

## LETTER TO UNITHOLDERS

We achieved record results in 2015, in spite of the drag from the effect of foreign currencies. Brookfield Infrastructure's successful year has been somewhat masked by the volatility in the equity markets. Stocks in our peer group sold off in response to market anxieties despite infrastructure assets remaining highly sought after by private institutional investors. We are fortunate that in this environment we are finding ways to capitalize on this dislocation by being a buyer of publicly listed companies and a seller of assets in the private markets. Of course, our unit price is not immune to negative sentiment, but we are pleased with the results of the business and are very optimistic about the company's prospects for the coming years. The following is a summary of our key accomplishments during 2015:

- **We generated strong results.** Our FFO per unit of \$3.59 increased by 12% on a 'same store' constant currency basis, demonstrating the strength of our operations and highlighting the benefits of owning a diversified portfolio of high quality infrastructure assets.
- **We invested approximately \$600 million in organic growth projects.** These projects will expand the size of our utilities rate base, our road and rail networks, and our energy systems. We expect they will generate attractive risk-adjusted returns and contribute approximately 10% to EBITDA growth on a run-rate basis once fully on-line.
- **We established a communications infrastructure platform.** We invested approximately \$415 million in a leading French communications infrastructure business. This business generates secure and sustainable cash flows in addition to providing further diversity to our portfolio.
- **We committed over \$1.5 billion of capital.** These include our toehold position in Australian rail and port logistics operator Asciano, increased ownership in our U.S. natural gas transmission pipeline system and expansions of our toll road, gas storage and district energy platforms.
- **We strengthened our balance sheet.** We successfully accessed the capital markets, raising a total of \$1.9 billion at the corporate level through a series of equity, debt and preferred unit issuances. We currently have almost \$3 billion of liquidity.
- **We launched the next phase of our capital recycling program.** We opportunistically completed the sale of our New England electricity transmission business, generating an IRR of ~30%, and launched two sale processes that we expect will generate **over \$300 million** of net proceeds.

In 2015, we also increased Brookfield Infrastructure's distribution per unit by 10%. Based on our solid performance, significant liquidity and growth prospects, we are pleased to announce that the Board of Directors has approved a **7.5%** increase in our quarterly distribution to \$0.57 per unit in 2016. We remain committed to our previously announced guidance of delivering 11-13% growth in distributions per unit this year, subject to securing the acquisition of Asciano Limited, or deploying an equivalent amount of capital in transactions with similar returns. Accordingly, we will revisit our distribution level later in the year should we be successful in our acquisition efforts.

## RESULTS OF OPERATIONS

Our financial performance was strong with all of our operating segments reporting higher results compared to the prior year. For 2015, we earned FFO of \$808 million, or \$3.59 per unit, compared with \$724 million or \$3.45 per unit in 2014. We benefitted from the contribution of our newly acquired communications infrastructure assets, and strong organic growth across the business. This was partly offset by the impact of foreign exchange, which reduced our results by approximately \$75 million, as well as the impact from the timing of capital raised earlier in the year that is not yet contributing to earnings. Excluding these items, our FFO per unit would have increased by 22% compared to the prior year.

Our utilities segment generated FFO of \$387 million during 2015, an increase of 5% from the prior year. On a constant currency basis, results were up 9% driven by inflation indexation and investments in growth capital projects across the segment.

- Our UK regulated distribution business continues to outperform our expectations and the outlook is exceptional. We generated 243,000 of new connections, a sales record for us that is well in excess of 138,000 installations in 2015. Our order book now consists of five years of connections and our success is the result of our multi-product offering to customers. In 2016, we will be increasing our offering to six products with the addition of smart meters. We will shortly sign an agreement to acquire up to 700,000 smart meters over the next two years. While this first investment is modest in size (~\$220 million), we believe we are well positioned to grow this part of our business and meaningfully participate in the UK's £12 billion smart meter rollout.
- Operating performance at our Australian terminal was solid, with the facility recording a utilization rate of 81% in 2015. This performance highlights our customers' attractive position in the Bowen Basin, one of the lowest cost regions in the world for metallurgical coal production. Over the next few months, we will be focused on completing the June rate reset process. Similar to other utility assets, we are not exposed to volume or operating cost variations, however, given the movement in interest rates since the last rate reset five years ago, we expect our regulated return to decrease over this next cycle. We are working closely with the regulator to ensure that we earn a fair return.
- As part of our previously announced capital recycling program, subsequent to year end, we entered into definitive agreements to sell our Ontario electricity transmission operation. This business generates steady and reliable cash flows, 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 gross proceeds of approximately C\$370 million, resulting in net proceeds of approximately C\$220 million. This translates to a multiple of rate base of close to 1.7 times. On closing of this transaction, we will have generated an internal rate of return on this investment of approximately 20% since acquisition by Brookfield Infrastructure. We expect this transaction to close by the end of 2016.

Our transport segment generated FFO of \$398 million, an increase of \$6 million from the prior year. Our results benefitted from tariff growth across the majority of our operations, higher volumes at our rail logistics business in Brazil and cost savings at our Australian rail operation. These positive results were offset by the conversion of these earnings in foreign currencies into fewer U.S. dollars, which reduced results in this segment by approximately \$60 million.

- Overall our rail operations have exceeded our expectations this year. Our Australian railroad experienced volumes above take-or-pay levels from our iron ore customers and above average grain volumes. Given the uncertainty over commodity prices in the short-to-medium term, we have been proactively looking at various cost reduction measures to allow us to mitigate any potential impacts from revenue shortfalls arising from our iron ore mining customers. In our Brazilian rail and logistics business we continue to see volumes ahead of our underwriting. This has been driven primarily by growth in agricultural volumes as exports of these products have benefitted from the decline in the currency. We plan to continue to capture this growth, as well as increase our market share, through investments that will debottleneck our system and provide end-to-end logistics solutions to our customers. One of the largest of these investments is a R\$2 billion expansion of our port in Santos, which is now 70% complete.
- Our roads platform performed well, with 5% EBITDA growth for the year in local currency. This was driven primarily by inflationary increases in our tariffs and robust light vehicle traffic. These results have been somewhat dampened by a slowdown in heavy vehicle traffic in Brazil as a result of the economic slowdown. Our capital investment program in our Brazilian operations continues to advance well. The Serra de Cafezal expansion project, which involves duplication of a 30 km lane, is now 70% complete and is on budget and expected to be commissioned by early 2017.

Our energy segment generated FFO of \$90 million for 2015, compared to \$68 million in the prior year, mainly as a result of organic growth initiatives. Same-store growth for this segment was 18% for the year, driven primarily by improved volumes at our North American natural gas transmission business, and a more meaningful contribution from our district energy business that continues to execute on its multifaceted growth strategy.

- With the changing dynamics in the North American natural gas market, we see significant potential across our natural gas transmission system. We have received considerable interest regarding our Gulf Coast reversal project that enables the southbound flow of natural gas to delivery points in Texas and Louisiana where several LNG projects and new hubs are developing. Our pipeline is also well positioned to connect with new natural gas infrastructure being developed in Mexico to access low cost U.S. shale gas production. We also continue to advance service in our traditional Chicago market after executing binding agreements to increase capacity and reliability. By leveraging our existing footprint, we provide our customers with the most cost competitive option and were able to extend existing agreements with our largest customer for 10 years. A good indicator of the change in the business is our contract profile. Approximately 80% of 2016 revenue is contracted with an average duration of seven years taking into account the contract signed with Cheniere to supply gas to a LNG terminal. At this time last year, our average duration was only two years. As a result, our exposure to market sensitive revenue is substantially reduced.

Our French telecom infrastructure business, acquired in March of 2015, generated FFO of \$60 million for the nine months. Results, so far, have been slightly ahead of underwriting, and our management team has been working hard to build a strong pipeline of growth opportunities in the business. During the year we secured two key contract extensions with mobile network operators (“MNO’s”) whose contracts were approaching expiry. Both extensions were for an additional 10-year period at favourable terms, which highlights the strategic nature of our towers as part of the MNO networks. We now have long-term contracts with all of our MNO partners, which bodes well for our business to be a strategic participant in any consolidation in the country.

- On the strategic front, we saw new site hosting orders for the year that are ahead of forecasts, as MNO’s continue to deploy new sites to expand coverage throughout the country. Our business remains extremely well positioned as a potential partner of MNO’s looking to dispose of some of the over 15,000 sites that they currently hold on their balance sheets. Other growth initiatives being pursued include working with the French Government to provide coverage solutions for rural areas, securing an additional 1,000 strategically located rooftop sites to support MNO network densification and exploring options to participate in the rollout of rural fibre networks.

### **Update on Strategic Initiatives**

Over the past year we have continued to pursue investments to build out our operations. Weakness in commodity markets, parts of the capital markets, and certain economies around the world have created numerous opportunities to deploy the capital we raised during 2015.

#### Australian Transport

In August 2015, a consortium led by Brookfield Infrastructure reached an agreement with the Board of Asciano Limited (“Asciano” or “the company”) to take the business private in a transaction valued at approximately A\$12 billion. Our transaction was subject to a regulatory review and as previously disclosed, the regulator’s initial assessment of the impact of the transaction on competition in the Australian rail sector differed from our own.

Over the past several months we have engaged with the Australian Competition and Consumer Commission (“ACCC”) and various customers to address these concerns. In the meantime a consortium of prominent infrastructure investors put forward a competing proposal to Asciano and its shareholders.

During the quarter, our consortium acquired a toehold position in Asciano to improve our position to successfully complete the transaction. Our consortium acquired a direct interest of approximately 14.9% and a further economic interest of 4.3% of the company at A\$8.80 per share. Brookfield Infrastructure's share of that investment was approximately \$900 million.

We expect that this transaction will play out over the coming weeks and months. The competing proposal, as well as our own, requires undertakings to the ACCC. The ACCC has committed to comment on the two proposals, including the adequacy of our undertakings, by February 18<sup>th</sup>. The outcome of these deliberations may have significant bearing on which transaction ultimately is successful. Our consortium is comprised of a number of the largest and most sophisticated infrastructure investors globally. We are confident that we have the resources and flexibility to further refine our proposal if necessary, to satisfy the concerns of the ACCC and continue to provide a compelling value proposition to Asciano shareholders. While we will not at this stage comment on what the specific terms of a revised proposal might be, some of our alternatives include reducing the size of our participation in the transaction, which will correspondingly enable us to reduce the use of BIP units as part of the consideration. Rest assured, despite the competitive nature of the transaction, we will remain disciplined and very patient.

### Energy Infrastructure

We are pleased to have partnered with Kinder Morgan Inc. ("Kinder") on the joint acquisition of the remaining 53% of Natural Gas Pipeline Company of America LLC ("NGPL") that we did not collectively own and now own the business 50:50 with Kinder. We invested approximately \$106 million to acquire our additional stake and over time anticipate further capital commitments to fund projects and delever the business.

Originally, this investment came with our acquisition of Babcock and Brown ("BBI") in 2009/10 and we have endured a challenging five-year period with it. Nonetheless, we are confident that the business reached an inflection point mid-way through 2015 and that the prospects for the business are strong. We believe this business will be one of our main organic growth contributors as we expect EBITDA to grow by approximately 20% in 2016 with a further step-up in 2017 and 2019. Now that we have solidified our investment in NGPL, our focus will turn towards new energy infrastructure opportunities in North America, where we believe, for the first time in many years, we will be able to make investments on a value basis.

### Brazil

Recently, we decided to drop our efforts to acquire a 25% stake in Invepar from OAS, as we could not reach an acceptable agreement with various stakeholders. However, our due diligence effort has not gone to waste. Concurrent with our discussions with OAS, we were offered the opportunity to fund R\$500 million (~\$125 million) of a total R\$2.0 billion shareholder loan directly into Invepar. The loan is indexed to inflation, bears interest at approximately 20% and is repayable with any asset sale proceeds. Invepar will likely proceed with assets sales and we will be in a strong position to compete as we have already completed due diligence on all of the assets.

We are also currently evaluating a number of "once in lifetime" opportunities across several sectors in Brazil including gas and electricity transmission, roads and rail. We are particularly enthusiastic about gas and electricity transmission opportunities as these assets have availability-based revenue frameworks and revenue indexation.

### **Private vs. Public Valuations – How Big is the Disconnect?**

We are often asked by our investors to comment on the reasons for the apparent disconnect between public and private valuations. A case in point would be our own unit price. BIP's unit price has traded off recently while based on our recent experience in asset recycling initiatives, the value of our assets in the private market are at a premium to prior values. The total return for BIP units in U.S. dollars was -5% in 2015, which was our first year of negative returns since 2008. Canadian investors in BIP.un had a +13% return in 2015 since we are a U.S. dollar security. While we were disappointed with the unit price

performance, on a relative basis we did considerably better than many and our five-year annualized total return track record continues to be 18%.

There are a number of factors that may explain the current correction in the overall stock markets. The most prevalent are the slowing of economic activity in China, the fall in commodity prices, rising interest rates and the forced liquidation of a number of U.S. credit mutual funds. In addition, there is a general worry about geopolitical events around the world. Whether it's just one or all of these factors impacting the market is difficult to say. Today, the over-riding mood is a mix of pessimism, risk aversion and skepticism.

Our experience tells us that investor psychology can at various points in time be a bigger influence on stock markets than fundamentals. However, while the extent and breadth of the current market correction is likely due to negative sentiment, it is our view that certain sectors, particularly the MLP sector, suffer from poor fundamentals. Aggressive valuations in the North American energy infrastructure sector, combined with a dramatic change in drilling economics, justified a downward re-rating of many MLP's that had volume and market sensitive rate exposures. For other infrastructure asset classes the story is different. From a fundamental perspective, our view of long-term global growth remains relatively unchanged as does our view that interest rates will remain at relatively low levels for at least the next several years. In addition, the investment thesis for the infrastructure sector as a low risk participant in the critical economic backbone of the economy is still very much intact. So for most non-energy related infrastructure asset classes, fundamentals are still good.

Another dynamic that investors should be aware of is that the private infrastructure markets are experiencing "money-flow" trends diametrically different than the public markets. While public securities investors are pursuing risk-off strategies and reducing exposure to the equity markets, private investors are steadily increasing their allocations to the infrastructure sector. We can validate that claim as our ability to attract institutional capital to invest alongside us has never been greater. The sophistication of this market has increased substantially and given their desire to buy assets to match very long-dated liabilities, these groups will take a longer-term perspective in evaluating opportunities. Equity return expectations for institutional investors are 6-10% for core infrastructure assets. The low end of the range typically relates to utility assets or PPP investments in North America and the UK. While it is difficult to generalize across infrastructure sectors and regions, we would estimate that private market valuations probably exceed the public equity market valuations by 30-40% today. Our view of the underlying intrinsic net asset value of Brookfield Infrastructure's business relative to our unit trading price is consistent with that.

In summary, many infrastructure businesses listed in North America, including Brookfield Infrastructure, have well contracted cash flows and limited exposure to the energy sector. Furthermore, given the amount of private capital seeking infrastructure asset exposure and the low likelihood of materially higher interest rates, we do not foresee a change in asset values for infrastructure assets. As a result, we believe that once market sentiment has moved past fear, high quality public companies should quickly recover lost ground in their share prices. If public market valuations remain low, we will likely see a significant increase in take-private transactions.

## **Outlook**

It appears that the market outlook for 2016 will remain choppy. In spite of this assessment, we believe our business model which is focused on high quality assets and is diversified by sector and region should enable us to deliver solid results. Our ability to grow distributions in adverse capital market conditions is a result of our unique internally generated organic growth and our ability to recycle capital. Regardless of our ability to access equity markets, our annual distribution growth target range of 5-9% remains unchanged. Our balance sheet is strong, liquidity is robust, and our operations are currently performing well.

Our primary focus for 2016 is to complete the various fully funded strategic initiatives that we have announced. These acquisitions will significantly expand the scale of our transport and energy segments

and will meaningfully add to our overall cash flows. Over and beyond these announced transactions, we are evaluating several attractive, value based opportunities in Brazil and in the U.S. midstream sector. We are also focused on capital recycling, where we continue to see exceptional private market pricing for our high quality mature assets. Until we see a recovery in our unit price, we see this strategy as being the primary funding source for new investment initiatives going forward.

On behalf of the board and management of Brookfield Infrastructure, I would like to thank all our unitholders for their on-going support. I look forward to updating you on our progress.

Sincerely,

“signed”

Sam Pollock  
Chief Executive Officer  
Brookfield Infrastructure Group L.P.

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