



# **Brookfield Infrastructure Partners L.P.**

## **2013 Year End Conference Call Transcript**

**Date:** Wednesday, February 5, 2014

**Time:** 9:00 AM ET

**Speakers:** **Sam Pollock**  
Chief Executive Officer

**Bahir Manios**  
Chief Financial Officer

**BAHIR MANIOS**

Thanks Tracey and good morning everyone.

2013 was an extremely active and successful year where we completed many key priorities that have enhanced our overall business. We have been executing a strategy that is focused on building a diversified portfolio of infrastructure assets that can deliver sustainable and growing cash flows. The results for the year were very strong with an increase in Funds From Operations, or FFO, on a per unit basis of 37%.

Following the flurry of investment activity in late 2012, we were focused on strengthening our balance sheet. Our three key financial priorities in 2013 were to enhance our liquidity, extend the term on our debt at a number of our subsidiaries and reduce the financial risk in the business. We also sought to maintain our growth momentum by deploying capital in our platforms in addition to identifying new investment opportunities.

I'll just touch on quickly a summary of our key accomplishments in 2013:

First, we generated a total of \$1.5 billion of proceeds from our asset recycling program, earning returns on equity that exceeded 25% and recorded gains of \$500 million. We upsized our corporate credit facility by \$500 million to \$1.4 billion, which together with the proceeds from asset sales provides us with total corporate liquidity at year end of close to \$2 billion.

We completed \$4.5 billion of long-term financings early in the year, taking advantage of historically low interest rates. In doing so, we extended the average term of our debt to 10 years and addressed all significant near-term maturities.

We invested approximately \$500 million in organic growth initiatives, commissioned \$350 million of projects to grow our utilities rate base and brought our \$600 million Australian rail expansion project fully on line. We also added approximately \$600 million of utilities and transport projects to our capital backlog. These being investments that we plan to make over the next 24 to 36 months.

And finally, we secured over \$1.1 billion of new investments in our transport and energy platforms. During the year we invested \$600 million to increase our ownership in our toll road business in Brazil and to expand our district energy platform in North America. Additionally, we agreed to invest approximately \$500 million into a South American infrastructure logistics business in addition to two container terminal facilities in California. We expect to close both of these transactions in the second quarter of 2014 upon receipt of customary approvals.

Turning now to our financial results. In my remarks I will focus on FFO, which is a proxy for cash flow from operations.

Overall, our financial performance has been very strong, both from an FFO generation perspective, and as a result of sizeable valuation gains that were either realized or recorded during the year. Virtually all of our operations performed better than the prior year, benefitting from organic growth and incremental earnings from capital that we deployed particularly in our transport and utilities platforms. FFO for the year was \$682 million, or \$3.30 on a per unit basis, representing year-over-year increases of 48% and 37%, respectively. We generated an AFFO yield of 13%, and our payout ratio is conservative, currently at 57%, which is below our long-term target range of 60-70%.

As I mentioned, during the year, we closed five divestitures totaling \$1.5 billion of equity proceeds, realizing approximately \$500 million of capital gains, \$300 million of which were recognized in our financial statements in prior periods in accordance with IFRS. Valuations of our property, plant and equipment also increased by \$250 million across many of our businesses, net of a \$275 million charge recorded on the investment in our North American natural gas transmission business. This is a business which has been negatively impacted by weak market fundamentals caused primarily by excess capacity and low natural gas prices.

Our utilities business generated FFO of \$377 million in 2013, compared to \$308 million in 2012, representing a year-over-year increase of 22%. The increase was primarily due to the acquisition of a UK regulated distribution business and the increased ownership in our Chilean electricity transmission system. On a same store basis, results in this segment increased by 7%, benefitting from inflation indexation, additions to rate base, as well as lower financing costs. In November, we closed the sale of our 42% interest in an Australasian regulated distribution business, and recently completed fully the construction of our transmission line in Texas.

During the year, our transport platform generated FFO of \$326 million, compared to \$168 million in the prior year. The substantial increase in FFO was driven by the commissioning of our Australian railroad expansion that we completed in the first quarter in addition to contribution from our toll road business, where we have been making investments over the past 12 months. We have identified over \$400 million of organic capital projects across our operations. These are projects that will enhance our networks and add to our capacity, facilitating increased volume in the future.

Our energy platform earned FFO of \$70 million in 2013, compared to \$76 million the previous year, as contribution from our district energy business as well as improved performance at our energy distribution businesses were more than offset by weaker results at our North American gas transmission business, which continues to face difficult market pressures from the rapidly changing energy landscape in the U.S. We believe that there could be additional headwinds in this business that may continue to affect our results and potentially lead to a further deleveraging in the future.

I will now turn the call over to Sam.

**SAM POLLOCK:**

Thank you Bahir and good morning everyone.

Our strong operating results and higher distributions contributed to a total return for unitholders of 16% in 2013. Brookfield Infrastructure's five-year annualized total return of 36% has meaningfully exceeded the S&P 500 index and we have considerable liquidity to invest in our business and maintain our growth momentum.

In regards to growth, we often get asked about the infrastructure sector in general and how we find value investments and so I thought I would take a few minutes to touch on that. Over the last five years, a significant amount of capital has entered the infrastructure sector, with pension plans and other funds increasing allocations to infrastructure. This has led to speculation that inflows into the sector have been greater than investment opportunities and that this influx of capital is driving up values to potentially unsustainable levels. We don't believe that to be the case overall, despite there having been a number of instances where highly

competitive auctions have resulted in high valuations. In general, the market for infrastructure assets has become much more liquid as the sector has matured, resulting in lower return expectations than when the asset class was in its infancy. Our recent experience suggests that core infrastructure investors are underwriting investments at equity rates of return in the range of 9-11% after tax although in some cases we've seen evidence of even lower thresholds.

So our challenge is that as we seek to grow our business, we are faced with increased competition from investors looking to deploy capital with lower return expectations. I'm happy to say that we feel that we have the expertise to cope with this challenge and to deliver our return objectives. Our principal means of avoiding "cost of capital shoot-outs", which we generally refer to them as, is to create our own proprietary opportunities using a patient, long-term approach and, in 2013, we continued to execute our investment strategy.

One thing we do is invest capital in our existing businesses to facilitate growth for our customers. In our franchise areas we generally do not have to compete with others for the right to deploy capital and we can negotiate directly with our customers on what we believe is a win-win basis. The \$600 million expansion of our railroad completed in 2013 and the deployment of capital into our utilities rate base every year are prime examples of this capability.

Another part of our strategy is to leverage our operating platforms to identify tack-on acquisitions. We have a demonstrated ability to be a successful participant in auction processes despite competing against other investors with lower return expectations. This is typically achieved in circumstances where we are able to recognize revenue and/or cost synergies with our existing businesses or where we are able to identify growth opportunities that others can't because they lack the same depth and geographical footprint as our operating platforms. Our recent acquisition of the district energy business in Houston and New Orleans in 2013 is an example where we believe this to have been the case.

Finally, we carry out outreach programs to companies and regions that are capital constrained. Our ability to move quickly, take a contrarian view and apply our expertise in structuring and closing transactions often leads to exclusive negotiations with sellers. Recently, we were rewarded for our efforts in developing relationships with mining and shipping companies. In December, we agreed to terms on two transactions in the rail and port sectors whereby we agreed to acquire interests in VLI, a Brazilian transportation company, and Trapac, a U.S. based port operator. These transactions came about following lengthy exclusive discussions that resulted in very positive partnership arrangements and transactions underwritten to achieve our return thresholds. Our proportionate share of the investments in these businesses represent approximately \$500 million.

Now let me briefly touch on these new investments. VLI provides Brookfield Infrastructure with the opportunity to participate in the evolution and growth of the logistics and transportation industries in Brazil. It has approximately 4,000 km of rail and a number of port and inland terminal facilities. VLI expects to deploy over R\$6.0 billion to upgrade and expand operations over the next seven years, allowing it to capture volume growth from increased activity in the agriculture, steel and other industrial sectors in Brazil. The terms of Brookfield's investment include a mechanism guaranteed by the seller, to ensure that a minimum return is achieved on the investment, over a period of up to six years from closing, which is expected to occur in the first half of 2014.

Trapac is comprised of gateway container terminals located in the ports of Los Angeles and Oakland. These terminals handled approximately 900,000 TEUs in 2013 and have

surplus capacity to facilitate volume growth in the future. The Los Angeles terminal is undergoing a \$185 million modernization project that will double its capacity, increase efficiency and enhance its low-cost status. Once complete in 2016, this will be one of the most automated terminals in North America, and in a strong position to benefit from an economic recovery in the United States. Completion of this transaction is expected in the first quarter of 2014.

Now let me turn to our distribution and the outlook for the future. Since launching the Partnership in 2008, we have increased the distribution to unitholders six times at a compound annual growth rate of more than 10%. In 2013, we increased the distribution per unit by 15% and based on our strong performance, significant liquidity and growth prospects, the Board of Directors has approved a 12% increase in our quarterly distribution to 48 cents per unit in 2014.

The outlook for our business remains solid. The influx of new competitors into the sector will present its challenges, however the growing interest in the asset class validates the value of our marquee assets and provides an opportunity for us to exit mature investments at attractive prices, as we have done over the past few years. Furthermore we believe there are few investors who have the ability to replicate our investment strategy and thus our unit price should reflect a premium for our ability to invest capital at higher risk-adjusted return levels.

Looking at our growth trajectory, our existing portfolio of assets is expected to generate 6–8% FFO per unit growth on a ‘same store’ basis. This growth will be derived from inflation indexation, GDP-linked revenue growth in our toll roads and ports businesses and returns from our organic growth pipeline, which we anticipate funding through retained cash flows.

We are also seeking to invest capital on a value basis by leveraging our global business development capabilities. Our goal is to invest approximately \$500 million to \$1 billion of capital annually, at attractive rates of return which should lead to 2-4% FFO per unit growth. Our focus will be on acquiring GDP sensitive assets that provide us with added upside as the global economy continues to recover, and on an opportunistic basis, adding high quality utility assets where we see opportunities to grow the rate base.

In summary, we are striving to deliver annual FFO per unit growth of approximately 10%, which supports our long-term average distribution growth range of 5 to 9%. This year’s 12% distribution increase exceeds the high-end of this range, reflecting the current prospects for the business.

With that, I would like to turn the call back to the operator to open the line for questions.

**OPERATOR:**

We will now begin the question and answer session. If you would like to ask a question, please press star, and one on your touchtone phone. You will hear a tone to indicate you’re in queue. For participants using a speakerphone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star, and two. The first question today comes from Frederic Bastien of Raymond James. Please go ahead.

**FREDERIC BASTIEN:**

Good morning, guys.

**SAM POLLOCK:**

Good morning.

**BAHIR MANIOS:**

Good morning.

**FREDERIC BASTIEN:**

Congratulations on a great year. My first question is wondering if you're getting a lot of questions about your exposure to the emerging economies? Obviously, that might bring some challenges, but more importantly, it may present some great opportunities for you down the road?

**SAM POLLOCK:**

Hi, Frederic. This is Sam. You know, look, I think that's a good and obviously topical question given what's happened in the last couple of months, particularly with Venezuela and Argentina having, I guess, a bit of a spillover effect in other markets. You know, I think our general view regarding investing is that we are investing in the long term, and we're targeting markets that we think will be extremely successful in the long run and for that reason, we've targeted, in the case of Brookfield Infrastructure, four emerging markets, which is Brazil, Colombia, Chile and Peru, and we think they all have tremendous natural advantages and the capabilities to succeed in the future. As you mentioned, in this particular market environment with capital flows being as finicky as they are and with people taking very short-term views on these type of matters, it does present opportunities for us to acquire great assets in those markets and to deploy our long-term investment strategy.

I'd say the only other thing I'd add to that is that, despite the fact that we take a long-term view and we think that that long-term investment approach is what makes us successful, we nonetheless prepare ourselves for short-term difficulties, and I think what's great about our business is the fact that we have this tremendous amount of liquidity at this moment to take advantage of those opportunities, so we have \$2 billion of liquidity. We do have a hedging program that we think insulates our business in a tremendous way, and as a result, to the extent that there is any headwinds, we're well prepared for them; and I think finally, with respect to our distribution policy by always remaining at the low end of our payout ratio, it gives us lots of headroom to deal with any unforeseen circumstances. So I guess, in conclusion, we think the current situation with emerging markets is a huge advantage for us as opposed to a weakness.

**FREDERIC BASTIEN:**

Okay, thanks for that answer. Next one relates to your North American gas transmission business. Wondering if it gets worse actually before it gets better? I know you had a difficult year there, and basically maybe building on that, has your long-term view on where natural gas prices go changed recently?

**SAM POLLOCK:**

Okay, Frederic, I'll tackle that one as well and Bahir may jump in. This is one of those situations where we can point to both the glass half empty and the glass half full. On the half empty side – and obviously, I guess it was probably where we were leaning to at this particular point in time and what led to our reduction in the carrying value of the asset – was that we just felt with the

developments going on in the Marcellus and the uncertainty around potential or I guess the actual reversal of various pipelines that the recovery in gas prices and the potential basis spreads going into our key markets, like Chicago, were a little uncertain and so the recovery in the business probably will take a little bit longer than we had hoped and expected.

Having said that, this is still a business that has a tremendous number of attributes. Obviously, it's one of the largest and most geographically extensive systems in North America, but it's also well positioned for growth opportunities. It has the potential to connect new shale plays in Texas and Oklahoma; it's well positioned to benefit from the conversion of coal plants in the southeast, and I guess the thing that we're really watching for is just the potential shift to LNG facilities going forward and the export of gas from the United States and we, I believe, would be a huge beneficiary of that.

Now, just turning to your question on gas prices – and I'm by no means an expert on gas prices – but I can tell you little bit about what we are looking at here in Brookfield and I guess one of the things we're watching is what's happened with storage levels in the United States. As you know, I think storage capacity in the U.S. runs around 3.8 TCF and with the extremely cold weather, we've seen the capacity drop significantly and the estimates at the end of the withdrawal season is somewhere between 1 and 1.5 TCF, and to be able to bring back the storage levels to the 3.8 TCF, you'd almost need record injections into the system and what we haven't seen yet is any response in rig counts as a result of the recent run up in gas prices. As you know, gas prices moved up to a little bit over \$5.00. Recently, they've come back a bit, but that doesn't seem to have had any of the signals to drive more rigs and so where I'm going with this is we've always maintained that full cycle cost for gas is in the \$5.00 to \$6.00 range, and while the forward spreads currently suggest that the current situation is really just a weather-related phenomenon with the rise in natural gas prices, we're going to watch to see what happens this summer, and if storage levels aren't able to get back up because rigs don't come back online, then I think what you're going to see is a shift back up from \$3.00 gas back up into that \$5.00 to \$6.00 range, which would incentivize new drilling and then that will be a tremendous improvement for our business here.

**BAHIR MANIOS:**

Frederic, I'll just add to Sam's comment. Look while we're disappointed, obviously, with the results at NGPL from an overall contribution to BIP, it's pretty insignificant for 2013. It's less than overall 5% of our FFO, and as our business keeps growing in the years ahead, it will be even less than that. We are hopeful of a rebound, as Sam mentioned, but as of today any impacts or shocks to those results going forward can be absorbed in our overall results holistically for the business.

**FREDERIC BASTIEN:**

Understood, thanks Sam and Bahir. Bahir maybe last one for you. I was just wondering if the New Zealand regulated business contributed to your Q4 results for the entire quarter—your Q4 results?

**BAHIR MANIOS:**

Frederic, we closed the deal at the end of November. It contributed two months of results. Q4 is one of the lowest generating quarters from a cash perspective. Typically, Q2 and Q3 are our biggest quarters there, so from an overall contribution to Q4, it wouldn't have been as material as other quarters, but nonetheless, there was two months of contribution.

**FREDERIC BASTIEN:**

Great. Thanks very much, guys.

**SAM POLLOCK:**

Okay, thank you.

**BAHIR MANIOS:**

You're welcome. Thank you.

**OPERATOR:**

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

**BERT POWELL:**

Thanks. Sam is—given your commentary, and you devoted a lot of time to the competitive dynamics in terms of your space—is that pushing you back into scrubbing and looking at your existing businesses and, you know, your relationship in the context of the broader Brookfield family for opportunities to deploy capital more so than looking at some of the more auction-oriented opportunities that are out there?

**SAM POLLOCK:**

Hi, Bert. I think we've always, as you use the euphemism scrub, go around, and I guess another of saying that is leverage and challenge our various platforms, whether it be in the real estate group or power groups or in various geographies, to surface ideas and relationships. So, that's something that I think we do really effectively here at Brookfield. It's a close group and the partnership is able to have those talks without any bureaucracy. So, I think that's exactly the case and we learn from each other when we go into different markets and regions. I don't know if it's any different than before. We were never, I'd say, an organization that relied on auctions as a way to build our business. I think we've always done it with these off-market proprietary deals.

We obviously take a look at pretty much any good asset that's exposed to the market just to see if there is an angle or if there is something that we could bring to the table that others can't that would allow us to achieve our returns, but more often than not, I'd say our focus is sitting back, trying to think of regions and markets and sectors that others are just not focused on and then finding these relationships like the TraPac relationship, which frankly, it's a great example. It took us probably two years to actually bring that to fruition where we had a deal that we could sign. And with them—I was just in Japan a couple of weeks ago meeting our partners again – it truly is, I think, a relationship that will keep on giving because it's a strategic one. It's not one that they just see as a one-off transaction where they are just trying to raise capital. They actually see us as a partner to work with them to find new opportunities and so we're looking for opportunities with them in South America, whether it be Panama, Colombia, Mexico or Brazil are probably our prime targets. We get to leverage the fact that they call on many of the ports in those regions, they can deliver volume, but they need someone like us who's got good experience in those markets and the ability to transact. And so I think that type of unique relationship will provide opportunities, and no different than the one we developed with Abertis. So, I think that really is what makes our approach different than many others who just rely on getting a book from a banker.

**BERT POWELL:**

Okay. Thanks for that, Sam and can you give us a sense of these transactions? Where you highlighted where you see deals in terms of equity returns, where would these fit relative to what you noted a 9% to 11% after tax in the market; where would these deals fit in the context of the current market?

**SAM POLLOCK:**

So our return targets generally are 12% to 15%. Everything is kind of risk adjusted, so there are some that may be at the lower end and others that would be at the higher end, but I'd say, generally, we're always trying to come up with a business plan where we feel we can earn on a long-term basis, 15% per annum.

**BERT POWELL:**

Okay, that's great and then just lastly, back to NGPL, if you had to go at delevering that again, what would the capital commitment be from BIP?

**SAM POLLOCK:**

Bert, I think it's too early to go down that path, but I think, today, there is no agreement or plan amongst the shareholders to deleverage. We don't have to. We don't see, at the moment, any issues with covenants requiring us to delever but it's just—I think all we wanted to do was just flag for people the fact that there is a little bit of uncertainty regarding our cash flows and because of that, that may create a necessity to delever a bit. But at this stage, there's no number to give you; there's no intention to do it but we're just watching it and the good news is that we had a great January and I know one month doesn't make a year but the—we'll see where the business goes.

**BERT POWELL:**

Okay. Well, at least, it seems like it's troughing a bit. Thanks for that, Sam.

**SAM POLLOCK:**

Thanks.

**OPERATOR:**

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

**BRENDAN MAIORANA:**

Thanks, good morning. Just a quick one on NGPL, probably for Bahir. After the write-down in the quarter, I don't recall the details. Is there equity value at your current basis relative to above your portion of the debt?

**BAHIR MANIOS:**

Hi, Brendan. Yes, so we would have disclosed in prior periods a total investment in NGPL of around \$600 million. We took approximately a \$300 million write-down, so we are left with close to \$300 million of carrying value.

**BRENDAN MAIORANA:**

Okay, great. Thank you. Sam, on both the VLI and MOL transactions, your typical strategy is to make sure that you've got some level of control of the operations. When I look at those two, I think VLI is 27%, MOL I think you're half of that JV. Do you have control in terms of operating the assets and deployment of capital or are you more passive in any of those two?

**SAM POLLOCK:**

Good question. Look, I think with the TraPac transaction, it's much more clear cut, where it's a 50/50 deal. We have co-control with our partners and the main thing with control is making decisions regarding management if you feel that they're not performing. So we have all those protections and that's, I'd say, a typical governance structure for us. VLI is probably a little bit different. We do have veto protections which provide us quite a bit of negative control, but we don't have the typical operating control we would in a normal situation, but what we have in its place is we have this mechanism that provides us a minimum level of return. So, there was a bit of give and take in order to provide us a lower risk transaction.

Why we decide to get into a transaction with a less than 50% stake is that we do believe that there is an opportunity for us to increase our stake over time and do it when we see how everything is unfolding and that's mainly because our partners are a mining company—they're looking to ultimately divest of non-core assets and this is not a—not core to their business. So, this is something that, I think, is a logical progression for us to go and ultimately buy them out.

**BRENDAN MAIORANA:**

On the \$6 billion of projected growth initiatives over the next several years, based on your current interest or, when you close your interest, do you have rights at your pro rata interest in those growth capital projects?

**SAM POLLOCK:**

Yes. So right now, the Company has almost no debt, so it will take on some debt to fund the near-term growth CapEx and a good portion, if not all of the backend CapEx, will be funded from retained cash flow. So it is envisioned that it'll be self-funding to the extent that the business requires more capital than we have the ability to put in our pro rata capital and, in fact, that capital would be put on the same basis as our initial investment, with that minimum return guarantee.

**BRENDAN MAIORANA:**

Okay, great. And then just last one on—again, I appreciate the response to the prior question about the 12% to 15% returns. Can you just for modeling purposes – can you give us a sense of what the going in returns are? Is the 12% to 15% or the 15% that you're striving for a little more backend weighted with some of this growth CapEx, or is the current return close to those levels as well?

**SAM POLLOCK:**

There is a bit more back end with these two because they have significant growth. The going in FFO return for TraPac is actually relatively strong and probably close to double digits and VLI probably will maybe be a touch less, but it'll still have relatively strong FFO yield right out of the gate.

**BRENDAN MAIORANA:**

Okay, great. Thank you.

**OPERATOR:**

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

**MICHAEL GOLDBERG:**

Thank you. Again, just to follow up on VLI, would you characterize this at—I'm trying to understand why now? Would you characterize this as having been catalyzed at all by the pressures in emerging markets? You said that you do have the option to increase your investment in VLI. Just wonder if you can elaborate on that further and what is the minimum return that you are guaranteed?

**SAM POLLOCK:**

Okay. So let me deal with the last two first. So, Michael, we did not disclose the minimum return and so I can't provide you that. The second question you had was regarding the option to increase and we don't have an option. We think that it's a strong possibility and something that we'd be interested in but there is no contractual option that we have on their stake. So, I just wanted to clarify that, if I gave you the wrong impression. Now, your first question, sorry it was—what was it on?

**MICHAEL GOLDBERG:**

It was really why now? Is it—you know, did you have anything to do with the liquidity pressures building up in emerging markets?

**SAM POLLOCK:**

So, I can't speak for Vale I guess perfectly, but I can give you my sense of what they are doing. They are in the midst of a massive \$30 billion development project in iron ore in the northern part of Brazil and I think, like everyone else, they see the potential for iron ore prices to moderate with the number of projects that have come online and so they have been eager to reduce their debt level and, I think, focus on their core business and so this is not a core business and it provides them opportunity to deconsolidate it and bring in some cash. So, I think that's their reason for why now, but that's probably the most I know.

**MICHAEL GOLDBERG:**

Okay and just two others. You mentioned Vale is one of the other major partners. What other of the mining companies are involved in VLI?

**SAM POLLOCK:**

So there's three other partners. There's Vale, the large iron ore company from Brazil; there's Mitsui, which is a large Japanese trading house; and there is a Brazilian pension fund that owns a small piece.

**MICHAEL GOLDBERG:**

Okay, and lastly, just again to elaborate further, are there other markets where you think that

this emerging markets liquidity pressure could provide opportunities for BIP, and have you been developing relationships in markets other than the four Latin American countries that you mentioned?

**SAM POLLOCK:**

I guess the one market we have spent some time looking at, and I'd say unsuccessfully so far, is India, and it's not that we were looking to make any investments in India but we had a thesis that, much like we thought with the European companies back in 2010, that with the challenges going on in India, that a number of the companies that invested abroad would need to sell assets in order to pay back the banks. So, we have done our outreach program for that region and I'd say, so far, we have not come up with any solid leads and, primarily, it's as a result of the willingness of the banks to effectively extend their loans on a blend and extend basis. So that's really, unfortunately, what happened. We thought there would be a little bit more distress coming out of that market, but so far, we have not been able to come up with anything.

**MICHAEL GOLDBERG:**

Thank you very much.

**OPERATOR:**

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

**ANDREW KUSKE:**

Thank you, good morning. I'm not sure if this question's for Sam or for Bahir, but if you could just give us an update on the situation with Arteris as it relates to the BOVESPA rules?

**SAM POLLOCK:**

Sure, I'll take that one. The—it's actually a short answer. We did hear back from the regulator that they thought that the current holding structure exceeded the threshold of 75%. We have gone back and given an application to the regulator of some reorganization of our holdings that we believe would fulfill their requirement and be below the threshold, and so we have not heard back for them on that as of yet and we're waiting to hear back from them. So, that's—unfortunately, I can't tell you much more than that.

**ANDREW KUSKE:**

Okay. No, that's helpful and then I guess just the outlook on Arteris as part of the broader Brookfield platform, I mean, right now and the next couple of years, it's got a pretty big capital program. All of that is self funding at this stage from the cash flows that we can see. When you look out over a few years out into, say '16 and beyond, how do you think about Arteris just as a vehicle in the Brazilian market? There's been a few toll road auctions that Arteris has been public that they haven't participated in, and so I'm just sort of curious on how you think about Arteris as part of the broader Brookfield platform?

**SAM POLLOCK:**

Well what we like about the business is the fact that it has tremendous scale and market presence in Brazil, and there is going to be a continuous process in that country to upgrade and improve the road network. So, while we've chosen today not to aggressively pursue new

investments, and that's primarily because we've got our hands full with the projects in front of us and we think those are good investment projects where we can earn attractive returns, I think once we have advanced those a bit more, then I think we will take more of an outward approach to business development opportunities in that country and we'll definitely leverage that platform. So, we see it as a key component of our Brazilian strategy for that sector and we think, on a long-term basis, it's a tremendous market to be in.

**ANDREW KUSKE:**

Okay, that's very helpful. Then just sort of switching gears and geographies...On NGPL, now that you've taken, effectively, the write-down on the asset, does that open the door to really exploring some repurposing options for that asset and, in particular, looking at potential transport of crude or NGLs down certain parts of the lines?

**SAM POLLOCK:**

You know, I don't think that two of them went hand-in-hand, to be honest, but we are continuing to look at various opportunities related to repurposing. I wouldn't say we are advanced on any of them at the moment. I think most people are still monitoring what's going to happen with Keystone because that does impact a lot of the flows and once that takes place, and I think ourselves and our partners, along with probably lots of other people in the sector, will consider the options for repurposing, and depending who goes first, it may lead to a decision that we don't need to because we'll see an improvement in our pipe because of the competitor pipe repurpose. So, I think there—this is something that's going to play out for a couple of years and we're just at the first stages of it.

**ANDREW KUSKE:**

Okay. That's helpful, and then just finally, keeping it in the U.S. and just related to the Mitsui deal, clearly, you have the two ports on the West Coast but Jacksonville was excluded from that package. Is there any sort of context or conversations? It looks like there's prospects for some pretty big capital that could be spent there and that would seem to be sort of right up the Brookfield alley.

**SAM POLLOCK:**

Yes. So, the short story is we have an option on that as a third terminal to invest in. There's a number of things that MOL needed to do there first to, I think, get in a position where it would result in a value proposition that made sense for them. So, we're letting them do that, but we have a first right to look at that.

**ANDREW KUSKE:**

Okay, very much appreciated. Thank you.

**SAM POLLOCK:**

Okay, thanks.

**OPERATOR:**

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

**ROBERT KWAN:**

Good morning. Just on kind of taking a step back and framing the 12% distribution increase, you mentioned that that was supported by the outlook for the business, and I guess as you look at the building blocks of growth, that would be above the midpoint of that, or at least at the very, very top end of the range. I'm just wondering are you seeing some various tailwinds in the short term driving growth from the existing assets to that top end of the range, and if so, what types of things are you seeing? Or are you seeing some outsized growth opportunities on the acquisition side that you think can allow you to support that growth level?

**SAM POLLOCK:**

Maybe I'll start and Bahir will probably jump in. I'd say, first off, we're paying—we're distributing out below our targeted range, so I think we have some flexibility because of that to be at the higher end or a bit above our higher end this year, so that was beneficial. You know, I think as far as headwinds, tailwinds, we've—there's a mixed bag. We have, obviously, some of the tailwinds related to currency, maybe NGPL, although we've been pretty conservative in that regard but on the flipside of the equation, we're starting to see improvements in Europe, and while it's too early to identify a trend, we've definitely seen a better start to the year than we had last year, so that's encouraging.

In addition to that, you know, we've had a good grain harvest and so we'll have some nice surprises from the rail this year because of the grain, and so there always are these pluses and minuses, but I'd say generally, we feel pretty positive about the year ahead.

**BAHIR MANIOS:**

Yes, and I'll just add to that, Robert. We've got a pretty attractive backlog of capital projects of around \$600 million; \$400 million in transport and about \$300 million spread around the various utilities businesses, and these could be very attractive to us. Probably looking two to three years out, they will be material contributors to our FFO but then you, just as Sam said, have to balance it with some maybe potential headwinds on currencies once our FFO hedging program comes out of the—essentially, the Aussie dollar ones come off, and to the extent that the currency stays flat to where it's at today, there could be some headwinds, although they are not material, to our overall picture. So with that, I think the prospects of the same-store growth that we walk people through still stand and we are very bullish on that.

**ROBERT KWAN:**

Okay. Just in terms of the market out there, you had cited that you're seeing deals done at 9% to 11% range and, in fact, maybe even a little bit under that. So that's under your target range, but—and you also mentioned the opportunity to maybe exit some mature investments. So you've sold most of the obvious non-core assets, at least the most marketable ones. Just wondering, with that statement, are you kind of referring to the remaining assets that fit that profile of either non-control or very low growth, or are you looking at some assets that you historically would have called core but maybe would extract some very strong valuations in the current environment?

**SAM POLLOCK:**

So I guess the short answer, we weren't trying to send any signals. There's no signals with that comment; it was just a comment. We just have that flexibility. We always look at our portfolio and consider opportunities. If we think the assets mature and we can get a great price, we'll take advantage of it, but there is nothing that we're planning to do today and we think that the

business is well situated.

**ROBERT KWAN:**

Okay and just last question here. I was just wondering if there's any color you can provide on the process around the Port of Esperance?

**SAM POLLOCK:**

You know, it's been relatively quiet. We're one of the—I think only two, I believe – and maybe I'm saying that out of school – that are pursuing it. But to be honest, it's a relatively modest initiative and there's—even once being selected as the preferred proponent, there's a lot of commercial arrangements that need to be put in place. So, I wouldn't want you to get the impression that that is a near-term initiative.

**ROBERT KWAN:**

That's great. Thank you very much.

**SAM POLLOCK:**

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 a question on VLI. It was alluded to by someone else earlier on the call that it departed a bit from your usual playbook of taking control, so I just wondered if you could give us a bit of color on what about the opportunity caused you to be flexible in terms of departing from that playbook?

**SAM POLLOCK:**

Hi, Cherilyn. The—really, there's three elements to it that, I guess, led to our conclusion that we, as you said, diverted from the playbook. The first one is this is an incredibly unique and—and I hate to overuse the word “marquee asset” in that country. It's one of, really, two or three major railroads in that country. The barriers to entry are huge and so the ability to get our foot in the door on that sector and with the quality of this company doesn't come around very often. So, that was something we looked at.

The second thing that existed that we considered was the fact that the ownership of the business, gave us some encouragement that, on a long-term basis, there would be a natural evolution of ownership from the mining company, which—this doesn't seem like a natural business for them to be in because it's not related to their core activities, and with our interest to grow, then a transition to us taking control. Now, that's – as I mentioned to Michael – that's not something that's contractual and nothing that's been agreed to or discussed with our partners, and in fact, we think they're great partners and they bring a lot of value to the table. But on a long-term basis, that's something that was in the back of our mind.

Then lastly, we were able to structure a transaction that we think really gave a great balance of the risk and rewards to the investments, one that we think was unique and came about after a

very lengthy discussion with them. So, when you put the three together, that really explains maybe diverting a bit off of our usual playbook and buying into a large minority stake.

**CHERILYN RADBOURNE:**

Okay, that's helpful. So, now that you've brought those two transactions across the finish line, you've still got quite a bit of liquidity. Can you just give us an update in generic terms of what your acquisition pipeline looks like?

**SAM POLLOCK:**

Sure. We've got a pretty broad range of opportunities that we're looking at. I am encouraged by the fact that we still have a number of exclusive proprietary transactions in the hopper that we're working on. We also have opportunities really in all three sectors, in utilities, in district energy and our energy platform, we've got a number of opportunities we're looking at, and then on the transport side, there are a number of initiatives that are underway. So, we've got a good balance across all our businesses and I'm fairly positive that we'll have some more initiatives to announce in the coming quarters and as far as size, you know, it's always hard to predict which ones will come to fruition and which ones won't, but we do have transactions that are at both ends of the spectrum, some smaller tuck-in ones, some that are larger. So, unfortunately, I can't give you any sense of what to put in your models.

**CHERILYN RADBOURNE:**

Okay. That is helpful though and then just lastly, have you or can you disclose at what rate you're hedged on the Aussie dollar?

**BAHIR MANIOS:**

Hi, Cherilyn. It's Bahir. We haven't disclosed that, but what I could tell you is it was materially or significantly higher than the average rate for the quarter.

**CHERILYN RADBOURNE:**

Okay. That's it for me. Thank you.

**SAM POLLOCK:**

Okay, thank you very much.

**OPERATOR:**

There are no more questions at this time. I will now hand the call back over to Mr. Pollock for closing comments.

**SAM POLLOCK:**

Thank you, Operator, and I'd just like to thank everyone for participating on our call today. It was probably a bit longer than usual, but I hope it was helpful for everyone and we look forward to speaking with you again next quarter to review our progress.

**OPERATOR:**

This concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.