



# **Brookfield Infrastructure Partners L.P. 2015 First Quarter Conference Call Transcript**

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

**Bahir Manios**  
Chief Financial Officer

**Tracey Wise**  
Senior Vice President, Investor Relations

**TRACEY WISE**

Thank you, operator and good morning. Thank you all for joining us for Brookfield Infrastructure Partners' first quarter 2015 conference call. On the call today is Bahir Manios, our Chief Financial Officer, who will review our results and Sam Pollock, our Chief Executive Officer, who will provide an update on our investment activities and an 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 like to turn the call over to Bahir.

**BAHIR MANIOS**

Thanks Tracey and good morning everyone.

We began the year with solid first quarter results. Our financial performance continued to reflect the overall diversification and the regulated and contractual nature of our cash flows that underpin our operations. We generated funds from operations (FFO) of \$186 million or \$0.89 per unit, which was unchanged compared to the prior year as contribution from new investments in addition to general improvements at most of our businesses were offset by the \$15 million impact of foreign exchange movements. Our same store growth for the period on a constant currency basis was strong, as we generated an 11% increase in FFO per unit compared to the prior year.

With a distribution of \$0.53 per unit, these results translated into a payout ratio of 68%, which was achieved in a period where we increased our distribution by 10%, and prior to any contribution realized from our newly acquired communications infrastructure assets. We closed on the French telecom transaction on March 31st, and expect this business to make a meaningful contribution to our results going forward.

I'll now touch on our financial results and the operating performance of our various segments: Our utilities segment generated FFO of \$95 million for the quarter, compared to \$89 million in the first quarter of 2014. The increase was the result of continued strength in connection activity in our UK regulated distribution operations, inflation indexation, commissioning of growth capital into rate base and cost reductions in a number of our businesses.

Our transport segment generated FFO of \$96 million in the first quarter of 2015, which is roughly in line with results in the comparable period in 2014. Our results benefited from volume and tariff growth in the majority of our operations, and contribution from our newly acquired rail logistics business in Brazil. These positive results were affected by a strong U.S. dollar, which rose against all of our other currencies, and rising interest rates in Brazil. In spite of these challenges, our transport operations continue to deliver solid results.

I wanted to give a few operational updates pertaining to our three largest businesses in this segment:

- In South America, the combination of tariff and volume increases at our toll roads in Chile and Brazil resulted in a 6% increase in EBITDA for the quarter in local currencies. Furthermore, our rail business in Brazil experienced robust volume growth led predominantly by increases in agricultural and industrial product volumes.
- Our UK port business experienced a 13% increase in container volumes over the same quarter last year. Higher volumes were the result of improved economic conditions, but also from efficiencies as a result of investments made in prior years to modernize our container terminal business, which is now starting to contribute to our results.
- And in Australia, the majority of our rail customers have been maximizing volumes in order to reduce their average unit costs in response to the steady decline in iron ore prices. This has resulted in volumes that are for the most part above take-or-pay levels and higher than the prior year as well. While we are encouraged by the recent modest rebound in iron ore prices, given the uncertainty over prices in the short-to-medium term we are looking at various cost reduction measures. These would allow us to mitigate any potential impacts from volume reductions should any of our customers decide to temporarily suspend operations or reduce volumes. As such, we do not expect any volume reductions to meaningfully affect the results of Brookfield Infrastructure on an overall basis.

Our energy segment generated FFO of \$28 million, compared to \$26 million in the first quarter of the prior year. Results in this segment predominantly reflect the growth of our district energy platform, which benefited from the full contribution of systems acquired over the past 12 months. These positive results were partially offset by lower results from our North American natural gas transmission business which had its results impacted predominantly by a milder winter than in the prior year.

Now I'd like to turn to our organic growth initiatives. During the quarter we advanced several meaningful initiatives and I wanted to highlight some of the progress we're making in three businesses:

- First, in our utilities business, our UK regulated distribution business experienced yet another quarter of record connections sales adding 55,000 new connections to its growing backlog. These first quarter sales, which were 35% higher than the same period in the prior year, were driven by a larger percentage of multi-product sales, as well as a stronger UK housing market. The outlook for sales activity for this business remains promising for the rest of this year and next.
- Second, we continue to push ahead on our \$685 million transport capital backlog with three meaningful projects in this segment that I wanted to highlight:
  - The first one being In Brazil, where we advanced the expansion of our terminal at Santos port which will provide agriculture customers with an integrated rail and port solution for the export of their products and the import of fertilizers. This project is now almost one-third complete and is on schedule to be commissioned by mid-2017.
  - In North America, we completed the first phase of the automation project at our U.S. West Coast container terminal operation. As a result, we expect this terminal to handle increased volumes and achieve cost efficiencies over the

- course of this year.
- And in the UK, our port business has advanced its quay upgrade project which is expected to be completed in the second quarter, on time and on budget.
- And lastly, our district energy platform is starting to become a meaningful part of our overall business as we have been successful in executing on a multi-dimensional growth strategy. Our strategy is focused on acquiring new systems, uncovering tuck-in acquisition opportunities in cities where we currently operate, connecting new residential and commercial customers to our systems and renewing existing client contracts at favorable rates. During the quarter, we were successful on all fronts. We signed agreements to add four new commercial clients, connected almost 1,100 new residential customers and renewed seven contracts at favorable rates. We also completed the Louisiana State University medical center project, acquired a small system in Windsor and bought out our partners in our system in Las Vegas. These initiatives, in addition to projects in Australia that were previously announced, will increase our run rate EBITDA for this platform by approximately 15% once all fully on line.

And finally, before I conclude my remarks and turn the call over to Sam, I wanted to touch quickly on our liquidity position.

We started off the year with corporate liquidity of \$1.4 billion and since then, we have undertaken several initiatives to further increase it by successfully closing on three capital raises consisting of:

- A \$125 million Canadian dollar preferred L.P. units issued in March at a rate of 4.50% annually for the initial period ending June 30, 2020.
- We also closed on a \$450 million Canadian dollar, seven-year medium-term note offering in the Canadian bond market with a coupon of 3.5%, which was swapped into U.S. dollars at attractive terms
- And then finally subsequent to period end, we launched an equity offering where we issued approximately 21 million units at a gross price of \$45 raising gross proceeds of approximately \$950 million.

Overall by getting these offerings done we raised net proceeds of approximately \$1.4 billion. We also invested \$0.5 billion during the quarter primarily to close the French telecom acquisition, and so with all of that said we are now left with total corporate liquidity of almost \$2.3 billion which positions us extremely well to move quickly on a number of the capital deployment opportunities that we have on the go and that Sam will touch on in his remarks.

And so with that, I will now turn it over to Sam

### **SAM POLLOCK**

Thanks Bahir.

Good morning everyone.

Last quarter on this call, we highlighted several investment themes that were giving us confidence that we would experience an active year of acquisitions. Over the past three months, we have seen a number of our initiatives advance considerably. At the same time, a few, such as the Australian government privatizations, have become less interesting.

While we generally are limited in our ability to provide details on transactions that are in progress, we thought it would be helpful if we nonetheless described at a high level the nature and status of the transactions in our pipeline. In that regard, we currently have seven transactions that are quite advanced. With respect to four of these transactions, we are working with the sellers on an exclusive or on a bilateral basis.

The assets we are looking at are located in North and South America, and Australia, and involve businesses in the transport, energy and communication sectors. In addition to these seven, we have a number of less advanced, but equally exciting prospects in our pipeline.

We are using the same playbook for acquiring high quality investments on a value basis as we have in the past. One of our primary strategies is a roll up strategy where we identify ways to leverage one of our existing platforms to pursue similar, repeatable add-ons. In some cases, they can be small, which we generally refer to as "tuck-ins". In other instances, the acquisitions can meaningfully add to the scale of our platforms. Currently, we are working on five prospects in district energy that in total would more than double the size of our platform should we be successful in acquiring all of them. Of these, two smaller prospects are advanced while the two largest are in early stages. Similarly, we are actively evaluating various gas storage assets that would substantially upsize this platform. These types of investments can often have the lowest risk and best returns, as we can normally bring substantial synergies and operating strategies to bear that enhance cash flows and reduce risk.

Another one of the strategies we are currently employing is what we describe as a sector expansion. This is where we leverage our sector knowledge and apply it to similar situations in other regions where we have a significant presence. Our ability to utilize our experience and expertise at Brookfield Rail in Australia was invaluable in assisting us to complete the Brazilian rail transaction in 2014 and is a great example of the merits of this strategy. One of our most advanced transactions is in the communications infrastructure sector, which has attractive investment attributes such as long-term contracts and solid barriers to entry. While our experience with the French towers business is in its early stages, our investment teams are now very experienced with this asset class. This gives us confidence to pursue acquisitions in the communications sector in other markets where we have a significant presence.

Finally, we are also focused on value based investing and Brazilian infrastructure assets is our current best idea. In Brazil, converging political and economic factors are creating a capital shortage and market dislocation. Despite recent market volatility and economic challenges, Brazil remains a large, high growth market with strong competitive advantages in the production of many global commodities. It also has an emerging middle class with attractive demographics. We are excited by the potential opportunities in Brazil at the moment, given the quality of the assets that are up for sale, or that we expect will soon be put up for sale, and the lack of credible buyers whom we need to compete with. In total, we may be able to invest up to \$2 billion over the next 6-18 months in assets in Brazil or that are located outside of Brazil but are owned by Brazilian companies. We have been very successful in the past when we have invested on a contrarian basis in sectors and regions we know well.

We currently have an attractive initiative that is well advanced. We have been in exclusive discussions with OAS, a large Brazilian construction company, since late March regarding the purchase of their stake in a large toll road, airport and urban mobility company in Brazil called Invepar. As part of the transaction, we may provide the company with a court-approved loan under Brazilian law, with features akin to a debtor-in-possession loan, of up to approximately

\$250 million. By providing the DIP loan, we expect to be well positioned to continue exclusive negotiations to conclude the acquisition of OAS' stake in Invepar.

Should we reach final agreements with OAS, completion of the DIP loan and/or any subsequent acquisition of the Invepar stake would be subject to a number of conditions, including applicable court and related creditor approvals, regulatory and third party consents, and other conditions customary for transactions of this nature.

Invepar owns nine high quality toll roads in Brazil and Peru, a controlling stake in Guarulhos airport in Sao Paulo, the largest of its kind in South America, and an interest in two urban mobility systems in Rio de Janeiro that serve over 220 million passengers per year. This is a good example of where we can utilize our unique expertise and flexibility to create an exclusive opportunity. At this point in the transaction we cannot provide any further details.

There's one last comment I want to make regarding acquisitions. Last week we announced that along with our partners, we intend to make a tender offer for the public minority shares of our Brazilian toll road subsidiary. Should we proceed and be successful in acquiring the balance of the shares held by the public, Brookfield Infrastructure would be investing up to a further approximately \$200 million to acquire shares and reduce debt.

Before moving on to our outlook, I am going to provide an update on our capital recycling program. During the quarter, we entered into definitive agreements to sell our 23% interest in our New England electricity transmission business. This business has generated steady and reliable cash flows since we first acquired it in 2009 but we believe we can reinvest the proceeds into higher returning assets. Upon completion of a sales process that attracted substantial interest from multiple buyers, we agreed to sell this business for proceeds of approximately \$280 million (on a 100% basis). On closing of this transaction, we will have generated an internal rate of return on this investment of approximately 30%. We expect to receive approximately \$30 million in net proceeds from this sale, which should close in the second half of 2015. There are no other updates on capital recycling initiatives at this time.

Turning to our outlook, our business is diversified with high quality assets that should enable us to deliver solid results in a variety of economic environments. We are currently operating in global economic conditions that are generally good. The U.S. economy is continuing to show signs of higher growth, and quantitative easing programs from the European central bank are leading to greater optimism that this region can improve its growth trajectory. Economic growth is disappointing in South America and we expect this situation to persist for the next year or two. However, the impact of lower foreign currency rates should propel higher exports and we believe the fundamentals continue to support favorable growth over the longer term. On the whole, our business should perform well in this economic environment.

For the balance of the year, our primary focus is to execute on our capital deployment strategy. Our business development teams are working diligently to convert our strong pipeline into investments that will provide further profitable growth for our platforms. As we deploy this capital, we expect to add high quality, sustainable cash flows that should help us meet or exceed our FFO and distribution growth objectives.

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

**OPERATOR:**

Thank you, sir. 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 speaker phone, 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 Cherilyn Radbourne with TD Securities. Please go ahead.

**CHERYLYN RADBOURNE:**

Thanks very much, and good morning. I'm sure a lot of the questions are going to be on your deal pipeline, but I did want to ask a couple related to organic initiatives, and I guess the one that seems to stand out relates to the UK regulated distribution business. I've got to admit I'm less familiar with how these last-mile connection businesses work, so I was hoping maybe you could explain in layman's terms the opportunity associated with this meter replacement initiative and just give us a sense of how much capital you might be able to deploy to it and over what period of time.

**SAM POLLOCK:**

Hi, Cherilyn, it's Sam. I'll start off and maybe Bahir will jump in. The business that we have in the UK is very unique—and I'll try not to be too longwinded here, but it's one of the few, if only, regulatory environments where there is this last-mile business. Generally, the last-mile connections are done by the local distribution companies, but in the UK they decided to unbundle that from the distribution companies because they found the service levels to the different developers was lacking. Effectively, what our business does is we connect, within a development community, the pipes from the main line that would cross from the local distribution company's system we would connect into the system, or the development community that's being developed, and then attach the pipes to the houses, and basically own that infrastructure.

What's unique about the business is, where gas and electricity generally are separate utilities, our business is a multi-product business where we connect both gas, electricity, fiber and water, so we can service all these different elements. So, it makes it very easy for a developer to call us up and get all of them set up, as opposed to having to call four different companies. So, it makes us very competitive against the local distribution companies, who still do what we do, but generally they can only hook up one connection at a time, and that is how the business started.

What's going on in the UK today is that, in order to make the country more efficient and to reduce the overall loads of gas and electricity, the government has decided to force the retailers to install smart meters in every house in the country. It's been a program that's been discussed for a number of years and today is running behind schedule. I think it was supposed to actually begin roll-out probably about two years ago. It still hasn't really started to any large degree and is supposed to be complete by 2020. Today, that looks like a goal that's not going to be quite completed. But, effectively, these smart meters would both allow the people in the houses to see how much usage they're incurring for both gas and electricity at all points during the day, and for different machines, and as a result, manage that usage much more effectively.

I'm obviously describing it very simplistically, but that's essentially what it does.

Installing these meters is a huge capital program, because you have to go out to each individual house and obviously carry out the work and buy the equipment. It's estimated that this could cost upwards of £10 billion, and the retailers don't have the budgets to do that, and so they're looking to hire—or at least subcontract that work to different parties to do that. Today, we are in the business of owning meters, and we think this could be a very attractive business for us to get into, to effectively own these meters and install them on behalf of the retailers.

So, as far as how much we could ultimately participate in this sector, if we could achieve a 10% market share, that would represent up to £1 billion, and assuming the typical leverage levels that we have in the business as a whole, that could represent anywhere between £300 million to £500 million of equity investments, and we think we could earn an attractive return on that. Now, that will obviously be deployed over a five- to seven-year timeframe, but, nonetheless, we think it would be a good add-on for the business.

**CHERYLYN RADBOURNE:**

All right, that's extremely helpful, thanks. Then, on the district energy business, that has expanded very rapidly, as well, so I was wondering if we could just get an update on how much capital, from an equity perspective, you've got deployed to that business at this point, and then just any more colour you could provide on the initiatives that are underway that you've indicated will increase the EBITDA run rate by about 15%?

**BAHIR MANIOS:**

Hi, Cherylyn, it's Bahir. So, we've got approximately \$200 million to \$250 million of equity that's currently deployed in the business, but as we noted in the past quarter, when we announced some of the projects in Australia that we've been successful on, which haven't closed yet, and then just all the initiatives that we had going on this quarter, we would expect that we would be deploying another, say, \$100 million to \$150 million. So, with the two systems, or the two projects in Australia that are yet to come on line, the expansion of our New Orleans system, buying out our minority partner in Vegas, the new smaller system in Windsor, along with all the contracts—or the residential and commercial clients that we signed up in the quarter, what you'll see is this will all come into our results at different points in time, but all should be happening at various points in 2015. So, by the start of 2016, you should have all this stuff kicking into the results. What we wanted to do is quantify the impact of that, so this quarter, we reported \$10 million of EBITDA in the business for the quarter and we think, with all the initiatives that we've announced, and we've got a lot more on the pipeline that we can speak to you about later on, but with all the things that we've spoken about, we think we can grow that at least by 15% once fully on line by early 2016.

**CHERYLYN RADBOURNE:**

Great and then just a last quick one. I think most of your debt is fixed. I was just a bit surprised to see the comment that results in transportation were impacted by rising interest rates in Brazil. Maybe you can just hit that one?

**BAHIR MANIOS:**

Yes, this relates to predominantly to the debt we've got in Brazil. That's mostly all floating. So, if you looked at our entire debt position, I think we're about 85% fixed, and essentially the 15% that's been left floating, predominantly all of that relates to our Brazilian business. So we've seen rates in Brazil increase year-over-year and that had an impact to our FFO.

**CHERYLYN RADBOURNE:**

Okay, understood. Thank you. That's all for me.

**BAHIR MANIOS:**

Thanks, Cherilyn.

**SAM POLLOCK:**

Thanks, Cherilyn.

**OPERATOR:**

The next question is from Frederic Bastien with Raymond James. Please go ahead.

**FREDERIC BASTIEN:**

Hi, good morning, guys. You mentioned that your appetite for assets in Australia had diminished. I suspect this has to do with valuations, but if you could provide additional colour on the topic, that would be great.

**SAM POLLOCK:**

Sure. Hi, Frederic, it's Sam. I guess there's really one main thing that's happened since we've last spoken, or at least it took place right around the time that we had our last call. The government in Queensland, which was a Liberal government, was campaigning on the merits of privatizing a number of assets. They ended up losing the election, and the new government that came in decided to scrap that program. There was probably, out of Queensland alone, somewhere between \$30 billion to \$40 billion worth of assets that were planned to be sold, and as a result, the number of privatizations that are underway has shrunk at least in half. Today, there's really only two that are discussed for the balance of the year, one in Victoria and one in New South Wales. As a result, all the energies that were, at least at that time, being spread to probably what was maybe six transactions are now focused on two transactions. So, while we expected it to be a fairly competitive environment, our view is today that it's going to be even more competitive. So, that's the main reason why we've—we're not as focused on the privatizations in that market right now.

**FREDERIC BASTIAN:**

Okay, that's helpful. Second question, I'd just like you to comment on what kind of natural gas business or natural gas asset fits within BIP's investment mandate. My impression was the Apache assets out of Western Australia would potentially fit your profile, but I understand that that wasn't the case. So, could you clarify what kind of—what makes that kind of business an investment criteria—what makes it investable from your perspective, versus what doesn't?

**SAM POLLOCK:**

Sure, Frederic, and I'll tackle this one, and that's a great question because the assets that you're referring to that our private equity business bought with Macquarie, definitely has some elements to it that we would describe as infrastructure. I think the difference with that business, when we thought about where it might fit, was that it was more of a fully-integrated E&P business with a relatively sizeable exploration/production component to it. So, while there were lots of infrastructure and hard assets related to it, we just thought that there was just too much of it that related to a typical E&P business, and so didn't quite fit within our mandate.

**FREDERIC BASTIEN:**

Would it have made sense to split the business, or it was too complicated?

**SAM POLLOCK:**

We thought about that, but because we had another partner there, in the case of Macquarie, and there was other components to the transaction, because a large industrial company was also involved in making a prepayment for some future production commitment, it was just too many things to pull off to try and optimize it by selling off the infrastructure, but it's possible down the road that it does get broken and maybe we'll have an opportunity to look at it, but with the timetable we had, we just couldn't do it at the outset.

**FREDERIC BASTIEN:**

Great, that's helpful. Thank you.

**SAM POLLOCK:**

Okay.

**OPERATOR:**

The next question is from Young Ku with Wells Fargo. Please go ahead.

**YOUNG KU:**

Great, thank you. Good morning. I just want to go back to your deal pipeline a little bit. You talked about \$2 billion of potential acquisitions and you have another \$1 billion in the capital backlog. So, I know that you just recently raised \$1 billion in equity, but I just want to see if you can comment on how you expect your leverage to trend and how you expect to fund the future investments?

**SAM POLLOCK:**

Okay, hi, Young. I'll start; I know Bahir might want to make some comments about leverage. Look, at this stage, there's no certainty around how much we can invest. I think what I wanted to highlight in particular was the fact that the number of opportunities and scale of opportunities in that market are very meaningful, and that we're particularly excited. We've not seen these types of assets come out of the state champions ever before, and we think that this would be a great opportunity for us, if we could take advantage of these sales and buy for value in that market. So, that's the main point we wanted to highlight.

As to our view on how we would fund that, obviously, our strategy is to fund new investments with equity. We do finance them with local debt on an investment-grade basis, but obviously the equity component, we always look to primarily invest it with equity that's raised. That could be either from assets sales or it could be from new equity we issue into the market. On occasion, we will use a little bit of corporate debt, but at this stage I think we're comfortable with the amount of corporate debt we have in the business and it's unlikely that we would raise any more in the foreseeable future.

**BAHIR MANIOS:**

Hi, Young, it's Bahir, so maybe I'll tackle the capex backlog question. So, today, we've got about 1.1 billion of CapEx, if you excluded the CWIP, or put that aside for now. So, how we think of that 1.1 billion going forward is that it would be financed first by putting on non-recourse financing at the asset level to do a portion of that. Today, that backlog is tilted heavily towards more transport and energy businesses, where we would expect leverage, or additional leverage there to be about 30% to 40% of those numbers, and the \$475 million utility backlog would be leveraged with 50% to 60% debt.

So, with all that said, if you assume a 50% blended leverage rate going forward for the CapEx portion, just to keep it simple, on 1.1 billion, you would expect to need about \$600 million or so of equity—or equity funding to go into it, and today we have \$700 million of retained or available liquidity at the asset level that's been put aside to fund these various projects.

In addition to that, I'll remind you that our payout ratio is relatively conservative. Once everything comes on line, generally, we retain about 20% to 25% of the cash that we generate in the business each year. So, today, depending on where our annualized run rate is, this is about \$120 million to \$150 million each year that we keep in the business and reinvest. So, with that, in addition to available liquidity that we've got everywhere, we're all set to fund predominantly the equity component of that CapEx backlog that we have today.

**YOUNG KU:**

Got it, that's very helpful. Thanks for the details. Just sticking with the deal pipeline a little bit, you guys are staying aggressive in South America, and obviously foreign exchange has moved away from you even further. Is there a way you guys can, when you're making acquisitions, hedge that away completely, and would you be willing to do that?

**SAM POLLOCK:**

I guess the short answer is there's no real economically feasible way to hedge that away. It remains very expensive. But, I would say today we would probably look at it the other way. We would see this as an opportunity for us to invest in that market at a time when we think the currencies are very cheap and where likely in the long-term—obviously, there could be some shorter term downward drafts and volatility, but in the long run we think, in fact, we'll probably have a much better potential to have currency wins than a currency loss.

**YOUNG KU:**

I see, but, Sam, I think you said in your prepared remarks that you expect the South American economy to stay pretty much where it is today, at least for the next couple of years; is that right? So, my question is why would you be interested in getting in today?

**SAM POLLOCK:**

Well, look, everyone has their views on timing. Our experience is that to find the best value, you need to be entering the market, in fact, when it probably even hasn't hit bottom. Once it's hits bottom and turned the corner, then everyone sees that and that's when all the capital rushes in and that's when currency start to turn. So, our view is that now is probably a great time to get in, when people are still relatively unsure about the market and are waiting for those signals that everything has turned around.

**YOUNG KU:**

Got you, that's fair. Thank you.

**SAM POLLOCK:**

Thanks, Young.

**OPERATOR:**

The next question is from Andrew Kuske with Credit Suisse. Please go ahead.

**ANDREW KUSKE:**

Thank you. Good morning. I guess, given the M&A focus you've got in the next 12 months plus, maybe give us a little bit of an outlook. If you look ahead, say, three to five years, how do you think your business mix will be by either grouping or geography, if you had your ideal set of circumstances?

**SAM POLLOCK:**

Hi, Andrew. So, maybe the way I'll tackle that—I'll start with geographies first, just because it's topical, and then the fact that we've mentioned Brazil a few times on the call. Typically, our expectation on where we deploy capital, looking over a longer term timeframe, would be roughly 40% in North America, 25% to 30% in Europe, 20% to 30% in South America, and then a modest amount, say 10%, in Australia. What does happen—and that's what we think, sort on a longer-term basis, what makes sense given the size of the opportunities in those markets.

From a population and economy perspective, South America is probably a little bit over-weighted, compared to the scale of those other markets, but because there's just so much infrastructure being built and requirement for infrastructure, as opposed to North America and Europe, which is relatively developed, we see South America being a bit higher, punching above its weight from that perspective. But, what happens is, in shorter periods of time, when markets get dislocated, it's possible that we could see a lot better value opportunities in one market versus another, and we saw that with Australia where we were able to do some transactions there, and we probably were—I don't want to say overweight, because we like the market, but we were, percentage-wise, higher than what we would expect given the size of that market, but we expect that to decrease over time, and, in fact, we haven't invested nearly as much in Australia over the last couple of years as we did back in 2009 and '10. I think we're maybe at that point today in South America, where we'll maybe invested a little higher than that 20 to 30% range, but I expect once the market changes, we'll get back to investing a lot more in Europe and North America, from a percentage perspective, than maybe for the next six to 12 months. So, that's kind of from a geographic perspective.

From a sector perspective, we—I think we expect that utilities and transport will be our largest segments on a go-forward basis, but I think in the last couple of years, particularly last 12 to 18 months, investing in utilities hasn't felt like a value opportunity, primarily because of just the narrowing of returns of utility assets to where bonds are trading, so they traded very tight. We've seen that in the public markets, but we've seen it definitely in the private markets, as well. So, we tend to focus on other asset classes where we felt we could get better returns. I think in time, when rates start moving up, we'll see an opportunity to move back into utilities, but I think for the next little while we'll probably be focusing more of our time on transport, a bit on energy, and we found new asset classes for us, namely the communications sector, which we're quite excited about and which we think will earn attractive returns.

So, I hope that's not too longwinded or general, but maybe answers your question.

**ANDREW KUSKE:**

No, that's very helpful, and then maybe in the realm of tying it to the transportation and a bit more option value, and maybe a bit more esoteric, is there any update on just any of the expansion potential and opportunities with Jacksonville?

**SAM POLLOCK:**

I don't have any updates for you, unfortunately.

**ANDREW KUSKE:**

Okay, okay. Thank you very much.

**OPERATOR:**

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

**ROBERT KWAN:**

Good morning. Just on Australian rail, you mentioned that your customers are generally, at least in aggregate, moving above take-or-pay levels. Are you able to quantify how much of the FFO is being generated by the variable component here?

**SAM POLLOCK:**

Robert, I don't have that number for you, so maybe that's something that Bahir can give you offline, but we would be—I'd say, generally, our customers are probably in the order of magnitude 5%, 10% higher than what we would normally expect or what they would have telegraphed to us is their typical run rate, but I'm being quite general in that regard, because there's—one of our customers, KML, is still not quite shipping as much as we would've expected, but the rest of them are operating at higher levels.

**ROBERT KWAN:**

Okay, and I guess...

**BAHIR MANIOS:**

Robert, sorry, hi, it's Bahir. I'll follow-up with you on the exact numbers, but that was more just sort of like a fact that we wanted to give, that our volumes our doing well, but it wasn't a significant contributor, but I'll follow-up with you in terms of percentage terms of just that piece that was over and beyond the take-or-pay levels.

**ROBERT KWAN:**

Yes, that's great. I'm just trying to get a sense of what the downside could be if volumes fall off, but you also mentioned that you're going at cost savings. I guess the upside here is how much do you think you could get at—i.e., if volumes don't fall off, I presume that would fall right to the bottom line.

**SAM POLLOCK:**

The cost savings would, but I think some of those, we would have to put back in place if the volume stayed there, because we could reduce the amount of maintenance and time we spend on the track, if, obviously, there's less volumes on it, but to the extent the volumes are there, then we would have to reinstate that maintenance work.

**ROBERT KWAN:**

Okay. So, it sounds like they're pretty close to being tied.

**SAM POLLOCK:**

That's right.

**ROBERT KWAN:**

If I can shift to gas storage, you mentioned some opportunities that you're seeing there amongst the lowest risk and some of the best returns, and you mentioned things around synergies and especially strategies. So, I'm just wondering if you can give some extra colour as to what you guys think you can bring to enhance profitability that others can't in that business.

**SAM POLLOCK:**

So, in gas storage, I would say the comment there is mostly related to synergies because we have the other businesses today that we're looking to build various trading platforms and control centres that we can leverage over additional assets. It's less relevant from a strategy perspective. Obviously, everyone has different ways of creating value in the gas storage business, whether or not you employ park-alone strategies or just try and contract everything, but what we're getting to on the strategy side, is really related to our district energy business, where I think we have a much more opportunistic approach to the business, We're looking to actively connect new clients and leverage our various relationships on the real estate side of the business to bring on new customers, whether it's commercial properties within the Brookfield fold or just commercial property owners who we know well. So, that was really the context there. It wasn't really meant for the gas storage business.

**ROBERT KWAN:**

Okay, and I guess just the last thing on gas storage. When you're approaching a business, in general, you've got geographic basis spreads that are pretty tight, you've got summer/winter spreads that are pretty tight. So what types of going-in returns would you be looking for, and put differently, if you think about how you might underwrite an investment with the expected kind of lifecycle IRR, how much of it is based on kind of a bet that that basis will improve and make the storage facility more profitable over time?

**SAM POLLOCK:**

There's no doubt, given where spreads are today, that a significant component of it is based on recovery. We have seen some improvement in spreads in the last three months, I'd say, in our businesses, so we're encouraged by that. I think they probably, at least from what we can tell, troughed back in the fall. But we would expect spreads, on a steady state basis, to probably double from where they are today. I think on a—our view of monthly spreads on an intrinsic basis might total to \$0.03 to \$0.04 per month, and we would hope on a steady state basis it maybe gets up to \$0.06.

**ROBERT KWAN:**

Okay, and that's great, and just a last question. If you look at the backlog, it's down a little bit here in utilities and transport, but up in energy; net, it's down. You did comment FX rates had an impact on that. I'm just wondering how much of it was FX and if there's a read through, particularly utilities and transport, just in terms of slowing growth, at least in the near-term—obviously, you might get a pickup here in the UK on the smart meter program, but what should we be thinking for utilities and transport?

**BAHIR MANIOS:**

Hey, Robert, I'll take that one. So, on the utilities front, we had new mandates that almost offset all the spend for the quarter, so that segment continues to chug along just fine, and our expectation would be that it would remain at these levels for the foreseeable future.

In the transport business, we had about \$100 million of new contracts, so that was good, and we've got a lot of projects that still haven't been included in this backlog, as they relate to predominantly the Brazilian toll road and our Brazilian logistics business, because they're just outside of the range. So, as time elapses and we go from one quarter to the next, you should expect that backlog to continue to replenish.

So, then, what happened was—again, you're exactly right. So, even though we had all these good wins that far exceeded the spend for the quarter, we did have some pretty significant FX, just revaluations going through this backlog number, and especially in transport where it declined by \$100 million, and as well as some in our utilities business.

So, in short, everything's going well in the businesses. We just had some FX translation issues that drove that number a bit down.

**ROBERT KWAN:**

Okay, and that's just a temporary lull in the timing of the backlog. It sounds like there's a bunch of stuff just outside, like you said, that cut-off date?

**BAHIR MANIOS:**

That's exactly right, and especially tilted more towards our Brazilian toll road and logistics business, where there's a significant amount of CapEx there that's just a little bit outside our time period. So, as you'll recall that predominantly for the utilities business it's a one- to two-year backlog, and then for transport and energy it's more of a one- to three-year backlog, and so those projects would just be a little bit outside of that.

**ROBERT KWAN:**

That's great. Thanks very much.

**BAHIR MANIOS:**

Thanks, Robert.

**OPERATOR:**

The next question is from Bert Powell with BMO Capital Markets. Please go ahead.

**BERT POWELL:**

Thanks. Sam, given the opportunities that are before you today, does that accelerate your view in terms of non-core assets or mature assets and recycling that capital? Does it push up the time lines or does it change your definition of mature relative to the opportunities to take that capital and put it to work for higher returns?

**SAM POLLOCK:**

Hi, Bert, it's a good question, because I think—the short answer is, yes, it could. I think, obviously, if we see great opportunities, we have to make decisions on how we're going to fund it, and to the extent that we don't feel it's appropriate to go back to the capital markets to raise that capital, then the only other opportunity to finance it would be an asset sale. So, I think we'll get ourselves in a position to consider both options and obviously weigh the merits of selling an asset versus issuing equity. So, I think we're always making those decisions and we're always making sure we have businesses that, if we needed to and thought it made sense to sell, are ready to be sold, but I think we're very fluid in that regard.

**BERT POWELL:**

Okay, and then sort of related somewhat, a lot of the assets or businesses that you are interested or that you purchased are generally are done with a Brookfield LP and typically there's been some minimum commitments that you've made. Does the opportunity change how you think about that; do you take less to do more, or are there ones that you can say, "You know what? We'll be—we'll take more of this and less of that?" I'm just trying to figure out how the opportunity flows into how you take what percentage in partnership with the Brookfield LPs.

**SAM POLLOCK:**

Okay. So, generally, the amounts we take are very prescribed. We have a set percentage of all investments that we take. Where it becomes a little less prescribed is when they're large transactions and a portion is funded outside of the fund, and usually in those situations we tend to take a large percentage, and often take as much as we can, because, obviously, we like the transactions. To the extent that our balance sheet doesn't allow us to take as much as we might normally want to, we always reserve the ability to bring in another partner and reduce that capital spend. But, generally, the amounts that we do, especially for smaller deals, is very prescribed, and usually it's around 40%.

**BERT POWELL:**

Okay, that's helpful. Thanks, Sam.

**OPERATOR:**

The next question is from Faisal Kahn with Citi. Please go ahead.

**FAISAL KAHN:**

Thanks. Good morning. Just a question on the liquidity. So, you talked about, I think, almost \$3 billion of liquidity in your supplemental slides, and then you talked about a \$2.3 billion number in the letter to unitholders. I just want to make sure I understand where the liquidity stands today.

**BAHIR MANIOS:**

Hi, Faisal, it's Bahir; I'll take this one. So, the \$3 billion is the total liquidity that we have in the system, and the \$2.3 billion that we referenced in the letter is the available liquidity that is at the corporate level, and predominately that will be spent on new acquisitions. Whereas the \$700 million or so that sits down below, as I described earlier, at a high level, is reserved to fund the equity component that is required to fund all the capex backlog that we have today.

**FAISAL KAHN:**

Okay, so that's what I wanted to make clear. So, the \$2.3 billion is really what's earmarked for acquisitions. Your operating cash flow, plus the amount of debt financing you would assume for the backlog will fund everything else, it sounds like.

**BAHIR MANIOS:**

That's exactly right, Faisal.

**FAISAL KAHN:**

Okay. Is—I mean, is there any—it sounds like there's no need to inject any equity into your subsidiaries. Is there—can you just talk about what the capital needs are at the subsidiaries? Is everything sort of fully funded? I mean, it sounds like the cash position is there, the debt financing is there, but there's—I just want to make sure there's no—I'm not missing any sort of risk factors, given the deviations in the currency market?

**SAM POLLOCK:**

There's roughly \$700 million of liquidity in various pockets in the subsidiaries, and I'd say, as a whole, they're all well funded. That's not to say that some of them have different needs coming up, and I guess the two businesses, I'd say, that have longer term capital needs—obviously, in our Brazilian road business, we'll be—we have a very large capital backlog there and developing a number of roads, and it wouldn't be surprising for us to possibly put in some more capital into that business to help fund those roads, as opposed to take on too much debt, because the cost of debt in Brazil today is too high. So, we may overcapitalize that business, if we're able to privatize it, just to avoid high cost debt. But one business that is probably a little over levered is our natural gas transmission business, and we're working through the issues there with our partners. So that one, I can't really comment too much on, but I think people are pretty familiar with the situation there.

**FAISAL KAHN:**

Okay. Then—so, is it fair to say that the \$2.3 billion of liquidity would not be used for any of those purposes, or is that a possibility, that that capital could be used for the purposes you just talked about?

**SAM POLLOCK:**

Well, we can use the \$2.3 billion for anything.

**FAISAL KAHN:**

Sure.

**SAM POLLOCK:**

We haven't made any decisions on the gas business—the natural gas transmission business at this stage, and with the South American business, most of the investments are longer term, so I'm really referring to projects that will be funded two, three, four years from now, so it's much longer term.

**FAISAL KAHN:**

Okay, got you. In the quarter, can you just talk about how much you generated from your FX hedges, in terms of operating cash flow in the quarter? I know you guys are fully—you're fairly well hedged with all the currency risks, but I just want to understand sort of how much cash you generated from those hedges in the quarter?

**BAHIR MANIOS:**

So, Faisal, it's Bahir. We don't actually break down that number, but what I could tell you is FX was a headwind to our results. You had lower hedged rates on our Australian dollar, pound, euro and Canadian dollar. That program had lower hedged rates of about 5% to 6% compared to the prior year. That led to about \$7 million of headwind to our results, compared—as it relates to the \$15 million number that we gave out, and then the \$8 million delta came from the LatAm currencies, where you saw the real depreciate by almost 20% year-over-year, and the Chilean peso also decreased about 12% to 13%. But, as far as how much proceeds we got from the hedge contracts, we don't really disclose that on a business-by-business basis.

**FAISAL KAHN:**

Okay. I was just trying to figure it out for the aggregate entity, you know, how well you were protected with your hedges, but it sounds like a headwind...

**BAHIR MANIOS:**

Maybe I can help you a bit with that. I think, in total, we've got—so just going forward here, once the French Telecom business comes into our results, where we see the cash flows going is you'll have sort of still a good mix of about 60% coming from Australia, pound, euro and CAD, and that's all been hedged for predominantly 18 to 24 months at rates that are ahead of where spot prices are. So that, in addition with 20% of our cash flows that come from U.S. dollar denominated businesses, leaves us with 20% of the business that's exposed to LatAm currencies.

**FAISAL KAHN:**

Sure.

**BAHIR MANIOS:**

So, if you are trying to figure that—it depends what your views are going forward, but as Sam mentioned earlier, we think the worst is behind us, and while we might see fluctuations in the short term, we think these currencies are poised for a comeback here.

**FAISAL KAHN:**

Okay. Then, the New England asset sale, the \$280 million, I think you talked about in the remarks or in the press release about \$30 million in net proceeds from that transaction, if you could just help me bridge the gap between the \$280 million and the \$30 million?

**BAHIR MANIOS:**

The \$280 million is the enterprise value. There's about—there's some debt in that business of \$150 million...

**SAM POLLOCK:**

We own 23%.

**BAHIR MANIOS:**

We own 23% of the business. So, the \$30 million relates to our proportionate share, which is like half of Brookfield Infrastructure will receive in its bank account.

**FAISAL KAHN:**

Okay, got you. So, the \$280 million is the total 100% and \$30 million is your net proceeds interest.

**BAHIR MANIOS:**

That's correct.

**FAISAL KAHN:**

Okay, okay, got you. Okay, that's it for me. Thanks a lot.

**BAHIR MANIOS:**

Thanks, Faisal.

**SAM POLLOCK:**

Thank you.

**OPERATOR:**

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

**SAM POLLOCK:**

Great, thank you, Operator, and thank you, everyone, for joining the call today; we appreciate all your questions, and we look forward to providing you further updates on our next quarter. Have a nice day.

**OPERATOR:**

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