

# Letter to Unitholders

## Overview

Although the past year was like none we have seen before, it provided a unique environment to showcase the resilience and strength of our business. Our operations continue to deliver uninterrupted service despite many of the broad-based restrictions that have been imposed globally. During the year, we also opportunistically added a number of high-quality assets in key strategic sectors and geographies that will contribute to future cash flow growth.

Funds from Operations (FFO) for the year totaled \$1.45 billion or \$3.13 per unit, an increase of 2%. Our fourth quarter FFO per unit exceeded the prior year by 12%. These results reflect strong operating performance across most of our operating regions and businesses and the value of our active asset management approach.

Our key accomplishments for the year are summarized below:

- **Achieved solid performance across operating segments** – delivered organic growth of 9% at our regulated and contracted operations, which comprise approximately 75% of our business.
- **Deployed \$2.5 billion into new investments and organic capital projects** – expanded our presence in India's rapidly growing data infrastructure sector with the acquisition of a large-scale portfolio of telecom towers, and made an investment in a world class LNG export terminal that is contributing to global decarbonization efforts.
- **Generated over \$700 million through capital recycling** – completed four sale processes and several asset-level financings that produced over \$700 million of proceeds, resulting in an average after-tax IRR of approximately 20% and approximately three times multiple of capital.
- **Listed Brookfield Infrastructure Corporation (BIPC)** – expanded our market access with the launch of BIPC on March 31; the listing was met with strong investor reception and robust trading volumes.

These achievements are in addition to the agreement we recently reached to sell our North American district energy business in two separate transactions for total consideration of \$4.1 billion on an enterprise value basis. Net proceeds to BIP are expected to be approximately \$950 million. We will earn an IRR on this investment of over 30%, with a multiple of capital of over six times. This is a tremendous result for the business and is a significant part of our capital recycling plans for the year.

As a result of our strong financial and operating performance and robust liquidity position, our Board of Directors approved a quarterly distribution increase of 5% to \$0.51 per unit in 2021. This represents the 12<sup>th</sup> consecutive year of distribution increases and is a testament to the resiliency of our operations and positive outlook for growth.

## BIP Stock Market Performance

Brookfield Infrastructure's units performed well for investors during a volatile year. Our latest tabulation of compound investment returns since our inception is provided below. This year, our units returned 15% and 12% on the NYSE and TSX, respectively, while our paired corporate security (BIPC) has more than doubled since its launch at the end of March. More relevant for long-term investors, our 5-year and since-inception annualized compound returns of 22% and 18%, respectively, have considerably exceeded performance of the broader market and our peer group.

### Annualized Total Returns

AS AT DECEMBER 31, 2020	1-Year	5-Year	Since Inception*
BIP (NYSE)	15%	22%	18%
BIP (TSX)	12%	20%	24%
BIPC (NYSE)	N/A	N/A	128%
S&P 500 Index	18%	15%	10%
S&P/TSX Composite Index	6%	9%	7%
S&P Utilities Index	-%	12%	7%
DJBGI Index**	(6%)	8%	5%

Includes dividend reinvestment

\*BIP (NYSE) and U.S. index data as of January 2008; BIP (TSX) and Canadian index data as of September 2009; BIPC (NYSE) as of spin-off on March 31, 2020

\*\*No dividend reinvestment for this index

## Results of Operations

FFO for 2020 totaled \$1.45 billion, compared to \$1.38 billion in the prior year. The 5% increase reflects the highly regulated and contracted nature of our cash flows, as well as the embedded organic growth within the company. Results benefited from capital deployed across our segments and organic growth within our utilities, midstream and data segments. The single largest adverse impact on results was the depreciation of the Brazilian real, which reduced FFO by approximately \$100 million, relative to 2019.

### Utilities

Our utilities segment generated FFO of \$659 million in 2020, an annual increase of 6% after adjusting for the impact of a weaker Brazilian real. Our utility businesses performed well overall, reflecting the regulated and contractual frameworks under which we operate. Results benefited from inflation-indexation and \$340 million of capital commissioned into rate base during the last 12 months. These contributions were partially offset by delays in the recognition of certain connections revenue at our U.K. regulated distribution business.

At our U.K. regulated distribution business, new connection activity for the quarter averaged approximately 90% of prior year levels as construction activity steadily increased over the past six months. Connection sales exceeded plan for the first time since the initial government-imposed shutdowns took effect, reflecting the strength of both our multi-utility offering and the housing market. While the U.K. government recently implemented further restrictions, we do not expect a significant impact to our operations. The restrictions do not apply to the construction sector, and the broad stimulus programs have contributed to robust housing demand.

In December, our Brazilian regulated gas transmission operation received its annual inflationary tariff adjustment that will result in an almost 25% increase in revenue (on a local currency basis) this year. Revenues for this business are contractually linked to an inflation index which increased substantially in 2020 because of the devaluation of the Brazilian real. This contractual protection serves as a natural foreign currency hedge and will allow us to meaningfully grow FFO in 2021.

At the U.S. operations of our North American residential infrastructure business, we completed a securitization financing with an initial draw of \$220 million (BIP's share – \$70 million) at an interest rate of approximately 2.5%. This securitization entity facilitates efficient and low-cost financing for our growing rental offering. We have largely completed our balance sheet optimization initiatives which we set out when we acquired the business. This includes securitization programs in both the Canadian and U.S. operations, in addition to a standalone green bond issuance at our metered services operation.

In January, we agreed to acquire a controlling stake in the largest independent residential infrastructure company in Germany. The company provides low-carbon heating solutions to over 20,000 customers and we plan to leverage the existing platform to expand in this highly fragmented industry in Germany. The total investment amount was initially approximately \$75 million (BIP's share – approximately \$20 million) but we believe we can deploy significant follow-on capital as we use this initial investment as a platform to grow residential heating and cooling solutions throughout Germany and the rest of continental Europe.

## **Transport**

FFO from our transport segment was \$590 million, which was relatively consistent with the prior year despite a challenging environment and disruptions in global trade. The segment benefited from the initial contribution of our North American rail operation and LNG export terminal, solid volumes across our rail networks and favorable rent settlements at our U.K. port operation. These contributions were offset by lower volumes at our toll roads and container ports.

Traffic and volume levels across our GDP-sensitive transport businesses continued to improve throughout the fourth quarter. On average, carloads across our rail networks were broadly in-line with the same quarter last year as global trade recovers. Notably, traffic levels at all our toll roads have improved to levels above 2019, highlighted by a 7% increase in Brazil (on a same-store basis). Finally, our diversified terminal operations recovered after experiencing volume declines earlier in the year. Fourth quarter port volumes were up approximately 10% year-over-year. We are encouraged by the trajectory at our transport businesses and expect performance to benefit as mobility restrictions ease.

Our U.K. port operation received further favorable outcomes in realizing on rent increases with long-term tenants. The increases will result in annual rent doubling on those currently charged and includes a retroactive payment as far back as 2014. This outcome follows a similar increase received last quarter, which resulted in an almost four-fold increase in annual charges for a large property tenant.

The U.S. LNG export terminal we acquired in the third quarter is performing in-line with our expectations. The lump sum construction of a sixth LNG export train is well-progressed at over 70% complete and expected to reach substantial completion during the second half of 2022 – well ahead of the guaranteed timelines and within budget. Once all six trains are operational, run-rate production capacity is estimated to increase by approximately 20%.

## **Midstream**

FFO from our midstream segment totaled \$289 million, an increase of 18% compared to the prior year. Performance this year was excellent, with organic growth contributing 13% despite challenges in global energy markets. Our highly contracted cash flows were uninterrupted by the economic shutdowns and we benefited from robust transportation volumes and the commissioning of several new capital expenditure projects.

Our U.S. gas pipeline reported very strong results during the fourth quarter with FFO increasing 25% above prior year levels. Results were driven by favorable market conditions, particularly at our gas storage operations, as well as due to the commissioning of two growth projects. These projects involve system enhancements to increase deliverability to Gulf Coast LNG facilities and a pipeline extension. Additionally, the business has substantially completed the second phase of its Gulf Coast expansion, which will further increase transport capabilities in the region. This project involves approximately \$200 million of capital spend (BIP's share – \$100 million) and is on

track to be completed below budget. Once commissioned during the first quarter of 2021, the expansion will generate annual EBITDA of approximately \$45 million under long-term take-or-pay contracts.

## Data

Our data segment delivered FFO of \$196 million, an increase of almost 50% compared to the prior year. This step-change increase is the result of organic growth and approximately \$1 billion of capital deployed into various strategic growth initiatives over the last 24 months. With respect to our ongoing growth capital projects, we have commissioned 22 MW of capacity at our South American data center operation and constructed approximately 150,000 fiber plugs at our French telecom operation in the last year. Combined, these two projects will contribute additional annual EBITDA of \$50 million (BIP's share – approximately \$10 million).

The integration of our recently acquired Indian tower operation is progressing with key commercial activities well underway. In January, we signed a binding term sheet with one of the leading MNOs in the country to install their telecommunication equipment on our towers. We are now focused on the onboarding process and finalizing the long-term master service agreement. This is a notable milestone for the co-location strategy that formed a core part of our investment thesis and should lead to deals with other MNOs to implement similar arrangements.

## Balance Sheet & Strategic Initiatives

A disciplined approach to financing at the corporate and asset level allowed us to remain focused on opportunistic transactions throughout the year. With our attention on de-risking our balance sheet and maintaining a healthy liquidity position to support growth opportunities, we completed several important activities as historically low interest rates and supportive credit markets characterized much of the year.

- **Enhanced our corporate issuance profile** – We extended our debt maturity profile and commenced a green preferred unit program. With these initiatives, our nearest corporate maturity is not until 2024. Including our first quarter issuance, we have now raised a total of \$400 million of perpetual green preferred units in the U.S. with an average coupon of just over 5%.
- **Maintained robust credit metrics and a strong investment grade credit rating** – We have a conservative balance sheet with approximately 85% of our term debt at the asset level on a non-recourse basis, and a 21x interest coverage ratio at the corporate level; these factors support our strong investment grade rating, which was reaffirmed in June 2020.
- **Meaningfully advanced our capital recycling program** – We generated over \$700 million of proceeds and launched other sale processes that are progressing well.

Our liquidity position is robust following an active year of capital deployment. We deployed \$2.5 billion in new investments and organic capital projects. During the year, we deployed approximately \$1 billion into two highly cash generative data and transport assets and invested over \$900 million (approximately \$400 million net of project-level financing) to advance key capital projects within our existing businesses that will significantly contribute to our organic growth in the coming years.

We also purchased over \$600 million of shares in a handful of publicly traded infrastructure companies that traded at substantial discounts to their intrinsic value. Many of those companies recovered quickly, which resulted in approximately \$60 million of realized gains in the year. We continue to hold the remaining companies and hope that at least one of these positions will lead to a larger transaction.

Today we have approximately \$3.7 billion of available liquidity, of which \$2.4 billion is at the corporate level. In the near term, we expect to further strengthen our liquidity position by an incremental \$2 billion as several sale processes near completion. During the fourth quarter, we listed our Australian Export Terminal on the Australian

Stock Exchange. Through the initial public offering, we sold an approximate 20% ownership interest (BIP proceeds of approximately \$100 million) and retained a 49% stake. The successful listing demonstrates the value and demand for stable, cash flow producing infrastructure businesses.

Looking ahead, we are well-positioned to capitalize on new infrastructure investment opportunities and foresee our capital recycling program to be a principal source of funding. As previously communicated, we expect 60-75% of growth opportunities to be funded through the monetization of mature and de-risked assets. We anticipate approximately \$4 billion of proceeds from capital recycling over the next two years.

## **Enwave: A Value Creation Success Story**

We often refer to our active approach to asset management and the value created through the collaborative partnership we have with our businesses. Enwave, our North American district energy platform, is a good example of this full-cycle strategy. Over the last eight years, the business and organizational culture has been transformed through disciplined commercial efforts, remarkable organic growth, strategic tuck-in acquisitions and active balance sheet management. Under our ownership, Enwave has grown to be the largest district energy system in North America and delivers heating or cooling to over 800 buildings.

To put it simply, district energy utilizes a centralized source to distribute low-carbon thermal energy to a network of buildings. District energy systems facilitate sustainable growth, offer exceptional reliability and provide customers with capital and space savings compared to owning and maintaining their own dedicated heating and cooling equipment.

In 2012, we had our first opportunity to complement our utilities segment with an unregulated but highly contracted district energy system. In addition to the strength of the in-place cash flows and organic growth potential, we recognized the value we could uncover by doing two things: 1) we could leverage Brookfield's commercial real estate operations to expand and efficiently consolidate fragmented systems across North America, and 2) we believed we could transform what was previously a reactionary utility, into a sales-focused, commercial minded heating and cooling solutions provider.

Since the initial acquisition of systems in Toronto and Windsor, we have grown Enwave's network by acquiring other high-quality district energy systems in major North American markets and driving a structural organic growth strategy. Today, Enwave operates in nine major cities in the U.S. and four in Canada. Following each acquisition, the standalone assets were integrated into one cohesive and operationally efficient business led by a high performing management team. This team was largely hand-picked from our existing businesses and we supplemented their breadth with internal Brookfield expertise in the areas of operations and finance. Over the years, we realized substantial benefits through the implementation of a focused commercialization strategy, operational best practices, balance sheet discipline and centralized procurement.

To manage Enwave's large pipeline of organic growth opportunities, the business required the right capital discipline to both plan and execute projects. By leveraging the Brookfield network, we were able to incorporate best practices of other portfolio companies to de-risk our growth strategy. One of the most notable shifts in the business was converting a legacy utility business into an acquisitive, sales-oriented growth platform. This transformation occurred gradually over several years and was driven by the very capable leadership team we inserted into the business. We also created a single and cohesive finance function, eliminating the redundancy and inefficiencies of system-specific teams. Lastly, we consolidated the procurement function to leverage the platform scale and achieved meaningful operating savings.

Throughout our ownership, Enwave secured over 135 new building connections and realized a compounded annual EBITDA growth rate of over 20% (of which 13% was driven organically). This business has a highly attractive investment profile; it is a global leader in sustainability, it benefits from an incumbent advantage in its

service territory and it generates stable and predictable cash flows under long-term contracts with a diversified base of creditworthy counterparties.

We commenced a sales process for the business in the fall of 2020. As a result of our asset management initiatives, the business has been well contracted and a substantial, de-risked growth pipeline has been put in place, making this business an attractive investment for institutional investors. We recently reached an agreement to sell the business in two separate transactions for total consideration of \$4.1 billion on an enterprise value basis. Net proceeds to BIP are expected to be approximately \$950 million. We will earn an IRR of over 30% on our investment and a multiple of invested capital of over six times. This result provides another indication of the value of high quality, de-risked infrastructure assets to institutional investors.

## Our Approach to ESG

We have a long history of owning and operating long-life infrastructure businesses that provide essential services both globally, and in the local communities in which they operate. Environmental, Social and Governance (“ESG”) considerations have always been embedded in how we operate and underwrite, and we make it a priority to actively engage with all relevant stakeholders on a regular basis. With the investment community’s increased focus on ESG, we wanted to provide a reminder of our approach and highlight some recent initiatives in this regard.

- **ESG considerations and monitoring practices are ingrained in our underwriting and operating standards.** We utilize our operating expertise to identify material ESG risks and opportunities when underwriting a prospective investment. We then develop and oversee the implementation of near-term and long-term plans to drive performance. Given the essential nature of our businesses, our initiatives typically focus on risks associated with employee health & safety, the environment, bribery & corruption and legal & regulatory compliance. We drive strong cultures within our operating businesses by holding senior executives accountable for specific performance targets on these topics, tying this performance to compensation and leveraging experience both within our Brookfield team and across our operating groups where we see opportunities to bring new ideas and approaches.
- **We invest in resilient businesses and account for stranded asset risk.** Avoiding stranded assets has always been top of mind for us. This risk could be influenced over time by technology, human behavior, and increasingly, because of environmental considerations. Looking specifically at our midstream assets, we are focused on businesses that are both resilient and active contributors to global decarbonization efforts. Within this segment, revenues are mostly contracted on a long-term basis and we take no material commodity price or volume exposure. We have a diversified base of creditworthy counterparties and cash flows are front ended with attractive cash yields. And finally, there is significant upside potential should these assets be repurposed in the future as part of a global energy transition.
- **Carbon footprint.** The measurement and reduction of greenhouse gas (“GHG”) emissions over time has become a key area of focus for investors. Each of Brookfield’s public entities and institutional funds, including our partnership, are striving towards net zero emissions on an avoided carbon, Scope 1 and Scope 2 basis. On that basis, Brookfield Asset Management (“BAM”) is currently net negative across its entire \$600 billion asset portfolio, largely due to its ownership of one of the world’s largest pure-play renewable power businesses. Through our affiliation with BAM, not only will we benefit from broad expertise regarding the implementation and maintenance of industry-leading ESG policies and protocols, but also the ability to offset and avoid our current emissions using favorable group-level attributes.

In line with our overall approach on ESG of solid leadership complemented by effective measurement systems, we have implemented carbon measurement and reduction programs across our businesses. We will track and report GHG emissions consistent with the Partnership for Carbon Accounting Financials (“PCAF”) standards, and we will develop and regularly publish decarbonization plans consistent with the Paris agreement.

Within the envelope of net zero, we will continue to own and operate certain essential infrastructure assets globally that transport fuel. While natural gas related assets make up only a portion of our diversified portfolio, we believe that they play an important role in the global energy transition that is well underway, particularly in Asia, and as a bridge to renewables and potentially hydrogen. Rest assured, when we acquire these assets, we will be laser focused on the duration of cash flows, we will operate them with their contributions to the transition to net zero in mind and with plans to continuously improve them over time.

## Outlook

We enter 2021 with a great deal of optimism guided by a fairly positive backdrop anchored around a historically low interest rate environment and a global rollout of several COVID-19 vaccines that are currently underway. This should result in a gradual reopening for economies around the world to begin in the first half of the year.

This backdrop bodes well for the global economy, and more specifically, for our GDP sensitive assets. Our ports, toll roads and rail businesses have proven their resilience, and we anticipate they will outperform during a return to normalcy and an anticipated period of economic expansion. Additionally, our midstream businesses performed well in 2020 due to their contracted nature, however increased economic activity should lead to even higher market sensitive revenues which had historically comprised approximately 15-20% of our revenues.

The key priority heading into 2021 is to convert on our substantial pipeline of attractive opportunities into investments. As we discussed at our investor day, we believe we are entering an infrastructure super cycle where the investable universe of opportunities will grow materially and our access to low-cost capital will remain strong. We are continuing to target to deploy over \$2 billion in 2021. Furthermore, the contribution from new investments is expected to be enhanced by our capital recycling program which is on track to deliver over \$2 billion of proceeds, a record for us in a given year.

On behalf of the Board and management team of Brookfield Infrastructure, I would like to take this opportunity to thank our unitholders for their ongoing support. I look forward to updating you on our progress during the upcoming year.

Sincerely,



Sam Pollock  
Chief Executive Officer

February 3, 2021

### **Forward-Looking Statement**

*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", "target", "should", "future", "could", "plan", "anticipate", "outlook", "focus", "plan to", 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 transactions and other growth initiatives referred to in this letter to unitholders, the integration of newly acquired businesses*

*into our existing operations, the future performance of those acquired businesses and growth projects, financial and operating performance of Brookfield Infrastructure and some of its businesses, commissioning of our capital backlog, availability of investment opportunities, including tuck-in acquisitions, the state of political and economic climates in the jurisdictions in which we operate or intend to operate, the expansion of our businesses and operating segments into new jurisdictions, the adoption of new and emerging technologies in the jurisdictions in which we operate, performance of global capital markets and our strategies to hedge against risk in such markets, ability to access capital, anticipated capital amounts required for the growth of our businesses, the continued growth of Brookfield Infrastructure and its businesses in a competitive infrastructure sector, the effect expansion and growth projects of our customers will have on our businesses, 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, social and political conditions in the jurisdictions in which we operate or intend to 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 favorable commodity prices, the impact of political, economic and other 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 and terms of equity and debt financing for Brookfield Infrastructure, the ability to effectively complete transactions in the competitive infrastructure space (including the ability to complete announced and potential transactions 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 such transactions, given that there can be no assurance that any such transactions will be agreed to or completed) and to integrate acquisitions into existing operations, changes in technology which have the potential to disrupt the businesses and industries in which we invest, 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, the effectiveness of our hedging strategies, completion of growth and expansion projects by customers of our businesses, 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.*