# LETTER TO SHAREHOLDERS

## Overview

We reported strong funds from operations (FFO) and net income in 2014. Consolidated net income was \$5.2 billion or \$4.67 per share. FFO for shareholders was \$2.2 billion or \$3.17 per share. This was achieved through strong growth in fees and excellent results from most of our businesses.

Our institutional and sovereign fund clients continue to both grow their funds under management and allocate larger portions of their funds to real asset strategies. We currently are marketing ± \$11 billion of funds with expectations for another \$10 billion to be launched by the end of this year. These are on top of our listed strategies which are always open and increased by \$4 billion in 2014, and our flagship listed partnerships, which grew by \$9 billion during the year.

## Investment Performance

The performance of most investment strategies was positive in 2014. The exceptions were those associated with oil, Russia, some emerging markets, and commodities in general. Thankfully, our direct exposure to these asset classes was small or ancillary.

Our overall stock performance inclusive of dividends for 2014 was exceptional, with a 31% return on the NYSE. For our large base of Canadian investors, our performance was even greater on the TSX, as we are a U.S. dollar denominated security, and provided additional returns due to an increase in the value of the U.S. dollar in 2014. This resulted in a 43% return on the TSX.

While some of this return was merely a continued recovery in the stock price following an unjustified movement downward in sympathy of broad market declines in 2008/09, no shareholder should come to expect consistent returns at these levels over the longer term.

Most importantly, the compound shareholder return over the last 20 years is 19%, which compares well with most other investment alternatives. This should instill some confidence in our ability to execute on our plans and enable us to achieve our goal of generating 12% to 15% compound returns over the longer term.

| Investment Performance | Brookfield NYSE | S&P 500 | 10 Year Treasuries |
|---|---|---|---|
| 1 | 31% | 14% | 9% |
| 5 | 21% | 15% | 6% |
| 10 | 15% | 8% | 6% |
| 20 | 19% | 10% | 6% |

## Market Environment

The business news of the last three months of 2014 was dominated by the movement in the price of oil and the dramatic shifts that have come about with this change. Despite much drama over potential negative consequences of this trend, overall, it is important to realize a decline in oil prices is a positive factor for many businesses and many countries. Of course, this is not the case for the large oil generating countries, many of whom depend on oil for their budgets, or the marginal shale and oil sands producers. But from a global perspective, lower oil prices are good for many economies.

The more important issue was the suddenness of the move in energy prices. While everyone knew that greater amounts of oil were being produced from oil sands and shale, virtually nobody predicted a 50% drop in the price of oil within a six month period. Despite this radical shift, markets always adjust, and while some countries and companies will have issues, others will benefit dramatically. In this context, we believe there will be many opportunities for our businesses to capitalize on investments in or around the oil sector.

The U.S. economy continues to strengthen at a slow but relatively steady pace. Virtually all of our U.S. businesses are showing strong results, led by excellent luxury retail sales at our shopping malls, a greater number of office leases in the New York City market than we have seen in years, power price increases across almost all markets and single family housing results that are far better than anyone would expect if they merely read the newspaper headlines. While this means that we are not acquiring major assets in the U.S. today due to relatively high valuations, it means that our North American businesses are doing well.

Interest rates look like they will be lower for longer than most experts expected. A large part is because central banks continue to be worried about deflation and therefore do not want to take their foot off the accelerator until they truly know that growth is back to stay. Central banks do not appear to be worried about inflation, as the developed world shows no signs of it and the banks possess time-tested methods to tame any form of inflation that might come about. Their worry continues to be deflation settling in after all they have done to re-energize the global economy. This situation is particularly acute in Europe. In this environment, real assets and the cash flows they generate continue to be valued by investors, in particular when compared to the non-existent returns offered by government bonds.

Over the next ten years, our view is that interest rates will remain at levels that are supportive of a continued shift away from traditional bond investments towards higher yielding alternatives such as real assets in the institutional investment world. These types of assets generate predicable cash, have equity like features with growing cash flows and generally provide inflation protection, should inflation eventually come about. As a result, we continue to see institutional investors shifting capital into real assets, particularly towards platforms with the flexibility to capitalize on relative valuations across the global landscape. We continue to establish our company as one of the world's leading real asset managers in order to generate superior returns for clients, while preserving their capital.

**Priorities for 2015**

In a large business it is always difficult to list the few major priorities. With the proviso that these are overly simplistic and high level, our top priorities for 2015 are as follows:

- Investment Themes – While one of our strengths is our ability to always be flexible and respond to change, broadly speaking our overall investment themes for 2015 are related to commodities, Brazil and Europe. With respect to commodities, we believe there will be many opportunities to acquire assets from, or provide capital to companies involved in oil and other commodities. This may generate opportunities for all of our businesses, but in particular infrastructure and private equity. With respect to Brazil, there is a lack of capital in this market and given our broad platform, we think all of our businesses will find opportunities in 2015. In Europe, governments, companies and banks continue with significant deleveraging. We should be able to find further acquisitions for all our operations in this environment.
- Fundraising for Private Funds – We have two flagship funds in the market currently, and should be in a position to launch another major fund as we complete investing its predecessor this year. As one of the go-to global brands for real asset investing, we are focused on strengthening our global franchise and generating exceptional returns for our clients to ensure they continue to invest with us.
- Flagship Listed Partnerships – Over the past five years we have consolidated virtually all of our listed operations into Brookfield Infrastructure (BIP), Brookfield Renewable Energy (BREP) and Brookfield Property Partners (BPY). The continued investment success of these partnerships is paramount to our long-term success, and we are focused on both generating strong returns and ensuring that the full intrinsic value is reflected in their trading values.
- Return on Capital – Our overall goal is to be the leading global real asset manager and in the process earn exceptional long-term returns on a per share basis while never taking undue risk. In this regard we continue to generate cash from operations and non-core asset sales. Over the past five years, these proceeds have generally been deployed into consolidating our operations and building our businesses. In addition, while we target the repurchase of our own shares, we have not had the opportunity to repurchase significant numbers of shares into the treasury as a result of the stock price appreciating at a compound 21% over the past five years. But as we continue to accumulate cash on our balance sheet, we intend to find opportunities to repurchase shares in meaningful ways when we believe we can do so for value.

## Streamlining of the Business

We continue to streamline our operations and work to both optimize our corporate structure and refine our business strategy. This includes building our three listed partnerships, and investing capital within our three flagship private funds.

Our three main listed partnerships and private funds enable us to have access to significant amounts of capital to grow our operations, across the market cycle. We have streamlined the business into its main component parts and do not intend to change much of the structure going forward. In this regard, BIP and BREP are now well established and we intend to continue growing these businesses organically and through acquisitions as we find opportunity.

In BPY, we continue to transform this portfolio into the leading global commercial property company. In 2014, we successfully merged our publicly traded office portfolio into BPY. To achieve this, we issued $3.3 billion of BPY shares and took on $1.7 billion of bridge financing. We are selling mature assets at attractive valuations to repay this debt. We sold two office buildings for approximately $1 billion in Denver and Houston last year, while retaining property management responsibilities. In London, we sold an office property for $500 million that we purchased and fully let over the past few years. The 2015 addition of Canary Wharf will further operationalize BPY and add an incredible portfolio of assets to the company.

In our private equity business, we consolidated a number of our operations, sold mature assets and moved forward with plans to privatize our residential property companies. We sold Western Forest Products and announced the merger of our two oriented strand board (synthetic lumber) producers.

We have conducted our private equity investing on our balance sheet and through private funds for the past 25 years. All of our "opportunistic" private equity investing is done within in our private equity funds, and funded with capital from clients and our balance sheet.

Our other longer term private equity investments were acquired on our balance sheet. These were usually businesses which earn us excellent returns but did not meet the performance targets set by clients in our private equity strategies, or investments made before our funds were established. Examples of these investments are our real estate brokerage and relocation businesses, our construction operations and other longer term businesses we have owned.

## Canary Wharf

Earlier this year we were successful in our bid with the Qatar Investment Authority (QIA) to acquire control of Canary Wharf. We made our initial investment in 2002, increased our investment in 2009, and this most recent purchase will double our investment once again. To date, the financial return has been excellent and we expect the future to be even better.

With the formation of our listed property partnership last year, we decided that as we relaunch BPY as the leading global property investor, we should either sell our Canary Wharf shares or make Canary Wharf into a signature piece of BPY for the next 20 years. After discussions with a number of the shareholders and in particular with our partner, QIA, we decided to launch a bid to acquire the other approximately 50% of Canary Wharf not owned by the two of us. Subsequent to year end, we reached agreements to acquire all of Canary Wharf.

In order to fund the transaction, we agreed to sell convertible preferred shares of BPY to QIA for US$1.8 billion and as a result, they have become a strategic partner with us in BPY. QIA joins our two other BPY strategic investors, the Australia Future Fund and Investment Corporation Dubai. We are thrilled to have all of them as partners.

Canary Wharf is one of the finest pieces of real estate in the world, with an incredible portfolio of operating properties and a vast development portfolio. In addition, the location only gets better every year. The East End of London continues to attract significant residential development, especially given the cost of property in the West End of the city. When the Crossrail subway network opens in 2018, the additional access will be a game changer for this part of London, with a direct ride from Canary Wharf to Heathrow Airport.

Canary Wharf consists of approximately 120 acres of land with 35 major properties on the estate, as well as a retail mall and services for 100,000 people. The tenant base includes many of the world's leading corporations. There are approximately 11 million sq. ft. of commercial development rights remaining, and approvals to build approximately 3,500 residences. We intend to work with QIA and management to realize on Canary Wharf's enormous potential.

## Operations

Assets under management are over $200 billion with fee bearing capital increasing 20% year over year to $89 billion. The distribution is as follows:

| US$ billions | Fee Bearing Capital |
|---|---|
| **Property** | **$ 37** |
| **Renewable Energy** | **13** |
| **Infrastructure** | **18** |
| **Private Equity and listed strategies** | **21** |
| | **$ 89** |

Total carried interests accrued during the year were $178 million and our cumulative carried interests are now $488 million, with those amounts to be booked as funds are wound up. Our expected annualized target carried interests on private funds are now $375 million based on current private fund capital, which we believe will increase meaningfully on completion of our fundraising objectives. Fee related earnings increased by 26%, due to the expansion of fee bearing capital in our listed and private funds, as well as our public securities mandates. Combined with base fees and incentive distributions, the estimated annual run-rate of fees and carried interests for our franchise is over $1.2 billion and growing rapidly as we continue to expand our business.

Performance across our platforms was strong due to both operational improvements and the sale of assets for gains. This has resulted in attractive returns for our private funds and continued FFO growth and distribution increases in our listed funds. In our public markets group, our real estate and infrastructure funds have developed exceptional long-term track records with top-decile performance over the past five and 10 years.

These excellent returns generated $21 million of performance fees in 2014.

### *Brookfield Property Group*

Our property group recorded solid performance, with our portion of the FFO increasing 60% year over year to $884 million. This reflected excellent returns from our U.S. retail property portfolio, improvements in office leasing, the acquisition of the remainder of our office portfolio, growth initiatives undertaken in the past five years, and crystallization of gains on the sale of mature assets. Total return of BPY in the stock market was 20% inclusive of both dividends and stock appreciation. More importantly, the shares still trade at far less than intrinsic value and therefore offer significant upside for all shareholders.

Early in the year we closed the merger of our office property company into BPY which expanded the shareholder float by $3.3 billion and further consolidated our operations. We completed investing our $4.4 billion global real estate opportunity fund, which puts us in a position to launch our next fund.

Retail sales, especially in premier luxury malls, were strong. Our FFO from our U.S. retail business grew again at double digit returns and we have continued to dispose of non-core assets. Office leasing was strong with major leases executed in a number of our new developments. In addition, we signed 2.5 million sq. ft. of new leases with tenants at Brookfield Place in Lower Manhattan in conjunction with our multi-phase renovation and creation of a luxury retail and food themed entertainment complex. We signed online retailer Amazon to 500,000 sq. ft. at our new Principal Place development in London, financial services based Schroders to 310,000 sq. ft. at our London Wall development and have signed a letter of intent with an anchor tenant for in excess of 500,000 sq. ft. at our first new office tower at Manhattan West in New York.

We are expanding our multifamily residential business across the U.S., and we launched an 800 unit multifamily for-lease residential project at Manhattan West. We also acquired 4,000 multifamily units in Manhattan and launched a 400 unit residential for-sale condominium project adjacent to our Amazon tower in London. In total, we own and operate approximately 22,000 multifamily units in North America and Europe.

We signed new leases in our shopping malls at 18% above expiring leases, while new rents in our office portfolio were 32% above expiring leases. Our organic development pipeline is approximately $7 billion and includes flagship office buildings in Sydney, London, Toronto and New York, in addition to many billions of development opportunities at Canary Wharf.

### *Brookfield Renewable Energy Group*

Our renewable energy business benefitted from an expanded portfolio of hydroelectric assets and higher prices on sales of un-contracted electricity, with our portion of the FFO contributing $313 million. Inclusive of dividends, the share price of BREP generated a 24% return during 2014. This return is exceptional given the company's long-term returns, but as a result of acquisitions in Europe and North and South America, we should be able to generate strong returns looking forward as well.

We acquired almost 1,000 megawatts of hydro facilities in the U.S. following our theme of using this point in time of low energy prices to acquire plants on "good" returns if power prices stay low, but adding substantial upside to the portfolio when prices trend higher; which we believe is inevitable. These acquisitions included a 417 megawatt hydro facility in Pennsylvania acquired for $900 million.

In Ireland, we closed the acquisition of a 700 megawatt operating and development wind portfolio which to date has exceeded our expectations. As important as the assets themselves, we added a team in Europe to augment our acquisition group in London and we expect to find a number of investment opportunities in the continued distress of the European renewables market.

We continued our growth in Brazil, agreeing to acquire 500 megawatts of plants which are a combination of hydro, wind facilities and biomass. The hydro facilities are tuck-ins to our major Brazilian business. The wind assets, our first in Brazil, will enable us to expand our global wind portfolio. Biomass, while new to our renewable group, is not new to Brookfield. We operate a major agriculture business in Brazil. With sugar cane as one of our main crops, these biomass facilities burn the waste product after the sugar is extracted from the sugar cane. We have been observing these facilities for years at our customers' operations, and think this is an excellent entry point for our renewable business into a promising growth sector.

Looking ahead, we have approximately 2,000 megawatts of projects available for development. We also have a team that has consistently delivered new hydro and wind facilities on time and on budget. These organic opportunities, along with potential acquisitions should significantly increase our future FFO from our renewable energy group.

### *Brookfield Infrastructure Group*

Organic growth initiatives and acquisitions over the past three years are now contributing to excellent performance in our infrastructure group, with our portion of the FFO rising 11% on a 'same store' basis to $222 million in 2014. We increased the scale of this business over the last year and are well positioned for future growth. Our flagship listed issuer, BIP, generated a 12% return inclusive of dividends in 2014, with a compound return of 26% over the past five years. During the year, we deployed approximately $1.1 billion on expansion initiatives, which will add to future FFO.

We continued to make add-on acquisitions for our district energy business, which supplies environmentally friendly heating and cooling systems. We acquired a major facility in Chicago and networks in Seattle, Las Vegas, Akron, Houston and Tulsa. We can expand these systems by building out the network and adding customers. The synergies and cost of capital benefits of financing have been significant and we continue to pursue this roll-up strategy. We also acquired U.S. natural gas storage businesses at what we believe to be an attractive time in the cycle. We expanded our South American toll road and railroad portfolios, and there are significant organic growth initiatives underway in these businesses.

We added a telecom and broadcast tower infrastructure business to our portfolio through the acquisition of 50% of TDF telecom which owns 6,700 cellphone and telecom towers covering most of the country of France, including the broadcast facilities in the iconic Eiffel Tower. It is virtually impossible to replicate this network and while the broadcast and telecom industry changes fast, we believe the continued ramp up of mobile internet use is highly positive for this business. Further, as we learn more about these operations, we hope to both expand the platform and look for similar opportunities elsewhere.

Iron ore, oil and most other commodity producers have very substantial in-ground investments in infrastructure. We have worked with many companies over the years and have been successful in acquisitions that see companies raise capital by outsourcing their infrastructure. However, many major facilities such as ports, railroads and pipelines continue to be owned by users, in part for historic reasons. We believe that the global sell off in oil and other commodities presents the first time in years when we will be able to make our case with major users for significant outsourcing of resource infrastructure. We hope to show great progress in 2015.

***Brookfield Private Equity Group***

Results for 2014 generated FFO of $446 million. This is our one business where financial results are always irregular, as they are often driven by transactional activity.

We are close to privatizing both of our 'for-sale' housing operations. This included investing an incremental ±$875 million to acquire our North American home building company, where a shareholder vote is pending. This operation has been one of our most successful long-term investments for over 25 years but we believe that it has always been misunderstood in the capital markets. We intend to develop its land over the next 25 years which should generate substantial amounts of cash to us over time. This cash will be utilized in our overall operations, and to expand the business. We are confident shareholders will enjoy this business being tucked away in our private equity group for a long time.

In Brazil we also privatized the 'for-sale' high-rise condominium business and we are in the midst of reorganizing the business to be slimmer and more focused on building high-end properties, in line with what we build globally.

We sold our Western Forest Products private equity investment after owning the assets for over 12 years. Despite some brutal conditions over the course of the housing cycle, we ended up generating a 14% return and almost 3 times multiple on the investment. While not our best return, given the market we felt it was a great accomplishment for our operational teams to pull this off.

Our two oriented strand board producers were merged together, subject to anti-trust approvals, and investors in both companies appear to be pleased with the leading housing products company that resulted from this merger. With clients, we will own approximately 53% of the combined company which should benefit from cost synergies, revenue opportunities, a larger float, and the continued recovery of U.S. housing markets.

We have built the leading North American coal bed methane producer through a series of acquisitions, and believe we have created significant value in this company, which is consistently profitable even at a time when natural gas prices are relatively low by historic standards. We also continue to work as a participant in the reorganization of Energy Future Holdings, a Texas utility, and created a separate private equity account to own upwards of $2.5 billion of face value of debt with some of our clients.

**Strategy and Goals**

Our strategy is to provide world-class alternative asset management services on a global basis, focused on real assets such as property, renewable energy, infrastructure, and private equity investments. Our business model utilizes our global reach to identify and acquire high quality assets at favourable valuations, finance them prudently, and then enhance the cash flows and values of these assets through our established operating platforms to achieve reliable attractive long-term total returns.

Our primary long-term goal is to achieve 12% to 15% compound returns measured on a per share basis. This increase will not occur consistently each year, but we believe we can achieve this objective over the longer term by:

- Offering a focused group of Funds on a global basis to our clients; while utilizing our discretionary capital to invest beside these clients, and to support our Funds in undertaking transactions they could not otherwise contemplate without our assistance;
- Focusing the majority of our investments on high quality, long-life, cash-generating real assets that require minimal sustaining capital expenditures, having some form of barrier to entry, and characteristics that lead to appreciation in the value of these assets over time;
- Utilizing our operating experience, global platform, scale and extended investment horizons to enhance returns over the long term;
- Maximizing the value of our operations by actively managing our assets to create operating efficiencies, lower our cost of capital and enhance cash flows. Given that our assets generally require a large initial capital investment, have relatively low variable operating costs, and can be financed on a long-term, low-risk basis, even a small increase in the top-line performance typically results in a disproportionately larger contribution to the bottom line; and
- Actively managing our capital. Our strategy of operating our businesses as separate units provides us with opportunities from time to time to enhance value by buying or selling assets or parts of a business if the markets enable access to capital at attractive terms. As a result, in addition to the underlying value created in the business, this strategy allows us to earn extra returns over those which would otherwise be earned. In addition, we often capitalize on mispricing of our securities in the stock market by repurchasing shares of the company when opportunities arise and the valuation is compelling.

**Summary**

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.

And, while I personally sign this letter, I respectfully do on behalf of all of the members of the Brookfield team, who collectively generate the results for you. 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 13, 2015