

Macquarie Infrastructure Corp
Form 10-Q
November 01, 2017

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

Commission File Number: 001-32384

MACQUARIE INFRASTRUCTURE CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

43-2052503
(IRS Employer
Identification No.)

125 West 55th Street
New York, New York 10019

(Address of Principal Executive Offices) (Zip Code)

(212) 231-1000

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year if Changed Since Last Report): **N/A**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer
Non-accelerated Filer

Accelerated Filer
Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 84,564,051 shares of common stock, with \$0.001 par value, outstanding at October 31, 2017.

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Macquarie Infrastructure Corporation is not an authorized deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia) and its obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL). MBL does not guarantee or otherwise provide assurance in respect of the obligations of Macquarie Infrastructure Corporation.

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Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this quarterly report on Form 10-Q (Quarterly Report) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements may appear throughout this Quarterly Report, including without limitation, the Management's Discussion and Analysis of Financial Condition and Results of Operations section. We use words such as believe, intend, expect, anticipate, plan, may, will, should, potential, project and similar expressions to identify forward-looking statements. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results to differ materially from those anticipated in the forward-looking statements. Such risks and uncertainties include, but are not limited to, the risks identified in our Annual Report on the Form 10-K for the year ended December 31, 2016, and in other reports we file from time to time with the Securities and Exchange Commission (SEC).

Given the risks and uncertainties surrounding forward-looking statements, you should not place undue reliance on these statements. Many of these factors are beyond our ability to control or predict. Our forward-looking statements speak only as of the date of this Quarterly Report. Other than as required by law, we undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

FINANCIAL INFORMATION

**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

The following discussion of the financial condition and results of operations of Macquarie Infrastructure Corporation (MIC) should be read in conjunction with the consolidated condensed financial statements and the notes to those statements included elsewhere herein.

MIC is a Delaware corporation formed on May 21, 2015. MIC's predecessor, Macquarie Infrastructure Company LLC, was formed on April 13, 2004. Except as otherwise specified, all references in this Form 10-Q to MIC, we, us, and our refer to Macquarie Infrastructure Corporation and its subsidiaries.

MIC is externally managed by Macquarie Infrastructure Management (USA) Inc. (our Manager), pursuant to the terms of a Management Services Agreement, that is subject to the oversight and supervision of our Board of Directors. The majority of the members of our Board of Directors have no affiliation with Macquarie. Our Manager is a member of the Macquarie Group of companies comprising the Macquarie Group Limited and its subsidiaries and affiliates worldwide. Macquarie Group Limited is headquartered in Australia and is listed on the Australian Stock Exchange.

We currently own and operate a diversified portfolio of businesses that provide services to other businesses, government agencies and individuals primarily in the U.S. The businesses we own and operate are organized into four segments:

International-Matex Tank Terminals (IMTT): a terminalling business providing bulk liquid storage, handling and other services to third parties at seventeen terminals in the U.S. and two in Canada;

Atlantic Aviation: a provider of fuel, terminal, aircraft hangaring and other services primarily to owners and operators of general aviation (GA) jet aircraft at 70 airports throughout the U.S.

Contracted Power (CP): comprising a gas-fired facility and controlling interests in wind and solar facilities in the U.S.; and

MIC Hawaii: comprising an energy company that processes and distributes gas and provides related services (Hawaii Gas), and several smaller businesses collectively engaged in efforts to reduce the cost and improve the reliability and sustainability of energy, all based in Hawaii.

Our businesses generally operate in sectors with barriers to entry including high initial development and construction costs, long-term contracts or the requirement to obtain government approvals and a lack of immediate cost-effective alternatives to the services provided. Overall they tend to generate sustainable, stable and growing cash flows over the long term.

Overview

Use of Non-GAAP measures

In addition to our results under U.S. GAAP, we use certain non-GAAP measures to assess the performance and prospects of our businesses. In particular, we use EBITDA excluding non-cash items, Free Cash Flow and certain proportionately combined financial metrics. Proportionately combined financial metrics reflect our proportionate interest in our wind and solar facilities.

We measure EBITDA excluding non-cash items as it reflects our businesses' ability to effectively manage the volume of products sold or services provided, the operating margin earned on those transactions and the management of operating expenses independent of the capitalization and tax attributes of those businesses.

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In analyzing the financial performance of our businesses, we focus primarily on cash generation and Free Cash Flow in particular. We believe investors use Free Cash Flow as a measure of our ability to sustain and potentially increase our quarterly cash dividend and to fund a portion of our growth.

See Management’s Discussion and Analysis of Financial Condition and Results of Operations *Results of Operations Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* for further information on our calculation of EBITDA excluding non-cash items, Free Cash Flow and our proportionately combined metrics and for reconciliations of non-GAAP measures to the most comparable GAAP measures.

At IMTT, we focus on providing bulk liquid storage, handling and other services to customers who place a premium on ease of access and operational flexibility. The substantial majority of IMTT’s revenue is generated pursuant to take-or-pay contracts providing access to storage tank capacity and ancillary services.

At Atlantic Aviation, our focus is on attracting and maintaining relationships with GA aircraft owners and pilots and encouraging them to purchase fuel and other services from our fixed based operations (FBOs). Atlantic Aviation’s gross margin is correlated with the number of GA flight movements in the U.S. and the business’s ability to service a portion of the aircraft involved in those operations.

The businesses that comprise our CP segment generate revenue by producing and selling electric power pursuant primarily to long-dated power purchase agreements (PPAs) or tolling agreements all with creditworthy off-takers.

MIC Hawaii comprises Hawaii Gas and several smaller businesses collectively engaged in efforts to reduce the cost and improve the reliability and sustainability of energy in Hawaii. The businesses of MIC Hawaii generate revenue primarily from the provision of gas services to commercial, residential and governmental customers, the generation of power and the design and construction of building mechanical systems.

Dividends

Since January 1, 2016, MIC has paid or declared the following dividends:

Declared	Period Covered	\$per Share	Record Date	Payable Date
October 30, 2017	Third quarter 2017	\$ 1.42	November 13, 2017	November 16, 2017
August 1, 2017	Second quarter 2017	1.38	August 14, 2017	August 17, 2017
May 2, 2017	First quarter 2017	1.32	May 15, 2017	May 18, 2017
February 17, 2017	Fourth quarter 2016	1.31	March 3, 2017	March 8, 2017
October 27, 2016	Third quarter 2016	1.29	November 10, 2016	November 15, 2016
July 28, 2016	Second quarter 2016	1.25	August 11, 2016	August 16, 2016
April 28, 2016	First quarter 2016	1.20	May 12, 2016	May 17, 2016
February 18, 2016	Fourth quarter 2015	1.15	March 3, 2016	March 8, 2016

We currently intend to maintain, and where possible, increase our quarterly cash dividend to our shareholders. The MIC Board has authorized a quarterly cash dividend of \$1.42 per share for the quarter ended September 30, 2017, or a 10.1% increase over the dividend for the quarter ended September 30, 2016. In determining whether to adjust the amount of our quarterly dividend, our Board will take into account such matters as the state of the capital markets and general business conditions, the Company’s financial condition, results of operations, capital requirements, capital opportunities and any contractual, legal and regulatory restrictions on the payment of dividends by the Company to its

stockholders or by its subsidiaries to the Company, and any other factors that it deems relevant, subject to maintaining a prudent level of reserves and without creating undue volatility in the amount of such dividends where possible.

Moreover, the Company's senior secured credit facility and the debt commitments at our businesses contain restrictions that may limit the Company's ability to pay dividends. Although historically we have declared cash dividends on our shares, any or all of these or other factors could result in the modification of our dividend policy, or the reduction, modification or elimination of our dividend in the future.

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Recent Developments

On September 11, 2017, we announced that James Hooke, our Chief Executive Officer, intends to step down in early 2018. On September 8, 2017, the MIC board of directors was expanded from six to seven members and Mr. Hooke was elected to fill the vacancy.

Christopher Frost has been appointed President and Chief Operating Officer of MIC, effective October 26, 2017. Mr. Frost has been employed by Macquarie Group for the past 20 years. We anticipate Mr. Frost will be appointed to the position of CEO when Mr. Hooke steps down on January 1, 2018.

On August 8, 2017, IMTT completed the acquisition of Epic Midstream LLC (Epic), a portfolio of seven bulk liquid terminals comprising approximately 3.1 million barrels of storage capacity and related handling capability. The acquisition increases IMTT's system-wide capacity by approximately 7% and extends its operations into both the Port of Savannah in Georgia and several inland locations.

On September 27, 2017, Atlantic Aviation completed the acquisition of Orion Jet Center (Orion). Orion is a fixed base operator located at Opa Locka-Miami Executive Airport approximately 11 miles north of downtown Miami, Florida. Orion features over 200,000 square feet of newly constructed hangar space and also includes 36,000 square feet of office and maintenance space.

Shared Services Initiative

We have implemented a shared services initiative to consolidate common back-office functions across our businesses, including Accounting, Human Resources, Tax, Information Technology, Procurement and Risk Management support. We have incurred, and expect to continue to incur, implementation costs in 2017, principally in relation to severance and consulting services, and we expect to realize full year savings from this initiative in 2018. The expected savings will not be spread evenly or proportionally across our businesses.

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growth in contributions from Atlantic Aviation;
 contributions from acquisitions in each operating segment; and
 an increase in unrealized gains on commodity hedges at Hawaii Gas; partially offset by
 cost increases related to the implementation of a shared services initiative and evaluation of various investment and
 acquisition opportunities; and

a decrease in other income, net.

Our consolidated results of operations are as follows:

	Quarter Ended		Change		Nine Months Ended		Change	
	September 30,		Favorable/ (Unfavorable)		September 30,		Favorable/ (Unfavorable)	
	2017	2016	\$	%	2017	2016	\$	%
(\$ In Thousands, Except Share and Per Share Data) (Unaudited)								
Revenue								
Service revenue	\$358,220	\$323,975	34,245	10.6	\$1,067,069	\$942,437	124,632	13.2
Product revenue	94,841	96,549	(1,708)	(1.8)	276,439	272,053	4,386	1.6
Total revenue	453,061	420,524	32,537	7.7	1,343,508	1,214,490	129,018	10.6
Costs and expenses								
Cost of services	153,218	134,512	(18,706)	(13.9)	455,038	371,832	(83,206)	(22.4)
Cost of product sales	35,669	39,845	4,176	10.5	123,143	107,923	(15,220)	(14.1)
Selling, general and administrative	84,898	77,468	(7,430)	(9.6)	244,817	222,182	(22,635)	(10.2)
Fees to Manager related party	17,954	18,382	428	2.3	54,610	49,570	(5,040)	(10.2)
Depreciation	58,009	59,242	1,233	2.1	172,753	172,125	(628)	(0.4)
Amortization of intangibles	17,329	15,417	(1,912)	(12.4)	50,920	49,917	(1,003)	(2.0)
Total operating expenses	367,077	344,866	(22,211)	(6.4)	1,101,281	973,549	(127,732)	(13.1)
Operating income	85,984	75,658	10,326	13.6	242,227	240,941	1,286	0.5
Other income (expense)								
Interest income	54	27	27	100.0	129	85	44	51.8
Interest expense ⁽¹⁾	(29,291)	(20,871)	(8,420)	(40.3)	(90,129)	(117,268)	27,139	23.1
Other income, net	4,973	16,689	(11,716)	(70.2)	7,893	20,389	(12,496)	(61.3)
Net income before income taxes	61,720	71,503	(9,783)	(13.7)	160,120	144,147	15,973	11.1
Provision for income taxes	(25,547)	(29,022)	3,475	12.0	(65,284)	(60,409)	(4,875)	(8.1)
Net income	\$36,173	\$42,481	(6,308)	(14.8)	\$94,836	\$83,738	11,098	13.3
	(3,922)	455	4,377	NM	(7,294)	165	7,459	NM

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Less: net (loss) income attributable to noncontrolling interests								
Net income attributable to MIC	\$40,095	\$42,026	(1,931)	(4.6)	\$102,130	\$83,573	18,557	22.2
Basic income per share attributable to MIC	\$0.48	\$0.52	(0.04)	(7.7)	\$1.23	\$1.04	0.19	18.3
Weighted average number of shares outstanding: basic	83,644,806	81,220,841	2,423,965	3.0	82,743,285	80,570,192	2,173,093	2.7

NM Not meaningful

(1) Interest expense includes losses on derivative instruments of \$162,000 and \$6.9 million for the quarter and nine months ended September 30, 2017, respectively. For the quarter and nine months ended September 30, 2016, interest expense includes gains on derivative instruments of \$3.7 million and losses on derivative instruments of \$43.0 million, respectively.

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Results of Operations: Consolidated (continued)

Revenue

Consolidated revenue increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily as a result of an increase in the wholesale cost of jet fuel and an increase in the volume of jet fuel sold at Atlantic Aviation and contributions from acquisitions, partially offset by reduced revenue from Bayonne Energy Center (BEC) as a result of lower capacity prices and lower energy margins. The increase in the consolidated revenue for the nine months ended September 30, 2017 also includes a contribution from IMTT from the recognition of deferred revenue resulting from termination of a construction project by a biodiesel customer.

Cost of Services and Product Sales

Consolidated cost of services and product sales increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily due to an increase in the wholesale cost of jet fuel and propane and contributions from acquisitions. The changes in consolidated cost of services and product sales were also attributable to unrealized gains and losses on commodity hedges at Hawaii Gas (see Results of Operations *MIC Hawaii* below).

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily due to (i) \$3.0 million and \$7.9 million, respectively, of costs incurred in connection with the evaluation of various investment and acquisition opportunities; (ii) \$1.4 million and \$6.8 million, respectively, of costs incurred in connection with the implementation of our shared services initiative; and (iii) incremental costs associated with acquired businesses.

Fees to Manager

Our Manager is entitled to a monthly base management fee based primarily on our market capitalization and potentially a quarterly performance fee based on total stockholder returns relative to a U.S. utilities index. For the quarter and nine months ended September 30, 2017, we incurred base management fees of \$17.9 million and \$54.6 million, respectively, compared with \$18.4 million and \$49.6 million for the quarter and nine months ended September 30, 2016, respectively. No performance fees were generated in any of the above periods. The unpaid portion of base management fees and performance fees, if any, at the end of each reporting period is included in the line item *Due to Manager-related party* in our consolidated condensed balance sheets.

TABLE OF CONTENTS**Results of Operations: Consolidated (continued)**

In all of the periods shown below, our Manager elected to reinvest any fees to which it was entitled in additional shares. In accordance with the Third Amended and Restated Management Service Agreement, our Manager has currently elected to reinvest future base management fees and performance fees, if any, in additional shares.

Period	Base Management Fee Amount (\$ in Thousands)	Performance Fee Amount (\$ in Thousands)	Shares Issued
<i>2017 Activities:</i>			
Third quarter 2017	\$ 17,954	\$	240,674 ⁽¹⁾
Second quarter 2017	18,433		233,394
First quarter 2017	18,223		232,398
<i>2016 Activities:</i>			
Fourth quarter 2016	\$ 18,916	\$	230,773
Third quarter 2016	18,382		232,488
Second quarter 2016	16,392		232,835
First quarter 2016	14,796		234,179

Our Manager elected to reinvest all of the monthly base management fees for the third quarter of 2017 in shares.

(1) We issued 240,674 shares for the quarter ended September 30, 2017, including 81,741 shares that were issued in October 2017 for the September 2017 monthly base management fee.

Depreciation

Depreciation expense decreased for the quarter ended September 30, 2017 compared with the quarter ended September 30, 2016 primarily due to the write-off of tanks and docks in 2016 at IMTT. Depreciation expense increased for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016 primarily as a result of assets placed in service and contributions from acquisitions.

Amortization of Intangibles

Amortization of intangibles increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily due to contributions from acquisitions.

Interest Expense and Gains (Losses) on Derivative Instruments

Interest expense includes losses on derivative instruments of \$162,000 and \$6.9 million for the quarter and nine months ended September 30, 2017, respectively, compared with gains on derivative instruments of \$3.7 million and losses on derivative instruments of \$43.0 million for the quarter and nine months ended September 30, 2016, respectively. Gains and losses on derivatives recorded in interest expense are attributable to the change in fair value of interest rate hedging instruments. For the nine months ended September 30, 2016, interest expense also included the non-cash write-off of deferred financing costs at Hawaii Gas related to the February 2016 refinancing of its \$80.0 million term loan debt and its \$60.0 million revolving credit facility. Excluding the derivative adjustments and deferred financing cost write-offs, interest expense decreased for the quarter and nine months ended September 30,

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2017 compared with the quarter and nine months ended September 30, 2016 primarily due to a reduction in the weighted average interest rate, partially offset by a higher average debt balance. Cash interest expense was \$27.1 million and \$79.4 million for the quarter and nine months ended September 30, 2017, respectively, compared with \$27.4 million and \$82.0 million for the quarter and nine months ended September 30, 2016, respectively. See discussions of interest expense for each of our operating businesses below.

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Results of Operations: *Consolidated* (continued)

Other Income, net

Other income, net, decreased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 as 2016 included insurance recoveries associated with damage docks to IMTT's facilities and escrow proceeds related to the acquisition of BEC. This decrease was partially offset by financing income from a revolving credit facility provided by CP to a third party developer of renewable projects and the associated development profit for the periods in 2017.

Income Taxes

We file a consolidated federal income tax return that includes the financial results for IMTT, Atlantic Aviation, BEC, MIC Hawaii and our allocable share of the taxable income (loss) from our wind and solar facilities. The wind and solar facilities are held by limited liability companies treated as partnerships for tax purposes. Pursuant to a tax sharing agreement, the businesses included in our consolidated federal income tax return, pay MIC an amount equal to the federal income tax each would have paid on a standalone basis as if they were not part of the consolidated federal income tax return.

For the year ending December 31, 2017, we expect any consolidated federal income tax liability our businesses may generate to be fully offset by net operating loss (NOL) carryforwards. Our federal NOL balance at December 31, 2016 was \$398.1 million. We believe that we will be able to utilize all of our federal prior year NOLs and, together with planned tax strategies, we do not expect to make regular federal income tax payments any earlier than the second half of 2019.

For the year ending December 31, 2017, we expect current year taxable income to be approximately \$33.0 million. The reduction in anticipated current year taxable income from the previously disclosed \$95.0 million is primarily attributable to additional tax depreciation related to acquisitions and tax strategies. For the year ending December 31, 2017, we expect that our available investment tax credits will offset any Alternative Minimum Tax liability.

For the year ending December 31, 2017, we expect our businesses collectively to pay state income taxes of approximately \$11.5 million. In calculating our consolidated state income tax provision, we have provided a valuation allowance for certain state income tax NOLs, the use of which is uncertain.

Protecting Americans from Tax Hikes Act (PATH Act)

The PATH Act retroactively extends several tax provisions applicable to corporations, including the extension of 50% bonus depreciation for eligible property placed in service in 2015, 2016 and 2017, 40% bonus depreciation for eligible property placed in service in 2018 and 30% bonus depreciation for eligible property placed in service in 2019. Other than the extension of the bonus depreciation provision, the Company does not expect the provisions of the PATH Act to have a material effect on its tax profile.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics

In addition to our results under U.S. GAAP, we use certain non-GAAP measures to assess the performance and prospects of our businesses. In particular, we use EBITDA excluding non-cash items, Free Cash Flow and certain

proportionately combined financial metrics. Proportionately combined financial metrics reflect our proportionate interest in our wind and solar facilities.

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Results of Operations: Consolidated (continued)

We measure EBITDA excluding non-cash items as it reflects our businesses' ability to effectively manage the volume of products sold or services provided, the operating margin earned on those transactions and the management of operating expenses independent of the capitalization and tax attributes of those businesses. We believe investors use EBITDA excluding non-cash items primarily as a measure of the operating performance of MIC's businesses and to make comparisons with the operating performance of other businesses whose depreciation and amortization expense may vary widely from ours, particularly where acquisitions and other non-operating factors are involved. We define EBITDA excluding non-cash items as net income (loss) or earnings *the most comparable GAAP measure* before interest, taxes, depreciation and amortization and non-cash items including impairments, unrealized derivative gains and losses, adjustments for other non-cash items and pension expense reflected in the statements of operations. EBITDA excluding non-cash items also excludes base management fees and performance fees, if any, whether paid in cash or stock.

Given our varied ownership levels in our CP and MIC Hawaii segments, together with our obligations to report the results of these businesses on a consolidated basis, GAAP measures such as net income (loss) do not fully reflect all of the items we consider in assessing the amount of cash generated based on our proportionate interest in our wind and solar facilities. We note that the proportionately combined metrics used may be calculated in a different manner by other companies and may limit their usefulness as a comparative measure. Therefore, proportionately combined metrics should be used as a supplemental measure and not in lieu of our financial results reported under GAAP.

Our businesses are characteristically owners of high-value, long-lived assets capable of generating substantial Free Cash Flow. We define Free Cash Flow as cash from operating activities *the most comparable GAAP measure* which includes cash paid for interest, taxes and pension contributions, less maintenance capital expenditures, which includes principal repayments on capital lease obligations used to fund maintenance capital expenditures, and excluding changes in working capital.

We use Free Cash Flow as a measure of our ability to provide investors with an attractive risk-adjusted return by sustaining and potentially increasing our quarterly cash dividend and funding a portion of our growth. GAAP metrics such as net income (loss) do not provide us with the same level of visibility into the performance and prospects of the business as a result of: (i) the capital intensive nature of our businesses and the generation of non-cash depreciation and amortization; (ii) shares issued to our external Manager under the Management Services Agreement; (iii) our ability to defer all or a portion of current federal income taxes; (iv) non-cash unrealized gains or losses on derivative instruments; (v) amortization of tolling liabilities; (vi) gains (losses) on disposal of assets; and (vii) pension expenses. Pension expenses primarily consist of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses. Any cash contributions to pension plans are reflected as a reduction to Free Cash Flow.

We believe that external consumers of our financial statements, including investors and research analysts, use Free Cash Flow both to assess MIC's performance and as an indicator of its success in generating an attractive risk-adjusted return.

In this Quarterly Report on Form 10-Q, we have disclosed Free Cash Flow on a consolidated basis and for each of our operating segments and MIC Corporate. We believe that both EBITDA excluding non-cash items and Free Cash Flow support a more complete and accurate understanding of the financial and operating performance of our businesses than would otherwise be achieved using GAAP results alone.

Free Cash Flow does not take into consideration required payments on indebtedness and other fixed obligations or other cash items that are excluded from our definition of Free Cash Flow. We note that Free Cash Flow may be

calculated differently by other companies thereby limiting its usefulness as a comparative measure. Free Cash Flow should be used as a supplemental measure and not in lieu of our financial results reported under GAAP.

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We categorize capital expenditures as either maintenance capital expenditures or growth capital expenditures. As neither maintenance capital expenditure nor growth capital expenditure is a GAAP term, we have adopted a framework to categorize specific capital expenditures. In broad terms, maintenance capital expenditures primarily maintain our businesses at current levels of operations, capability, profitability or cash flow, while growth capital expenditures primarily provide new or enhanced levels of operations, capability, profitability or cash flow. We consider a number of factors in determining whether a specific capital expenditure will be classified as maintenance or growth.

In some cases, specific capital expenditures contain characteristics of both maintenance and growth capital expenditures. We do not bifurcate specific capital expenditures into maintenance and growth components. Each discrete capital expenditure is considered within the above framework and the entire capital expenditure is classified as either maintenance or growth.

A reconciliation of net income to EBITDA excluding non-cash items and a reconciliation from cash provided by operating activities to Free Cash Flow, on a consolidated basis, is provided below. Similar reconciliations for each of our operating businesses and MIC Corporate follow.

	Quarter Ended		Change		Nine Months Ended		Change	
	September 30,		Favorable/ (Unfavorable)		September 30,		Favorable/ (Unfavorable)	
	2017	2016	\$	%	2017	2016	\$	%
	(\$ In Thousands) (Unaudited)							
Net income	\$36,173	\$42,481			\$94,836	\$83,738		
Interest expense, net ⁽¹⁾	29,237	20,844			90,000	117,183		
Provision for income taxes	25,547	29,022			65,284	60,409		
Depreciation	58,009	59,242			172,753	172,125		
Amortization of intangibles	17,329	15,417			50,920	49,917		
Fees to Manager-related party	17,954	18,382			54,610	49,570		
Pension expense ⁽²⁾	2,160	2,117			6,481	6,512		
Other non-cash income, net ⁽³⁾	(3,725)	(682)			(961)	(9,872)		
EBITDA excluding non-cash items ⁽⁴⁾	\$182,684	\$186,823	(4,139)	(2.2)	\$533,923	\$529,582	4,341	0.8
EBITDA excluding non-cash items ⁽⁴⁾	\$182,684	\$186,823			\$533,923	\$529,582		
Interest expense, net ⁽¹⁾	(29,237)	(20,844)			(90,000)	(117,183)		
Adjustments to derivative instruments recorded in interest expense ⁽¹⁾	(959)	(8,832)			1,724	27,639		
Amortization of debt financing costs ⁽¹⁾	2,163	2,287			6,464	7,536		

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Amortization of debt discount ⁽¹⁾	882				2,377				
Provision for income taxes, net of changes in deferred taxes	(2,154)	(1,115)			(8,493)	(5,283)			
Changes in working capital	(4,914)	751			(48,326)	(5,303)			
Cash provided by operating activities	148,465	159,070			397,669	436,988			
Changes in working capital	4,914	(751)			48,326	5,303			
Maintenance capital expenditures ⁽⁵⁾	(12,106)	(24,472)			(23,062)	(44,725)			
Free cash flow	\$141,273	\$133,847	7,426	5.5	\$422,933	\$397,566	25,367	6.4	

Interest expense, net, includes adjustments to derivative instruments, non-cash amortization of deferred financing fees and non-cash amortization of debt discount related to the 2.00% Convertible Senior Notes due October 2023.
⁽¹⁾ For the nine months ended September 30, 2016, interest expense also included a non-cash write-off of deferred financing fees related to the February 2016 refinancing at Hawaii Gas.

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TABLE OF CONTENTS**Results of Operations: Consolidated (continued)**

- (2) Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses.
Other non-cash income, net, primarily includes non-cash amortization of tolling liabilities, unrealized gains (losses) on commodity hedges and non-cash gains (losses) related to disposal of assets. See *Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* above for further discussion.
- (3) For the quarter and nine months ended September 30, 2016, EBITDA excluding non-cash items included \$13.0 million and \$15.5 million, respectively, of insurance recoveries related to damaged docks at IMTT.
- (4) For the quarter and nine months ended September 30, 2016, maintenance capital expenditures included \$13.9 million associated with the rebuilding of damaged docks, the majority of which were insured losses, at IMTT.

Reconciliation from Consolidated Free Cash Flow to Proportionately Combined Free Cash Flow

See Results of Operations *Consolidated* above for a reconciliation of Free Cash Flow Consolidated basis to cash provided by operating activities, the most comparable GAAP measure. The following table is a reconciliation from Free Cash Flow on a consolidated basis to Free Cash Flow on a proportionately combined basis (our proportionate interest in our wind and solar facilities). See Results of Operations below for a reconciliation of Free Cash Flow for each of our segments to cash provided by (used in) operating activities for such segment.

	Quarter Ended September 30,		Change Favorable/ (Unfavorable)		Nine Months Ended September 30,		Change Favorable/ (Unfavorable)	
	2017	2016	\$	%	2017	2016	\$	%
	(\$ In Thousands) (Unaudited)							
Free Cash Flow Consolidated basis	\$141,273	\$133,847	7,426	5.5	\$422,933	\$397,566	25,367	6.4
100% of CP Free Cash Flow included in consolidated Free Cash Flow	(25,970)	(26,718)			(56,513)	(56,532)		
MIC's share of CP Free Cash Flow	24,667	24,773			51,300	50,580		
100% of MIC Hawaii Free Cash Flow included in consolidated Free Cash Flow	(8,137)	(8,696)			(32,368)	(30,432)		
MIC's share of MIC Hawaii Free Cash Flow	8,132	8,694			32,358	30,430		
Free Cash Flow Proportionately Combined basis	\$139,965	\$131,900	8,065	6.1	\$417,710	\$391,612	26,098	6.7

TABLE OF CONTENTS**Results of Operations: *IMTT*****Key Factors Affecting Operating Results for the Quarter:**

an increase in revenue primarily resulting from an acquisition; and
a decrease in costs, primarily due to healthcare savings; partially offset by
the absence of insurance recoveries in 2017;
a decline in spill response activity; and
a decrease in utilization.

	Quarter Ended		Change		Nine Months Ended		Change	
	September 30,	September 30,	Favorable/		September 30,	September 30,	Favorable/	
	2017	2016	(Unfavorable)		2017	2016	(Unfavorable)	
	\$	\$	\$	%	\$	\$	\$	%
	(\$ In Thousands) (Unaudited)							
Revenue	134,167	133,143	1,024	0.8	410,128	396,786	13,342	3.4
Cost of services	48,982	53,085	4,103	7.7	148,052	149,845	1,793	1.2
Selling, general and administrative expenses	9,104	8,358	(746)	(8.9)	25,627	24,322	(1,305)	(5.4)
Depreciation and amortization	31,511	35,709	4,198	11.8	93,826	103,612	9,786	9.4
Operating income	44,570	35,991	8,579	23.8	142,623	119,007	23,616	19.8
Interest expense, net ⁽¹⁾	(10,187)	(7,827)	(2,360)	(30.2)	(30,707)	(41,462)	10,755	25.9
Other income, net	794	13,495	(12,701)	(94.1)	1,954	16,947	(14,993)	(88.5)
Provision for income taxes	(14,422)	(17,079)	2,657	15.6	(46,686)	(38,717)	(7,969)	(20.6)
Net income	20,755	24,580	(3,825)	(15.6)	67,184	55,775	11,409	20.5
Less: net income attributable to noncontrolling interests						59	59	100.0
Net income attributable to MIC	20,755	24,580	(3,825)	(15.6)	67,184	55,716	11,468	20.6
<i>Reconciliation of net income to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:</i>								
Net income	20,755	24,580			67,184	55,775		
Interest expense, net ⁽¹⁾	10,187	7,827			30,707	41,462		
Provision for income taxes	14,422	17,079			46,686	38,717		
Depreciation and amortization	31,511	35,709			93,826	103,612		
Pension expense ⁽²⁾	1,883	1,752			5,649	5,414		
Other non-cash expense, net	178	73			315	631		
EBITDA excluding non-cash items ⁽³⁾	78,936	87,020	(8,084)	(9.3)	244,367	245,611	(1,244)	(0.5)
EBITDA excluding non-cash items ⁽³⁾	78,936	87,020			244,367	245,611		
Interest expense, net ⁽¹⁾	(10,187)	(7,827)			(30,707)	(41,462)		

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Adjustments to derivative instruments recorded in interest expense ⁽¹⁾	(524)	(2,433)			(257)	10,723		
Amortization of debt financing costs ⁽¹⁾	413	411			1,236	1,242		
Provision for income taxes, net of changes in deferred taxes	344	(904)			(3,069)	(3,071)		
Changes in working capital	3,732	(1,243)			(12,413)	(11,726)		
Cash provided by operating activities	72,714	75,024			199,157	201,317		
Changes in working capital	(3,732)	1,243			12,413	11,726		
Maintenance capital expenditures ⁽⁴⁾	(8,116)	(19,860)			(13,563)	(33,099)		
Free cash flow	60,866	56,407	4,459	7.9	198,007	179,944	18,063	10.0

(1) Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred financing fees.

(2) Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses.

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Results of Operations: IMTT (continued)

For the quarter and nine months ended September 30, 2016, EBITDA excluding non-cash items included \$13.0 million and \$15.5 million, respectively, of insurance recoveries related to damaged docks. These insurance recoveries were used to repair damaged docks and recorded in *Other Income, net*. The cost of those repairs were recorded in *Maintenance Capital Expenditures*. Excluding insurance proceeds, EBITDA excluding non-cash items (3) would have been \$74.0 million and \$230.1 million for the quarter and nine months ended September 30, 2016, respectively. On that basis, EBITDA excluding non-cash items would have increased by \$4.9 million, or 6.6%, for the quarter ended September 30, 2017, and increased by \$14.2 million, or 6.2%, for the nine months ended September 30, 2017, compared with the prior comparable periods.

For the quarter and nine months ended September 30, 2016, maintenance capital expenditures included \$13.9 million associated with the rebuilding of damaged docks, the majority of which were insured losses. Excluding (4) these costs, maintenance capital expenditures would have been \$6.0 million and \$19.2 million for the quarter and nine months ended September 30, 2016, respectively. On that basis, maintenance capital expenditures would have increased by \$2.1 million, or 35.2%, for the quarter ended September 30, 2017, and decreased by \$5.7 million, or 29.5%, for the nine months ended September 30, 2017, compared with the prior comparable periods.

Revenue

IMTT generates the majority of its revenue from contracts typically comprising a fixed monthly charge (that escalates annually with inflation) for access to or use of its infrastructure. We refer to revenue generated from such contracts or fixed charges as firm commitments. Firm commitments are generally of medium term duration and at September 30, 2017, had a revenue weighted average remaining life of 2.1 years. Revenue from firm commitments comprised 82.6% and 80.4% of total revenue for the quarter ended September 30, 2017 and the trailing twelve months ended September 30, 2017, respectively.

For the quarter and nine months ended September 30, 2017, total revenue increased by \$1.0 million and \$13.3 million, respectively, compared with the quarter and nine months ended September 30, 2016. The increase in revenue for the quarter ended September 30, 2017 compared with the quarter ended September 30, 2016 was primarily due to an acquisition, partially offset by lower revenue from spill response activity and lower utilization. For the nine months ended September 30, 2017, revenue also increased due to the recognition of deferred revenue resulting from termination of a construction project by a biodiesel customer.

Capacity utilization was 92.7% and 94.3% for the quarter and nine months ended September 30, 2017, respectively, compared with 96.7% and 96.4% for the quarter and nine months ended September 30, 2016, respectively. The decrease in utilization primarily reflects the transition of customers and tanks coming out of service for repairs and inspections. We expect utilization levels to be approximately 94% over the long term, as they have been historically.

Costs of Services and Selling, General and Administrative Expenses

Cost of services and selling, general and administrative expenses combined decreased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016. The decrease was primarily the result of lower labor, healthcare and repair and maintenance expenses, partially offset by incremental costs from an acquisition and higher franchise taxes.

Depreciation and Amortization

Depreciation and amortization expense decreased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily due to the write-off of tanks and docks in 2016.

Interest Expense, Net

Interest expense includes gains on derivative instruments of \$124,000 and losses on derivative instruments of \$1.5 million for the quarter and nine months ended September 30, 2017, respectively, compared with gains on derivative instruments of \$1.4 million and losses on derivative instruments of \$14.0 million for the quarter and nine months ended September 30, 2016, respectively.

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Results of Operations: IMTT (continued)

Excluding the derivative adjustments, interest expense increased for the quarter ended September 30, 2017 compared with the quarter ended September 30, 2016 primarily due to increased debt balances. Interest expense for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016 remained flat. Cash interest expense was \$10.3 million and \$29.7 million for the quarter and nine months ended September 30, 2017, respectively, compared with \$9.9 million and \$29.5 million for the quarter and nine months ended September 30, 2016, respectively.

Other Income, net

Other income, net, decreased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016. The business incurred insured losses in connection with damage done to various docks in Bayonne and Gretna for which insurance recoveries of approximately \$13.0 million and \$15.5 million were recorded during the quarter and nine months ended September 30, 2016, respectively.

Income Taxes

The taxable income generated by IMTT is reported on our consolidated federal income tax return. The business files state income tax returns in the states in which it operates. For the year ending December 31, 2017, the business expects to pay state income taxes of approximately \$4.0 million. The *Provision for income taxes, net of changes in deferred taxes* of \$3.1 million for the nine months ended September 30, 2017 in the above table includes \$2.4 million of state income tax expense and \$626,000 of federal income tax expense. Any current federal income tax payable is expected to be offset in consolidation with the application of NOLs at the MIC holding company level.

The majority of the difference between IMTT's book and federal taxable income relates to depreciation of terminal fixed assets. For book purposes, these fixed assets are depreciated primarily over 5 to 30 years using the straight-line method of depreciation. For federal income tax purposes, these fixed assets are depreciated primarily over 5 to 15 years using accelerated methods. In addition, most terminal fixed assets placed in service between 2012 through 2017 qualify for the federal 50% bonus tax depreciation. A significant portion of Louisiana terminal fixed assets constructed in the period after Hurricane Katrina were financed with Gulf Opportunity Zone Bonds (GO Zone Bonds). GO Zone Bond financed assets are depreciated, for tax purposes, primarily over 9 to 20 years using the straight-line depreciation method. Most of the states in which the business operates do not allow the use of 50% bonus tax depreciation. However, Louisiana allows the use of 50% bonus depreciation except for assets financed with GO Zone Bonds.

EBITDA Excluding Non-Cash Items

For the quarter and nine months ended September 30, 2016, EBITDA excluding non-cash items included \$13.0 million and \$15.5 million, respectively, of insurance recoveries for damaged docks. These insurance recoveries were used to repair damaged docks and recorded in *Other Income, net*. The cost of those repairs were recorded in *Maintenance Capital Expenditures*. Excluding insurance proceeds, EBITDA excluding non-cash items would have been \$74.0 million and \$230.1 million for the quarter and nine months ended September 30, 2016, respectively. On that basis, EBITDA excluding non-cash items would have increased by \$4.9 million, or 6.6%, for the quarter ended September 30, 2017, and increased by \$14.2 million, or 6.2%, for the nine months ended September 30, 2017, compared with the prior comparable periods.

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Results of Operations: *IMTT* (continued)

Maintenance Capital Expenditures

For the nine months ended September 30, 2017, IMTT incurred maintenance capital expenditures of \$13.6 million and \$16.4 million on an accrual basis and cash basis, respectively, compared with \$33.1 million and \$34.5 million on an accrual basis and cash basis, respectively, for the nine months ended September 30, 2016. For the quarter and nine months ended September 30, 2016, maintenance capital expenditures included \$13.9 million associated with the rebuilding of damaged docks at IMTT's Gretna and Bayonne terminals. The property insurance recoveries are recorded in *Other Income, net* in the above statement of operations. Excluding these costs, maintenance capital expenditures would have been \$6.0 million and \$19.2 million for the quarter and nine months ended September 30, 2016, respectively. On that basis, maintenance capital expenditures would have increased by \$2.1 million, or 35.2%, for the quarter ended September 30, 2017, and decreased by \$5.7 million, or 29.5%, for the nine months ended September 30, 2017, compared with the prior comparable periods. The decrease for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016 is primarily as a result of the timing of planned maintenance for the year. IMTT expects to incur between \$20.0 million and \$25.0 million of maintenance capital expenditures in 2017.

Results of Operations: *Atlantic Aviation*

Atlantic Aviation generates a significant portion of its revenue from sales of jet fuel. Accordingly, revenue can fluctuate based on the cost of jet fuel to Atlantic Aviation and reported revenue may not reflect the business' ability to effectively manage volume and price. For example, an increase in revenue may be attributable to an increase in the cost of the jet fuel and not an increase in the volume sold or price per gallon to the customer. Conversely, a decline in revenue may be attributable to a decrease in the cost of jet fuel and not a reduction in the volume sold or price.

Gross margin, which we define as revenue less cost of services, excluding depreciation and amortization, is the effective top line for Atlantic Aviation as it is reflective of the business' ability to drive growth in the volume of products and services sold and the margins earned on those sales over time. We believe that our investors view gross margin as reflective of our ability to manage volume and price throughout the commodity cycle. Gross margin can be reconciled to operating income *the most comparable GAAP measure* by subtracting selling, general and administrative expenses and depreciation and amortization in the table below.

Key Factors Affecting Operating Results for the Quarter:

an increase in gross margin on a same store basis, together with contributions from acquisitions; partially offset by an increase in selling, general and administrative expenses.

TABLE OF CONTENTS**Results of Operations: *Atlantic Aviation* (continued)**

	Quarter Ended		Change		Nine Months Ended		Change	
	September 30, 2017	September 30, 2016	Favorable/ (Unfavorable)		September 30, 2017	September 30, 2016	Favorable/ (Unfavorable)	
	\$	\$	\$	%	\$	\$	\$	%
(\$ In Thousands) (Unaudited)								
Revenue	211,457	186,823	24,634	13.2	621,149	544,029	77,120	14.2
Cost of services (exclusive of depreciation and amortization shown separately below)	92,106	77,524	(14,582)	(18.8)	272,985	218,126	(54,859)	(25.2)
Gross margin	119,351	109,299	10,052	9.2	348,164	325,903	22,261	6.8
Selling, general and administrative expenses	57,026	53,027	(3,999)	(7.5)	163,512	157,019	(6,493)	(4.1)
Depreciation and amortization	25,286	22,148	(3,138)	(14.2)	73,894	69,041	(4,853)	(7.0)
Operating income	37,039	34,124	2,915	8.5	110,758	99,843	10,915	10.9
Interest expense, net ⁽¹⁾	(4,295)	(5,199)	904	17.4	(13,648)	(27,437)	13,789	50.3
Other (expense) income, net	(14)	(150)	136	90.7	(119)	191	(310)	(162.3)
Provision for income taxes	(11,139)	(11,543)	404	3.5	(36,766)	(29,258)	(7,508)	(25.7)
Net income	21,591	17,232	4,359	25.3	60,225	43,339	16,886	39.0
<i>Reconciliation of net income to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:</i>								
Net income	21,591	17,232			60,225	43,339		
Interest expense, net ⁽¹⁾	4,295	5,199			13,648	27,437		
Provision for income taxes	11,139	11,543			36,766	29,258		
Depreciation and amortization	25,286	22,148			73,894	69,041		
Pension expense ⁽²⁾	5	16			15	50		
Other non-cash expense, net	1,212	200			1,252	448		
EBITDA excluding non-cash items	63,528	56,338	7,190	12.8	185,800	169,573	16,227	9.6
EBITDA excluding non-cash items	63,528	56,338			185,800	169,573		
Interest expense, net ⁽¹⁾	(4,295)	(5,199)			(13,648)	(27,437)		
Convertible senior notes interest ⁽³⁾	(2,012)				(5,769)			
Adjustments to derivative instruments recorded in interest expense ⁽¹⁾	464	(2,371)			3,150	4,416		
Amortization of debt financing costs ⁽¹⁾	284	791			819	2,496		
Provision for income taxes, net of changes in deferred taxes	(1,208)	(159)			(5,810)	(2,521)		

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Changes in working capital	(1,335)	5,142			(6,667)	11,412		
Cash provided by operating activities	55,426	54,542			157,875	157,939		
Changes in working capital	1,335	(5,142)			6,667	(11,412)		
Maintenance capital expenditures	(2,165)	(2,075)			(5,071)	(5,816)		
Free cash flow	54,596	47,325	7,271	15.4	159,471	140,711	18,760	13.3

(1) Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred financing fees.

(2) Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses.

Represents the cash interest expense reclassified from MIC Corporate related to the 2.00% Convertible Senior

(3) Notes due October 2023, proceeds of which were used to pay down a portion of Atlantic Aviation's credit facility in October 2016.

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Results of Operations: *Atlantic Aviation* (continued)

Revenue and Gross Margin

The majority of the revenue and gross margin earned by Atlantic Aviation is generated through fueling GA aircraft at facilities located on the 70 U.S. airports at which the business operates. Atlantic Aviation pursues a strategy of maintaining and, where appropriate, increasing dollar-based margins on fuel sales. Generally, fluctuations in the cost of jet fuel are passed through to the customer.

Revenue and gross margin are driven, in part, by the volume of fuel sold and the dollar-based margin/fee per gallon on those sales. Revenue increased 13.2% and 14.2% for the quarter and nine months ended September 30, 2017, respectively, compared with the quarter and nine months ended September 30, 2016 as a result of higher wholesale cost of fuel, an increase in the volume of fuel sold and contributions from acquisitions. The higher wholesale cost of fuel was largely offset by a corresponding increase in cost of services, resulting in an increase in gross margin of 9.2% and 6.8% for the quarter and nine months ended September 30, 2017, respectively, compared with the quarter and nine months ended September 30, 2016.

Atlantic Aviation seeks to extend FBO leases prior to their maturity to improve our visibility into the cash generating capacity of these assets. Atlantic Aviation calculates a weighted average remaining lease life based on EBITDA excluding non-cash items in the prior calendar year adjusted for the impact of acquisitions/dispositions. The weighted average remaining lease life was 20.7 years at September 30, 2017 compared with 19.5 years at September 30, 2016. Notwithstanding the passage of one year, the length of the remaining lease life increased as a result of acquisitions and successful extensions of certain leaseholds.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily due to higher salaries and benefit costs and incremental costs associated with acquisitions.

Depreciation and Amortization

Depreciation and amortization expense increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily as a result of assets placed in service and contributions from acquisitions.

Operating Income

Operating income increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 due to the increase in gross margin, partially offset by the increase in selling, general and administrative expenses and the increase in depreciation and amortization expense.

Interest Expense, Net

Interest expense includes losses on derivative instruments of \$219,000 and \$2.9 million for the quarter and nine months ended September 30, 2017, respectively, compared with gains on derivative instruments of \$257,000 and losses on derivative instruments of \$10.7 million for the quarter and nine months ended September 30, 2016,

respectively. Excluding the derivative adjustments, interest expense decreased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 due to a lower weighted average interest rate resulting from the October 2016 refinancing and a lower average debt balance.

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Results of Operations: *Atlantic Aviation* (continued)

Cash interest expense was \$5.5 million and \$15.4 million for the quarter and nine months ended September 30, 2017, respectively, compared with \$6.8 million and \$20.5 million for the quarter and nine months ended September 30, 2016, respectively. Cash interest expense for the quarter and nine months ended September 30, 2017 is inclusive of the interest expense related to the \$402.5 million of 2.00% Convertible Senior Notes due October 2023, proceeds of which were used in part to reduce the drawn balance of Atlantic Aviation's revolving credit facility.

Income Taxes

The taxable income generated by Atlantic Aviation is reported on our consolidated federal income tax return. The business files state income tax returns in the states in which it operates. The tax expense in the table above includes both state taxes and the portion of the consolidated federal tax liability attributable to the business.

For the year ending December 31, 2017, the business expects to pay state income taxes of approximately \$6.0 million. The *Provision for income taxes, net of changes in deferred taxes* of \$5.8 million for the nine months ended September 30, 2017 in the above table includes \$4.3 million of state income tax expense and \$1.5 million of federal income tax expense. Any current federal income tax payable is expected to be offset in consolidation with the application of NOLs at the MIC holding company level.

Maintenance Capital Expenditures

For the nine months ended September 30, 2017, Atlantic Aviation incurred maintenance capital expenditures of \$5.1 million and \$5.6 million on an accrual basis and cash basis, respectively, compared with \$5.8 million and \$5.9 million on an accrual basis and cash basis, respectively, for the nine months ended September 30, 2016.

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a decrease in revenue from BEC, partially offset by contributions from an acquired solar facility;
a decrease in cost of product sales primarily due to lower gas consumption tied to lower generation at BEC; and
an increase in other income, net.

	Quarter Ended		Change		Nine Months Ended		Change	
	September 30, 2017	2016	(Unfavorable)		September 30, 2017	2016	(Unfavorable)	
	\$	\$	\$	%	\$	\$	\$	%
	(\$ In Thousands) (Unaudited)							
Product revenue	42,445	45,538	(3,093)	(6.8)	110,681	114,017	(3,336)	(2.9)
Cost of product sales	5,171	7,344	2,173	29.6	15,528	17,495	1,967	11.2
Selling, general and administrative expenses	6,909	6,824	(85)	(1.2)	18,318	19,331	1,013	5.2
Depreciation and amortization	14,830	14,000	(830)	(5.9)	45,031	41,693	(3,338)	(8.0)
Operating income	15,535	17,370	(1,835)	(10.6)	31,804	35,498	(3,694)	(10.4)
Interest expense, net ⁽¹⁾	(6,281)	(2,764)	(3,517)	(127.2)	(20,431)	(31,614)	11,183	35.4
Other income, net	4,334	3,531	803	22.7	6,440	3,839	2,601	67.8
Provision for income taxes	(6,337)	(8,013)	1,676	20.9	(8,209)	(7,626)	(583)	(7.6)
Net income	7,251	10,124	(2,873)	(28.4)	9,604	97	9,507	NM
Less: net (loss) income attributable to noncontrolling interest	(3,890)	566	4,456	NM	(7,223)	217	7,440	NM
Net income (loss) attributable to MIC	11,141	9,558	1,583	16.6	16,827	(120)	16,947	NM
<i>Reconciliation of net income to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:</i>								
Net income	7,251	10,124			9,604	97		
Interest expense, net ⁽¹⁾	6,281	2,764			20,431	31,614		
Provision for income taxes	6,337	8,013			8,209	7,626		
Depreciation and amortization	14,830	14,000			45,031	41,693		
Other non-cash income, net ⁽²⁾	(1,914)	(1,459)			(6,170)	(5,424)		
EBITDA excluding non-cash items	32,785	33,442	(657)	(2.0)	77,105	75,606	1,499	2.0
EBITDA excluding non-cash items	32,785	33,442			77,105	75,606		
Interest expense, net ⁽¹⁾	(6,281)	(2,764)			(20,431)	(31,614)		
Adjustments to derivative instruments recorded in	(922)	(3,778)			(1,282)	11,994		

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interest expense ⁽¹⁾								
Amortization of debt financing costs ⁽¹⁾	379	376			1,137	1,113		
Provision for income taxes, net of changes in deferred taxes	9	1			6	(8)		
Changes in working capital	(1,842)	949			(9,703)	(1,909)		
Cash provided by operating activities	24,128	28,226			46,832	55,182		
Changes in working capital	1,842	(949)			9,703	1,909		
Maintenance capital expenditures		(559)			(22)	(559)		
Free cash flow	25,970	26,718	(748)	(2.8)	56,513	56,532	(19)	(0.0)

NM Not meaningful

(1) Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred financing fees.

Other non-cash income, net, primarily includes amortization of tolling liabilities. See *Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* above for further discussion.

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Results of Operations: *Contracted Power* (continued)

Revenue

Revenue decreased \$3.1 million and \$3.3 million for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016, respectively. The decrease at the wind and solar facilities was primarily attributable to lower resources compared with the prior comparable periods, partially offset by revenue contributed from acquired solar facilities.

At BEC, the 37.5% of the business that operates on a merchant basis drove a reduction in revenue as a result of lower capacity prices from updated capacity requirements and lower energy margins. Energy margins decreased primarily due to milder weather during the quarter ended September 30, 2017 compared with the quarter ended September 30, 2016. The aggregate decrease in revenue from BEC was partially offset by new tariff revenue for additional services provided to the grid operator. The remaining 62.5% of BEC's capacity generates revenue pursuant to a fixed price tolling agreement.

Cost of Product Sales

Cost of product sales decreased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily due to a reduction in gas consumed at BEC as a result of reduced generation and lower natural gas costs from the recently completed gas lateral connecting the facility to a lower cost source of gas. The decreases in both periods were partially offset by incremental costs associated with an acquisition of a solar facility completed in December 2016.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016 primarily due to lower property taxes, lower costs related to leased engines and insurance savings at BEC. These decreases were partially offset by incremental costs from acquisitions.

Depreciation and Amortization

Depreciation and amortization expense increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily due to incremental expenses associated with an acquisition completed in December 2016.

Other Income, net

Other income, net, increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily due to financing income from a revolving credit facility provided by CP to a third party developer of renewable projects and the associated development profit. The increase was partially offset by escrow proceeds related to the BEC acquisition received during the quarter ended September 30, 2016.

Interest Expense, Net

Interest expense includes losses on derivative instruments of \$82,000 and \$2.4 million for the quarter and nine months ended September 30, 2017, respectively, compared with gains on derivative instruments of \$1.9 million and losses on derivative instruments of \$17.6 million for the quarter and nine months ended September 30, 2016, respectively. Excluding the derivative adjustments, interest expense increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily due to debt assumed in an acquisition completed in December 2016, partially offset by lower average debt balances on all other facilities. Cash interest expense was \$6.8 million and \$20.6 million for the quarter and nine months ended September 30, 2017, respectively, compared with \$6.2 million and \$18.5 million for the quarter and nine months ended September 30, 2016, respectively.

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Results of Operations: *Contracted Power* (continued)

Income Taxes

Our wind and solar facilities are held in limited liability companies that are treated as partnerships for tax purposes. As such, these entities do not pay federal or state income taxes on a standalone basis, but each partner pays federal and state income taxes based on their allocated share of taxable income. For the year ending December 31, 2017, MIC expects its allocated share of the federal taxable income from these facilities to be a loss of approximately \$10.5 million. For 2016, MIC's allocated share of the federal taxable income from these facilities was a loss of approximately \$23.0 million.

The taxable income generated by BEC is reported on our consolidated federal income tax return and is subject to New York state income tax as part of a combined return. For the year ending December 31, 2017, the business does not expect to have a federal or a state income tax liability. Future current federal taxable income attributable to BEC may be offset in consolidation with the application of NOLs at the MIC holding company level.

Other Matters

CP relies on a small number of suppliers to provide long term operations and maintenance (O&M) and other services for its facilities. One of those O&M providers, SunEdison, Inc. (SunEdison), filed for bankruptcy in April 2016. SunEdison's contract was terminated in May 2017 and a new service provider has taken over the O&M and other services for these facilities effective August 1, 2017.

Results of Operations: *MIC Hawaii*

MIC Hawaii comprises Hawaii Gas and several smaller businesses collectively engaged in efforts to reduce the cost and improve the reliability and sustainability of energy in Hawaii. The businesses of MIC Hawaii generate revenue primarily from the provision of gas services to commercial, residential and governmental customers, the generation of power and the design and construction of building mechanical systems.

Hawaii Gas generates a significant portion of its revenue from the sale of gas. Accordingly, revenue can fluctuate based on the wholesale cost of the commodity to Hawaii Gas and may not reflect the business' ability to effectively manage volume and price. For example, an increase in revenue may be attributable to an increase in the wholesale cost of gas and not an increase in the volume sold or price per therm. Conversely, a decline in revenue may be attributable to a decrease in the wholesale cost of gas and not a reduction in volume sold or price per therm.

Gross margin, which we define as revenue less cost of product sales and services, excluding depreciation and amortization, is the effective top line for Hawaii Gas as it is reflective of the business' ability to drive growth in the volume of products and services and the margins earned on those sales over time. We believe that investors utilize gross margin as it is reflective of our performance in managing volume and price throughout the commodity cycle. Gross margin is reconciled to operating income *the most comparable GAAP measure* by subtracting selling, general and administrative expenses and depreciation and amortization in the table below.

Key Factors Affecting Operating Results for the Quarter:

an increase in unrealized gains from commodity hedges; and
contributions from acquisitions; partially offset by

an increase in selling, general and administrative costs.

TABLE OF CONTENTS**Results of Operations: MIC Hawaii (continued)**

	Quarter Ended		Change		Nine Months Ended		Change	
	September 30, 2017	September 30, 2016	Favorable/ (Unfavorable)		September 30, 2017	September 30, 2016	Favorable/ (Unfavorable)	
	\$	\$	\$	%	\$	\$	\$	%
	(\$ In Thousands) (Unaudited)							
Product revenue	52,396	51,011	1,385	2.7	165,758	158,036	7,722	4.9
Service revenue	13,826	5,258	8,568	163.0	39,476	5,258	34,218	NM
Total revenue	66,222	56,269	9,953	17.7	205,234	163,294	41,940	25.7
Cost of product sales (exclusive of depreciation and amortization shown separately below)	30,498	32,501	2,003	6.2	107,615	90,428	(17,187)	(19.0)
Cost of services (exclusive of depreciation and amortization shown separately below)	12,131	3,946	(8,185)	NM	34,015	3,946	(30,069)	NM
Cost of revenue total	42,629	36,447	(6,182)	(17.0)	141,630	94,374	(47,256)	(50.1)
Gross margin	23,593	19,822	3,771	19.0	63,604	68,920	(5,316)	(7.7)
Selling, general and administrative expenses	6,874	6,540	(334)	(5.1)	19,729	16,230	(3,499)	(21.6)
Depreciation and amortization	3,711	2,802	(909)	(32.4)	10,922	7,696	(3,226)	(41.9)
Operating income	13,008	10,480	2,528	24.1	32,953	44,994	(12,041)	(26.8)
Interest expense, net ⁽¹⁾	(1,877)	(1,571)	(306)	(19.5)	(5,795)	(6,224)	429	6.9
Other expense, net	(141)	(187)	46	24.6	(382)	(588)	206	35.0
Provision for income taxes	(4,830)	(3,246)	(1,584)	(48.8)	(10,772)	(14,863)	4,091	27.5
Net income	6,160	5,476	684	12.5	16,004	23,319	(7,315)	(31.4)
Less: net loss attributable to noncontrolling interests	(32)	(111)	(79)	(71.2)	(71)	(111)	(40)	(36.0)
Net income attributable to MIC	6,192	5,587	605	10.8	16,075	23,430	(7,355)	(31.4)
Reconciliation of net income to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:								
Net income	6,160	5,476			16,004	23,319		
Interest expense, net ⁽¹⁾	1,877	1,571			5,795	6,224		
Provision for income taxes	4,830	3,246			10,772	14,863		
Depreciation and amortization	3,711	2,802			10,922	7,696		
Pension expense ⁽²⁾	272	349			817	1,048		
Other non-cash (income) expense, net ⁽³⁾	(3,360)	316			3,108	(6,090)		
EBITDA excluding non-cash items	13,490	13,760	(270)	(2.0)	47,418	47,060	358	0.8
EBITDA excluding non-cash items	13,490	13,760			47,418	47,060		
Interest expense, net ⁽¹⁾	(1,877)	(1,571)			(5,795)	(6,224)		
Adjustments to derivative instruments recorded in interest	23	(250)			113	506		

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expense⁽¹⁾

Amortization of debt financing costs ⁽¹⁾	99	96			303	848		
Provision for income taxes, net of changes in deferred taxes	(1,773)	(1,361)			(5,265)	(6,507)		
Changes in working capital	(2,535)	(1,394)			(12,852)	5,554		
Cash provided by operating activities	7,427	9,280			23,922	41,237		
Changes in working capital	2,535	1,394			12,852	(5,554)		
Maintenance capital expenditures	(1,825)	(1,978)			(4,406)	(5,251)		
Free cash flow	8,137	8,696	(559)	(6.4)	32,368	30,432	1,936	6.4

NM Not meaningful

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Results of Operations: MIC Hawaii (continued)

- Interest expense, net, includes adjustments to derivative instruments related to interest rate swaps and non-cash
- (1) amortization of deferred financing fees. For the nine months ended September 30, 2016, interest expense also included a non-cash write-off of deferred financing fees related to the February 2016 refinancing at Hawaii Gas.
 - (2) Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses.
 - (3) Other non-cash (income) expense, net, primarily includes non-cash adjustments related to unrealized gains (losses) on commodity hedges. See *Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* above for further discussion.

Revenue and Gross Margin

Revenue increased by \$10.0 million and \$41.9 million for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016, respectively. The increase is primarily attributable to contributions from acquisitions, an increase in the wholesale cost of gas and an increase of 0.1% and 1.7% in the volume of gas sold by Hawaii Gas for the quarter and nine months ended September 30, 2017, respectively. On an underlying basis, adjusting for changes in customer inventory, the volume of gas sold increased by 2.5% and 1.8% in the quarter and nine months ended September 30, 2017, respectively, compared with the quarter and nine months ended September 30, 2016.

Gross margin increased by \$3.8 million for the quarter ended September 30, 2017 compared with the quarter ended September 30, 2016 and decreased by \$5.3 million for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. The increase for the quarter ended September 30, 2017 is primarily attributable to unrealized gains on commodity hedges of \$4.0 million, compared with unrealized gains on commodity hedges of \$174,000 for the quarter ended September 30, 2016. The decrease for the nine months ended September 30, 2017 is primarily attributable to unrealized losses on commodity hedges of \$1.7 million compared with unrealized gains on commodity hedges of \$7.6 million for the nine months ended September 30, 2016.

Gross margin, excluding the impact of unrealized gains and losses on commodity hedges, remained flat for the quarter ended September 30, 2017 compared with the quarter ended September 30, 2016 and increased by \$4.0 million, or 6.5%, for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. The increase was primarily as a result of contributions from acquisitions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily due to incremental costs from acquisitions.

Depreciation and Amortization

Depreciation and amortization expense increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily due to incremental expenses associated with acquisitions.

Operating Income

Operating income increased for the quarter ended September 30, 2017 compared with the quarter ended September 30, 2016 due to the increase in gross margin, partially offset by an increase in depreciation and amortization expense and an increase in selling, general and administrative expenses. Operating income decreased for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016 due to the decrease in gross margin, an increase in selling, general and administrative expenses and an increase in depreciation and amortization expense.

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Results of Operations: MIC Hawaii (continued)

Interest Expense, Net

Interest expense includes gains on derivative instruments of \$15,000 and losses on derivative instruments of \$158,000 for the quarter and nine months ended September 30, 2017, respectively, compared with gains on derivative instruments of \$152,000 and losses on derivative instruments of \$691,000 for the quarter and nine months ended September 30, 2016, respectively. For the nine months ended September 30, 2016, interest expense also included the non-cash write-off of deferred financing costs at Hawaii Gas related to the refinancing of its \$80.0 million term loan and its \$60.0 million revolving credit facility. Excluding the derivative adjustments and the write-off of the deferred financing costs, interest expense increased for the quarter and nine months ended September 30, 2017 compared with the quarter and nine months ended September 30, 2016 primarily due to debt assumed from an acquisition and the financing of solar facilities constructed in the past year. Cash interest expense was \$1.8 million and \$5.4 million for the quarter and nine months ended September 30, 2017, respectively, compared with \$1.8 million and \$4.9 million for the quarter and nine months ended September 30, 2016, respectively.

Income Taxes

The taxable income generated by the MIC Hawaii businesses is reported on our consolidated federal income tax return and is subject to Hawaii state income tax on a stand-alone basis. The tax expense in the table above includes both state tax and the portion of the consolidated federal tax liability attributable to the businesses. For the year ending December 31, 2017, the business expects to pay state income taxes of approximately \$1.2 million. The *Provision for income taxes, net of changes in deferred taxes* of \$5.3 million for the nine months ended September 30, 2017 in the above table, includes \$3.9 million of federal income tax expense and \$1.4 million of state income tax expense. Any current federal income tax payable is expected to be offset in consolidation with the application of NOLs at the MIC holding company level.

Maintenance Capital Expenditures

For the nine months ended September 30, 2017, MIC Hawaii incurred maintenance capital expenditures of \$4.4 million and \$4.7 million on an accrual basis and cash basis, respectively, compared with \$5.3 million and \$6.0 million on an accrual basis and cash basis, respectively, for the nine months ended September 30, 2016.

Other Matters

Hawaii Gas utility gas rates are regulated by the Hawaii Public Utilities Commission (HPUC). On August 1, 2017, Hawaii Gas filed a general rate case application with the HPUC requesting an annual increase in regulated revenues of \$15.0 million. To the extent that new rates are approved by regulators, we expect that interim rate increases, if any, could take effect in mid-2018.

In August 2016, the City and County of Honolulu awarded the Honouliuli Wastewater Treatment Plant Biogas contract to Hawaii Gas. Under the terms of the agreement, Hawaii Gas will purchase approximately 800,000 therms of biogas per year at a fixed rate through December 31, 2024. On September 12, 2017, the agreement was approved by the HPUC. Operations are expected to commence in 2018.

Hawaii Gas currently sources naphtha feedstock for its SNG plant from Par Hawaii Refining, LLC. A new feedstock supply agreement to receive feedstock through December 31, 2020 from Par Hawaii Refining, LLC was approved on

TABLE OF CONTENTS**Results of Operations: *Corporate and Other***

	Quarter Ended		Change		Nine Months Ended		Change	
	September 30, 2017	2016	(Unfavorable)		September 30, 2017	2016	(Unfavorable)	
	\$	\$	\$	%	\$	\$	\$	%
(\$ In Thousands) (Unaudited)								
Fees to Manager-related party	17,954	18,382	428	2.3	54,610	49,570	(5,040)	(10.2)
Selling, general and administrative expenses ⁽¹⁾	6,214	3,925	(2,289)	(58.3)	21,301	8,831	(12,470)	(141.2)
Operating loss	(24,168)	(22,307)	(1,861)	(8.3)	(75,911)	(58,401)	(17,510)	(30.0)
Interest expense, net ⁽²⁾	(6,597)	(3,483)	(3,114)	(89.4)	(19,419)	(10,446)	(8,973)	(85.9)
Benefit for income taxes	11,181	10,859	322	3.0	37,149	30,055	7,094	23.6
Net loss	(19,584)	(14,931)	(4,653)	(31.2)	(58,181)	(38,792)	(19,389)	(50.0)
<i>Reconciliation of net loss to EBITDA excluding non-cash items and a reconciliation of cash used in operating activities to Free Cash Flow:</i>								
Net loss	(19,584)	(14,931)			(58,181)	(38,792)		
Interest expense, net ⁽²⁾	6,597	3,483			19,419	10,446		
Benefit for income taxes	(11,181)	(10,859)			(37,149)	(30,055)		
Fees to Manager-related party	17,954	18,382			54,610	49,570		
Other non-cash expense	159	188			534	563		
EBITDA excluding non-cash items	(6,055)	(3,737)	(2,318)	(62.0)	(20,767)	(8,268)	(12,499)	(151.2)
EBITDA excluding non-cash items	(6,055)	(3,737)			(20,767)	(8,268)		
Interest expense, net ⁽²⁾	(6,597)	(3,483)			(19,419)	(10,446)		
Convertible senior notes interest ⁽³⁾	2,012				5,769			
Amortization of debt financing costs ⁽²⁾	988	613			2,969	1,837		
Amortization of debt discount ⁽²⁾	882				2,377			
Benefit for income taxes, net of changes in deferred taxes	474	1,308			5,645	6,824		
Changes in working capital	(2,934)	(2,703)			(6,691)	(8,634)		
Cash used in operating activities	(11,230)	(8,002)			(30,117)	(18,687)		
Changes in working capital	2,934	2,703			6,691	8,634		
Free cash flow	(8,296)	(5,299)	(2,997)	(56.6)	(23,426)	(10,053)	(13,373)	(133.0)

For the quarter and nine months ended September 30, 2017, selling, general and administrative expenses included \$1.4 million and \$6.8 million, respectively, of costs related to the implementation of a shared service initiative.

(1) Selling, general and administrative expenses for the quarter and nine months ended September 30, 2017 also includes \$3.0 million and \$7.9 million, respectively, of costs incurred in connection with the evaluation of various investment and acquisition opportunities.

(2) Interest expense, net, included non-cash amortization of deferred financing fees and non-cash amortization of debt discount related to the 2.00% Convertible Senior Notes due October 2023.

(3)

Represents the cash interest expense reclassified to Atlantic Aviation related to the 2.00% Convertible Senior Notes due October 2023, proceeds of which were used to pay down a portion of Atlantic Aviation's credit facility in October 2016.

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TABLE OF CONTENTS**Liquidity and Capital Resources****General**

Our primary cash requirements include normal operating expenses, debt service, debt principal payments, payments of dividends and capital expenditures. Our primary source of cash is operating activities, although we may draw on credit facilities for capital expenditures, issue new equity or debt or sell assets to generate cash.

At September 30, 2017, our consolidated debt outstanding totaled \$3,533.5 million (excluding adjustments for unamortized debt discounts), our consolidated cash balance totaled \$35.7 million and consolidated available capacity under our revolving credit facilities totaled \$971.0 million.

The following table shows MIC's proportionate debt obligations at October 31, 2017 (\$ in thousands):

Business	Debt	Weighted Average Remaining Life (in years)	Balance Outstanding ⁽¹⁾	Weighted Average Rate ⁽²⁾	
MIC Corporate	Revolving Facility	1.7	\$ 145,000	2.99	%
	Convertible Senior Notes	4.0	752,454	2.41	%
IMTT	Senior Notes	8.5	600,000	3.97	%
	Tax-Exempt Bonds	4.6	508,975	2.70	%
Atlantic Aviation ⁽³⁾	Revolving Facility	2.6	257,000	2.74	%
	Term Loan	3.9	392,500	2.75	%
CP	Revolving Facility	3.9	82,000	2.99	%
	Renewables Project Finance	14.6	265,356	4.81	%
MIC Hawaii ⁽⁴⁾	BEC Term Loan	4.8	253,500	3.91	%
	Term Loan	5.0	96,734	2.85	%
Total	Senior Notes	4.8	100,000	4.22	%
		5.6	\$ 3,453,519	3.18	%

(1) Proportionate to MIC's ownership interest.

(2) Reflects annualized interest rate on all facilities including interest rate hedges.

(3) Excludes \$1.5 million of stand-alone debt facility used to fund construction of a certain FBO.

(4) Excludes \$2.7 million of equipment loans at MIC Hawaii business.

The following table profiles each revolving credit facility at our businesses and at MIC Corporate as of October 31, 2017 (\$ in thousands):

Business	Debt	Weighted Average Remaining Life (in years)	Undrawn Amount	Interest Rate ⁽¹⁾
MIC Corporate	Revolving Facility	1.7	\$265,000	LIBOR + 1.750%

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IMTT	USD Revolving Facility	2.6	293,000	LIBOR + 1.500%
	CAD Revolving Facility	2.6	50,000	Bankers Acceptance Rate + 1.500%
Atlantic Aviation	Revolving Facility	3.9	268,000	LIBOR + 1.750%
CP BEC	Revolving Facility	4.8	25,000	LIBOR + 2.125%
CP Renewables	Revolving Facility	2.1	19,980	LIBOR + 2.000%
MIC Hawaii	Revolving Facility	4.3	60,000	LIBOR + 1.250%
Total		2.9	\$980,980	

(1)

Excludes commitment fees.

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We will, in general, apply available cash to the repayment of revolving credit facility balances as a means of minimizing interest expense and draw on those facilities to fund growth projects and for general corporate purposes.

We use revolving credit facilities at each of our operating companies and the holding company as a means of maintaining access to sufficient liquidity to meet future requirements, managing interest expense and funding growth projects. We base our assessment of the sufficiency of our liquidity and capital resources on the assumptions that:

our businesses overall generate, and are expected to continue to generate, significant operating cash flow; the ongoing capital expenditures associated with our businesses are readily funded from their respective operating cash flow or available debt facilities; and we will be able to refinance, extend and/or repay the principal amount of maturing long-term debt on terms that can be supported by our businesses.

We capitalize our businesses in part using floating rate bank debt with medium-term maturities between five and seven years. In general, we hedge the floating rate exposure for the majority of the term of these facilities. We also use longer dated private placement debt and other forms of capital including bond or hybrid debt instruments to capitalize our businesses. In general, the debt facilities at our businesses are non-recourse to the holding company and there are no cross-collateralization or cross-guarantee provisions in these facilities.

Our wind and solar facilities are financed primarily with fully amortizing non-recourse project finance style debt with maturities prior to or coterminous with the expiration of the underlying PPAs.

Analysis of Consolidated Historical Cash Flows

The following section discusses our sources and uses of cash on a consolidated basis. All intercompany activities such as corporate allocations, capital contributions to our businesses and distributions from our businesses have been excluded from the table as these transactions are eliminated in consolidation.

(\$ In Thousands)	Nine Months Ended		Change	
	September 30, 2017	September 30, 2016	Favorable/ (Unfavorable)	%
Cash provided by operating activities	\$ 397,669	\$ 436,988	(39,319)	(9.0)
Cash used in investing activities	(461,257)	(226,277)	(234,980)	(103.8)
Cash provided by (used in) financing activities	54,109	(205,220)	259,329	126.4

Operating Activities

Cash provided by (used in) operating activities is generally comprised of EBITDA excluding non-cash items (as defined by us), less cash interest, tax and pension payments, and changes in working capital. See Management's Discussion and Analysis of Financial Condition and Results of Operations *Results of Operations* for discussions around the components of EBITDA excluding non-cash items on a consolidated basis and for each of our businesses above.

The decrease in cash provided by operating activities for the nine months ended September 30, 2017 compared with

the nine months ended September 30, 2016 was primarily due to:

timing of payment of insurance premiums;
timing of and increases in cost of inventory at MIC Hawaii and Atlantic Aviation; and
an increase in current state taxes; partially offset by
improved operating results at existing businesses and contributions from acquisitions.

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Liquidity and Capital Resources (continued)

Investing Activities

Cash provided by investing activities include proceeds from divestitures of businesses and fixed assets. Cash used in investing activities include acquisitions of businesses in new and existing segments and capital expenditures. Acquisitions of businesses are generally funded by raising additional equity and/or drawings on credit facilities.

In general, maintenance capital expenditures are funded by cash from operating activities and growth capital expenditures are funded by drawing on our available credit facilities or with equity capital. See Management's Discussion and Analysis of Financial Condition and Results of Operations *Results of Operations* for maintenance capital expenditures for each of our businesses.

The increase in cash used in investing activities for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016 was primarily due to:

acquisitions at Atlantic Aviation and IMTT and investments in renewable projects at CP and MIC Hawaii during 2017;

an increase in capital expenditures primarily at BEC related to the 130 MW expansion project during 2017; net borrowings by a third party renewables developer on a revolving credit facility provided by our CP business; and the absence of insurance proceeds received by IMTT during 2016.

Growth Capital Expenditures

We invested \$208.1 million and \$152.3 million of growth capital in our existing businesses during the nine months ended September 30, 2017 and 2016, respectively.

We continuously evaluate opportunities to deploy capital in both growth projects and in acquisitions of additional businesses, whether as part of our existing businesses or in new lines of business. These opportunities can be significant. We are expanding BEC by 130 MW on adjacent land and expect to deploy approximately \$130.0 million growth capital on the project in 2017. In aggregate, we currently anticipate deploying at least \$650.0 million in these types of activities in 2017.

In addition, we maintain a backlog of projects that we expect to complete in subsequent periods. We consider projects to be a part of our backlog when we have committed to the deployment of capital for the underlying project, and have, where relevant, received all requisite approvals/authorizations for the deployment of such capital. The inclusion of a project in our backlog does not guarantee that the project will commence, be completed or ultimately generate revenue.

As of October 31, 2017, our backlog of approved growth capital projects was approximately \$215.0 million, and to date we have deployed or committed to deploy approximately \$545.0 million into growth projects and smaller acquisitions by our existing businesses.

Financing Activities

Cash provided by financing activities primarily includes new equity issuance and debt issuance related to acquisitions and capital expenditures. Cash used in financing activities primarily includes dividends to our stockholders and the repayment of debt principal balances on maturing debt.

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The change in cash provided by financing activities for the nine months ended September 30, 2017 compared with cash used in financing activities for the nine months ended September 30, 2016 was primarily due to:

higher net debt borrowings during 2017; and
the absence of the purchase of the remaining 33.3% interest in IMTT's Quebec terminal that it did not previously own in March 2016; partially offset by

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Liquidity and Capital Resources (continued)

an increase in dividends paid to stockholders during 2017; and
a decrease in contributions received from noncontrolling interests during 2017.

IMTT

During the nine months ended September 30, 2017, IMTT borrowed \$271.0 million and repaid \$46.0 million on its revolving credit facility primarily for general corporate purposes. At September 30, 2017, IMTT had \$1.4 billion of total debt outstanding consisting of \$600.0 million of senior notes, \$509.0 million of tax-exempt bonds and \$257.0 million drawn on its revolving credit facility. IMTT has access to \$600.0 million of revolving credit facilities, of which \$343.0 million remained undrawn at September 30, 2017. Cash interest expense was \$29.7 million and \$29.5 million for the nine months ended September 30, 2017 and 2016, respectively. At September 30, 2017, IMTT was in compliance with its financial covenants.

Atlantic Aviation

At September 30, 2017, Atlantic Aviation had total debt outstanding of \$476.0 million comprising \$392.5 million senior secured, first lien term loan facility, \$82.0 million outstanding on its senior secured, first lien revolving credit facility and a \$1.5 million stand-alone debt facility used to fund construction at a certain FBO. Atlantic Aviation has access to a \$350.0 million revolving credit facility, of which \$268.0 million remained undrawn at September 30, 2017.

Cash interest expense was \$15.4 million and \$20.5 million for the nine months ended September 30, 2017 and 2016, respectively. Cash interest expense for the nine months ended September 30, 2017 is inclusive of the interest expense related to the \$402.5 million of 2.00% Convertible Senior Notes due October 2023, the proceeds of which were used in part to reduce the drawn balance of Atlantic Aviation's revolving credit facility. At September 30, 2017, Atlantic Aviation was in compliance with its financial covenants.

CP

At September 30, 2017, the CP segment had \$584.4 million in term loans outstanding. Cash interest expense was \$20.6 million and \$18.5 million for the nine months ended September 30, 2017 and 2016, respectively.

BEC

At September 30, 2017, BEC had \$253.5 million of an amortizing term loan facility outstanding and access to a revolving credit facility of \$25.0 million that was undrawn. Cash interest expense was \$7.9 million and \$8.2 million for the nine months ended September 30, 2017 and 2016, respectively. At September 30, 2017, BEC was in compliance with its financial covenants.

Wind and Solar Facilities

At September 30, 2017, the wind and solar facilities had an aggregate \$330.9 million in term loan debt outstanding. Cash interest expense was \$12.7 million and \$10.3 million for the nine months ended September 30, 2017 and 2016, respectively. At September 30, 2017, all of the wind and solar facilities were in compliance with their respective financial covenants.

MIC Hawaii

At September 30, 2017, MIC Hawaii had total debt outstanding of \$199.6 million in term loans and senior secured note borrowings and access to a revolving credit facility of \$60.0 million that was undrawn. Cash interest expense was \$5.4 million and \$4.9 million for the nine months ended September 30, 2017 and 2016, respectively.

Hawaii Gas

At September 30, 2017, Hawaii Gas had total debt outstanding of \$180.0 million in term loan and senior secured note borrowings and access to a revolving credit facility of \$60.0 million that was undrawn. Cash interest paid was \$4.8 million and \$4.7 million for the nine months ended September 30, 2017 and 2016, respectively. At September 30, 2017, Hawaii Gas was in compliance with its financial covenants.

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Liquidity and Capital Resources (continued)

In February 2017, Hawaii Gas exercised the first of two one-year extensions related to its \$80.0 million secured term loan facility and its \$60.0 million revolving credit facility. The maturities have been extended to February 2022 and no changes were made to any other terms.

Other Businesses

At September 30, 2017, the other businesses within MIC Hawaii had \$19.6 million in outstanding debt, consisting primarily of \$16.9 million term loan debt related to our solar facilities. At September 30, 2017, these businesses were in compliance with their financial covenants.

MIC Corporate

At September 30, 2017, MIC had \$350.0 million and \$402.5 million in convertible senior notes outstanding that bear interest at 2.875% and 2.00%, respectively. At September 30, 2017, the outstanding balance on the senior secured revolving credit facility was \$155.0 million resulting in an undrawn balance of \$255.0 million. In October 2017, MIC repaid \$10.0 million on the outstanding balance on its revolving credit facility. Cash interest expense was \$8.3 million and \$8.6 million for the nine months ended September 30, 2017 and 2016, respectively. Cash interest expense for the nine months ended September 30, 2017 excludes the cash interest expense related to the \$402.5 million of 2.00% Convertible Senior Notes due October 2023, proceeds of which were used in part to reduce the drawn balance of Atlantic Aviation's revolving credit facility. See Atlantic Aviation above. At September 30, 2017, MIC Corporate was in compliance with its financial covenants.

For a description of the material terms and debt covenants of MIC and its businesses, see Note 7, Long-Term Debt, in Part II, Item 8, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Commitments and Contingencies

Except as noted above, at September 30, 2017, there were no material changes in our commitments and contingencies compared with our commitments and contingencies at December 31, 2016. At September 30, 2017, we did not have any material purchase obligations. For a discussion of our other future obligations, due by period, under the various contractual obligations, off-balance sheet arrangements and commitments, please see Liquidity and Capital Resources Commitments and Contingencies in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on February 21, 2017.

At September 30, 2017, we did not have any material reserves for contingencies. We have other contingencies occurring in the normal course of business, including pending legal and administrative proceedings that are not reflected at this time as they are not ascertainable.

Our sources of cash to meet these obligations include:

cash generated from our operations (see Operating Activities in Liquidity and Capital Resources);
issuance of shares or debt securities (see Financing Activities in Liquidity and Capital Resources);
refinancing of our current credit facilities at or before maturity (see Financing Activities in Liquidity and Capital Resources);
cash available from our undrawn credit facilities (see Financing Activities in Liquidity and Capital Resources); and

if advantageous, sale of all or part of any of our businesses (see Investing Activities in Liquidity and Capital Resources).

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Critical Accounting Policies and Estimates

For critical accounting policies and estimates, see *Critical Accounting Policies and Estimates* in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and see Note 2, *Basis of Presentation*, in our Notes to Consolidated Condensed Financial Statements in Part I of this Form 10-Q for recently issued accounting standards. Our critical accounting policies and estimates have not changed materially from the description contained in our Annual Report.

Business Combinations

Our acquisitions of businesses that we control are accounted for under the purchase method of accounting. The amounts assigned to the identifiable assets acquired and liabilities assumed in connection with acquisitions are based on estimated fair values as of the date of the acquisition, with the remainder, if any, recorded as goodwill. The fair values are determined by our management, taking into consideration information supplied by the management of acquired entities and other relevant information. Such information includes valuations supplied by independent appraisal experts for significant business combinations. The valuations are generally based upon future cash flow projections for the acquired assets, discounted to present value. The determination of fair values require significant judgment both by management and outside experts engaged to assist in this process.

Goodwill, Intangible Assets and Property, Plant and Equipment

Significant assets acquired in connection with our acquisition of businesses include contractual arrangements, customer relationships, non-compete agreements, trademarks, property and equipment and goodwill.

Trademarks are generally considered to be indefinite life intangibles. Trademarks and goodwill are not amortized in most circumstances although it may be appropriate to amortize some trademarks. We are required to perform annual impairment reviews (or more frequently in certain circumstances) for unamortized intangible assets.

ASU No. 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test, as discussed below. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test.

If an entity concludes that it is more likely than not that the fair value of reporting unit is less than its carrying amount, it needs to perform the two-step impairment test. This requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of each reporting unit based on a discounted cash flow model using revenue and profit forecasts and comparing those estimated fair values with the carrying values, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The determination of a reporting unit's implied fair value of goodwill requires the allocation of the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the implied fair value of goodwill, which is compared with its corresponding carrying value. IMTT, Atlantic Aviation, CP and the MIC Hawaii businesses are separate reporting units for purposes of this analysis. The impairment test for trademarks, which are not amortized, requires the determination of the fair value of such assets. If the fair value of the trademarks is less than their carrying value, an impairment loss is recognized in an amount equal to the difference. We cannot predict the occurrence of certain future events that might adversely affect

the reported value of goodwill and/or intangible assets. Such events include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, or material negative change in relationship with significant customers.

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Critical Accounting Policies and Estimates (continued)

Property and equipment is initially stated at cost. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the property and equipment after consideration of historical results and anticipated results based on our current plans. Our estimated useful lives represent the period the asset remains in service assuming normal routine maintenance. We review the estimated useful lives assigned to property and equipment when our business experience suggests that they do not properly reflect the consumption of economic benefits embodied in the property and equipment nor result in the appropriate matching of cost against revenue. Factors that lead to such a conclusion may include physical observation of asset usage, examination of realized gains and losses on asset disposals and consideration of market trends such as technological obsolescence or change in market demand.

Significant intangibles, including contractual arrangements, customer relationships, non-compete agreements and technology are amortized using the straight-line method over the estimated useful lives of the intangible asset after consideration of historical results and anticipated results based on our current plans. With respect to contractual arrangements at Atlantic Aviation, the useful lives will generally match the remaining lease terms plus extensions under the business control.

We perform impairment reviews of property and equipment and intangibles subject to amortization when events or circumstances indicate that assets are less than their carrying amount and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. In this circumstance, the impairment charge is determined based upon the amount by which the net book value of the assets exceeds their fair market value. Any impairment is measured by comparing the fair value of the asset to its carrying value.

The implied fair value of reporting units and fair value of property and equipment and intangible assets is determined by our management and is generally based upon future cash flow projections for the acquired assets, discounted to present value. We use outside valuation experts when management considers it is appropriate to do so.

We test for goodwill and indefinite-lived intangible assets annually as of October 1st or when there is an indicator of impairment.

Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see Part II, Item 7A Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Our exposure to market risk has not changed materially since February 21, 2017, the filing date for our Annual Report on Form 10-K.

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the direction and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. The purpose of disclosure controls is to ensure that information required to be disclosed in our reports filed with or submitted to the SEC under the Exchange Act is

recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to ensure that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2017.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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MACQUARIE INFRASTRUCTURE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(\$ in Thousands, Except Share Data)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$35,737	\$44,767
Restricted cash	22,809	16,420
Accounts receivable, less allowance for doubtful accounts of \$1,037 and \$1,434, respectively	145,506	124,846
Inventories	35,960	31,461
Prepaid expenses	13,799	14,561
Fair value of derivative instruments	8,675	5,514
Other current assets	16,742	7,099
Total current assets	279,228	244,668
Property, equipment, land and leasehold improvements, net	4,611,633	4,346,536
Investment in unconsolidated business	9,526	8,835
Goodwill	2,075,965	2,024,409
Intangible assets, net	931,433	888,971
Fair value of derivative instruments	18,743	30,781
Other noncurrent assets	28,835	15,053
Total assets	\$7,955,363	\$7,559,253
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Due to Manager-related party	\$6,098	\$6,594
Accounts payable	59,078	69,566
Accrued expenses	101,766	83,734
Current portion of long-term debt	48,335	40,016
Fair value of derivative instruments	3,992	9,297
Other current liabilities	40,932	41,802
Total current liabilities	260,201	251,009
Long-term debt, net of current portion	3,424,776	3,039,966
Deferred income taxes	955,542	896,116
Fair value of derivative instruments	5,807	5,966
Tolling agreements noncurrent	54,540	60,373
Other noncurrent liabilities	158,308	158,289
Total liabilities	4,859,174	4,411,719
Commitments and contingencies		

See accompanying notes to the consolidated condensed financial statements.

TABLE OF CONTENTS**MACQUARIE INFRASTRUCTURE CORPORATION**

**CONSOLIDATED CONDENSED BALANCE
SHEETS (continued)
(\$ in Thousands, Except Share Data)**

	September 30, 2017 (Unaudited)	December 31, 2016
Stockholders' equity ⁽¹⁾ :		
Common stock (\$0.001 par value; 500,000,000 authorized; 84,481,865 shares issued and outstanding at September 30, 2017 and 82,047,526 shares issued and outstanding at December 31, 2016)	\$84	\$82
Additional paid in capital	1,942,417	2,089,407
Accumulated other comprehensive loss	(26,222)	(28,960)
Retained earnings	994,495	892,365
Total stockholders' equity	2,910,774	2,952,894
Noncontrolling interests	185,415	194,640
Total equity	3,096,189	3,147,534
Total liabilities and equity	\$7,955,363	\$7,559,253

The Company is authorized to issue 100,000,000 shares of preferred stock, par value \$0.001 per share. At (1) September 30, 2017 and December 31, 2016, no preferred stock were issued or outstanding. The Company has 100 shares of special stock issued and outstanding to its Manager at September 30, 2017 and December 31, 2016.

See accompanying notes to the consolidated condensed financial statements.

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MACQUARIE INFRASTRUCTURE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(\$ in Thousands, Except Share and Per Share Data)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue				
Service revenue	\$358,220	\$323,975	\$1,067,069	\$942,437
Product revenue	94,841	96,549	276,439	272,053
Total revenue	453,061	420,524	1,343,508	1,214,490
Costs and expenses				
Cost of services	153,218	134,512	455,038	371,832
Cost of product sales	35,669	39,845	123,143	107,923
Selling, general and administrative	84,898	77,468	244,817	222,182
Fees to Manager related party	17,954	18,382	54,610	49,570
Depreciation	58,009	59,242	172,753	172,125
Amortization of intangibles	17,329	15,417	50,920	49,917
Total operating expenses	367,077	344,866	1,101,281	973,549
Operating income	85,984	75,658	242,227	240,941
Other income (expense)				
Interest income	54	27	129	85
Interest expense ⁽¹⁾	(29,291)	(20,871)	(90,129)	(117,268)
Other income, net	4,973	16,689	7,893	20,389
Net income before income taxes	61,720	71,503	160,120	144,147
Provision for income taxes	(25,547)	(29,022)	(65,284)	(60,409)
Net income	\$36,173	\$42,481	\$94,836	\$83,738
Less: net (loss) income attributable to noncontrolling interests	(3,922)	455	(7,294)	165
Net income attributable to MIC	\$40,095	\$42,026	\$102,130	\$83,573
Basic income per share attributable to MIC	\$0.48	\$0.52	\$1.23	\$1.04
Weighted average number of shares outstanding: basic	83,644,806	81,220,841	82,743,285	80,570,192
Diluted income per share attributable to MIC	\$0.48	\$0.51	\$1.23	\$1.03
Weighted average number of shares outstanding: diluted	87,916,538	85,750,096	82,752,800	81,313,767
Cash dividends declared per share	\$1.42	\$1.29	\$4.12	\$3.74

(1)

Interest expense includes losses on derivative instruments of \$162,000 and \$6.9 million for the quarter and nine months ended September 30, 2017, respectively. For the quarter and nine months ended September 30, 2016, interest expense includes gains on derivative instruments of \$3.7 million and losses on derivative instruments of \$43.0 million, respectively.

See accompanying notes to the consolidated condensed financial statements.

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MACQUARIE INFRASTRUCTURE CORPORATION

**CONSOLIDATED CONDENSED STATEMENTS OF
COMPREHENSIVE INCOME**

(Unaudited)

(\$ in Thousands)

	Quarter Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Net income	\$36,173	\$ 42,481	\$94,836	\$ 83,738
Other comprehensive income, net of taxes:				
Translation adjustment ⁽¹⁾⁽²⁾	1,641	14	2,738	3,575
Other comprehensive income	1,641	14	2,738	3,575
Comprehensive income	\$37,814	\$ 42,495	\$97,574	\$ 87,313
Less: comprehensive (loss) income attributable to noncontrolling interests ⁽²⁾	(3,922)	455	(7,294)	1,599
Comprehensive income attributable to MIC	\$41,736	\$ 42,040	\$104,868	\$ 85,714

Translation adjustment is presented net of tax expense of \$1.1 million and \$1.9 million for the quarter and nine (1) months ended September 30, 2017, respectively. For the quarter and nine months ended September 30, 2016, translation adjustment is presented net of tax expense of \$9,000 and \$1.5 million, respectively.

- (2) On March 31, 2016, IMTT acquired the remaining 33.3% interest in its Quebec terminal that it did not previously own. As part of this transaction, the translation adjustment of \$4.6 million, net of taxes, was reclassified from noncontrolling interests to accumulated other comprehensive loss. See Note 8, Stockholders' Equity, for disclosures on accumulated other comprehensive loss.

See accompanying notes to the consolidated condensed financial statements.

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MACQUARIE INFRASTRUCTURE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited) (\$ in Thousands)

	Nine Months Ended September 30,	
	2017	2016
Operating activities		
Net income	\$94,836	\$83,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	172,753	172,125
Amortization of intangible assets	50,920	49,917
Amortization of debt financing costs	6,464	7,536
Amortization of debt discount	2,377	
Adjustments to derivative instruments	3,414	20,022
Fees to Manager- related party	54,610	49,570
Deferred taxes	56,791	55,126
Pension expense	6,481	6,512
Other non-cash income, net	(2,651)	(2,255)
Changes in other assets and liabilities, net of acquisitions:		
Restricted cash	(691)	727
Accounts receivable	(18,938)	(10,094)
Inventories	(4,563)	(1,047)
Prepaid expenses and other current assets	(7,040)	5,967
Due to Manager-related party	(178)	21
Accounts payable and accrued expenses	(4,444)	(3,365)
Income taxes payable	(1,223)	3,848
Other, net	(11,249)	(1,360)
Net cash provided by operating activities	397,669	436,988
Investing activities		
Acquisitions of businesses and investments, net of cash acquired	(208,377)	(38,989)
Purchases of property and equipment	(234,833)	(198,151)
Proceeds from insurance claim		10,002
Loan to project developer	(18,675)	
Loan repayment from project developer	6,604	
Change in restricted cash	(6,154)	
Other, net	178	861
Net cash used in investing activities	(461,257)	(226,277)

See accompanying notes to the consolidated condensed financial statements.

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MACQUARIE INFRASTRUCTURE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF

CASH FLOWS (continued)

(Unaudited)

(\$ in Thousands)

	Nine Months Ended	
	September 30,	
	2017	2016
Financing activities		
Proceeds from long-term debt	\$ 585,500	\$ 370,000
Payment of long-term debt	(200,722)	(295,950)
Proceeds from the issuance of shares	5,699	7,651
Dividends paid to common stockholders	(332,867)	(290,527)
Contributions received from noncontrolling interests	102	15,431
Purchase of noncontrolling interest		(9,909)
Distributions paid to noncontrolling interests	(2,962)	(3,682)
Offering and equity raise costs paid	(355)	(678)
Debt financing costs paid	(447)	(1,784)
Change in restricted cash	527	5,379
Payment of capital lease obligations	(366)	(1,151)
Net cash provided by (used in) financing activities	54,109	(205,220)
Effect of exchange rate changes on cash and cash equivalents	449	494
Net change in cash and cash equivalents	(9,030)	5,985
Cash and cash equivalents, beginning of period	44,767	22,394
Cash and cash equivalents, end of period	\$ 35,737	\$ 28,379
Supplemental disclosures of cash flow information		
Non-cash investing and financing activities:		
Accrued equity offering costs	\$ 97	\$ 90
Accrued financing costs	\$ 21	\$ 548
Accrued purchases of property and equipment	\$ 33,184	\$ 31,728
Issuance of shares to Manager	\$ 54,927	\$ 116,373
Issuance of shares to independent directors	\$ 681	\$ 750
Issuance of shares for acquisition of business	\$ 125,000	\$
Conversion of convertible senior notes to shares	\$ 17	\$ 4
Distributions payable to noncontrolling interests	\$ 32	\$ 10
Taxes paid, net	\$ 9,810	\$ 1,426
Interest paid	\$ 82,108	\$ 81,998

See accompanying notes to the consolidated condensed financial statements.

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MACQUARIE INFRASTRUCTURE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Description of Business

Macquarie Infrastructure Corporation is a Delaware corporation formed on May 21, 2015. MIC's predecessor, Macquarie Infrastructure Company LLC, was formed on April 13, 2004. Macquarie Infrastructure Corporation, both on an individual entity basis and together with its consolidated subsidiaries, is referred to in these financial statements as the Company or MIC.

MIC is externally managed by Macquarie Infrastructure Management (USA) Inc. (the Manager), pursuant to the terms of a Management Services Agreement, that is subject to the oversight and supervision of the Board of Directors. The majority of the members of the Board of Directors have no affiliation with Macquarie. The Manager is a member of the Macquarie Group of companies comprising the Macquarie Group Limited and its subsidiaries and affiliates worldwide. Macquarie Group Limited is headquartered in Australia and is listed on the Australian Stock Exchange.

The Company owns its businesses through its direct wholly-owned subsidiary MIC Ohana Corporation, the successor to Macquarie Infrastructure Company Inc. The Company owns and operates a diversified portfolio of businesses that provide services to other businesses, government agencies and individuals primarily in the U.S. The businesses it owns and operates are organized into four segments:

International-Matex Tank Terminals (IMTT): a terminalling business providing bulk liquid storage, handling and other services to third parties at seventeen terminals in the U.S. and two in Canada;

Atlantic Aviation: a provider of fuel, terminal, aircraft hangaring and other services primarily to owners and operators of general aviation (GA) jet aircraft at 70 airports throughout the U.S.;

Contracted Power (CP): comprising a gas-fired facility and controlling interests in wind and solar facilities in the U.S.; and

MIC Hawaii: comprising an energy company that processes and distributes gas and provides related services (Hawaii Gas), and several smaller businesses collectively engaged in efforts to reduce the cost and improve the reliability and sustainability of energy, all based in Hawaii.

2. Basis of Presentation

The unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

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The consolidated balance sheet at December 31, 2016 has been derived from audited financial statements but does not include all of the information and notes required by GAAP for complete financial statements. Certain reclassifications were made to the financial statements for the prior period to conform to current period presentation.

The interim financial information contained herein should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2016 included in the Company's Annual Report on Form 10-K, as filed with the SEC on February 21, 2017. Operating results for the quarter and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or for any future interim periods.

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MACQUARIE INFRASTRUCTURE CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL
STATEMENTS
(Unaudited)

2. Basis of Presentation (continued)

Use of Estimates

The preparation of unaudited consolidated condensed financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures related thereto at the date of the unaudited consolidated condensed financial statements and the reported amounts of revenue and expenses during the reporting period. Management evaluates these estimates and assumptions on an ongoing basis.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the unaudited interim consolidated condensed financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from estimates.

Recently Issued Accounting Standards

On January 26, 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the measurement of goodwill subsequent to a business combination, and no longer requires an entity to perform a hypothetical purchase price allocation when computing implied fair value to measure goodwill impairment. Instead, impairment will be assessed by quantifying the difference between the fair value of a reporting unit and its carrying amount. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, on condition that the charge doesn't exceed the total amount of goodwill allocated to that reporting unit. The guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 for public issuers and shall be applied prospectively. Early adoption is permitted. The Company will evaluate this ASU prospectively as part of its goodwill impairment testing when it adopts the provisions of this ASU.

On January 5, 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which provides a restrictive framework for determining whether business transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Determining whether a Company acquires a set of assets or a business will impact the initial measurement, the accounting treatment of direct acquisition related costs, contingent considerations and the bargain purchase price. The guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 for public issuers and shall be applied prospectively. Early adoption is permitted. The Company will evaluate this ASU prospectively on asset acquisitions and business combinations when it adopts the provisions of this ASU.

On November 17, 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires companies to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. The guidance will be applied retrospectively and is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted. The Company will include appropriate disclosures related to restricted cash in accordance with the standard when it adopts the provisions of this ASU.

On February 25, 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require all leases with an initial term greater than one year to be recognized on the balance sheet as a right-of-use asset and a lease liability.

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(Unaudited)

2. Basis of Presentation (continued)

The Company also serves as a lessor primarily through operating leases. The accounting for lessors is not expected to fundamentally change except for changes to conform and align existing guidance to the lessee guidance under ASU 2016-02, as well as to the new revenue recognition guidance in ASU 2014-09. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is allowed.

The standard is to be applied using a modified retrospective approach. The Company has begun evaluating and planning for the adoption and implementation of ASU 2016-02, including assessing the overall impact. ASU 2016-02 will have a material impact on the Company's consolidated balance sheets; however, the full impact to the overall financial statements has not yet been determined. The impact on the Company's results of operations is being evaluated.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new guidance sets forth a five-step revenue recognition model which replaces the current revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance and requires more detailed disclosures. To further assist with adoption and implementation of ASU 2014-09, the FASB issued the following ASUs:

ASU 2015-14 (Issued August 2015) *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*;

ASU 2016-08 (Issued March 2016) *Principal versus Agent Consideration (Reporting Revenue Gross versus Net)*;

ASU 2016-10 (Issued April 2016) *Identifying Performance Obligations and Licensing*;

ASU 2016-12 (Issued May 2016) *Narrow-Scope Improvements and Practical Expedients*; and

ASU 2016-20 (Issued December 2016) *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*.

The new standard is effective for the Company on January 1, 2018.

There are two adoption methods available for implementation of the standard related to the recognition of revenue from contracts with customers. Under one method, the new guidance is applied retrospectively to contracts for each reporting period presented, subject to allowable practical expedients. Under the other method, referred to as the modified retrospective method, the new guidance is applied only to the most current period presented, recognizing the cumulative effect of the change to prior period amounts as an adjustment to the beginning balance of retained earnings, and also requires additional disclosures comparing the results to the previous guidance. The Company will adopt this standard using the modified retrospective method and is currently evaluating the impact that this standard will have on the Company's consolidated financial statements, and the changes to its systems, processes and internal controls to meet the reporting and disclosure requirements.

The Company believes key changes in the standard that impact the Company's revenue recognition relate to the allocation of contract revenue between various services and equipment, and the timing of when those revenues are recognized. The Company is still in the process of evaluating the magnitude of these impacts and other areas of the standard and the effect on the Company's financial statements and related disclosures. In addition, the Company currently includes sales, excise and value-added taxes related to sales transactions within revenue on the consolidated statements of operations. Upon adoption of ASU 2014-09, the Company will exclude sales-based taxes collected on behalf of third parties from service and product revenue and include these amounts in cost of services and product sales. The result will be a reclassification on the consolidated statements of operations.

ASU 2014-09 also introduces new qualitative and quantitative disclosure requirements about contracts with customers including revenue and impairments recognized, disaggregation of revenue and information

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2. Basis of Presentation (continued)

about contract balance and performance obligations. Information is required about significant judgments and changes in judgments in determining the timing of satisfaction of performance obligations. The Company is in process of evaluating what additional information will be disclosed, but expects the overall level of disclosures related to revenue recognition to increase.

The Company continues to evaluate its individual contracts by identifying the performance obligations included within its revenue arrangements with customers and is also evaluating its method of estimating the amount and timing of variable consideration. In addition, the Company awaits the final resolution of certain industry-specific implementation issues in order to determine the impact, if any, this standards update will have on its consolidated financial statements. While the impact remains subject to continued review, the Company does not believe the adoption of this ASU will have a material impact on its financial condition, results of operations and cash flows.

On July 22, 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU will not apply to inventories that are measured by using either the last-in, first-out (LIFO) method or the retail inventory method. The guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company has adopted this ASU and it had an immaterial impact to the Company's financial condition, results of operations and cash flows.

3. Income per Share

Following is a reconciliation of the basic and diluted income per share computations (\$ in thousands, except share and per share data):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income attributable to MIC	\$40,095	\$42,026	\$102,130	\$83,573
Interest expense attributable to 2.875% Convertible senior notes due July 2019, net of taxes	1,941	1,635		

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Diluted net income attributable to MIC	\$42,036	\$43,661	\$102,130	\$83,573
Denominator:				
Weighted average number of shares outstanding: basic	83,644,806	81,220,841	82,743,285	80,570,192
Dilutive effect of restricted stock unit grants	9,435	10,755	9,515	9,700
Dilutive effect of fees to Manager-related party		318,102		733,875
Dilutive effect of 2.875% Convertible senior notes due July 2019	4,262,297	4,200,398		
Weighted average number of shares outstanding: diluted	87,916,538	85,750,096	82,752,800	81,313,767
Income per share:				
Basic income per share attributable to MIC	\$0.48	\$0.52	\$1.23	\$1.04
Diluted income per share attributable to MIC	\$0.48	\$0.51	\$1.23	\$1.03

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3. Income per Share (continued)

The effect of potentially dilutive shares for the quarter ended September 30, 2017 is calculated assuming that (i) the restricted stock unit grants totaling 9,435 provided to the independent directors on May 17, 2017, which will vest during the second quarter of 2018, had been fully converted to shares on the grant date; and (ii) the 2.875% Convertible Senior Notes due July 2019 had been fully converted into shares on the date of issuance. The 2.00% Convertible Senior Notes due October 2023 were anti-dilutive for the quarter ended September 30, 2017.

The effect of potentially dilutive shares for the nine months ended September 30, 2017 is calculated assuming that (i) the restricted stock unit grants totaling 9,435 provided to the independent directors on May 17, 2017, which will vest during the second quarter of 2018, had been fully converted into shares on the grant date; and (ii) the 8,604 restricted stock unit grants (net of 2,151 restricted stock unit grants forfeited on September 30, 2016) provided to the independent directors on May 18, 2016 and restricted stock units grants of 991 provided to a new independent director on November 1, 2016, which vested during the second quarter of 2017, had been fully converted to shares on those grant dates. The 2.00% Convertible Senior Notes due October 2023 and the 2.875% Convertible Senior Notes due July 2019 were anti-dilutive for the nine months ended September 30, 2017.

The effect of potentially dilutive shares for the quarter ended September 30, 2016 is calculated assuming that (i) the restricted stock units grants totaling 10,755 provided to the independent directors on May 18, 2016 (of which 2,151 restricted stock unit grants were subsequently forfeited on September 30, 2016), which vested during the second quarter of 2017, had been fully converted to shares on the grant date; (ii) the \$67.8 million of performance fee for the quarter ended June 30, 2015, which was reinvested in shares by the Manager on August 1, 2016, had been reinvested in shares by the Manager in July 2015; and (iii) the 2.875% Convertible Senior Notes due July 2019 had been fully converted into shares on that date of issuance.

The effect of potentially dilutive shares for the nine months ended September 30, 2016 is calculated assuming that (i) the restricted stock units grants totaling 10,755 provided to the independent directors on May 18, 2016 (of which 2,151 restricted stock unit grants were subsequently forfeited on September 30, 2016), which vested during the second quarter of 2017, had been fully converted to shares on the grant date; (ii) the 8,660 restricted stock unit grants provided to the independent directors on June 18, 2015, which vested during the second quarter of 2016, had been fully converted to shares on the grant date; and (iii) the \$67.8 million of performance fee for the quarter ended June 30, 2015, which was reinvested in shares by the Manager on August 1, 2016, had been reinvested in shares by the Manager in July 2015. The 2.875% Convertible Senior Notes due July 2019 were anti-dilutive for the nine months ended September 30, 2016.

The following represents the weighted average potential dilutive shares of common stock that were excluded from the diluted income per share calculation:

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	Quarter Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
2.875% Convertible senior notes due July 2019			4,237,753	4,168,454
2.00% Convertible senior notes due October 2023	3,608,218		3,603,742	
Total	3,608,218		7,841,495	4,168,454

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4. Property, Equipment, Land and Leasehold Improvements

Property, equipment, land and leasehold improvements at September 30, 2017 and December 31, 2016 consisted of the following (\$ in thousands):

	September 30, 2017	December 31, 2016
Land	\$ 315,025	\$ 304,240
Easements	131	131
Buildings	43,670	41,711
Leasehold and land improvements	811,245	673,122
Machinery and equipment	3,945,737	3,764,553
Furniture and fixtures	38,654	35,454
Construction in progress	333,028	233,184
	5,487,490	5,052,395
Less: accumulated depreciation	(875,857)	(705,859)
Property, equipment, land and leasehold improvements, net	\$ 4,611,633	\$ 4,346,536
	2017 Acquisitions	

During the nine months ended September 30, 2017, the Company invested approximately \$335.0 million in acquisitions primarily consisting of seven bulk liquid storage terminals, two fixed based operations (FBOs) and construction in progress solar facilities. The Company treated these as business combinations and substantially all of the purchase price was preliminarily allocated to property, equipment, land and leasehold improvements of approximately \$195.0 million, intangible assets of approximately \$90.0 million and goodwill of approximately \$50.0 million, all of which are tax deductible. The purchase price allocation for these acquisitions is preliminary and will be finalized within twelve months of the respective acquisition dates. The pro forma effects of these acquisitions are not material.

5. Intangible Assets and Goodwill

Intangible assets at September 30, 2017 and December 31, 2016 consisted of the following (\$ in thousands):