



Brookfield Infrastructure Partners L.P. 2015 Second 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' second quarter 2015 conference call. On the call today is Bahir Manios, our Chief Financial Officer, and Sam Pollock, our Chief Executive Officer.

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 now turn the call over to Bahir.

BAHIR MANIOS:

Thank you Tracey and good morning everyone.

This was a very active period for our business. We maintained the strong momentum that we had established on new investment activities we have been progressing, and posted very good financial results on the back of solid operational performance across our various businesses.

I will start off the call by going through our financial results, and I'll also give a quick update on our various operations, in addition to the key organic capital projects that we currently have on the go, and will also touch on our liquidity position.

First off, our financial results were strong - each one of our operating segments reported higher levels of funds from operations, or FFO compared to the prior year. We benefited from solid organic growth and contributions from new investments which more than offset the impact of foreign exchange movements. We generated FFO of \$208 million for the quarter which translated to \$0.91 per unit, the best results we've ever posted.

Our utilities segment generated FFO of \$93 million for the quarter, compared to \$92 million in the second quarter of 2014. Our results reflected another quarter of robust connections activity in our UK regulated distribution operation. We also generated incremental earnings on growth capital commissioned into our rate base and benefitted from inflation indexation across a number of our businesses. These positive contributions were offset by foreign exchange movements that tempered our results by \$4 million.

From an operations perspective, all of our Utilities businesses performed well during the quarter. Most noteworthy was our Australian regulated terminal where we experienced a record capacity utilization of over 97% in June, and close to 85% for the quarter. Given that we have

take-or-pay contracts in place with premier mining companies, our financial results for this business are not impacted by fluctuations in volumes handled at the terminal. However, this level of throughput is encouraging as it demonstrates that, notwithstanding this low commodity price environment, our customers are continuing to ship significant volumes through our terminal.

Our Transport segment generated FFO of \$104 million, an 11% increase compared to \$94 million in the same quarter last year. Results benefitted from the contribution of the Brazilian rail operation acquired in August 2014. Strong volumes across our rail and port platforms, as well as tariff growth across most of our businesses, also contributed to the improved results for this segment. The continued strength of the U.S. dollar against other currencies reduced results for this business by \$12 million. This foreign exchange impact partially offset the otherwise impressive operating results that we achieved in local currencies.

On the operations front, I wanted to give a couple updates pertaining to our largest two platforms in this segment:

- First, in our rail platform, we experienced solid volumes across most of our business lines including iron ore, soy, grain and alumina, which led to an increase in same store EBITDA of 4%, on a constant currency basis. We are also pleased to report that our largest iron ore customer, Karara Mining Limited, completed a refinancing of its syndicated bank debt facilities, extending term from 2020 to 2030. This refinancing is a further demonstration of the important sponsorship our customer receives from its various stakeholders in China.
- Also, in our toll road business we saw EBITDA in local currencies increase by 5%. This increase was mostly the result of tariff increases and strong light vehicle volumes across our operations, which more than offset lower heavy vehicle volumes in Brazil.

Our Energy segment generated FFO of \$23 million compared to \$16 million in the prior year. Results reflected organic growth and new investments in our District Energy platform, as well as improved volumes and cost savings in our natural gas transmission and distribution operations.

During the quarter we progressed several strategic alternatives for our North American gas transmission operation. We continue to evaluate alternatives to sell our interest in the company as well as considering transactions that would facilitate the right-sizing of the capital structure of this business, in conjunction with modifications to the operating and ownership agreements that would apply going forward. We hope to be in a position to provide a more detailed update on this process in the next few months.

And lastly we closed the French telecom infrastructure transaction on March 31st as previously announced. As a result, this quarter marked the first full period of contribution to our results. This operation generated \$20 million of FFO, which was slightly ahead of our underwriting projections.

Next on the organic growth front, we currently have a very robust backlog of growth projects that totals \$1.3 billion, which is expected to be deployed and commissioned over the next 2-3 years across our four operating segments, which should provide for good earnings visibility over the next few years.

- First I'll start off by going through our utilities capital projects, where we currently have a backlog that stands at over \$500 million, which is expected to be commissioned over the next 24 months. It consists of a large number of smaller, simple to execute projects spread across our various networks. Our teams have demonstrated a good track record of replenishing this backlog by taking advantage of the strong competitive positions of our various networks. We plan to fund these projects with non-recourse investment grade debt, in addition to cash flows retained in our businesses. Once fully commissioned, our current backlog is expected to contribute EBITDA growth for this segment of approximately 10%.
- In our transport business, we have a number of advanced initiatives:
 - First, we continue to make good progress advancing our capital investment program in our Brazilian toll road operations, most notably the Serra de Cafezal expansion project. This project consists of duplicating 30 km of the Regis Bittencourt highway in the state of São Paulo to ease congestion. It is now more than 60% complete, and is expected to be commissioned by early 2017. At that time, our EBITDA for this business is forecasted to increase by 5%, on a run rate basis from the commissioning of this project alone.
 - In our Chilean toll road business, we acquired the 50% of Tunel San Cristobal, or TSC, that we did not already own, investing approximately \$15 million our share. TSC is a 3 km tunnel that is adjacent to our main road and is a key connection point between our road and other critical infrastructure in the area.
 - At our UK port we successfully commissioned the first phase of the Number 1 quay project, on time, scope and budget. Subsequently, we commenced a second phase to upgrade an adjacent section of the quay to deepen its berth, which should require an additional capital investment of approximately \$15 million. In addition, we completed a tuck-in acquisition of a freehold inland port in the Humber region, the UK's largest port complex, for approximately \$20 million.

Now turning to our energy segment, or specifically in our district energy platform, we completed the acquisition of a system located at the Sydney airport in Australia. Comprised of two networks, this system provides heating and cooling services under long-term contracts to various facilities belonging to Qantas Airline. We also signed agreements to acquire a heating and cooling system in Sydney that serves commercial and residential properties, and were awarded a project to develop a water system in Queensland. We plan to deploy approximately \$70 million of capital into these systems. As a result of these acquisitions and a number of organic projects currently underway in our North American systems, we expect run rate EBITDA for this platform to increase by almost 25% by the end of 2016.

And lastly our team in Europe is working hard progressing the integration of our new communications infrastructure business. We are working to identify and capture

numerous growth opportunities that we believe are embedded in this business. We will seek to grow this platform by substantially pursuing opportunities to increase co-location leasing revenues in response to mobile network operators (or MNO's) looking to meet density requirements. We are also detecting a shift in strategy by these MNO's in France. We believe that they are moving away from the physical ownership of tower infrastructure to focus their capital on the acquisition of spectrum rights for the rollout of communication technologies such as 3G, 4G and 5G. This change in strategy provides businesses like ours with the prospect to make investments in physical infrastructure on behalf of these MNO's.

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

We ended the quarter with approximately \$3 billion of liquidity, our highest ever position, and this positions us well to pursue the numerous advanced investment opportunities that we have in the pipeline.

This level of available capital currently acts as a partial drag on our results, for example our FFO per unit for the quarter on constant unit terms would have been up 16% year over year instead of 6%, and our payout ratio would have been 60% instead of 67%. This was all achieved in a period where we experienced foreign exchange headwinds and further demonstrates the resiliency of our cash flows and the overall diversification of our business.

Our expectation is that as this capital is deployed over the coming quarters, our business will generate much higher growth in its results or FFO per unit going forward.

And so with that I'll now turn the call over to Sam.

SAM POLLOCK:

Thanks Bahir and good morning everyone. On today's call, I thought I would begin with a brief review of certain elements of our investment strategy in order to provide a bit of context for our transaction pipeline. I will also provide an update on our major initiatives that are underway and I'll conclude with an outlook for the business.

As most of you heard me say in previous calls, we deploy a consistent investment strategy with the objective of acquiring assets with good regulatory frameworks or market positions. We are not, however, alone in the pursuit of these types of assets. As a result, we've needed to take a patient, long-term perspective to building our company and avoid highly marketed asset auctions that attract institutions with substantially lower return expectations. In this regard, to position ourselves to be successful, we have primarily directed our efforts towards opportunities where we can work exclusively with sellers. In addition, we have bolstered our liquidity by raising \$1.4 billion of equity and debt recently, which has significantly enhanced our flexibility to transact. Our ability to move quickly and demonstrate a capacity to close transactions is more

essential now than ever before.

We also have several approaches to identify and source attractive opportunities. One approach is to execute our strategy is to focus on out-of-favour sectors and regions. By taking an informed yet contrarian view, we can often acquire superior assets when capital is constrained. Another approach is to identify high quality assets around the globe that are complementary with our current mix of businesses, which we believe will improve and augment our market position. In these situations we can also typically bring operating synergies or value-add strategies to bear.

We have found both approaches have proven successful in uncovering potential investments.

At the start of 2015, we believed that we could find opportunities for step-change growth in various parts of our business. Several prospects have surfaced and we are now prioritizing those initiatives that have the greatest potential to create market leading infrastructure platforms, as well as generate attractive long-term investment returns for our unitholders. We have no shortage of opportunities today, so we will only pursue investments that meet these criteria. Our robust investment pipeline currently includes four transactions that I want to discuss on this call today.

The first one is a transport opportunity in South America. In July, we received court approval to proceed with an approximate US\$220 million debtor in possession loan to OAS, a large Brazilian construction company. We mentioned this transaction last quarter and you'll recall that OAS holds a 24% stake in a large toll road, airport and urban mobility company called Invepar. We expect to fund the loan shortly, and subsequent to this, we will be well positioned to launch a bid to acquire the equity interest in Invepar. While our loan is outstanding, we will earn a minimum return of 15% in U.S. dollars. This is a rare opportunity to invest in a large portfolio of irreplaceable assets. Invepar's business comprises urban toll roads in Brazil and Peru, a controlling stake in the international airport in Sao Paulo, the largest airport in South America, and an interest in three urban mobility systems in Rio de Janeiro that serve over 200 million passengers per year. The multi-faceted nature of this situation, combined with our long operating history in Brazil, has created a transaction that uniquely suits our capabilities.

The second transaction I want to discuss is our Brazilian Toll Road Privatization. In April, alongside our partners, we made a tender offer for the public minority shares of our Brazilian toll road subsidiary. We saw this as an opportunity to invest further capital in an operation we like and know well. We are currently working on attaining the support of the minority shareholders to tender to our offer, and our hope is to have this process concluded before the end of the year.

Next is gas storage in North America. You may have seen news articles back in June that, along with our institutional partners, we signed definitive agreements to acquire all the outstanding common units of Niska Gas Storage. The total investment for the Brookfield Consortium will be \$175 million of which Brookfield Infrastructure will invest approximately \$70 million for an effective 40% ownership stake. Earlier in the year, our consortium opportunistically acquired approximately \$250 million of Niska's senior debt at a substantial

discount to face value. Our share was approximately \$100 million. We believe that our ownership of the debt provided us a significant competitive advantage when the company was later put up for sale. Niska has well located, premier facilities including the AECO hub in Alberta and the Wild Goose facility in California. We see this as an opportunity to acquire storage facilities at below replacement cost, supporting our thesis that with forthcoming demand increases, the long-term market for gas storage assets will be solid. This investment follows a series of similar, but smaller, investments that we've made in the sector over the past year. Closing of this transaction is expected to occur in 2016 and is subject to a number of regulatory approvals, as well as other customary closing conditions. The acquisition of Niska will double our gas storage capacity to a total of 615 bcf.

The last transaction that I'm going to talk about is an Australian transport business called Asciano. In late June, we were required for regulatory reasons to prematurely disclose to the market that we were engaged in exclusive discussions to acquire Asciano, a large rail and port logistics company operating across Australia. It is a high quality company with an established market position in both the rail and port sectors in the country. The genesis of the transaction arose out of a common belief that a combination of our respective rail and port assets would be highly complementary and would represent a unique platform of a scale that few companies could rival. Our ability to pursue a transaction of this size is a result of our knowledge of the business, our scale of operations in Australia and our substantial liquidity and resources. This includes the large amount of our capital that is available to be deployed, as well as the significant support from a number of institutional partners who invest alongside us.

I know a number of you listening to today's call will have questions about this transaction. At this stage, we continue to have work ahead of us in determining whether a transaction of this nature can be progressed. Therefore I believe it is only appropriate to refrain from commenting further, other than to confirm that discussions between Asciano and ourselves are continuing and they are positive, but I have to say that there can be no certainty that a transaction will be agreed.

With that I will move on to an outlook for our business.

The outlook for the global economy is mixed with some countries slowing down and others gathering a bit of steam. The potential for Greece to default on its sovereign debt obligations and possibly exit the Eurozone is front page news almost every day. In addition, there are concerns around the slowdown in China and the impact that it's going to have on commodity markets. On the other side of the coin, in the U.S. and in parts of Europe, economic data suggests that the labor market is strengthening and the prospect for solid growth is positive. In response to an improving economy, the U.S. Federal Reserve has telegraphed that a rate hike is likely to occur in 2015, however it appears that interest rate increases may be implemented more gradually than previously anticipated.

We don't currently expect any severe market disruptions to occur as a result of the uncertainty over Greece or rising U.S. interest rates. Nonetheless with a strong balance sheet and substantial liquidity, we believe we are well positioned to withstand any unforeseen headwinds.

It is of course possible that rising rates may temporarily dampen share prices as investors recalibrate their portfolios to new circumstances. From an underlying business perspective, however, we believe that a modest rise in rates is not likely to be detrimental and, in fact, our business may perform very well in a rising rate environment. The reason for this is that rising rates often go hand in hand with higher inflation and economic growth, two of the major drivers that underpin our FFO growth and, correspondingly, the value of our business.

Taking into account the current global economic situation, we believe that the prospects for Brookfield Infrastructure are bright. Our operations are performing well as you heard from Bahir and we continue to commission projects from our substantial capital backlog that will provide steady, predictable growth. With a number of exciting transactions in our investment pipeline, the quality and scale of our opportunities have never been better. Given our significant liquidity, deploying capital into new investments should be highly accretive to our FFO per unit, providing us with the ability to continue to grow our distributions to unitholders.

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

"Operator turns the call back to me."

Great, thank you operator and thank you everyone for joining our call and for all those questions today. We look forward to providing you a further update on our business next quarter.

OPERATOR:

The first question is from Cherilyn Radbourne with TD Securities. Please go ahead.

CHERYLYN RADBOURNE:

Thanks very much, and good morning. I was just wondering if you could add a bit of colour on how OAS' bankruptcy process and related legal proceedings may impact the timing of the funding of the DIP loan and a bid for the equity stake in Invepar.

SAM POLLOCK:

Hi, Cherilyn. I'd be happy to do that. So as you can appreciate, these types of processes, whether in Brazil or North America, always take more time than people expect. On the positive front the RJ Court has approved our DIP loan, and recently it was the requirement for parties to put in their appeals to that ruling, which we are currently in the process of evaluating. So the main condition present to us funding our DIP loan is our evaluation of those appeals which we are looking at today, and our expectation is that, assuming that there's nothing that concerns us, we'll be in a position to fund the DIP probably at the end of August or in September; probably more likely early September.

With respect to putting forward a bid, that's something that we're currently in discussions with the company on. We have completed our diligence, and at this stage, we're just in the process of trying to answer a few final questions with the company and refine what that bid would look like. There's a number of stakeholders who are part of the process. There's the Pension Fund Partners of OAS in Invepar who we need to have discussions with. OAS needs to make sure they have the support of their creditors as they go forward with us on a transaction. So we're

just in the process of herding all those different constituents and putting forward our bid.

Once we put forward that bid, the next step would be for that, along with other elements of their plan to get approved, and then there will be a relatively short go-shop period at which time others have the opportunity to look at the business, and we'll obviously have our stalking horse bid in place with a number of protections, including break fees and right to tops. So that's sort of the process as it sits right now. My expectation is that even though we are well advanced, any actual transaction or final closing likely is not to occur until sometime in 2016.

CHERYLYN RADBOURNE:

Okay, that's very helpful. Then a more general question. Obviously there's a lot of doom and gloom in the Financial Press as it relates to Brazil and a lot of investors shying away from the jurisdictions. Just wonder if you could offer some thoughts on the trajectory of the economy just based on what you see in your businesses?

SAM POLLOCK:

Sure. I guess our view of the country right now, first from a long-term perspective, we still remain very positive about the potential for the country as a whole. You almost have to look at Brazil as various different sectors as opposed to one homogenous economy. Today, the part of the country that is decelerating rapidly is the industrial sector. The two parts that are hurting significantly would be the steel sector, mining, and obviously oil and gas. With Petrobras pulling back their capital projects significantly, you can imagine that that's a big drag on the economy. On the other side of the coin, there are a number of export-oriented businesses that are benefiting dramatically from the lower Reais. In particular, the agricultural sector is still performing quite well and growing, and in addition to that, you've probably noticed that there's been a number of announcements of expansions of pulp mills, so the forest product sector is also doing quite well at this particular time.

Putting that all together, my sense is that you're going to see continued weakness over the next 12 to 18 months. I think 2016 will continue to be a relatively difficult year for the country, but I think you'll start seeing the turnaround in 2016. We are very encouraged by the steps that the current Minister of Finance has taken, and I think they've reversed a number of the policies that were in place in the past, and I think they've also taken some other positive steps to encourage investment. One of the ones that affects us in particular is the increase in the allowed returns for infrastructure projects, and you may have seen that they've increased the allowed returns from a real rate of 7% to over 9% now, which is going to be very positive for people putting capital into the country.

So that may be a bit more long-winded than you wanted, but hopefully that's helpful.

CHERYLYN RADBOURNE:

That's perfect, and that's my two. Thank you.

SAM POLLOCK:

Okay. Thank you, Cherylyn.

OPERATOR:

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

BERT POWELL:

Yes, thanks. Sam, I just want to go back to Invepar. When does the go-shop start, and have they got a data room open now? Is that something that they're starting to entertain or is all of this contingent on you getting what you need to get done first before any of that can happen?

SAM POLLOCK:

So I guess it's all of the above. Yes, there's no doubt they have a data room because they've been giving us access to information, but, you know, as far as the...

BERT POWELL:

Are other parties in there as well?

SAM POLLOCK:

Well, we don't know what they're doing, to be honest. You know, up until very recently we had an exclusivity, so there would not have been. I think given all the things they have going on, I imagine it would be very difficult to do anything at this stage. But what's going to happen and my sense is we will formulate a stalking horse bid over the next couple months. The actual go-shop period itself doesn't start until after the RJ plan has been approved and the creditors are on side. So that's just sort of a statutory requirement, so that won't take place for awhile.

BERT POWELL:

Okay, thanks. Just my next question is with respect to the toll roads in Brazil. You know, light vehicle traffic was up, heavy vehicle traffic, you know, down kind of on a percentage basis; it looked like about three times that if we look at the Abertis numbers. Has there been an increase in the rate of change in the heavy vehicle, and when you look at traffic trends today, what's your thinking around the future of the EBITDA of that business factoring in? Obviously the light vehicle seems to be there and you're getting your price increases, and, you know, you have—the expansion's going on as well. I'm just trying to figure out how much of that is a headwind for you as you think about the Brazilian toll roads going forward.

SAM POLLOCK:

I'll start and then Bahir maybe might add to it. You know, directionally, you're right. The light vehicle traffic has held up quite nicely, and heavy vehicles, with the reduction in industrial activity has dropped off. Obviously in our numbers, we have a very large business in Chile which is mostly light traffic, which has done, in fact, quite, quite well, so that skews our numbers quite a bit. In addition to that, the other sort of noise in the numbers is that there are all these lifted axle changes with regards to what the government allows at some points and doesn't allow at other points, and which we do expect we'll get rebalanced for in the future. So sometimes it's a little difficult to compare period to period more recently because of some of those changes. But, look, I think our expectation is that light traffic will hold up albeit at lower levels than what we've seen in the past for the foreseeable future; probably for this year and next year, and then we'll see a nice reacceleration of that growth. Heavy traffic will be the same, although we'll be in negative territory I suspect for the next 18 months.

BERT POWELL:

Thanks.

SAM POLLOCK:

Is that helpful, or I don't know if you...?

BERT POWELL:

Yes, I know there's just some—I'm just really trying to get how it's coloring your outlook for that business. I know you've got the Chilean operations. I'm just trying to figure out if this is materially worse or if it's kind of, yes, this is as expected and...

SAM POLLOCK:

Well, look, I think it's not materially worse or material to the business, but we would not have expected the decline in economic activity to be as severe in Brazil as it is now. I think the, you know, what's attractive for our business going forward is that most of our assets today in Brazil, particularly the federal road are constrained because of limited capacity. We're, in fact, expanding the roads, and so they're not operating at their full capability in any event, and most of those projects will be completed in 2017 and '18, which hopefully will be well-timed for when the economy recovers, and we should see some very strong growth rates after that both from the improved economy but also just from the higher capacity of those roads.

BERT POWELL:

Okay, thank you.

OPERATOR:

The next question is from Brendan Maiorana with Wells Fargo. Please go ahead.

BRENDAN MAIORANA:

Thanks, good morning. Sam or Bahir, so if we just look at the business as it's operating and your outlook maybe for the next year or so versus the growth trajectory that you've been on for the past year, if you think about it from a same store basis kind of the income producing assets, do you think the rate of growth is different over the next several quarters or 12 months versus kind of the rate of growth, you know, maybe call it on a same store basis over the past year or so?

SAM POLLOCK:

I'll tackle that one, Brendan. That's obviously a difficult question to answer on a holistic basis just because we have a number of different jurisdictions and different sectors. But I would say as a whole our growth is the same; maybe potentially a bit higher in some respects. The reason I would say that is obviously we just touched on where we're experiencing some decelerating growth, which is in South America and on the toll roads, although, you know, we've been very pleased with the way Chile has held up. Chile has, in fact, been a nice surprise for us. But we're seeing just fantastic results coming out of our UK business. Clearly Europe is starting to recover and the housing starts in the UK and our market share there has really helped propel that business, and we see a number of opportunities to expand into new products in that business. I think the amount of organic growth where we can invest capital to grow the business is also probably at a high. I think we don't have that one-off rail project that we had a number of years ago, which obviously that propelled significant growth at that period of time, but more broadly across all our businesses I think our capital backlog is as high as it's ever been.

So I feel pretty good about the level of growth on a same store basis.

BRENDAN MAIORANA:

Okay, great.

BAHIR MANIOS:

Brendan, it's Bahir. Maybe I'll just add a—just one comment to what Sam mentioned. If you looked at our organic growth from 2009 to 2014, on a U.S. dollar term it's been, to your point earlier, pretty robust. It's increased by 12% to 13% on a CAGR basis. For 2015, it's come off a little bit just because of foreign exchange movements. That being said, in a local currency perspective, our organic growth for the first half of the year has been 11%, and we expect that to hold up for the balance of the year and increase from that given what Sam alluded to earlier. The only wild factor will be how the LatAm currencies will go, but we're encouraged also from the fact that until mid-2017 we've got about 75% to 80% of our FFO hedged. So if you assumed that LatAm sort of holds flat from now on, we could see about 3% to 4% deterioration in our hedge rates going forward. But if we do 12% to 13% top line growth, that comes to still 8% to 9% overall organic growth, which is still pretty strong for our business.

BRENDAN MAIORANA:

Okay, that's helpful. Bahir, just—so the 3% to 4%, if currencies hold at current levels, that's 3% to 4% sort of overall impact to FFO, or just to those—just to the businesses in those jurisdictions?

BAHIR MANIOS:

These are 3% to 4% relating to what we've hedged for 75% of the overall FFO of the business, which comes from the jurisdictions that are outside of Latin America.

BRENDAN MAIORANA:

Okay, so it's 3% to 4% of those hedged, and it's on 75% so it's sort of like kind of 3% impact overall to FFO potential if currencies held at current levels?

BAHIR MANIOS:

If LatAm was to hold, and what I'm saying is we've already hedged the rest of the portfolio, so we'll see 3% to 4% decrease FFO coming out of those contracts, and assuming LatAm still stays the same, if you're doing 12% or higher in local currency terms minus the 3 gives you 8% to 9% in U.S. dollar terms going forward.

BRENDAN MAIORANA:

Oh, okay. Got it. Then just last one. So you've got \$800 million of corporate cash, another \$300 million of cash at the subsidiary levels; you've got the credit facility that's effectively undrawn or not much. How much do you think on a net investment basis you guys would be comfortable doing and still maintaining leverage kind of where you want to on an overall basis?

SAM POLLOCK:

Sorry, Brendan, I didn't quite follow that. How much would we draw down on our line are you saying, or what's your...?

BRENDAN MAIORANA:

Well, capital's fungible, so how much just net increase in investment could you do and still be comfortable from an overall leverage perspective? Like how much in equity investment net could you do versus where your balance sheet stood at 6/30?

SAM POLLOCK:

So maybe just said a different way, because obviously, you know, to the extent we do large transactions then we have specific funding plans related to large transactions, so that might—to just give you an answer for that may confuse you. But the way we look at it is we're comfortable with a, you know, generally a capital structure where we have debt to EBITDA in the 5 to 5.5 range on a long-term basis, and we utilize our line of credit to facilitate transactions. But we don't see that necessarily as permanent capital, although it would not be unreasonable to assume that on average we will always be into our line for a certain amount. But we would be replenishing that line with new equity raised on a periodic basis.

BRENDAN MAIORANA:

Okay. All right, thanks, guys.

SAM POLLOCK:

Okay. Thanks Brendan.

OPERATOR:

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

ANDREW KUSKE:

Thank you. Good morning. I guess the question's for Sam, and it's just on your asset base. You've managed to actually build up a pretty interesting set of networked assets in Australia and also Brazil, and you may be enhancing those again. If we look at infrastructure companies, having a good network is something that can drive growth into the future. So how do you think about just the network opportunities in those two regions, and then the possibility if we jump ahead in the future and look about improved networks in North America and then also Europe where your networked assets are not as maybe interconnected or as good or as well-positioned as they are in Brazil and also Australia?

SAM POLLOCK:

Okay. Thanks, Andrew. That's an interesting question. So I think there's really two elements to that. One was just, you know, how do we think about the logistic networks we have and are we looking to build in Brazil and in Australia. And we do share your view that, where there is potential to create a lot of value is to be able to come up with solutions for people moving goods, both container and intermodal and bulk, and having those solutions from end-to-end and being able to debottleneck them with new infrastructure investments.

We have a bit of that with VLI. VLI is an exciting business where we've got a number of inland terminals, we've got direct relationship with customers, and then we provide them a solution from the inland terminal where we aggregate all the way through using our rail network, and then we put them over our ports across the country. We see the same potential in Australia where we could be able to take advantage of a lot of knowledge about where those various challenges exist for customers, both from a capital perspective and just from an

efficiency perspective, and so leveraging all the knowledge of our various businesses to find ways to arbitrage inefficiencies I think the potential is large. So we're excited by the footprints that we may have in both those countries, and they're both very large and move goods over long distances, and I think what we have it will be very unique.

So to your next question on can we duplicate that in North America? You know, we would love to, is the first thing. We aspire to. It will be more challenging. We've been having conversations with different groups in North America, including Mexico, and seeing if there are various combinations or transactions that might make sense. It's a little bit more challenging in North America just because there isn't as much of the—of those types of businesses that are a) not owned by the government or b) that are owned by very large, large companies that aren't natural for us to go and acquire or transact with. But we are working on that. We think there are definitely ways to build a broader container terminal business in North America, and that one, you know, I think is a logical place for us to continue to build. Rail will be more difficult; bulk ports will be more difficult. But hopefully that's helpful, but that's sort of the stage of development where we're at.

ANDREW KUSKE:

Okay, that's very helpful. Then just a second question and a little bit different and really probably directed at Bahir. If you could just give us maybe a bit of a flavor on capital market access and in particular in debt markets on just absolute financing levels and the—just say spreads—because we've seen quite a bit of movements in interest rates in the last little while. So if you just thought about your financing options along the lines of preferreds, corporate debt, acquisition lines, just give us maybe a bit of flavor and color on those things.

BAHIR MANIOS:

Hey, Andrew. So I'll start and Sam might pipe in on this one. I think today we're pretty happy with the capital structure that we have on the go. We aspire as much as possible to limit the amount of corporate debt that we have in the system, and today it's at a very manageable level; it's under 10%. Should we grow the business more materially going forward, that gives us maybe an ability to access the debt and pref markets going forward. But as of today, I think what Sam alluded to earlier, we'll be funding the business primarily through our existing liquidity, the access that we have to our revolver, and when that revolver gets up there in terms of drawn levels we would then think about all the various alternatives, which could be equity, asset sales, and potentially vis-à-vis the growth of the business maybe tapping into the corporate debt and pref markets.

SAM POLLOCK:

Yes, maybe I'll add to that. I think that's a good summary. You know, as Bahir said, we don't ever aspire to be heavy users of the pref or corporate debt market. That basically is just optimizing our capital structure to a certain extent. But as far as the—today the capital markets, I would say, you know, on balance it's still fairly liquid with rates at low rates. The U.S. market is still quite open. We've tapped into a number of different parts of that market, whether it's the 144a market, the private placement market, or the public markets. The Australian market, in fact, we've seen that probably become a little bit more liquid. In fact, we've seen some local players there issue up to 10-year debt, which is probably hasn't happened for a long time, so that was nice to see. In Europe, rates are probably not as ridiculously low as they were at one point. I think the spreads you can issue out there are probably a bit higher. We did see the markets close down a little bit in Europe when the noise around the Greece situation hit a zenith

in May and June, and so we did pull back on a refinancing at TDF that we were looking to do into the fall. But other than that I'd say the capital markets are still pretty good.

ANDREW KUSKE:

Okay, that's great. Thank you.

BAHIR MANIOS:

Thanks, Andrew.

OPERATOR:

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

ROBERT KWAN:

Good morning. If I can just get your thoughts generically on your rail business and what you aspire to get to. Your focus has been on below rail assets. I'm wondering if you can talk about the synergies and enhanced value you would see of adding above rail assets and taking it more broadly at least geographically? If the price was right, would you be interested in integrated rail operations elsewhere in the world?

SAM POLLOCK:

Hi, Robert. So the short answer is, yes, we are interested in other opportunities around the world and we are looking at other opportunities. We like the opportunity of both above and below rail clearly because that's what we have and are looking at. You know, VLI is an open access system much like what they have in Australia, but we own both below and above rail there. We're interested in expanding obviously to the above rail in Australia, and to the extent that there are opportunities to buy further below rail businesses there we would definitely seek to do that as well. The businesses for regulatory reasons will be ring-fenced, but having said that, that doesn't mean there are not going to be ways to still find opportunities to create value from the knowledge of having both businesses. So we're going to look to build that business in both those jurisdictions, and rail typically works well in countries with very large footprints, and so we'll focus our attention to those types of jurisdictions.

ROBERT KWAN:

Okay. I guess part of it was when you first came into the below rail asset, you know, you viewed that as being something that was extremely attractive, and not that it was negative in terms of the above rail side of things. I'm just wondering as time has progressed, has something evolved in terms of how you see adding above rail and what it can really do to enhance value, and like you said, even though it may be ring-fenced there may be additional opportunities even if it's not just rail but port opportunities? Is there something there that you see it all kind of coming together and that be the sum of the parts is greater than just having that below track?

SAM POLLOCK:

Well, clearly we think so. The below rail business is a very attractive business. We have long-term contracts—take-or-pay arrangements with customers, but it is a more passive business. We don't have the same interaction with customers to find solutions to deal with inefficiencies in their logistics requirements, and that's where the above rail business does have a

bit more of an operating bend to it even though it has secure cash flows with long-term contracts and very strong market positions. There is more opportunities to extract value by coming up with strategies to deal with those inefficiencies. I think where we can bring value to both an above and below rail business is working with customers at their whole logistics chain from inland terminals all the way to ports and finding ways to get their products to market in an efficient manner, and using our capital to help make that efficient, which is, and I hate to belabor the example, which is what we're doing in VLI. In VLI, you know, a lot of our investment's not even upgrading the rail. In fact, it's investing inland at our terminals where we're modernizing the collection points for grains in particular, and we're cutting down the loading times of trains with our new facilities from what used to be three days, 36, 40 hours to now it's about six or seven hours with our new facilities. That just reduces cost dramatically, reduces demurrage, and obviously we can earn a very good return on our capital deployed.

ROBERT KWAN:

That's great. If I can turn to the opportunities in Europe, in terms of what you went through, a lot of opportunities it sounds like to invest capital in the existing assets that you've got on the continent. I'm just wondering what are you seeing in terms of potential acquisition opportunities and to some extent with the uncertainty in Greece even though it seems isolated? I know the last time there was Eurozone turmoil you really shied away from the continent. So just really, you know, what's the current thinking right now?

SAM POLLOCK:

Well, I wouldn't say we've been shying away in fact from Europe at the moment. We are looking to continue to grow our platforms in all areas in the region. I'd say the particular focus is, as we've touched on in the past, we're looking to start up and expand a District Energy platform there. We're looking to grow into smart meters in the UK, and we're looking at a number of transportation businesses on the mainland that would be complementary to the global platform that I talked about earlier.

ROBERT KWAN:

Okay, that's great. Thank you very much.

SAM POLLOCK:

Okay, thank you.

OPERATOR:

As a reminder, if you wish to ask a question, please press star, and one on your touch-tone phone.

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

FREDERIC BASTIEN:

Good morning, guys. You've been fairly active building your District Energy platform in Australia, and I was wondering if you could elaborate on the specific factors that are driving that? Are you—is there just more assets coming up for sale? Are companies divesting of them, or is it being a bit more aggressive than normally it would be? Secondly, just wondering if you could comment on maybe the differences there are between that business and what you're experiencing in North America?

SAM POLLOCK:

Sure. I'll touch on that, Frederic, and thanks for your call. I'd say the main reason for the increase in activity in District Energy in Australia is primarily our focus. So in the past, before we identified District Energy as an exciting sector, it probably didn't hit our radar screen for the same reasons that it didn't in North America, which is they tend to be much smaller systems, and they just don't elevate themselves to something that would normally come to our table. But as we've talked about on a number of calls, we do take an approach of building platforms, and assembling a portfolio of assets, and District Energy is probably the poster child for that type of an investment where once you have a platform, bolting on a number of new precincts or systems becomes much easier and very, you know, accretive to the bottom line.

So we've started up a node there. We had a business already that was I'd say related. It wasn't exactly a District Energy. It was distributed energy on Tasmania around a gas system. But we had a platform that we could leverage, and all the people and systems to tuck in a number of district energy businesses. So we've gone out to what is a very fragmented market, just like it is here in Canada and the U.S., and spoken to municipalities and developers who were building large systems, and explained to them the value proposition of us owning and operating these various, in the case of Australia, both recycled water and also the thermal district energy businesses; the traditional steam and refrigerated water. So that's really the reason for the success in Australia. It's not a big market. It's a market obviously two thirds the size of Canada. But it is very warm, so it probably has more opportunities than just Canada as a whole, but we think there's still a number of growth opportunities in that market that we can see over the next little while.

The big market for us is the U.S.. It's a massive market. We see a bit more competition in the sector here than we do in other places, but we have a good footprint with a number of businesses we've bought over the last couple years, and we are aggressively trying to grow it. The next market for us to tackle will be Europe, and one day possibly South America.

FREDERIC BASTIEN:

Perfect. Thanks for that. Now it sounds like the growth opportunities in utilities are mainly coming from backlog. Do I interpret this as a sign that valuations in that space remain too frothy for M&A or simply that you continue to see better value in sectors like transport and energy?

SAM POLLOCK:

You know, you're right. I think the—it is a much more competitive segment of the infrastructure market, and particularly for new entrants looking for the lowest risk segment to get their toes wet into infrastructure, and so we tend to see people bring very low return expectations to those types of assets. Obviously we like them. We continue to pursue them where we can acquire them on a value basis. Today where we think there might be some opportunities to buy for better value is in Brazil where there are a number of utility-type assets that are trading because of the lack of capital there at returns that are more interesting to us than what we'd see here in North America or even in Europe.

FREDERIC BASTIEN:

Perfect. Thank you.

OPERATOR:

There are no more questions at this time. I'll turn the conference back over to Mr. Pollock.

SAM POLLOCK:

Great. Thank you, Operator, and thank you, everyone, for joining our call and for all those questions today. We look forward to providing you further update on our business next quarter.

OPERATOR:

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