

## Brookfield Infrastructure Partners L.P.

### LETTER TO UNITHOLDERS

#### OVERVIEW

In 2012, we made significant strides in solidifying Brookfield Infrastructure's position as one of the leading, global infrastructure businesses. During the year, we advanced a number of organic growth initiatives that demonstrated our ability to successfully deliver large-scale development projects, and we closed several opportunistic acquisitions that significantly enhanced our footprint. It is this formula of organic growth along with M&A execution that we expect will propel our growth going forward.

With respect to organic growth, we successfully commissioned our \$600 million Australian railroad expansion below budget and ahead of schedule, and we significantly advanced the construction of our \$750 million Texas electricity transmission system, which we expect will be up and running by mid-2013. On the acquisitions front, we closed a number of transactions that were the result of an outreach program that we initiated in 2008. Our strategy was to develop relationships with European infrastructure companies that own high quality assets in Latin America. In 2011 we redoubled these efforts as we thought that attractive investments could surface in this region, triggered by the European sovereign debt crisis. During the past year, we deployed \$1 billion of capital in European businesses or in assets acquired from European owners as a direct result of this strategy.

As a result of the growth in our business and the stability of our cash flows, Brookfield Infrastructure achieved a significant milestone in 2012, attaining a BBB+ corporate credit rating from Standard and Poor's. With strong operating results that supported the distributions that we paid out, we provided our unitholders with an attractive overall return of 33% for the year. Over the past five years, we are pleased to note that our units have outperformed both our infrastructure peers, as measured by the Dow Jones Brookfield Infrastructure Index, as well as the S&P 500.

	Annualized Total Return (for the period ended December 31, 2012)		
	1-Year	3-year	5-year
BIP (NYSE)	33%	35%	20%*
BIP (TSX)	29%	33%	n/a
S&P 500	16%	11%	4%
DJB Infrastructure Index (DJBGIYT)	16%	14%	8%

*\*Units of BIP (NYSE) began trading on January 31, 2008. The 30-day VWAP beginning on January 31, 2008 was used to compute the five-year total return.*

In light of the current strong prospects for our business, the Board of Directors has approved a 15% increase in our quarterly distribution to 43 cents per unit. This increase reflects the forecasted contribution from our recently commissioned capital projects as well as the expected cash yield on acquisitions that we closed in the fourth quarter. Since our spin-off five years ago, we have increased our quarterly distribution from 26.5 cents per unit to 43 cents, a compound annual growth rate in excess of 10%.

## **RESULTS OF OPERATIONS**

In 2012 we earned FFO of \$462 million compared with \$392 million in 2011. This 18% increase in our FFO was primarily driven by expansion projects that we successfully commissioned during the year and, to a lesser extent, new investments. Our FFO per unit of \$2.41 was flat compared to the prior year as the investments made with proceeds from our recent equity offerings did not fully contribute to our cash flows during the period. Our payout ratio was 62%, which is well within our range of 60%-70%, and we earned a solid AFFO yield of 10%.

During the year, our utilities platform produced FFO of \$308 million, compared with \$275 million in the prior year. The increase in FFO was primarily due to the recently completed merger which doubled the size of our UK distribution business, the increase in ownership of our Chilean electricity transmission system, and the acquisition of an interest in a Colombian distribution company. Excluding new investments, the cash flows of our business steadily increased with inflation indexation and contributions from organic growth investments. For the year, our utilities business earned an AFFO yield of 15%, which we believe is a very attractive return in light of the low risk profile of this segment.

In our transport and energy platform, we generated FFO of \$244 million in 2012, compared to \$167 million in 2011. The increase in FFO was primarily driven by a 110% increase in our Australian railroad's FFO as a result of the commissioning of our expansion program, as well as a favorable grain harvest. Our results also benefited from the South American toll roads that we acquired in the fourth quarter. Our North American gas transmission business continues to be impacted by weak market conditions caused by excess capacity and low natural gas prices. However, our FFO remained flat compared to the prior year due to our investment of equity to deleverage this business. Overall, the AFFO yield for our transport and energy platform was 9% for the year. This yield, while higher than the prior year, is clearly below the level that we expect from this segment over the long term. In 2013, the AFFO yield should increase with a further ramp-up of cash flows from the expansion program at our railroad and a full year of results in our toll road business.

In 2012 our Timber platform recorded FFO of \$22 million compared to \$33 million in 2011. Results reflect soft demand from Asia early in the year, which caused average realized prices to decrease by 7%, combined with operational restrictions due to a prolonged fire season that impacted our harvest in the second half of the year. For the year, exports represented 41% of total log sales, versus 47% in the prior year, as demand in domestic markets strengthened. Domestically, the U.S. housing market recovery gained momentum throughout the year with seasonally adjusted, annualized U.S. housing starts reaching 954,000 in December 2012, which was 37% above prior year levels, and new home permits increasing by 29% year over year. In 2012 our AFFO yield for this platform was 4%, which we expect will improve in 2013 due to strengthening export markets, combined with continuing recovery of the U.S. housing sector.

## **CORPORATE**

In 2012, we executed a number of successful transactions that further solidified our balance sheet. At the corporate level, we raised approximately \$900 million of capital, comprised of \$500 million of equity from a unit issuance that we completed in August and C\$400 million from our inaugural corporate bond issuance that closed in October. These two offerings were several times over-subscribed, demonstrating investors' interest in our company and our access to the capital markets. In order to increase liquidity for new investments, we upsized our corporate credit facility to \$900 million subsequent to year end. We were able to reduce the borrowing cost on this facility as a result of our BBB+ corporate credit rating from Standard and Poor's.

We also completed several refinancings at our operations, capitalizing on the opportunity to issue long-term debt in this historically low interest rate environment. In total, we refinanced \$3.3 billion of debt at an average rate of 4.6%. In the first half of 2013, we will be very focused on executing long-term, take-out

financings at our UK regulated distribution business and our Australian railroad. In anticipation, we secured investment grade credit ratings at both of these entities. Once these financings are complete, we will extend the average maturity of our debt portfolio to approximately eight years as well as repatriate nearly \$400 million of capital.

## **GROWTH INITIATIVES**

During the fourth quarter of 2012, we deployed \$1.1 billion of capital into investments in our utility and transport and energy platforms, which we funded with a \$500 million equity offering and draws under our revolving credit facility. Within our utilities platform, we completed the acquisition of a UK distribution business in early November, investing \$525 million. This business was merged with our existing UK distribution company which increased our installed connections to over one million. Our initial investment in the UK distribution sector was made in connection with the acquisition of Prime Infrastructure in 2009. On closing, the invested capital in the combined business totaled approximately \$650 million, however we believe that the value of this franchise is significantly greater due to its prospects for growth and its market position. We successfully recognized some of this value in November with the sale of a 20% interest in the combined entity to an institutional investor for proceeds of approximately \$235 million. During the fourth quarter we also signed an agreement to acquire an additional 10% interest in our Chilean transmission system from Brookfield Asset Management for \$235 million, effective October 2012.

Within our transport and energy platform, we completed the acquisition of an additional interest in our Chilean toll road for \$170 million in October, increasing our ownership to approximately 50%. In December, we acquired an interest in an entity with a 60% controlling stake in the largest toll road operator in Brazil for \$310 million, in partnership with Abertis Infraestructuras and institutional investors. These roads benefit from long-term concession agreements in proven regulatory regimes, with tariffs that are indexed to inflation. In addition, there are significant opportunities to deploy additional capital to expand our networks to accommodate increased traffic due to GDP growth. At the end of October, we also invested approximately \$75 million for a 25% interest in a district energy system that serves commercial customers in downtown Toronto, which we acquired in partnership with institutional investors.

Finally, we are making excellent progress in executing our financing plan for these investments. In addition to the \$500 million of proceeds from our August equity offering, we have raised over \$300 million from asset sales. In addition to the sale of the 20% interest in our UK regulated distribution business, we sold a 12.5% interest in our Canadian timberlands for \$85 million. With these initiatives, together with the proceeds from the take-out financings that we expect to close in the first quarter, we will have raised \$1.2 billion of proceeds. As we enter 2013, we will have approximately \$700 million of liquidity to further invest in our business, and we are considering further timber and non-core asset sales to recycle capital into new investment opportunities.

## **OUTLOOK**

Last year our performance demonstrated that our business can deliver strong results even during periods of tepid growth in the global economy. We believe this resiliency can be attributed to the fact that 85% of our cash flows are generated under regulatory frameworks or long-term contracts, a significant amount of which are of a take-or-pay nature. Entering 2013, we believe that the global economic recovery is beginning to accelerate. Prospects for the U.S. economy have improved as the housing market has finally turned the corner. After a relatively weak year, the Chinese economy is showing signs of strengthening. With the contractual nature of our business, Brookfield Infrastructure has demonstrated it can deliver solid results in a variety of economic environments, however, we believe the full potential of the business will be realized in periods of stronger economic growth and higher inflation.

Going forward, our growth strategy will continue to be multi-dimensional. Within our existing portfolio of businesses, we should generate meaningful growth that does not require capital investment. Over 65% of our revenues are indexed to inflation, and we have considerable excess capacity in our toll roads, ports

and natural gas transmission system. Furthermore, certain of our businesses such as our electricity transmission operations, distribution business and railroad are well positioned to invest in high return organic growth projects driven by customer demand. Lastly, we will seek to originate acquisitions of new businesses that we can buy for value that strategically fit with our operations, utilizing Brookfield's extensive global asset management platform. For the past year, our M&A activities have been the more prominent activity. While we expect this trend to continue over the balance of 2013, the level of organic growth within our business should accelerate with the global economic recovery that is underway.

In summary, we are very excited about the prospects for Brookfield Infrastructure in light of the current position of our business and our growth opportunities. On behalf of the board and management of Brookfield Infrastructure, I would like to thank all our unitholders for their ongoing support, and I look forward to updating you on our progress in the coming year.

Sincerely,  
"signed"

Sam Pollock  
Chief Executive Officer  
Brookfield Infrastructure Group Corp.

*Note: This letter to unitholders contains forward-looking information within the meaning of Canadian provincial securities laws and "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. The words, "will", "continue", "believe", "growth", "expect", "intention", "target", "should", "look forward", "anticipate", "forecast", "future", "could", "plan", "tend to", "estimate", "outlook", "on track to", "going forward" and other expressions which are predictions of or indicate future events, trends or prospects and which do not relate to historical matters identify the above mentioned and other forward-looking statements. Forward-looking statements in this letter to unitholders include statements regarding the likelihood and timing of successfully completing the acquisitions and other growth initiatives referred to in this letter to unitholders, the future performance of those acquired businesses and growth projects, financial and operating performance of Brookfield Infrastructure and some of its businesses, availability of investment opportunities, ability to access capital, and future revenue and distribution growth prospects in general. Although Brookfield Infrastructure believes that these forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on them, or any other forward looking statements or information in this letter. The future performance and prospects of Brookfield Infrastructure are subject to a number of known and unknown risks and uncertainties. Factors that could cause actual results of the Partnership and Brookfield Infrastructure to differ materially from those contemplated or implied by the statements in this letter to unitholders include general economic conditions in the jurisdictions in which we operate and elsewhere which may impact the markets for our products or services, the ability to achieve growth within Brookfield Infrastructure's businesses and in particular growth of our South American toll road and UK distribution businesses, which themselves depend on access to capital and continuing favourable commodity prices, the competitive business environment for our timber operations and market conditions, particularly in Asia, the impact of market conditions on our gas transmission business, the fact that success of Brookfield Infrastructure is dependent on market demand for an infrastructure company, which is unknown, the availability of equity and debt financing for Brookfield Infrastructure, the ability to effectively complete new acquisitions in the competitive infrastructure space (including the potential acquisitions referred to in this letter to unitholders) and to integrate acquisitions into existing operations, continued economic growth in South America and Australia, the market conditions of key commodities, the price, supply or demand for which can have a significant impact upon the financial and operating performance of our business, regulatory decisions affecting our toll road operations, weather events affecting our business traffic volumes on our toll road businesses and other risks and factors described in the documents filed by Brookfield Infrastructure with the securities regulators in Canada and the United States including under "Risk Factors" in Brookfield Infrastructure's most recent Annual Report on Form 20-F and other risks and factors that are described therein. Except as required by law, Brookfield Infrastructure undertakes no obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.*