

26 March 2012

Export Credit Arrangements
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Sir/Madam

In the Draft Report (Report), dated February 2012, the Productivity Commission (Commission) provided its findings from its inquiry into Australia's export credit arrangements. It is our view that conclusions in the Report may have been reached based on incomplete or inaccurate information. We would like to provide comments in respect of those transactions involving affiliated entities of Brookfield Asset Management (Brookfield).

The focus of the inquiry was the Export Finance and Insurance Corporation (EFIC) and included commentary regarding several transactions undertaken by EFIC. One of these transactions involved the provision of an insurance policy to Brookfield Rail, a wholly owned subsidiary of Brookfield Infrastructure Partners. Another transaction involved the provision of bonding to Brookfield Australia Investments.

Brookfield Rail

In the 2011 Brookfield Rail transaction, EFIC underwrote an insurance policy (Policy) that provided coverage for the failure of a foreign sovereign entity in meeting its obligations to the company. The Policy, known as non-honouring sovereign insurance, was essential to supporting Brookfield's equity investment and the securing of a construction facility to fund a A\$565 million rail investment program in Western Australia.

This investment program involves the upgrade of ~200-kilometres of Brookfield Rail's 5,100-kilometer network to allow for the shipment of iron ore by Karara Mining Limited (Karara) from its mine to port. This portion of the railway network is predominantly used for grain transport and thus requires upgrading to be able to transport commodities such as iron ore. Based on the primary users of the upgraded tracks it is estimated that total exports supported would be at least A\$10 billion over the life of the policy and potentially up to A\$30bn.

There was no obligation on Brookfield Rail, regulatory or otherwise, to invest in the track upgrade unless it determined the commercial rationale warranted the investment and the assumption of associated risks. In the Report, it was concluded that Brookfield Rail would have other options to secure finance, including raising equity from shareholders, rather than seeking financial support from EFIC. Contrary to this conclusion, Brookfield Rail was required to secure additional debt financing in order for the investment program to provide the return profile required to warrant the investment of equity by its parent.

Due the indivisibility of this portion of track from the overall network, traditional non-recourse project financing structures could not be implemented. As such, the construction facility needed to adhere to the framework for additional indebtedness provided for under Brookfield Rail's existing syndicated loan facility.

The additional indebtedness framework requires, among other conditions that sufficient security (Security) be provided to support any commercial project associated with capital expenditures and increased indebtedness. The Security form acceptable to the lenders was that a bank guarantee or letter of credit be provided on terms agreed by the majority of lenders from an OECD financial institution.

Brookfield

While Karara could source security from a foreign sovereign owned financial institution, the counter-party (non-OECD financial institution) was not sufficient to support the required financing for the project. As such, EFIC was engaged to bridge the credit gap to allow for the requisite financing to be secured as well as support the substantial equity investment for the Project.

Contrary to an assertion in the Report, the lender group would not accept a non-ECA insurer nor was it expected a policy of comparable duration would be available in the private market.

The arrangements between EFIC and Brookfield Rail were completed on commercial terms after a significant period of negotiation. These negotiations involved not only EFIC and Brookfield Rail but also the lender group and reinsuring ECA.

Key metrics related to the Brookfield Rail upgrade project include:

Total Project Direct Investment	A\$565 million
Australian Content	~95%
Total Construction Workforce	700FTE (at peak) ~1 million man hours to be worked

In providing our comments regarding the observations of the Commission, we have attempted to highlight the key elements identified in the Report. This was an extremely complex financing involving multiple interests that required EFIC's involvement to reach completion. The transaction was closed successfully in 2011 and the investment program is currently on schedule for completion in the second half of 2012.

Brookfield Australia Investments

In the Report, a A\$48 million bonding line to Brookfield Australia Investments was identified as being provided by EFIC. For purposes of clarification, this relates to GBP denominated bonds that were provided by EFIC due to an inability to source such bonds in the private market due to both project and market specific conditions. We would be pleased to discuss more fully the details of the projects, the terms of bonding and our opinion that this was not otherwise available in the private market.

Concluding Commentary

Brookfield is a global organization with extensive experience in working with governmental or quasi-governmental agencies. Our experience has been that EFIC is a highly professional and commercial organization that serves Australian interests effectively. We have no doubt that through EFIC's involvement, billions of dollars of trade has been facilitated that would not have otherwise occurred.

The Report concludes that virtually all Australia's exports take place without EFIC's assistance. This statement offers no consideration for the potential of EFIC to facilitate growth in exports through its support of key infrastructure development projects, such as in the case of Brookfield Rail and several others cited in the Report.

If further engagement were of interest to the Commission, we would be pleased to make available the appropriate senior representatives of our organization.

Yours faithfully,

Russell T. Proutt
Chief Financial Officer