Macquarie Infrastructure Corp
Form 10-Q
October 31, 2016

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2016

OR

o **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 x No o

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 x No o

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

Large Accelerated Filer x	Accelerated Filer o	Non-accelerated Filer o	Smaller Reporting Company o

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

There were 81,834,248 shares of common stock, with $0.001 par value, outstanding at October 28, 2016.

MACQUARIE INFRASTRUCTURE CORPORATION

TABLE OF CONTENTS

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.

i

TABLE OF CONTENTS

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 , shoul 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 Form 10-K for the year ended December 31, 2015, 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.

TABLE OF CONTENTS

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 should be read in conjunction with the consolidated condensed financial statements and the notes to those statements included elsewhere herein.

Macquarie Infrastructure Corporation is the successor to Macquarie Infrastructure Company LLC (MIC LLC) pursuant to the conversion (the Conversion) of MIC LLC from a Delaware limited liability company to a Delaware corporation on May 21, 2015. MIC 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 (i) from and after th time of the Conversion, to Macquarie Infrastructure Corporation and its subsidiaries and (ii) prior to the Conversion, to our predecessor MIC LLC and its subsidiaries. Except as otherwise specified, all references in this Form 10-Q to common stock or shares refer (i) from and after the time of the Conversion, to common stock and (ii) prior to the Conversion, LLC interests. Macquarie Infrastructure Management (USA) Inc., which we refer to as our Manager, is part of the Macquarie Group, comprising Macquarie Group Limited and its subsidiaries and affiliates worldwide.

We own and operate a diversified group of businesses that provide services to other businesses, government agencies and individuals primarily in the U.S. The businesses we own and operate include:

International-Matex Tank Terminals, or IMTT: a bulk liquid terminals business providing bulk liquid storage, handling and other services to third parties at ten marine terminals in the United States 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) aircraft at 69 airports in the United States;
Contracted Power and Energy segment, or CP&E: ownership of a gas-fired power facility and controlling interests in wind and solar power facilities in the United States; and
MIC Hawaii: ownership of an energy company that processes and distributes gas and provides related services (Hawaii Gas), controlling interests in renewable and distributed power facilities and ownership of a design-build mechanical contractor focused on energy efficiency, 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

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 Free Cash Flow, EBITDA excluding non-cash items and certain proportionately combined financial metrics. Proportionately combined financial metrics reflect MIC Corporate and our ownership interest in each of our businesses.

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.

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 margin earned on those transactions and the management of operating expenses independent of the capitalization and tax attributes of those businesses.

1

TABLE OF CONTENTS

See Management s Discussion and Analysis of Financial Condition and Results of Operations *Results of Operations Consolidated Free Cash Flow, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items and Proportionately Combined Metrics* for further information on our calculation of Free Cash Flow, EBITDA excluding non-cash items and our proportionately combined metrics in Part I of this Form 10-Q.

At IMTT, we focus on providing bulk liquid storage, handling and other services for 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 base operations (FBOs). Atlantic Aviation s gross profit is correlated with the number of GA flight movements in the U.S. and the business ability to service a portion of the aircraft involved in those operations.

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

MIC Hawaii comprises Hawaii Gas and several smaller businesses collectively engaged in reducing the cost and improving 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, 2015, MIC has paid or declared the following dividends:

Declared	Period Covered	$ per Share	Record Date	Payable Date
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
October 29, 2015	Third quarter 2015	$ 1.13	November 13, 2015	November 18, 2015
July 30, 2015	Second quarter 2015	$ 1.11	August 13, 2015	August 18, 2015
April 30, 2015	First quarter 2015	$ 1.07	May 14, 2015	May 19, 2015
February 17, 2015	Fourth quarter 2014	$ 1.02	March 2, 2015	March 5, 2015

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 $1.29 per share for the quarter ended September 30, 2016, or a 3.2% increase over the dividend for the quarter ended June 30, 2016 and 14.2% increase over the dividend for the quarter ended September 30, 2015. 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 shareholders 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.

Over the long term, we believe we will distribute between 75% and 85% of the Free Cash Flow generated by our businesses as a cash dividend. We define Free Cash Flow as cash from operating activities, 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 excludes changes in working capital. For the avoidance of doubt, base management fees and performance fees, if any, are excluded from the calculation of Free Cash Flow whether paid in cash or stock.

2

TABLE OF CONTENTS

Results of Operations

Consolidated

Key Factors Affecting Operating Results for the Quarter:

an improvement in gross profit; and
an increase in other income, net, from our IMTT and CP&E businesses; partially offset by
an increase in selling, general and administrative expenses.

Our consolidated results of operations are as follows:

	Quarter Ended September 30, 2016	2015	Change Favorable/(Unfavorable) $	%	Nine Months Ended September 30, 2016	2015	Change Favorable/(Unfavorable) $	%
	($ In Thousands, Except Share and Per Share Data) (Unaudited)							
Revenue								
Service revenue	$323,975	$319,827	4,148	1.3	$942,437	$973,638	(31,201)	(3.2)
Product revenue	96,549	95,882	667	0.7	272,053	264,258	7,795	2.9
Total revenue	420,524	415,709	4,815	1.2	1,214,490	1,237,896	(23,406)	(1.9)
Costs and expenses								
Cost of services (exclusive of depreciation and amortization of intangibles shown separately below)	134,512	138,353	3,841	2.8	371,832	420,187	48,355	11.5
Cost of product sales (exclusive of depreciation and amortization of intangibles shown separately below)	39,845	41,035	1,190	2.9	107,923	125,409	17,486	13.9
Gross profit	246,167	236,321	9,846	4.2	734,735	692,300	42,435	6.1
Selling, general and administrative	77,468	73,901	(3,567)	(4.8)	222,182	225,618	3,436	1.5
Fees to Manager-related party	18,382	18,118	(264)	(1.5)	49,570	337,950	288,380	85.3
Depreciation	59,242	53,070	(6,172)	(11.6)	172,125	162,293	(9,832)	(6.1)
Amortization of intangibles	15,417	17,783	2,366	13.3	49,917	83,656	33,739	40.3
Total operating expenses	170,509	162,872	(7,637)	(4.7)	493,794	809,517	315,723	39.0
Operating income (loss)	75,658	73,449	2,209	3.0	240,941	(117,217)	358,158	NM
Other income (expense)								

Interest income	27	21	6	28.6	85	34	51	150.0
Interest expense[1]	(20,871)	(54,761)	33,890	61.9	(117,268)	(108,624)	(8,644)	(8.0)
Other income, net	16,689	772	15,917	NM	20,389	2,392	17,997	NM
Net income (loss) before income taxes	71,503	19,481	52,022	NM	144,147	(223,415)	367,562	164.5
(Provision) benefit for income taxes	(29,022)	(11,139)	(17,883)	(160.5)	(60,409)	77,725	(138,134)	(177.7)
Net income (loss)	$42,481	$8,342	34,139	NM	$83,738	$(145,690)	229,428	157.5
Less: net income (loss) attributable to noncontrolling interests	455	(2,296)	(2,751)	(119.8)	165	(4,230)	(4,395)	(103.9)
Net income (loss) attributable to MIC	$42,026	$10,638	31,388	NM	$83,573	$(141,460)	225,033	159.1
Basic income (loss) per share attributable to MIC	$0.52	$0.13	0.39	NM	$1.04	$(1.83)	2.87	156.8
Weighted average number of shares outstanding: basic	81,220,841	79,625,436	1,595,405	2.0	80,570,192	77,364,257	3,205,935	4.1

NM Not meaningful

(1) Interest expense includes 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. For the quarter and nine months ended September 30, 2015, interest expense includes losses on derivative instruments of $29.5 million and $38.4 million, respectively.

3

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

Gross Profit

Consolidated gross profit increased for the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015 primarily reflecting improved results at Atlantic Aviation and CP&E, principally our renewables business, and contribution from acquisitions within MIC Hawaii. In addition, consolidated gross profit increased for the nine months ended September 30, 2016 due to the contribution from the acquisition of Bayonne Energy Center (BEC) and unrealized gains on commodity hedges at Hawaii Gas.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the quarter ended September 30, 2016 compared with the quarter ended September 30, 2015 primarily due to costs associated with acquired FBOs, higher salaries and benefit costs and higher rent expense at Atlantic Aviation, transactional and incremental costs from new acquisitions at MIC Hawaii and professional fees associated with the implementation of a shared services center.

Selling, general and administrative expenses decreased for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015 primarily due to absence of transaction costs related to the BEC acquisition, costs associated with the Conversion and a decrease in costs at CP&E, primarily our renewables business. The decrease is partially offset by incremental expenses associated with BEC for the first quarter of 2016 and the increases reflected in the quarter ended September 30, 2016.

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 our total shareholder return relative to a U.S. utilities index. For the quarter and nine months ended September 30, 2016, we incurred base management fees of $18.4 million and $49.6 million, respectively, and no performance fees. For the quarter and nine months ended September 30, 2015, we incurred base management fees of $18.1 million and $53.6 million, respectively, and performance fees of $284.4 million for the nine months ended September 30, 2015. In accordance with the Third Amended and Restated Management Service Agreement, our Manager has currently elected to reinvest base management fees, and performance fees, if any, in additional shares.

The unpaid portion of the base management fees and performance fees, if any, at the end of each reporting period is included in Due to Manager-related party in our consolidated condensed balance sheets. The following table shows our Manager s reinvestment of its base management fees and performance fees, if any, in shares, except as noted:

Period	Base Management Fee Amount ($ in thousands)	Performance Fee Amount ($ in thousands)	Shares Issued
2016 Activities:			
Third quarter 2016	$ 18,382	$	232,488 (1)
Second quarter 2016	16,392		232,835

First quarter 2016	14,796		234,179
2015 Activities:			
Fourth quarter 2015	$ 17,009	$	227,733
Third quarter 2015	18,118		226,914
Second quarter 2015	18,918	135,641	1,167,873 (2)
First quarter 2015	16,545	148,728	2,068,038

(1) Our Manager elected to reinvest all of the monthly base management fees for the third quarter of 2016 in shares. We issued 232,488 shares for the quarter ended September 30, 2016, including 77,751 shares that were issued in October 2016 for the September 2016 monthly base management fee.

4

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

(2) In July 2015, our Board requested, and our Manager agreed, that $67.8 million of the performance fee for the quarter ended June 30, 2015 be settled in cash in July 2015 to minimize dilution. The remaining $67.8 million obligation was settled and reinvested in 944,046 shares by our Manager on August 1, 2016 using the June 2016 volume weighted average share price of $71.84.

Depreciation

Depreciation expense increased for the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015 primarily due to the write-off of damaged tanks and docks at IMTT and the depreciation associated with FBOs acquired by Atlantic Aviation. The increase in depreciation expense for the nine months ended September 30, 2016 also includes the depreciation associated with the BEC acquisition, partially offset by the absence of non-cash impairments at Atlantic Aviation.

Amortization of Intangibles

Amortization of intangibles decreased for the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015 primarily due to certain intangibles being fully amortized at Atlantic Aviation. The decrease in amortization of intangibles for the nine months ended September 30, 2016 also reflects the absence of non-cash impairments at Atlantic Aviation recorded during the first quarter of 2015, partially offset by the incremental amortization of intangibles associated with BEC.

Interest Expense and Gains (Losses) on Derivative Instruments

Interest expense includes 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, compared with losses on derivative instruments of $29.5 million and $38.4 million for the quarter and nine months ended September 30, 2015, 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 MIC Hawaii related to the refinancing of its $80.0 million term loan and its $60.0 million revolving credit facility. For the nine months ended September 30, 2015, interest expense also included the non-cash write-off of deferred financing costs at IMTT related to the May 2015 refinancing.

Excluding the derivative adjustments and deferred financing cost write-offs, interest expense decreased for the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015 primarily due to the overall lower weighted average interest rate, partially offset by higher average debt balance. See discussions on interest expense for each of our operating businesses below.

As part of the refinancing of IMTT s debt in May 2015, IMTT paid $31.4 million in interest rate swap breakage fees related to the termination of out-of-the-money interest rate swap contracts related to prior debt facilities. In July 2015, the Company fully repaid the outstanding debt balance at BEC and paid $19.2 million in interest rate swap breakage fees. See further discussion in Management s Discussion and Analysis of Financial Condition and Results of Operations *Liquidity and Capital Resources* .

Other Income, net

Other income, net, increased for the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015 primarily due to insurance recoveries on damaged docks at IMTT and escrow proceeds received during the current quarter related to our acquisition of BEC.

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 solar and wind power facilities, which are 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 MIC consolidated federal income tax return.

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

The change from income tax benefit for the nine months ended September 30, 2015 to income tax expense for the nine months ended September 30, 2016 is primarily due to the absence of any tax benefit in 2016 associated with the performance fees incurred during the first half of 2015. The change in tax rate from a benefit of 34.8% for the nine months ended September 30, 2015 to a tax expense of 41.9% for the nine months ended September 30, 2016 was primarily attributable to the impact of the performance fee on taxable income for 2015.

For the year ending December 31, 2016, we expect any consolidated federal income tax liability to be fully offset by our net operating loss carryforwards (NOLs). We believe that we will be able to use all of our federal prior year NOLs prior to their expiration. Our federal NOL balance at December 31, 2015 was $426.2 million. As a result of having federal NOLs, together with planned tax strategies, we do not expect to make regular federal tax payments any earlier than the second half of 2019. For the year ending December 31, 2016, we expect to report taxable income of approximately $51.0 million and pay approximately $37,000 in Alternative Minimum Tax.

For the year ending December 31, 2016, we expect to pay state income taxes of approximately $6.4 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 certain assets 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.

Free Cash Flow, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items 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 Free Cash Flow, EBITDA excluding non-cash items and certain proportionately combined financial metrics. Proportionately combined financial metrics reflect MIC Corporate and our ownership interest in each of our businesses.

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.

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 margin earned on those transactions and the management of operating expenses independent of the capitalization and tax attributes of those businesses.

Given our varied ownership levels in some of our businesses, principally in the CP&E segment, together with our obligations to report the results of these businesses on a consolidated basis, management believes that GAAP measures such as net income (loss) do not fully reflect all of the items it considers in assessing the amount of cash generated based on its ownership interest in its businesses. 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 to help understand our financial performance and not in lieu of our financial results reported under GAAP.

Free Cash Flow, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)excluding non-cash item

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

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 excludes changes in working capital. 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 and adjustments for other non-cash items 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. 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 Free Cash Flow and EBITDA excluding non-cash items support a more complete understanding of the business factors and economic trends reflected in the financial performance of our businesses than would otherwise be achieved using GAAP results alone.

Free Cash Flow reflects the ability of our businesses to generate cash on an ongoing basis, in part in support of our dividend and to fund a portion of our growth. Our businesses can be characterized as owners of high-value, long-lived assets which are capable of generating Free Cash Flow in excess of GAAP net income as a result of: (i) non-cash depreciation, amortization and any impairment charges; (ii) our ability to defer all or a portion of current federal income taxes; (iii) non-cash unrealized gains or losses on derivative instruments; and, (iv) various other non-cash items such as pension expense, amortization of tolling liabilities and gains (losses) on disposal of assets. The non-cash pension expense primarily consists 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, as noted above. In addition, management uses 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. We believe that external consumers of our financial statements, including investors and research analysts, use this metric to assess our performance and as an indicator of our success in generating a cash return on investment.

Free Cash Flow does not take into consideration required payments on indebtedness and other fixed obligations or the 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 to help understand our financial performance and not in lieu of our financial results reported under GAAP.

Classification of Maintenance Capital Expenditures and Growth Capital Expenditures

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 growth and maintenance components. Each discrete capital expenditure is considered within the above framework and the entire capital expenditure is classified as either maintenance or growth.

7

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

A reconciliation of net income (loss) 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 September 30,		Change Favorable/(Unfavorable)		Nine Months Ended September 30,		Change Favorable/(Unfavorable)	
	2016	2015	$	%	2016	2015	$	%
	($ In Thousands) (Unaudited)							
Net income (loss)	$42,481	$8,342			$83,738	$(145,690)		
Interest expense, net(1)	20,844	54,740			117,183	108,590		
Provision (benefit) for income taxes	29,022	11,139			60,409	(77,725)		
Depreciation	59,242	53,070			172,125	162,293		
Amortization of intangibles	15,417	17,783			49,917	83,656		
Fees to Manager-related party(2)	18,382	18,118			49,570	337,950		
Other non-cash expense (income), net(3)	1,435	(484)			(3,360)	860		
EBITDA excluding non-cash items	$186,823	$162,708	24,115	14.8	$529,582	$469,934	59,648	12.7
EBITDA excluding non-cash items	$186,823	$162,708			$529,582	$469,934		
Interest expense, net(1)	(20,844)	(54,740)			(117,183)	(108,590)		
Adjustments to derivative instruments recorded in interest expense(1)	(8,832)	24,243			27,639	17,209		
Amortization of debt financing costs(1)	2,287	2,191			7,536	6,757		
Interest rate swap breakage fees		(19,171)				(50,556)		
Provision/benefit for income taxes, net of changes in deferred taxes	(1,115)	(150)			(5,283)	(598)		
Changes in working capital(2)	751	(54,106)			(5,303)	(79,237)		
Cash provided by operating activities	159,070	60,975			436,988	254,919		
Changes in working capital(2)	(751)	54,106			5,303	79,237		
Maintenance capital expenditures	(24,472)	(20,758)			(44,725)	(38,263)		
Free cash flow	$133,847	$94,323	39,524	41.9	$397,566	$295,893	101,673	34.4

(1) Interest expense, net, includes adjustment to derivative instruments and non-cash amortization of deferred financing fees. Interest expense also included a non-cash write-off of deferred financing fees related to the February 2016 refinancing at Hawaii Gas for the nine months ended September 30, 2016 and a non-cash write-off of deferred financing costs related to the May 2015 refinancing at IMTT for the nine months ended September 30, 2015.

(2)

In July 2015, our Board requested, and our Manager agreed, that $67.8 million of the performance fee for the quarter ended June 30, 2015 be settled in cash in July 2015 to minimize dilution. The remaining $67.8 million obligation was settled and reinvested in 944,046 shares by our Manager on August 1, 2016 using the June 2016 volume weighted average share price of $71.84.

(3) Other non-cash expense (income), net, primarily includes non-cash pension expense, amortization of tolling liabilities, unrealized gains (losses) on commodity hedges and non-cash gains (losses) related to disposal of assets. See *Free Cash Flow, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items and Proportionately Combined Metrics* above for a further discussion.

8

TABLE OF CONTENTS

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

The following table is a reconciliation from Free Cash Flow on a consolidated basis to Free Cash Flow on a proportionately combined basis (in proportion to our interests). 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. See Results of Operations below for each of our segments for a reconciliation of Free Cash Flow for each segment to cash provided by operating activities for such segment.

	Quarter Ended September 30,		Change Favorable/(Unfavorable)		Nine Months Ended September 30,		Change Favorable/(Unfavorable)	
	2016	2015	$	%	2016	2015	$	%
	($ In Thousands) (Unaudited)							
Free Cash Flow Consolidated basis	$133,847	$94,323	39,524	41.9	$397,566	$295,893	101,673	34.4
100% of CP&E Free Cash Flow included in consolidated Free Cash Flow	(26,718)	(2,577)			(56,532)	(9,607)		
MIC s share of CP&E Free Cash Flow	24,773	1,040			50,580	5,496		
100% of MIC Hawaii Free Cash Flow included in consolidated Free Cash Flow	(8,696)	(9,121)			(30,432)	(35,728)		
MIC s share of MIC Hawaii Free Cash Flow	8,694	9,121			30,430	35,728		
Free Cash Flow Proportionately Combined basis	$131,900	$92,786	39,114	42.2	$391,612	$291,782	99,830	34.2

Results of Operations: *IMTT*

Key Factors Affecting Operating Results for the Quarter:

- an increase in gross profit primarily due to:
  - a decrease in cost of services;
  - an increase in heating revenue; and
  - an increase in revenue from firm commitments; partially offset by
- a decline in gross profit from spill response activities.

TABLE OF CONTENTS

Results of Operations: *IMTT* (continued)

	Quarter Ended September 30,		Change Favorable/(Unfavorable)		Nine Months Ended September 30,		Change Favorable/(Unfavorable)	
	2016	2015			2016	2015		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenues	133,143	135,436	(2,293)	(1.7)	396,786	415,881	(19,095)	(4.6)
Cost of services (exclusive of depreciation and amortization of intangibles shown separately below)	53,085	55,990	2,905	5.2	149,845	170,633	20,788	12.2
Gross profit	80,058	79,446	612	0.8	246,941	245,248	1,693	0.7
General and administrative expenses	8,358	8,903	545	6.1	24,322	24,909	587	2.4
Depreciation and amortization	35,709	32,233	(3,476)	(10.8)	103,612	99,785	(3,827)	(3.8)
Operating income	35,991	38,310	(2,319)	(6.1)	119,007	120,554	(1,547)	(1.3)
Interest expense, net(1)	(7,827)	(19,045)	11,218	58.9	(41,462)	(32,214)	(9,248)	(28.7)
Other income, net	13,495	549	12,946	NM	16,947	1,950	14,997	NM
Provision for income taxes	(17,079)	(8,053)	(9,026)	(112.1)	(38,717)	(36,801)	(1,916)	(5.2)
Net income(2)	24,580	11,761	12,819	109.0	55,775	53,489	2,286	4.3
Less: net income attributable to noncontrolling interests		172	172	100.0	59	530	471	88.9
Net income attributable to MIC(2)	24,580	11,589	12,991	112.1	55,716	52,959	2,757	5.2
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(2)	24,580	11,761			55,775	53,489		
Interest expense, net(1)	7,827	19,045			41,462	32,214		
Provision for income taxes	17,079	8,053			38,717	36,801		
Depreciation and amortization	35,709	32,233			103,612	99,785		
Other non-cash expense, net(3)	1,825	1,769			6,045	4,624		
EBITDA excluding non-cash items	87,020	72,861	14,159	19.4	245,611	226,913	18,698	8.2
EBITDA excluding non-cash items	87,020	72,861			245,611	226,913		
Interest expense, net(1)	(7,827)	(19,045)			(41,462)	(32,214)		
Adjustments to derivative instruments recorded in interest expense(1)	(2,433)	8,474			10,723	2,140		
Amortization of debt financing costs(1)	411	408			1,242	1,937		

Interest rate swap breakage fees						(31,385)		
Provision for income taxes, net of changes in deferred taxes	(904)	(52)			(3,071)	(156)		
Changes in working capital	(1,243)	8,686			(11,726)	(9,667)		
Cash provided by operating activities	75,024	71,332			201,317	157,568		
Changes in working capital	1,243	(8,686)			11,726	9,667		
Maintenance capital expenditures	(19,860)	(12,036)			(33,099)	(20,550)		
Free cash flow	56,407	50,610	5,797	11.5	179,944	146,685	33,259	22.7

NM Not meaningful

(1) Interest expense, net, includes adjustments to derivative instruments and non-cash amortization of deferred financing fees. For the nine months ended September 30, 2015, interest expense also includes non-cash write-off of deferred financing costs related to the May 2015 refinancing.

(2) Corporate allocation expense, intercompany fees and the tax effect have been excluded from the above table as they are eliminated on consolidation.

(3) Other non-cash expense, net, primarily includes non-cash adjustments related to pension expense and non-cash gains (losses) related to disposal of assets. See *Free Cash Flow, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items and Proportionately Combined Metrics* above for a further discussion.

10

TABLE OF CONTENTS

Results of Operations: *IMTT* (continued)

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 the end of the third quarter in 2016, had a revenue weighted average remaining life of approximately two and half years. Revenue from firm commitments comprised 81.5% of total revenue in the quarter ended September 30, 2016.

For the quarter and nine months ended September 30, 2016, total revenue decreased by $2.3 million and $19.1 million, respectively, compared with the quarter and nine months ended September 30, 2015. The decreases reflect primarily a reduced level of spill response activity on the part of IMTT s subsidiary, OMI Environmental Solutions (OMI), and a decrease in rail services revenue principally in connection with the reduced demand for Canadian crude oil in the U.S. The decline in rail service revenues was more than offset by an increase in other revenue from firm commitments, primarily due to an increase in utilization, such that revenue from total firm commitments increased slightly in both the quarter and nine months period. However, the increase in revenue from total firm commitments was more than offset by a decline in ancillary (non-firm commitment) revenue.

Consistent with strong demand patterns across petroleum product storage markets, capacity utilization was higher than historically normal levels at 96.7% and 96.4% for the quarter and nine months ended September 30, 2016, respectively, compared with 94.7% and 94.8% for the quarter and nine months ended September 30, 2015, respectively. The business expects utilization rates to revert to historical levels of 94% to 96% in the medium term.

Costs (Cost of Services and General and Administrative Expenses)

Costs were 5.3% and 10.9% lower in the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015, respectively. The reduction in costs was primarily the result of lower costs associated with OMI as a result of a lower level of spill related activity, lower fuel costs, improved cost controls and the continued realization of efficiencies following our acquisition of the second half of IMTT in 2014.

Depreciation and Amortization

Depreciation and amortization expense increased for the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015 primarily due to the write-off of tanks and docks.

Interest Expense, net

Interest expense includes 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, compared with losses on derivative instruments of $9.8 million and $11.1 million for the quarter and nine months ended September 30, 2015, respectively. Excluding the derivative adjustments, interest expense decreased for the quarter ended September 30, 2016 compared with the quarter ended September 30, 2015 due to lower interest rates partially offset by a higher average debt balance. Excluding the derivative adjustments, interest expense increased for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015 due to a higher average debt balance partially offset by lower interest rates. The weighted average interest rate on all outstanding debt facilities, including interest rate swaps, was 3.39% at September 30, 2016.

Cash interest paid totaled $3.9 million and $23.4 million for the quarter and nine months ended September 30, 2016, respectively, compared with $4.2 million and $18.0 million for the quarter and nine months ended September 30, 2015, respectively.

TABLE OF CONTENTS

Results of Operations: *IMTT* (continued)

As part of the refinancing of its debt in May 2015, IMTT paid $31.4 million in interest rate swap breakage fees related to the termination of out-of-the-money interest rate swap contracts related to prior debt facilities. See further discussion in Management s Discussion and Analysis of Financial Condition and Results of Operations *Liquidity and Capital Resources* .

Other Income, net

IMTT maintains insurance against the loss of use or damage to IMTT s facilities. The business incurred insured losses in connection with damage done to various docks in Bayonne and Gretna for which 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 federal taxable income generated by IMTT is reported as part of our consolidated federal tax return. The business files state income tax returns in the states in which it operates. For the year ending December 31, 2016, the business expects to pay state income taxes of approximately $3.0 million. The Provision for income taxes, net of changes in deferred taxes of $3.1 million for the nine months ended September 30, 2016 in the above table includes $2.2 million of state income taxes and $881,000 of federal income tax. 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 significant 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 15 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. Most terminal fixed assets placed in service between 2012 through 2015 qualified for the federal 50% bonus tax depreciation. A significant portion of Louisiana terminal fixed assets constructed 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.

Maintenance Capital Expenditures

For the nine months ended September 30, 2016, IMTT incurred maintenance capital expenditures of $33.1 million and $34.5 million on an accrual basis and cash basis, respectively, compared with $20.6 million and $16.9 million on an accrual basis and cash basis, respectively, for the nine months ended September 30, 2015. The increase in maintenance capital expenditures for the nine months ended September 30, 2016 was primarily a result of $13.9 million of expenditures associated with the rebuilding of damaged docks at IMTT s Gretna and Bayonne terminals. IMTT anticipates deploying approximately $40.0 million in maintenance capital expenditures for the full year 2016 inclusive of the $13.9 million associated with the dock rebuilding that was reimbursed. The property insurance recoveries are recorded in Other Income, net in the above statement of operations.

Other Matters

A portion of the labor force at IMTT s Bayonne, NJ facility is unionized. The collective bargaining agreement under which the unionized employees have been working was originally scheduled to expire on June 20, 2016. Negotiation of a new agreement is underway and the current contract has been extended through November 30, 2016 to facilitate additional discussions between IMTT management and the union representatives. The business has commenced implementation of contingency plans in the event of work stoppage/job action.

12

TABLE OF CONTENTS

Results of Operations: *Atlantic Aviation*

Key Factors Affecting Operating Results for the Quarter:

- an increase in same store gross profit; and
- contributions from acquired FBOs; partially offset by
- higher selling, general and administrative expenses.

	Quarter Ended September 30, 2016	2015	Change Favorable/(Unfavorable)		Nine Months Ended September 30, 2016	2015	Change Favorable/(Unfavorable)	
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenues	186,823	184,391	2,432	1.3	544,029	557,757	(13,728)	(2.5)
Cost of services (exclusive of depreciation and amortization of intangibles shown separately below)	77,524	82,363	4,839	5.9	218,126	249,554	31,428	12.6
Gross profit	109,299	102,028	7,271	7.1	325,903	308,203	17,700	5.7
Selling, general and administrative expenses	53,027	51,180	(1,847)	(3.6)	157,019	153,226	(3,793)	(2.5)
Depreciation and amortization	22,148	22,494	346	1.5	69,041	104,019	34,978	33.6
Operating income	34,124	28,354	5,770	20.3	99,843	50,958	48,885	95.9
Interest expense, net(1)	(5,199)	(13,436)	8,237	61.3	(27,437)	(32,126)	4,689	14.6
Other (expense) income, net	(150)	(240)	90	37.5	191	(877)	1,068	121.8
Provision for income taxes	(11,543)	(5,854)	(5,689)	(97.2)	(29,258)	(7,440)	(21,818)	NM
Net income(2)	17,232	8,824	8,408	95.3	43,339	10,515	32,824	NM
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(2)	17,232	8,824			43,339	10,515		
Interest expense, net(1)	5,199	13,436			27,437	32,126		
Provision for income taxes	11,543	5,854			29,258	7,440		
Depreciation and amortization	22,148	22,494			69,041	104,019		
Other non-cash expense (income), net(3)	216	(5)			498	1,468		
EBITDA excluding non-cash items	56,338	50,603	5,735	11.3	169,573	155,568	14,005	9.0
EBITDA excluding non-cash items	56,338	50,603			169,573	155,568		
Interest expense, net(1)	(5,199)	(13,436)			(27,437)	(32,126)		
Adjustments to derivative instruments recorded in interest	(2,371)	5,346			4,416	7,927		

expense(1)								
Amortization of debt financing costs(1)	791	804			2,496	2,418		
Provision for income taxes, net of changes in deferred taxes	(159)	(261)			(2,521)	(894)		
Changes in working capital	5,142	2,086			11,412	292		
Cash provided by operating activities	54,542	45,142			157,939	133,185		
Changes in working capital	(5,142)	(2,086)			(11,412)	(292)		
Maintenance capital expenditures	(2,075)	(6,785)			(5,816)	(12,966)		
Free cash flow	47,325	36,271	11,054	30.5	140,711	119,927	20,784	17.3

NM Not meaningful

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

(2) Corporate allocation expense, intercompany fees and the tax effect have been excluded from the above table as they are eliminated on consolidation.

(3) Other non-cash expense (income), net, primarily includes non-cash gains (losses) related to disposal of assets. See *Free Cash Flow, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items and Proportionately Combined Metrics* above for a further discussion.

TABLE OF CONTENTS

Results of Operations: *Atlantic Aviation* (continued)

Revenue and Gross Profit

The majority of the revenue and gross profit earned by Atlantic Aviation is generated through fueling GA aircraft at facilities located at 69 U.S. airports at which Atlantic Aviation operates. The business pursues a strategy of maintaining and, where appropriate, increasing dollar-based margins on fuel sales. Generally, fluctuations in the cost of fuel are passed through to the customer.

Revenues increased $2.4 million for the quarter ended September 30, 2016 compared with the quarter ended September 30, 2015 due to an increase in the volume of fuel sold, rental revenue and ancillary service revenues, partially offset by a significant decline in the wholesale cost of fuel. The increase in gross profit for the quarter ended September 30, 2016 compared with the quarter ended September 30, 2015 is primarily due to the increase in revenue and the decline in the wholesale cost of fuel.

Revenues decreased $13.7 million for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015 as a result of a significant decline in the wholesale cost of fuel, partially offset by an increase in the volume of fuel sold, rental revenue and ancillary service revenues. The decline in the wholesale cost of fuel more than offset the reduction in revenues resulting in an increase in gross profit.

Our discussion of same store results in the current and prior comparable periods reflects contributions from FBOs that have been in operation for the same full months in each period, and excludes the costs of acquiring, integrating or disposing of FBOs. On a same store basis, gross profit increased 5.7% and 4.9% in the quarter and nine months ended September 30, 2016, respectively, compared with the quarter and nine months ended September 30, 2015 driven by an increase in fuel gross profit, ancillary services and hangar rentals.

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 the weighted average lease life based on EBITDA excluding non-cash items in the prior calendar year adjusted for the impact of acquisitions/dispositions. At September 30, 2016, the weighted average lease life increased to 19.5 years compared with 19.0 years at September 30, 2015, notwithstanding the passage of one year, as a result of successful extension and acquisition of leaseholds.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased in the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015 primarily due to costs associated with acquired FBOs, higher salaries and benefit costs and higher rent expense. On a same store basis, costs were 3.6% and 2.7% higher in the quarter and nine months ended September 30, 2016, respectively, compared with the quarter and nine months ended September 30, 2015.

Depreciation and Amortization

Depreciation and amortization expense decreased for quarter ended September 30, 2016 compared with quarter ended September 30, 2015 primarily due to certain intangibles being fully amortized, partially offset by depreciation associated with FBOs acquired. Depreciation and amortization expense decreased for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015 primarily as a result of the absence of non-cash impairments. The non-cash impairments incurred during the first quarter of 2015 were attributable to the reassessment of the useful lives of contractual arrangements and leasehold and land improvements related to leases at certain airports and a change in the lease terms at one base.

TABLE OF CONTENTS

Results of Operations: *Atlantic Aviation* (continued)

Interest Expense, Net

Interest expense includes 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, compared with losses on derivative instruments of $7.5 million and $14.3 million for the quarter and nine months ended September 30, 2015, respectively. Excluding the derivative adjustments, interest expense decreased for the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015 due to lower average debt balances. The weighted average interest rate on all outstanding debt facilities, including interest rate swaps, was 4.63% at September 30, 2016. Cash interest paid was $6.7 million and $20.4 million for the quarter and nine months ended September 30, 2016, respectively, compared with $7.7 million and $22.1 million for the quarter and nine months ended September 30, 2015, respectively.

Income Taxes

The federal taxable income generated by Atlantic Aviation is reported as part of 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, 2016, the business expects to pay state income taxes of approximately $1.7 million. The Provision for income taxes, net of changes in deferred taxes of $2.5 million for the nine months ended September 30, 2016 in the above table includes $1.5 million of state income taxes and $1.0 million of federal income tax. 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, 2016, Atlantic Aviation incurred maintenance capital expenditures of $5.8 million and $5.9 million on an accrual basis and cash basis, respectively, compared with $13.0 million and $11.5 million on an accrual basis and cash basis, respectively, for the nine months ended September 30, 2015. Maintenance capital expenditures for the periods presented were primarily to fund replacement of equipment at existing locations.

TABLE OF CONTENTS

Results of Operations: *Contracted Power and Energy*

Key Factors Affecting Operating Results for the Quarter:

an increase in revenue and gross profit from improved solar and wind output; partially offset by an increase in selling, general and administrative expenses.

	Quarter Ended September 30,		Change Favorable/(Unfavorable)		Nine Months Ended September 30,		Change Favorable/(Unfavorable)	
	2016	2015			2016	2015		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Revenues	45,538	43,304	2,234	5.2	114,017	91,257	22,760	24.9
Cost of product sales (exclusive of depreciation and amortization of intangibles shown separately below)	7,344	6,702	(642)	(9.6)	17,495	14,485	(3,010)	(20.8)
Gross profit	38,194	36,602	1,592	4.3	96,522	76,772	19,750	25.7
Selling, general and administrative expenses	6,824	6,635	(189)	(2.8)	19,331	23,443	4,112	17.5
Depreciation and amortization	14,000	13,860	(140)	(1.0)	41,693	35,159	(6,534)	(18.6)
Operating income	17,370	16,107	1,263	7.8	35,498	18,170	17,328	95.4
Interest expense, net(1)	(2,764)	(16,567)	13,803	83.3	(31,614)	(27,850)	(3,764)	(13.5)
Other income (expense), net	3,531	(51)	3,582	NM	3,839	1,065	2,774	NM
Provision for income taxes	(8,013)	(3,266)	(4,747)	(145.3)	(7,626)	(6,131)	(1,495)	(24.4)
Net income (loss)(2)	10,124	(3,777)	13,901	NM	97	(14,746)	14,843	100.7
Less: net income (loss) attributable to noncontrolling interests	566	(2,468)	(3,034)	(122.9)	217	(4,760)	(4,977)	(104.6)
Net income (loss) attributable to MIC(2)	9,558	(1,309)	10,867	NM	(120)	(9,986)	9,866	98.8
Reconciliation of net income (loss) to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:								
Net income (loss)(2)	10,124	(3,777)			97	(14,746)		
Interest expense, net(1)	2,764	16,567			31,614	27,850		
Provision for income taxes	8,013	3,266			7,626	6,131		
Depreciation and amortization	14,000	13,860			41,693	35,159		
Other non-cash income, net(3)	(1,459)	(2,224)			(5,424)	(4,972)		
EBITDA excluding non-cash items	33,442	27,692	5,750	20.8	75,606	49,422	26,184	53.0

EBITDA excluding non-cash items	33,442	27,692			75,606	49,422		
Interest expense, net[1]	(2,764)	(16,567)			(31,614)	(27,850)		
Adjustments to derivative instruments recorded in interest expense[1]	(3,778)	10,417			11,994	7,005		
Amortization of debt financing costs[1]	376	262			1,113	310		
Interest rate swap breakage fees		(19,171)				(19,171)		
Provision for income taxes, net of changes in deferred taxes	1				(8)	(2)		
Changes in working capital	949	794			(1,909)	(3,904)		
Cash provided by operating activities	28,226	3,427			55,182	5,810		
Changes in working capital	(949)	(794)			1,909	3,904		
Maintenance capital expenditures	(559)	(56)			(559)	(107)		
Free cash flow	26,718	2,577	24,141	NM	56,532	9,607	46,925	NM

NM Not meaningful

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

(2) Corporate allocation expense, intercompany fees and the tax effect have been excluded from the above table as they are eliminated on consolidation.

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

TABLE OF CONTENTS

Results of Operations: *Contracted Power and Energy* (continued)

Revenue and Gross Profit

Total revenue and gross profit increased for the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015 as a result of improved solar and wind output. In addition, total revenue and gross profit increased for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015 due to the acquisition of BEC on April 1, 2015. During the quarter and nine months ended September 30, 2016, solar resources were at long-term historical average. For the quarter and nine months ended September 30, 2016, wind resources were approximately 96% and 92%, respectively, of long-term historical average.

At BEC, revenue and gross profit decreased marginally in the quarter ended September 30, 2016 compared with the quarter ended September 30, 2015. Lower capacity prices in the quarter ended September 30, 2016 compared with the quarter ended September 30, 2015 were largely offset by higher utilization in the quarter ended September 30, 2016. Higher utilization was driven by higher than expected summer temperatures, which resulted in an average capacity factor of approximately 46% for the quarter ended September 30, 2016 compared with approximately 41% for the quarter ended September 30, 2015. We expect capacity prices covering November 2016 through April 2017, which impacts only the 37.5% untolled portion of BEC s revenue, to be lower than in the prior comparable period. The remaining 62.5% of BEC s revenue is generated pursuant to a tolling agreement with a creditworthy off-taker.

Selling, General and Administrative Expenses

The decrease in selling, general and administrative expenses for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015 was primarily due to absence of transaction costs related to the BEC acquisition, partially offset by incremental costs incurred from BEC related to the first quarter of 2016.

Depreciation and Amortization

Depreciation and amortization expense increased for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015 primarily related to incremental depreciation and amortization associated with BEC for the first quarter of 2016.

Other Income (Expense), net

Other income (expense), net, increased for the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015 primarily due to escrow proceeds received during the current quarter related to our acquisition of BEC.

Interest Expense, Net

Interest expense includes 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, compared with losses on derivative instruments of $12.2 million and $12.6 million for the quarter and nine months ended September 30, 2015, respectively. Excluding the derivative adjustments, interest expense increased for the quarter ended September 30, 2016 compared with the quarter ended September 30, 2015 primarily due to higher average debt balance partially offset by lower interest rates. Excluding the derivative adjustments, interest expense decreased for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015 primarily due to lower interest rates, principally on the BEC debt facilities, and lower average debt balances on all facilities.

The weighted average interest rate on all outstanding debt facilities, including interest rate swaps, was 4.32% at September 30, 2016. Cash interest paid totaled $6.1 million and $18.5 million for the quarter and nine months ended September 30, 2016, respectively, compared with $5.9 million and $20.6 million for the quarter and nine months ended September 30, 2015, respectively.

TABLE OF CONTENTS

Results of Operations: *Contracted Power and Energy* (continued)

In connection with the BEC acquisition in April 2015, the business assumed $509.1 million of debt facilities, of which $257.6 million was repaid on June 12, 2015 and the remaining balance of $251.5 million was repaid on July 20, 2015. As part of the repayment, BEC paid $19.2 million in interest rate swap breakage fees associated with the termination of out-of-the-money interest rate swap contracts. On August 10, 2015, BEC entered into new debt agreements. See further discussion in Management s Discussion and Analysis of Financial Condition and Results of Operations *Liquidity and Capital Resources* .

Income Taxes

Our solar and wind power facilities are held in LLCs 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, 2016, MIC expects its allocated share of the federal taxable income from these facilities to be a loss of approximately $23.0 million. For 2015, MIC s allocated share of the taxable income from the solar and wind power facilities was a loss of approximately $36.0 million.

On April 1, 2015, we acquired 100% of BEC. The federal taxable income generated by BEC is reported as part of our consolidated federal income tax return and is subject to New York state income tax on a stand-alone basis. For the year ending December 31, 2016, the business does not expect to have a state income tax liability. We do not believe that the business will generate a current federal income tax liability for the year ending December 31, 2016. 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&E 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 has continued to perform its obligations as an O&M provider, and we expect it to continue to do so. CP&E has implemented contingency plans to mitigate any potential operational issues that might arise as a result of the inability of SunEdison to provide agreed upon services.

Results of Operations: *MIC Hawaii*

MIC Hawaii comprises Hawaii Gas and several smaller businesses collectively engaged in reducing the cost and improving 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.

Key Factors Affecting Operating Results for the Quarter:

- an increase in gross profit primarily due to:
  - contribution from acquisitions; and
  - an increase in the volume of gas sold; partially offset by

- a decrease in margin per therm; and
- an increase in selling, general and administrative expenses.

TABLE OF CONTENTS

Results of Operations: *MIC Hawaii* (continued)

	Quarter Ended September 30,		Change Favorable/(Unfavorable)		Nine Months Ended September 30,		Change Favorable/(Unfavorable)	
	2016	2015			2016	2015		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Product revenues	51,011	52,578	(1,567)	(3.0)	158,036	173,001	(14,965)	(8.7)
Service revenues	5,258		5,258	NM	5,258		5,258	NM
Cost of product sales (exclusive of depreciation and amortization of intangibles shown separately below)	32,501	34,333	1,832	5.3	90,428	110,924	20,496	18.5
Cost of Service (exclusive of depreciation and amortization of intangibles shown separately below)	3,946		(3,946)	NM	3,946		(3,946)	NM
Gross profit	19,822	18,245	1,577	8.6	68,920	62,077	6,843	11.0
Selling, general and administrative expenses	6,540	5,162	(1,378)	(26.7)	16,230	15,380	(850)	(5.5)
Depreciation and amortization	2,802	2,266	(536)	(23.7)	7,696	6,986	(710)	(10.2)
Operating income	10,480	10,817	(337)	(3.1)	44,994	39,711	5,283	13.3
Interest expense, net[1]	(1,571)	(1,824)	253	13.9	(6,224)	(5,573)	(651)	(11.7)
Other expense, net	(187)	(172)	(15)	(8.7)	(588)	(432)	(156)	(36.1)
Provision for income taxes	(3,246)	(3,687)	441	12.0	(14,863)	(13,287)	(1,576)	(11.9)
Net income[2]	5,476	5,134	342	6.7	23,319	20,419	2,900	14.2
Less: net loss attributable to noncontrolling interests	(111)		111	NM	(111)		111	NM
Net income attributable to MIC[2]	5,587	5,134	453	8.8	23,430	20,419	3,011	14.7
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[2]	5,476	5,134			23,319	20,419		
Interest expense, net[1]	1,571	1,824			6,224	5,573		
Provision for income taxes	3,246	3,687			14,863	13,287		
Depreciation and amortization	2,802	2,266			7,696	6,986		
Other non-cash expense (income), net[3]	665	(212)			(5,042)	(823)		
EBITDA excluding non-cash items	13,760	12,699	1,061	8.4	47,060	45,442	1,618	3.6
EBITDA excluding non-cash items	13,760	12,699			47,060	45,442		

Interest expense, net[1]	(1,571)	(1,824)			(6,224)	(5,573)		
Adjustments to derivative instruments recorded in interest expense[1]	(250)	6			506	137		
Amortization of debt financing costs[1]	96	121			848	362		
Provision for income taxes, net of changes in deferred taxes	(1,361)				(6,507)			
Changes in working capital	(1,394)	6,012			5,554	5,366		
Cash provided by operating activities	9,280	17,014			41,237	45,734		
Changes in working capital	1,394	(6,012)			(5,554)	(5,366)		
Maintenance capital expenditures	(1,978)	(1,881)			(5,251)	(4,640)		
Free cash flow	8,696	9,121	(425)	(4.7)	30,432	35,728	(5,296)	(14.8)

NM Not meaningful

(1) Interest expense, net, includes adjustments to derivative instruments related to interest rate swaps and non-cash 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.

(2) Corporate allocation expense, intercompany fees and the tax effect have been excluded from the above table as they are eliminated on consolidation.

(3) Other non-cash expense (income), net, primarily includes non-cash adjustments related to pension expense and unrealized gains (losses) on commodity hedges. See *Free Cash Flow, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items and Proportionately Combined Metrics* above for a further discussion.

19

TABLE OF CONTENTS

Results of Operations: *MIC Hawaii* (continued)

Revenue and Gross Profit

The increase in revenue and gross profit includes contribution from acquisitions during the quarter ended September 30, 2016. The volume of gas sold by Hawaii Gas increased by 6.7% and 3.2%, respectively, in the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015. On an underlying basis, adjusting for changes in customer inventory, the volume of gas sold increased by 6.6% and 3.6% for the quarter and nine months ended September 30, 2016, respectively.

Gross profit, excluding the impact of unrealized gains on commodity hedges, increased for the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015 primarily due to acquisitions and an increase in the volume of gas sold, partially offset by lower margin per therm.

The business currently sources feedstock for its synthetic natural gas (SNG) plant from Hawaii Independent Energy and on September 30, 2016 filed an application with the Hawaii Public Utility Commission requesting approval of a new feedstock supply contract through December 31, 2020.

Selling, General and Administrative Expenses

Selling, general administrative expense increased for the quarter and nine months ended September 30, 2016 compared with the quarter and nine months ended September 30, 2015 primarily due to transactional and operating costs from new acquisitions, partially offset by lower sales and promotion, vehicle, legal and salaries and benefits costs.

Interest Expense, Net

Interest expense includes 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, compared with losses on derivative instruments of $98,000 and $417,000 for the quarter and nine months ended September 30, 2015, respectively. Excluding the derivative adjustments and the write-off of the deferred financing costs related to the February 2016 refinancing, interest expense decreased for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015 primarily attributable to the refinancing of Hawaii Gas s $80.0 million term loan and $60.0 million revolving credit facility at rates that are lower by 0.50% and 0.25%, respectively. The decrease is partially offset by debt assumed from the acquisitions during the quarter ended September 30, 2016.

The weighted average interest rate on the primarily debt facilities, including interest rate swaps, was 3.55% at September 30, 2016. Cash interest paid totaled $2.8 million and $5.9 million for the quarter and nine months ended September 30, 2016, respectively, compared with $2.7 million and $6.1 million for the quarter and nine months ended September 30, 2015, respectively.

Income Taxes

The federal taxable income generated by the MIC Hawaii businesses is reported as part of 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, 2016, the business expects to pay state income tax of approximately $1.7 million. The

Provision for income taxes, net of changes in deferred taxes of $6.5 million for the nine months ended September 30, 2016 in the above table, includes $5.1 million of federal income tax and $1.4 million of state income tax. 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, 2016, MIC Hawaii incurred maintenance capital expenditures of $5.3 million and $6.0 million on an accrual basis and cash basis, respectively, compared with $4.6 million and $8.0 million on an accrual basis and cash basis, respectively, for the nine months ended September 30, 2015. Maintenance capital expenditures for the periods presented were primarily for transmission line modifications (net of customer reimbursements) and vehicle replacements.

TABLE OF CONTENTS

Results of Operations: *Corporate and Other*

The financial results below reflect Corporate and Other s performance during the periods below.

	Quarter Ended September 30,		Change Favorable/(Unfavorable)		Nine Months Ended September 30,		Change Favorable/(Unfavorable)	
	2016	2015			2016	2015		
	$	$	$	%	$	$	$	%
	($ In Thousands) (Unaudited)							
Fees to Manager-related party	18,382	18,118	(264)	(1.5)	49,570	337,950	288,380	85.3
Selling, general and administrative expenses	3,925	2,021	(1,904)	(94.2)	8,831	8,660	(171)	(2.0)
Operating loss	(22,307)	(20,139)	(2,168)	(10.8)	(58,401)	(346,610)	288,209	83.2
Interest expense, net[1]	(3,483)	(3,868)	385	10.0	(10,446)	(10,827)	381	3.5
Other income		686	(686)	(100.0)		686	(686)	(100.0)
Benefit for income taxes	10,859	9,721	1,138	11.7	30,055	141,384	(111,329)	(78.7)
Net loss[2]	(14,931)	(13,600)	(1,331)	(9.8)	(38,792)	(215,367)	176,575	82.0
Reconciliation of net loss to EBITDA excluding non-cash items and a reconciliation of cash used in operating activities to Free Cash Flow:								
Net loss[2]	(14,931)	(13,600)			(38,792)	(215,367)		
Interest expense, net[1]	3,483	3,868			10,446	10,827		
Benefit for income taxes	(10,859)	(9,721)			(30,055)	(141,384)		
Fees to Manager-related party[3]	18,382	18,118			49,570	337,950		
Other non-cash expense, net	188	188			563	563		
EBITDA excluding non-cash items	(3,737)	(1,147)	(2,590)	NM	(8,268)	(7,411)	(857)	(11.6)
EBITDA excluding non-cash items	(3,737)	(1,147)			(8,268)	&nbs		