

Letter to Shareholders

Overview

We achieved many important milestones this past year. Revenues exceeded \$40 billion, net income increased to \$4.6 billion, FFO for common shareholders hit a record of \$3.8 billion, and FFO per share was \$3.74, an increase of 18%.

Assets under management and associated fees continued to grow and our investments performed well. We continue to find opportunities to invest capital despite a competitive environment, largely due to our advantages of size, global presence and our operating platforms. These advantages allow us to not only identify a wide range of investment opportunities around the world, but also to acquire them for value and create upside with our operating capabilities.

With strong markets, we sold more assets than usual, totaling \$12 billion, and will continue to do so into 2018. Our strategy has been to sell mature stabilized assets and redeploy the proceeds at higher yields or return the capital to our investors, particularly when this allows us to successfully complete a defined investment strategy. At the same time, while sales at these values are attractive to us, they are often also attractive long-term investments for those looking for stable, low-risk investments.

Fundraising for real assets in both the public and private markets remains strong, with institutional funds continuing to allocate greater amounts of capital to these sectors. In 2017, our assets under management increased by \$43 billion to approximately \$285 billion and net fee bearing capital grew to \$126 billion – in a year where none of our flagship funds had final closings. With interest rates expected to remain low compared to the returns we can generate, this growth should continue for the foreseeable future.

Investment Performance

Our one-year stock performance, inclusive of dividends, was 34%. More importantly, we grew the underlying intrinsic value of the business in excess of our goal of 12% to 15%.

Investment Performance	Brookfield NYSE	S&P 500	10-Year U.S. Treasury
1	34%	22%	3%
5	15%	16%	2%
10	9%	8%	5%
15	20%	10%	5%
20	17%	7%	5%

While we are cognizant of short-term performance, we manage our business for the long term, and encourage you to focus on those returns, rather than on any single year; the recent market volatility is a good reminder of this. To that end, we are pleased that our longer-term returns compare well with most investments, and that they are consistent with our goal of generating 12% to 15% compound returns over the longer term. As a reminder,

compounding at these rates over a long period of time results in very significant wealth creation. That is our ultimate goal and we believe we are well positioned to continue to achieve this.

Market Environment

We see no signs of underlying economic issues, despite the U.S. economy being nine years into this expansion. While this economic cycle shows no immediate signs of ending, it is clearly in its mid- to later-stages of an elongated expansion, and so we are being cautious, preparing for less robust times. To that end, we continue to focus on our liquidity and funding profile to ensure we remain in excellent financial shape and are positioned to react to growth opportunities in the next down market as we have done in the past.

Outside the United States, economies are recovering and in general continue to offer greater value than is available in the U.S. In the United Kingdom, Brexit stress is offering select opportunities; Europe is looking slightly stronger than it has for a long time; Brazil is recovering, with interest rates having dropped from 13% to 7%; Australia is resilient; China continues on its path to becoming the largest economy in the world; and India is now dealing with its over-leveraged corporate sector and therefore presenting opportunities.

Over the past five years most global stock market indices have recorded 20% average compound growth, hitting all-time highs. Government bonds are still historically expensive; corporate and high yield spreads are at record lows; bitcoin mania had taken hold and created market capitalizations over \$500 billion for something which, as far as we can tell, has zero intrinsic value; and an Italian renaissance painting was recently purchased for over \$500 million, an all-time high for the sale of a painting. These all make us cautious, while still continuing to invest our capital.

Across developed markets where excess global liquidity has been building up, we have been monetizing mature assets at values that align with our investment strategies, or where alternative uses of the capital are expected to be more productive. This has also enabled us to add liquidity to our balance sheets, and to invest more capital in both emerging markets and out-of-favor businesses, where multiples have not seen the same expansion. We currently have a record level of liquidity to pursue opportunities – over \$25 billion of core liquidity and dry powder in our private funds.

In this environment, real assets continue to offer excellent long-term value. Furthermore, most competitive capital targeted at this sector does not have our advantages of size, global reach, and operating capabilities – built over decades of owning and operating these types of assets. It is these that enable us to invest well, even in a highly competitive environment. Over the past year, these strengths enabled us to complete the purchase of two SunEdison subsidiaries out of bankruptcy, with gross assets of \$8 billion, as well as the recently announced agreement to acquire Westinghouse Electric Company from a bankruptcy for \$4.6 billion. We also added a number of quality businesses from sellers in need of capital in Brazil and India – for a total of approximately \$10 billion.

That these opportunities exist in the current economic environment may seem improbable; however, they always do, since the world is a big place and investors inevitably become overly exuberant in one sector or another. Finding great value investments in this environment requires the ability to look in the right places. It also requires us to work a little harder, but it is during these periods in particular that the value of our franchise becomes evident.

Asset Management Franchise

The business of managing real assets for private investors across real estate, infrastructure, renewable power and other related private businesses continues to mature and is now firmly established as a component of the investment portfolios of most pension and sovereign plans. With these plans expected to grow over the next decade from about \$45 trillion to \$80 trillion, and with an expected allocation to real assets and alternatives growing from around 25% to 40%, there will be a further \$20 trillion of capital available for investment into these assets. This will continue to fuel the significant growth in the industry.

We believe this is a long-term trend. In the context of relatively low interest rates and highly correlated equity returns, as well as growing liabilities and longevity risk, our investors are seeking alternatives to generate sufficient returns, diversify their portfolios, and reduce volatility. Our products address these needs, generating $\pm 20\%$ returns with our more opportunistic strategies and $\pm 7\%$ yields on the lower end of the risk spectrum. Today, these

returns compare favorably to the 10-year treasury in the U.S. of $\pm 2.75\%$, Europe at $\pm 0.7\%$ and Japan at essentially zero. In our opinion, the only thing that can stop this trend is a significant increase in inflation that pushes global long-term interest rates into a territory in which our returns are not sufficiently superior to these yields. We believe it will be a long time before this happens.

We also believe that if we continue to invest the capital entrusted to us wisely, create products that match our investors' needs, and provide superior service, our business will continue to grow rapidly both in terms of the operating results and the underlying value. To illustrate this point, simply deducting the value of our invested capital (most of which is publicly listed) yields an implied value for our asset management franchise of \$16 billion.

This business is currently generating \$2.5 billion of annualized fees and target carry, and we expect this to increase substantially in the coming years as we complete fundraising for our next series of flagship private funds, in addition to a number of newer investment strategies. We believe that even by applying relatively conservative multiples to these earnings streams the resultant franchise value is substantially higher than \$16 billion, and should continue to expand rapidly.

It is also worth noting that we believe most of the other large alternative investment managers are similarly undervalued, but we have one additional factor to note: our franchise, while large today, is not as mature as others. In particular, we do not have many large funds nearing their end-of-life phase over the next five years, and our successor funds are still growing at a substantial rate. This means that we are stacking ever larger new funds on top of existing funds, without the corresponding return of capital to investors. In seven to 10 years, we will be in the same place as the others and distributing greater amounts of capital – but in the interim, our growth rate is much faster.

With the above in mind, we are beginning to consider the next phase of Brookfield for the years post 2025, as the business matures. Keeping our eye on this is a priority for us, and we are investing resources today to set the stage for continued strong growth in the next phase of our evolution, which will include an expanded range of investment strategies for our investors.

Lessons Learned

We work hard to institutionalize the lessons we learn in our business in order to prevent the repetition of mistakes as we grow. This has become a core part of our culture, and experience has shown that doing this enables us to continue to become better at what we do.

Over time, we have found that the five most important principles to successful real asset investing are to: stick to what we know; ensure that we are diversified; buy at a discount to replacement cost; focus on quality assets and businesses; and finance with asset specific non-recourse debt.

We have also found that the single greatest way to dig ourselves out of mistakes is to be patient with investments and, in most cases, double down. This is the best way to recover losses, although it requires conviction as well as availability of the necessary capital. This is particularly important when we have acquired a good business, but our timing was poor. Doubling down in this case is virtually always the answer. However, one has to be careful because if the business is just a bad business, it only serves to compound the pain. But, generally we have found that in the absence of technological change in the extreme, doubling down and being patient is the most proven way to turn around an investment.

In addition to these principles, we have tried to institutionalize the lessons learned from our mistakes. Our five most important lessons are:

A bad business is usually just a bad business. We have found that some businesses, no matter how deep the discount to replacement cost, are just bad businesses. In these circumstances, there is essentially no price that can be paid to make up the cost of turning it into a viable business. These risks are most often found and magnified when technological change is affecting a business. The skill to be able to determine if a business is one or the other is the difference between a great value investment and a loser investment. In these situations, we must always be vigilant to ensure that our historical knowledge bias to just do what we have always done, along with our tendency to double down, does not keep us in a business that is destined to decline.

Development and approval risks in new businesses are often underestimated. When we develop assets ourselves, the process of acquiring approvals is methodically secured over time, often involving significant relationship management. In the alternative, when a business that has significant development and approval risks is acquired, the approvals can sometimes disappear with the departure of management or the mere change in circumstances as local officials revisit their perspective. This has affected us in real estate and infrastructure developments. As a result, we are very careful when acquiring companies with development projects, ensuring that we only allocate nominal value to these projects.

Currencies really matter. As a global investor that benchmarks return in U.S. dollars, the local return in a currency is relevant, but not what really matters to us. Earning a 20% compound return in a local currency and losing all of it with a currency loss still results in a zero return. To ensure we manage these risks, with many low-cost currencies in developed markets (Euro, Pound, Aussie, Kiwi, Loonie) we often hedge back to the U.S. dollar, provided the financial hedge risks are not too large. With high-cost currencies (Rupee, Real) it is difficult to justify hedging on longer-term assets. As a result, we invest capital when markets are stressed and foreign direct investment is low. This usually means that the currency is low, or at least has a greater chance of being more fairly valued. On the flip side, in these markets it is important to be more transactional in nature; therefore we often sell all or portions of assets as values increase. We rarely leave the countries entirely, but protecting our capital helps mitigate risk.

Structured financial deals often hide asset imperfections. The financial markets are filled with schemes to enhance returns where the returns do not otherwise exist at the levels promised. This is particularly acute when values are high, or interest rates are low. Often this takes the form of imprudent leverage, camouflaged by structured products or mismatched risks (the most recent example – the numerous VIX Volatility products sold to investors). In these circumstances, seldom do the long-term returns work out as structured, as changing the long-term characteristics of assets with financial engineering is impossible. Some, such as traders, may profit from these, but it is usually from on-selling the product at a higher price prior to its collapse. This is not how we invest. We therefore avoid participating in structured products, or investing in anything in which small annual returns can be offset with an improbable (but possible) outsized capital loss. Rarely have we made this mistake, and hopefully never again.

The nature of debt and maturity profile is critical. With the exception of modest amounts of corporate debt used for largely “flex” or “bridging” purposes, we limit recourse of debt to specific assets and virtually never guarantee debt across the company. This compartmentalization is the difference between problems with debt and easily moving through tougher periods in the capital markets. This includes not cross-collateralizing assets and avoiding parent or any affiliate guarantees to ensure that risk is compartmentalized. Furthermore, we keep loan-to-value appraisal covenants which require capital top-ups to a minimum, and avoid maintenance covenants if at all possible. Bottom line, we will never risk the company, any fund, or any investment with a financing strategy.

Brookfield Business Partners

We launched Brookfield Business Partners with the goal of acquiring best-in-class industrial and services businesses that we can build and grow for long periods of time, in addition to more broadly funding our private equity business along with our institutional partners. Over the past few years, a major thrust has been to widen the scope our private equity franchise to become of similar size to our other businesses.

Since launch, we have achieved a number of the goals set out for the business. We acquired five best-in-class logistics/service businesses, which includes a fuel logistics business in the U.K. that we are utilizing to grow internationally. We also acquired a water distribution company in Brazil for \$1 billion that cleans and delivers water, and that takes sewage from over 15 million people. We plan to invest in improvements to this operation, then grow in what is a very under-served market.

We also licensed the Mobil brand for Canada from Exxon and partnered with a major food retailer in Canada to re-brand and rejuvenate their fuel and convenience service delivery to customers. In Germany, we acquired a re-usable packaging company in partnership with the founding family and believe we can assist them to grow the business internationally.

We invested \$750 million into the recapitalization of Teekay Offshore, which owns shuttle tankers and floating platforms that provide services to offshore oil and gas companies. This was a good business but given the markets

had a gap in their capital structure, so the opportunity was made available to us to assist them. Refinanced, we believe the business will be an excellent long-term investment.

More recently, we committed to acquire Westinghouse Electric Company for \$4.6 billion out of U.S. bankruptcy. Westinghouse is a U.S.-based provider of infrastructure services to the power generation industry and has a globally recognized brand. It ran into significant difficulties when it strayed from its core services business and as a result was filed into bankruptcy, despite the servicing business having nothing to do with the issues that caused financial stress. We are acquiring the core Westinghouse services business and its platform of approximately 11,000 people.

Providing infrastructure services to the power generation industry more generally is a natural extension of our existing power generation and property services operations. We may pursue other opportunities in global infrastructure servicing, including businesses that provide other services to these utility clients.

Our other businesses are generally doing well. Construction services continues to build its backlog despite a challenging year of operating results, our palladium operations have improved substantially, and our business service operations continue to grow through tuck-in acquisitions.

One standout has been GrafTech, our graphite electrodes business. After rationalizing operations over the past two years, and removing over \$100 million of costs, the market became very short on supply for various reasons, including the fact that our raw material was used in the electric car industry. As a result of these shortages, prices increased dramatically. GrafTech has reworked contract terms with customers, which had historically been very short in nature, and now has contracts of three to five-year duration for 60% to 65% of its capacity. This has resulted in a substantial increase in EBITDA; GrafTech expects to generate \pm \$275 million of EBITDA for the first quarter alone of 2018. This allowed us to re-finance the company for \$1.5 billion in early 2018, distributing more than 100% of our initial \$855 million equity investment back to us and we recently filed for an IPO of the business in the coming months.

We are thrilled with the progress of Brookfield Business Partners to date, and hope that we will be able to report on exciting growth in the years ahead.

Performance in 2017

Our asset management activities continue to expand at a rapid pace and are generating increasing levels of fee revenues and carried interests.

AS AT AND FOR THE TWELVE MONTHS ENDED DEC 31 (MILLIONS)	2013	2014	2015	2016	2017	CAGR
Total assets under management	\$ 187,105	\$ 203,840	\$ 227,803	\$ 239,825	\$ 283,141	11%
Fee bearing capital	77,045	85,936	94,262	109,576	125,590	13%
Annual run rate of fees plus target carry	1,006	1,204	1,489	2,031	2,475	25%
Fee related earnings (LTM)	300	378	496	712	896	31%

Operations

Total assets under management increased to \$283 billion, and fee bearing capital to \$126 billion, an 11% and 13% growth rate, respectively. This led to annualized fees and target carry increasing by 25% to \$2.5 billion due to growth of capital in both our public and private funds. This includes \$1.5 billion of fee revenues and \$1 billion of target carried interests, which is the amount of carry based on target returns that should accumulate on a straight-line basis over the life of a fund. This all contributed to a 31% growth rate in fee related earnings (excluding unrealized carry), which totaled \$896 million for the last twelve months.

We continue to generate increasing amounts of unrealized carried interests within our private funds; this reflects the deployment of capital from our latest flagship private funds as well as value created within earlier vintage funds as these portfolios mature. Carry generated during the year totaled \$1.28 billion (in excess of our annualized expectations), compared to \$418 million in 2016, and brought accumulated unrealized carried interest to

\$2.08 billion at the end of the year. We completed a number of asset sales within flagship private funds, which solidified investment gains and the associated carried interests. This also brings us closer to the point where this carry is no longer subject to claw backs, and consequently will be recognized in our financial statements.

The market capitalization of our listed issuers contributed growth in fee bearing capital, as a result of price performance and issuance of growth capital. As expected, the amount of private fund capital raised was lower than in 2016, when we closed three large flagship funds; nonetheless, we had a number of notable successes. We expanded our activities in credit, with the successful closing of our fifth real estate credit fund and launched a new open-ended senior real estate credit fund.

We also closed our first infrastructure debt fund with \$885 million of commitments, 25% above target, and continued our development of open-ended perpetual real asset strategies. These new fund strategies help to diversify our fee base and complement our existing strategies. We expect to see significant private fundraising in 2018 and 2019 as it will include the closing of our third flagship real estate fund, which has already closed on capital commitments which almost exceed the entire size of our last fund, as well as the next vintages of our private equity fund in 2018 and our infrastructure fund in 2019.

We took steps to expand our asset management activities through two modest acquisitions. After year end, we acquired a U.S.-based advisor with ±\$4 billion in assets under management, focused on infrastructure and energy assets, and in late 2017 acquired a European manager with ±\$1.5 billion of core renewable power assets.

Capital Deployment

We invested over \$15 billion of capital in 2017 across a wide range of geographies and across our business groups. Over half of this capital was deployed in South America, where capital was scarce and we were investing on a value basis. Most of the remaining capital deployment occurred in North America and western Europe. While valuations in these markets are relatively high overall, we continue to find value selectively by leveraging our expertise in executing large, time-consuming transactions, and driving growth with our operating capabilities.

The investments made in 2017 included \$6 billion deployed into our infrastructure business, including a large regulated gas transmission business, \$4 billion into a wide range of assets within our real estate business, and \$2 billion into our renewable power business, including our recent investment in a global wind and solar business. In our private equity business, we deployed over \$3 billion of capital, including a marine energy services business and a water treatment company.

As noted above, we sold \$12 billion of assets in 2017. Notable dispositions during 2017 included an office property on Park Avenue in New York for \$2.2 billion, two office properties in London for \$2.3 billion, and a logistics company in Europe for \$2.8 billion. In total, the gross sale value was \$12 billion or \$1 billion over the \$11 billion total IFRS carrying value. These dispositions enabled us to rotate capital into new opportunities in order to increase returns within perpetual entities and to return capital to investors in the case of funds with defined terms.

Investment Results

We experienced favorable results across virtually all of the businesses. This led to strong performance within our funds and commensurately with our own capital. Overall, our share of the underlying funds from operations from these investments totaled \$1.5 billion. We benefited from increased levels of business activity and stronger pricing, operational improvements from investment of capital into new projects, and from the rotation of capital into higher margin businesses.

Our listed issuers continue to increase their funds from operations through a combination of expanding volumes and prices, operational improvements, capital projects and acquisitions. This enabled each to increase distributions to unitholders and the annual distributions to us as an owner of these entities now exceeds \$1.2 billion. As the manager of these listed partnerships, we also earn incentive fees when the distributions reach predefined hurdle rates.

Our real estate operations had a strong year operationally; leasing activity was strong in both our core office and retail businesses, average rents increasing by 37% and 18%, respectively, over the expiring leases. Overall occupancy in core office increased to 93%, we have forward leased most of the space in our major development projects, and occupancy in our retail portfolio remained steady at 96% despite overall market sentiment. Our other

real estate businesses, including industrial, self-storage, student housing, hospitality and multifamily also recorded favorable growth in cash flows, and a number of add-on acquisitions strengthened these operations.

Our infrastructure operations contributed increased operating results from both expansion activities and from existing operations. In our utilities segment, results almost doubled led by the acquisition of a Brazilian regulated transmission business which enabled a step change in this business. In transport, our results were 26% higher than last year due largely to organic growth in our toll road and port operations. In energy, we benefited from new contracts and higher volumes at our natural gas transmission business in the U.S., driven by continued growth in demand by exporters at the southern end of the system. Our communications infrastructure performed similar to 2016 but we are working on a number of organic growth and investment transactions to grow these operations.

Our renewable power operations benefited from overall increases in both generation and prices. Generation in North America was particularly strong (7% above average) and we ended the year with reservoirs above long-term average levels. This was partly offset by pricing, which has been weak. In Brazil, on the other hand, lower hydrology levels reduced generation but provided a significantly stronger price environment. Operations in Europe were in line with expectations, and overall wind generation was slightly below averages. Wind performance in Brazil was strong. We added a large portfolio of solar and wind facilities with the TerraForm acquisition, which expands our capabilities for continued growth in renewable power.

Our private equity operations advanced many of our goals during the year. Business services operations performed well with strength from our real estate facilities management operations, and the addition of three fuel logistics companies. In energy, activity was spurred by a recovery of price, which aided better results in our North American businesses. We added a marine oil services business to our operations mid-year and, once the main expansion projects are completed mid-year 2018, will add significant cash flows to the results. In construction services, we had issues with a few select projects amidst some weak markets. Our financial strength enables us to work through those while at the same time bidding for and winning substantial new work and therefore expect to grow significantly once we consolidate our operations.

Closing

We remain committed to being a leading, world-class alternative asset manager, and investing capital for you and our investment partners in high-quality assets that earn a solid cash returns 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.

Sincerely,



J. Bruce Flatt
Chief Executive Officer

February 15, 2018

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This letter to shareholders 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. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of Brookfield Asset Management Inc. and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as “expects,” “anticipates,” “plans,” “believes,” “estimates,” “seeks,” “intends,” “targets,” “projects,” “forecasts” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.”

Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may cause the actual results, performance or achievements of Brookfield Asset Management to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; the behavior of financial markets, including fluctuations in interest and foreign exchange rates; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); the ability to appropriately manage human capital; the effect of applying future accounting changes; business competition; operational and reputational risks; technological change; changes in government regulation and legislation within the countries in which we operate; governmental investigations; litigation; changes in tax laws; ability to collect amounts owed; catastrophic events, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts and cyber terrorism; and other risks and factors detailed from time to time in our documents filed with the securities regulators in Canada and the United States.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, Brookfield Asset Management undertakes no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.