

## **LETTER TO UNITHOLDERS**

### **OVERVIEW**

We are pleased to report that we are off to a strong start in 2016. Results continue to reflect the benefit of our overall diversification, and the regulated and contractual nature of our cash flows. We generated funds from operations (“FFO”) of \$234 million, or \$1.02 on a per unit basis, which was 15% higher than last year. Taking into account our recent 7.5% distribution increase, our payout ratio is approximately 65% of FFO, well within our long-term target range of 60-70%.

We have positioned the business for further growth by progressing a number of investment initiatives, and have over \$3 billion of liquidity on our balance sheet to enable this growth. In that regard, we have committed to deploy approximately \$500 million of capital in three advanced transactions in our transport and energy groups. These transactions are subject to regulatory approvals that we expect to obtain in the next few months. Once completed, they will begin contributing to our results in the second half of the year. These new investment initiatives, coupled with the strong backlog of capital projects we have in our various operating groups, should allow us to meaningfully grow our cash flows in the years ahead.

### **RESULTS OF OPERATIONS**

The overall results for the quarter benefitted from strong organic growth as the business delivered another impressive period of same store constant currency growth of 11%. Additionally, the contribution from new investments and dividends received from our toehold interest in Asciano Limited (“Asciano”), led to the strong results for the quarter.

Our utilities segment generated FFO of \$100 million for the quarter, compared to \$95 million last year. The increase was the result of continued strength in connection activity in our UK regulated distribution business, inflation indexation and commissioning of capital into the rate base in the last 12 months. While we are pleased with the overall performance and reliability of our utilities business, the regulated return at our Australian terminal will decrease over the next cycle, reflecting the movement in interest rates since the last rate reset period five years ago. Despite this, from an overall utilities perspective, any reduction in FFO from our Regulated Terminal should largely be offset by growth in our FFO from smart meters.

Our transport segment generated FFO of \$94 million in the first quarter, relatively consistent with last year. Underlying results in local currencies improved by 10%. These results benefitted from tariff growth across the majority of our operations, higher volumes at our Brazilian rail business, as well as cost reductions at our Australian rail operations.

Performance at our rail operations remains strong. Our expansion projects in our Brazilian rail operations are progressing well and should be commissioned over the next 12 months. We expect that they should generate approximately \$6 million of incremental FFO per quarter on a run-rate basis in 2017. In Australia, in light of the challenging environment for iron ore producers, we have been working with key customers on solutions that enhance their long-term viability. We have progressed negotiations on an agreement with our largest iron ore customer to provide tariff relief over the next three years. The mechanism to which we have agreed includes a ‘sliding’ scale structure whereby rebates will be provided at depressed price levels. We are concurrently working on a number of cost saving initiatives within our operations to offset the overall impact to our business, and in exchange, we will receive additional collateral, as well as a five-year extension of the existing access agreement. This extension will enable us to be net present value neutral on an overall basis.

Our South American toll road operations continue to see resilient light vehicle volumes and significant inflationary tariff increases that offset the reduction in heavy vehicle traffic. EBITDA for this business on a constant currency basis increased by 12%. This quarter, results at our toll road operations also benefitted from our recently acquired toll road portfolio in India. With institutional partners we acquired six toll roads from a local infrastructure company for approximately \$100 million (or \$40 million for our share).

Our energy segment generated FFO of \$40 million in the first quarter, compared to \$28 million last year. This improvement reflects the incremental contribution from increased ownership in our North American natural gas transmission business, as well as same store growth of 20%. The same store organic growth was driven primarily by operating efficiency gains at our natural gas transmission business and growing contribution from our district energy business.

Our French communications infrastructure business, which we acquired in March of 2015, generated FFO of \$19 million for the first three months of 2016. Our results have been consistent quarter over quarter and this business is performing ahead of expectations.

## **INTERNALLY GENERATED GROWTH**

Organic capital projects have been a meaningful contributor to FFO and distribution growth since inception. The amount of our capital backlog has varied over the years and we currently have a \$1.7 billion pipeline of committed growth projects that will be accretive to our results. This level of activity has nearly doubled in the last two years and now exceeds our annual target of re-investing 15-20% of our annual FFO back into our businesses. We see this as a very positive development as our organic growth investments virtually always generate the best risk-adjusted returns we can earn relative to other capital deployment opportunities. For the next year or two, we expect to invest an additional \$250 million per annum over and above the approximately \$130-150 million we would typically re-invest from our FFO. Key updates on this front include the following:

- Our UK regulated distribution business continues to perform very well and in the first quarter added 76,000 new connections to our backlog, which is 36% ahead of the prior year. We also acquired 200,000 accredited smart meters during the quarter and we expect the number of smart meters will be ramped up to 700,000 over the next 12-24 months at a total capital spend of approximately \$220 million. Not only do we expect to generate solid returns from the deployment of these smart meters, we expect this to be a major growth driver for this business. We are well positioned to win more mandates in the UK's £12 billion smart meter rollout as we are established as an owner and operator in this sector.
- In Chile, we are growing our franchise by expanding coverage of our electricity transmission system and growing our regulated rate base. During the quarter, we secured two new transmission projects, acquired a development project from a local company encountering financial challenges, and received regulatory approval for 10 system upgrades. Together these initiatives require total capital of approximately \$410 million (our share \$110 million). These projects will be constructed over the next 12-24 months and once commissioned into rate base, will generate strong risk-adjusted returns.
- We are progressing a number of expansion projects in our North American natural gas transmission business. We recently received approval from the U.S. Federal Energy Regulatory Commission ("FERC") for our Chicago Market Expansion Project and have commenced construction. The project includes the construction of additional compression facilities on the Gulf Coast line, providing 238,000 dekatherms per day of incremental, long-term contracted capacity into Chicago from our existing interconnect with the Rockies Express pipeline. We anticipate investing an additional \$80 million (our share \$40 million) for the project to be up and running by the end of this year. In conjunction with this project, NGPL's largest customer extended its entire transportation and storage contract portfolio by another 10 years.

We are also proceeding with the first phase of our southbound Gulf Coast Reversal Project, which is anchored by a 20-year, 385,000 dekatherms per day contract with a large LNG operator. We anticipate investing approximately \$210 million (our share is \$105 million) with an expected in-service date in 2018. In addition to these projects, we see further opportunities for the business associated with the extensive development of natural gas pipeline infrastructure into Mexico in the 2017 to 2018 timeframe.

## **NEW INVESTMENTS**

Over the past few years, we have built our operating groups to enable us to operate our \$40 billion of assets and now have scale in the utilities, transport, energy and communication infrastructure sectors. In addition, within Brookfield's infrastructure group, we have over 150 corporate professionals, including business development originators in each of our targeted regions, generating deal flow. As a result, we have considerable flexibility to opportunistically make investments in sectors and in geographies that offer the most attractive risk-adjusted returns. Thus, while certain sectors, such as the utilities sector in North America and Europe, appear to not offer returns that meet our thresholds, we can capitalize on attractive opportunities in a number of other geographies. Our focus for the past year has been to identify high quality public companies that are mispriced and take them private. We have also been pursuing opportunities in out-of-favour sectors and regions where we can acquire businesses for value.

We currently have three advanced transactions in which Brookfield Infrastructure can deploy almost \$500 million of capital, all of which will be funded from existing liquidity.

- Most notably, in March, we and an Australian partner, together with institutional investors, announced an agreement to acquire Asciano, a leading Australian port and rail logistics business for A\$12 billion. Upon completion, the Brookfield consortium will own Asciano's port businesses in a 50/50 joint arrangement with an Australian partner and 100% of a ports services business. Brookfield Infrastructure has committed to invest a minimum of US\$350 million. On top of our investment, we will earn A\$95 million from our share of the break fee plus a gain on the toehold we acquired in November of last year. We are pleased with this transaction as it is structured with a view to address regulatory concerns raised in the previous offers. With our partner's local expertise in the Australian logistics industry and history with these assets, combined with our global shipping relationships, this partnership is well positioned to maximize the value of these operations. We expect this transaction will be completed in the third quarter of 2016.
- We continue to work with our partner, Abertis Infraestructuras, S.A. ("Abertis"), on the privatization of our Brazilian toll roads business. We launched a circular in April with the expectation that the privatization will be completed by the end of May. We see this as an opportunity to invest in a quality network that will deliver attractive returns over the long term. In addition, the government has strong motivation for improving the roads in Brazil and is providing incentives to owners like us to participate in that program.
- Our previously announced acquisition of Niska Gas Storage ("Niska") is progressing well. We expect the transaction to close in July of this year, pending regulatory approval. In the meantime, we took advantage of favourable credit market prices to acquire additional Niska bonds at roughly 75 cents on the dollar, further increasing our overall returns from our hybrid debt and equity investment.

We have also re-entered the Brazilian transmission business and are seeking to consolidate a number of opportunities to establish a business with substantial scale. We recently signed an agreement with Actividades de Construcción y Servicios, S.A. ("ACS"), a Spanish construction company, for the build out of 1,200 km of transmission lines over the next five years. In combination with the three projects signed late last year, we will have almost 3,000 km of greenfield transmission projects underway. Over the next several years, this initiative provides Brookfield Infrastructure with the opportunity to invest approximately \$200 million in high quality assets at an attractive return. We are also evaluating a number of other brownfield and greenfield opportunities that could establish Brookfield as an industry leader in the transmission sector over the next few years. We are excited to re-enter the Brazilian transmission market, given our prior successful experience from 2006 – 2009.

## **BALANCE SHEET AND LIQUIDITY**

We closed the first quarter of 2016 with total liquidity of \$3 billion. Upon the completion of the Asciano transaction, we will generate approximately \$600 million of net proceeds from the monetization of our toehold stake less the capital we deploy for Asciano's ports businesses. In addition, the two asset sales

signed this year will generate more than \$300 million of net proceeds for us once completed. As a result our pro-forma financial capacity is even greater than it appears.

Amidst all the volatility in the credit markets, we are very pleased to have also completed a number of important financing initiatives that together have improved our debt maturity profile.

- We completed the re-financing of the remaining €800 million of acquisition financing at our French communications infrastructure business at a coupon of 2.5% for 10 years.
- In March, we completed the refinancing of A\$350 million of maturing notes at our Regulated Terminal at a coupon of approximately 4% for five years.

Subsequent to the quarter, we injected approximately \$310 million to retire 20% of the total outstanding debt at NGPL (gross capital of \$620 million) alongside our partner Kinder Morgan as part of our overall deleveraging strategy for the business. We will continue to advance this strategy with the ultimate goal of re-establishing NGPL as an investment grade issuer over time.

## **OUTLOOK**

Global economic conditions are generally stable and upward trending, driven by the U.S. economy which appears to be steadily moving forward. Even though we are operating in a relatively benign economic environment, we continue to experience shifts in sentiment around commodity prices and weak economic growth in a number of emerging markets, particularly in Brazil. We are of the view that the recent surge in commodity prices is likely not sustainable and that prices will remain lower for longer. Furthermore, while there is some enthusiasm in the capital markets for the recent political events in Brazil, we expect the difficult economic slowdown will persist for the next year or two.

Irregardless of market conditions, our business is well diversified and underpinned by networks that have high barriers to entry and cash flow streams that are regulated and contractual. Our operations are also achieving a lot of success in originating new organic growth projects. We have generally performed very well in the past during periods when our business was undergoing outsized organic growth projects, given the attractive and predictable returns they tend to generate. As such, we are very excited that our current backlog of projects, which has never been as large, could lead to another period of outperformance.

We are also fortunate to have a solid balance sheet with few near-term maturities and substantial liquidity and capital to invest. Our current pipeline of new investments is strong and we believe that the challenges in the North American energy sector and more broadly in South America, are providing us with tremendous investment opportunities. As a result, our expectation is that we can meaningfully grow our FFO per unit for the next year and beyond. Overall, we expect to deliver same store growth this year at the high end of our long-term target range of 6-9%.

On behalf of the board and management of Brookfield Infrastructure, I would like to thank all our unitholders for their ongoing 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.*