Bank, the Dealer or one or more of our respective affiliates also expects to adjust the hedge by, among other things, purchasing or selling any of the foregoing, and perhaps other instruments linked to the Reference Asset or one or more of the Reference Asset's underlying assets, at any time and from time to time, and to unwind the hedge by selling any of the foregoing on or before the Valuation Date.

The Bank or one or more of our respective affiliates and the Dealer or one or more of its affiliates may also enter into, adjust and unwind hedging transactions relating to other basket- or index-linked Notes whose returns are linked to changes in the price of the Reference Asset or the Reference Asset's underlying assets. Any of these hedging activities may adversely affect the price of the Reference Asset—directly or indirectly by affecting the price of the Reference Asset's underlying assets—and therefore the market value of the Notes and the amount you will receive, if any, on the Notes. In addition, you should expect that these transactions will cause the Bank, or our respective affiliates, or the Dealer, or its affiliates, or our respective clients or counterparties, to have economic interests and incentives that do not align with, and that may be directly contrary to, those of an investor in the Notes. The Bank, or our respective affiliates, or the Dealer, or its affiliates will have no obligation to take, refrain from taking or cease taking any action with respect to these transactions based on the potential effect on an investor in the Notes, and may receive substantial returns with respect to these hedging activities while the value of the Notes may decline.

**Market Activities by the Bank, Scotia Capital (USA) Inc. and by the Dealer for Our Own Account or for Our Clients Could Negatively Impact Investors in the Notes**

The Bank, Scotia Capital (USA) Inc. and our respective affiliates and the Dealer and its affiliates provide a wide range of financial services to a substantial and diversified client base. As such, we each may act as an investor, investment banker, research provider, investment manager, investment advisor, market maker, trader, prime broker or lender. In those and other capacities, we, the Dealer and/or our respective affiliates purchase, sell or hold a broad array of investments, actively trade securities (including the Notes or other securities that we have issued), the Reference Asset's underlying assets, derivatives, loans, credit default swaps, indices, baskets and other financial instruments and products for our own accounts or for the accounts of our customers, and we will have other direct or indirect interests, in those securities and in other markets that may be not be consistent with your interests and may adversely affect the price of the Reference Asset and/or the value of the Notes. Any of these financial market activities may, individually or in the aggregate, have an adverse effect on the price of the Reference Asset and the market for your Notes, and you should expect that our interests and those of the Dealer and/or its affiliates, or our respective clients or counterparties, will at times be adverse to those of investors in the Notes.

The Bank, Scotia Capital (USA) Inc. and our respective affiliates and the Dealer and its affiliates regularly offer a wide array of securities, financial instruments and other products into the marketplace, including existing or new

products that are similar to the Notes or other securities that we may issue, the Reference Asset's underlying assets or other securities or instruments similar to or linked to the foregoing. Investors in the Notes should expect that the Bank and our respective affiliates and the Dealer and its affiliates will offer securities, financial instruments, and other products that may compete with the Notes for liquidity or otherwise.

P-19

**The Bank, Scotia Capital (USA) Inc. and Our Respective Affiliates and the Dealer and Its Affiliates Regularly Provide Services to, or Otherwise Have Business Relationships with, a Broad Client Base, Which Has Included and May Include Us and the Issuers of the Reference Asset's Underlying Assets**

The Bank, Scotia Capital (USA) Inc. and our respective affiliates and the Dealer and its affiliates regularly provide financial advisory, investment advisory and transactional services to a substantial and diversified client base. You should assume that we or they will, at present or in the future, provide such services or otherwise engage in transactions with, among others, us and the issuers of the Reference Asset's underlying assets, or transact in securities or instruments or with parties that are directly or indirectly related to these entities. These services could include making loans to or equity investments in those companies, providing financial advisory or other investment banking services, or issuing research reports. You should expect that the Bank, and our respective affiliates and the Dealer and its affiliates, in providing these services, engaging in such transactions, or acting for our own accounts, may take actions that have direct or indirect effects on the Notes or other securities that we may issue, the Reference Asset's underlying assets or other securities or instruments similar to or linked to the foregoing, and that such actions could be adverse to the interests of investors in the Notes. In addition, in connection with these activities, certain personnel within us, the Dealer or our respective affiliates may have access to confidential material non-public information about these parties that would not be disclosed to investors in the Notes.

**Other Investors in the Notes May Not Have the Same Interests as You**

The interests of other investors may, in some circumstances, be adverse to your interests. Other investors may make requests or recommendations to us or the Dealer regarding the establishment of transactions on terms that are adverse to your interests, and investors in the Notes are not required to take into account the interests of any other investor in exercising remedies, voting or other rights in their capacity as Noteholders. Further, other investors may enter into market transactions with respect to the Notes, assets that are the same or similar to the Notes, assets referenced by the Notes (such as stocks or stock indices) or other similar assets or securities which may adversely impact the market for or value of your Notes. For example, an investor could take a short position (directly or indirectly through derivative transactions) in respect of securities similar to your Notes or in respect of the Reference Asset.

**The Calculation Agent Can Postpone the Valuation Date for the Notes if a Market Disruption Event with Respect to the Reference Asset Occurs**

If the Calculation Agent determines, in its sole discretion, that, on a day that would otherwise be the Valuation Date, a market disruption event with respect to the Reference Asset has occurred or is continuing for the Reference Asset, the Valuation Date will be postponed until the first following trading day on which no market disruption event occurs or is continuing, although the Valuation Date will not be postponed by more than seven scheduled trading days. Moreover, if the Valuation Date is postponed to the last possible day, but a market disruption event occurs or is continuing on that day, that day will nevertheless be the Valuation Date, and the Calculation Agent will determine the applicable Final Price that must be used to determine the Payment at Maturity. Under certain circumstances, the determinations of the Calculation Agent will be confirmed by an independent expert. See "General Terms of the Notes—Unavailability of the Level of the Reference Asset on a Valuation Date" beginning on page PS-24 and "General

Terms of the Notes—Market Disruption Events” beginning on page PS-25 and “Appointment of Independent Calculation Experts” on page PS-33, in the accompanying product prospectus supplement.

**There Is No Affiliation Between Any Underlying Asset Issuers or the Reference Asset Sponsor and Us or the Dealer, and Neither We Nor the Dealer Is Responsible for Any Disclosure by Any of the Other Reference Asset's Underlying Asset Issuers or the Reference Asset Sponsor**

The Bank, Scotia Capital (USA) Inc., and our respective affiliates and the Dealer and its respective affiliates may currently, or from time to time in the future, engage in business with the issuers of the Reference Asset's underlying assets. Nevertheless, none of us, the Dealer, or our or its respective affiliates assumes any responsibility for the accuracy or the completeness of any information about the Reference Asset or any of the other Reference Asset's underlying assets. Before investing in the Notes you should make your own investigation into the Reference Asset and the issuers of the Reference Asset's underlying assets. See the section below entitled “Information Regarding the Reference Asset” in this pricing supplement for additional information about the Reference Asset.

## **Uncertain Tax Treatment**

Significant aspects of the tax treatment of the Notes are uncertain. You should consult your tax advisor about your own tax situation. See “Certain Canadian Income Tax Consequences” and “Certain U.S. Federal Income Tax Considerations” in this pricing supplement.

## **Information Regarding The Reference Asset**

All disclosures contained in this pricing supplement regarding the Reference Asset, including, without limitation, its make up, method of calculation, and changes in its components, have been derived from publicly available sources. We make no representation or warranty as to the accuracy or completeness of the information derived from these public sources.

## **iShares® MSCI Emerging Markets ETF**

The shares of the iShares® MSCI Emerging Markets ETF (“EEM Fund”) are issued by iShares, Inc., a registered investment company. The EEM Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the MSCI Emerging Markets Index. The EEM Fund trades on the NYSE Arca under the ticker symbol “EEM”. BlackRock Fund Advisors (“BFA”) serves as the investment advisor to the EEM Fund.

BFA, as the investment advisor to the EEM Fund, employs a technique known as representative sampling to track the EEM Fund. The EEM Fund generally invests at least 90% of its assets in the securities of the MSCI Emerging Markets Index and in American Depositary Receipts or Global Depositary Receipts based on the securities of the MSCI Emerging Markets Index. The EEM Fund may invest the remainder of its assets in securities not included in the MSCI Emerging Markets Index, but which BFA believes will help the EEM Fund track the MSCI Emerging Markets Index, or in futures contracts, options on futures contracts, other types of options and swaps related to the MSCI Emerging Markets Index, as well as cash and cash equivalents, including shares of money market funds affiliated with BFA or its affiliates. BFA will waive portfolio management fees in an amount equal to the portfolio management fees of such other iShares funds for any portion of the EEM Fund’s assets invested in shares of such other funds.

We obtained the following fee information from the EEM Fund website, without independent verification. The EEM Fund investment advisor is entitled to receive a management fee from the EEM Fund based on the EEM Fund’s allocable portion of the aggregate of the average daily net assets of the EEM Fund as follows: 0.75% per annum of the aggregate net assets less than or equal to \$14.0 billion, plus 0.68% per annum of the aggregate net assets over \$14.0

billion, up to and including \$28.0 billion, plus 0.61% per annum of the aggregate net assets over \$28.0 billion, up to and including \$42.0 billion, plus 0.56% per annum of the aggregate net assets over \$42.0 billion, up to and including \$56.0 billion, plus 0.50% per annum of the aggregate net assets over \$56.0 billion, up to and including \$70.0 billion, plus 0.45% per annum of the aggregate net assets over \$70.0 billion, up to and including \$84.0 billion, plus 0.40% per annum of the aggregate net assets in excess of \$84.0 billion. As of September 30, 2013 the expense ratio of the EEM Fund was 0.67% (as of the most recent quarter end).

Information regarding the EEM Fund, including its top portfolio holdings, may be obtained from other sources including, but not limited to, press releases, newspaper articles, other publicly available documents, and the iShares® website at [www.ishares.com](http://www.ishares.com). We are not incorporating by reference the website or any material it includes into this pricing supplement, or the accompanying product supplement.

If a market disruption event occurs with respect to the EEM Fund, the Calculation Agent will have discretion to adjust the closing price of the EEM Fund on the final Valuation Date or to determine it in a different manner as described in “General Terms of the Notes—Market Disruption Events” beginning on page PS-25 in the accompanying product prospectus supplement.

On May 30, 2008, the MSCI Global Standard Indices (which included the EEM Fund) transitioned to the MSCI Global Investable Market Indices, which—as well as MSCI Global Standard Indices—are part of MSCI International Equity Indices. Information about this new methodology can be found at:

[http://www.msci.com/eqb/methodology/meth\\_docs/MSCI\\_Nov13\\_GIMIMethod.pdf](http://www.msci.com/eqb/methodology/meth_docs/MSCI_Nov13_GIMIMethod.pdf).

We are not incorporating by reference the website or any material it includes into this pricing supplement, or the accompanying product supplement.

### **Investment Objective and Strategy**

The EEM Fund seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of publicly traded securities in emerging markets, as represented by the index. The EEM Fund’s investment objective and the index may be changed at any time. The return on your notes is linked to the performance of the EEM Fund, and not to the performance of the MSCI Emerging Markets Index on which the EEM Fund is based. Although the EEM Fund seeks results that correspond generally to the performance of the index, the EEM Fund follows a strategy of “representative sampling,” which means the EEM Fund’s holdings do not identically correspond to the holdings and weightings of the index, and may significantly diverge from the index. Although the EEM Fund generally invests at least 90% of its assets in some of the same securities as those contained in the index and in depositary receipts representing the same securities as those contained in the index, it does not hold all of the securities underlying the index and may invest the remainder in securities that are not contained in the index, or in other types of investments. Currently, the EEM Fund holds substantially fewer securities than the index. Additionally, when the EEM Fund purchases securities not held by the index, the EEM Fund may be exposed to additional risks, such as counterparty credit risk or liquidity risk, to which the index components are not exposed. Therefore, your investment in the EEM Fund will not directly track the performance of the underlying index and there may be significant variation between the performance of the EEM Fund and the index on which it is based.

The following tables display the top holdings and weighting by sector and country of the EEM Fund as of December 5, 2013.

<b><u>Country:</u></b>	<b><u>Percentage</u></b>
	(%)*
Brazil	10.70%
China	19.61%
India	6.24%
Korea, Republic Of	15.93%
Malaysia	3.85%
Mexico	5.29%
Russian Federation	5.82%

South Africa	7.00%
Taiwan, Province Of China	11.47%
Thailand	2.40%
Other	11.69%



Sector**	<b><u>Percentage</u></b> (%)*
Consumer Discretionary	8.78%
Consumer Staples	8.60%
Energy	11.35%
Financials	26.96%
Health Care	1.58%
Industrials	6.55%
Information Technology	15.66%
Materials	9.55%
Telecommunication Services	7.37%
Utilities	3.33%
Other	0.26%

---

\*Information obtained from [http://us.ishares.com/product\\_info/fund/overview/EEM.htm](http://us.ishares.com/product_info/fund/overview/EEM.htm) without independent verification. A complete list of component stocks may be found at [http://us.ishares.com/product\\_info/fund/holdings/EEM.htm](http://us.ishares.com/product_info/fund/holdings/EEM.htm). Percentages may not sum to 100% due to rounding.

\*\*Sector designations are determined by the EEM Fund investment advisor using criteria it has selected or developed. Fund advisors or index sponsors may use very different standards for determining sector designations. In addition, many companies operate in a number of sectors, but are listed in only one sector and the basis on which that sector is selected may also differ. As a result, sector comparisons between funds or indices with different fund advisors or index sponsors, respectively, may reflect differences in methodology as well as actual differences in the sector composition of the indices

### **Representative Sampling**

BFA uses a representative sampling strategy to track the MSCI Emerging Markets Index. Representative sampling is an indexing strategy that involves investing in a representative sample of securities that collectively has an investment profile similar to the underlying index. The securities selected are expected to have, in the aggregate, investment characteristics (based on factors such as market capitalization and industry weightings), fundamental characteristics (such as return variability and yield) and liquidity measures similar to those of the underlying index. The EEM Fund may or may not hold all of the securities that are included in the underlying index.

### **Correlation**

The index is a theoretical financial calculation while the EEM Fund is an actual investment portfolio. The performance of the EEM Fund and the index will vary somewhat due to transaction costs, foreign currency valuations, asset valuations, corporate actions (such as mergers and spin-offs), timing variances and differences between the EEM Fund's portfolio and the index resulting from legal restrictions (such as diversification requirements that apply to the EEM Fund but not to the index) or representative sampling. A figure of 100% would indicate perfect correlation. Any correlation of less than 100% is called "tracking error." The EEM Fund, using representative sampling, can be expected to have a greater tracking error than an index fund using a replication indexing strategy. "Replication" is a strategy in which a fund invests in substantially all of the securities in its underlying index in approximately the same proportions as in the underlying index. The annualized performance difference between the index and the EEM Fund measured from the inception of the fund to December 6, 2013 is 0.41%.

### **Industry Concentration Policy**

The EEM Fund will concentrate its investments (i.e., hold 25% or more of its total assets in the stocks of a particular industry or group of industries), approximately the same extent that the MSCI Emerging Markets Index is concentrated.

### **Creation Units**

The EEM Fund issues and redeems shares at its net asset value per share only in blocks of 450,000 shares or multiples thereof ("Creation Units"). As a practical matter, only institutions or large investors purchase or redeem Creation Units. These transactions are usually effected in exchange for a basket of securities similar to the EEM Fund's portfolio and an amount of cash. Except when aggregated in Creation Units, shares of the EEM Fund are not redeemable securities. Redemptions of Creation Units may cause temporary dislocations in tracking errors.

## Share Prices

The approximate value of one share of the EEM Fund is disseminated every fifteen seconds throughout the trading day by the national securities exchange on which the EEM Fund is listed or by other information providers or market data vendors. This approximate value should not be viewed as a “real-time” update of the net asset value, because the approximate value may not be calculated in the same manner as the net asset value, which is computed once a day. The approximate value generally is determined by using current market quotations and/or price quotations obtained from broker-dealers that may trade in the portfolio securities held by the EEM Fund. The EEM Fund is not involved in, or responsible for, the calculation or dissemination of the approximate value and makes no warranty as to its accuracy.

## The MSCI Emerging Markets Index

The information below is included only to give insight to the underlying index, the performance of which the EEM Fund attempts to mirror. Your notes are linked to the performance of the index and not to the underlying index and the EEM Fund may not hold the same securities as the index, and the holdings may diverge substantially.

The MSCI Emerging Markets Index is a stock index calculated, published and disseminated daily by MSCI Inc., which we refer to as “MSCI”, through numerous data vendors, on the MSCI website and in real time on Bloomberg Financial Markets and Reuters Limited.

On May 30, 2008, the MSCI Global Standard Indices (which included MSCI Emerging Markets Index) transitioned to the MSCI Global Investable Markets Indices, which — as well as MSCI Global Standard Indices — are part of MSCI International Equity Indices and the methodology of which is described below.

Additional information about the MSCI Global Investable Market Indices is available on the following website: <http://www.msci.com/products/indices/size/>. We are not incorporating by reference the website or any material it includes into this Pricing Supplement, or the accompanying Product Supplement.

*Index Calculation.* The MSCI Emerging Markets Index is intended to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index with a base date of December 31, 1987 and an initial value of 100.00. The MSCI Emerging Markets Index is calculated daily in U.S. dollars and published in real time every 60 seconds during market trading hours. The MSCI Emerging Markets Index is part of the MSCI Regional Equity Indices series and is an MSCI Global Investable Market Index, which is a family within the MSCI International Equity Indices.

Prices used to calculate the value of the component securities in the index are the official exchange closing prices or prices accepted as such in the relevant market. In the event of a market disruption resulting in any component security price to be unavailable, MSCI will generally use the last reported price for such component security for the purpose of performance calculation. In general, all prices are taken from the main stock exchange in each market. Closing prices are converted into U.S. dollars using the closing exchange rates calculated by WM/Reuters at 4:00 P.M. London Time.

Neither we nor any of our affiliates make any representation to you as to the performance of the EEM fund. The actual performance of the EEM fund over the life of the notes, as well as the amount payable at maturity, may bear little relation to the historical EEM fund prices shown below.

P-24

**Historical Information**

The following table sets forth the quarterly high and low closing prices for the Reference Asset, based on daily closing prices. The closing price of the Reference Asset on December 6, 2013 was \$41.94. *Past performance of the Reference Asset is not indicative of the future performance of the Reference Asset.*

**Quarter Begin Quarter End Quarterly High (\$) Quarterly Low (\$) Quarterly Close (\$)**

1/4/2010	3/31/2010	43.20	36.81	42.10
4/1/2010	6/30/2010	43.96	36.14	37.30
7/1/2010	9/30/2010	44.75	37.57	44.75
10/1/2010	12/31/2010	48.55	44.75	47.62
1/3/2011	3/31/2011	48.69	44.63	48.69
4/1/2011	6/30/2011	50.21	45.50	47.60
7/1/2011	9/30/2011	48.46	34.95	35.07
10/3/2011	12/30/2011	42.80	34.36	37.94
1/3/2012	3/30/2012	44.76	38.23	42.94
4/2/2012	6/29/2012	43.54	36.68	39.19
7/2/2012	9/28/2012	42.37	37.42	41.32
10/3/2012	12/31/2012	44.35	40.14	44.35
1/1/2013	3/31/2013	45.20	41.80	42.78
4/1/2013	6/30/2013	44.23	36.63	38.57
7/1/2013	9/30/2013	43.29	37.34	40.77
10/1/2013*	12/6/2013	43.66	40.72	41.94

As of the date of this pricing supplement, available information for the fourth calendar quarter of 2013 includes data \*for December 6, 2013. Accordingly, the “Quarterly High,” “Quarterly Low” and “Quarterly Close” data indicated are for this shortened period only and do not reflect complete data for the fourth calendar quarter of 2013.

The graph below illustrates the performance of the Reference Asset from January 1, 2004 through December 6, 2013. The dotted line represents the Buffer Level of 37.746, which is equal to 90.00% of the closing price of the Reference Asset on December 6, 2013. ***Past performance of the Reference Asset is not indicative of the future performance of the Reference Asset.***

We obtained the information regarding the historical performance of the Reference Asset in the tables and graph above from Bloomberg Financial Markets.

We make no representation or warranty as to the accuracy or completeness of the information obtained from Bloomberg Financial Markets and have not undertaken an independent review or due diligence of the information. The historical performance of the Reference Asset should not be taken as an indication of its future performance, and no assurance can be given as to the Final Price of the Reference Asset. We cannot give you assurance that the performance of the Reference Asset will result in any positive return on your initial investment.

### **Supplemental Plan of Distribution (Conflicts of Interest)**

Scotia Capital (USA) Inc. or one of our affiliates will purchase the Notes at the Principal Amount and, as part of the distribution of the Notes, will sell the Notes to Goldman, Sachs & Co. at a discount and underwriting commissions of \$1 per \$1,000 Principal Amount of Notes in connection with the distribution of the Notes. The underwriting commission set forth on the cover page of this pricing supplement per \$1,000 face amount is comprised of \$1 of underwriting fees and \$1 of selling commission, to be set on the Trade Date. In accordance with the terms of a distributor accession letter, Goldman, Sachs & Co. has been appointed as a distribution agent under the distribution agreement and may purchase Notes from The Bank of Nova Scotia or its affiliates. Scotia Capital (USA) Inc. will also receive a structuring and development fee of up to \$0.50 per \$1,000 Principal Amount of Notes.

In addition, Scotia Capital (USA) Inc. or another of its affiliates or agents may use the product prospectus supplement to which this pricing supplement relates in market-making transactions after the initial sale of the Notes. While Scotia Capital (USA) Inc. may make markets in the Notes, it is under no obligation to do so and may discontinue any market-making activities at any time without notice. See the sections titled “Supplemental Plan of Distribution” in the accompanying prospectus supplement and product prospectus supplement.

The price at which you purchase the Notes includes costs that the Bank or its affiliates expect to incur and profits that the Bank or its affiliates expect to realize in connection with hedging activities related to the Notes, as set forth above. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the Notes. As a result, you may experience an immediate and substantial decline in the market value of your Notes on the Issue Date.

We expect that delivery of the Notes will be made against payment therefor on or about the 5th Business Day following the date of pricing of the Notes (this settlement cycle being referred to as “T+5”). Under Rule 15c6-1 of the Securities and Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the Trade Date will be required, by virtue of the fact that each Note initially will settle in 5 Business Days (T+5), to specify alternative settlement arrangements to prevent a failed settlement.

### **Conflicts of Interest**

Each of Scotia Capital (USA) Inc., and Scotia Capital Inc. is an affiliate of the Bank and, as such, has a “conflict of interest” in this offering within the meaning of FINRA Rule 5121. In addition, the Bank will receive the gross proceeds from the initial public offering of the Notes, thus creating an additional conflict of interest within the meaning of Rule 5121. Consequently, the offering is being conducted in compliance with the provisions of Rule 5121. Neither Scotia Capital (USA) Inc. nor Scotia Capital Inc. is permitted to sell Notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

Scotia Capital (USA) Inc., Goldman, Sachs & Co., and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Scotia Capital (USA) Inc., Goldman, Sachs & Co., and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Bank, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, Scotia Capital (USA) Inc., Goldman, Sachs & Co., and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Bank. Scotia Capital (USA) Inc., Goldman, Sachs & Co., and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.



## **Certain Canadian Income Tax Consequences**

See “Certain Income Tax Consequences—Certain Canadian Income Tax Considerations” at page S-37 of the Prospectus Supplement dated August 8, 2013.

## **CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The U.S. federal income tax consequences of your investment in the Notes are uncertain. No statutory, judicial or administrative authority directly discusses how the Notes should be treated for U.S. federal income tax purposes. We intend to treat the Notes as pre-paid cash-settled derivative contracts. Pursuant to the terms of the Notes, you agree to treat the Notes in this manner for all U.S. federal income tax purposes. If your Notes are so treated, you should generally recognize capital gain or loss upon the sale, exchange, redemption or payment on maturity in an amount equal to the difference between the amount you receive at such time and the amount that you paid for your Notes. Such gain or loss should generally be long-term capital gain or loss if you have held your Notes for more than one year.

For a more detailed discussion of the United States federal income tax consequences with respect to your Notes, you should carefully consider the discussion set forth in “Supplemental Discussion of U.S. Federal Income Tax Consequences” in the accompanying product prospectus supplement and the discussion set forth in “United States Taxation” of the accompanying prospectus. In particular, U.S. holders should review the discussion set forth in “Supplemental Discussion of U.S. Federal Income Tax Consequences—Supplemental U.S. Tax Considerations—U.S. Holders” in the product prospectus supplement and non-U.S. holders should review the discussion set forth in “Supplemental Discussion of U.S. Federal Income Tax Consequences—Supplemental U.S. Tax Considerations—Non-U.S. Holders” in the product prospectus supplement. U.S. holders should also review the discussion under “—Treasury Regulations Requiring Disclosure of Reportable Transactions”, “—Information With Respect to Foreign Financial Assets” and “—Backup Withholding and Information Reporting” under “United States Taxation” in the prospectus.

We will not attempt to ascertain whether the issuer of any of the Reference Asset's underlying assets would be treated as a “passive foreign investment company” within the meaning of Section 1297 of the Code or a “United States real property holding corporation” within the meaning of Section 897 of the Code. If the issuer of one or more of such stocks were so treated, certain adverse U.S. federal income tax consequences could possibly apply. You should refer to any available information filed with the SEC by the issuers of the Reference Asset's underlying assets and consult your tax advisor regarding the possible consequences to you in this regard.

In this regard and in regard to a potential application of the “constructive ownership” rules, U.S. holders should review the discussion set forth in “Supplemental Discussion of U.S. Federal Income Tax Consequences—Supplemental U.S. Tax Considerations—U.S. Holders” in the product prospectus supplement.

Because other characterizations and treatments are possible the timing and character of income in respect of the Notes might differ from the treatment described above. You should carefully review the discussion set forth in “Alternative Treatments” in the product prospectus supplement for the possible tax consequences of different characterizations or treatment of your Notes for U.S. federal income tax purposes. It is possible, for example, that the Internal Revenue Service (“IRS”) might treat the Notes as a single debt instrument subject to the special tax rules governing contingent payment debt instruments. Alternatively, the IRS may treat the Notes as a series of derivative contracts, each of which matures on the next rebalancing date of the Reference Asset, in which case you would be treated as disposing of the Notes on each rebalancing date in return for a new derivative contract that matures on the next rebalancing date, and you would recognize capital gain or loss on each rebalancing date.

The IRS has also issued a notice that may affect the taxation of the Notes. According to the notice, the IRS and the Treasury Department are actively considering whether the holder of an instrument such as the Notes should be required to accrue ordinary income on a current basis, and they are seeking comments on the subject. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the Notes will ultimately be required to accrue ordinary income currently and this could be applied on a retroactive basis. Holders are urged to consult their tax advisors concerning the significance, and the potential impact, of the above considerations. We intend to treat the Notes for U.S. federal income tax purposes in accordance with the treatment described above unless and until such time as the Treasury Department and the IRS determine that some other treatment is more appropriate.

*Foreign Account Tax Compliance Act.* Sections 1471 through 1474 of the Code (which are commonly referred to as “FATCA”) generally impose a 30% withholding tax on certain payments, including “pass-thru” payments to certain persons if the payments are attributable to assets that give rise to U.S.-source income or gain. Pursuant to recently issued final Treasury regulations and administrative guidance, this withholding tax would not be imposed on payments pursuant to obligations that are outstanding on July 1, 2014 (and are not materially modified after June 30, 2014). Accordingly, FATCA withholding generally is not expected to be required on the Notes. If, however, withholding is required as a result of future guidance, we (and any paying agent) will not be required to pay additional amounts with respect to the amounts so withheld.

Significant aspects of the application of FATCA are not currently clear and Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES TO THEM OF ACQUIRING, HOLDING AND DISPOSING OF NOTES AND RECEIVING PAYMENTS UNDER THE NOTES.