



First Quarter 2017 Financial and Operational Reporting Package

May 4, 2017



EP ENERGY CORPORATION
Financial and Operational Reporting Package
First Quarter 2017

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NOTES TO INVESTORS

Cautionary Statement

This Financial and Operational Reporting Package (Package) includes summarized financial and other information about EP Energy Corporation ("EP Energy" or the "Company"). The information in this Package is intended to provide highlights and should not be used as a substitute for financial information in EP Energy's filings with the Securities and Exchange Commission (SEC). Readers should refer to those filings. In addition, the glossary contains certain definitions of non-GAAP measures used in this Package and in other presentations we provide. These non-GAAP definitions may not be the same as definitions used by other companies. This Package may contain information that is based on estimates. The Company has made every reasonable effort to ensure that the information and assumptions on which these estimates are based are current, reasonable and complete. Factors that could cause actual results to differ materially from the estimates in this Package are changes in unaudited and/or unreviewed financial information and the effects of any changes in accounting rules and guidance, as well as other factors discussed in EP Energy's filings with the SEC. The financial data and statistics in this Package for the First Quarter 2017 reflect the operating results of EP Energy through March 31, 2017. Independent auditors have not audited this Package. The Company assumes no obligation to publicly update or revise any information contained herein as a result of new information, future events, or otherwise.

Non-GAAP Financial Measures

The SEC's Regulation G applies to any public disclosure or release of material information that includes a non-GAAP financial measure. In this Package, these measures include EBITDAX, Adjusted EBITDAX, Adjusted EBITDAX Per Unit, Adjusted Earnings Per Share (EPS), Adjusted Cash Operating Costs, Free Cash Flow, and Net Debt. In the event of such a disclosure or release, Regulation G requires (i) the presentation of the most directly comparable financial measure calculated and presented in accordance with GAAP and (ii) a reconciliation of the differences between the non-GAAP financial measure presented and the most directly comparable financial measure calculated and presented in accordance with GAAP. The required presentations and reconciliations are included in the body of this Package.

EP Energy believes that the non-GAAP financial measures described in the glossary are useful to investors because these measurements are used by many companies in the industry as a measure of operating and financial performance and are commonly employed by financial analysts and others to evaluate the operating and financial performance of the Company and to compare it with the performance of other companies within the industry. These non-GAAP financial measures may not be comparable to similarly titled measures used by other companies and should not be used as a substitute for net income (loss), earnings (loss) per share, operating income (loss), operating or investing cash flows, debt, or other measures of financial performance, liquidity or financial position, presented in accordance with GAAP.

Additional Information

In May 2016, we completed the sale of all our assets located in the Haynesville and Bossier shales. The 2016 financial information presented in this package includes the Haynesville/Bossier financial results. We have provided the Appendix section of this package (pages 12-13) giving pro-forma effect on various metrics to the divestiture of these assets.

EP ENERGY CORPORATION
FINANCIAL HIGHLIGHTS
(unaudited)

	2017	2016			
	Q1	Q1	Q2	Q3	Q4
Net (loss) income (\$ in millions)	(47)	94	62	(43)	(140)
Adjusted EBITDAX (\$ in millions)	172	278	256	250	255
Capital Expenditures (\$ in millions)	152	132	94	146	116
Total Operating Expenses (\$/Boe)	32.01	25.61	16.47	33.95	32.62
Adjusted Cash Operating Costs (\$/Boe)	15.16	12.28	13.85	14.50	14.80
Depreciation, depletion and amortization rate (\$/Boe)	16.99	11.94	12.67	17.97	15.78
Equivalent Sales Volumes (MBoe/d)	82.5	104.0	84.5	79.6	82.5
Oil Sales Volumes (MBbls/d)	46.9	50.8	45.1	45.0	45.7

EP ENERGY CORPORATION
STATEMENTS OF INCOME
(\$ in millions)
(unaudited)

	2017	2016			
	Q1	Q1	Q2	Q3	Q4
Operating revenues					
Oil	\$ 204	\$ 129	\$ 165	\$ 169	\$ 190
Natural gas	30	42	25	27	28
NGLs	23	11	15	16	23
Financial derivatives	70	42	(105)	43	(53)
Total operating revenues	<u>327</u>	<u>224</u>	<u>100</u>	<u>255</u>	<u>188</u>
Operating expenses					
Oil and natural gas purchases	1	4	3	2	1
Transportation costs	29	30	24	27	28
Lease operating expense	40	42	38	37	42
General and administrative ⁽¹⁾	20	38	32	31	45
Depreciation, depletion and amortization	126	113	97	132	120
(Gain) loss on sale of assets	—	—	(82)	4	—
Impairment charges	—	—	—	—	2
Exploration and other expense	3	1	1	1	2
Taxes, other than income taxes	19	14	14	15	7
Total operating expenses	<u>238</u>	<u>242</u>	<u>127</u>	<u>249</u>	<u>247</u>
Operating income (loss)	89	(18)	(27)	6	(59)
(Loss) gain on extinguishment of debt	(53)	196	162	26	—
Interest expense	(83)	(84)	(73)	(74)	(81)
(Loss) income before income taxes	<u>(47)</u>	<u>94</u>	<u>62</u>	<u>(42)</u>	<u>(140)</u>
Income tax expense	—	—	—	1	—
Net (loss) income	<u>\$ (47)</u>	<u>\$ 94</u>	<u>\$ 62</u>	<u>\$ (43)</u>	<u>\$ (140)</u>

(1) Q1 2017, Q1 2016, Q2 2016 and Q4 2016 include less than \$1 million, approximately \$8 million, \$2 million and \$5 million, respectively, of transition and severance costs in each period related to workforce reductions.

EP ENERGY CORPORATION
AVERAGE DAILY VOLUMES, REALIZED PRICES, AND ADJUSTED CASH OPERATING AND OTHER COSTS PER UNIT

	2017		2016			
	Q1		Q1	Q2	Q3	Q4
Oil Sales Volumes (MBbls/d)						
Wolfcamp	11.1		7.0	6.8	9.3	11.4
Eagle Ford	23.9		32.4	27.3	24.0	22.2
Altamont	11.9		11.4	11.0	11.7	12.1
Haynesville	—		—	—	—	—
Total Oil Sales Volumes	46.9		50.8	45.1	45.0	45.7
Natural Gas Sales Volumes (MMcf/d)						
Wolfcamp	54		37	35	40	50
Eagle Ford	41		55	53	50	43
Altamont	32		29	27	31	32
Haynesville	—		111	38	—	—
Total Natural Gas Sales Volumes	127		232	153	121	125
NGLs Sales Volumes (MBbls/d)						
Wolfcamp	7.4		5.3	5.1	6.1	7.7
Eagle Ford	7.0		9.2	8.8	8.3	8.3
Altamont	—		—	—	—	—
Haynesville	—		—	—	—	—
Total NGLs Sales Volumes	14.4		14.5	13.9	14.4	16.0
Equivalent Sales Volumes (MBoe/d)						
Wolfcamp	27.5		18.3	17.6	22.1	27.4
Eagle Ford	37.7		50.8	45.0	40.6	37.7
Altamont	17.3		16.2	15.5	16.8	17.4
Haynesville	—		18.6	6.3	—	—
Other	—		0.1	0.1	0.1	—
Total Equivalent Sales Volumes	82.5		104.0	84.5	79.6	82.5
Average realized prices ⁽¹⁾						
Oil price on physical sales (\$/Bbl)	\$ 48.43	\$	27.89	\$ 40.13	\$ 40.85	\$ 45.23
Oil, including financial derivatives (\$/Bbl) ⁽²⁾	\$ 54.90	\$	72.73	\$ 77.45	\$ 74.97	\$ 74.65
Natural gas price on physical sales (\$/Mcf)	\$ 2.49	\$	1.81	\$ 1.60	\$ 2.24	\$ 2.35
Natural gas, including financial derivatives (\$/Mcf) ⁽²⁾	\$ 2.46	\$	1.99	\$ 1.90	\$ 2.53	\$ 2.55
NGLs price on physical sales (\$/Bbl)	\$ 17.63	\$	8.24	\$ 11.90	\$ 12.02	\$ 15.49
NGLs, including financial derivatives (\$Bbl) ⁽²⁾	\$ 17.76	\$	8.69	\$ 12.06	\$ 12.23	\$ 15.38
Average transportation costs						
Oil (\$/Bbl)	\$ 1.81	\$	1.82	\$ 1.81	\$ 1.92	\$ 1.98
Natural gas (\$/Mcf)	\$ 1.79	\$	0.98	\$ 1.21	\$ 1.70	\$ 1.69
NGLs (\$/Bbl)	\$ 0.27	\$	0.20	\$ 0.23	\$ 0.19	\$ 0.24
Combined (\$/Boe)	\$ 3.84	\$	2.90	\$ 3.19	\$ 3.71	\$ 3.71
Total Operating Expenses (\$/Boe)	\$ 32.01	\$	25.61	\$ 16.47	\$ 33.95	\$ 32.62
Adjusted Cash Operating Costs (\$/Boe)	\$ 15.16	\$	12.28	\$ 13.85	\$ 14.50	\$ 14.80
Depreciation, depletion and amortization rate (\$/Boe)	\$ 16.99	\$	11.94	\$ 12.67	\$ 17.97	\$ 15.78

(1) Oil and natural gas prices on physical sales reflect operating revenues for oil and natural gas reduced by oil and natural gas purchases associated with managing our physical sales.

(2) Prices per unit are calculated using total financial derivative cash settlements and cash premiums.

EP ENERGY CORPORATION
DERIVATIVE SCHEDULE AS OF MARCH 31, 2017

Crude Oil (Volumes in MMBbls)	2017		2018	
	Notional Volume	Average Price ⁽¹⁾	Notional Volume	Average Price ⁽¹⁾
Fixed Price Swaps				
WTI	3.03	\$ 63.94	—	\$ —
Three-Way Collars				
Ceiling - WTI	6.66	\$ 70.37	3.29	\$ 65.00
Floors - WTI ⁽²⁾⁽³⁾	6.66	\$ 60.62	3.29	\$ 60.00

Basis Swaps- Crude Oil (Volumes in MMBbls)				
LLS vs. Brent ⁽⁴⁾	2.75	\$ (3.14)	—	\$ —
Midland vs. Cushing ⁽⁵⁾	1.10	\$ (0.68)	—	\$ —

Natural Gas (Volumes in TBtu)				
Fixed Price Swaps	18	\$ 3.25	18	\$ 3.07
Ceiling	8	\$ 3.67	—	\$ —
Floors	8	\$ 3.35	—	\$ —

NGLs (Volumes in MMGal)				
Fixed Price Swaps- Ethane	46	\$ 0.27	61	\$ 0.30
Fixed Price Swaps- Propane	29	\$ 0.67	—	\$ —

Note: Positions are as of March 31, 2017 (Contract Months: April 2017 - Forward). For additional discussion on our hedge positions, see our Form 10-Q.

- (1) Prices presented are per Bbl of oil, per MMBtu of natural gas and per Gal for NGLs.
- (2) If market prices settle at or below \$46.24 in 2017, we will receive a "locked-in" cash settlement of the market price plus \$14.38 per Bbl.
- (3) If market prices settle at or below \$50.00 in 2018, we will receive a "locked-in" cash settlement of the market price plus \$10.00 per Bbl.
- (4) EP Energy receives Brent plus the basis spread listed and pays LLS. These positions listed do not include Brent vs. LLS basis swaps which offset our 2.75 MBbls LLS vs. Brent with an average of \$(0.46) per barrel of oil.
- (5) EP Energy receives Cushing plus the basis spread listed and pays Midland.

EP ENERGY CORPORATION
RECONCILIATION OF ADJUSTED EBITDAX
(\$ in millions, except equivalent volumes and per unit)
(unaudited)

	2017	2016			
	Q1	Q1	Q2	Q3	Q4
Net (loss) income	\$ (47)	\$ 94	\$ 62	\$ (43)	\$ (140)
Income tax expense	—	—	—	1	—
Interest expense, net of capitalized interest	83	84	73	74	81
Depreciation, depletion and amortization	126	113	97	132	120
Exploration expense	3	1	1	1	2
EBITDAX	<u>165</u>	<u>292</u>	<u>233</u>	<u>165</u>	<u>63</u>
Mark-to-market on financial derivatives ⁽¹⁾	(70)	(42)	105	(43)	53
Cash settlements and cash premiums on financial derivatives ⁽²⁾	28	212	157	145	125
Non-cash portion of compensation expense ⁽³⁾	(4)	4	3	5	7
Transition, restructuring and other costs ⁽⁴⁾	—	8	2	—	5
(Gain) loss on sale of assets	—	—	(82)	4	—
Loss (gain) on extinguishment of debt	53	(196)	(162)	(26)	—
Impairment charges	—	—	—	—	2
Adjusted EBITDAX	<u>\$ 172</u>	<u>\$ 278</u>	<u>\$ 256</u>	<u>\$ 250</u>	<u>\$ 255</u>
Total equivalent volumes (MBoe)	7,426	9,466	7,691	7,326	7,594
Adjusted EBITDAX Per Unit (MBoe) ⁽⁵⁾	<u>\$ 23.10</u>	<u>\$ 29.37</u>	<u>\$ 33.27</u>	<u>\$ 34.18</u>	<u>\$ 33.53</u>

(1) Represents the income statement impact of financial derivatives.

(2) Represents actual cash settlements related to financial derivatives. There were no cash premiums received or paid for the periods presented.

(3) Non-cash portion of compensation expense represents compensation expense (net of forfeitures) under our long-term incentive programs adjusted for cash payments made under these plans.

(4) Reflects transition and severance costs related to workforce reductions.

(5) Adjusted EBITDAX Per Unit is based on actual amounts rather than the rounded totals presented.

EP ENERGY CORPORATION
EARNINGS PER SHARE AND ADJUSTED EARNINGS PER SHARE
(in millions, except earnings per share amounts)
(unaudited)

	2017			2016												
	Q1			Q1			Q2			Q3			Q4			
	Pre Tax	After Tax	Diluted EPS ⁽¹⁾	Pre Tax	After Tax	Diluted EPS ⁽¹⁾	Pre Tax	After Tax	Diluted EPS ⁽¹⁾	Pre Tax	After Tax	Diluted EPS ⁽¹⁾	Pre Tax	After Tax	Diluted EPS ⁽¹⁾	
Net (loss) income	\$	(47)	\$ (0.19)	\$	94	\$ 0.38	\$	62	\$ 0.25	\$	(43)	\$ (0.18)	\$	(140)	\$ (0.57)	
Adjustments ⁽²⁾																
Impact of financial derivatives ⁽³⁾	\$	(42)	\$ (27)	\$ (0.11)	\$	170	\$ 109	\$ 0.44	\$	262	\$ 168	\$ 0.69	\$	102	\$ 65	\$ 0.27
Transition, restructuring and other costs ⁽⁴⁾		—	—	—		8	5	0.02		2	1	0.01		—	—	—
Loss (gain) on extinguishment of debt		53	34	0.14		(196)	(126)	(0.51)		(162)	(104)	(0.42)		(26)	(16)	(0.07)
(Gain) loss on sale of assets		—	—	—		—	—	—		(83)	(53)	(0.22)		4	2	0.01
Impairment charges		—	—	—		—	—	—		—	—	—		—	—	—
Valuation allowance on deferred tax assets			15	0.06			(35)	(0.14)			(24)	(0.10)			16	0.07
Total adjustments	\$	11	\$ 22	\$ 0.09	\$	(18)	\$ (47)	\$ (0.19)	\$	19	\$ (12)	\$ (0.04)	\$	80	\$ 67	\$ 0.28
Adjusted EPS			<u>\$ (0.10)</u>			<u>\$ 0.19</u>		<u>\$ 0.21</u>			<u>\$ 0.10</u>				<u>\$ 0.12</u>	
Diluted weighted average shares ⁽⁵⁾			<u>245</u>			<u>248</u>		<u>245</u>			<u>245</u>				<u>247</u>	

(1) Diluted per share amounts are based on actual amounts rather than the rounded totals presented.

(2) All individual adjustments for all periods presented assume a statutory federal and blended state tax rate, as well as any other income tax effects specifically attributable to that item.

(3) Represents mark-to-market impact net of cash settlements and cash premiums related to financial derivatives. There were no cash premiums received or paid for the periods presented.

(4) Reflects transition and severance costs related to workforce reductions.

(5) Diluted shares include certain restricted stock and performance unit awards.

EP ENERGY CORPORATION
RECONCILIATION OF ADJUSTED CASH OPERATING COSTS
(unaudited)

	2017				2016					
	Q1		Q1		Q2		Q3		Q4	
	Total (\$MM)	Per-Unit (\$/Boe) ⁽¹⁾	Total (\$MM)	Per-Unit (\$/Boe) ⁽¹⁾	Total (\$MM)	Per-Unit (\$/Boe) ⁽¹⁾	Total (\$MM)	Per-Unit (\$/Boe) ⁽¹⁾	Total (\$MM)	Per-Unit (\$/Boe) ⁽¹⁾
Oil and natural gas purchases	\$ 1	\$ 0.15	\$ 4	\$ 0.46	\$ 3	\$ 0.38	\$ 2	\$ 0.25	\$ 1	\$ 0.17
Transportation costs	29	3.84	30	3.11	24	3.19	27	3.71	28	3.71
Lease operating expense	40	5.37	42	4.38	38	4.93	37	5.13	42	5.59
General and administrative	20	2.66	38	4.04	32	4.20	31	4.21	45	5.85
Depreciation, depletion and amortization	126	16.99	113	11.94	97	12.67	132	17.97	120	15.78
(Gain) loss on sale of assets	—	—	—	—	(82)	(10.77)	4	0.53	—	—
Impairment charges	—	—	—	—	—	—	—	—	2	0.21
Exploration and other expense	3	0.39	1	0.13	1	0.12	1	0.21	2	0.23
Taxes, other than income taxes	19	2.61	14	1.55	14	1.75	15	1.94	7	1.08
Total operating expenses	\$ 238	\$ 32.01	\$ 242	\$ 25.61	\$ 127	\$ 16.47	\$ 249	\$ 33.95	\$ 247	\$ 32.62
Adjustments:										
Depreciation, depletion and amortization	\$ (126)	\$ (16.99)	\$ (113)	\$ (11.94)	\$ (97)	\$ (12.67)	\$ (132)	\$ (17.97)	\$ (120)	\$ (15.78)
Impairment charges	—	—	—	—	—	—	—	—	(2)	(0.21)
Gain (loss) on sale of assets	—	—	—	—	82	10.77	(4)	(0.53)	—	—
Exploration expense	(3)	(0.39)	(1)	(0.13)	(1)	(0.12)	(1)	(0.21)	(2)	(0.23)
Non-cash portion of compensation expense	4	0.53	(4)	(0.43)	(3)	(0.35)	(5)	(0.74)	(7)	(0.89)
Transition, restructuring and other costs	—	—	(8)	(0.83)	(2)	(0.25)	—	—	(5)	(0.71)
Adjusted cash operating costs and per-unit adjusted cash costs	\$ 113	\$ 15.16	\$ 116	\$ 12.28	\$ 106	\$ 13.85	\$ 107	\$ 14.50	\$ 111	\$ 14.80
Total consolidated equivalent volumes (MBoe)		<u>7,426</u>		<u>9,466</u>		<u>7,691</u>		<u>7,326</u>		<u>7,594</u>

(1) Per unit costs are based on actual amounts rather than the rounded totals presented.

EP ENERGY CORPORATION
FREE CASH FLOW
(\$ in millions)
(unaudited)

	2017	
	Q1	
Net cash provided by operating activities	\$	117
Cash paid for capital expenditures		119
Free Cash Flow	\$	(2)
Net cash used in investing activities	\$	(119)
Net cash provided by financing activities	\$	17

GLOSSARY

This contains a glossary of terms used in this Package as well as those used in other investor presentations and press releases. They are for non-GAAP reference only and may not be comparable to similarly titled non-GAAP measures used at other companies.

NON-GAAP FINANCIAL MEASURES

EBITDAX, Adjusted EBITDAX and Adjusted EBITDAX Per Unit

EBITDAX is defined as net income (loss) plus interest and debt expense, income taxes, depreciation, depletion and amortization and exploration expense. Adjusted EBITDAX is defined as EBITDAX, adjusted as applicable in the relevant period for the net change in the fair value of derivatives (mark-to-market effects of financial derivatives, net of cash settlements and cash premiums related to these derivatives), the non-cash portion of compensation expense (which represents non-cash compensation expense under our long-term incentive programs adjusted for cash payments made under these plans), transition, restructuring and other costs that affect comparability, gains and losses on extinguishment of debt, gains and/or losses on sales of assets and impairment charges. Adjusted EBITDAX Per Unit is calculated using Adjusted EBITDAX divided by equivalent volumes.

EBITDAX, Adjusted EBITDAX and Adjusted EBITDAX Per Unit are used by management and we believe provide investors with additional information (i) to evaluate our ability to service debt adjusting for items required or permitted in calculating covenant compliance under our debt agreements, (ii) to provide an important supplemental indicator of the operational performance of our business without regard to financing methods and capital structure, (iii) for evaluating our performance relative to our peers, (iv) to measure our liquidity (before cash capital requirements and working capital needs) and (v) to provide supplemental information about certain material non-cash and/or other items that may not continue at the same level in the future.

EBITDAX, Adjusted EBITDAX and Adjusted EBITDAX Per Unit have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our results as reported under U.S. GAAP or as an alternative to net income (loss), operating income (loss), operating cash flows or other measures of financial performance or liquidity presented in accordance with GAAP. Our presentation of EBITDAX, Adjusted EBITDAX and Adjusted EBITDAX Per Unit may not be comparable to similarly titled measures used by other companies in our industry. Furthermore, our presentation of EBITDAX, Adjusted EBITDAX and Adjusted EBITDAX Per Unit should not be construed as an inference that our future results will be unaffected by the items noted above or what we believe to be other unusual items, or that in the future we may not incur expenses that are the same as or similar to some of the adjustments in this presentation.

The information above also applies to Pro-Forma EBITDAX, Adjusted EBITDAX and Adjusted EBITDAX per Unit included in the Appendix of this package.

Adjusted General and Administrative Expenses

Adjusted general and administrative expenses are defined as general and administrative expenses excluding the non-cash portion of compensation expense which represents compensation expense under our long-term incentive programs adjusted for cash payments under these plans. This non-GAAP measure is used by management and investors as additional information as noted above and is subject to the same limitations of analytical tools and should not be considered as a GAAP substitute as noted above. For 2017, we expect GAAP general and administrative expenses between approximately \$3.95 per Boe - \$4.35 per Boe which includes approximately \$0.80 per Boe - \$0.95 per Boe of non-cash compensation expense.

Adjusted EPS

Adjusted EPS is defined as diluted earnings per share adjusted for certain items that the Company considers to be significant to understanding our underlying performance for a given period. Adjusted EPS is useful in analyzing the Company's ongoing earnings potential and understanding certain significant items impacting the comparability of the Company's results. Adjusted EPS is calculated as net income (loss) per common share adjusted for the impact of financial derivatives (mark-to-market effects of financial derivatives, net of cash settlements and cash premiums related to these derivatives), gains and losses on extinguishment of debt, gains and losses on sales of assets, impairment charges, other costs that affect comparability, including transition and restructuring charges and changes in the valuation allowance on deferred tax assets. We believe Adjusted EPS is a valuable measure of operating performance; however, this measure may not be comparable to similarly titled measures used by other companies and is subject to several of the same limitations as analytical tools as noted in the paragraphs above.

Adjusted Cash Operating Costs

Adjusted cash operating costs is a non-GAAP measure that is defined as total operating expenses, excluding depreciation, depletion and amortization expense, exploration expense, impairment charges, gains and/or losses on sales of assets, the non-cash portion of compensation expense (which represents compensation expense under our long-term incentive programs adjusted for cash payments made under these plans) and transition, restructuring and other costs that affect comparability. We use this measure to describe the costs required to directly or indirectly operate our existing assets and produce and sell our oil and natural gas, including the costs associated with the delivery and purchases and sales of produced commodities. Accordingly, we exclude depreciation, depletion, and amortization and impairment charges as such costs are non-cash in nature. We exclude exploration expense from our measure as it is substantially non-cash in nature and is not related to the costs to operate our existing assets. Similarly, gains and losses on the sale of assets are excluded as they are unrelated to the operation of our assets. We exclude the non-cash portion of compensation expense as well as transition, restructuring and other costs that affect comparability, as we believe such adjustments allow investors to evaluate our costs against others in our industry and these items can vary across companies due to different ownership structures, compensation objectives or the occurrence of transactions. Adjusted cash operating costs is used by management as a performance measure, and we believe provides investors valuable information related to our operating performance and our operating efficiency relative to other industry participants and comparatively over time across our historical results. However, this measure may not be comparable to similarly titled measures used by other companies, are subject to limitations as analytical tools, and should not be considered in isolation as a substitute for analysis of our results as reported under U.S. GAAP or as an alternative to operating expenses, operating cash flows or other measures of financial performance or liquidity presented in accordance with GAAP.

The information above also applies to Pro-Forma adjusted cash operating costs included in the Appendix of this package.

Free Cash Flow

Free Cash Flow is a non-GAAP measure defined as net cash provided by operating activities less cash paid for capital expenditures. Free Cash Flow is used by management and we believe provides investors with useful information for analysis of the company's ability to internally fund capital expenditures and to service or incur additional debt. This measure may not be comparable to similarly titled measures used by other companies and is subject to several of the same limitations as analytical tools as noted in the paragraphs above.

Net Debt

Net Debt is a non-GAAP measure defined as long-term debt less cash and cash equivalents. At March 31, 2016, the company's net debt was approximately \$3.9 billion (total debt of approximately \$3,921 million less cash and cash equivalents of approximately \$35 million). At December 31, 2016, the company's net debt was approximately \$3.8 billion (total debt of approximately \$3,856 million less cash and cash equivalents of approximately \$20 million).

We believe Net Debt provides useful information to investors for analysis of the Company's financial position and/or liquidity; however, this measure may not be comparable to similarly titled measures used by other companies and is subject to several of the same limitations as analytical tools as noted in the paragraphs above. Net Debt should not be considered in isolation as a substitute to long-term debt as reported under U.S. GAAP or as an alternative to other measures of financial position or liquidity presented in accordance with GAAP.

APPENDIX

Note: The following Adjusted EBITDAX and Adjusted Cash Operating Cost tables below are presented on a pro-forma basis to give effect to the divestiture of the Haynesville Shale in May 2016 for approximately \$420 million in cash (with net proceeds of approximately \$388 million after customary adjustments). See page 6 for the reconciliation of Adjusted EBITDAX on actual results and page 8 for the adjusted cash operating and other costs per unit on actual results.

RECONCILIATION OF ADJUSTED EBITDAX (PRO-FORMA) (\$ in millions, except equivalent volumes and per unit) (unaudited)

	2016			
	Q1	Q2	Q3	Q4
Net income (loss)	\$ 100	\$ (24)	\$ (39)	\$ (140)
Income tax expense	—	—	1	—
Interest expense, net of capitalized interest	84	73	74	81
Depreciation, depletion and amortization	97	97	132	120
Exploration expense	1	1	1	2
EBITDAX	282	147	169	63
Mark-to-market on financial derivatives ⁽¹⁾	(42)	105	(43)	53
Cash settlements and cash premiums on financial derivatives ⁽²⁾	212	157	145	125
Non-cash portion of compensation expense ⁽³⁾	4	3	5	7
Transition, restructuring and other costs ⁽⁴⁾	6	2	—	5
Loss on sale of assets	—	1	—	—
Gain on extinguishment of debt	(196)	(162)	(26)	—
Impairment charges	—	—	—	2
Adjusted EBITDAX	\$ 266	\$ 253	\$ 250	\$ 255
Total equivalent volumes (MBoe)	7,778	7,118	7,321	7,600
Adjusted EBITDAX Per Unit (MBoe) ⁽⁵⁾	\$ 34.14	\$ 35.55	\$ 34.17	\$ 33.50

(1) Represents the income statement impact of financial derivatives.

(2) Represents actual cash settlements related to financial derivatives. There were no cash premiums received or paid for the period presented.

(3) Non-cash portion of compensation expense represents compensation expense (net of forfeitures) under our long-term incentive programs adjusted for cash payments made under these plans.

(4) Reflects transition and severance costs related to workforce reductions.

(5) Adjusted EBITDAX Per Unit is based on actual amounts rather than the rounded totals presented.

ADJUSTED CASH OPERATING AND OTHER COSTS PER UNIT (PRO-FORMA)

	2016			
	Q1	Q2	Q3	Q4
Average transportation costs				
Oil (\$/Bbl)	\$ 1.82	\$ 1.81	\$ 1.92	\$ 1.98
Natural gas (\$/Mcf)	\$ 1.44	\$ 1.43	\$ 1.71	\$ 1.69
NGLs (\$/Bbl)	\$ 0.20	\$ 0.23	\$ 0.19	\$ 0.24
Combined (\$/Boe)	\$ 3.16	\$ 3.20	\$ 3.72	\$ 3.71
Total Operating Expenses (\$/Boe)	\$ 27.50	\$ 28.70	\$ 33.40	\$ 32.59
Adjusted Cash Operating Costs (\$/Boe)	\$ 13.60	\$ 14.24	\$ 14.52	\$ 14.79

**RECONCILIATION OF ADJUSTED CASH OPERATING COSTS (PRO-FORMA)
2016**

	Q1		Q2		Q3		Q4	
	Total (\$MM)	Per-Unit (\$/Boe) ⁽¹⁾	Total (\$MM)	Per-Unit (\$/Boe) ⁽¹⁾	Total (\$MM)	Per-Unit (\$/Boe) ⁽¹⁾	Total (\$MM)	Per-Unit (\$/Boe) ⁽¹⁾
Oil and natural gas purchases	\$ 2	\$ 0.25	\$ 1	\$ 0.10	\$ 2	\$ 0.25	\$ 1	\$ 0.17
Transportation costs	25	3.16	22	3.20	27	3.73	28	3.71
Lease operating expense	41	5.24	38	5.28	37	5.13	42	5.59
General and administrative	35	4.52	31	4.42	31	4.15	45	5.84
Depreciation, depletion and amortization	97	12.50	97	13.69	132	17.98	120	15.76
Loss on sale of assets	—	—	1	0.05	—	—	—	—
Impairment charges	—	—	—	—	—	—	2	0.21
Exploration and other expense	1	0.14	1	0.12	1	0.21	2	0.23
Taxes, other than income taxes	13	1.69	14	1.84	15	1.95	7	1.08
Total operating expenses	\$ 214	\$ 27.50	\$ 205	\$ 28.70	\$ 245	\$ 33.40	\$ 247	\$ 32.59
Adjustments:								
Depreciation, depletion and amortization	\$ (97)	\$ (12.50)	\$ (97)	\$ (13.69)	\$ (132)	\$ (17.98)	\$ (120)	\$ (15.76)
Impairment charges	—	—	—	—	—	—	(2)	(0.21)
Loss on sale of assets	—	—	(1)	(0.05)	—	—	—	—
Exploration expense	(1)	(0.14)	(1)	(0.12)	(1)	(0.21)	(2)	(0.23)
Non-cash portion of compensation expense	(4)	(0.52)	(3)	(0.38)	(5)	(0.69)	(7)	(0.89)
Transition, restructuring and other costs	(6)	(0.74)	(2)	(0.22)	—	—	(5)	(0.71)
Adjusted cash operating costs and per-unit adjusted cash costs	\$ 106	\$ 13.60	\$ 101	\$ 14.24	\$ 107	\$ 14.52	\$ 111	\$ 14.79
Total consolidated equivalent volumes (MBoe)	<u>7,778</u>		<u>7,118</u>		<u>7,321</u>		<u>7,600</u>	

(1) Per unit costs are based on actual amounts rather than the rounded totals presented.