



Brookfield Infrastructure Partners L.P.

2013 Second Quarter Conference Call Transcript

Date: Tuesday, August 6, 2013

Time: 9:00 AM ET

Speakers: **Tracey Wise**
Vice President Investor Relations

Sam Pollock
Chief Executive Officer

John Stinebaugh
Chief Financial Officer

OPERATOR:

At this time, I would like to turn the conference over to Tracey Wise, Vice President, Investor Relations. Please go ahead.

TRACEY WISE:

Thank you, Operator, and good morning. Thank you all for joining us for Brookfield Infrastructure Partners Second Quarter 2013 Earnings Conference Call. On the call today is John Stinebaugh, our Chief Financial Officer, who will review our financial results, and Chief Executive Officer, Sam Pollock, who will discuss highlights from the quarter, provide comments on our strategy and the outlook for our business. Following their remarks, we look forward to taking your questions and comments.

At this time, I would like to remind you that, in responding to questions and in talking about our growth initiatives and our financial and operating performance, we may make forward-looking statements. These statements are subject to known and unknown risks, and future results may differ materially. For further information on known risk factors, I would encourage you to review our Annual Report on Form 20-F, which is available on our website. With that, I would now like to turn the call over to John Stinebaugh.

JOHN STINEBAUGH:

Thanks, Tracey. I'll spend a few minutes walking through our results and balance sheet, then turn the call over to Sam. In my remarks, I'll focus on FFO, which is a proxy for cash flow from operations. I'll also focus on AFFO yield, which is a measure of how effectively we deploy our capital.

The second quarter of 2013 was the most profitable in our history as virtually all of our operations performed well. FFO for the period was \$180 million, or \$0.88 per unit, representing year-over-year increases of 62% and 47%, respectively. Our results also exceeded the first quarter, with FFO and FFO per unit up 13% and 10% respectively. This strong performance was driven by our recently commissioned Australian railroad expansion and contribution from acquisitions that we closed in the latter part of 2012. We're very encouraged that many of our operations are performing ahead of expectations, with outlooks that remain positive. For the quarter, we generated an AFFO yield of 13% and our payout ratio of 55% was conservative versus our target range of 60% to 70%.

Our utilities platform produced FFO of \$96 million in the current quarter, compared with \$78 million last year. The increase was primarily due to the acquisition which doubled the size of our UK-regulated distribution

business and the increased ownership in our Chilean electricity transmission system. Excluding the contribution from these investments, our underlying performance was solid, benefiting from inflation indexation, the commissioning of certain capital projects into our rate base, and favorable weather conditions.

Our transport platform generated FFO of \$83 million in the second quarter of 2013, versus \$36 million in the prior year. The increase was attributable to a doubling of FFO from our Australian railroad, following completion of our expansion program, the final portion of which was commissioned in March of 2013. Our results also benefited from a strong performance from our toll roads, which posted FFO that exceeded expectations due to higher traffic volumes and tariffs.

Our energy platform earned FFO of \$18 million in the quarter, compared to \$17 million last year. We benefited from strong results in our UK energy distribution operations, due to unseasonably cold spring, and the contribution from our recently acquired district energy system in Toronto, both of which more than offset a decline in performance at our natural gas transmission business.

I'll now talk about some of our recent balance sheet initiatives. During the first half of the year, we undertook a number of initiatives to further strengthen our balance sheet in order to position ourselves to capitalize on attractive, large-scale acquisition opportunities. We increased the availability under our corporate revolving credit facility by \$500 million to \$1.4 billion, adding nine new lenders to our bank group. The commercial terms of these bilateral agreements are the same as our existing facility, providing us with access to additional capital at a very low cost.

In early May, we issued \$340 million of equity in a transaction that was two-and-a-half times oversubscribed, further demonstrating the strong appetite for our units, as well as investor confidence in our ability to grow our business in an accretive manner. Including the expected proceeds from the sale of our New Zealand-regulated distribution business, we will have access to approximately \$2.5 billion of liquidity at the corporate level, with \$1.1 billion of cash on hand.

During the last few months, we completed several re-financings at our operations, capitalizing on the opportunity to issue long-term debt in this historically low interest rate environment. At our Chilean transmission system, we completed \$440 million of local and international bond issuances; at our European port business, we closed a €450 million bank facility, with the syndicate comprised primarily of European money institutions; and at our district energy business in Toronto, we raised \$250 million in a private placement

that was rated A-minus by DBRS. With the completion of these financings, we have no significant near-term maturities at any of our operations.

One last comment before I turn the call over to Sam. During the quarter, we won a stamp duty dispute with the government of Western Australia relating to our Australian railroad business. Following our acquisition of Prime in 2010, we deposited \$46 million in escrow to reserve against this potential stamp duty obligation. In April, the Western Australia Court of Appeal ruled in our favor and our deposit was returned, with \$6 million of interest.

I'll now turn the call over to Sam to walk through capital recycling initiatives and the outlook for our business.

SAM POLLOCK:

Thanks, John, and good morning, everyone. Let me begin by reviewing our successful capital recycling efforts. A year ago, we announced a plan to divest certain non-core assets and timberlands to fund a portion of the capital we invested in 2012, and to provide further liquidity for new investments that we are pursuing. We define non-core assets as ones in which Brookfield does not have sufficient control in order to deploy our operations-oriented approach to enhance value, as well as assets that are mature or have limited incremental upside.

In relation to our timber assets, while they were a core component of our business, we had an opportunity to dispose of these assets to strategic buyers who were prepared to offer prices that fully reflected our view of future log prices. In the current market environment, buyers generally value both mature regulated assets and timberlands at rates of return that are meaningfully lower than our target range of 12% to 15% per annum. As a result, we felt that a sale of these assets would provide a very low-cost source of financing for our business.

When we embarked upon our plan, we appreciated that we would not necessarily be able to time asset sales in order to match fund new investments. However, we are confident that we will be able to recycle this capital into new investments that offer superior returns for our unit holders in a relatively short period of time.

Over the last nine months, we have worked very hard to progress this initiative, executing definitive agreements for five divestitures totaling \$1.5 billion of equity proceeds. Once completed, these transactions will generate approximately \$500 million of capital gains and average annual returns on our invested capital in excess of 25%. As we regularly revalue the assets on our balance sheet in accordance with IFRS, many of

these gains were recognized in our financial statements in prior periods either through net income or our capital accounts. We believe that the returns that we achieved on these investments highlight our ability to buy and sell assets for good value and demonstrate our discipline as towards the capital.

Turning to our recent transactions, during the quarter we announced the sale of the last of our Canadian and U.S. timberlands for combined proceeds of \$640 million. These sales were completed at a modest premium to our recent appraisals that reflect a full recovery of log prices and historically low discount rates. Furthermore, our U.S. timberlands sold for a price that equates to \$4,100 per acre, a notable premium to most sales that have taken place over the past 10 years in the Pacific Northwest.

In July, we announced the signing of definitive agreements to sell our 42% interest in our New Zealand-regulated distribution business for NZ\$525 million, which equates to approximately US\$410 million. This business generated very strong cash flows for us since we first acquired it in 2009 as part of our recapitalization of Babcock & Brown Infrastructure. Upon closing of this transaction, we will generate an internal rate of return on this investment in excess of 25%, largely attributable to the favorable price at which we acquired this asset during the financial crisis in 2009. We expect to receive proceeds from this sale by the end of this year, following the approval of the New Zealand Overseas Investment Office.

Now, let me walk through our outlook for the business. In our first quarter conference call, I highlighted our general optimism regarding the long-term outlook for markets in which we operate and the strength of our deal pipeline. Since then, there's been considerable volatility in the global markets, as investors scramble to reposition themselves in advance of the impending tapering of quantitative easing by the U.S. Federal Reserve. In the past three months, yields on 10-year U.S. Treasuries have increased by approximately 100 basis points to 2.6%.

Our business development teams around the world continue to focus on a number of strategies that we believe will yield attractive investment opportunities. For instance, we continue to look at opportunities to acquire non-core infrastructure assets from industrial companies that are looking to de-lever their balance sheets and raise alternative sources of capital to fund their investment programs. We're also looking to buy GDP-sensitive infrastructure assets from construction companies that are seeking to refocus on their core construction business and strengthen their balance sheets.

In addition to those areas, we're also looking to build out a North American district energy business. I'm pleased to say that we're making progress on this front and yesterday we signed definitive documents to acquire 100% of Energy Solutions' district energy for \$130 million, in partnership with Institutional Investors. This business owns and operates district energy assets serving the business districts in Houston and New Orleans and Brookfield Infrastructure will own a 40% interest in the business. This operation will complement the system that we acquired in downtown Toronto last year and this acquisition is expected to close in the third quarter of 2013.

With the recent volatility in the capital markets, raising capital in the debt and equity markets now carries considerably greater uncertainty. Our ability to take a long-term view and to commit capital on a timely basis provides an attractive alternative for those companies looking to sell assets or raise capital. Furthermore, a number of these opportunities are very large scale. With our liquidity position and proven access to the capital markets, we believe that we are one of a short list of buyers that can readily execute these types of transactions.

We have a great amount of confidence in our ability to deploy significant amounts of capital at attractive returns, as demonstrated by the approximately \$4 billion that we've invested in acquisitions over the last couple of years. As we said last quarter, our pipeline of investment opportunities is stronger than ever. We feel fortunate to have a significant war chest to invest at a time when we believe equity return expectations are on the rise. The deployment of this capital will drive further distribution growth, which should support our attractive valuation relative to other yield-oriented investments.

With that, I'd like to turn the call back to the Operator to open the line for questions.

OPERATOR:

Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question may press star, then one on their touchtone telephone. You will hear a tone acknowledging your request. Please ensure you lift the handset if you are using a speaker phone before pressing any keys. If you wish to remove yourself from the question queue, you may press star, then two. Once again, anyone who has a question may press star, then one at this time.

Our first question today comes from Frederic Bastien of Raymond James. Please go ahead.

FREDERIC BASTIEN:

Good morning.

SAM POLLOCK:

Good morning.

FREDERIC BASTIEN:

I'm just wondering if your areas of investment interest have changed dramatically since the last quarter. At the time, I believe you had highlighted ports and potentially additional toll roads as an area of short-term focus. I'm wondering if that has changed.

SAM POLLOCK:

Hi, Frederick, it's Sam, and I guess the short answer is no. Those would be categories that would be captured under the infrastructure assets that we're looking to buy from both construction companies and industrial companies.

FREDERIC BASTIEN:

Okay. If we look at geographies, how are you thinking about Australia right now as a place to invest? I mean, I assume that prices for commodity-related assets have come off in recent months, so how would you reconcile the potential attractiveness of an investment there with your long-term goal to be a bit more globally diversified?

SAM POLLOCK:

Well, I guess there's sort of two questions in that. I think the first question is, you know, what do we think of Australia, and we continue to think that's a very attractive jurisdiction to invest in. It's got a very stable regulatory regime, we can access capital quite well in that market, and we think the types of assets that we can acquire there would be very attractive. I'd say, you know, for the next little while the number of development opportunities are probably limited given that a number of the resource companies are probably delaying or postponing some of their expansion plans, but I think there could be some great brownfield opportunities there in the not too distant future and we think it's a great market to invest in.

FREDERIC BASTIEN:

Okay, that's helpful.

SAM POLLOCK:

With respect to diversifying our business, our strategy is to invest in markets where we can earn the best risk-adjusted returns, so we're not as necessarily focused on trying to be in one market versus another; it depends on where the opportunities arise. We do see lots of great opportunities today in South America and so that's a particular focus, and we have seen some new opportunities arise for us in our pipeline in North America and Europe. So I'd say, today, the opportunity set for us is quite balanced much around the world.

FREDERIC BASTIEN:

Great, that's helpful. The last one I have for you is just housekeeping. Were the results of the timber platform consolidated with corporate in the current quarter, in the second quarter?

JOHN STINEBAUGH:

Frederick, it's John. That's absolutely right, the results were included in corporate. So, if you look at our adjusted EBITDA, as well as our FFO, the timber results are reflected in those numbers.

FREDERIC BASTIEN:

Got it. Okay, thank you. I'll turn it over.

SAM POLLOCK:

Yes, thank you.

OPERATOR:

The next comes from Brendan Maiorana of Wells Fargo. Please go ahead.

BRENDAN MAIORANA:

Thanks. Good morning. So, Sam, given that we've had the 10-year up significantly, it sounds like maybe there's better return options that are out there. Have you guys adjusted your return requirements? You've been pretty consistent in sort of that 12% to 15% levered IRR target since you came out, but have the higher rates caused any revaluation of those targets?

SAM POLLOCK:

Hi, Brendan. I guess the short answer again on this one is no. You know, I'd say, when rates went down, we didn't think that they were sustainable at that level, so we never adjusted them downwards. We've always been what I would describe as absolute return investors, and so we've always felt that for the type of business that we're buying and our view of sort of long-term interest rate levels and inflation levels, that 12% to 15% is appropriate. I guess what I would just caveat and add to that is, obviously, the ability to achieve those levels of returns is easier during periods of distress or during periods where interest rates move. So, I think our ability to achieve or over-achieve those rates should be easier now than they were over the last couple of years.

BRENDAN MAIORANA:

Yes, I guess there's just, you know, you don't have to push as many levers to kind of get there, and it sounds like there's probably a wider basket of opportunities to pick from now that meet those return requirements, given that there's maybe less investors at the margin or there's less levered investors at the margin; is that fair?

SAM POLLOCK:

Yes, I think that's fair and I think we've—in certain regions, you know, particularly South America, and from India and a few of the emerging markets there were a number of aggressive buyers over the last couple of years, and I think certain investors from those areas are now far more cautious and have a lot less capital available, so I think that's reduced competition somewhat.

BRENDAN MAIORANA:

Sure. In Brazil, I think there was news out during the quarter about a potential rate freeze on toll roads. Can you give an update on what, if any, impact that could or may have on your business there, and how do you feel about the valuation of the investments that you made in the Brazil toll roads late last year relative to maybe where pricing is for those assets today?

SAM POLLOCK:

So, let me start and then John may want to add a few things. Just dealing with your second question first, we think our timing was quite good on those assets and, as you know, the values for the business we bought in Brazil have gone up quite significantly since that time. Putting aside just where the share price has gone, I'd just say, more generally, the performance of the roads, despite what I would describe as relatively weak GDP in Brazil, the traffic levels have been quite strong and we're quite pleased with that, and it just shows, I think, the demographics of that region coming through; and I'd say the same goes for Chile; the GDP in Chile has

been obviously stronger than what's going on in Brazil and the performance of our roads there have been just fantastic. So, we're quite pleased with both those opportunities today.

With respect to some of the announcements, in particular in Sao Paulo state, regarding putting a cap or at least a short-term freeze on some of the inflationary increases to tariffs, there still hasn't been any formal announcement of exactly what the regulator intends, but I'd say two things. One is the regulator has indicated that all the concessionaries would be kept whole, and so this is really something that they're doing for their own population. There is a long history that Brazil has of compensating concession holders when they make changes to the tolling regime and we're still very comfortable with the concessionary framework there and so some of these things are in response to some of the tensions going on in the country, but as far as performance of the roads and the concessionary framework, everything is as we expected.

BRENDAN MAIORANA:

So, do you think there hasn't been a real change in terms of where you think roads would price today? Is that the case, and if it's not the case, does that make you feel more optimistic about investments in additional toll roads in Brazil or the surrounding areas in South America?

SAM POLLOCK:

Well, I'd say the challenge for new investments in Brazil at the moment is that the government, in its privatization efforts that have been underway for the last six months or so, has been trying to push the envelope down on allowed rates of return, and so they've had a few false starts in the privatization process. I think we've been encouraged with the direction that they're heading in, in as far as providing an opportunity to earn a better rate of return. We'll still have to wait to see how that all shakes out because those are probably the best opportunities to invest meaningful amounts of capital in that market but just, I guess, to summarize, we do still think it's a great place to invest. We like what we have today and we obviously need to digest that investment for the next little while, so I wouldn't say that we are actively looking to do new things at the moment.

BRENDAN MAIORANA:

Okay, all right, that's helpful. Thank you.

OPERATOR:

The next question comes from Bert Powell of BMO Capital Markets. Please go ahead.

BERT POWELL:

Thanks. Sam, you talked about the acquisition pipeline being stronger than ever. I'm wondering if you could just give us a sense as to how that splits between distressed or situations where you offer something that's unique and precludes competition versus auction situations.

SAM POLLOCK:

You know, obviously, I can't go into too much detail around the specific opportunities, but to give you a flavor for why we feel pretty good about the current situation, first, I wouldn't say anyone is distressed. I don't think in this market I would describe it as a distressed market. I think there's motivated sellers, because they have a number of initiatives they're looking to do and they're trying to right-size their balance sheets or generate cash for investment programs, but it's not a distressed market. But to give you an example of why I think we have a unique business development platform, we today have about six opportunities that we're currently evaluating that would be exclusive or effectively exclusive opportunities, so these would be non-option situations, and they would be situations around the world, some are more modest in size and some are large scale. It's hard to predict how many of those we can turn into completed transactions because obviously, there's still lots of negotiations to take place and diligence to undertake, but that's a pretty robust pipeline that are proprietary transactions.

JOHN STINEBAUGH:

Bert, it's John. Another thing we look to do, we're targeting acquiring infrastructure from industrial companies, and these types of opportunities really do leverage our structuring capability, because not only do you have to acquire an asset, but you also have to negotiate a contractual framework with the counterparty because they still want access to the infrastructure asset. So, in those types of transactions, it really does give us a good opportunity to leverage not only our acquisition skills, but structuring skills, in order to put deals together where we think we can get good overall value.

BERT POWELL:

Okay, that's very helpful, John. In the rail, which had a good showing this quarter, can you give us a sense as to, I guess, the plan, how much of it is take-versus-pay, are they running at plan or below, but they're paying you anyways? I'm just trying to get a sense as to how strong the underlying fundamentals are for that asset.

JOHN STINEBAUGH:

Bert, it's John. In terms of where the rail is right now, with the take-or-pay framework, we're pretty much running at the take-or-pay levels right now. So, even though we've got that contractual framework in place, we're a bit in excess of the take-or-pay levels. So, all-in-all, the production of our customers is according to their plans. We think that there may well be some additional upside, we've talked about in previous quarters, to the extent they continue to ramp up their operations, but we definitely are in a situation where they are operating at levels that exceed the minimums that are in the take-or-pay contracts.

BERT POWELL:

Okay, and just a last question. I know Euroports and PD Ports, that's been a more challenged part of the business, but are you seeing—is there any sign that you can see that would be kind of very recent data points that would tell you that things are improving there, or is it still a challenge?

SAM POLLOCK:

I would say it's still a challenge. I'm trying to search for little glimpses of a strong turnaround. I'd say we have months that are pretty good but then, you know, things slow down again. I think the only thing I would say, we have a number of things we've looked at in mainland Europe and the rate of decline, or the slowdown, does appear to be tapering off and I think the region is hitting bottom, but we really don't have any visibility at this stage as to what the recovery will look like. So, I'd say it's flat to looking like it's turning the corner, but what that rate of recovery will be, is just too early to tell.

BERT POWELL:

Okay. I was hoping for a little bit of a turn, too, Sam. All right, thanks.

OPERATOR:

The next question comes from Robert Kwan of RBC Capital Markets. Please go ahead.

ROBERT KWAN:

Good morning. You mentioned in the outlook, just a couple those buckets, around specific assets. I'm just wondering what your appetite is or where you see the opportunities for larger corporate-type acquisitions.

SAM POLLOCK:

Sorry, Robert, I didn't quite follow. You were asking what the appetite was for larger corporate acquisitions?

ROBERT KWAN:

Either a corporate acquisition or a company that has a larger number of assets, I guess, somewhat similar to what you did with Babcock & Brown.

SAM POLLOCK:

Oh, I see. We do keep an eye out for opportunities like that, that are a bit more multifaceted and complex. I wouldn't say our business is focused on pursuing those type of M&A activities, generally, because the success rate of translating public transactions to conclusion are often relatively modest, but we do have a number on the radar screen and depending on market conditions, that's something we could always do. We have the capability of executing them, but I wouldn't say that's where we generally focus our attention.

ROBERT KWAN:

It sounds like it's more a back-burner item than just even in terms of what might be in front of you, in terms of most immediate acquisitions?

SAM POLLOCK:

It's just not what I'd describe as our bread-and-butter. I would say our bread-and-butter is going out to meet companies, finding out what their business plans require for them to be successful and whether they need to raise capital, or they're looking for a partner to grow, then we think we're that ideal partner. For companies looking to sell themselves, generally, they'll run a process and often that's not something that we tend to focus on too much, and we don't tend to really do hostile transactions, so we're not really going out there looking to take advantage of someone.

JOHN STINEBAUGH:

Robert, it's John. As you know, the infrastructure industry is very capital intensive and transactions where we buy infrastructures assets from industrial companies, or the types that are bread-and-butter, there's a range of sizes, some of which can be quite large, just given the capital intensity of the sector.

ROBERT KWAN:

Mm-hmm, okay. Just with the upsized corporate credit facility, are you still looking at that as more of an equity bridge, or do you think you now have the capacity for more permanent debt at the holdco level?

JOHN STINEBAUGH:

Our thoughts on that haven't changed, Robert, so that's more of a source of liquidity for us, that we would look to replace with permanent capital, but with our credit rating, we were able to increase the size of the facility at very low cost and thought that, in light of the opportunities that we're seeing in the deal pipeline, that was something that made sense to do.

ROBERT KWAN:

Okay, and the last question I have is, Sam you mentioned earlier, around concessions coming in at the front end being a good way to invest at basically one times rate base, similar to what you're doing in Texas. What's the appetite for greenfield in terms of size, particularly given you need to carry some of that construction on a multi-year basis? How big would you feel comfortable taking that on knowing that you're paying out a good portion of cash flow?

SAM POLLOCK:

Robert, I think that all depends on the nature of the opportunity. You know, I think we feel pretty comfortable that we have the capacity to take on relatively large projects and that we can explain it to our shareholders, if there is a time lag between when we invest the capital to when the FFO shows up in our results. I'd say that's what really took place with the Australian railroad expansion, where there was a good year to year-and-a-half gap from the time we invested capital to the time it came through our results, and that really would have been the case with Dudgeon Point, if we were proceeding with that. That's a very large transaction that used to give an order of magnitude, probably would have required equity well in excess of a billion dollars and if we were able to proceed with that with the framework that we were negotiating with various parties, we would have been very comfortable going ahead.

JOHN STINEBAUGH:

But in light of the issue that you mentioned, Robert, and just the overall risk profile, even though we focus on low-risk development projects, they do have greater risks than operating projects, so we would look for a premium in return for those types of opportunities.

ROBERT KWAN:

Okay, that's great. Thanks, Sam. Thanks, John.

OPERATOR:

The next question comes from Andrew Kuske of Credit Suisse. Please go ahead.

ANDREW KUSKE:

Thank you, good morning. I guess the first question is just for Sam, and it's really along the lines of how do you think about the scalability of your business? I guess there's a few ways to sort of think about this, in the context of WestNet Rail, or I guess now Brookfield Rail, to the degree you have an appetite to move into the ports or move further upstream into, say, storage and handling of materials to a greater degree. And I guess the other way, you mentioned this earlier in your commentary on the district heating, I guess scale is just having a lot of individual one-off facilities sort of scattered across North America, where there's only really synergies at a holdco level managing all of those assets, not at an individual asset basis. So, I guess, how do you think about scalability as BIP continues to grow around the globe?

SAM POLLOCK:

Hi, Andrew. Look, I think the comments you made in reference to those assets, I think are all right on, as far as how you evaluate them. I would say that there is, in all our businesses, generally, tuck-in opportunities where we can achieve synergies. The example of what we did with our regulated distribution business in the UK was a good example of where we were able to grow the platform through an acquisition, add new products to the product line, that really was able to leverage the sales channel. I think there are opportunities to do that in various parts of our businesses. In other parts of the businesses, the scalability comes from being able to replicate an acquisition or a roll-up model that we can then manage more from a corporate perspective, and I think the district energy example, the one you used, is probably a good one.

I do think, also, with that business and with our toll road business, there are opportunities to take advantage of best practices, that can also drive some cost synergies. It may not be as obvious from the outset, but we are seeing, good examples of that, working with Abertis, who are helping us drive best practices in our tariffs business and so I think as our business grows, we can do that, as well.

JOHN STINEBAUGH:

Another aspect of it, Andrew, is that what we're really doing is we're leveraging the knowledge and operating capability that we've got within Brookfield, and we deploy that in new acquisitions. So, as an example, if we

bought another railroad, we have the expertise in-house to be able to execute, upgrade an expansion project that would drive value, and I think that aspect of our business model is very scalable.

ANDREW KUSKE:

I guess, just on that point, in relation to the district heating, do you see an interest and crossover between the power group at BAM and also the property group at BAM, because they are all somewhat interrelated?

SAM POLLOCK:

Well, there's no doubt that we can leverage the knowledge in each of those businesses to help that business, and leverage the relationships. It's not a coincidence that we had an interest in this Houston district heating business, given the footprint that Brookfield Properties has in Houston. So obviously, that creates some potential opportunities for growth. In addition to that, a big component of costs for district energy and district cooling is power costs, and so leveraging the knowledge that our power group has in relation to managing power costs and managing risk in relation to power price increases is hugely valuable for us. So, that is a particular business where the power of the Brookfield franchise is particularly relevant.

ANDREW KUSKE:

Okay, that's very helpful, and then, if I may, just a question directed towards John. I think in the last 20-F filing you had tax losses carried forward of about \$250 million. I'm just trying to get a better understanding on where your current tax position is right now, how much do you have, is that NOL number still accurate at this stage after the quarter?

JOHN STINEBAUGH:

Andrew, in terms of the tax position, you know, I think our tax profile over the next few years is going to be pretty similar to how it's been over the last couple of years, in terms of the amount of cash taxes that we're paying out. When we do acquisitions, we do a lot of structuring in order to minimize tax leakage across the various businesses that we acquire and being able to get cash out in order to be able to distribute it, but I think the profile's going to be pretty flat, pretty similar to how it's been over the last few years.

ANDREW KUSKE:

Okay, that's very helpful. Thank you.

OPERATOR:

The next question is from Michael Goldberg of Desjardins. Please go ahead.

MICHAEL GOLDBERG:

Thank you. With \$2.5 billion of liquidity, \$1.1 billion cash on hand, and a 12% to 15% targeted return, how much could you invest, on a levered basis, while still maintaining a desired liquidity cushion, and how much could this add to annualized FFO in relation to recent contributions from assets that have been sold?

JOHN STINEBAUGH:

Hi, Michael, it's John Stinebaugh. In terms of the amount that we can invest, as we talked about in the past, the capital structures are going to be dependent upon the types of assets. So, utility assets might have that investment-grade metrics at 50% debt, maybe even 55% debt, whereas transportation assets are going to be a bit less, perhaps maybe 35% to 40%. So, if you basically just took 50% as an average, then the \$1.1 billion of cash that we've got on hand, we could basically double that in terms of the amount of enterprise value that we'd be able to buy. In terms of the cash yield on the investments, once again it does depend a bit by the type of asset, but we're targeting, as you know, 12% to 15% overall returns, so I think high single-digit cash yields initially, with growth, to get to the 12% to 15% ballpark would be a reasonable assumption. So, I think that gives you some metrics in order to kind of frame how to think about it.

The credit facility, as I mentioned in my earlier remarks, it is \$1.4 billion. It is not permanent capital. We could well end up drawing down on the facility to fund acquisitions and that's why we have it in place, but wouldn't look at that as permanent capital.

MICHAEL GOLDBERG:

Okay, and I do have a question also about the credit facility. Do you have any idea how much commitment fees might go up in light of emerging leverage rules for banks that include undrawn commitments, and would higher fees change your stance towards the use of termable facilities?

JOHN STINEBAUGH:

It's something we would definitely evaluate. As we thought about the decision to upsize the facility from \$900 million to \$1.4 billion, part of our thought process is that it is low cost for that additional committed capital. We only pay about 50 basis points for the committed but undrawn facilities. If that were to materially increase, I think we would evaluate whether \$1.4 billion is the right number. We haven't seen any indications in

discussions with our bank group that things are going up. However, it's been a pretty good market for strong credits like ourselves to borrow money at low cost of recent.

MICHAEL GOLDBERG:

Okay. With respect to the dispute with Western Australia, is it now fully resolved or could it take any other steps and will there be any impact on your financials? If so, what'll it be?

JOHN STINEBAUGH:

It is fully resolved. The government decided not to appeal, so it's a final decision. So, the impact on the financials is we had the money that was in escrow as an asset on the balance sheet that is going to be converted into cash, or has been converted into cash, and then the other impact, as we mentioned, is that because we do have certainty now, we have taken the interest income on the money that was in escrow into the P&L.

MICHAEL GOLDBERG:

That's within the second quarter?

JOHN STINEBAUGH:

That was this quarter, that's correct.

MICHAEL GOLDBERG:

Okay. Thank you.

OPERATOR:

The next question comes from Cherilyn Radbourne of TD Securities. Please go ahead.

CHERILYN RADBOURNE:

Thanks very much and good morning. I wanted to ask you a question on currency. Clearly, your hedging program would have cushioned your cash flow this quarter and I'm just curious whether you have a view on the Australian dollar, in particular, that would cause you to pull back your hedging at the margin, or whether you think your hedging program is just prudent to maintain in light of your distribution policy.

JOHN STINEBAUGH:

Cherilyn, it's John. I think it's more the latter. When we ended up putting in the place the FFO hedging program that we've talked about, we thought that it just made sense to put that level of hedges in place in order to protect the FFO that we've got and support the dividends that we're paying out. So, we have no thoughts at this point about changing that program, and we basically continue to roll it over as quarters roll off. So, we've got the target of a minimum of 12 months of FFO hedges up to probably 18 months, but that's something that we're planning on continuing at this point.

CHERILYN RADBOURNE:

Okay, and I missed part of the call, so I apologize if someone has asked this question or something like it, but the mining sector is one area where access to capital has clearly changed, so I wonder if you could just talk about your interest in acquiring infrastructure assets from mining companies, and how you think about counterparty risk in those situations.

SAM POLLOCK:

Hi, Cherilyn, it's Sam. I guess, in our prepared remarks, we spoke about looking at asset sales from industrial companies as being a key strategy for us, and I would include mining companies within that broader category of industrial companies. We are seeing a number of situations in South America, in Australia, and even in North America, where companies are looking at ways to generate cash through the sale of their infrastructure assets, and so, given our background at Brookfield with the mining sector, it is a business we feel we understand well and have comfortable making those types of investments.

With respect to counterparty risk, which was the main crux of your question, obviously, every situation is different. We need to look at the quality of the resource, the quality of the management team, and just the general jurisdiction in which the business operates in, to take a view on that counterparty risk. Obviously, I can't make broad statements of which commodity or which companies we would favor the most, but suffice is to say that I think we have the internal capabilities to assess those counterparty risks properly.

CHERILYN RADBOURNE:

Okay, thanks. That's all from me.

SAM POLLOCK:

Okay, thank you.

OPERATOR:

There are no further questions at this time. I'll turn the call back over to Mr. Pollock for any closing comments.

SAM POLLOCK:

Great. Thank you, Operator, and I'd just like to thank everyone for participating on the call today and we look forward to speaking with you again next quarter to review our progress. Thank you.

OPERATOR:

Ladies and gentleman, this concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.