Letter to Shareholders

Overview

We reported strong results in 2016. FFO for shareholders was $3.2 billion, or $3.18 per share. Results across the board were good, with particularly strong growth in our asset management operations. Most of our U.S. businesses performed well, with the market generally continuing to strengthen. The exceptions were those connected to natural gas and electricity generation, which did not achieve expectations as a result of both low water levels and pricing.

Institutional investors continue to allocate greater proportions of their funds to real assets. This enabled us to raise $30 billion of capital for private strategies in our latest round of fundraising, which included closing what are among the largest infrastructure and real estate funds globally. We also raised approximately $2 billion of capital for three of our listed partnerships in 2016 to fund investments alongside our private investors.

As part of the shift to real assets, we are now starting to see greater allocations from traditional fixed income portfolios into private credit strategies. We have been expanding our credit capabilities for many years, and are now fundraising with meaningful capital for these strategies. Over time, this could result in the addition of significant assets under management.

Our investing themes today continue to revolve around utilizing our competitive strengths of size, global footprint, and operating capabilities. We are allocating capital to most of our investment markets, but disproportionately to the emerging economies where we believe we are still buying very good value in slowly recovering economies.

Investment Performance

Our one-year stock performance at the time of writing, inclusive of dividends, was 26%. More importantly, we think we added substantial underlying intrinsic value to the business, and that we are in excellent financial shape and set up for growth in the years ahead. Fee bearing capital took a major step change upward this year and this should enable us to grow over the next number of years.

Investment Performance	Brookfield NYSE	S&P 500	10-Year Treasuries
1	26%	26%	1%
5	14%	14%	2%
10	8%	7%	5%
15	19%	7%	5%
20	17%	7%	5%

While we are cognizant of short-term performance, we always manage our business for the long term, and therefore focus more on those metrics. To that end, we are pleased that our returns compare well with most investments, and are consistent with our goal of generating 12% to 15% compound returns over the longer term.

Market Environment

Despite all the political turmoil, most of the economies in which we participate are doing well, or are recovering. This has set the backdrop for a very constructive environment for us to invest in.

In the United States, we continue to believe, as we have for years, that interest rates will grind upwards to the 3% to 4% range. We have not changed our overall view with the election of a new government. We do, however, believe that we may get to the top end sooner than we otherwise might have expected, and that we might stretch the top end of former expectations before we hit a recession and the cycle starts over. But, should interest rates climb faster, it also means that growth is stronger than we would have otherwise expected. In this environment, all of our investments should also do better.

Europe and the United Kingdom have extremely low interest rates, and it looks like these will exist for some time, given the political turmoil, demographics and the underlying economies of the various countries. Despite this, we are finding many investments that can earn high leveraged cash returns, due to the correspondingly low borrowing rates.

South America is recovering slowly, following the shock of low commodity prices and the unwind of the excesses from the boom. We believe Brazil has bottomed, but the political aftershocks of the government investigations are still being worked through. Chile, Colombia and Peru, while great countries, are also each dealing with their own set of discrete issues. From an investment perspective this has, and continues to, present us with great opportunities in all of these countries.

India has made tremendous strides with its economy and recently reduced interest rates for the first time in this cycle. Despite this, the loan stress across the bank system needs to be worked through, and we are therefore being presented with great opportunities across all of our businesses. We are also using our Indian operations to continue to expand our base in the Gulf region. We have found that our deep investor relationships are proving extremely helpful and that our operating skills are welcomed.

China is a flashpoint for most economic prognosticators, but on the ground they continue to build out the greatest economic transformation ever undertaken in the world. We believe that they will be successful, but these transformations never go in a straight line. As a result, we are being very disciplined as we build our operations and investment strategies. We continue to find interesting ways to invest, and have also made great strides in partnering with world-class financial institutions and institutional partners in the region. These opportunities in both investing and fundraising should continue for years.

Interest Rates

For years we have been operating with the expectation that interest rates will increase in the United States. Our working assumption has been that the economy was getting stronger and that eventually interest rates would be able to rise as a result.

With rates having been virtually zero in the U.S. for seven years, a 1% or 2% increase in interest rates on the short or long end of the treasury yield curve means very little to a long-term return on a real asset investment. We have assumed for years that a 10-year treasury would have a 3% to 4% yield, and we continue to base all of our investment decisions on this.

The 10-year rate has now increased to circa 2.5%, but it is worth remembering that it is almost identical to where it was a year ago. At that time, everyone seemed to be worried about deflation; now the concern is about inflation. More important, in this cycle there have been very few sophisticated lenders or acquirers of real estate or infrastructure that have had a different view on rates, so cap rates have been stubbornly high relative to interest rates for one specific reason: that everyone knew interest rates were going up and no one has been willing to reduce cap rates to levels that matched the unduly low interest rates.

Our business is positioned to thrive in a higher interest rate environment; there are three simple reasons for this. First, and most important, we own "real return" assets that increase their cash flow generating

capacity over time, either through contractual rights, our ability to operate them better, or an expansion of the operation. These enhancements should far outpace any extra interest costs, in particular in a more inflationary environment. Second, we generally earn total returns on equity of 10% to 20%. This is much greater than treasury yields and therefore a few percentage increases aren't material. And third, much of our debt is fixed rate debt; therefore, cash flows until maturity of that debt will not change at all.

We still believe that the odds are currently stacked heavily in favour of lower-than-usual interest rates in the U.S. for the medium term, if not longer. With $50 trillion of savings in the world that need to earn a return and rates in many parts of the world continuing to be very low, these savings are increasingly targeted at the returns and dependability that come from investments in the U.S. This should keep rates down for a while.

Size and Flexibility of Capital Matter

As the investment management industry consolidates, our size increasingly provides us with a strategic advantage. Added to that is the fact that not only is our capital base large, it is also very flexible. Both of these differentiate our franchise.

As the investment industry matures and the pools of capital grow, investors are under constant pressure to maintain a growing number of relationships. With all of our activities ranking among the largest in the industry, and with our ability to offer most of the investment products investors want in their real asset and alternative portfolios, we continue to gain a strategic advantage by providing them the opportunity to deploy large amounts of capital in multiple strategies through one relationship.

Possibly even more important than size is the flexibility of our capital when competing for transactions. Our varied sources of capital enable us to offer both permanent capital and traditional private equity-type capital to facilitate a transaction. This is very powerful.

First and foremost, the $30 billion plus of permanent capital on the balance sheet of Brookfield Asset Management has no restrictions, no time limits, and no size or geographic limits. Our only restriction for investing this capital is whether we deem it to be beneficial to our clients and our business. This often means we are supporting transactions alongside our clients, sometimes we are bridging transactions so clients have time to co-invest, and we regularly use it to support the start-up of new businesses.

Our four listed entities that trade on the NYSE provide us with a further source of permanent capital. These entities have a combined enterprise value of $80 billion and equity capital of $40 billion. This equity capital is all permanent, but each entity has a mandate laid out for its shareholders, a guide for returns to be expected, dividend expectations and pre-determined types of investments which are expected to be made by each. All of the entities have quite a wide range of investment strategies, but by virtue of the mandates laid out for each, this capital is slightly more restrictive than the capital on our Brookfield balance sheet.

Lastly, the capital we raise in our private funds is invested in specific transactions alongside our listed entities. This capital is also very flexible, but it has a time duration (most from 10 to 12 years), target return thresholds and asset classes laid out for investors. This is the type of capital that most of our competitors utilize, so in order to differentiate ourselves we set out to be one of the largest in each area in which we operate.

Because we believe that size and flexibility matter, we continue to build our global capital to facilitate the scale of transactions that investors expect from us. Our goal is to continue to establish ourselves as the go-to firm when a seller of assets needs to transact with size and flexibility.

Trisura

For the past 10 years, we have owned a property and casualty insurance business called Trisura Guarantee Insurance Company. Trisura Guarantee's business is writing specialty insurance policies and it has consistently and profitably grown its operations over the years. Trisura also specializes in providing surety bonding for smaller contractors. The business is regulated, stands on its own, and has been run very conservatively over the years. Trisura Guarantee reinsures most of the exposures and only assumes underwriting risk in a measured way.

This business is no longer strategic to Brookfield as we focus on our asset management operations. Rather than pursue a sales process that would have been disruptive to Trisura Guarantee and unlikely to surface full value, we are planning to combine this business with the rest of our small specialty insurance operations and spin them off from Brookfield under the brand name Trisura Group.

Even though this business does not fit in Brookfield, we believe it is a great business for the shareholders of Brookfield to own as a standalone company with direct access to the capital markets. This will also provide Trisura Group with an important platform for future growth. As a result, in the next six months after regulatory approvals are received, we intend to distribute to you an extra US$0.10 dividend for each Brookfield share you own, in the form of Trisura Group shares.

This spin-off will be a little different than others, as we do not intend for Brookfield to keep any shares. All of Trisura Group's common shares will be distributed to you to own should you wish to keep your portion, or you can sell the shares and hence receive cash. In essence, it will be an extra dividend this year that we distribute to you. To ensure the initial success of Trisura Group, we will assist the company with its launch, but expect to have no ongoing role after an initial period.

For your interest, the senior management team generally intends to keep our shares (some select people for various reasons may not), and in the management partnership where we pool a number of our Brookfield shares we may provide financial support to Trisura Group, if necessary, and as a result may in the future have a greater interest in Trisura Group. However, please rest assured that this will be an insignificant passive investment compared to our collective +20% active ownership of Brookfield and in no way should be interpreted as reducing our commitment to align our interests with yours by holding the vast majority of our individual net worth in Brookfield equity.

Performance Across Our Business Groups

Asset Management

Our asset management business contributed $866 million of FFO for the full year, as a result of a 44% increase in fee related earnings to $712 million as well as realized carried interest, net of costs, of $149 million. This increase reflects strong flows of capital from our clients, with total assets under management increasing to $240 billion and fee bearing capital increasing by 16% to $110 billion. The resulting growth in base fees and IDRs, as well as the increase in capital on which we are able to earn carried interest, led to an annualized run-rate of fees and target carried interest for our franchise of more than $2 billion, up 36% from last year.

AS AT AND FOR THE YEAR ENDED DEC. 31 (MILLIONS)	2012	2013	2014	2015	2016	CAGR
Total assets under management	$181,440	$187,105	$203,840	$227,803	$239,825	7%
Fee bearing capital	60,069	77,045	85,936	94,262	109,576	16%
Annual run rate of fees plus target carry	750	1,006	1,204	1,489	2,031	28%
Fee related earnings	180	300	378	496	712	41%

We closed $30 billion of private funds with strong demand globally. We had final closes of our real estate fund at $9 billion and our infrastructure fund at $14 billion – both among the largest funds of their type in the world, and we closed our private equity fund at $4 billion. We launched Brookfield Business Partners, establishing our fourth listed entity through an initial distribution to shareholders and a subsequent $400 million equity issue.

In the fourth quarter, we raised our first perpetual private fund, with a first close of $1 billion for an open-ended core real estate fund, which is already 50% invested with a seed portfolio of eight high-quality office and multifamily properties across the U.S. We expect this strategy to become a meaningful part of our real estate business moving forward, as it scales up over the course of 2017 and beyond.

With the capital raised across our various fund strategies, we acquired a number of very high-quality assets across a variety of asset classes and geographies. This included a major hydro company in Colombia, a pipeline system in Brazil, a toll road in Peru, portfolios of office buildings and telecom towers in India, office/retail/hotel complexes in Seoul and Berlin, a port business in Australia, and a number of property businesses across the U.S. and Europe. Although we highlight these large transactions, there have been many others.

Our business today increasingly generates significant free cash flow. The combination of fee related earnings from our asset management activities and the distributions we receive from our invested capital provides us with $2 billion of inflows to our parent company annually. After we pay our corporate costs, interest expense and preferred share dividends, we are left with annual free cash flow of $1.5 billion that we use to reinvest in our business, pay common dividends, and repurchase shares.

Brookfield Property Group

Our property group generated FFO of $1.1 billion in 2016, excluding disposition gains. Our share was $738 million, and we recorded an additional $823 million of disposition gains on assets sold. FFO prior to disposition gains increased by 23% over the prior year, driven by contributions from incremental capital invested in our opportunistic fund strategies and strong same-property performance in our U.S. office operations. Real estate fundamentals in the majority of our key markets remain positive, with the outlier being our energy-driven markets. The UK market hit a speed bump following the Brexit outcome in June, but the market corrected and stabilized quickly. Overall, the positive results throughout the year positioned us well to recently announce a 5.4% cash distribution increase in our flagship listed partnership, Brookfield Property Partners, and at the same time reduce the payout ratio substantially.

In our office business, we continued to execute our multi-year capital recycling strategy, raising net equity proceeds of over $2 billion from asset sales during the year. These include the dispositions of stabilized office properties in Manhattan, London, Vancouver, Washington and Sydney. In addition to the repayment of debt and BPY share buybacks, proceeds were used to fund our office and multifamily development pipeline. During the course of the year we signed pre-lease commitments at four of our largest development projects: Manhattan West in Manhattan, Brookfield Place in Calgary, 100 Bishopsgate in London and Wynyard Place in Sydney. In total, our over 7 million square feet of active office developments are 60% pre-let. These projects will generate an incremental $300 million of annual cash flow as they are completed over the next three years.

Our retail operations had strong same-store growth of 5% and maintained a healthy 96.5% occupancy rate. While there has been much publicity around the distress of department store retailers, this has generally had little to no impact on the profitability of our premier mall portfolio. In fact, we have been partnering with the department stores on select properties to redevelop them into higher return uses. Our malls also continue to draw strong investment interest from institutions. The best example of this was the partial sale of the premier Fashion Show mall in Las Vegas at a $2.5 billion valuation, executed at a sub-4% cap rate. We also successfully privatized our retail operator, Rouse Properties, which had been undervalued as a standalone public company.

In our opportunistic activities, we invested capital into acquisitions through our $9 billion opportunistic real estate fund, BSREP II. These included a number of self-storage, student housing and manufactured housing businesses. We also expanded our global investment and operating footprint, agreeing to acquire premier, large-scale projects in Seoul and Mumbai. Lastly, we announced a proposal to acquire the remaining equity interest in our listed Canadian affiliate that we do not currently own. This will allow us to fully integrate our North American office operations and further simplify our structure.

Brookfield Renewable Group

Our renewable business generated FFO of $350 million in 2016, of which our share was $180 million. Water levels in the United States were well below long-term average during the year which affected results, while our Canadian portfolio performed in-line with the long-term average, partially mitigating the overall impact. As always, we manage our capital plans and growth based on how the business performs over the long term and as result, we were still able to grow the business while maintaining a strong balance sheet and healthy liquidity position. In early 2017, our flagship listed partnership, Brookfield Renewable Partners, announced a 5% distribution increase, the seventh increase since inception in 2011.

During the year, we completed the acquisition of Isagen, a 3,000 megawatt Colombian hydroelectric portfolio. We are now in the process of delisting the company from the Colombian stock exchange. We also acquired, with partners, a 34% stake in the public float of TerraForm Power, as its sponsor SunEdison filed for bankruptcy protection. TerraForm Power and its sister company TerraForm Global collectively own and operate 4,000 megawatts of solar and wind assets. We are working with the companies under an exclusivity arrangement to complete a transaction.

In Brazil, we recently commissioned a 25 megawatt hydro facility and continue with the construction of two other hydro projects, totalling 47 megawatts. In Europe, we continue to advance two wind projects in Ireland totalling 43 megawatts, and are also moving our first 19 megawatts of wind in Scotland and a further 19 megawatt wind project in the Republic of Ireland towards the construction phase. In the fourth quarter we agreed to acquire two early-stage, greenfield solar development projects representing an aggregate 120 megawatts. These projects will allow us to replenish our development pipeline and should enable us to deliver strong growth to the business over time.

Hydro, wind and solar portfolios continue to trade hands at premium valuations across our core markets. The levels at which these assets are transacting speaks to the continued value proposition of renewables while simultaneously underlining the intrinsic value of our own portfolio. Despite this, we continue to identify a range of new investment opportunities with strong return potential and where we possess competitive advantages. Accordingly, we are focused on opportunities that require operating and development expertise, access to large-scale capital, restructuring capabilities and a long-term counter-cyclical investment approach.

Brookfield Infrastructure Group

Our infrastructure group generated FFO of $969 million for the year, before disposition gains, of which our share was $279 million. Results benefitted from 'same-store' growth of 10%, on a constant currency basis, and the contribution from new investments acquired in 2016. Disposition gains for the year were $95 million, reflecting our share of the gains on the sale of utility assets. Our flagship listed partnership, Brookfield Infrastructure Partners, recently announced an 11% distribution increase, marking the eighth consecutive increase since its inception in 2008.

Growth prospects for our business are strong, driven by ongoing organic growth initiatives and a number of acquisitions. We have in excess of $2 billion of committed development projects underway and a majority of this backlog will be commissioned within the next 12 to 18 months. We deployed $850 million into such projects in 2016 and identified $1.4 billion of additional projects as we continued to replenish our backlog.

Looking ahead, we are focused on closing nearly $7 billion of transactions, all of which should be completed in the first half of 2017. We are building out our Brazilian utility business by investing $5 billion in NTS, a large-scale natural gas pipeline system, and approximately $1 billion over the next five years to construct 4,200 km of new electricity transmission lines. We also recently agreed to invest approximately $600 million in India to acquire a portfolio of over 40,000 telecommunications towers, representing approximately 10% of the country's towers. Similar to our existing tower business in France, this is a high-quality business that generates secure, sustainable cash flows but is expected to benefit from continued growth in the industry.

We have significant capital in our flagship listed partnership and private funds for new investments. At Brookfield Infrastructure Partners, we recently raised almost $1 billion at the corporate level through a series of common and preferred equity unit issuances. We also generated a further $1 billion of net cash proceeds in 2016 from two asset sales and the partial disposition of our toe-hold position in Asciano, with the remainder rolled into our ports investment.

Brookfield Private Equity Group

Our private equity operations generated FFO of $491 million for the year, of which our share was $468 million. We generated strong results both from our directly owned operations and the businesses we now own through Brookfield Business Partners. Our North American residential development business and our investment in Norbord continue to be positively impacted in the U.S. and Ontario by a strong housing market backed by limited supply. Key fundamentals remained favourable in 2016, including increased consumer confidence and job growth. We are also seeing a positive trend in consumer confidence in our Brazilian residential markets, where we are now launching new projects on a selective basis.

We announced the acquisition of a 70% interest in Ambiental. This is Brazil's largest private water distribution, collection and treatment company and we believe it is well positioned to provide a growing share of the water and sewage improvements planned over the next two decades. We also entered into an agreement to sell our bath and shower manufacturing business to a strategic buyer in the U.S. for a sizable gain. We acquired this business during the U.S. housing crisis and repositioned the company, which included appointing a new management team, redefining strategy, reducing costs, and focusing on new product development.

Earlier this year we took advantage of the volatility in capital markets and the selloff in high yield debt to acquire equity and debt securities at attractive valuations in a number of energy related and industrial businesses with high-quality assets and solid long-term fundamentals. Given the rally in capital markets, these investments did not lead to restructurings, so we exited most of the positions with gains.

A number of our investments have started by us acquiring debt in potential restructurings. This includes our investment in Vistra Energy, formerly TCEH Corp., a Texas utility company. Vistra Energy recently emerged from bankruptcy and is currently trading in the over-the-counter market. The company is led by a new management team, boasts a much leaner and more efficient business with a strong balance sheet, and generates significant free cash flow. We believe the future for Vistra Energy is positive, with significant upside potential from rising energy prices in Texas which could come from both improved natural gas prices and tightening supply and demand. We control approximately 15% of the company with institutional clients.

Closing

We remain committed to being a world-class alternative asset manager, and investing capital for you and our investment partners in high-quality, simple to understand assets which earn a solid cash return on equity, while emphasizing downside protection for the capital employed. The primary objective of the company continues to be generating increased cash flows on a per share basis, and as a result, higher intrinsic value per share over the longer term.

Please do not hesitate to contact any of us, should you have suggestions, questions, comments, or ideas you wish to share with us.

J. Bruce Flatt
Chief Executive Officer

February 9, 2017