

Macquarie Infrastructure Corp  
Form 10-Q  
May 02, 2018

**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 March 31, 2018**

**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 55<sup>th</sup> 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  Accelerated Filer   
Non-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 85,084,344 shares of common stock, with \$0.001 par value, outstanding at May 1, 2018.



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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, 2017, 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, and each member of all Board Committees, is independent and has 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 business providing bulk liquid terminalling to third parties at 17 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:** comprising electricity generating assets including 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 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. Collectively, 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.

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.



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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 of varying maturities 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 Contracted Power 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, 2017, MIC has paid or declared the following dividends:

| Declared          | Period Covered      | \$ per Share | Record Date       | Payable Date      |
|-------------------|---------------------|--------------|-------------------|-------------------|
| May 1, 2018       | First quarter 2018  | \$ 1.00      | May 14, 2018      | May 17, 2018      |
| February 19, 2018 | Fourth quarter 2017 | 1.44         | March 5, 2018     | March 8, 2018     |
| 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     |

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 \$1.00 per share for the quarter ended March 31, 2018. MIC has been structured to provide investors with an opportunity to generate an attractive total return and we intend to distribute the majority of the cash generated from operations by our businesses as a quarterly dividend.

Our board of directors regularly reviews our dividend policy and payout ratio. 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 and economic conditions, the Company’s financial condition, results of operations, indebtedness levels, 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**

We are exploring the potential sale of a portion or all of Bayonne Energy Center (BEC), a business within the Contracted Power segment. If an agreement for a sale can be reached, it is possible that such a transaction could be concluded before the end of 2018. We are also undertaking a review of strategic options available to us with respect to certain other, smaller businesses in our portfolio and after quarter end, we completed the sale of OMI Environmental Solutions, Inc. (OMI), an environmental response subsidiary of IMTT. We may, as a result of this review, undertake to sell, or otherwise divest of other businesses, although we cannot assure you as to whether, or on what terms, any such transaction will occur. We currently anticipate that proceeds, if any, from such sales would be available to support investment in any of the businesses or segments in which we currently operate or to reduce indebtedness as we and our board of directors may deem appropriate.

In 2017, we completed the development of our shared service center to consolidate common back office functions across our businesses. We use an efforts model to allocate costs incurred by our shared service center to each of MIC's operating segments and Corporate and Other based on the allocable effort deployed in delivering those services to that particular segment. These costs are reflected in *Selling, general and administrative expenses*.

To date, we have realized approximately \$11.0 million of savings from our shared services center, of which approximately 65% is procurement related and 35% is headcount-related. These headcount reductions have been partially offset by *Selling, general and administrative expenses* increases associated with acquisitions that were completed in 2017 and 2018 as well as additional functionality that we have added to our shared service center in areas such as legal and procurement. Savings from our procurement initiative will be reflected in a reduction in *Costs of services* and *Cost of products sold, Selling, general and administrative expenses* and capital expenditures and may not be evenly allocated to any individual operating segment.

### **Results of Operations**

#### **Consolidated**

Our consolidated results of operations for the quarter demonstrate the importance of maintaining a suitably diversified portfolio of infrastructure businesses and investing prudently in the growth of those businesses. An expected decrease in the contribution to our overall results from our IMTT business was largely offset by strong performance by Atlantic Aviation and Contracted Power businesses resulting in the generation of EBITDA excluding non-cash items that were broadly flat year over year.

The decreased contribution from IMTT reflected the non-renewal of certain contracts for bulk liquid storage and handling services in late 2017 and early 2018, partially offset by contributions from an acquisition in 2017. Atlantic Aviation performed well versus the prior comparable period as a result of increases in GA flight activity, contributions from acquisitions of additional FBOs in 2017 and the operational leverage inherent in the business.

Results for Contracted Power were better than anticipated, driven by favorable weather conditions with respect to BEC and improved operations of certain of our renewable power generation assets from better resourcing and the internalization of the oversight of operations. MIC Hawaii's results were below expectations primarily as a result of cost increases at Hawaii Gas and underperformance by our design-build mechanical contractor.

Our financial performance versus the prior comparable period reflects the absence of implementation costs related to shared services and the related benefit of reductions in procurement.

Capital deployed in 2017, including into various acquisitions, contributed to our overall results in the first quarter as expected. Acquisitions by each of IMTT and Atlantic Aviation performed in line with their respective investment cases while investment in significant projects, such as the development of additional power generation capability at BEC, are expected to contribute in the second and subsequent quarters.

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Our consolidated results of operations are as follows:

|   | Quarter Ended March 31,                            |            | Change                  |         |
|---|--|------------|-------------------------|---------|
|   | 2018   | 2017       | Favorable/(Unfavorable) |         |
|   | (\$ In Thousands, Except Share and Per Share Data) |            | \$                      | %       |
|   | (Unaudited)  |            |                         |         |
| Revenue   |  |            |                         |         |
| Service revenue   | \$402,609  | \$363,804  | 38,805                  | 10.7    |
| Product revenue   | 98,947   | 87,653     | 11,294                  | 12.9    |
| Total revenue   | 501,556  | 451,457    | 50,099                  | 11.1    |
| Costs and expenses                                      |  |            |                         |         |
| Cost of services  | 187,470  | 154,706    | (32,764 )               | (21.2 ) |
| Cost of product sales                                   | 53,385   | 47,225     | (6,160 )                | (13.0 ) |
| Selling, general and administrative                     | 86,957   | 76,952     | (10,005 )               | (13.0 ) |
| Fees to Manager related party                           | 12,928   | 18,223     | 5,295                   | 29.1    |
| Depreciation  | 61,358   | 57,681     | (3,677 )                | (6.4 )  |
| Amortization of intangibles                             | 17,216   | 17,693     | 477                     | 2.7     |
| Total operating expenses                                | 419,314  | 372,480    | (46,834 )               | (12.6 ) |
| Operating income  | 82,242   | 78,977     | 3,265                   | 4.1     |
| Other income (expense)                                  |  |            |                         |         |
| Interest income   | 80   | 34         | 46                      | 135.3   |
| Interest expense <sup>(1)</sup>                         | (18,790 )  | (25,482 )  | 6,692                   | 26.3    |
| Other income, net                                       | 42   | 1,182      | (1,140 )                | (96.4 ) |
| Net income before income taxes                          | 63,574   | 54,711     | 8,863                   | 16.2    |
| Provision for income taxes                              | (16,779 )  | (22,073 )  | 5,294                   | 24.0    |
| Net income  | \$46,795   | \$32,638   | 14,157                  | 43.4    |
| Less: net loss attributable to noncontrolling interests | (30,039 )  | (3,377 )   | 26,662                  | NM      |
| Net income attributable to MIC                          | \$76,834   | \$36,015   | 40,819                  | 113.3   |
| Basic income per share attributable to MIC              | \$0.91   | \$0.44     | 0.47                    | 106.8   |
| Weighted average number of shares outstanding: basic    | 84,821,453   | 82,138,168 | 2,683,285               | 3.3     |

NM Not meaningful

(1) Interest expense includes gains on derivative instruments of \$15.1 million and \$954,000 for the quarters ended March 31, 2018 and 2017, respectively.

**Revenue**

Consolidated revenues increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily as a result of, (i) an increase in the wholesale cost and the volume of jet fuel sold at Atlantic Aviation; (ii) an increase in revenue from our mechanical contracting business and an increase in the wholesale cost and volume of gas sold at MIC Hawaii; (iii) improved operations and utilization at our Contracted Power businesses; and, (iv)



TABLE OF CONTENTS**Results of Operations: Consolidated (continued)****Cost of Services and Product Sales**

Consolidated cost of services and product sales increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to, (i) an increase in the wholesale cost of jet fuel at Atlantic Aviation; (ii) the increase in the wholesale cost of gas and lower margins at MIC Hawaii; and, (iii) incremental costs associated with acquired operations. The changes in consolidated cost of services and product sales also reflect lower unrealized losses on commodity hedges at Hawaii Gas compared with the quarter ended March 31, 2017 (see Results of Operations *MIC Hawaii* below).

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to incremental costs associated with acquired businesses and increases in salaries and benefits. The increase was partially offset by the absence of costs incurred in connection with the implementation of our shared services center.

**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 quarters ended March 31, 2018 and 2017, we incurred base management fees of \$12.9 million and \$18.2 million, respectively. No performance fees were generated in either period. 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.

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 Services Agreement, our Manager has currently elected to reinvest future base management fees and performance fees, if any, in new primary shares.

| Period                  | Base Management Fee Amount (\$ in Thousands) | Performance Fee Amount (\$ in Thousands) | Shares Issued          |
|-------------------------|--|--|------------------------|
| <i>2018 Activity:</i>   |  |  |                        |
| First quarter 2018      | \$ 12,928                                    | \$                                       | 265,002 <sup>(1)</sup> |
| <i>2017 Activities:</i> |  |  |                        |
| Fourth quarter 2017     | \$ 16,778                                    | \$                                       | 248,162                |
| Third quarter 2017      | 17,954                                       |  | 240,674                |
| Second quarter 2017     | 18,433                                       |  | 233,394                |
| First quarter 2017      | 18,223                                       |  | 232,398                |

(1) Our Manager elected to reinvest all of the monthly base management fees for the first quarter of 2018 in shares. We issued 265,002 shares for the quarter ended March 31, 2018, including 88,628 shares and 93,154 shares that

were issued in April 2018 for the February and March 2018 monthly base management fee, respectively.

**Depreciation**

Depreciation expense increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to contributions from acquisitions and assets placed in service.

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**Results of Operations: *Consolidated* (continued)**

**Interest Expense and Gains (Losses) on Derivative Instruments**

Interest expense includes gains on derivative instruments of \$15.1 million and \$954,000 for the quarters ended March 31, 2018 and 2017, respectively. Gains and losses on derivatives recorded in interest expense are attributable to the change in fair value of interest rate hedging instruments. Excluding the derivative adjustments, cash interest expense was \$29.8 million and \$25.9 million for the quarters ended March 31, 2018 and 2017, respectively. The increase reflects primarily higher average debt balances and an increase in the weighted average interest rate. See discussions of interest expense for each of our operating businesses below.

**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 in which we have less than 100% equity interests 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. In addition, our businesses also file income tax returns in the jurisdictions in which they operate.

For the year ending December 31, 2018, 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, 2017 was \$347.3 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 material regular federal income tax payments, with our current portfolio of businesses, any earlier than 2020.

For the year ending December 31, 2018, we expect current year federal taxable income to be approximately \$55.0 million and we expect our businesses collectively to pay state or provincial income taxes of approximately \$13.5 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.

**The Tax Cuts and Jobs Act**

The Tax Cuts and Jobs Act signed into law on December 22, 2017 includes provisions that will have an impact on our federal taxable income. The most significant of these are 100% bonus depreciation on qualifying assets (which is scheduled to decrease ratably to 0% between 2023 and 2027) and a reduction in the federal corporate tax rate from 35% to 21%.

The Tax Cuts and Jobs Act also includes a new limitation on the deductibility of net interest expense that generally limits the deduction to 30% of adjusted taxable income. For years before 2022, adjusted taxable income is defined as taxable income computed without regard to certain items, including net business interest expense, the amount of any NOL deduction, tax depreciation and tax amortization. We do not expect to incur net interest expense that is greater than adjusted taxable income prior to 2022.

### **Noncontrolling Interest**

The increase in loss attributable to noncontrolling interest for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 is primarily driven by the effects of the Tax Cuts and Jobs Act on certain partnership entities within the Contracted Power segment.

### **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 Contracted Power 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 total 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 and are not included in pension expense. 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 total 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 flows. We consider a number of factors in determining whether a specific capital expenditure will be classified as maintenance or growth.

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 (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 March 31,       |            | Change   |        |
|---|-------------------------------|------------|----------|--------|
|   | 2018                          | 2017       | \$       | %      |
|   | (\$ In Thousands) (Unaudited) |            |          |        |
| Net income  | \$46,795                      | \$ 32,638  |          |        |
| Interest expense, net <sup>(1)</sup>  | 18,710                        | 25,448     |          |        |
| Provision for income taxes  | 16,779                        | 22,073     |          |        |
| Depreciation  | 61,358                        | 57,681     |          |        |
| Amortization of intangibles   | 17,216                        | 17,693     |          |        |
| Fees to Manager-related party   | 12,928                        | 18,223     |          |        |
| Pension expense <sup>(2)</sup>  | 2,253                         | 2,694      |          |        |
| Other non-cash expense, net <sup>(3)</sup>  | 4,880                         | 3,865      |          |        |
| EBITDA excluding non-cash items   | \$180,919                     | \$ 180,315 | 604      | 0.3    |
| EBITDA excluding non-cash items   | \$180,919                     | \$ 180,315 |          |        |
| Interest expense, net <sup>(1)</sup>  | (18,710 )                     | (25,448 )  |          |        |
| Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup> | (15,049 )                     | (3,247 )   |          |        |
| Amortization of debt financing costs <sup>(1)</sup>                               | 3,049                         | 2,202      |          |        |
| Amortization of debt discount <sup>(1)</sup>                                      | 897                           | 619        |          |        |
| Provision for current income taxes  | (3,871 )                      | (3,721 )   |          |        |
| Changes in working capital <sup>(4)</sup>   | (3,133 )                      | (23,126 )  |          |        |
| Cash provided by operating activities   | 144,102                       | 127,594    |          |        |
| Changes in working capital <sup>(4)</sup>   | 3,133                         | 23,126     |          |        |
| Maintenance capital expenditures  | (9,862 )                      | (4,476 )   |          |        |
| Free cash flow  | \$137,373                     | \$ 146,244 | (8,871 ) | (6.1 ) |

- (1) 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.
- (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 expense, 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*
- (3) *Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* above for further discussion.
- (4) Conformed to current period presentation for the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. 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.

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## 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 March           |           | Change                  |        |
|---|-------------------------------|-----------|-------------------------|--------|
|   | 31,                           |           | Favorable/(Unfavorable) |        |
|   | 2018                          | 2017      | \$                      | %      |
|   | (\$ In Thousands) (Unaudited) |           |                         |        |
| Free Cash Flow Consolidated basis   | \$137,373                     | \$146,244 | (8,871 )                | (6.1 ) |
| 100% of Contracted Power Free Cash Flow included in consolidated Free Cash Flow | (14,527 )                     | (9,839 )  |                         |        |
| MIC's share of Contracted Power Free Cash Flow                                  | 12,099                        | 8,171     |                         |        |
| 100% of MIC Hawaii Free Cash Flow included in consolidated Free Cash Flow       | (10,750 )                     | (14,936 ) |                         |        |
| MIC's share of MIC Hawaii Free Cash Flow  | 10,747                        | 14,933    |                         |        |
| Free Cash Flow Proportionately Combined basis                                   | \$134,942                     | \$144,573 | (9,631 )                | (6.7 ) |

### Results of Operations: *IMTT*

IMTT recorded financial results for the first quarter of 2018 that reflect an expected decline in storage capacity utilization levels, partially offset by contributions from an acquisition in 2017. During the first quarter, the decline was principally the result of previously disclosed non-renewals of certain contracts for storage and handling involving a portion of the business heavy and residual oil capacity on the Lower Mississippi River. Contract non-renewals, inclusive of a small number of contracts involving clean refined products in the New York Harbor, reduced capacity utilization to an average 88.1% for the quarter ended March 31, 2018 compared with 96.3% for the quarter ended March 31, 2017 and utilization of 90.6% for the quarter ended December 31, 2017. Given some customers for certain petroleum products are renewing contracts for short durations, this will increase the frequency with which contracts are renewed.

IMTT is currently both involved in and evaluating opportunities related to:

Tank Repurposing: cleaning and repurposing approximately 3.0 million barrels of primarily heavy and residual oil capacity on the Lower Mississippi River to increase exposure to growth product segments;  
 Enhancing Connectivity: investing in truck, pipeline, marine and rail infrastructure that will enhance supply chain efficiencies for its customers and provide better integration with IMTT's facilities; and  
 Terminal Repositioning: leveraging IMTT's existing geographic footprint to selectively increase capacity to meet customer demand and further diversify product mix (i.e. chemical and tropical oil).

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

The successful implementation of these initiatives is, over time, expected to, (i) improve utilization and pricing, (ii) increase exposure to growth markets, (iii) generate a larger proportion of IMTT's revenue from longer-dated contracts, and (iv) reduce IMTT's heavy and residual oil capacity.

|  | Quarter Ended March<br>31,    |           | Change                  |         |
|--|-------------------------------|-----------|-------------------------|---------|
|  | 2018                          | 2017      | Favorable/(Unfavorable) |         |
|  | \$                            | \$        | \$                      | %       |
|  | (\$ In Thousands) (Unaudited) |           |                         |         |
| Revenue  | 139,389                       | 138,817   | 572                     | 0.4     |
| Cost of services   | 54,425                        | 49,846    | (4,579 )                | (9.2 )  |
| Selling, general and administrative expenses   | 9,306                         | 9,038     | (268 )                  | (3.0 )  |
| Depreciation and amortization  | 33,249                        | 31,520    | (1,729 )                | (5.5 )  |
| Operating income   | 42,409                        | 48,413    | (6,004 )                | (12.4 ) |
| Interest expense, net <sup>(1)</sup>   | (7,739 )                      | (8,757 )  | 1,018                   | 11.6    |
| Other income, net  | 296                           | 708       | (412 )                  | (58.2 ) |
| Provision for income taxes   | (9,686 )                      | (16,548 ) | 6,862                   | 41.5    |
| Net income   | 25,280                        | 23,816    | 1,464                   | 6.1     |
| <b><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></b> |                               |           |                         |         |
| Net income   | 25,280                        | 23,816    |                         |         |
| Interest expense, net <sup>(1)</sup>   | 7,739                         | 8,757     |                         |         |
| Provision for income taxes   | 9,686                         | 16,548    |                         |         |
| Depreciation and amortization  | 33,249                        | 31,520    |                         |         |
| Pension expense <sup>(2)</sup>   | 2,080                         | 2,416     |                         |         |
| Other non-cash expense, net  | 94                            | 68        |                         |         |
| EBITDA excluding non-cash items  | 78,128                        | 83,125    | (4,997 )                | (6.0 )  |
| EBITDA excluding non-cash items  | 78,128                        | 83,125    |                         |         |
| Interest expense, net <sup>(1)</sup>   | (7,739 )                      | (8,757 )  |                         |         |
| Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup>  | (4,042 )                      | (1,320 )  |                         |         |
| Amortization of debt financing costs <sup>(1)</sup>  | 411                           | 411       |                         |         |
| Provision for current income taxes   | (4,276 )                      | (2,258 )  |                         |         |
| Changes in working capital   | 5,089                         | 736       |                         |         |
| Cash provided by operating activities  | 67,571                        | 71,937    |                         |         |
| Changes in working capital   | (5,089 )                      | (736 )    |                         |         |
| Maintenance capital expenditures   | (6,989 )                      | (2,460 )  |                         |         |
| Free cash flow   | 55,493                        | 68,741    | (13,248 )               | (19.3 ) |

(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.



## Revenue

IMTT generates the majority of its revenue from contracts typically comprising a fixed monthly charge (that typically escalates annually with inflation) for access to or use of its infrastructure and land. We refer to revenue generated from such contracts or fixed charges as firm commitments. Firm commitments are generally of medium term duration and at March 31, 2018, had a revenue weighted average remaining life of 2.2 years. Revenue from firm commitments comprised 77.0% of total revenue for the quarter ended March 31, 2018.

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**Results of Operations: IMTT (continued)**

For the quarter ended March 31, 2018, total revenue increased by \$572,000 compared with the quarter ended March 31, 2017 primarily due to contribution from an acquisition, the recognition of deferred revenue resulting from customer cleaning obligations upon contract expiration and higher heating revenues as a result of colder weather in the Northeast. The increase in revenue is partially offset by lower utilization and average storage rates and lower revenue generated from spill response activity.

**Costs of Services and Selling, General and Administrative Expenses**

Cost of services and selling, general and administrative expenses combined increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017. The increase was primarily the result of incremental costs from an acquisition and increased repair and maintenance expenses. These increases in costs were partially offset by lower costs related to spill response activity.

**Depreciation and Amortization**

Depreciation and amortization expense increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to incremental expense associated with an acquisition.

**Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$4.0 million and \$521,000 for the quarters ended March 31, 2018 and 2017, respectively. Excluding the derivative adjustments, cash interest expense was \$11.4 million and \$9.7 million for the quarters ended March 31, 2018 and 2017, respectively. The increase reflects primarily higher average debt balances and a higher average cost of debt.

The interest rate on IMTT's tax-exempt Gulf Opportunity Zone Bonds (GO Zone Bonds) increased by 0.6% in 2018 as a result of the reduction in the corporate tax rate from 35% to 21% under the Tax Cuts and Jobs Act.

**Income Taxes**

The taxable income generated by IMTT is reported on our consolidated federal income tax return. The business files state or provincial income tax returns in the jurisdictions in which it operates. For the year ending December 31, 2018, the business expects to pay state and provincial income taxes of approximately \$4.8 million. The *Provision for current income taxes* of \$4.3 million for the quarter ended March 31, 2018 in the above table includes \$2.3 million of federal income tax expense and \$2.0 million of state and provincial 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 bonus tax depreciation. A significant portion of Louisiana terminal fixed assets constructed in the period after Hurricane Katrina were financed with 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 bonus tax depreciation. However, Louisiana allows the

use of bonus depreciation except for assets financed with GO Zone Bonds.

### **Maintenance Capital Expenditures**

During the quarter ended March 31, 2018, IMTT incurred maintenance capital expenditures of \$7.0 million and \$6.4 million on an accrual basis and cash basis, respectively, compared with \$2.5 million and \$5.3 million on an accrual basis and cash basis, respectively, for the quarter ended March 31, 2017. The increase for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 is primarily as a result of the timing of tank inspections and repairs. Maintenance capital expenditure for the quarter ended March 31, 2018 also includes approximately \$1.0 million of capital expenditure associated with repurposing existing tanks. In 2018, IMTT anticipates spending up to \$15.0 million in maintenance capital expenditure on repurposing existing tanks in addition to the \$20.0 million to \$25.0 million of recurring capital expenditure.

TABLE OF CONTENTS**Results of Operations: *Atlantic Aviation***

Industry-wide, domestic GA take-offs and landings increased by 2.2% for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 according to data reported by the FAA. GA take-off and landings at airports on which Atlantic Aviation operates increased by 0.7% during the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017. The modest increase in flight activity at airports on which Atlantic Aviation operates reflects primarily decreased traffic at Santa Monica Municipal Airport in Santa Monica, CA as a result of the shortening of the runway and decreased traffic into West Palm Beach Airport in West Palm Beach, FL due to temporary flight restrictions. Flight activity at the remainder of the airports on which Atlantic Aviation operates increased by 2.1% during the quarter.

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 20.1 years at March 31, 2018 compared with 19.4 years at March 31, 2017. 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.

|  | Quarter Ended March           |           | Change                  |         |
|--|-------------------------------|-----------|-------------------------|---------|
|  | 31,                           | 2017      | Favorable/(Unfavorable) |         |
|  | 2018                          |           |                         |         |
|  | \$                            | \$        | \$                      | %       |
|  | (\$ In Thousands) (Unaudited) |           |                         |         |
| Revenue  | 247,202                       | 212,753   | 34,449                  | 16.2    |
| Cost of services (exclusive of depreciation and amortization shown separately below)   | 116,693                       | 93,922    | (22,771 )               | (24.2 ) |
| Gross margin   | 130,509                       | 118,831   | 11,678                  | 9.8     |
| Selling, general and administrative expenses   | 59,939                        | 53,890    | (6,049 )                | (11.2 ) |
| Depreciation and amortization  | 25,479                        | 25,033    | (446 )                  | (1.8 )  |
| Operating income   | 45,091                        | 39,908    | 5,183                   | 13.0    |
| Interest expense, net <sup>(1)</sup>   | (69 )                         | (3,446 )  | 3,377                   | 98.0    |
| Other income (expense), net  | 56                            | (86 )     | 142                     | 165.1   |
| Provision for income taxes   | (12,111 )                     | (14,550 ) | 2,439                   | 16.8    |
| Net income   | 32,967                        | 21,826    | 11,141                  | 51.0    |
| <b><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></b> |                               |           |                         |         |
| Net income   | 32,967                        | 21,826    |                         |         |
| Interest expense, net <sup>(1)</sup>   | 69                            | 3,446     |                         |         |
| Provision for income taxes   | 12,111                        | 14,550    |                         |         |
| Depreciation and amortization  | 25,479                        | 25,033    |                         |         |
| Pension expense <sup>(2)</sup>   | 5                             | 5         |                         |         |
| Other non-cash expense, net  | 312                           | 62        |                         |         |
| EBITDA excluding non-cash items  | 70,943                        | 64,922    | 6,021                   | 9.3     |
| EBITDA excluding non-cash items  | 70,943                        | 64,922    |                         |         |
| Interest expense, net <sup>(1)</sup>   | (69 )                         | (3,446 )  |                         |         |

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|   |          |          |     |     |
|---|----------|----------|-----|-----|
| Convertible senior notes interest <sup>(3)</sup>                                  | (2,012 ) | (1,744 ) |     |     |
| Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup> | (4,367 ) | 133      |     |     |
| Amortization of debt financing costs <sup>(1)</sup>                               | 279      | 314      |     |     |
| Provision for current income taxes  | (6,533 ) | (2,872 ) |     |     |
| Changes in working capital  | 6,019    | (6,116 ) |     |     |
| Cash provided by operating activities   | 64,260   | 51,191   |     |     |
| Changes in working capital  | (6,019 ) | 6,116    |     |     |
| Maintenance capital expenditures  | (1,302 ) | (925 )   |     |     |
| Free cash flow  | 56,939   | 56,382   | 557 | 1.0 |

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**Results of Operations: *Atlantic Aviation* (continued)**

- (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.
- (3) Represents the cash interest expense reclassified from MIC Corporate 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.

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 above.

**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 seeks to maintain and, where appropriate, increase 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 by 16.2% for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 as a result of higher wholesale cost of fuel, contributions from acquisitions and an increase in the volume of fuel sold. 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 9.8% for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017.

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 margin increased by 5.3% in the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 driven by an increase in hangar rentals, deicing, ancillary services and fuel gross margin.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to incremental costs associated with acquisitions and higher salaries and

benefit costs.

### **Depreciation and Amortization**

Depreciation and amortization expense increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily as a result of contributions from acquisitions and assets placed in service.

### **Operating Income**

Operating income increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 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.

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**Results of Operations: *Atlantic Aviation* (continued)**

**Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$5.0 million and losses on derivative instruments of \$133,000 for the quarters ended March 31, 2018 and 2017, respectively. Excluding the derivative adjustments, cash interest expense was \$6.2 million and \$4.7 million for the quarters ended March 31, 2018 and 2017, respectively. The increase reflects primarily higher average debt balances.

Cash interest expense for the quarters ended March 31, 2018 and 2017 is inclusive of the interest expense related to the \$402.5 million of the MIC Corporate 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 in October 2016.

**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, 2018, the business expects to pay state income taxes of approximately \$7.4 million.

The *Provision for current income taxes* of \$6.5 million for the quarter ended March 31, 2018 in the above table includes \$4.3 million of federal income tax expense and \$2.2 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 quarter ended March 31, 2018, Atlantic Aviation incurred maintenance capital expenditures of \$1.3 million and \$1.5 million on an accrual basis and cash basis, respectively, compared with \$925,000 and \$1.7 million on an accrual basis and cash basis, respectively, for the quarter ended March 31, 2017.



TABLE OF CONTENTS**Results of Operations: *Contracted Power***

Results for the quarter ended March 31, 2018 were ahead of expectations driven by improved wind resources, increased utilization at BEC and additional tariff-based ancillary services at BEC. The cold snap in early January in New York City led to a significant increase in the demand for peaking power.

|   | Quarter Ended March           |          | Change        |         |
|---|-------------------------------|----------|---------------|---------|
|   | 31,                           |          | Favorable/    |         |
|   | 2018                          | 2017     | (Unfavorable) |         |
|   | \$                            | \$       | \$            | %       |
|   | (\$ In Thousands) (Unaudited) |          |               |         |
| Product revenue   | 35,287                        | 28,070   | 7,217         | 25.7    |
| Cost of product sales   | 5,837                         | 4,859    | (978 )        | (20.1 ) |
| Selling, general and administrative expenses  | 7,512                         | 5,165    | (2,347 )      | (45.4 ) |
| Depreciation and amortization   | 15,527                        | 15,340   | (187 )        | (1.2 )  |
| Operating income  | 6,411                         | 2,706    | 3,705         | 136.9   |
| Interest expense, net <sup>(1)</sup>  | (885 )                        | (5,383 ) | 4,498         | 83.6    |
| Other income, net   | 1,005                         | 765      | 240           | 31.4    |
| Provision for income taxes  | (950 )                        | (27 )    | (923 )        | NM      |
| Net income (loss)   | 5,581                         | (1,939 ) | 7,520         | NM      |
| Less: net loss attributable to noncontrolling interest  | (30,056)                      | (3,349 ) | 26,707        | NM      |
| Net income attributable to MIC  | 35,637                        | 1,410    | 34,227        | NM      |
| <b><i>Reconciliation of net income (loss) to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:</i></b> |                               |          |               |         |
| Net income (loss)   | 5,581                         | (1,939 ) |               |         |
| Interest expense, net <sup>(1)</sup>  | 885                           | 5,383    |               |         |
| Provision for income taxes  | 950                           | 27       |               |         |
| Depreciation and amortization   | 15,527                        | 15,340   |               |         |
| Other non-cash income, net <sup>(2)</sup>   | (1,888 )                      | (2,024 ) |               |         |
| EBITDA excluding non-cash items   | 21,055                        | 16,787   | 4,268         | 25.4    |
| EBITDA excluding non-cash items   | 21,055                        | 16,787   |               |         |
| Interest expense, net <sup>(1)</sup>  | (885 )                        | (5,383 ) |               |         |
| Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup>   | (5,970 )                      | (1,834 ) |               |         |
| Amortization of debt financing costs <sup>(1)</sup>   | 379                           | 379      |               |         |
| Provision for current income taxes  | (16 )                         | (88 )    |               |         |
| Changes in working capital <sup>(3)</sup>   | 919                           | (585 )   |               |         |
| Cash provided by operating activities   | 15,482                        | 9,276    |               |         |
| Changes in working capital <sup>(3)</sup>   | (919 )                        | 585      |               |         |
| Maintenance capital expenditures  | (36 )                         | (22 )    |               |         |
| Free cash flow  | 14,527                        | 9,839    | 4,688         | 47.6    |

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.

Conformed to current period presentation for the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic 3230): Restricted Cash*. 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.

### **Revenue**

Revenue increased by \$7.2 million for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017. Revenue from BEC increased due to, (i) higher electricity generation driven by cold weather in January 2018; (ii) increased revenue from BEC's transmission congestion contracts; and, (iii) additional revenues from tariff-based ancillary services provided to the grid operator. Revenue from renewable facilities increased primarily due to strong wind resources.

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

**Cost of Product Sales**

Cost of product sales increased due to higher generation levels at BEC in the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017, resulting in an increase in gas consumed and higher variable operations and maintenance expenses.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to incremental costs associated with the improvement projects constructed at BEC, incremental costs from acquisitions and development-related expenses, partially offset by insurance savings at BEC.

**Depreciation and Amortization**

Depreciation and amortization expense increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to incremental expenses associated with acquisitions completed in 2017 and projects placed in service during the year.

**Other Income, net**

Other income, net, increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to an increase in financing income from a third party renewable developer on a revolving credit facility provided by the business.

**Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$5.4 million and \$410,000 for the quarters ended March 31, 2018 and 2017, respectively. Excluding the derivative adjustments, cash interest expense was \$6.5 million and \$6.8 million for the quarters ended March 31, 2018 and 2017, respectively. The decrease reflects primarily lower average debt balances on all facilities.

**Income Taxes**

Our wind and solar facilities are held in limited liability companies that are treated as pass through entities 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, 2018, MIC expects its allocated share of the federal taxable income from these facilities to be a loss of approximately \$425,000. For 2017, MIC's allocated share of the federal taxable income from these facilities was a loss of approximately \$10.7 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, 2018, 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.

### **Noncontrolling Interest**

The increase in loss attributable to noncontrolling interest for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 is primarily driven by the effects of the Tax Cuts and Jobs Act on certain partnership entities.

### **Results of Operations: *MIC Hawaii***

MIC Hawaii generated results that were below expectations driven by continued underperformance at our design-build mechanical contractor and lower non-utility margins and higher production, transmission and distribution costs at Hawaii Gas.

In August 2017, Hawaii Gas filed a general rate case with the Hawaii Public Utilities Commission (HPUC). The rate case seeks an increase in revenue of \$15.0 million per year and, if approved, interim rates are expected to be implemented in mid-2018.

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

The Tax Cuts and Jobs Act is expected to have both positive and negative impacts on the businesses of MIC Hawaii. The positive aspects primarily benefit the non-regulated MIC Hawaii businesses and include the reduction in federal corporate tax rates and the expensing of a portion of capital expenditures. On the other hand, the regulated MIC Hawaii business expects a reduction in revenues as a result of the lower federal corporate tax rate. The HPUC has opened a proceeding that is expected to result in a determination of the final impact of the new tax law on regulated utilities in Hawaii, including the treatment of accumulated deferred taxes as of the date of the change in federal corporate tax rate.

|   | Quarter Ended                 |          | Change        |         |
|---|-------------------------------|----------|---------------|---------|
|   | March 31,                     |          | Favorable/    |         |
|   | 2018                          | 2017     | (Unfavorable) |         |
|   | \$                            | \$       | \$            | %       |
|   | (\$ In Thousands) (Unaudited) |          |               |         |
| Product revenue   | 63,660                        | 59,583   | 4,077         | 6.8     |
| Service revenue   | 17,249                        | 13,457   | 3,792         | 28.2    |
| Total revenue   | 80,909                        | 73,040   | 7,869         | 10.8    |
| Cost of product sales (exclusive of depreciation and amortization shown separately below)   | 47,548                        | 42,366   | (5,182 )      | (12.2 ) |
| Cost of services (exclusive of depreciation and amortization shown separately below)  | 16,352                        | 10,940   | (5,412 )      | (49.5 ) |
| Cost of revenue total   | 63,900                        | 53,306   | (10,594)      | (19.9 ) |
| Gross margin  | 17,009                        | 19,734   | (2,725 )      | (13.8 ) |
| Selling, general and administrative expenses  | 7,229                         | 6,085    | (1,144 )      | (18.8 ) |
| Depreciation and amortization   | 4,155                         | 3,481    | (674 )        | (19.4 ) |
| Operating income  | 5,625                         | 10,168   | (4,543 )      | (44.7 ) |
| Interest expense, net <sup>(1)</sup>  | (1,290 )                      | (1,711 ) | 421           | 24.6    |
| Other expense, net  | (1,319 )                      | (205 )   | (1,114 )      | NM      |
| Provision for income taxes  | (805 )                        | (3,379 ) | 2,574         | 76.2    |
| Net income  | 2,211                         | 4,873    | (2,662 )      | (54.6 ) |
| Less: net income (loss) attributable to noncontrolling interests  | 17                            | (28 )    | (45 )         | (160.7) |
| Net income attributable to MIC  | 2,194                         | 4,901    | (2,707 )      | (55.2 ) |
| <b>Reconciliation of net income to EBITDA excluding non-cash items and a reconciliation of cash provided by operating activities to Free Cash Flow:</b> |                               |          |               |         |
| Net income  | 2,211                         | 4,873    |               |         |
| Interest expense, net <sup>(1)</sup>  | 1,290                         | 1,711    |               |         |
| Provision for income taxes  | 805                           | 3,379    |               |         |
| Depreciation and amortization   | 4,155                         | 3,481    |               |         |
| Pension expense <sup>(2)</sup>  | 127                           | 273      |               |         |
| Other non-cash expense, net <sup>(3)</sup>  | 6,199                         | 5,571    |               |         |
| EBITDA excluding non-cash items   | 14,787                        | 19,288   | (4,501 )      | (23.3 ) |
| EBITDA excluding non-cash items   | 14,787                        | 19,288   |               |         |
| Interest expense, net <sup>(1)</sup>  | (1,290 )                      | (1,711 ) |               |         |

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|   |          |          |          |         |
|---|----------|----------|----------|---------|
| Adjustments to derivative instruments recorded in interest expense <sup>(1)</sup> | (670 )   | (226 )   |          |         |
| Amortization of debt financing costs <sup>(1)</sup>                               | 97       | 105      |          |         |
| Provision for current income taxes  | (639 )   | (1,451 ) |          |         |
| Changes in working capital <sup>(4)</sup>   | (6,139 ) | (8,727 ) |          |         |
| Cash provided by operating activities   | 6,146    | 7,278    |          |         |
| Changes in working capital <sup>(4)</sup>   | 6,139    | 8,727    |          |         |
| Maintenance capital expenditures  | (1,535 ) | (1,069 ) |          |         |
| Free cash flow  | 10,750   | 14,936   | (4,186 ) | (28.0 ) |

NM Not meaningful

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**Results of Operations: MIC Hawaii (continued)**

- (1) Interest expense, net, includes adjustments to derivative instruments related to interest rate swaps 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.  
Other non-cash expense, net, primarily includes non-cash adjustments related to 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) Conformed to current period presentation for the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. 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.
- 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 above.

**Revenue and Gross Margin**

Revenue increased by \$7.9 million for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017. The increase is primarily attributable to higher revenue at the mechanical contracting business, increase in the wholesale cost of gas and higher volumes of gas sold by Hawaii Gas, partially offset by lower rates. On an underlying basis, adjusting for changes in customer inventory, the volume of gas sold increased by 5.6% in the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017.

Gross margin decreased by \$2.7 million for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017. The decrease is primarily attributable to lower margins at Hawaii Gas and the mechanical contracting business, partially offset by lower unrealized losses on commodity hedges.

Gross margins were lower at Hawaii Gas due to higher production and transmission & distribution costs, and a lower contribution margin per therm resulting from competitive activity. Unrealized losses on commodity hedges were \$4.3 million for the quarter ended March 31, 2018 compared with unrealized losses of \$5.2 million for the quarter ended March 31, 2017. Lower margins on mechanical contracting projects resulted from increased costs on fixed revenue

contracts attributable to higher labor costs, project delays and general construction cost escalation in Hawaii.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by \$1.1 million for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to higher salary and professional fees, partially offset by lower IT and legal costs.

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**Results of Operations: *MIC Hawaii* (continued)**

**Depreciation and Amortization**

Depreciation and amortization expense increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to assets placed in service.

**Operating Income**

Operating income decreased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 due to the decline in gross margin and the increases in selling, general and administrative expenses and depreciation and amortization expenses.

**Interest Expense, Net**

Interest expense includes gains on derivative instruments of \$801,000 and \$156,000 for the quarters ended March 31, 2018 and 2017, respectively. Excluding the derivative adjustments, cash interest expense was \$1.9 million and \$1.8 million for the quarters ended March 31, 2018 and 2017, respectively. The slight increase reflects primarily higher average debt balances outstanding.

**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, 2018, the business expects to pay state income taxes of approximately \$850,000. The *Provision for current income taxes* of \$639,000 for the quarter ended March 31, 2018 in the above table includes \$599,000 of federal income tax expense and \$40,000 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 quarter ended March 31, 2018, MIC Hawaii incurred maintenance capital expenditures of \$1.5 million and \$1.3 million on an accrual basis and cash basis, respectively, compared with \$1.1 million and \$1.5 million on an accrual basis and cash basis, respectively, for the quarter ended March 31, 2017.

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

Corporate and Other includes expenses paid by the holding company, including base management fees and performance fees, if any, professional fees and costs associated with being a public company.

|  | Quarter Ended March           |          | Change        |         |
|--|-------------------------------|----------|---------------|---------|
|  | 31,                           |          | Favorable/    |         |
|  | 2018                          | 2017     | (Unfavorable) |         |
|  | \$                            | \$       | \$            | %       |
|  | (\$ In Thousands) (Unaudited) |          |               |         |
| Fees to Manager-related party  | 12,928                        | 18,223   | 5,295         | 29.1    |
| Selling, general and administrative expenses <sup>(1)</sup>  | 4,202                         | 3,995    | (207 )        | (5.2 )  |
| Depreciation   | 164                           |          | (164 )        | NM      |
| Operating loss   | (17,294)                      | (22,218) | 4,924         | 22.2    |
| Interest expense, net <sup>(2)</sup>   | (8,727 )                      | (6,151 ) | (2,576)       | (41.9 ) |
| Other income, net  | 4                             |          | 4             | NM      |
| Benefit for income taxes   | 6,773                         | 12,431   | (5,658)       | (45.5 ) |
| Net loss   | (19,244)                      | (15,938) | (3,306)       | (20.7 ) |
| <b><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></b> |                               |          |               |         |
| Net loss   | (19,244)                      | (15,938) |               |         |
| Interest expense, net <sup>(2)</sup>   | 8,727                         | 6,151    |               |         |
| Benefit for income taxes   | (6,773 )                      | (12,431) |               |         |
| Depreciation   | 164                           |          |               |         |
| Fees to Manager-related party  | 12,928                        | 18,223   |               |         |
| Pension expense <sup>(3)</sup>   | 41                            |          |               |         |
| Other non-cash expense   | 163                           | 188      |               |         |
| EBITDA excluding non-cash items  | (3,994 )                      | (3,807 ) | (187 )        | (4.9 )  |
| EBITDA excluding non-cash items  | (3,994 )                      | (3,807 ) |               |         |
| Interest expense, net <sup>(2)</sup>   | (8,727 )                      | (6,151 ) |               |         |
| Convertible senior notes interest <sup>(4)</sup>   | 2,012                         | 1,744    |               |         |
| Amortization of debt financing costs <sup>(2)</sup>  | 1,883                         | 993      |               |         |
| Amortization of debt discount <sup>(2)</sup>   | 897                           | 619      |               |         |
| Benefit for current income taxes   | 7,593                         | 2,948    |               |         |
| Changes in working capital   | (9,021 )                      | (8,434 ) |               |         |
| Cash used in operating activities  | (9,357 )                      | (12,088) |               |         |
| Changes in working capital   | 9,021                         | 8,434    |               |         |
| Free cash flow   | (336 )                        | (3,654 ) | 3,318         | 90.8    |

NM Not meaningful

(1) For the quarter ended March 31, 2018, selling, general and administrative expenses included \$944,000 of costs incurred in connection with the evaluation of various investment and acquisition opportunities. For the quarter ended March 31, 2017, selling, general and administrative expenses included \$2.3 million of costs related to the implementation of a shared service center.

(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) 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 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 March 31, 2018, our consolidated debt outstanding totaled \$3,716.4 million (excluding adjustments for unamortized debt discounts), our consolidated cash balance totaled \$76.0 million and consolidated available capacity under our revolving credit facilities totaled \$954.5 million, excluding letter of credits outstanding of \$43.2 million.

The following table shows MIC's proportionate debt obligations at May 1, 2018 (\$ in thousands):

| Business                  | Debt                       | Weighted<br>Average<br>Remaining<br>Life<br>(in years) | Balance<br>Outstanding <sup>(1)</sup> | Weighted<br>Average<br>Rate <sup>(2)</sup> |   |
|---------------------------|----------------------------|--|---------------------------------------|--|---|
| MIC Corporate             | Revolving Facility         | 3.7  | \$ 154,500                            | 3.66                                       | % |
|                           | Convertible Senior Notes   | 3.5  | 752,445                               | 2.41                                       | % |
| IMTT                      | Senior Notes               | 8.0  | 600,000                               | 3.97                                       | % |
|                           | Tax-Exempt Bonds           | 4.1  | 508,975                               | 3.31                                       | % |
| Atlantic Aviation         | Revolving Facility         | 2.1  | 217,000                               | 3.41                                       | % |
|                           | Term Loan                  | 3.4  | 385,000                               | 2.75                                       | % |
| Contracted Power          | Revolving Facility         | 3.4  | 291,000                               | 3.66                                       | % |
|                           | Renewables Project Finance | 14.2   | 258,565                               | 4.83                                       | % |
| MIC Hawaii <sup>(3)</sup> | BEC Term Loan              | 4.3  | 248,500                               | 3.91                                       | % |
|                           | Term Loan                  | 5.4  | 96,281                                | 2.85                                       | % |
| Total                     | Senior Notes               | 4.3  | 100,000                               | 4.22                                       | % |
|                           | Revolving Facility         | 4.8  | 15,000                                | 3.16                                       | % |
|                           |                            | 5.1  | \$ 3,627,266                          | 3.38                                       | % |

(1) Proportionate to MIC's ownership interest.

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

(3) Excludes \$2.5 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 May 1, 2018 (\$ in thousands):

| Business                     | Debt               | Weighted<br>Average<br>Remaining<br>Life<br>(in years) | Undrawn<br>Amount | Interest Rate <sup>(1)</sup> |
|------------------------------|--------------------|--|-------------------|------------------------------|
| MIC Corporate <sup>(2)</sup> | Revolving Facility | 3.7  | \$445,500         | LIBOR + 1.750%               |

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|                             |     |                        |     |           |                                  |
|-----------------------------|-----|------------------------|-----|-----------|----------------------------------|
| IMTT                        |     | USD Revolving Facility | 2.1 | 333,000   | LIBOR + 1.500%                   |
|                             |     | CAD Revolving Facility | 2.1 | 50,000    | Bankers Acceptance Rate + 1.500% |
| Atlantic Aviation           |     | Revolving Facility     | 3.4 | 59,000    | LIBOR + 1.750%                   |
| Contracted Power            | BEC | Revolving Facility     | 4.3 | 25,000    | LIBOR + 2.125%                   |
| Contracted Power Renewables |     | Revolving Facility     | 1.6 | 19,980    | LIBOR + 2.000%                   |
| MIC Hawaii <sup>(3)</sup>   |     | Revolving Facility     | 4.8 | 45,000    | LIBOR + 1.250%                   |
| Total <sup>(4)</sup>        |     |                        | 3.1 | \$977,480 |                                  |

(1)

Excludes commitment fees.

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TABLE OF CONTENTS**Liquidity and Capital Resources (continued)**

- (2) On January 3, 2018, the Company completed the refinancing and upsizing of its senior secured revolving credit facility and extended its maturity to January 2022.
- (3) On February 12, 2018, Hawaii Gas completed the refinancing of its existing \$60.0 million revolving credit facility and extended its maturity to February 2023.

(4) Excludes letters of credits outstanding of \$48.1 million.

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 on consolidation.

|                                       | Quarter Ended March 31, |                     | Change                      |      |
|---------------------------------------|-------------------------|---------------------|-----------------------------|------|
|                                       | 2018                    | 2017 <sup>(1)</sup> | Favorable/<br>(Unfavorable) |      |
| (\$ In Thousands)                     | \$                      | \$                  | \$                          | %    |
| Cash provided by operating activities | 144,102                 | 127,594             | 16,508                      | 12.9 |
| Cash used in investing activities     | (65,111 )               | (67,819 )           | 2,708                       | 4.0  |
| Cash used in financing activities     | (48,225 )               | (76,175 )           | 27,950                      | 36.7 |

Conformed to current period presentation for the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic 1)230: Restricted Cash*. 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.

## 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.

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## **Liquidity and Capital Resources (continued)**

The increase in consolidated cash provided by operating activities for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 was primarily due to:

timing of payment of insurance premiums;  
collection of interest receivable from a third party renewables developer on a revolving credit facility provided by our Contracted Power business; and

timing of customer payments; partially offset by  
an increase in the cost of jet fuel at Atlantic Aviation and the increase in the cost of gas at MIC Hawaii; and  
an increase in interest expense.

### **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 Operation* for maintenance capital expenditures for each of our businesses.

The decrease in consolidated cash used in investing activities for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 was primarily due to:

a decrease in capital expenditures at BEC and IMTT; and  
a decrease in net borrowings by a third party renewables developer on a revolving credit facility provided by our Contracted Power business; partially offset by  
an on-field consolidation of an FBO by Atlantic Aviation.

### **Capital Deployment**

Capital deployment includes growth capital expenditures and bolt-on acquisitions, the majority of which are expected to generate incremental earnings. For the quarters ended March 31, 2018 and 2017, we invested \$39.0 million and \$51.4 million, respectively, of growth capital expenditures in our existing businesses. In addition, we completed an on-field consolidation of an FBO for \$11.4 million during the quarter ended March 31, 2018.

We prudently evaluate opportunities to deploy capital in acquisitions and projects, whether into our existing businesses or new lines of business. For example, we expect to deploy approximately \$22.5 million of additional capital in the completion of an expansion of our BEC facility in 2018. We also expect to undertake a number of capital projects related to the repurposing and repositioning of certain assets at IMTT and the improvement in capacity and capabilities of the businesses in our other segments. As a consequence of having reduced internally generated capital as a result of the non-renewal of a number of contracts for storage and handling of bulk liquids at IMTT, we have reduced our planned capital deployment for the year from a previous estimate of approximately \$350.0 million to approximately \$300.0 million.



## **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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## **Liquidity and Capital Resources (continued)**

The decrease in consolidated cash used in financing activities for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 was primarily due to:

increased net borrowings used partially to fund capital deployment and general corporate purposes; partially offset by an increase in dividends paid to stockholders in 2018.

### **IMTT**

During the quarter ended March 31, 2018, IMTT borrowed \$17.0 million and repaid \$10.0 million on its revolving credit facility primarily for general corporate purposes. At March 31, 2018, IMTT had \$1.3 billion of total debt outstanding consisting of \$600.0 million of senior notes, \$509.0 million of tax-exempt bonds and \$217.0 million drawn on its revolving credit facility. IMTT has access to \$600.0 million of revolving credit facilities, of which \$383.0 million remained undrawn at March 31, 2018.

Cash interest expense paid by IMTT was \$11.4 million and \$9.7 million for the quarters ended March 31, 2018 and 2017, respectively. At March 31, 2018, IMTT was in compliance with its financial covenants.

### **Atlantic Aviation**

During the quarter ended March 31, 2018, Atlantic Aviation borrowed \$19.0 million on its revolving credit facility primarily to fund an on-field consolidation of an FBO and for general corporate purposes. At March 31, 2018, Atlantic Aviation had total debt outstanding of \$662.0 million comprised of a \$385.0 million senior secured, first lien term loan facility and a \$277.0 million balance outstanding on its senior secured, first lien revolving credit facility. Atlantic Aviation has access to a \$350.0 million revolving credit facility, of which \$73.0 million remained undrawn at March 31, 2018. Through May 1, 2018, Atlantic Aviation borrowed \$14.0 million for general corporate purposes on its revolving credit facility.

Cash interest expense paid by Atlantic Aviation was \$6.2 million and \$4.7 million for the quarters ended March 31, 2018 and 2017, respectively. Cash interest expense for the quarters ended March 31, 2018 and 2017, is inclusive of the interest expense related to the \$402.5 million of the MIC Corporate 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 in October 2016. At March 31, 2018, Atlantic Aviation was in compliance with its financial covenants.

### **Contracted Power**

At March 31, 2018, the businesses within our Contracted Power segment had \$570.6 million in term loans outstanding. Cash interest expense paid by these businesses was \$6.5 million and \$6.8 million for the quarters ended March 31, 2018 and 2017, respectively.

At March 31, 2018, BEC had \$248.5 million outstanding on an amortizing term loan facility and access to a revolving credit facility of \$25.0 million that was undrawn. Cash interest expense paid by BEC was \$2.5 million and \$2.7 million for the quarters ended March 31, 2018 and 2017, respectively. At March 31, 2018, BEC was in compliance with its financial covenants.

At March 31, 2018, our wind and solar facilities had an aggregate \$322.1 million in term loan debt outstanding. Cash interest expense totaled \$4.0 million and \$4.1 million for the quarters ended March 31, 2018 and 2017, respectively.

At March 31, 2018, all of the wind and solar facilities were in compliance with their respective financial covenants.

**MIC Hawaii**

At March 31, 2018, the businesses of MIC Hawaii had total debt outstanding of \$212.9 million comprising \$198.9 million in term loans and \$14.0 million outstanding on revolving credit facilities. Cash interest expense paid by these businesses totaled \$1.9 million and \$1.8 million for the quarters ended March 31, 2018 and 2017, respectively.

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## **Liquidity and Capital Resources (continued)**

In February 2018, Hawaii Gas exercised the second of two one-year extensions related to its \$80.0 million secured term loan facility and its \$60.0 million revolving credit facility extending their respective maturities to February 2023.

At March 31, 2018, Hawaii Gas had total debt outstanding of \$180.0 million in term loan and senior secured note borrowings and \$14.0 million outstanding on its revolving credit facility. During the quarter ended March 31, 2018, Hawaii Gas borrowed \$19.0 million for general corporate purposes and repaid \$5.0 million. Through May 1, 2018, Hawaii Gas borrowed \$1.0 million for general corporate purposes on its revolving credit facility. Cash interest paid by Hawaii Gas was \$1.7 million for each of the quarters ended March 31, 2018 and 2017. At March 31, 2018, Hawaii Gas was in compliance with its financial covenants.

At March 31, 2018, the other businesses within MIC Hawaii had \$18.9 million of debt outstanding, consisting primarily of \$16.4 million term loan debt related to our solar facilities. At March 31, 2018, these businesses were in compliance with their financial covenants.

### **MIC Corporate**

On January 3, 2018, the Company completed the refinancing and upsizing of its senior secured revolving credit facility to \$600.0 million and extended the maturity through January 3, 2022.

At March 31, 2018, 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 March 31, 2018, the outstanding balance on the senior secured revolving credit facility was \$192.5 million resulting in an undrawn balance of \$407.5 million. Through May 1, 2018, the Company repaid \$38.0 million on the outstanding balance on its revolving credit facility.

Cash interest expense paid by MIC Corporate was \$3.9 million and \$2.8 million for the quarters ended March 31, 2018 and 2017, respectively. Cash interest expense in both periods 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 in October 2016. See Atlantic Aviation above. At March 31, 2018, 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, 2017.

## **Commitments and Contingencies**

Except as noted above, at March 31, 2018, there were no material changes in our commitments and contingencies compared with those at December 31, 2017. At March 31, 2018, 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, 2017, filed with the SEC on February 21, 2018.

At March 31, 2018, 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.

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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 );

undrawn balances on 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 and Note 2 **Summary of Significant Accounting Policies** in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 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.

## **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, 2017. Our exposure to market risk has not changed materially since February 21, 2018, 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 March 31, 2018.

### **Changes in Internal Control Over Financial Reporting**

Effective January 1, 2018, we adopted ASC Topic 606, *Revenue*. The adoption of this accounting standard had no impact on our operating income, results of operations, financial condition or cash flows. While the adoption of ASC 606 did not materially affect our internal control over financial reporting, we did implement certain changes to our related revenue recognition control activities, including changes to our policies related to the revenue recognition model, training, ongoing contract review requirements and gathering of information to comply with disclosure requirements. Furthermore, there has been no change in our internal control over financial reporting that occurred during the ended March 31, 2018 that has materially affected, or is 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)

|  | March 31,<br>2018 | December<br>31, 2017 |
|--|-------------------|----------------------|
|  | (Unaudited)       |                      |
| <b>ASSETS</b>  |                   |                      |
| Current assets:  |                   |                      |
| Cash and cash equivalents  | \$76,021          | \$47,121             |
| Restricted cash  | 26,622            | 24,963               |
| Accounts receivable, less allowance for doubtful accounts of \$1,073 and \$895, respectively | 153,419           | 158,152              |
| Inventories  | 38,743            | 36,955               |
| Prepaid expenses   | 13,086            | 14,685               |
| Fair value of derivative instruments   | 13,398            | 11,965               |
| Other current assets   | 17,254            | 13,804               |
| Total current assets   | 338,543           | 307,645              |
| Property, equipment, land and leasehold improvements, net                                    | 4,644,350         | 4,659,614            |
| Investment in unconsolidated business  | 9,408             | 9,526                |
| Goodwill   | 2,068,799         | 2,068,668            |
| Intangible assets, net   | 902,933           | 914,098              |
| Fair value of derivative instruments   | 30,799            | 24,455               |
| Other noncurrent assets  | 30,465            | 24,945               |
| Total assets   | \$8,025,297       | \$8,008,951          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |                      |
| Current liabilities:   |                   |                      |
| Due to Manager-related party   | \$7,550           | \$5,577              |
| Accounts payable   | 52,424            | 60,585               |
| Accrued expenses   | 87,800            | 89,496               |
| Current portion of long-term debt  | 51,208            | 50,835               |
| Fair value of derivative instruments   | 974               | 1,710                |
| Other current liabilities  | 51,266            | 47,762               |
| Total current liabilities  | 251,222           | 255,965              |
| Long-term debt, net of current portion   | 3,608,812         | 3,530,311            |
| Deferred income taxes  | 644,143           | 632,070              |
| Fair value of derivative instruments   | 2,449             | 4,668                |
| Tolling agreements noncurrent  | 50,651            | 52,595               |
| Other noncurrent liabilities   | 184,344           | 182,639              |
| Total liabilities  | 4,741,621         | 4,658,248            |
| 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)**

|  | March 31,<br>2018 | December<br>31,<br>2017 |
|--|-------------------|-------------------------|
|  | (Unaudited)       |                         |
| Stockholders' equity <sup>(1)</sup> :  |                   |                         |
| Common stock (\$0.001 par value; 500,000,000 authorized; 84,902,562 shares issued and outstanding at March 31, 2018 and 84,733,957 shares issued and outstanding at December 31, 2017) | \$85              | \$85                    |
| Additional paid in capital   | 1,728,712         | 1,840,033               |
| Accumulated other comprehensive loss   | (31,357 )         | (29,993 )               |
| Retained earnings  | 1,420,401         | 1,343,567               |
| Total stockholders' equity   | 3,117,841         | 3,153,692               |
| Noncontrolling interests   | 165,835           | 197,011                 |
| Total equity   | 3,283,676         | 3,350,703               |
| Total liabilities and equity   | \$8,025,297       | \$8,008,951             |

The Company is authorized to issue 100,000,000 shares of preferred stock, par value \$0.001 per share. At March (1)31, 2018 and December 31, 2017, no preferred stock were issued or outstanding. The Company had 100 shares of special stock issued and outstanding to its Manager at March 31, 2018 and December 31, 2017.

*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 March 31, |            |
|---|-------------------------|------------|
|   | 2018                    | 2017       |
| <b>Revenue</b>  |                         |            |
| Service revenue   | \$402,609               | \$363,804  |
| Product revenue   | 98,947                  | 87,653     |
| Total revenue   | 501,556                 | 451,457    |
| <b>Costs and expenses</b>                               |                         |            |
| Cost of services  | 187,470                 | 154,706    |
| Cost of product sales                                   | 53,385                  | 47,225     |
| Selling, general and administrative                     | 86,957                  | 76,952     |
| Fees to Manager related party                           | 12,928                  | 18,223     |
| Depreciation  | 61,358                  | 57,681     |
| Amortization of intangibles                             | 17,216                  | 17,693     |
| Total operating expenses                                | 419,314                 | 372,480    |
| <b>Operating income</b>                                 | 82,242                  | 78,977     |
| <b>Other income (expense)</b>                           |                         |            |
| Interest income   | 80                      | 34         |
| Interest expense <sup>(1)</sup>                         | (18,790)                | (25,482)   |
| Other income, net                                       | 42                      | 1,182      |
| Net income before income taxes                          | 63,574                  | 54,711     |
| Provision for income taxes                              | (16,779)                | (22,073)   |
| Net income  | \$46,795                | \$32,638   |
| Less: net loss attributable to noncontrolling interests | (30,039)                | (3,377)    |
| Net income attributable to MIC                          | \$76,834                | \$36,015   |
| Basic income per share attributable to MIC              | \$0.91                  | \$0.44     |
| Weighted average number of shares outstanding: basic    | 84,821,453              | 82,138,168 |
| Diluted income per share attributable to MIC            | \$0.88                  | \$0.44     |
| Weighted average number of shares outstanding: diluted  | 92,793,852              | 82,147,763 |
| Cash dividends declared per share                       | \$1.00                  | \$1.32     |

<sup>(1)</sup> Interest expense includes gains on derivative instruments of \$15.1 million and \$954,000 for the quarters ended March 31, 2018 and 2017, 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 March 31, |           |
|---|-------------------------|-----------|
|   | 2018                    | 2017      |
| Net income  | \$ 46,795               | \$ 32,638 |
| Other comprehensive loss, net of taxes:                           |                         |           |
| Translation adjustment <sup>(1)</sup>                             | (1,364 )                |           |
| Other comprehensive loss  | (1,364 )                |           |
| Comprehensive income  | \$ 45,431               | \$ 32,638 |
| Less: comprehensive loss attributable to noncontrolling interests | (30,039 )               | (3,377 )  |
| Comprehensive income attributable to MIC                          | \$ 75,470               | \$ 36,015 |

(1) Translation adjustment is presented net of tax benefit of \$523,000 for the quarter ended March 31, 2018.

*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)

|   | Quarter Ended March |                     |
|---|---------------------|---------------------|
|   | 31,<br>2018         | 2017 <sup>(1)</sup> |
| <b>Operating activities</b>   |                     |                     |
| Net income  | \$46,795            | \$32,638            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                     |
| Depreciation and amortization of property and equipment                           | 61,358              | 57,681              |
| Amortization of intangible assets   | 17,216              | 17,693              |
| Amortization of debt financing costs  | 3,049               | 2,202               |
| Amortization of debt discount   | 897                 | 619                 |
| Adjustments to derivative instruments   | (10,732 )           | 1,972               |
| Fees to Manager-related party   | 12,928              | 18,223              |
| Deferred taxes  | 12,908              | 18,352              |
| Pension expense   | 2,253               | 2,694               |
| Other non-cash expense (income), net  | 563                 | (1,354 )            |
| Changes in other assets and liabilities, net of acquisitions:                     |                     |                     |
| Accounts receivable   | 4,242               | 1,059               |
| Inventories   | (2,141 )            | (3,718 )            |
| Prepaid expenses and other current assets   | (1,798 )            | (7,559 )            |
| Due to Manager-related party  | (68 )               | 11                  |
| Accounts payable and accrued expenses   | (5,945 )            | (12,382 )           |
| Income taxes payable  | 1,559               | 1,341               |
| Other, net  | 1,018               | (1,878 )            |
| Net cash provided by operating activities   | 144,102             | 127,594             |
| <b>Investing activities</b>   |                     |                     |
| Acquisitions of businesses and investments, net of cash acquired                  | (11,433 )           |                     |
| Purchases of property and equipment   | (48,181 )           | (59,869 )           |
| Loan to project developer   | (10,800 )           | (8,000 )            |
| Loan repayment from project developer   | 5,217               |                     |
| Other, net  | 86                  | 50                  |
| Net cash used in investing activities   | (65,111 )           | (67,819 )           |

*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)**

|   | Quarter Ended March 31,<br>2018 | 2017 <sup>(1)</sup> |
|---|---------------------------------|---------------------|
| <b>Financing activities</b>                                     |                                 |                     |
| Proceeds from long-term debt                                    | \$ 141,500                      | \$ 104,000          |
| Payment of long-term debt                                       | (63,848 )                       | (72,634 )           |
| Proceeds from the issuance of shares                            | 125                             | 2,049               |
| Dividends paid to common stockholders                           | (122,259 )                      | (107,714 )          |
| Contributions received from noncontrolling interests            | 271                             |                     |
| Distributions paid to noncontrolling interests                  | (1,397 )                        | (1,351 )            |
| Offering and equity raise costs paid                            |                                 | (69 )               |
| Debt financing costs paid                                       | (2,595 )                        | (435 )              |
| Payment of capital lease obligations                            | (22 )                           | (21 )               |
| Net cash used in financing activities                           | (48,225 )                       | (76,175 )           |
| Effect of exchange rate changes on cash and cash equivalents    | (207 )                          |                     |
| Net change in cash, cash equivalents and restricted cash        | 30,559                          | (16,400 )           |
| Cash, cash equivalents and restricted cash, beginning of period | 72,084                          | 61,257              |
| Cash, cash equivalents and restricted cash, end of period       | \$ 102,643                      | \$ 44,857           |
| <b>Supplemental disclosures of cash flow information</b>        |                                 |                     |
| Non-cash investing and financing activities:                    |                                 |                     |
| Accrued equity offering costs                                   | \$ 80                           | \$ 93               |
| Accrued financing costs   | \$ 233                          | \$                  |
| Accrued purchases of property and equipment                     | \$ 19,038                       | \$ 25,598           |
| Issuance of shares to Manager                                   | \$ 10,887                       | \$ 18,462           |
| Conversion of convertible senior notes to shares                | \$ 6                            | \$ 17               |
| Distributions payable to noncontrolling interests               | \$ 33                           | \$ 29               |
| Taxes paid, net   | \$ 2,040                        | \$ 2,379            |
| Interest paid   | \$ 25,986                       | \$ 26,764           |

(1) Conformed to current period presentation. See Note 2, *Basis of Presentation*, for Recently Issued Accounting Standards adopted during the quarter ended March 31, 2018.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated condensed balance sheets that sum to the total of the same amounts presented in the consolidated condensed statements of cash flows:

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|   | As of March 31, |           |
|---|-----------------|-----------|
|   | 2018            | 2017      |
| Cash and cash equivalents   | \$76,021        | \$ 29,618 |
| Restricted cash - current   | 26,622          | 15,169    |
| Restricted cash - non-current <sup>(2)</sup>  |                 | 70        |
| Total of cash, cash equivalents and restricted cash shown in the consolidated condensed statement of cash flows | \$ 102,643      | \$ 44,857 |

(2) Restricted cash - non-current is included in *Other noncurrent assets* in the consolidated condensed balance sheet.

*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 (MIC) 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, and each member of all Board Committees, is independent and has 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 business providing bulk liquid terminalling to third parties at 17 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:** comprising electricity generating assets including 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 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.

The consolidated balance sheet at December 31, 2017 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, 2017 included in the Company's Annual Report on Form 10-K, as filed with the SEC on February 21, 2018. Operating results for the quarter ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 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.

**Financial Instruments**

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and variable-rate senior debt, are carried at cost, which approximates their fair value because of either the short-term maturity, or competitive interest rates assigned to these financial instruments.

**Recently Issued Accounting Standards**

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (AOCI)*. The amendments in ASU 2018-02 allow entities to reclassify from AOCI to retained earnings stranded tax effects resulting from passage of the Act. An entity that elects to reclassify these amounts must reclassify stranded tax effects related to the change in federal tax rate for all items accounted for in other comprehensive income (i.e. employee benefits, cumulative translation adjustments). Entities may also elect to reclassify other stranded tax effects that relate to the Act but do not directly relate to the change in the federal tax rate (i.e. state taxes). However, because the amendments only relate to the reclassification of the income tax effects of the Act, the underlying guidance requiring the effect of a change in tax laws or rates to be included in income from operations is not affected. Upon adoption of ASU 2018-02, entities are required to disclose their policy for releasing the income tax effects from AOCI. ASU 2018-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The amendments in 2018-02 may be applied retrospectively to each period in which the effect of the Act is recognized or an entity may elect to apply the amendments in the period of adoption. The Company is currently

evaluating the impact of the adoption of this ASU.

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 adopted this ASU during the first quarter of 2018.

There was no goodwill impairment recorded during the quarters ended March 31, 2018 or 2017.

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**MACQUARIE INFRASTRUCTURE CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**2. Basis of Presentation (continued)**

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. The Company adopted this ASU during the quarter ended March 31, 2018 and will apply this ASU prospectively for asset acquisitions and business combinations.

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. The Company adopted this ASU during the quarter ended March 31, 2018 and included the retrospective application of this ASU in the accompanying consolidated condensed statement of cash flows.

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. 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 Company is currently evaluating the impact that this standard will have on the Company's results of operations, the changes to its systems, processes and internal controls to meet the reporting and disclosure requirements.

### 3. Implementation of ASU 2014-09

The Company recognizes revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. The Company has revenue that is derived from long-term contracts and leases that can span several years. The Company accounts for revenue in accordance with ASC Topic 606, *Revenue*, or ASC Topic 840, *Leases*, depending upon the terms of the agreements. See Note 11, *Long-Term Contracted Revenue*, for further discussions and disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance sets forth a five-step revenue recognition model that replaces the prior revenue recognition guidance in its entirety. It is intended to eliminate numerous industry-specific pieces of revenue recognition guidance and requires more detailed disclosures. This ASU includes identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the

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

**3. Implementation of ASU 2014-09 (continued)**

transaction price to each separate performance obligation. To further assist with adoption and implementation of ASU 2014-09, the FASB issued and the Company considered 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 Company adopted ASU 2014-09 during the first quarter of 2018 using the modified retrospective method. There was no adjustment to the beginning balance of retained earnings and the adoption of this ASU did not have a significant impact to the Company's consolidated financial statements other than the additional required qualitative and quantitative disclosures. As part of the adoption, the Company has not elected to apply any practical expedients available under ASC Topic 606.

**IMTT**

Revenue from IMTT is generated from the following sources and recorded in service revenue.

*Lease.* Contracts with predominantly non-cancelable terms of generally one to three years for access to and the use of storage capacity at the various terminals owned and operated by the business. These contracts generally require payments in exchange for the provision of storage capacity and product movement (thruput) throughout their term based on a fixed rate per barrel of capacity leased. A majority of the contracts include terms that adjust the fixed rate annually for inflation. These contracts are accounted for as operating leases and the related lease income is recognized in service revenue over the term of the contract based upon the rate specified. Revenue is recognized in accordance with ASC 840, *Leases*.

*Other terminal services.* Revenue from the provision of ancillary services includes activities such as heating, mixing, and blending, and is recognized as the related services are performed based on contract rates. Revenue from other terminal services is recognized at a point in time as services are performed. Other terminal services also include payments received prior to the related services being performed or as a reimbursement for specific fixed asset additions or improvements related to a customer's contract and are recorded as deferred revenue and ratably recognized as revenues over the contract term.

*Other.* Other revenue is comprised primarily of environmental response service activities and railroad operations. These revenues are generally recognized at a point in time as services are performed.

### **Atlantic Aviation**

Revenue from Atlantic Aviation is recorded in service revenue. Services provided by Atlantic Aviation include:

*Fuel.* Fuel services are recognized when fuel has been delivered to the customer, collection of the resulting receivable is probable, persuasive evidence of an arrangement exists and the fee is fixed or determinable. Fuel services are recorded net of volume discounts and rebates. Revenue from fuel sales are recognized at a point in time as services are performed.



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**3. Implementation of ASU 2014-09 (continued)**

*Hangar.* Hangar rentals includes both month-to-month rentals and rentals from longer term contracts. Hangar rental revenue excludes transient customer overnight hangar usage (see *Other FBO services* below).

*Other FBO services.* Other FBO services consisting principally of de-icing services, landing, concession, transient overnight hangar usage, terminal use and fuel distribution fees that are recognized as sales of services. Revenue from these transactions is recorded based on the service fee earned and does not include the cost of fuel.

**Contracted Power**

Bayonne Energy Center s (BEC) revenue is derived from contracts that are accounted for as operating leases that do not have minimum lease payments. This revenue is recorded within product revenue as electricity is delivered.

With respect to BEC s contracted capacity, revenue is recognized as energy, capacity and ancillary services are sold to the off-taker under the third-party tolling agreements. The agreements are based on a fixed rate per megawatt (MW) of capacity and not subject to dispatch or utilization. A portion of the revenues under the tolling agreements are subject to annual price increases. Revenue under the tolling agreements is subject to availability of capacity (subject to a historical rolling average forced outage factor). Variable operating and major maintenance revenue under the tolling agreements is a function of net plant output and a negotiated rate, which is adjusted annually based on historical plant experience.

With respect to BEC s residual capacity, revenue is recognized as energy, capacity and ancillary services are sold into the New York Independent System Operator (NYISO) energy market. Revenue for such services is based on prevailing market rates at the time such services are sold. Volumes of energy and ancillary services sold are subject to BEC s market based dispatch from NYISO.

Owners of the wind and solar facilities sell substantially all of the electricity generated at a fixed price to primarily electric utility customers pursuant to long-term (typically 20 – 25 years) power purchase agreements (PPAs). Substantially all of the PPAs are accounted for as operating leases and have no minimum lease payments and all of the lease income under these leases is recorded within product revenue when the electricity is delivered.

**MIC Hawaii**

Revenue from Hawaii Gas is recorded in product revenue. Hawaii Gas recognizes revenue when products are delivered. Sales of gas to customers are billed on a monthly-cycle basis. Earned but unbilled revenue is accrued and included in accounts receivable and revenue based on the amount of gas that has been delivered but not billed to

customers from the latest meter reading or billed delivery date to the end of an accounting period. The related costs are charged to expense.

The other businesses within MIC Hawaii consist of primarily a mechanical contractor focused on designing and constructing energy efficient building infrastructure and controlling interests in renewable and distributed power facilities including two facilities on Oahu. Revenue generated by the mechanical contractor business is recognized from long-term construction contracts (commonly referred to as the percentage-of-completion method) and is recorded in service revenue. PPAs at the renewable facilities are accounted for as operating leases and the related lease income is recorded in product revenues when the electricity is delivered.

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### (Unaudited)

#### 4. 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 |            |
|--|---------------|------------|
|  | March 31,     |            |
|  | 2018          | 2017       |
| <b>Numerator:</b>  |               |            |
| Net income attributable to MIC   | \$76,834      | \$36,015   |
| Interest expense attributable to 2.875% Convertible Senior Notes due July 2019, net of taxes   | 2,359         |            |
| Interest expense attributable to 2.00% Convertible Senior Notes due October 2023, net of taxes | 2,595         |            |
| Diluted net income attributable to MIC   | \$81,788      | \$36,015   |
| <b>Denominator:</b>  |               |            |
| Weighted average number of shares outstanding: basic   | 84,821,453    | 82,138,168 |
| Dilutive effect of restricted stock unit grants  | 9,435         | 9,595      |
| Dilutive effect of 2.875% Convertible Senior Notes due July 2019                               | 4,338,210     |            |
| Dilutive effect of 2.00% Convertible Senior Notes due October 2023                             | 3,624,754     |            |
| Weighted average number of shares outstanding: diluted   | 92,793,852    | 82,147,763 |
| <b>Income per share:</b>   |               |            |
| Basic income per share attributable to MIC   | \$0.91        | \$0.44     |
| Diluted income per share attributable to MIC   | \$0.88        | \$0.44     |

The effect of potentially dilutive shares for the quarter ended March 31, 2018 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 and the 2.00% Convertible Senior Notes due October 2023 had been fully converted into shares on the date of issuance.

The effect of potentially dilutive shares for the quarter ended March 31, 2017 is calculated assuming that the restricted stock unit grants totaling 8,604 (net of forfeitures 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 all vested during the second quarter of 2017, had been fully converted to shares on those grant dates. The 2.875% Convertible Senior Notes due July 2019 and the 2.00%

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Convertible Senior Notes due October 2023 were anti-dilutive for the quarter ended March 31, 2017.

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

|   | Quarter Ended |           |
|---|---------------|-----------|
|   | March 31,     |           |
|   | 2018          | 2017      |
| 2.875% Convertible Senior Notes due July 2019   |               | 4,222,378 |
| 2.00% Convertible Senior Notes due October 2023 |               | 3,596,901 |
| Total   |               | 7,819,279 |

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#### 5. Property, Equipment, Land and Leasehold Improvements

Property, equipment, land and leasehold improvements at March 31, 2018 and December 31, 2017 consisted of the following (\$ in thousands):

|   | March 31,<br>2018 | December<br>31,<br>2017 |
|---|-------------------|-------------------------|
| Land  | \$ 339,133        | \$ 339,148              |
| Easements   | 131               | 131                     |
| Buildings   | 41,885            | 41,776                  |
| Leasehold and land improvements                           | 869,923           | 834,241                 |
| Machinery and equipment                                   | 4,128,484         | 4,092,624               |
| Furniture and fixtures                                    | 40,205            | 39,386                  |
| Construction in progress                                  | 217,994           | 246,422                 |
|   | 5,637,755         | 5,593,728               |
| Less: accumulated depreciation                            | (993,405 )        | (934,114 )              |
| Property, equipment, land and leasehold improvements, net | \$ 4,644,350      | \$ 4,659,614            |

#### 6. Intangible Assets and Goodwill

Intangible assets at March 31, 2018 and December 31, 2017 consisted of the following (\$ in thousands):

|                                | March 31,<br>2018 | December<br>31,<br>2017 |
|--------------------------------|-------------------|-------------------------|
| Contractual arrangements       | \$ 995,506        | \$ 989,228              |
| Non-compete agreements         | 14,014            | 14,014                  |
| Customer relationships         | 361,365           | 361,623                 |
| Leasehold rights               | 350               | 350                     |
| Trade names                    | 16,091            | 16,091                  |
| Technology                     | 8,760             | 8,760                   |
|                                | 1,396,086         | 1,390,066               |
| Less: accumulated amortization | (493,153 )        | (475,968 )              |
| Intangible assets, net         | \$ 902,933        | \$ 914,098              |

The goodwill balance as of March 31, 2018 is comprised of the following (\$ in thousands):

|  |             |
|--|-------------|
| Goodwill acquired in business combinations, net of disposals, at December 31, 2017 | \$2,193,478 |
| Accumulated impairment charges   | (123,200 )  |
| Other  | (1,610 )    |
| Balance at December 31, 2017   | 2,068,668   |
| Goodwill related to 2018 acquisition   | 121         |
| Other  | 10          |
| Balance at March 31, 2018  | \$2,068,799 |

The Company tests for goodwill impairment at the reporting unit level on an annual basis on October 1<sup>st</sup> of each year and between annual tests if a triggering event indicates impairment. There were no triggering events indicating impairment for the quarter ended March 31, 2018 or 2017.

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# MACQUARIE INFRASTRUCTURE CORPORATION

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### (Unaudited)

### 7. Long-Term Debt

At March 31, 2018 and December 31, 2017, the Company's consolidated long-term debt balance comprised of the following (\$ in thousands):

|   | March 31,<br>2018 | December<br>31,<br>2017 |
|---|-------------------|-------------------------|
| IMTT  | \$ 1,325,975      | \$ 1,318,975            |
| Atlantic Aviation   | 662,000           | 648,000                 |
| Contracted Power  | 570,596           | 576,558                 |
| MIC Hawaii  | 212,899           | 199,282                 |
| MIC Corporate   | 923,368           | 873,477                 |
| Total   | 3,694,838         | 3,616,292               |
| Current portion   | (51,208 )         | (50,835 )               |
| Long-term portion   | 3,643,630         | 3,565,457               |
| Unamortized deferred financing costs <sup>(1)</sup>                           | (34,818 )         | (35,146 )               |
| Long-term portion less unamortized debt discount and deferred financing costs | \$ 3,608,812      | \$ 3,530,311            |

(1) The weighted average remaining life of the deferred financing costs at March 31, 2018 was 5.4 years. At March 31, 2018, the total undrawn capacity on the revolving credit facilities was \$954.5 million excluding letters of credits outstanding of \$43.2 million.

#### MIC Corporate

#### Senior Secured Revolving Credit Facility

On January 3, 2018, the Company completed the refinancing and upsizing of its senior secured revolving credit facility to \$600.0 million and extended the maturity through January 3, 2022.

During the quarter ended March 31, 2018, MIC borrowed \$86.5 million for general corporate purposes and repaid \$37.5 million on its revolving credit facility. At March 31, 2018, the outstanding balance on the senior secured revolving credit facility was \$192.5 million resulting in an undrawn balance of \$407.5 million. Through May 1, 2018, the Company repaid \$38.0 million on the outstanding balance on its revolving credit facility.

**2.875% Convertible Senior Notes due July 2019**

At March 31, 2018 and December 31, 2017, the Company had \$350.0 million aggregate principal outstanding on its five-year, 2.875% convertible senior notes due July 2019. At March 31, 2018, the fair value of these convertible senior notes was approximately \$345.0 million. These convertible senior notes fall within Level 1 of the fair value hierarchy.

On March 5, 2018, the Company increased the conversion rate to 12.4912 shares of common stock per \$1,000 principal amount. The adjustment reflects the impact of dividends paid by the Company to holders of common stock.

**2.00% Convertible Senior Notes due October 2023**

At March 31, 2018 and December 31, 2017, the Company had \$372.7 million and \$371.4 million, respectively, outstanding on its seven year, 2.00% convertible senior notes due October 2023. At March 31, 2018, the fair value of the liability component of these convertible senior notes was approximately \$340.0 million. These convertible senior notes fall within Level 1 of the fair value hierarchy.



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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 7. Long-Term Debt (continued)

The 2.00% Convertible Senior Notes due October 2023 consisted of the following (\$ in thousands):

|  | March 31,<br>2018 | December<br>31,<br>2017 |
|--|-------------------|-------------------------|
| Liability Component:                             |                   |                         |
| Principal  | \$ 402,500        | \$ 402,500              |
| Unamortized debt discount                        | (21,578 )         | (22,475 )               |
| Long-term debt, net of unamortized debt discount | 380,922           | 380,025                 |
| Unamortized deferred financing costs             | (8,267 )          | (8,643 )                |
| Net carrying amount                              | \$ 372,655        | \$ 371,382              |
| Equity Component                                 | \$ 26,748         | \$ 26,748               |

For the quarters ended March 31, 2018 and 2017, total interest expense recognized related to the 2.00% Convertible Senior Notes due October 2023 consisted of the following (\$ in thousands):

|  | Quarter Ended     |          |
|--|-------------------|----------|
|  | March 31,<br>2018 | 2017     |
| Contractual interest expense             | \$ 2,012          | \$ 1,744 |
| Amortization of debt discount            | 897               | 619      |
| Amortization of deferred financing costs | 376               | 381      |
| Total interest expense                   | \$ 3,285          | \$ 2,744 |

#### IMTT

At March 31, 2018 and December 31, 2017, IMTT had \$217.0 million and \$210.0 million outstanding on its revolving credit facilities, respectively. During the quarter ended March 31, 2018, IMTT borrowed \$17.0 million and repaid \$10.0 million on its USD revolving credit facility primarily for general corporate purposes. At March 31, 2018, the undrawn portion on its USD revolving credit facility and CAD revolving credit facility were \$333.0 million and \$50.0 million, respectively.

At March 31, 2018, IMTT had \$600.0 million of fixed rate senior notes outstanding. At March 31, 2018, the fair value of the senior notes was approximately \$590.0 million. The senior notes fall within Level 1 of the fair value hierarchy.

### **Atlantic Aviation**

At March 31, 2018 and December 31, 2017, Atlantic Aviation had \$277.0 million and \$258.0 million outstanding on its revolving credit facility, respectively. During the quarter ended March 31, 2018, Atlantic Aviation borrowed \$19.0 million on its revolving credit facility primarily to fund an on-field consolidation of an FBO and for general corporate purposes. At March 31, 2018, the undrawn portion on its revolving credit facility was \$73.0 million. Through May 1, 2018, Atlantic Aviation borrowed \$14.0 million for general corporate purposes on its revolving credit facility.

### **Contracted Power**

At March 31, 2018, Contracted Power had \$185.4 million of fixed rate term loans outstanding. At March 31, 2018, the fair value of the term loans was approximately \$210.0 million. The term loans fall within Level 2 of the fair value hierarchy.

### **MIC Hawaii**

In February 2018, Hawaii Gas exercised the second of two one-year extensions related to its \$80.0 million secured term loan facility and its \$60.0 million revolving credit facility extending their respective maturities to February 2023.

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**MACQUARIE INFRASTRUCTURE CORPORATION**

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**(Unaudited)**

**7. Long-Term Debt (continued)**

At March 31, 2018, Hawaii Gas had \$14.0 million outstanding on its revolving credit facility. During the quarter ended March 31, 2018, Hawaii Gas borrowed \$19.0 million and repaid \$5.0 million on its revolving credit facility primarily for general corporate purposes. At March 31, 2018, the undrawn portion on its revolving credit facility was \$46.0 million. Though May 1, 2018, Hawaii Gas borrowed \$1.0 million for general corporate purposes on its revolving credit facility.

At March 31, 2018, Hawaii Gas had \$100.0 million of fixed rate senior notes outstanding. At March 31, 2018, the fair value of the senior notes was approximately \$100.0 million. The senior notes fall within Level 1 of the fair value hierarchy.

**8. Derivative Instruments and Hedging Activities**

**Interest Rate Contracts**

The Company and certain of its businesses have in place variable-rate debt. Management believes that it is prudent to limit the variability of a portion of the business interest payments. To meet this objective, the Company enters into interest rate agreements, primarily using interest rate swaps and from time to time using interest rate caps, to manage fluctuations in cash flows resulting from interest rate risk on a portion of its debt with a variable-rate component. Interest rate swaps change the variable-rate cash flow exposure on the debt obligations to fixed cash flows. Under the terms of the interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt for the portion of the debt that is swapped.

At March 31, 2018, the Company had \$3.7 billion of current and long-term debt, of which \$1.4 billion was economically hedged with interest rate contracts, \$1.6 billion was fixed rate debt and \$692.4 million was unhedged. The Company does not use hedge accounting. All movements in the fair value of the interest rate derivatives are recorded directly through earnings.

**Commodity Price Hedges**

The risks associated with fluctuations in the prices that Hawaii Gas, a business within the MIC Hawaii reportable segment, pays for propane is principally a result of market forces reflecting changes in supply and demand for propane and other energy commodities. Hawaii Gas gross margin (revenue less cost of product sales excluding depreciation and amortization) is sensitive to changes in propane supply costs and Hawaii Gas may not always be able to pass through product cost increases fully or on a timely basis, particularly when product costs rise rapidly. In order to

reduce the volatility of the business propane market price risk, Hawaii Gas has used and expects to continue to use over-the-counter commodity derivative instruments including price swaps. Hawaii Gas does not use commodity derivative instruments for speculative or trading purposes. Over-the-counter derivative commodity instruments used by Hawaii Gas to hedge forecasted purchases of propane are generally settled at expiration of the contract.

### **Financial Statement Location Disclosure for Derivative Instruments**

The Company measures derivative instruments at fair value using the income approach which discounts the future net cash settlements expected under the derivative contracts to a present value. These valuations use primarily observable (level 2) inputs, including contractual terms, interest rates and yield curves observable at commonly quoted intervals.

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#### 8. Derivative Instruments and Hedging Activities (continued)

The Company's fair value measurements of its derivative instruments and the related location of the assets and liabilities within the consolidated condensed balance sheets at March 31, 2018 and December 31, 2017 were (\$ in thousands):

| Balance Sheet Location                                      | Assets (Liabilities) at Fair Value |                   |
|---|------------------------------------|-------------------|
|   | March 31, 2018                     | December 31, 2017 |
| Fair value of derivative instruments current assets         | \$ 13,398                          | \$ 11,965         |
| Fair value of derivative instruments noncurrent assets      | 30,799                             | 24,455            |
| Total derivative contracts assets                           | \$ 44,197                          | \$ 36,420         |
| Fair value of derivative instruments current liabilities    | \$ (974 )                          | \$ (1,710 )       |
| Fair value of derivative instruments noncurrent liabilities | (2,449 )                           | (4,668 )          |
| Total derivative contracts liabilities                      | \$ (3,423 )                        | \$ (6,378 )       |

The Company's hedging activities for the quarters ended March 31, 2018 and 2017 and the related location within the consolidated condensed statements of operations were (\$ in thousands):

| Financial Statement Account           | Amount of Gain (Loss) Recognized in Consolidated Condensed Statements of Operations for the Quarter Ended March 31, |             |
|---------------------------------------|---|-------------|
|                                       | 2018  | 2017        |
| Interest expense interest rate caps   | \$ 4,983  | \$ (133 )   |
| Interest expense interest rate swaps  | 10,157  | 1,087       |
| Cost of product sales commodity swaps | (2,043 )  | (3,984 )    |
| Total                                 | \$ 13,097   | \$ (3,030 ) |

All of the Company's derivative instruments are collateralized by the assets of the respective businesses.

## **9. Stockholders Equity**

### **2016 Omnibus Employee Incentive Plan**

On May 18, 2016, the Company adopted the 2016 Omnibus Employee Incentive Plan (Plan). The Plan provides for the issuance of equity awards covering up to 500,000 shares of common stock to attract, retain, and motivate employees, consultants and others who perform services for the Company and its subsidiaries. Under the Plan, the Compensation Committee determines the persons who will receive awards, the time at which they are granted and the terms of the awards. Type of awards include stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, cash-based awards and other stock-based awards. At March 31, 2018, there were no awards outstanding under this Plan.

### **At the Market (ATM) Program**

On June 24, 2015, the Company entered into an equity distribution agreement providing for the sale by the Company, from time to time, of shares of its common stock having an aggregate gross offering price of up to \$400.0 million in privately negotiated transactions and/or any other method permitted by law. Through March 31, 2018, the Company sold 188,592 shares of common stock pursuant to the agreement for net proceeds of \$15.4 million (after commissions and fees). No shares of common stock were sold during the quarter ended March 31, 2018.

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# MACQUARIE INFRASTRUCTURE CORPORATION

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### 9. Stockholders Equity (continued)

#### Accumulated Other Comprehensive Loss

The following represents the changes and balances to the components of accumulated other comprehensive loss for the quarters ended March 31, 2018 and 2017 (\$ in thousands):

|                              | Post-Retirement<br>Benefit Plans,<br>net of taxes | Translation<br>Adjustment,<br>net of<br>taxes <sup>(1)</sup> | Total<br>Stockholders<br>Accumulated<br>Other<br>Comprehensive<br>Loss,<br>net of taxes |
|------------------------------|---|--|---|
| Balance at December 31, 2016 | \$ (16,805 )                                      | \$ (12,155 )   | \$ (28,960 )  |
| Balance at March 31, 2017    | \$ (16,805 )                                      | \$ (12,155 )   | \$ (28,960 )  |
| Balance at December 31, 2017 | \$ (20,456 )                                      | \$ (9,537 )  | \$ (29,993 )  |
| Translation adjustment       |   | (1,364 )   | (1,364 )  |
| Balance at March 31, 2018    | \$ (20,456 )                                      | \$ (10,901 )   | \$ (31,357 )  |

(1) Translation adjustment is presented net of tax benefit of \$523,000 for the quarter ended March 31, 2018.

### 10. Reportable Segments

At March 31, 2018, the Company's businesses consisted of four reportable segments: IMTT, Atlantic Aviation, Contracted Power and MIC Hawaii.

#### IMTT

IMTT provides bulk liquid storage, handling and other services in North America through seventeen terminals located in the United States, one terminal in Quebec, Canada and one partially owned terminal in Newfoundland, Canada.

IMTT derives the majority of its revenue from storage and handling of petroleum products, various chemicals, renewable fuels, and vegetable and tropical oils. Based on storage capacity, IMTT operates one of the largest third-party bulk liquid terminals businesses in the United States. Revenue from IMTT is included in service revenue.

### **Atlantic Aviation**

Atlantic Aviation derives the majority of its revenue from fuel delivery services and from other airport services, including de-icing and aircraft hangar rental. All of the revenue of Atlantic Aviation is generated at airports in the U.S. The business currently operates at 70 airports. Revenue from Atlantic Aviation is included in service revenue.

### **Contracted Power**

At March 31, 2018, the Contracted Power business segment has controlling interests in seven utility-scale solar photovoltaic facilities, two wind facilities and 100% ownership of a gas-fired facility that are in operations in the United States. The wind and solar facilities that are operational at March 31, 2018 have an aggregate generating capacity of 345 megawatt (MW) of wholesale electricity to utilities. Revenue from the wind, solar and gas-fired power facilities are included in product revenue.

These projects are held in LLCs, and are treated as partnerships for income tax purposes, with co-investors. The acquisition price on these projects can vary depending on, among other things, factors such as the size of the project, PPA terms, eligibility for tax incentives, debt package, operating cost structure and development stage. A completed project takes out all of the construction risk, testing and costs associated with construction contracts.



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**10. Reportable Segments (continued)**

The Company has certain rights to make decisions over the management and operations of these wind and solar facilities. The Company has determined that it is appropriate to consolidate these projects, with the co-investors interest reflected as *Noncontrolling interests* in the consolidated condensed financial statements.

The Company owns 100% of BEC, a 512 MW gas-fired facility located in Bayonne, New Jersey, adjacent to IMTT's Bayonne facility. BEC has tolling agreements with a creditworthy off-taker for 62.5% of its power generating capacity and power produced is delivered to New York City via a dedicated transmission cable under New York Harbor. The tolling agreements generate revenue whether or not the facility is in use for power production. In addition to revenue related to the tolling agreement and capacity payments from the grid operator, BEC generates an energy margin when the facility is dispatched. Revenue from BEC is accounted for as an operating lease that does not have minimum lease payments. All of the lease income under the lease is recorded within product revenue when natural gas transportation services are performed.

**MIC Hawaii**

MIC Hawaii comprises: Hawaii Gas, Hawaii's only government-franchised gas utility and an unregulated liquefied petroleum gas distribution business providing gas and related services to commercial, residential and governmental customers; a mechanical contractor focused on designing and constructing energy efficient and related building infrastructure; and controlling interests in two solar facilities on Oahu. Revenue from Hawaii Gas and the solar facilities are recorded in product revenue (see above in Contracted Power for further discussion on revenue from PPAs). Revenue from the mechanical contractor business is recorded in service revenue.

Revenue from the Hawaii Gas business is generated from the distribution and sales of synthetic natural gas (SNG), liquefied petroleum gas (LPG) and liquefied natural gas (LNG). Revenue is primarily a function of the volume of SNG, LPG and LNG consumed by customers and the price per British Thermal Unit or gallon charged to customers. Revenue levels, without organic growth, will generally track global commodity prices, namely petroleum and natural gas, as its products are derived from these commodities.

All of the MIC business segments are managed separately and management has chosen to organize the Company around the distinct products and services offered. Selected information by segment is presented in the following tables.

Revenue from external customers for the Company's consolidated reportable segments were (\$ in thousands):

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Quarter Ended March 31, 2018

|                       | IMTT       | Atlantic<br>Aviation | Contracted<br>Power | MIC<br>Hawaii | Intersegment<br>Revenue | Total<br>Reportable<br>Segments |
|-----------------------|------------|----------------------|---------------------|---------------|-------------------------|---------------------------------|
| Service Revenue       |            |                      |                     |               |                         |                                 |
| Terminal Services     | \$ 25,995  | \$                   | \$                  | \$            | \$                      | \$ 25,995                       |
| Lease                 | 104,383    |                      |                     |               | (1,231 )                | 103,152                         |
| Fuel                  |            | 177,464              |                     |               |                         | 177,464                         |
| Hangar                |            | 21,742               |                     |               |                         | 21,742                          |
| Construction          |            |                      |                     | 16,243        |                         | 16,243                          |
| Other <sup>(1)</sup>  | 9,011      | 47,996               |                     | 1,006         |                         | 58,013                          |
| Total Service Revenue | \$ 139,389 | \$ 247,202           | \$                  | \$ 17,249     | \$ (1,231 )             | \$ 402,609                      |
| Product Revenue       |            |                      |                     |               |                         |                                 |
| Lease                 | \$         | \$                   | \$ 31,635           | \$ 1,080      | \$                      | \$ 32,715                       |
| Gas                   |            |                      |                     | 59,759        |                         | 59,759                          |
| Other                 |            |                      | 3,652               | 2,821         |                         | 6,473                           |
| Total Product Revenue | \$         | \$                   | \$ 35,287           | \$ 63,660     | \$                      | \$ 98,947                       |
| Total Revenue         | \$ 139,389 | \$ 247,202           | \$ 35,287           | \$ 80,909     | \$ (1,231 )             | \$ 501,556                      |

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# MACQUARIE INFRASTRUCTURE CORPORATION

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### (Unaudited)

#### 10. Reportable Segments (continued)

|                       | Quarter Ended March 31, 2017 |                   |                  |            |                      | Total Reportable Segments |
|-----------------------|------------------------------|-------------------|------------------|------------|----------------------|---------------------------|
|                       | IMTT                         | Atlantic Aviation | Contracted Power | MIC Hawaii | Intersegment Revenue |                           |
| Service Revenue       |                              |                   |                  |            |                      |                           |
| Terminal Services     | \$ 21,715                    | \$                | \$               | \$         | \$                   | \$ 21,715                 |
| Lease                 | 107,794                      |                   |                  |            | (1,223 )             | 106,571                   |
| Fuel                  |                              | 152,486           |                  |            |                      | 152,486                   |
| Hangar                |                              | 17,856            |                  |            |                      | 17,856                    |
| Construction          |                              |                   |                  | 13,165     |                      | 13,165                    |
| Other <sup>(1)</sup>  | 9,308                        | 42,411            |                  | 292        |                      | 52,011                    |
| Total Service Revenue | \$ 138,817                   | \$ 212,753        | \$               | \$ 13,457  | \$ (1,223 )          | \$ 363,804                |
| Product Revenue       |                              |                   |                  |            |                      |                           |
| Lease                 | \$                           | \$                | \$ 24,601        | \$ 658     | \$                   | \$ 25,259                 |
| Gas                   |                              |                   |                  | 56,141     |                      | 56,141                    |
| Other                 |                              |                   | 3,469            | 2,784      |                      | 6,253                     |
| Total Product Revenue | \$                           | \$                | \$ 28,070        | \$ 59,583  | \$                   | \$ 87,653                 |
| Total Revenue         | \$ 138,817                   | \$ 212,753        | \$ 28,070        | \$ 73,040  | \$ (1,223 )          | \$ 451,457                |

(1) See Note 3, *Implementation of ASU 2014-09*, for revenues disclosed in Other.

In accordance with FASB ASC 280, *Segment Reporting*, the Company has disclosed earnings before interest, taxes, depreciation and amortization (EBITDA) excluding non-cash items as a key performance indicator for the businesses. EBITDA excluding non-cash items is reflective of the 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 its businesses. The Company defines 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 for the Company's consolidated reportable segments is shown in the tables below (\$ in thousands). Allocations of corporate expenses, intercompany fees and the tax effect have been excluded as they are eliminated in consolidation.

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Quarter Ended March 31, 2018

|                                 | IMTT      | Atlantic<br>Aviation | Contracted<br>Power | MIC<br>Hawaii | Total<br>Reportable<br>Segments |
|---------------------------------|-----------|----------------------|---------------------|---------------|---------------------------------|
| Net income                      | \$ 25,280 | \$ 32,967            | \$ 5,581            | \$ 2,211      | \$ 66,039                       |
| Interest expense, net           | 7,739     | 69                   | 885                 | 1,290         | 9,983                           |
| Provision for income taxes      | 9,686     | 12,111               | 950                 | 805           | 23,552                          |
| Depreciation                    | 29,371    | 13,630               | 14,420              | 3,773         | 61,194                          |
| Amortization of intangibles     | 3,878     | 11,849               | 1,107               | 382           | 17,216                          |
| Pension expense                 | 2,080     | 5                    |                     | 127           | 2,212                           |
| Other non-cash expense (income) | 94        | 312                  | (1,888 )            | 6,199         | 4,717                           |
| EBITDA excluding non-cash items | \$ 78,128 | \$ 70,943            | \$ 21,055           | \$ 14,787     | \$ 184,913                      |

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 10. Reportable Segments (continued)

|   | Quarter Ended March 31, 2017 |                   |                  |            | Total Reportable Segments |
|---|------------------------------|-------------------|------------------|------------|---------------------------|
|   | IMTT                         | Atlantic Aviation | Contracted Power | MIC Hawaii |                           |
| Net income (loss)   | \$ 23,816                    | \$ 21,826         | \$ (1,939 )      | \$ 4,873   | \$ 48,576                 |
| Interest expense, net   | 8,757                        | 3,446             | 5,383            | 1,711      | 19,297                    |
| Provision for income taxes  | 16,548                       | 14,550            | 27               | 3,379      | 34,504                    |
| Depreciation  | 28,760                       | 11,589            | 14,233           | 3,099      | 57,681                    |
| Amortization of intangibles   | 2,760                        | 13,444            | 1,107            | 382        | 17,693                    |
| Pension expense   | 2,416                        | 5                 |                  | 273        | 2,694                     |
| Other non-cash expense (income)   | 68                           | 62                | (2,024 )         | 5,571      | 3,677                     |
| EBITDA excluding non-cash items   | \$ 83,125                    | \$ 64,922         | \$ 16,787        | \$ 19,288  | \$ 184,122                |
| Reconciliations of total reportable segments EBITDA excluding non-cash items to consolidated net income before income taxes were (\$ in thousands): |                              |                   |                  |            |                           |

|  | Quarter Ended March 31, |            |
|--|-------------------------|------------|
|  | 2018                    | 2017       |
| Total reportable segments EBITDA excluding non-cash items  | \$ 184,913              | \$ 184,122 |
| Interest income  | 80                      | 34         |
| Interest expense   | (18,790 )               | (25,482 )  |
| Depreciation   | (61,358 )               | (57,681 )  |
| Amortization of intangibles  | (17,216 )               | (17,693 )  |
| Selling, general and administrative expenses Corporate and Other                                     | (4,202 )                | (3,995 )   |
| Fees to Manager related party  | (12,928 )               | (18,223 )  |
| Pension expense  | (2,212 )                | (2,694 )   |
| Other expense, net   | (4,713 )                | (3,677 )   |
| Total consolidated net income before income taxes  | \$ 63,574               | \$ 54,711  |
| Capital expenditures, on a cash basis, for the Company s reportable segments were (\$ in thousands): |                         |            |

Quarter Ended  
March 31,

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|   | 2018      | 2017      |
|---|-----------|-----------|
| IMTT  | \$ 9,177  | \$ 15,263 |
| Atlantic Aviation                                 | 18,707    | 19,245    |
| Contracted Power                                  | 12,608    | 19,179    |
| MIC Hawaii  | 5,947     | 6,115     |
| Total capital expenditures of reportable segments | 46,439    | 59,802    |
| Corporate and other                               | 1,742     | 67        |
| Total consolidated capital expenditure            | \$ 48,181 | \$ 59,869 |

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

#### 10. Reportable Segments (continued)

Property, equipment, land and leasehold improvements, net, goodwill and total assets for the Company's reportable segments and its reconciliation to consolidated total assets were (\$ in thousands):

|                                     | Property, Equipment,<br>Land and Leasehold<br>Improvements, net |                         | Goodwill          |                         | Total Assets      |                         |
|-------------------------------------|---|-------------------------|-------------------|-------------------------|-------------------|-------------------------|
|                                     | March 31,<br>2018   | December<br>31,<br>2017 | March 31,<br>2018 | December<br>31,<br>2017 | March 31,<br>2018 | December<br>31,<br>2017 |
| IMTT                                | \$2,283,277   | \$2,305,440             | \$1,427,623       | \$1,427,863             | \$4,093,607       | \$4,109,448             |
| Atlantic Aviation                   | 566,813   | 559,597                 | 496,140           | 495,769                 | 1,721,053         | 1,710,535               |
| Contracted Power                    | 1,462,460   | 1,466,139               | 21,628            | 21,628                  | 1,623,049         | 1,617,658               |
| MIC Hawaii                          | 300,313   | 302,220                 | 123,408           | 123,408                 | 534,560           | 532,144                 |
| Total assets of reportable segments | \$4,612,863   | \$4,633,396             | \$2,068,799       | \$2,068,668             | \$7,972,269       | \$7,969,785             |
| Corporate and other                 | 31,487  | 26,218                  |                   |                         | 53,028            | 39,166                  |
| Total consolidated assets           | \$4,644,350   | \$4,659,614             | \$2,068,799       | \$2,068,668             | \$8,025,297       | \$8,008,951             |

#### 11. Long-Term Contracted Revenue

Long-term contracted revenue consists of revenue from future minimum lease revenue accounted in accordance with ASC 840, *Leases*, and estimated revenue to be recognized in the future related to performance conditions that are unsatisfied or partially unsatisfied accounted in accordance with ASC 606, *Revenue*. The recognition pattern for contracts that are considered leases is generally consistent with the recognition pattern that would apply if such contracts were not accounted for as leases and were instead accounted for under ASC Topic 606. Accordingly, the Company has combined the required lessor disclosures for future lease income with the disclosures for contracted revenue in the table below. The following long-term contracted revenue were in existence at March 31, 2018 (\$ in thousands):

|                | Lease<br>Revenue<br>(ASC 840) | Contract<br>Revenue<br>(ASC 606) | Total<br>Long-Term<br>Revenue |
|----------------|-------------------------------|----------------------------------|-------------------------------|
| 2018 remaining | \$ 242,881                    | \$ 50,078                        | \$ 292,959                    |
| 2019           | 187,137                       | 38,347                           | 225,484                       |

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|            |            |            |            |
|------------|------------|------------|------------|
| 2020       | 109,153    | 31,129     | 140,282    |
| 2021       | 59,023     | 25,630     | 84,653     |
| 2022       | 44,151     | 22,319     | 66,470     |
| 2023       | 27,691     | 15,401     | 43,092     |
| Thereafter | 48,342     | 15,872     | 64,214     |
| Total      | \$ 718,378 | \$ 198,776 | \$ 917,154 |

The above table does not include the future minimum lease revenue from the Company's Contracted Power and the renewable businesses within the MIC Hawaii reportable segments. The payments from these leases are considered variable as they are based on the output of the underlying assets (i.e. energy generated).

In addition, the above table excludes contract revenue from the mechanical contractor business in the MIC Hawaii reportable segment. Revenue generated by the mechanical contractor business is recognized from long-term construction contracts (commonly referred to the percentage-of-completion method). At March 31, 2018, this business had a backlog of approximately \$35.0 million of future contract revenue which primarily is expected to be recognized within one to two years.



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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

## 12. Related Party Transactions

### Management Services

At March 31, 2018 and December 31, 2017, the Manager held 5,602,057 shares and 5,435,442 shares, respectively, of the Company. Pursuant to the terms of the Third Amended and Restated Management Services Agreement (Management Agreement), the Manager may sell these shares at any time. Under the Management Agreement, the Manager, at its option, may reinvest base management fees and performance fees, if any, in shares of the Company.

Since January 1, 2017, the Company paid the Manager cash dividends on shares held for the following periods:

| Declared          | Period Covered      | \$ per Share | Record Date       | Payable Date      | Cash Paid to Manager (in thousands) |
|-------------------|---------------------|--------------|-------------------|-------------------|-------------------------------------|
| May 1, 2018       | First quarter 2018  | \$ 1.00      | May 14, 2018      | May 17, 2018      | (1)                                 |
| February 19, 2018 | Fourth quarter 2017 | 1.44         | March 5, 2018     | March 8, 2018     | \$ 8,067                            |
| October 30, 2017  | Third quarter 2017  | 1.42         | November 13, 2017 | November 16, 2017 | 7,484                               |
| August 1, 2017    | Second quarter 2017 | 1.38         | August 14, 2017   | August 17, 2017   | 6,941                               |
| May 2, 2017       | First quarter 2017  | 1.32         | May 15, 2017      | May 18, 2017      | 6,332                               |
| February 17, 2017 | Fourth quarter 2016 | 1.31         | March 3, 2017     | March 8, 2017     | 6,080                               |

(1) The amount of dividend payable to the Manager for the first quarter of 2018 will be determined on May 14, 2018, the record date.

Under the Management Agreement, subject to the oversight and supervision of the Company's board of directors, the Manager is responsible for and oversees the management of the Company's operating businesses. In addition, the Manager has the right to appoint the Chairman of the Board of the Company, subject to minimum equity ownership, and to assign, or second, to the Company, two of its employees to serve as chief executive officer and chief financial officer of the Company and seconds or makes other personnel available as required.

In accordance with the Management Agreement, the Manager is entitled to a monthly base management fee based primarily on the Company's market capitalization, and potentially a quarterly performance fee based on total shareholder returns relative to a U.S. utilities index. Currently, the Manager has elected to reinvest the future base management fees and performance fees, if any, in new primary shares. For the quarters ended March 31, 2018 and 2017, the Company incurred base management fees of \$12.9 million and \$18.2 million, respectively. For the quarters ended March 31, 2018 and 2017, the Company did not incur any performance fees.

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# MACQUARIE INFRASTRUCTURE CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

### (Unaudited)

## 12. Related Party Transactions (continued)

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 the consolidated condensed balance sheets.

| Period                  | Base Management Fee Amount (\$ in Thousands) | Performance Fee Amount (\$ in Thousands) | Shares Issued          |
|-------------------------|--|--|------------------------|
| <i>2018 Activity:</i>   |  |  |                        |
| First quarter 2018      | \$ 12,928                                    | \$                                       | 265,002 <sup>(1)</sup> |
| <i>2017 Activities:</i> |  |  |                        |
| Fourth quarter 2017     | \$ 16,778                                    | \$                                       | 248,162                |
| Third quarter 2017      | 17,954                                       |  | 240,674                |
| Second quarter 2017     | 18,433                                       |  | 233,394                |
| First quarter 2017      | 18,223                                       |  | 232,398                |

The Manager elected to reinvest all of the monthly base management fees for the first quarter of 2018 in shares.

(1) The Company issued 265,002 shares for the quarter ended March 31, 2018, including 88,628 shares and 93,154 shares that were issued in April 2018 for the February and March 2018 monthly base management fee, respectively.

The Manager is not entitled to any other compensation and all costs incurred by the Manager, including compensation of seconded staff, are paid by the Manager out of its base management fee. However, the Company is responsible for other direct costs including, but not limited to, expenses incurred in the administration or management of the Company and its subsidiaries, income taxes, audit and legal fees, acquisitions and dispositions and its compliance with applicable laws and regulations. During the quarters ended March 31, 2018 and 2017, the Manager charged the Company \$268,000 and \$289,000, respectively, for reimbursement of out-of-pocket expenses. The unpaid portion of the out-of-pocket expenses at the end of the reporting period is included in *Due to Manager-related party* in the consolidated condensed balance sheets.

### Other Services

The Company uses the resources of the Macquarie Group with respect to a range of advisory, procurement, insurance, hedging, lending and other services. Engagements involving members of the Macquarie Group are reviewed and approved by the Audit Committee of the Company's board of directors. Macquarie Group affiliates are engaged on an

arm's length basis and frequently as a member of syndicate of providers whose other members establish the terms of the interaction.

### **Advisory Services**

The Macquarie Group, and wholly-owned subsidiaries within the Macquarie Group, including Macquarie Bank Limited (MBL) and Macquarie Capital (USA) Inc. (MCUSA) have provided various advisory and other services and incurred expenses in connection with the Company's equity raising activities, acquisitions and debt structuring for the Company and its businesses. Underwriting fees are recorded in stockholders' equity as a direct cost of equity offerings. Advisory fees and out-of-pocket expenses relating to acquisitions are expensed as incurred. Debt arranging fees are deferred and amortized over the term of the credit facility.

The Company entered into an equity distribution agreement with sales agents, including MCUSA, providing for the sale of shares of its common stock, par value \$0.001 per share, from time to time having an aggregate gross offering price of up to \$400.0 million. The equity distribution agreement also provides for sales of shares to any sales agent as principal for its own account at a price agreed upon at the time of the sale. For the quarters ended March 31, 2018 and 2017, the Company did not engage MCUSA for such activities.

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

**12. Related Party Transactions (continued)**

**Long-Term Debt**

In January 2018, the Company completed the refinancing and upsizing of its senior secured revolving credit facility to \$600.0 million from \$410.0 million and extended the maturity through January 3, 2022. As part of the refinancing and upsizing, MIHI LLC's \$50.0 million commitment was replaced by a \$40.0 million commitment from Macquarie Capital Funding LLC. As part of the closing, the Company paid Macquarie Capital Funding LLC \$80,000 in closing fees.

For the quarters ended March 31, 2018 and 2017, the Company incurred \$4,000 and \$34,000, respectively, in interest expense related to MIHI LLC's portion of the MIC senior secured revolving credit facility, prior to the refinancing. For the quarter ended March 31, 2018, the Company incurred \$107,000 in interest expense related to Macquarie Capital Funding LLC's portion of the MIC senior secured revolving credit facility.

**Other Transaction**

Macquarie Energy North America Trading, Inc. (MENAT), an indirect subsidiary of Macquarie Group Limited, entered into contracts with IMTT to lease barrels of capacity. At March 31, 2017, MENAT leased 200,000 barrels of capacity from IMTT and recognized \$613,000 in revenue during the quarter ended March 31, 2017. The contracts expired during the quarter ended June 30, 2017.

**13. Income Taxes**

The Company expects to incur federal consolidated taxable income for the year ending December 31, 2018, which will be fully offset by the Company's net operating loss (NOL) carryforwards. The Company believes that it will be able to utilize all of its federal prior year NOLs, which will begin to expire after 2029 and completely expire after 2035.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law and includes provisions that may have an impact on the Company's federal taxable income. The most significant of these are 100% bonus depreciation on qualifying assets (which is scheduled to phase down ratably to 0% between 2023 and 2027) and a reduction in the federal corporate tax rate from 35% to 21%.

In response to the Tax Cuts and Jobs Act, on December 22, 2017 the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), to provide guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Jobs Act in the period of enactment. The SEC Staff noted in SAB 118 that in these cases a

company should continue to apply Topic 740, *Income Taxes*, based on the provisions of the tax laws that were in effect immediately prior to the Tax Cuts and Jobs Act being enacted. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Cuts and Jobs Act enactment date for companies to complete the accounting under Topic 740. While the Company was able to make reasonable estimates of the impact of the changes to provisions of the Internal Revenue Code related to its foreign entities on its tax provision for the year ended December 31, 2017 and for the quarter ended March 31, 2018, the final impact of the Tax Cuts and Jobs Act may differ from these estimates, due to, among other things, changes in the interpretations and assumptions of the Tax Cuts and Jobs Act, and additional guidance that may be issued by the Internal Revenue Service. As a result, the Company will continue to gather additional information to determine the final impact of these changes.

The Tax Cuts and Jobs Act also includes a new limitation on the deductibility of net interest expense that generally limits the deduction to 30% of adjusted taxable income. For years before 2022, adjusted taxable income is defined as taxable income computed without regard to certain items, including net business interest expense, the amount of any NOL deduction, tax depreciation and tax amortization. The Company does not expect to incur net interest expense that is greater than 30% of adjusted taxable income prior to 2022.

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

**14. Legal Proceedings and Contingencies**

The Company and its subsidiaries are subject to legal proceedings arising in the ordinary course of business. In management's opinion, the Company has adequate legal defenses and/or insurance coverage with respect to the eventuality of such actions, and does not believe the outcome of any pending legal proceedings will be material to the Company's financial position or result of operations.

**Shareholder Derivative Suits**

On April 23, 2018, a complaint captioned *City of Riviera Beach General Employees Retirement System v. Macquarie Infrastructure Corp., et al.*, Case 1:18-cv-03608 (VSB), was filed in the United States District Court for the Southern District of New York. A substantially identical complaint captioned *Daniel Fajardo v. Macquarie Infrastructure Corporation, et al.*, Case No. 1:18-cv-03744(VSB) was filed in the same court on April 27, 2018. Both complaints assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder on behalf of a putative class consisting of all purchasers of MIC common stock between February 22, 2016 and February 21, 2018. The named defendants in both cases are the Company and four current or former officers of MIC and one of its subsidiaries, IMTT Holdings LLC. The complaints allege that the Company and the individual defendants knowingly made material misstatements and omitted material facts in its public disclosures concerning the Company's and IMTT's business and the sustainability of the Company's dividend to stockholders. The Company intends to vigorously contest the claims asserted in the *City of Riviera Beach* and *Fajardo* complaints, which the Company believes are entirely meritless.

**15. Subsequent Events**

**Dividend**

On May 1, 2018, the board of directors declared a dividend of \$1.00 per share for the quarter ended March 31, 2018, which is expected to be paid on May 17, 2018 to holders of record on May 14, 2018.

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## PART II

### OTHER INFORMATION

#### Item 1. Legal Proceedings

There have been no changes to legal proceedings set forth under Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 21, 2018, except for the following:

On April 23, 2018, a complaint captioned *City of Riviera Beach General Employees Retirement System v. Macquarie Infrastructure Corp., et al.*, Case 1:18-cv-03608 (VSB), was filed in the United States District Court for the Southern District of New York. A substantially identical complaint captioned *Daniel Fajardo v. Macquarie Infrastructure Corporation, et al.*, Case No. 1:18-cv-03744(VSB) was filed in the same court on April 27, 2018. Both complaints assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder on behalf of a putative class consisting of all purchasers of MIC common stock between February 22, 2016 and February 21, 2018. The named defendants in both cases are the Company and four current or former officers of MIC and one of its subsidiaries, IMTT Holdings LLC. The complaints allege that the Company and the individual defendants knowingly made material misstatements and omitted material facts in its public disclosures concerning the Company's and IMTT's business and the sustainability of the Company's dividend to stockholders. The Company intends to vigorously contest the claims asserted in the *City of Riviera Beach* and *Fajardo* complaints, which the Company believes are entirely meritless.

In February 2018, results of emissions testing at BEC by the New Jersey Department of Environmental Protection (NJDEP) exhibited ammonia emissions levels which exceeded levels outlined in BEC's air permit. BEC is finalizing a remediation plan with the NJDEP, and anticipates that the NJDEP will issue a notice of violation and a fine that BEC estimates, based on currently available information, at \$100,000 to \$200,000.

#### Item 1A. Risk Factors

There have been no material changes to the risk factors set forth under Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 21, 2018, except for the following:

#### **We could be adversely impacted by actions of activist stockholders, and such activism could impact the value of our securities.**

We value constructive input from our stockholders and the investment community. However, there is no assurance that the actions taken by our Board of Directors and management in seeking to maintain constructive engagement with our stockholders will be successful. Certain of our shareholders have expressed views with respect to the operation of our business, our business strategy, corporate governance considerations or other matters. Responding to actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. The perceived uncertainties as to our future direction due to activist actions could affect the market price of our securities, result in the loss of potential business opportunities and make it more difficult to attract and retain qualified personnel, board members and business partners.



## **Our property taxes could increase due to reassessment or property tax rate changes.**

We are required to pay real property taxes in respect of our properties and such taxes may increase as our properties are reassessed by taxing authorities or as property tax rates change. An increase in the assessed value of our properties or our property tax rates may not be passed along to our customers and could adversely impact our results of operations, cash flows and financial condition.

## **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

## **Item 3. Defaults Upon Senior Securities**

None.

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**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

An exhibit index has been filed as part of this Report on page E-1 and is incorporated herein by reference.

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## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**MACQUARIE INFRASTRUCTURE CORPORATION**  
(Registrant)

By:

/s/ Christopher Frost

Dated: May 2, 2018

Name: Christopher Frost  
Title: Chief Executive Officer

By:

/s/ Liam Stewart

Dated: May 2, 2018

Name: Liam Stewart  
Title: Chief Financial Officer

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**EXHIBIT INDEX**

| Number        | Description   |
|---------------|---|
| <u>3.1</u>    | <u>Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on May 21, 2015).</u>   |
| <u>3.2</u>    | <u>Amended and Restated Bylaws of the Registrant, dated as of February 18, 2016 (incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on February 23, 2016).</u>   |
| <u>10.1</u>   | <u>Amended and Restated Credit Agreement, dated as of January 2, 2018, among Macquarie Infrastructure Corporation, as borrower, MIC Ohana Corporation, as guarantor, J.P. Morgan Chase Bank, N.A., as administrative agent and the lenders party thereto (incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017).</u>  |
| <u>10.2</u>   | <u>Amendment No. 2, dated as of February 12, 2018, to the Amended and Restated Credit Agreement, dated as of February 10, 2016, among HGC Holdings LLC, Wells Fargo Bank N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017).</u>  |
| <u>10.3</u>   | <u>Amendment No. 2, dated as of February 12, 2018, to the Amended and Restated Credit Agreement, dated as of February 10, 2016, among The Gas Company LLC, Wells Fargo Bank N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017).</u>   |
| <u>31.1*</u>  | <u>Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer</u>  |
| <u>31.2*</u>  | <u>Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer</u>  |
| <u>32.1**</u> | <u>Section 1350 Certification of Chief Executive Officer</u>  |
| <u>32.2**</u> | <u>Section 1350 Certification of Chief Financial Officer</u>  |
|               | The following materials from the Quarterly Report on Form 10-Q of Macquarie Infrastructure Corporation for the quarter ended March 31, 2018, filed on May 2, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets as of March 31, 2018 (Unaudited) and December 31, 2017, (ii) the Consolidated Condensed Statements of Operations for the quarters ended March 31, 2018 and 2017 (Unaudited), (iii) the Consolidated Condensed Statements of Comprehensive Income for the quarters ended March 31, 2018 and 2017 (Unaudited), (iv) the Consolidated Condensed Statements of Cash Flows for the quarters ended March 31, 2018 and 2017 (Unaudited) and (v) the Notes to Consolidated Condensed Financial Statements (Unaudited). |
| <u>101.0*</u> |   |

\*

Filed herewith.

\*\*

Furnished herewith.

The Registrant does not deem this agreement material pursuant to Regulation S-K Item 601(b)(10).