
# Letter to Unitholders

## Overview

Brookfield Infrastructure reported another strong quarter of results on the back of solid performance at each of our operating groups, most notably at our utilities group. We generated FFO of $295 million for the quarter, or $0.80 on a per unit basis – our best ever quarterly results. These results represent year-over-year increases of 28% and 19%, respectively, driven by additional contribution from our recently closed regulated gas transmission investment in Brazil and continued strength in our base business which grew organically by 10% on a constant currency basis.

We are pleased with the year-to-date financial results and operating performance, and with the embedded growth in the business. A major contributor to this is the growing backlog of capital projects which currently stands at $2.4 billion, and has doubled over the past two years. In addition, a number of initiatives are being pursued in each of our operating segments that could potentially add a further $1.5 to $2 billion to this backlog in the next 6-12 months. These organic growth opportunities generally offer the best risk-adjusted returns and provide us with considerable visibility on our near-term growth outlook.

## Results of Operations

The utilities segment generated FFO of $168 million for the quarter, which represents a step-change relative to the prior year. The closing of the Brazilian regulated gas transmission investment on April 4, combined with the commissioning of capital into the rate base over the past 12 months, accounted for most of this growth. These positive effects were partially offset by a reduction in the allowed return at our Australian regulated terminal due to a regulatory reset finalized in late 2016, as well as the impact of the sale of our Canadian electricity transmission asset last year.

Our Brazilian regulated gas transmission investment has been performing well and in-line with expectations. Our initial focus has been on the execution of our integration plan and the build-out of a strong leadership group. A highly capable executive team is now in place, charged with running the business and advancing a number of key priorities. This investment also positions Brookfield Infrastructure to play an important role in the expansion of Brazil's natural gas network in the future. In addition, development activity at the nearly 4,200 km of electricity transmission lines we are constructing in Brazil is progressing as planned. Construction has commenced on approximately 1,600 km of lines, of which roughly 800 km is on track for completion by the end of the year, with the other half expected to be completed in 2018.


Our UK regulated distribution business remains a strong performer supported by the ongoing favourable dynamics in the UK residential market. During the first half of the year, sales of new connections grew by 16% compared to the same period last year. The business stands to benefit from a robust housing market and the increasing penetration of new services such as fibre-to-the-home and water connections. The high level of activity in the housing market is driven by (i) 2016 development approvals reaching the highest level since 2006; and (ii) strong new housing registrations in the first quarter of 2017, up 17% from last year, marking the highest quarter in 10 years.

Our distribution business was also selected as the preferred bidder to acquire up to 2 million smart meters from a leading energy retailer. The transaction is expected to close by the end of the year and will require up to $500 million of capital (BIP's share). If successful, this transaction will more than double the size of our existing smart meter product offering, bringing the total number of meters secured to 3.5 million, representing a nearly $1 billion investment.

The transport segment posted solid results for the quarter, generating $134 million of FFO, up 31% over the prior year. This increase was driven by contributions from new investments in toll roads and ports over the past 12 months, in addition to organic growth of almost 12% on a constant currency basis. These positive results more than offset a lower contribution from our rail assets.

Within transport, EBITDA from our toll roads increased by 14% on a same-store, constant currency basis, driven primarily by higher tariffs and growth in traffic levels. This quarter was the first period since mid-2014 where heavy traffic levels increased in Brazil, a positive indicator of an economic turnaround. At our Chilean toll roads, regulatory approval was recently obtained to proceed with engineering design work for a congestion relief project along one of our road segments. Although the project is in its early stages, this is an important milestone in its development. The total cost is estimated to be $80 million (BIP's share – $40 million), with construction scheduled to be completed by the end of 2019. Our rail operations in Australia are experiencing some near-term headwinds, predominantly from a weaker grain harvest. However, we expect this impact should be mostly offset by incremental earnings from a recently completed expansion at our Brazilian logistics business which is expected to ramp up further in the fourth quarter.

The energy segment generated FFO of $43 million in the second quarter, in-line with prior year levels. This operating group experienced improved performance at our North American natural gas transmission business, which benefitted from higher gas transport volumes, new contracts and reduced leverage levels. Results for the segment also included incremental contribution from the recently acquired gas storage assets in North America. These positive results were offset by the impact of the sale of the Channel Islands distribution business in mid-2016.


Subsequent to period end, our North American natural gas transmission business agreed to terms with its customers regarding a rate review initiated earlier in the year. These terms include a slight tariff reduction to be phased in over two years and a five-year standstill period during which customers are generally precluded from requesting further rate adjustments. A number of sizeable expansion projects are being progressed which are backed by long-term, take-or-pay contracts, and the business currently has a $300 million backlog of potential projects that we are looking to commit to in the next 6-12 months.

During the quarter, our district energy business was selected by the City of Toronto as its preferred strategic partner to develop large-scale, low-carbon thermal energy networks throughout the city. These networks are fundamental to helping the city achieve its long-term energy and climate goals and we look forward to working with city officials over the coming months to further discuss these initiatives. Over time, we would look to replicate this type of partnership in other cities near our existing district energy systems.

The communications infrastructure segment contributed $19 million of FFO for the quarter, consistent with the same period in 2016. In addition to delivering consistent and predictable cash flows in-line with expectations, our French telecommunications business achieved two key milestones during the quarter. First, it was selected to deploy a fibre-to-the-home network in Yvelines, France, which is a neighbouring region to our first network win in Val d'Oise. With this second network secured, the deployment will provide up to 195,000 households with access to ultra-fast broadband and represents an investment of $240 million of capital (BIP's share – $50 million) in the coming years. These long-term concessions service prime low-density areas and are expected to generate strong risk-adjusted returns. We remain focused on securing further concessions currently up for tender by the French government, which if successful, could result in an additional investment of up to $1 billion (BIP's share – $200 million).

Second, the business secured the exclusive right to deploy and host wireless equipment in ~3,000 railroad stations across France for 25 years, which are owned by the country's national, state-owned railway company. This represents an attractive opportunity to expand our footprint in urban areas, as well as to develop a new range of indoor offerings, such as small cells and distributed antenna systems.

**Balance Sheet**

The quarter concluded with $2.6 billion of available liquidity, which is expected to increase in the next 6-9 months as a result of proceeds from capital recycling initiatives. Heading into 2017, one of the most important financing priorities was to reduce leverage at our North American gas transmission business and refinance its near-term maturities. During the quarter, the company's shareholders injected $400 million of capital (BIP's share – $200 million) to repay its 9.625%, 2019 corporate notes. As a result of its strengthened balance sheet and solid growth trajectory, the company's credit ratings improved


substantially. The final element of the refinancing plan was the recent launch of a bond offering in the capital markets to refinance the company's upcoming maturity later this year. The outcome of this issuance was very positive, resulting in debt with an average term of 7.5 years and an average rate of 4.625%. With this refinancing completed, Brookfield Infrastructure has no major debt maturities within the next five years and less than 30% of our total debt amortizes or matures during this period.

## Water Infrastructure

Three years ago, a decision was made to expand into the water sector as it exhibits many attractive investment characteristics. Relative to the scale of our other asset classes in the portfolio, it may appear that our progress has been limited, however several strategic initiatives are underway which we expect to lead to meaningful growth in the future. Our thesis on the sector hasn't changed but our investment approach has been refined to correspond with the current investment environment.

As a reminder, our interest in water infrastructure exists because it provides arguably the most essential of services – the provision of clean, fresh water for consumption and irrigation – and is a critical input for many industrial processes. Water assets generally benefit from both scarcity and high barriers to entry, frequently producing stable, inflation-linked cash flows that are underpinned by either regulatory frameworks or long-term supply relationships with strong counterparties, such as municipal governments and industrial customers.

As the world's population grows and development and urbanization continue apace, demand for water will follow, highlighting the need for considerable additional investment in water-related infrastructure. It is well-documented that developing nations require the build-out of new projects to provide access to safe water for drinking and agricultural uses. At the same time, developed countries face issues with aging and ineffective infrastructure, and the declining quality of existing water resources. Given this growing capital need and amid ongoing concerns regarding droughts, floods and water quality failures around the world, we are observing growing interest in privately-funded solutions.

From an investment perspective, water infrastructure opportunities generally fall within one of three markets: (i) regulated water utilities; (ii) private water infrastructure, which typically takes the form of long-term contracted assets either servicing communities or supplementing larger water systems, including desalination facilities and water transportation systems; and (iii) industrial water infrastructure, supporting manufacturing and processing activities. In developing a strategy for investing in the water infrastructure sector, we have taken into account the unique characteristics of each of these markets.


Consistent with our approach in other parts of our business, our strategy in the water sector is to remain patient and focus on opportunities to leverage our competitive advantages to acquire high-quality assets for value and build scale and operating expertise over time. In deploying this strategy, our focus is on three areas:

- **Utilizing global industry relationships –** We seek to utilize our extensive network of relationships to generate proprietary deal flow. In following this strategy, we were recently invited to partner with Suez, a major player in the water industry, to invest in a water irrigation project in Peru consisting of two irrigation systems operating under favourable concessions with take-or-pay agreements and fixed tariffs linked to local and U.S. inflation. Industrial water opportunities are also a focus, which would involve leveraging our global relationships to partner with industrial and mining companies to develop and operate critical water infrastructure solutions for their production processes.

- **Leveraging local presence –** As a global investor, our team has a well-established, proactive outreach program that enhances deal sourcing capabilities. In each target market, our local people build relationships with owners of desirable infrastructure assets and identify specific opportunities with the potential to become actionable transactions. This strategy was deployed in California, resulting in a modest but highly strategic investment in a water infrastructure developer that constructed the largest water desalination facility in the U.S., located in Carlsbad, California. We established ourselves as a partner of choice having the requisite experience to support the company in undertaking its current ~$1 billion desalination project in Huntington Beach, California. The company is equally well positioned to successfully pursue additional opportunities in similarly situated markets, such as Texas and other states in the southern U.S., as well as Chile.

- **Building scale through organic growth –** At existing operations, opportunities are being sought to expand our presence in water infrastructure. For example, at our UK regulated distribution business, the company provides new water connections and water and wastewater services to end consumers, in addition to gas, electricity and fibre connections. Today, the business has over 7,600 in-place water connections and nearly 6,900 wastewater connections, with sizeable order books of over 25,000 connections for each. Additionally, our district energy business delivers an integrated multi-utility offering including energy, gas, electricity, water and recycled water services to over 16,000 customers across Australia. In Australia, the focus on water-related services includes drinking water, recycled water, wastewater services, embedded energy networks, and hot water systems at greenfield and urban infill communities. The business acts as the appointed local water utility for 11 communities, including more than 30,000 dwellings, over 8.6 million square feet of commercial retail space, and various new urban and industrial developments.


Growing our water infrastructure presence in a meaningful way is a priority. While this will take time, our experience and success in growing our district energy operation to a total enterprise value of almost $2 billion exemplifies the strategy and scale we will target in water over the next few years.

## Outlook

From a global macroeconomic and political perspective, the second quarter has been undoubtedly eventful. Headlines were dominated by alleged political scandals and election results in Europe and North and South America. However, none of these events have had a meaningful direct impact on our overall business, and business conditions are solid in all of our key markets.

There have been three areas receiving attention from investors as it relates to the current economic environment. They are (i) potential weakness in the U.S. dollar (this is a reversal from earlier in the year); (ii) higher interest rates; and (iii) asset valuations. The level of discussion around rising interest rates and asset valuations has ebbed and flowed over the years and it’s beyond our ability to predict when or if there will be significant changes to either. However, we are confident that Brookfield Infrastructure’s investment and corporate finance strategies will allow the company to prosper in any economic conditions. Elements of our strategy that provide us with confidence in looking ahead are:

- A globally diversified business and prudent hedging policy to insulate cash flows from changes in the U.S. dollar;
- A well-laddered debt maturity and fixed rate profile, which will mitigate any near- to medium-term impact from rising rates; and
- A large $2.4 billion capital backlog and a $1.5+ billion pipeline of potential organic growth projects, which provide ample opportunity to deploy capital accretively as we continue to advance value-based M&A initiatives.

All in all, our outlook is positive as our financial position remains strong and much of the business is underpinned by networks with high barriers to entry and cash flows that are highly regulated and contracted. We are focused on several attractive potential investments in the communications infrastructure and transport sectors. While a number of these opportunities are in early stages, our pipeline of transactions is robust.

On behalf of the Board and management of Brookfield Infrastructure, we would like to thank all of you for your ongoing support. I look forward to updating you on our progress.


Sincerely,

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

***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," "should," "could, "outlook," "target,", "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 pursuit of projects in our pipeline, the future performance of those and other recently acquired businesses and growth projects, the impact of planned growth projects and initiatives on our existing businesses, commissioning of our capital backlog, 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, our ability to execute capital recycling initiatives, statements regarding future trends in the infrastructure industry, the continued growth of Brookfield Infrastructure and its businesses in a competitive infrastructure sector, and future revenue, distribution prospects in general and our expectations regarding growth in distributions and returns to our unitholders. 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, our ability to achieve the milestones necessary to deliver the targeted returns to our unitholders, which is uncertain, 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, our ability to secure favourable contracts, 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.*