



# Tallgrass Energy Adjusted EBITDA

February 13, 2018



# Non-GAAP Measures

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Adjusted EBITDA and Distributable Cash Flow are non-GAAP supplemental financial measures that TEP management and external users of our consolidated financial statements and financial statements of our subsidiaries and unconsolidated investments, such as industry analysts, investors, lenders and rating agencies, may use to assess:

- our operating performance as compared to other publicly traded partnerships in the midstream energy industry, without regard to historical cost basis or, in the case of Adjusted EBITDA, financing methods;
- the ability of our assets to generate sufficient cash flow to make distributions to our unitholders;
- our ability to incur and service debt and fund capital expenditures; and
- the viability of acquisitions and other capital expenditure projects and the returns on investment of various expansion and growth opportunities.

Management believes that the presentation of Adjusted EBITDA and Distributable Cash Flow provides useful information to investors in assessing our financial condition and results of operations. Adjusted EBITDA and Distributable Cash Flow should not be considered alternatives to net income, operating income, net cash provided by operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP, nor should Adjusted EBITDA and Distributable Cash Flow be considered alternatives to available cash, operating surplus, distributions of available cash from operating surplus or other definitions in our partnership agreement. Adjusted EBITDA and Distributable Cash Flow have important limitations as analytical tools because they exclude some but not all items that affect net income and net cash provided by operating activities. Additionally, because Adjusted EBITDA and Distributable Cash Flow may be defined differently by other companies in our industry, our definition of Adjusted EBITDA and Distributable Cash Flow may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

We generally define Adjusted EBITDA as net income excluding the impact of interest, income taxes, depreciation and amortization, non-cash income or loss related to derivative instruments, non-cash long-term compensation expense, impairment losses, gains or losses on asset or business disposals or acquisitions, gains or losses on the repurchase, redemption or early retirement of debt, and earnings from unconsolidated investments, but including the impact of distributions from unconsolidated investments. We also use Distributable Cash Flow, which we generally define as Adjusted EBITDA, plus deficiency payments received from or utilized by our customers, less cash interest costs, maintenance capital expenditures, distributions to noncontrolling interests in excess of earnings allocated to noncontrolling interests, and certain cash reserves permitted by our partnership agreement.



# Tallgrass Energy Adjusted EBITDA Reconciliation

## Reconciliation of Tallgrass Energy Adjusted EBITDA to Net Income

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Tallgrass Energy Partners, LP ("TEP") <sup>(1)</sup>			(in thousands)		
Net income attributable to partners	\$ 433,990	\$ 270,524	\$ 172,903	\$ 77,138	\$ 15,094
<i>Add:</i>					
Interest expense, net of noncontrolling interest	83,542	40,688	15,517	7,648	11,035
Depreciation and amortization expense, net of noncontrolling interest	92,455	88,122	77,111	45,656	37,898
Distributions from unconsolidated investments	306,626	78,568	4,648	2,027	-
Non-cash compensation expense	8,660	5,780	5,103	5,136	1,798
(Gain) loss from disposal of assets, net of noncontrolling interest	(654)	1,849	4,795	-	386
Non-cash loss (gain) related to derivative instruments, net of noncontrolling interest	226	1,547	-	(184)	-
Loss on extinguishment of debt	-	-	226	-	17,526
<i>Less:</i>					
Equity in earnings of unconsolidated investments	(237,110)	(54,531)	(2,759)	(1,617)	-
Gain on remeasurement of unconsolidated investment	(9,728)	-	-	(9,388)	-
Non-cash loss allocated to noncontrolling interest	-	-	(9,377)	(10,151)	-
<b>TEP Adjusted EBITDA</b>	<b>\$ 678,007</b>	<b>\$ 432,547</b>	<b>\$ 268,167</b>	<b>\$ 116,265</b>	<b>\$ 83,737</b>
Tallgrass Development, LP ("TDEV") <sup>(2)</sup>					
Net income	\$ 169,059	\$ 192,714	\$ 178,126	\$ 89,768	\$ 158,548
<i>Add:</i>					
Interest expense, net	-	-	7,758	38,847	33,333
Depreciation and amortization expense	3,911	3,451	2,627	1,934	177
Distributions from unconsolidated investments	222,871	272,799	337,737	223,723	168,291
Non-cash loss (gain) related to derivative instruments	1,885	(1,291)	-	-	-
Loss on extinguishment of debt	-	-	18,939	-	149
Gain on deconsolidation of TEP	-	-	-	-	(96,572)
<i>Less:</i>					
Equity in earnings of unconsolidated investments	(173,374)	(194,244)	(210,283)	(146,210)	(105,375)
<b>TDEV Adjusted EBITDA</b>	<b>\$ 224,352</b>	<b>\$ 273,429</b>	<b>\$ 334,904</b>	<b>\$ 208,062</b>	<b>\$ 158,551</b>
<i>Less:</i>					
Distributions to TEP & TDEV from REX Ultra Resources settlement	(112,875)	-	-	-	-
Distributions to TDEV from TEP	(19,780)	(30,751)	(39,213)	(37,495)	(11,388)
<b>Tallgrass Energy Adjusted EBITDA</b> <sup>(3)</sup>	<b>\$ 769,704</b>	<b>\$ 675,225</b>	<b>\$ 563,858</b>	<b>\$ 286,832</b>	<b>\$ 230,900</b>

(1) The financial results for all periods presented in the TEP table have been recast to include the applicable results of operations of Trailblazer Pipeline Company LLC, the initial 33.3 percent membership interest in Tallgrass Pony Express Pipeline, LLC ("Pony Express"), Tallgrass Terminals, LLC, and Tallgrass NatGas Operator, LLC. The acquisitions of an additional 33.3 percent and 31.3 percent membership interest in Pony Express effective March 1, 2015, and January 1, 2016, respectively, are presented prospectively from the dates of acquisition, and as a result, financial information for periods prior to March 1, 2015, and January 1, 2016, have not been recast to reflect the additional 33.3 percent and 31.3 percent membership interests.

(2) The financial results for the periods presented in the TDEV table include the applicable results of operations of (i) a 50 percent membership interest in Rockies Express Pipeline, LLC ("REX") from January 1, 2013 to March 31, 2017 and a 25.01 percent membership interest in REX from April 1, 2017 to December 31, 2017 and (ii) a 66.6% membership interest in Pony Express from January 1, 2013 to February 28, 2015, a 33.3 percent membership interest in Pony Express from March 1, 2015 to December 31, 2015, and a 2 percent membership interest from January 1, 2016 to December 31, 2017.

(3) Represents Adjusted EBITDA across the Tallgrass Energy Family of Companies.