

# Letter to Unitholders

## Overview

Brookfield Infrastructure reported a strong third quarter, with Funds from Operations (FFO) of \$365 million or \$0.79 on a per unit basis. This represents an increase of 8% compared to the prior year, as all of our business groups reported solid operating results. The business also benefited from the contributions from new investments, and would have been even better, had the U.S. dollar strength not affected foreign-generated income. On a constant-currency basis, our FFO per unit would have exceeded the prior year by 16%.

As was the case in the previous quarter, the majority of our businesses were unimpacted by any government restrictions and thus performed in-line with our plans. The economic recovery that began in the third quarter has positively impacted our GDP sensitive operations and the improvement in those businesses was immediate. Traffic volumes at our toll roads have recovered significantly relative to the prior quarter and are currently operating at pre-shutdown levels in Brazil, which represents a significant portion of our portfolio. Similarly, new connection activity at our U.K. regulated distribution business averaged almost 90% of plan during the quarter.

We remain focused on capital allocation as the pace of new investment activity continues to accelerate. During the quarter, we deployed approximately \$1.0 billion into two exciting investments that highlight key trends guiding our current investment focus. These include executing large-scale transactions in the capital-intensive data infrastructure sector and capitalizing on the dislocation in the capital markets to acquire high quality, contracted assets. The current low interest rate environment is also supportive of our capital recycling initiatives, which will be a meaningful funding source to support our growth.

## Results of Operations

Funds from operations for the quarter grew by 8% on a year-over-year basis, primarily driven by strong performance within our utility, energy, and data infrastructure segments. Our business grew organically from inflation-indexation on 75% of our total revenues and the commissioning of \$650 million of new capital projects in the last 12 months. Results for the period also include the initial contribution of recently completed new investments. Consistent with the prior quarter, the depreciation of the Brazilian real had the single largest negative impact on results, reducing FFO by \$30 million relative to the same period in 2019.

## Utilities

Our utilities segment generated FFO of \$139 million, which represents a 6% increase over the prior year after adjusting for the impact of weaker foreign currencies. In general, our regulated and contracted utilities are performing well in the current environment. Underlying results in the quarter benefited from inflation-indexation, approximately \$300 million of capital added to rate base and the contribution from our North American regulated transmission business acquired in late 2019.

With homebuilder activity ramping up, construction levels at our U.K. regulated distribution business are steadily improving. New connection activity during the quarter averaged nearly 90% of plan. The business also secured several new projects, including: (i) a major capital project consisting of 9,500 new connections that span across

five of our utility offerings and (ii) its largest district energy project to date, which includes 3,500 residential apartment units and 5,000 square meters of commercial space.

At our Australian regulated terminal, we received a positive draft regulatory decision during the quarter, which proposes a transition to a more “light-handed” regime. The proposed change, if reflected in the final decision, would allow us to directly negotiate access charges with users of the terminal instead of operating with a single regulatory rate. As users have requested additional capacity at the terminal, the new regulatory framework should result in tariffs that support expansion of the facility. A final decision, which is expected early next year, will apply to the next five-year regulatory period commencing July 2021.

## **Transport**

FFO from our transport segment totaled \$135 million, an increase of 5% compared to the prior year despite some softness in our volumes related to the economic shutdowns. Favorable results benefited from a rent settlement at our U.K. port operation, higher agricultural volumes across our rail networks and the contribution of our North American rail operation which was acquired in late 2019.

Traffic levels across our global toll road portfolio continued to improve throughout the third quarter. On average, volumes were 5% below the same quarter of last year, a significant improvement compared to the year-over-year decline of 20% in the second quarter. More recently, traffic levels in Brazil for September and October have fully recovered from the impact of the shutdown and our operations in other regions remain only modestly below plan as a result of a slower recovery in light passenger traffic.

We had two substantial new contract wins at our U.K. port operation during the quarter. First, we received a favorable ruling on one of several ongoing arbitration processes the business has with long-term tenants. The ruling determined that the market rate for space at our facility should be almost four times higher than current levels. In addition to increasing future earnings, the settlement included the payment of backdated rent since 2016. Second, we secured a four-year contract to lease two unoccupied bays of our seven-bay bulk warehouse facility. The warehouse is now fully leased under long-term contracts with minimum volume guarantees from major international customers.

## **Energy**

FFO from our energy segment totaled \$115 million, a meaningful increase compared to the prior year quarter of \$100 million. Performance across our midstream assets was ahead of the prior year as our highly contracted cash flows have been unimpacted in the current environment. Our distributed energy businesses grew by approximately 20% relative to the prior year after removing the contribution from our Australian district energy business that was sold last November. This growth was driven by strong performance at our North American residential infrastructure business which added 58,000 of annuity-based rental contracts in the last year.

Our midstream business performed well during the quarter, with FFO increasing 16% on a same-store basis relative to the prior year. Considering challenging energy market fundamentals, the results speak to the critical and contractual nature of our midstream infrastructure. These assets are located across the U.S., Canada, and India, and are all highly contracted with creditworthy counterparties and are supported by long-life, economic resources. Our business is, therefore, well-positioned to withstand energy price volatility in the future, with no direct commodity exposure and approximately 85% of current revenues contracted with agreements that have an average remaining term of 11 years.

Our North American district energy systems have benefited from heightened consumer interest in sustainable and capital-light solutions to meet their heating and cooling needs. In addition to being selected as the preferred bidder to develop sustainable energy systems for 14 mixed-use buildings in Toronto, we closed on several exciting growth initiatives during the quarter: (i) a 40-year agreement with Syracuse University for the exclusive right to operate, maintain and modernize the University’s district energy system, (ii) a 42-year contract with the National

Western Centre in Denver, Colorado providing our business with the exclusive right to design, build, finance, operate and maintain their district energy system, and (iii) five new capacity-based customer connections with an average term of over 25 years. Combined, these long-term contracts should provide incremental annual EBITDA of \$25 million (BIP's share – \$9 million) once fully commissioned.

### Data Infrastructure

Our fast-growing data infrastructure segment delivered FFO of \$50 million, which represents an increase of nearly 40% compared to the prior year. We have continued to expand our global data transmission and distribution portfolio and this step-change increase in FFO reflects several new investments completed in the last 12 months. Results for the quarter include the partial period contribution from the acquisition of 135,000 telecom towers in India and capital deployed in our data distribution businesses in the U.K. and New Zealand.

At our newly acquired U.K. tower business, we remain focused on expanding our indoor service offering internationally. We have been working closely with Brookfield's real estate group to replicate our model in geographies where we have an extensive real estate footprint globally. This should lead to exceptional low-risk growth opportunities.

### Balance Sheet & Strategic Initiatives

A fundamental element of our business strategy is to maintain a strong financial position throughout each economic cycle. Our resilience to the economic slowdown this year was aided not only by the sustainability of our underlying cash flows but also due to the disciplined approach we've utilized over the years in financing our investments. As a result, we have maintained robust credit metrics and a solid investment grade rating.

With the prevailing backdrop of low interest rates and supportive credit capital markets, we have taken the opportunity to further enhance our balance sheet. During the quarter we successfully extended maturities at attractive rates across our portfolio which reduces exposure to any near-to-medium term capital market volatility. In this regard, we completed two financings at the corporate level which increased our average corporate term to maturity from six to eight years:

- **Issuance of the longest tenor and lowest coupon series of notes** – During the quarter we issued C\$500 million of 12-year notes in the Canadian market to opportunistically refinance a C\$450 million series of notes maturing in 2022. In addition to being our longest issuance to date, the new series also has the lowest coupon to date at 2.855%.
- **Inaugural issuance of green preferred units** – In September, we issued \$200 million of perpetual green preferred units at a fixed rate of 5.125%. This inaugural issuance is our first corporate financing in the U.S. market, and demonstrates greater access to capital markets and our commitment to sustainable investment practices.

Our strong balance sheet will also allow us to continue to pursue meaningful growth opportunities even in the midst of economic uncertainty. During the third quarter we closed two acquisitions that will contribute significantly to results going forward:

- **Indian Telecom Towers** – In August, we closed the acquisition of 135,000 operational telecom towers from Reliance Jio. We invested approximately \$3.4 billion of equity (BIP's share – approximately \$600 million). Reliance Jio is the anchor tenant under a 30-year Master Services Agreement, which provides a contracted cash flow profile with substantial downside protection. Our business plan involves building out the portfolio to 175,000 towers in the near term.
- **U.S. LNG Export Facility** – In September, we acquired an interest in Cheniere Energy Partners L.P. (Cheniere) at an equity value of \$1.5 billion (BIP's share – approximately \$425 million). Cheniere owns

Sabine Pass Liquefaction, LLC, a world class LNG export facility with 85% of revenue generated under long-term contracts. These contracts are secured with globally diversified and highly creditworthy counterparties. The recently constructed facility has ample expansion capacity to meet rising demand for low-cost U.S. LNG as global decarbonization efforts increase.

Following an active quarter of capital deployment, our liquidity position remains healthy as we have approximately \$3.6 billion currently available, of which \$2.4 billion is at the corporate level. Over the next six months, we will look to enhance our current liquidity position with proceeds from several on-going asset sale processes. During the quarter, we launched several new processes which, when combined with our previously announced targets, could generate almost \$1.5 billion of capital by mid-2021.

## Investor Day Recap

We held our annual Investor Day in September and were pleased with the high level of attendance for the mostly virtual event. The prevailing economic environment provided the backdrop for this year's key themes, namely, the resilient nature of BIP's business and its compelling growth profile. Our presentation described how these attributes, when combined, create a unique opportunity for investors to compound wealth over time in an uncertain and low interest rate environment.

**BIP has utility-like characteristics that generate stable and predictable cash flows.** Despite a challenging economic backdrop, our business has delivered financial results that were in line with expectations. This is attributable to (i) significant sector and geographic diversification, (ii) ownership of long-life and essential assets, (iii) substantial barriers to entry into the sectors we operate in and, (iv) cash flows that are generated under long-term contractual or regulated frameworks. In combination, these factors provide a current AFFO yield of approximately 6% and effectively create a floor for our results.

**BIP has a strong track record of operational value creation and organic growth of 6-9%.** We spotlighted Enercare, our North American residential energy infrastructure business, to highlight how we work alongside our operating companies. Through an active, collaborative approach, our goal is to complement a dedicated management team with specialized resources and expertise to execute the business strategy focused on driving meaningful value creation. Using Enercare as a case study, we have been very successful on this front completing the following strategic initiatives:

- We optimized the capital structure of this business through a securitization that significantly lowers our cost of capital and efficiently funds growth.
- We refined the business plan – applying learnings from our U.K. regulated distribution business - to accelerate the transition of the U.S. business to a higher-value long-term rental model.
- We shared specialized resources and expertise to collaborate on strategic initiatives and provided long-term secondments.
- We provided access to the Brookfield economy, creating proprietary growth opportunities with other Brookfield businesses.

Our approach has resulted in tremendous growth at Enercare and a path to generating compounded annual returns in excess of 20%.

**Several factors are pointing towards an infrastructure investment super-cycle.** The global economic disruption is leading to an enormous increase in government and corporate indebtedness. This will require new sources of capital. At the same time, market conditions are suitable for outsized investment opportunities in several sectors for well capitalized and contrarian investors like us.

- Data is the world's fastest growing commodity. Aging data infrastructure is struggling to keep pace with demand and traditional network owners do not have access to the capital required to fund the necessary upgrades. This provides a unique opportunity for well capitalized investors to take part in a 100-year data investment upgrade opportunity.
- The midstream sector is currently out of favor due to energy price volatility and low demand for fossil fuels. With few alternatives for access to capital available, oil majors are monetizing assets to fund their core businesses and develop renewable power capabilities. The market dislocation may provide an attractive entry point for assets that meet our core investment criteria, including (i) substantial scarcity value, (ii) highly contracted revenue profiles and (iii) the requirement for significant capital.
- The current environment has negatively impacted the sentiment for transportation assets. This is particularly true for airports, with air traffic down over 90% at many international hubs. With no consensus for the timing or nature of a recovery, we could see a unique entry point for investors willing to take a long-term view.

In light of these market dynamics, we expect to invest approximately \$2 billion annually in growth opportunities of which 60-75% will be funded through capital recycling activity. Including the processes we have underway today, we expect capital recycling to account for over \$4 billion of proceeds by the end of 2022, and in excess of \$7.5 billion over the next five years. We anticipate that the current low interest rate environment will support strong valuations of mature and de-risked infrastructure assets like ours. This outsized level of investment activity that is predominantly funded from the sale of de-risked assets could drive further annual growth of 1-5% in cash flows.

## Outlook

While there continues to be uncertainty surrounding the global economy, our outlook for the balance of 2020 and heading into 2021 is positive. As we have seen firsthand this year, our business has considerable downside protection mechanisms to weather downturns. It is important to note, however, that we are also positioned to capture meaningful upside growth in the future.

As it relates to the headwinds we have encountered in 2020 thus far, we anticipate these will start to normalize into the new year, and that this will drive results for 2021 that meet or exceed plan. As the economy recovers, we expect that the cash flows from businesses that were temporarily impacted by the shutdown should return to trend line levels – a dynamic that we are already starting to observe. In addition, a recovery of the Brazilian real should provide an uplift to our results, given it is currently valued at levels which are low from a global perspective. Finally, now that our Indian telecom transaction has officially closed, we will be capturing a full annual contribution from the business. This should prove to be meaningful as this business is generating substantial going-in cash-on-cash yields.

Furthermore, our growth engine continues to run very well. We have over \$2 billion of contracted capital backlog that will be commissioned over the next several years. On the new investment front, we are seeing good momentum as well, and we are optimistic that we will surface some compelling opportunities in this economic environment. All in all, we believe that 2021 is shaping up to be a strong year for our business.

On behalf of the Board and management of Brookfield Infrastructure, we thank our unitholders and shareholders for their support.

Sincerely,



Sam Pollock  
Chief Executive Officer

November 9, 2020

### **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.*