



Brookfield Infrastructure Partners L.P.

2011 Third Quarter Results

Conference Call Transcript

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Speakers: **Tracy Wise**
Vice President Investor Relations

Samuel Pollock
Chief Executive Officer

John Stinebaugh
Chief Financial Officer

OPERATOR:

At this time, I would like to turn the conference over to Tracey Wise, Vice President, Investor Relations and Communications. Please go ahead.

TRACEY WISE:

Thank you, Operator, and good morning. Thank you all for joining us for Brookfield Infrastructure Partners' Third Quarter 2011 Earnings Conference Call.

On the call today is Chief Executive Officer, Sam Pollock, who will discuss highlights for the quarter and provide comments on our strategy and the outlook for our business. Also joining us is John Stinebaugh, our Chief Financial Officer, who will review our financial results. Following their remarks, we look forward to taking your questions and comments.

At this time, I would like to remind you that in responding to questions and in talking about our growth initiatives and our financial and operating performance, we may make forward-looking statements. These statements are subject to known and unknown risks and future results may differ materially. For further information on known risk factors, I would encourage you to review our annual report on Form 20-F, which is available on our website.

With that, I would like to now turn the call over to Sam Pollock.

SAM POLLOCK:

Thank you, Tracey, and good morning, everyone.

In the third quarter, we posted another strong performance, comparable to the first quarter of the year. We generated funds from operations of \$97 million, as results from our utilities platform offset the seasonal weakness that we forecasted in our timber business. Additionally, we executed a number of transactions that further strengthened Brookfield Infrastructure and solidified our foundation for future growth. For instance, our Australian railroad signed two commercial track access agreements and we closed a A\$350 million non-recourse construction facility to finance a significant portion of our railroad expansion program. Also in September, we executed definitive agreements to invest \$150 million in a key ring road and tunnel in the transportation network of Santiago, Chile. With this investment, we

have taken our first step in establishing a toll road platform that we anticipate will generate significant opportunities for growth.

After quarter-end, we successfully raised approximately \$660 million of net proceeds in an equity issuance. While we had additional capacity on our line of credit to fund the balance of our rail expansion and the toll road investment, we decided that it was an opportune time to raise permanent capital to bolster our financial resources.

Following the equity offering, we have a very strong balance sheet with over \$700 million of corporate liquidity. As the Europe debt crisis persists, economic uncertainty and volatility in the capital markets have increased. We believe that we are now better positioned to capitalize on opportunities that could materialize in this environment.

With these brief comments, let me now turn it over to John to review our operating results.

JOHN STINEBAUGH:

Thanks, Sam. Now, I'll spend a few minutes walking through our results. In my remarks, I'll focus on proportionate FFO. We highlight this metric because we believe it's a good proxy for cash flow from our operations. I'll also focus on AFFO yield, which is equal to FFO less maintenance CapEx, divided by our invested capital. This is a measure of how effectively we deploy our capital.

In the third quarter, as Sam mentioned, we posted FFO of \$97 million, or \$0.62 per unit, compared with \$55 million, or \$0.52 per unit, in the third quarter of 2010.

This 19% increase was largely attributable to accretion from our merger with Prime in the fourth quarter of 2010.

Our results also reflected a strong performance from our utility segment. After deducting maintenance CapEx, our AFFO yield was 10% on invested capital of \$3 billion.

In our utilities segment, we generated FFO of \$77 million, versus \$43 million in the prior year. In addition to the benefits of the Prime merger, our results reflected significant increase due to the rate reset at our Australian coal terminal, which was effective January 1st of this year, a favorable

Australian dollar and strong results from our U.K. connections business. Developer contribution in our U.K. connections business were \$9 million higher than the prior year and \$2 million higher than the prior quarter. We continue to build a strong order book in this business. Additionally, our returns on incremental capital are quite attractive as the percentage of connections that we've built internally increased to approximately 50%. For the quarter, the AFFO yield for this segment was 19%.

In our Transport and Energy segment, we recorded FFO of \$39 million compared with \$20 million in the third quarter of 2010. Aside from the impact of the Prime merger, our results reflected a strong performance from our U.K. port operation, offset by weak performances from our North American gas transmission business and our Australian railroad.

Our U.K. port is continuing to negotiate a long-term contract with Thai steel producer, SSI, to serve the expansion of the coarse steel mill, and we expect to begin generating revenues under this contract in the first quarter of 2012.

During the quarter, our Australian railroad was negatively impacted by seasonally higher maintenance expense and a strike action by the locomotive drivers of one of the above-rail operator's owner systems. Overall, the AFFO yield for our transport and energy segment was 6%.

Our timber business generated \$5 million of FFO for the quarter. These results were solid compared with last year, but declined relative to the previous quarter. During the quarter, realized export prices increased by 15% and realized domestic prices increased by 16%, over last year, as strong demand from Asian markets supported prices in the domestic market. In response to this price environment, we increased our harvest by 30%.

For the quarter, exports accounted for 48% of our sales. We continued to experience strong demand from the Korean and Japanese markets, however, demand from China declined compared to the previous quarter, as construction work slowed down during summer months. The AFFO yield for our timber business was 4% for the quarter.

On October 26th, we issued 28 million Brookfield Infrastructure units at \$24.75 per unit under our shelf registration in the U.S. and Canada.

In total, we raised net proceeds of approximately \$660 million. As part of the offering, Brookfield Asset Management invested \$200 million to maintain its 30% ownership stake.

Proceeds from the offering will be used to fund the equity investment in our Australian railroad, including the pay-down of our credit facility, which had been primarily drawn in the past nine months to fund our expansion program, as well as the \$150 million investment in our Chilean toll road. Following the equity offering, we have corporate liquidity of over \$700 million.

Also in October, we executed the A\$350 million non-recourse construction financing for our railroad. The financing is essentially an upsizing of our existing credit facility, with an interest rate of approximately 8% and a maturity in 2014.

The terms of the financing benefited from a A\$300 million security package that we're able to secure from a customer to support its take or pay obligation.

Once we complete construction of our expansion program and volumes ramp up to take-or-pay levels, we plan on refinancing this bank facility in the capital markets.

Now I'll turn the call back over to Sam to walk through our growth initiatives and outlook.

SAM POLLOCK:

Thank you, John. Let me begin with a summary of our toll road initiative. During the quarter, we signed agreements to make a \$150 million investment in a 33-kilometer toll road and tunnel that is a key artery in the transportation network in Santiago, Chile.

We expect to close the transaction in the fourth quarter of 2011, and we are targeting levered after-tax returns on equity consistent with our long-term investment objectives of 12% to 15%. We are excited about this investment, as it exceeds our toll road platform with a high-quality asset in a high-growth country that has a solid concession regime.

Our Chilean toll road is part of a ring-road around Santiago, the capital of Chile, and accounts for more than 40% of economic activity within the country. The toll road is currently in a ramp-up phase as the initial segment was completed in 2006 and a tunnel was completed in 2009.

Over the coming years, our Chilean toll road should generate substantial revenue growth. The Chilean economy has been expanding rapidly, which is driving significant traffic growth as the standard of living within the country increases. Over the last 20 years, Chile's motorization rate increased from 78 vehicles per 1,000 inhabitants to 180. Yet, it's still only 23% of the motorization rate in the United States.

Furthermore, our toll road is positioned to grow at above average rates as it connects the international airport and residential developments in the northern and western regions of the city to the high-growth Las Condes commercial area. Due to significant excess capacity, we expect to be able to capture this vehicle growth with minimal capital expenditures. Furthermore, in Chile, the concession regime permits annual tariff increases of Chilean CPI plus 3.5%. Toll road operators are also allowed to charge congestion tariffs to the extent that traffic on segments of the road exceed certain threshold levels. This pricing framework will enable us to capture further upside as vehicle traffic on our road increases.

More broadly, we are pleased to establish a toll road platform. This asset class generates stable cash flows that tend to increase with population and economic growth. With governments and corporations facing increasing liquidity constraints, this platform is expected to have significant brownfield and greenfield growth opportunities on a global basis. In this uncertain economic environment, we believe that there's a tendency for buyers to become overly pessimistic regarding prospects for the global economy. If this is the case, we will seek to make additional high-quality toll road investments for good value.

Now turning to our Brookfield rail expansion, during the quarter, we continued to advance this expansion with the signing of a 10-year commercial track access agreement with Worsley Alumina, and subsequent to quarter-end, another 10-year commercial track access agreement with Mineral Resources Limited. The MRL contract is our second largest, with a minimum volume commitment of 4.4 million tonnes per annum. We have now signed five of the six commercial track access agreements that we targeted for 2011, accounting for 93% of the projected revenues of our expansion program. We expect to sign our sixth agreement in the fourth quarter.

The total capital cost of our Australian railroad expansion program is estimated to be around A\$600 million, predominantly invested over the next two years. While we've made significant progress

in our construction work associated with these projects, a strike action at an above-rail operator briefly halted construction at one of the projects during the quarter.

To date, we have invested approximately \$175 million of the estimated total cost of the program, while we have lost some productivity due to labor issues, we currently expect to make up lost time and complete the project on time and on budget.

Now looking to the quarters ahead, we believe our diversified portfolio of businesses will continue to perform well. Last quarter, we forecasted that the seasonal slowdown in demand from the Chinese markets, which impacted our timber results this quarter. Our management team recently returned from a trip to China, and based on their observations, we believe that timber demand from China may be a bit softer than we initially anticipated in the fourth quarter, due to a slowdown in residential commercial activity. In addition to that, we believe that there is significant excess inventory of logs at a number of the ports and there's an impact from reduced credit in the market. However, we believe that the underlying long-term fundamentals of the Chinese market remain strong, so we expect to see price recovery in the first quarter of 2012.

In Western Australia, the outlook for the 2011 grain harvest is very positive, as there have been good to excellent rains in the grain growing regions. If good weather conditions persist, the current estimate is a harvest of upwards of 12 million tons, over twice 2010 levels. This will translate into significant incremental revenues for our Australian railroad during 2012.

As the sovereign debt crisis persists, we are seeing a number of opportunities to deploy capital in companies that are suddenly in need of liquidity. Our focus is directed towards a select number of investments that will provide attractive risk-adjusted returns and enhance the strategic position of our operating platforms. We are also seeing a new willingness of mining, energy and construction companies to consider alternative approaches to raising capital to finance their vast needs, such as sales of their infrastructure assets or joint ventures. We believe that we are favorably positioned to assist them with our track record of reliably owning and operating critical infrastructure assets in partnership with other users and owners.

We also continue to seek opportunities to expand our backlog of organic growth projects. Despite recent weakness in commodity prices, we are seeing no signs that the global expansion of capacity by

mining companies is abating. As our clients in Australia and South America proceed with their growth plans, we will continue to work with them to increase the throughput of our railroads, our transmission lines and our coal handling operations to meet their needs. As always, we will try to do this in a measured manner, whereby we mitigate our development and construction risk in ways we believe are appropriate.

With that, Operator, I'd like to turn the call back over to you, to open the lines for questions.

OPERATOR:

Thank you, sir. We will now begin the question-and-answer session. The first question today comes from Cherilyn Radbourne of TD Securities. Please go ahead.

CHERILYN RADBOURNE:

Thanks very much. Good morning. First question --

SAM POLLOCK:

Good morning.

CHERILYN RADBOURNE:

...that I wanted to ask was on DBCT. Your FFO there was quite a bit higher on a sequential basis. So I wondered if you could just elaborate on that a bit and help us think about how to model that on a quarterly basis? Is Q3 a good run rate or should we be looking at an average of the first nine months?

JOHN STINEBAUGH:

Hi, Cherilyn, it's John. In terms of DBCT, we did have a catch-up payment that we received in the third quarter, associated with some costs that the regulator decided that we should recover on a retroactive basis. So I think if you take a look at it, Q2 would be a better run rate going forward, for that business.

CHERILYN RADBOURNE:

Okay. And then, bouncing to the capital program around the railroads just curious whether the CapEx there are subject to any kind of inflationary risk, it's a real theme for the mining companies. Or is that something that you've got contractual arrangements to contain?

SAM POLLOCK:

Obviously there's always is some modest risk associated with the inflation. However, I say in our case, it's relatively modest and I'd say there's two factors for that. The first one is that a large proportion of our costs in relation to sleepers and rail is that we have already acquired or have contracts in place for, and those would be locked down. And secondly, the delivery time that is associated with our projects is relatively short. And so, we wouldn't expect that there would be any meaningful cost increases in the short run.

Just as a follow-on comment to your question, as you saw on our results, there are some industrial actions that are taking place. They're not associated with our project in particular, but in and around Western Australia and other parts of Australia. And they do have a modest impact on our project and we saw a slight delay this past quarter and our hope is that we won't see any more of those. But obviously that is one of the risks that we keep an eye out for.

CHERILYN RADBOURNE:

Okay. And then last one for me, you expressed a great deal of optimism in your letter regarding the opportunity to establish the toll road platform, and I was just curious whether you think that's an opportunity predominantly in developing markets or both developing and developed markets?

SAM POLLOCK:

This is Sam again. The opportunities that we are seeing are for both developed and developing markets. I think the greenfield portion is primarily related to developing markets. But as we mentioned, we are in discussions and have been working with a number of toll road owners and operators and they have portfolios that are -- some that are brownfield, that are in developed countries today and then they have a business that's largely growing in developed countries. And our hope is that we can find a transaction that works for us, where we can get access for both of those types of assets.

CHERILYN RADBOURNE:

And with respect to your comment that you think in this environment, buyers have a tendency to be pessimistic regarding growth prospects, have you actually observed people becoming less aggressive in how they're bidding on this type of asset?

SAM POLLOCK:

I would say, yes, absolutely. Our sense is that in today's market the large proportion of infrastructure capital is being directed towards utility-type contracted businesses that have locked in cash flows and very high yields. And this was just a sense of the nervousness that many investors had today, just regarding the outlook for economic growth. And so there's no doubt that that is where the large proportion of capital is being directed and as a result, you're seeing returns in that segment, being pretty compressed to, in some cases, high single-digits.

On the flip side, our sense of the market is that the number of people who are looking at GDP sensitive assets, which toll roads would be one, ports would be another, are fewer than there have been in the past. And as a result, the return opportunity there for investors such as ourselves is better than it ever has been.

CHERYLYN RADBOURNE:

That's great color. Thanks. That's all for me.

OPERATOR:

The next question comes from Brendan Maiorana of Wells Fargo. Please go ahead.

BRENDAN MAIORANA:

Thanks. So, Sam, just a follow-up, I mean, your view is not that the toll roads don't have a reasonable amount of operating or EBITDA risk, it's just that you think that the risk is -- that investors are looking at is a little too high today, relative to what BIP's outlook would be for those assets?

SAM POLLOCK:

Yes, hi, Brendan. Yes, I think our view is that historically toll roads have been an asset class we've found it very difficult to find the right entry point into. And that's primarily because people always had very high expectations for growth in relation to motorization rates or GDP growth and the amount of capital -- the way they were financing them. And today, the bank market has changed for those type of assets. The amount of leverage going into them is far lower than it ever has been. So they're not -- it's not driven off of an unsustainable cost of capital model. And today, people's view on growth is much lower. And we think, on a risk-adjusted basis, this is one of the best times ever to get into an

asset class that we actually like and think that there's going to be a significant need for it growing forward -- going forward.

BRENDAN MAIORANA:

Okay. That's helpful. And then just in terms of the excess capital that you guys raised when you did the offering last month, how much of that is really driven by transactions that you're fairly far down the road on versus just kind of what you see happening in the opportunity set that's out there. I mean, are there a fair number of transactions that you feel confident that you guys will get done and that allowed you the confidence to go out and raise a fair bit of excess capital? Or is it kind of what you see developing out there in the market that you think you may be able to put that capital to work?

SAM POLLOCK:

Yes, hi, Brendan. Let me start and I'm going to probably turn it over to John and he can give you sort of a sense of the excess capital because I think the amount of excess capital is maybe not as significant as you would imagine. Because I think to a large extent, what we've done is finance our growth projects that we've already committed to on a permanent basis. But John will get into numbers in a second.

With respect to the prospects in front of us, I actually believe that of any period over the last, probably, two years, this is probably the point in time where we've seen the greatest amount of liquidity shortage in the market, particularly in Europe, just with the banks deleveraging. And as a result, while there's never any assurance that you can get transactions over the line, particularly in this type of environment, we think that our pipeline is as strong as it's ever been. And we are hopeful that we can complete transactions. It's just, obviously, we can't give you assurance that they can get done. But from a pipeline perspective, this is probably the heaviest pipeline we've had in a number of years.

JOHN STINEBAUGH:

And, Brendan, it's John. Just to maybe walk through the numbers on use of proceeds, if you take a look at the offering, the total size was net \$660 million. And as we indicated in our public disclosure, \$150 million of that is to be used for AVN, when that closes in the fourth quarter. And then \$150 million is to fund the remaining equity requirement for Brookfield Rail. And if you take a look at our credit facility, which, as we've talked about in the past, was never envisioned to be permanent capital, it's bridge capital, we're also paying down \$312 million of the credit facility, that was the

balance as of the end of Q3, so that's a total of \$612 million, compared to the equity offering of \$660 million.

BRENDAN MAIORANA:

Yes, that's helpful. And then, John, just kind of as we think about the Brookfield Rail and taking the permanent -- taking the construction facility to a permanent facility, I guess a couple of questions. One, is there an amortization schedule that's likely for the permanent facility? And how would the amortization of the debt kind of compare to what you think is the economic depreciation of that; of a rail project? And how do you think the economic depreciation of the rail project compares to what you guys are reporting as maintenance CapEx for your rail asset?

JOHN STINEBAUGH:

Okay. Let me address that in a couple of pieces. First of all, when we end up refinancing the Brookfield Rail facility, which we'll do when we complete construction and the take-or-pay contracts ramp up, first of all, we think it's going to be a very financeable asset. As we've indicated, for that railroad, take-or-pay revenues will represent 65% of our revenues. And we think the risk profile of that business will change pretty significantly.

So with a permanent financing, we think we will be able to up-finance. We haven't pinned down exactly what the magnitude of that is, but nonetheless, we think it'll be able to handle a greater amount of debt than is presently financed on a debt-to-cap basis.

From a maintenance CapEx standpoint, the maintenance CapEx profile after we end up finishing this expansion program, we think, is going to end up being a lower percentage of EBITDA in the near to mid-term because we will have invested a substantial amount in upgrading and expanding the system. And obviously, over time, the percentage of maintenance CapEx to EBITDA will increase, but we think the cash flow conversion of that asset is going to be significantly increased, after the program is finished.

And your last question, regarding amortizing debt, that's one thing we are going to work hard to try to avoid. I think there might be some arguments from lenders that there should be some amortization because the contracts are associated with mines that have got finite lives, but this is a business that we're going to continue to invest in and we think we've got significant opportunities to continue building

it out. So, we'll make arguments as strong as we can that this should have permanent capital with no amortization to finance it on the debt side.

BRENDAN MAIORANA:

Oh, that's helpful, but I just -- I kind of want to just get a sense of the -- so as you guys look at the economic depreciation and we think about the AFFO yield that's being -- cash flow that's being split off from that business, I mean, is that -- is the AFFO yield, do you think, a real sustainable long-term cash flow yield, such that the maintenance CapEx that you guys are putting into that business mimics the economic depreciation? Or do you think that the -- that part of the AFFO yield is a return on capital, part of it is a return of capital?

JOHN STINEBAUGH:

I think, Brendan, the -- from investing capital to maintain the business, we think the maintenance CapEx is representative. And as I said, it will increase over time, as the average age of the system following the expansion program increases. But we think the maintenance CapEx is going to be representative for a pretty good while.

The other aspect of your question, I think, is going to be a function of the revenue side of the equation and how sustainable revenues are. And that's going to be driven, with the expansion programs, by the customers that we're serving. And we have got contracts that, on average, are 15 years. But they support reserves that have got lives well beyond 15 years. But ultimately, the life of the revenue stream for the expansion program is going to be a function of the reserves of the customers that we're supporting.

BRENDAN MAIORANA:

Okay. All right. Thanks.

OPERATOR:

The next question comes from Andrew Kuske of Credit Suisse. Please go ahead.

ANDREW KUSKE:

Thank you. Good morning. A big broad question to start. Just when you look at western Australia and the rail opportunity that you have, that's a fairly big opportunity that you're currently investing in.

But have you thought about western Australia in, really, a blue sky sense, not just rail, but you started to look at the downstream port opportunities, how big do you think that capital opportunity is over the next, say, five or 10 years?

SAM POLLOCK:

Hi, Andrew. Maybe I'll start with that one and John can chime in.

Yes, look, I think that's a -- that's a great question, and you've hit on one of our main business development activities that's currently underway within the Company. We see a tremendous amount of bottlenecking opportunities -- or debottlenecking opportunities in the six ports that we connect to on the rail side. There's probably three of them in particular that we are focused on, that we think from a community perspective, there's lots of support for people like ourselves to work with the government-owned port operators and some of the other mining companies to expand, to facilitate, additional growth and those activities are underway. The dollar magnitude of the capital needed to enhance those ports, is probably in excess of \$500 million over the next three to five years. So the opportunity there is very significant.

There's also, you may be aware of a greenfield port, that would be primarily dedicated to iron ore shipments, just north of the Geraldton Port, which is where a large proportion of our Midwest volumes will go out. It's a key port for the state to see developed. They're talking about eventually getting it up to north of 50 million tonnes, maybe even closer to 100 million tonnes of export capacity. That's a project that is currently in some difficulty. The developers behind it have not been able to progress it, but there's been a lot of effort with -- in particular, a lot of the Chinese companies, to try and get that project up and running again. And given its proximity to our rail line, and the fact that a number of our customers would like to see that expansion take place, we're doing everything we can to help make that happen.

So that's a project that's probably five years away, as far as when it might come on stream. It might be even a little bit longer than that. But it's something that needs to sort of take shape, relatively soon, if that's going to happen. And again, the dollar magnitude of that project is in the billions of dollars. And then on top of that, there is many more.

So those would be the main projects within our footprint and ones that we'd be most keen on seeing happen. And -- but up in the Pilbara region, just north of where our rail line is, there is also a significant amount of infrastructure being developed.

ANDREW KUSKE:

I guess that's actually very helpful color and commentary, but in the Pilbara region, Rio's -- Rio Tinto's building most of their own infrastructure, are they not?

SAM POLLOCK:

They are one party up there. There are a number of new mining companies that are developing projects and I have to say that we, today, are not focused on the ports up in that area. We don't expect to have any involvement with Rio and some of the other majors. But there are a number of new mining companies who are developing projects that do need capital to develop their infrastructure. It's something that could arise in the future, but as I was trying to indicate, our focus is primarily in and around our rail footprint.

ANDREW KUSKE:

Thank you for the perspective. Just a bit more of a detailed and maybe nit-picky question. Just on, really, the tuck-in acquisition of Cross Sound Cable, I guess when I -- if I recollect correctly, that asset was roughly about \$200 million or \$225 million of asset value, heavily levered. And so you spent \$9 million to pick up a 23% stake. How do you think about value on that asset? And I guess is the 77% that's remaining outstanding, is that really controlled by the banks at this stage?

JOHN STINEBAUGH:

Andrew, it's John. In terms of the ownership of it, we bought it with some institutional partners, so in total we control 100% of the equity and BIP's stake is 23%.

In terms of how we look at the value of that asset, it's a very critical subsea cable that connects Bridgeport, Connecticut to Long Island. And it's got a long-term contract and it's an availability-based contract. So it's got very stable cash flow.

We think that there is upside that we can potentially unearth to earn returns that would start to get pretty interesting to us, by -- we've got a long-standing relationship with the Long Island Power

Authority. So to the extent that we can extend the contract, firm up the terminal value, and ultimately, potentially, Long Island may well need additional cables, and having the expertise owning and operating the subsea cable would position us pretty well for that as well.

ANDREW KUSKE:

So I guess, just for clarity, when the Prime recap was done, and you took the assets that were -- you put them as held for sale, which was Cross Sound and AETD sterilized effectively, with Cross Sound. Was that helped by Brookfield America's Infrastructure Fund?

JOHN STINEBAUGH:

Well, it was initially just on the BIP balance sheet, classified as held for sale. It had no equity value, because the liabilities were essentially equal to the asset value.

So, we ended up negotiating a deal with the bank to acquire it from them and recapitalize it, providing them with partial pay-down of the loan they had outstanding.

SAM POLLOCK:

We essentially bought it at a discount.

ANDREW KUSKE:

Okay. I appreciate that. Thank you so much.

OPERATOR:

The next question comes from Robert Kwan of RBC Capital Markets. Please go ahead.

ROBERT KWAN:

Good morning. You were speaking about some of the potential opportunities or companies needing liquidity. Were you thinking more of picking off assets or are you potentially hunting down a larger corporate transaction?

SAM POLLOCK:

Hi, Robert, it's Sam. Robert, we're doing both. I think we would be very excited to, in fact, pick up a full platform with a diversified set of roads and an O&M business, and in addition to that, we are

looking at selected Brownfield toll roads that are very high-quality assets that -- which fit nicely into our portfolio. And I'd say both efforts are opportunistic and we're seeing opportunities in both cases.

ROBERT KWAN:

Okay. And I guess just looking at BIP's size, you had previously talked about transformational size-type acquisitions probably don't come around for every few years or so, but certainly in market weakness, that's when you've got that opportunity. So against the backdrop of what you were talking about with the concerns, are you seeing greater opportunities for something of a significantly larger size?

SAM POLLOCK:

There are a number of varying size transactions out there. I guess I would call them -- the ones that we're currently involved with, our size in the context of our current capabilities and finance abilities, I wouldn't say any of them are of a magnitude that would change the shape of the Company.

ROBERT KWAN:

Okay. That's great. Just the last question I have is I guess specifically on kind of the toll roads platform, but even potentially a little more generically, when you look at what you did down in Chile as a kind of early asset with a big ramp-up, you had the luxury of a low upfront return and there's some dilution on a per-share basis. How do you think about that going forward? Would you like to get into more mature assets, especially as you get larger, or you still feel comfortable with something that has a very low return up front?

SAM POLLOCK:

Robert, look, I think the one message we hopefully can convey to the analysts and investors is that we are total return investors. So when we look at making acquisitions, it's over the life of the assets and on that basis, we think that they're all creating value for the Company as a whole. And we appreciate that when we buy assets that have a ramp-up, that the initial years, it may not be accretive, and using that word that's often used for transactions, accretive to first year results, but we think over the longer term, it creates value for the Company. And frankly, we have the same challenge with organic growth initiatives as well. It's something that as we continue to take advantage of these high-return growth projects, they don't all contribute in the first year, and in fact, we end up with this CWIP that you can see on our balance sheet that could be a couple of hundred million dollars at one time. And hopefully,

people will appreciate that that is value that's going to be contributing to the Company in the coming years. And so, we probably need to do a better job of educating everyone on the growth in the business because unfortunately, it doesn't all come in year one.

JOHN STINEBAUGH:

But nonetheless, we are very mindful as we look at making investments of our distribution policy and maintaining the growth of our target of the 3% to 7% that we have communicated.

ROBERT KWAN:

And I guess that's what a little bit I was getting at, that you've kind of reiterated that 60% to 70% payout ratio target. And to the extent you're taking on, if you find some great acquisitions, that you have kind of the lower upfront return, what is the flexibility to operate at the very high end, or even maybe a little bit through the high end? Or are you very kind of focused on staying within that 60% to 70%?

JOHN STINEBAUGH:

How we've positioned it is 60% to 70% of what we think the sustainable cash flow of the business is. So to the extent that there's a business that's ramping up, then we might feel comfortable being at the higher end of that target until we ended up growing into that cash flow, but we don't necessarily focus on just what the current cash flow is. We're looking at more what the 60% to 70% of the sustainable cash flow of the business.

ROBERT KWAN:

Okay. That's great. Thanks very much.

OPERATOR:

The next question comes from Michael Goldberg of Desjardins Securities. Please go ahead.

MICHAEL GOLDBERG:

Thank you. I'd actually like to follow up on that question. Through fiscal '11, your distribution has been below the 60% to 70% target payout on sustainable FFO. So are current levels of FFO unsustainable or is your payout truly below your target? Also, if I look at the year-to-date distribution of 101, add to it the top end of your growth objective, it would still be below 60% of your \$189 million

year-to-date FFO. So what should I conclude about either the sustainability of your FFO or your intent to stick with your payout objective? And finally, given the growth opportunities that you see, are you still comfortable with the 3% to 7% distribution growth, or in the near to midterm at least, could it run above that rate?

JOHN STINEBAUGH:

Okay. It's John. There were a few questions there. I'll try to tackle them all. In terms of -- you're absolutely right, if you take a look at our dividend payout for the quarter and for the nine months, it's about 56%. It is lower than the 60% to 70% that we articulated and if you go back one quarter, we were probably closer to 50%, if I recall the exact number, which was the reason why we ended up doing a significant dividend increase that was outside of the normal evaluation process for the dividend that we establish, which is in February of the year.

So we felt it was appropriate to do, just in light of how the business has been performing, how strong the business has been performing, and we're committed to reevaluating the dividend again in February based on where the business is and where the prospects are, and then we'll take what we think appropriate action is.

So I definitely want to communicate that we think the cash flow of the business is very sustainable. In fact, we think it's going to be growing at strong levels as we start to get contribution from the growth cap ex that we're investing in Brookfield Rail, as well as our other growth initiatives.

In terms of the level of dividend growth, as we've communicated in past quarters, as we look at the business going forward, and the contribution from the cap ex that we're investing, we think we'll be at the high end or potentially higher in the near term, of that guidance of 3% to 7% that we've given and we would reiterate that.

MICHAEL GOLDBERG:

Thank you.

JOHN STINEBAUGH:

Did I miss any questions?

MICHAEL GOLDBERG:

Can you just repeat? I may have missed -- what was your comment about your comfort about the 3% to 7% growth, or if you'll be -- or at least in the near to midterm at least, it could run above that rate.

JOHN STINEBAUGH:

Yes, well, we've said in the past, which we reiterate today, is that we think we'll be at the high end, or potentially higher, for the near to midterm just based on how we look at the prospects of the business.

MICHAEL GOLDBERG:

Thank you.

OPERATOR:

There are no further questions at this time. I'll turn the call back over to Mr. Pollock for any closing comments.

SAM POLLOCK:

Great. Thank you, Operator, and thank you, everyone, for participating on our call today and we look forward to updating you again on our progress early in the New Year.

OPERATOR:

Ladies and gentlemen, this concludes today's conference call. You may disconnect your line.