

Management's Discussion and Analysis

ORGANIZATION OF THE MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

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Throughout our annual report, we use the following icons:



"Brookfield," the "company," "we," "us" or "our" refers to Brookfield Asset Management Inc. and its consolidated subsidiaries. The "corporation" refers to our asset management business which is comprised of our asset management and corporate business segments. Our "invested capital" includes our "listed partnerships," Brookfield Property Partners L.P., Brookfield Renewable Partners L.P., Brookfield Infrastructure Partners L.P. and Brookfield Business Partners L.P., which are separate public issuers included within our Real Estate, Power, Infrastructure and Private Equity segments, respectively. Additional discussion of their businesses and results can be found in their public filings. We use "private funds" to refer to our real estate funds, infrastructure funds and private equity funds.

Please refer to the Glossary of Terms on page 103 which defines our key performance measures that we use to measure our business. Other businesses include Residential Development and Corporate.

Additional information about the company, including our Annual Information Form, is available on our website at www.brookfield.com, on the Canadian Securities Administrators' website at www.sedar.com and on the EDGAR section of the U.S. Securities and Exchange Commission's ("SEC") website at www.sec.gov.

We are incorporated in Ontario, Canada, and qualify as an eligible Canadian issuer under the Multijurisdictional Disclosure System and as a "foreign private issuer" as such term is defined in Rule 405 under the U.S. Securities Act of 1933, as amended, and Rule 3b-4 under the U.S. Securities Exchange Act of 1934, as amended. As a result, we comply with U.S. continuous reporting requirements by filing our Canadian disclosure documents with the SEC; our annual report is filed under Form 40-F and we furnish our quarterly interim reports under Form 6-K.

Information contained in or otherwise accessible through the websites mentioned does not form part of this report. All references in this report to websites are inactive textual references and are not incorporated by reference.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This Report 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 the corporation 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 the corporation 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 cyberterrorism; 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, the corporation 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.

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND USE OF NON-IFRS MEASURES

This Report 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. We may provide such information and make such statements in the Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission or in other communications. See “Cautionary Statement Regarding Forward-Looking Statements and Information” above.

We disclose a number of financial measures in this Report that are calculated and presented using methodologies other than in accordance with IFRS. We utilize these measures in managing the business, including performance measurement, capital allocation and valuation purposes and believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures or other financial metrics may differ from the calculations disclosed by other businesses and, as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS financial measures to the most directly comparable financial measures calculated and presented in accordance with IFRS, where applicable, are included within this MD&A. Please refer to our Glossary of Terms on page 103 for all non-IFRS measures.

PART 1 – OUR BUSINESS AND STRATEGY

OUR BUSINESS

ORGANIZATIONAL
STRUCTURE

COMPETITIVE
ADVANTAGES

OPERATING CYCLE

LIQUIDITY AND
CAPITAL RESOURCES

RISK MANAGEMENT

ESG

OUR BUSINESS

We are a leading global alternative asset manager, focused on investing in long-life, high-quality assets across real estate, renewable power, infrastructure and private equity. We provide a wide variety of investment products to our investors including private funds,¹ listed issuers¹ and public securities.¹ Our interests are aligned with our investors because we invest large amounts of our own balance sheet capital in our funds: we are typically the largest investor in our private funds and the largest investor in each of our listed issuers.

We have built our business around assets and businesses that are resilient through market cycles and deliver robust returns. Our deep experience investing in, owning, and operating real assets has enabled us to successfully underwrite acquisitions and to enhance returns through our expertise in operational improvements, financing strategies and execution of development projects.

Our financial returns are represented primarily by the combination of fees we earn as an **asset manager** as well as capital appreciation and distributions from our **invested capital**.¹ Our primary performance measure is funds from operations¹ (“FFO”), which we use to evaluate the operating performance of our segments.

In our **asset management** activities, we manage private funds, listed issuers, and public securities portfolios for investors which we refer to as fee bearing capital.¹ FFO from these activities consist of: (i) base and other recurring fees that we earn as manager less direct costs of doing so; (ii) incentive distributions¹ and performance fees from our listed issuers; and (iii) realized carried interest¹ from private funds. We supplement our performance measurement with economic net income¹ (“ENI”) which utilizes unrealized carried interest¹ instead of realized carried interest. Unrealized carried interest represents the amount of carried interest generated based on investment performance to date and is therefore more indicative of earnings potential. Continued growth in this measure is a leading indicator of future growth in FFO from our Asset Management segment.

Our **invested capital** consists largely of investments in our listed issuers and other listed securities, which currently make up 85% of our invested capital. The remaining 15% is largely invested in our residential development business and our energy marketing activities. Our invested capital provides us with FFO and cash distributions, most of which is generated by the investments in our limited partner interests in our listed entities, which pay stable recurring distributions.

Our **balance sheet** also allows us to capitalize quickly on opportunities as they arise, backstop the transactions of our various businesses as necessary and fund the development of new activities by seeding new investment strategies that are not yet suitable for our investors. Finally, the amount of capital invested by us directly in our listed issuers, and through them into our private funds, creates alignment of interests with our investors.

Refer to Part 2 and 3 of this MD&A for more information on our operations and performance.

OUR STRATEGY

As a leading global alternative asset manager, our business strategy is focused on the following:

- Generate superior investment returns for our investors, utilizing our competitive advantages of large-scale capital, global reach and operating expertise
- Offer a wide range of traditional and innovative products that meet our investors’ requirements
- Provide exceptional client service
- Utilize our balance sheet to accelerate growth in our asset management activities, align our interests with investors and generate additional returns

1. See definition in Glossary of Terms on page 103

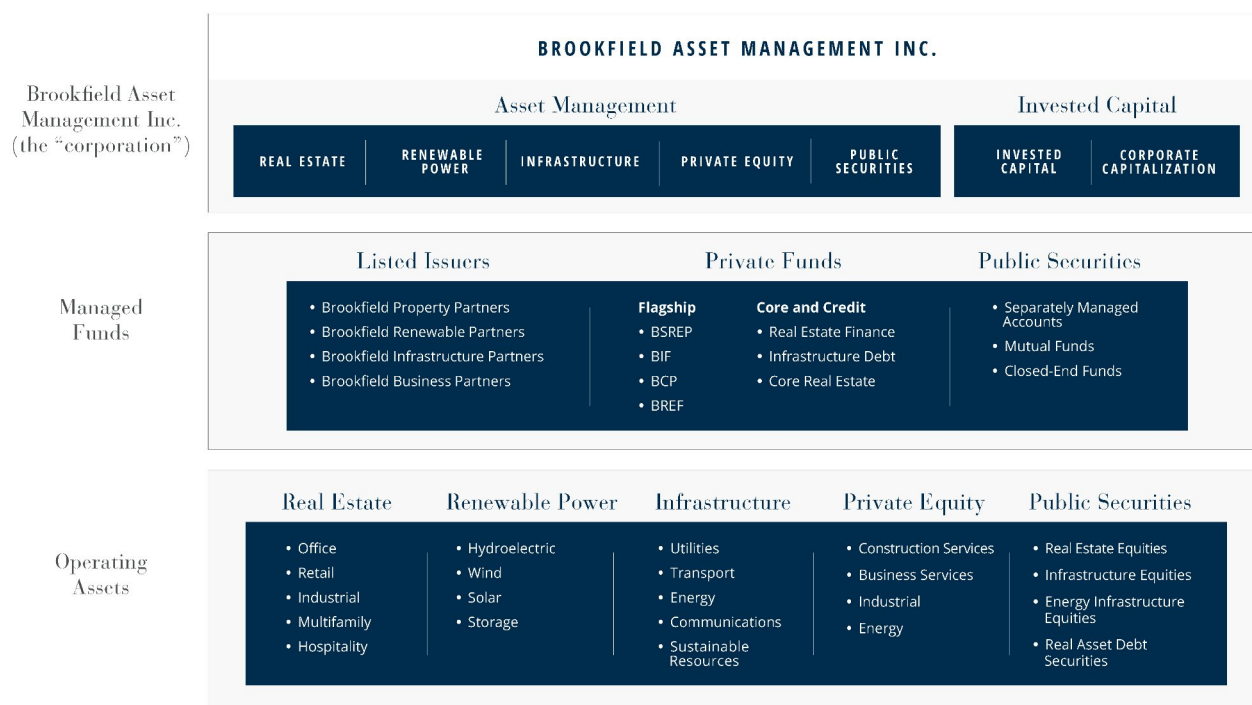
ORGANIZATIONAL STRUCTURE

We employ approximately 1,200 employees within our asset management business and a further 80,000 employees throughout the rest of our operations. We have organized our activities into five principal groups: real estate, renewable power, infrastructure, private equity, and public securities.

Our asset management operations include the creation of and raising capital for new funds, managing existing funds, client relations, product development as well as overseeing the management of the assets and investments owned through our investment strategies. Our invested capital consists primarily of major ownership interests in our listed issuers, our residential development business and other directly held securities. Invested capital is funded in part by our corporate leverage which includes long-term debt and perpetual preferred shares.

Our investment products, or managed funds, include: our flagship listed issuers (BPY,¹ BEP,¹ BIP¹ and BBU¹); our private funds, including our flagship private funds along with a number of niche and open-end perpetual funds; and public securities strategies such as mutual funds and separately managed accounts.

Our operating assets encompass all of the assets owned by our funds as well as the various operating groups that we have established over decades to manage operating assets, such as our core office and renewable power group, as well as portfolio investments which have dedicated management teams that are overseen by us.



1. See definition in Glossary of Terms on page 103

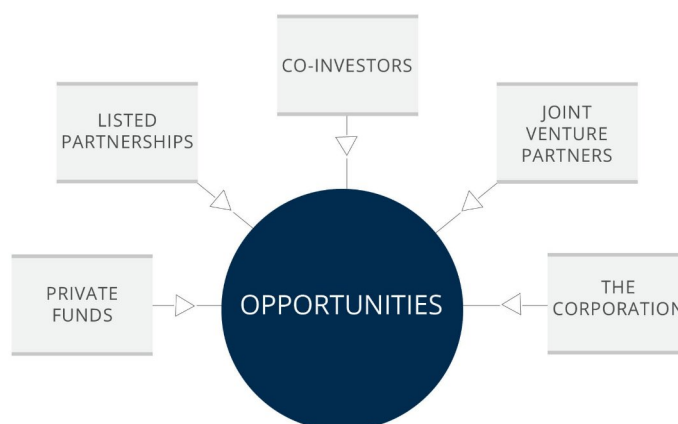
COMPETITIVE ADVANTAGES

Over the years, we have developed three primary competitive advantages that allow us to identify and undertake transactions that others find more difficult, and to create more value from the assets that we own and operate. These are our large-scale capital, global reach and operating expertise.

Large-Scale Capital

We source capital from public investors, private investors, joint venture partners and lenders. At year end, fee bearing capital totaled \$126 billion, and we had \$27 billion of core liquidity and uncalled private fund commitments.

We have access to large-scale capital from multiple sources, enabling us to undertake transactions of a size that few others can. In addition, investing significant amounts of our own capital alongside our investors differentiates us and ensures a strong alignment of interests with our investors because we participate directly in the investment returns that we generate as an investor as well as the manager. Our strong balance sheet also allows us to fund investments with our own capital when developing new strategies or while a new fund is being raised. In addition, this allows us to backstop larger acquisitions within our funds that require co-investment capital that has not yet been secured.



Global Reach

We operate in more than 30 countries around the world with approximately \$285 billion in assets under management globally.

Our global reach allows us to diversify and identify a broad range of opportunities. We are able to invest where capital is scarce, and we can move quickly on opportunities across the different markets. Our global reach also allows us to operate our assets more effectively: we believe that a strong local presence is critical to operating successfully in many of our markets, and many of our businesses are truly local. Furthermore, the combination of our strong local presence and global reach allows us to bring global relationships and operating practices to bear across markets to enhance returns.

Operating Expertise

We have more than 80,000 operating employees worldwide who are instrumental in maximizing the value and cash flows from our operations.

We are active managers of assets. Starting with our first investment over 115 years ago, we have built a strong track record which shows that we can add meaningful value and cash flow through our hands-on operating expertise. Whether this is through the negotiation of property leases, energy contracts or regulatory agreements, or through optimizing asset development, or other activities – our focus has been on acquiring businesses and placing a team on the ground to run them operationally. As real asset operations tend to be industry-specific and are often driven by complex regulations, we believe that real operating experience is essential in maximizing efficiency and productivity – and ultimately, returns. This operating expertise is also invaluable in underwriting acquisitions and executing development and capital projects.

OPERATING CYCLE

Raise Capital

As an asset manager, the starting point is forming new funds and other investment products that investors are willing to commit capital to. This will, in turn, provide us with capital to invest and the opportunity to earn base management fees and performance-based returns such as incentive distributions and carried interest. Accordingly, we create value by increasing the amount of fee bearing capital under management and by achieving strong investment performance that leads to increased cash flows and asset values.

Identify and Acquire High-Quality Assets

We follow a value-based approach to investing and allocating capital. We believe our disciplined approach, global reach and our expertise in recapitalizations and operational turnarounds, enable us to identify a wide range of potential opportunities, some of which are challenging for others to pursue, and therefore invest at attractive valuations and generate superior returns. We also have considerable expertise in executing large development and capital projects, providing additional opportunities to deploy capital.

Secure Long-Term Financing

We finance our operations primarily on a long-term, investment-grade basis, and most of our capital consists of equity and standalone asset-by-asset financing with minimal recourse to other parts of the organization. We utilize relatively modest levels of corporate debt to provide operational flexibility and optimize returns. This provides us with considerable stability, improves our ability to withstand financial downturns and enables our management teams to focus on operations and other growth initiatives.

Enhance Value and Cash Flows Through Operating Expertise

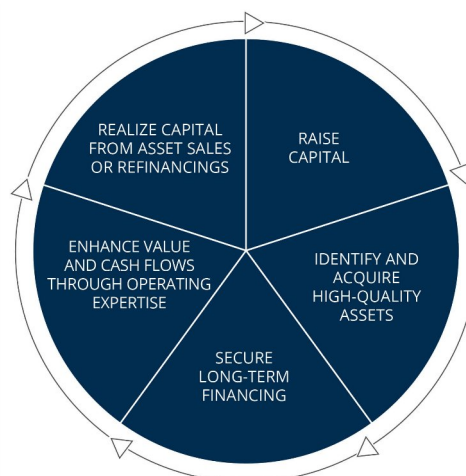
Our operating capabilities enable us to increase the value of the assets within our businesses and the cash flows they produce, and they protect capital better in adverse conditions. Through our operating expertise, development capabilities and effective financing, we believe our specialized operating experience can help ensure that an investment's full value creation potential is realized by optimizing operations and development projects. We believe this is one of our most important competitive advantages as an asset manager.

Realize Capital from Asset Sale or Refinancings

We actively monitor opportunities to sell or refinance assets to generate proceeds that we return to investors in the case of limited life funds and redeploy to enhance returns in the case of perpetual entities. In many cases, returning capital from private funds completes the investment process locking in investor returns and giving rise to performance income.

Our Operating Cycle Leads to Value Creation

We create value from earning robust returns on our investments that compound over time and grow our fee bearing capital. By generating value for our investors and shareholders, we increase fees and carried interest received in our asset management business and grow cash flows that compound value in our invested capital.



LIQUIDITY AND CAPITAL RESOURCES

We manage our liquidity and capital resources on a group-wide basis; however, it is organized into three principal tiers:

- The corporation;
- Our flagship listed issuers such as BPY, BIP, BEP and BBU;
- The operating asset level, which includes individual assets, businesses and portfolio investments.

Our overall approach is to maintain appropriate levels of liquidity throughout the organization to fund operating, development and investment activities as well as unforeseen requirements.

Most investment activity takes place within our private funds, listed issuers and operating subsidiaries on a standalone basis without reliance on the corporation. Most of the debt within our business occurs at the operating asset level. Only 7% of our consolidated debt is issued by the corporation and 11% by our listed issuers. Cross collateralization and parental guarantees are avoided with very few well-monitored exceptions, and debt is predominantly investment grade with limited financial maintenance covenants.

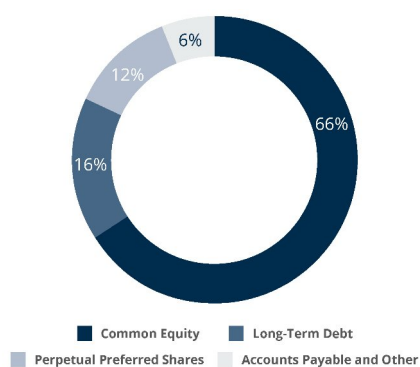
For further information please refer to Part 4 – Capitalization and Liquidity.

Highlights of our Corporate Capitalization

The corporation has very few capital requirements. Nevertheless, we maintain significant liquidity at the parent company level, supporting larger fund transactions by providing some form of bridge capital or commitment. We also utilize the corporation's capital resources to seed new fund products in order to establish a track record and establish our team prior to launching to investors.

At the corporate level, we have a stable capitalization profile with long-term debt and perpetual preferred shares to enhance equity returns.

Components of Corporate Capitalization



- 10-year average term to maturity for long term debt.
- Preferred shares are perpetual.

Strong cash earnings

- Fee related earnings are underpinned by long-term and perpetual contractual agreements.
- Distributions from listed issuers are backed by high-quality operating assets and long-term revenue streams.

YEAR ENDED DEC. 31, 2017
(MILLIONS)

Asset Management FFO.....	\$	970
Distributions from listed issuers.....		1,276
Corporate FFO		(146)
Preferred dividends		(145)
Available for distribution/reinvestment ¹	\$	1,955

1. See Glossary of Terms on page 103

Substantial liquidity

- \$4 billion of available liquidity in the form financial assets and undrawn credit facilities at the corporate level.

YEAR ENDED DEC. 31, 2017
(MILLIONS)

Financial assets.....	\$	2,255
Undrawn credit facilities		1,748
Core liquidity – corporate	\$	4,003

RISK MANAGEMENT

Our Approach



FOCUS ON RISK CULTURE

Focus on maintaining an appropriate risk culture aligns our business strategy and activities with risk appetite



COORDINATION

Consistent approach and practice across business and functional groups, and management of common risks



SHARED EXECUTION

Business and functional groups are primarily responsible for identifying and managing associated risks with their business

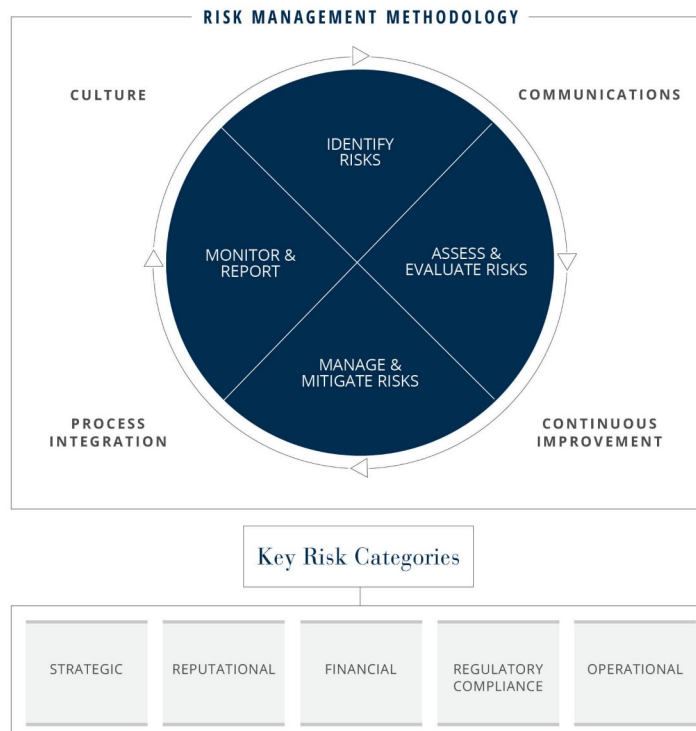
Managing risk is an integral part of our business, and we have a well-established and disciplined approach that is based on clear operating methods and a strong risk-based culture. Given the diversified and decentralized nature of our operations, we seek to ensure that risk is managed as close to its source as possible and by the management teams that have the most knowledge and expertise in the specific business or risk area.

As such, business-specific risks are generally managed at the operating business group level, as the risks vary based on the characteristics of each business. At the same time, we monitor many of these risks on an organization-wide basis to ensure adequacy of risk management practices, adherence to applicable Brookfield practices and facilitate sharing of best practices.

We also recognize that some risks are more pervasive and correlated in their impact across the organization, such as liquidity, foreign exchange and interest rates, and risks where we can bring together specialized knowledge to bear. For these risks, we utilize a centralized approach amongst our corporate and our operating business groups. Management of strategic, reputational and regulatory compliance risks is similarly coordinated to ensure a consistent focus and implementation across the organization.

Risk Management Framework

Brookfield's risk management program emphasizes the proactive management of risks, ensuring that we have the necessary capacity and resilience to respond to changing environments by evaluating both current and emerging risks.

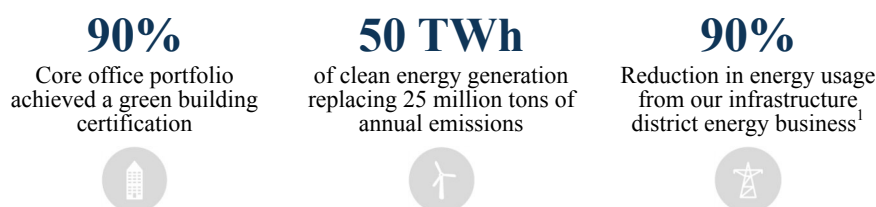


ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”) MANAGEMENT

Our business provides critical infrastructure and services used by millions of people. We manage investment strategies that are long term in nature and that underpin the financial welfare of pension plans, insurance companies and individuals, and we impact the lives of tens of thousands of employees, their families and the communities in which we operate. Accordingly, ESG management is a key consideration in the way we conduct our business.

Our long-term owner-operator approach to business means that in many cases we are well positioned to be a positive influence and take active measures to implement effective ESG programs. Many of these programs have been in place for decades, and we are continuing to address new ESG priorities as they emerge, such as those relating to the workplace and climate change.

We recognize that it is important to effectively communicate our ESG initiatives to our investors, because it increasingly influences their decisions. For example, many private fund investors want to better understand our ESG practices before committing capital; an increasing number of public securities investors consider ESG ratings when purchasing shares in our listed issuers; and in the debt markets, we are issuing more green bonds to access those pools of capital.



We have developed a multifaceted approach to managing ESG factors throughout Brookfield. The management teams in each area of our business, including portfolio companies and operating businesses, have primary responsibility for the management of ESG factors within their operations. This approach ensures full alignment between responsibility, authority, experience and execution and is particularly important given the wide range of asset types and locations in which we operate. At the same time, we work together collectively across the organization utilizing committees and working groups, such as our ESG Committee to provide guidance, establish common principles and share best practices throughout the organization. We have incorporated ESG factors into our governance framework and strategic planning, including our board of directors and senior executive leadership.

We consider ESG factors arising from new businesses throughout the investment process. During due diligence, we utilize our operating and underwriting expertise to identify ESG factors in acquisition targets, and uncover opportunities to add value by mitigating risk and capitalizing on opportunities post-acquisition, and incorporate these into the potential return analysis. Factors considered included bribery and corruption risks, health and safety risks, ethical considerations and environmental matters as well as opportunities such as energy efficiency improvements and competitive market positioning.

Our business has been built around operations where environmental sustainability has long been core to creating value. Our world-class renewable power operations enable us to benefit from demand for low carbon energy supply and our office portfolio owns and develops buildings that meet environmental standards that fulfill our tenants' objectives for more sustainable workplaces.

Our people are our most valuable asset. We are committed to developing our talent, and we invest in them by creating opportunities across our businesses. As part of our commitment to our employees, we focus on diversity, competitive wages and inclusive hiring practices. Our Health and Safety Steering Committee, which includes the CEOs of each business group, works to promote a strong health and safety culture, share best practices and monitor safety incidents and the remedial action undertaken across our operations. We support the communities in which we operate through philanthropic initiatives, but more importantly through our approach to the ESG factors that impact them.

Brookfield maintains high governance standards across the organization, which includes the portfolio companies in which we have a controlling interest. Key elements of our governance framework include a code of conduct, an anti-bribery and corruption policy, a whistleblower hotline, and supporting controls and procedures. Those governance standards are designed to meet or exceed the requirements of any jurisdiction in which we operate.

Our commitment to a long-term ownership philosophy means that long-term sustainability is key to our business and, by extension, effective management of ESG factors is key to our success.

1. As compared to a conventional heat-exchange system

FAIR VALUE ACCOUNTING

We account for a number of our assets at fair value including our commercial properties, renewable power facilities, and certain infrastructure assets. We believe the values of these assets in our IFRS financial statements provide useful information to the users when assessing the tangible value of parts of our business. The valuations in our financial statements are not used in the calculation of management fees or management compensation. We note that these values are estimates and subject to exercise of judgment. We do have the opportunity to test our values throughout outright sales from time to time. During 2017, we were successful in selling above IFRS carrying values, selling businesses with an equity value of \$3.4 billion at an average of 9% above their carrying value at the prior year end (2016 – \$2.5 billion and 8%).

Investment properties: most real estate properties within our Real Estate segment are classified as investment properties. they are recorded at fair value, and changes in the value of these assets are recorded within net income on a quarterly basis. Depreciation is not recorded on investment properties.

Property, plant and equipment (“PP&E”): we record PP&E within our Renewable Power, Infrastructure and Real Estate segments at fair value using the revaluation method. These assets are fair valued annually and increases in value are recorded within other comprehensive income as opposed to net income, while decreases in fair value are recorded in net income to the extent that they result in carrying value below original cost less depreciation. Depreciation is determined on the revalued carrying values at the beginning of each year and recorded in net income over the course of the year.

Significant assets on our balance sheet are not subject to fair value accounting and are therefore carried at amortized cost, including the assets in our Private Equity and Residential segments as well as intangible assets, such as concessions in our Infrastructure segment. This value of our asset management business is not reflected in our balance sheet, despite being a material component of the fair value of the company.

Valuation Process

Valuations of assets without available quoted market prices, in particular those classified as level 3 in the fair value hierarchy, such as our investment properties and PP&E, are determined through a detailed bottom-up process. We have extensive expertise and experience in the valuation of real assets as part of the process we follow for acquisitions and dispositions, as well as providing fair values to lenders and institutional private fund investors, which we incorporate into our financial reporting process.

As our assets span many asset classes and geographies, values are determined on an asset-by-asset basis, using a common framework that is adjusted for asset-specific characteristics. The following are common attributes of valuation process:

1. **Detailed process and reviews** – We determine the valuations from the bottom up following centrally developed policies and procedures, with the valuations performed by the investing and operating professionals most familiar with each asset and asset class. The cash flows are determined as part of our annual business planning process, prepared within each operating business. Valuation assumptions, such as discount rates and terminal value multiples, are determined by the relevant investment professionals and applied to the cash flows to determine the values. The values are reviewed by the senior management teams responsible for each segment along with senior investment professionals responsible for the relevant asset classes.
2. **Comparable transaction analysis** – We compare the results of our valuations to comparable open-market transactions on an asset-by-asset basis. The investment professionals that specialize in specific asset classes obtain the relevant valuation metrics for transactions in that class. For example, our infrastructure group will obtain the EBITDA multiples from investment professionals specialized in transport acquisitions and compare these to the equivalent multiples for the assets in our transport valuations. This analysis provides insight into the reasonableness of the valuations from a market participant perspective, in conjunction with asset-specific considerations, and are used to validate our models.
3. **Use of third-party valuation specialists** – The majority of the assets that we carry at fair value are subject to external valuation or independent review on a regular basis. We utilize this third-party input to validate our internal valuations. Many of our assets receive external appraisals on a periodic basis, for example, our core office assets in real estate and the assets held through our infrastructure funds are generally appraised on a three-year rotating basis, with certain assets appraised on a more frequent basis. We also utilize third parties to provide inputs on key assumptions, for example our core retail business receives external input annually with respect to capitalization rates for each property, which is the most significant assumption for valuing those assets.

For additional details on the valuation approach for the relevant segments, critical assumptions and related sensitivities, refer to Part 5 of this MD&A.

PART 2 – REVIEW OF CONSOLIDATED FINANCIAL RESULTS

KEY FACTORS THAT IMPACT OUR RESULTS

Given the nature of our business, certain key factors impact period-to-period variations in our consolidated financial position and financial performance, including:

- Our results are affected by the current economic environment; this includes GDP growth, inflation and the interest rate environment in the markets where we invest and operate, which in turn impact metrics such as occupancy in our buildings or volumes in our transportation business. In addition, many of our businesses have inflation linked revenues through contractual rate adjustments or in the prices that we are able to charge. Changes in interest rates will impact the cost of financing our operations over the long term, although we often utilize fixed-rate debt, mitigating short-term fluctuations. In addition, our assumptions with respect to these economic factors impact our fair value estimates for investment properties and property, plant and equipment, with a corresponding impact on net income and equity, respectively.
- Our business is to invest in high-quality real assets within our areas of expertise and to harvest mature assets in order to lock in returns and distribute capital to investors or redeploy it into other investments. As an asset manager, we make most of our investments through subsidiaries and funds that we control. We invest alongside our investors and partners resulting in varying economic ownership across our assets. As a result, acquisition and disposition activities may create significant variability in our financial position and performance. We provide additional detail on significant acquisitions and dispositions.
- A major part of our business is to utilize our operating expertise to improve our performance over time. As such, operational factors, such as business improvement initiatives, new contracts and leases, changes in financing levels and completion of development projects, impact our results period to period.
- Due to our global footprint, we are exposed to various foreign currencies. Changes in the rate of exchange between the U.S. dollar and the currencies in which we conduct our non-U.S. operations impact our operating results and our financial position. We often utilize financial contracts to mitigate the impact of these exposures.

ECONOMIC AND MARKET REVIEW

(As at March 19th, 2018)

The predictions and forecasts within our Economic and Market Review and Outlook are based on information and assumptions from sources we consider reliable. If this information or these assumptions are not accurate, actual economic outcomes may differ materially from the outlook presented in this section. For details on risk factors from general business and economic conditions that may affect our business and financial results, refer to Part 6 – Business Environment and Risks.

Overview and Outlook

In 2017, economic growth accelerated across the world's largest economies, resulting in global real GDP growth rising from 3.2% in 2016 to 3.7% in 2017 – the fastest pace since 2011. The acceleration was broad-based, with notable strength in North America and Europe, which both rose from 1.5 – 2.0% growth in 2016 to ~2.5% in 2017. Against this backdrop, many large economies are now operating near full-capacity and central banks are removing the extremely accommodative monetary policy that lasted nearly a decade. The U.S. Federal Reserve, the Bank of England, and the Bank of Canada all pushed interest rates higher than many were expecting just 12 months ago. While the central banks are keen to normalize monetary policy, we expect an orderly rise in policy rates. Higher interest rates also mean that some assets are no longer seen as one-way bets, which is positive from a longer-term stability perspective. In our view, the main risks to economic growth in 2018 are geopolitical in nature: government elections (Italy, Brazil, Mexico), trade frictions (Brexit, NAFTA, U.S. protectionism) and potential conflicts (Middle East, North Korea). Despite the risks, we expect the global economy to continue growing in 2018 at a similar pace to 2017.

United States

The U.S. economy grew by 2.3% in 2017, up from 1.5% in 2016. Growth was driven by solid job gains, household spending and a rebound in business investment. Strength in the labor market was reflected by average monthly job growth of 180,000 and a decline in the unemployment rate to 4.1% (the lowest level since 2001). Nominal wage growth trended higher to 2.5 – 3.0% by the end of the year and is poised to rise further in 2018. With slack in the economy diminished, inflation will continue trending higher towards the Federal Reserve's 2% target. The U.S. government also enacted expansionary fiscal policy via major tax reform legislation, reducing corporate and individual tax rates, which will provide an additional boost to growth in the near term. Overall, the current pace of growth is expected to persist in 2018, which will give the Federal Reserve confidence to continue raising interest rates and shrinking its balance sheet.

Canada

In Canada, real GDP growth surged from 1.4% in 2016 to 3.0% in 2017. Growth was driven by strong household spending and the return of business investment growth as oil prices rebounded. Growth was closer to 4% in the first half of 2017 but slowed to 2% during the second half. Employment grew by 2% (the fastest since 2007), which pushed the unemployment rate to a 40-year low of 5.7%. Combined with a buoyant housing market, strong job gains supported consumer spending growth of 4% year over year. This prompted the Bank of Canada to hike interest rates three times over the last nine months, as the central bank looks to contain risks, particularly those posed by high and rising levels of household debt (~175% of income). Higher interest rates and tighter mortgage rules are expected to cool the housing market in 2018, which has been a key driver of growth recently. Overall, real GDP growth is expected to moderate in 2018 from the 3% pace in 2017.

United Kingdom

Real GDP in the U.K. grew by 1.7% in 2017, down slightly from 1.9% in 2016. However, growth declined continuously throughout the year, falling from 2.1% in Q1 to 1.5% in Q4. The slowdown was caused by weakness in real household spending, due in part to inflation outpacing wage growth (2.7% vs. 2.1%) thus eroding real purchasing power. Despite weaker spending, the economy remains strong with unemployment at the lowest level since 1975 (4.3%). A weak GBP also supported manufacturing and export-oriented sectors in the second half of the year. The tight labor market, resilient GDP growth, and above-target inflation prompted the Bank of England (BoE) to hike its policy rate from 0.25% to 0.50% in November. However, the pace of future hikes will depend on performance, and growth is currently expected to moderate further in 2018. The U.K. reached a tentative agreement on the EU “divorce bill” in December, but Brexit negotiations will get more difficult in 2018 as the two sides seek to iron out a framework for their future trading relationship. Longer term, if the U.K. becomes less open to trade and migration, it will face slower real income growth.

Eurozone

Eurozone real GDP growth jumped from 1.8% in 2016 to 2.5% in 2017, gaining momentum as the year progressed. Eurozone growth reached 2.7% year over year in Q4, led by Spain at 3.1%, Germany at 2.9% and France at 2.5%. Italy continues to lag, growing by 1.5% in 2017. Growth on the continent is being driven mostly by stronger domestic demand (household spending and business investment) but has also benefited from a stronger global economy, which has aided export volumes. Germany’s economy is effectively at full capacity, but there’s still slack in most of the other Eurozone countries, evidenced by elevated unemployment rates in Spain (16.3%), Portugal (8.0%), France (9.0%) and Italy (10.9%). Due to slack and below-target inflation, the European Central Bank (ECB) is not expected to begin hiking rates in 2018, although it may stop expanding its balance sheet. Rising interest rates in the medium term will be a headwind to countries that still have elevated levels of government debt, such as Italy and Portugal, where government debt exceeds 130% of GDP. Franco-German cooperation on Eurozone reforms could be a positive surprise in 2018, while a populist-led government in Italy, tensions between the Spanish government and region of Catalonia and Brexit negotiations remain key political risks. Overall, we expect another strong year of growth in the Eurozone.

Australia

Growth in Australia fell from 2.6% in 2016 to 2.3% in 2017. This was largely due to slow growth in the first half of the year as a result of a cyclone hitting the east coast that disrupted mining output and exports. Growth in the second half was stronger at 2.8%, driven by household spending and government investment on major infrastructure projects. This allowed full-time job growth to reach the fastest pace since 2010. Higher commodity prices (coal, iron ore, and LNG) provided a boost to Australia’s trade balance, and helped the AUD appreciate by 3% on a trade-weighted basis. The housing market was a major driver of growth over the last few years, but it appears to be cooling and is not expected to provide the same boost to growth over the next few years. Overall, growth was strong and balanced in 2017, and this will likely give the Reserve Bank of Australia (RBA) confidence to begin raising interest rates in 2018 from the record low 1.50% maintained throughout 2017.

Brazil

Brazil’s economy rebounded in 2017 after a deep two-year recession, with real GDP growing 2.2% in Q4 and 1.0% overall in 2017. The rebound in 2017 was supported by higher household spending (retail sales +2.0%) and business activity (industrial production +2.8%). Job growth also returned, rising by 2% at the end of the year, while the unemployment rate declined from a peak of 13.7% to 12.0%. Investment growth was muted in 2017, as the Lava Jato investigations continue to constrain activities of some of the largest companies. We believe Brazil has entered a virtuous cycle, where lower inflation and the sharp decline in interest rates (–675 bps in 2017) promote spending growth, job creation, higher tax revenues, narrower government deficits and improved confidence. The large amount of slack in the economy should also allow it to outperform in the near term. However, a key uncertainty to the outlook is the general election in October as it is not clear what sort of leadership and priorities the government will have by the end of the year. Overall, we remain positive on Brazil’s potential and believe the country will be better off in the long run due to the challenges it faced over the past few years.

India

Real GDP growth in India dipped to 6.4% in 2017, down from 7.9% in 2016. However, growth firmed in the second half of the year, rising back to 7.2% in Q4. Softer growth was largely due to one-off disruptions, including withdrawing the largest denominated bills from circulation at the end of 2016 – which hampered the large cash-based economy – and the roll-out of a national goods and services tax (GST) system in July. To boost growth, the government announced a US\$106 billion infrastructure spending program in October, which is expected to double the rate of road building in the next several years. They also announced a US\$32 billion bank recapitalization plan to address capital shortfalls at state-owned banks. This will help improve access to credit, which has been bogged down by high levels of non-performing loans that accumulated during an investment and credit boom over the past decade. Overall, real GDP is expected to continue rising at a robust pace over the next few years, and we believe that the current policy and reform trajectory is positive and will help India grow towards its significant long-term potential.

China

Annual real GDP growth in China accelerated for the first time since 2010, rising from 6.7% in 2016 to 6.9% in 2017. Very strong credit growth (which averaged 19% year over year from Q4 2016 to Q3 2017) underpinned domestic demand growth as housing starts, steel production and power consumption all grew by 5 – 7% throughout the year. In addition, a strong global economy boosted export volumes, which surged 7% in 2017. In October, the Communist Party National Congress was held, where President Xi Jinping consolidated power and appointed allies to key positions. Going forward, we believe that China will continue to reform and open its economy, moving away from the investment-driven growth model of the past two decades and towards a consumption and services growth model. Over the next decade, China will face challenges posed by high debt levels and a fast-aging population, which will lead to slower growth than what we've been accustomed to over the past decade.

INCOME STATEMENT ANALYSIS

The following table summarizes the financial results of the company for 2017, 2016 and 2015:

FOR THE YEARS ENDED DEC. 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Change				
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Revenues	\$ 40,786	\$ 24,411	\$ 19,913	\$ 16,375	\$ 4,498
Direct costs	(32,388)	(17,718)	(14,433)	(14,670)	(3,285)
Other income and gains	1,180	482	145	698	337
Equity accounted income	1,213	1,293	1,695	(80)	(402)
Expenses					
Interest	(3,608)	(3,233)	(2,820)	(375)	(413)
Corporate costs	(95)	(92)	(106)	(3)	14
Fair value changes	421	(130)	2,166	551	(2,296)
Depreciation and amortization	(2,345)	(2,020)	(1,695)	(325)	(325)
Income taxes	(613)	345	(196)	(958)	541
Net income	4,551	3,338	4,669	1,213	(1,331)
Non-controlling interests	(3,089)	(1,687)	(2,328)	(1,402)	641
Net income attributable to shareholders	\$ 1,462	\$ 1,651	\$ 2,341	\$ (189)	\$ (690)
Net income per share	\$ 1.34	\$ 1.55	\$ 2.26	\$ (0.21)	\$ (0.71)

Dividends declared for each class of issued securities for the three most recent years are presented on page 42.

The following section contains a discussion and analysis of line items presented within our consolidated financial statements. The financial data in this section has been prepared in accordance with IFRS for each of the three most recently completed financial years.

2017 vs 2016

Revenues in 2017 increased by \$16.4 billion compared to 2016 primarily due to the acquisition of new businesses and assets. The U.K. road fuel distribution business acquired in our Private Equity segment contributed \$13.1 billion alone. The impact of dispositions reduced revenues by \$731 million during the year. Refer to pages 30 and 31 for further discussion on impacts on revenues from acquisitions and dispositions.

Revenues also increased due to growth in existing operations across our businesses as same-store growth in our infrastructure's transport business and private equity's construction business increased revenue by \$390 million and \$263 million, respectively.

These increases were offset by the absence of \$296 million of revenues from merchant development sales realized in the prior year in our Real Estate segment and fewer deliveries and lower margins in our Brazilian residential business.

Our direct costs increased by \$14.7 billion in 2017 and were mainly associated with our newly acquired businesses, particularly the aforementioned U.K. road fuel distribution business, and higher than planned costs in construction services. These increased costs were partially offset by a reduction in expenses from businesses sold and the benefits of operational improvements.

Other income and gains of \$1.2 billion in 2017 include gains from the sale of our bath and shower business, the partial sale of our shares in our panel board business, the sale of a European logistics portfolio within our real estate business and realized gains from the settlement of financial contracts. The 2016 results included realized gains from the sales of a German hotel portfolio, a hospitality trademark and a toehold position in our Australian port business, as well as realized gains from financial contracts.

Equity accounted income decreased by \$80 million to \$1.2 billion. Appraisal losses at GGP Inc. (“GGP”) and a one-time gain recorded in our infrastructure business during 2016 decreased equity accounted income compared to 2016 by \$412 million. The decrease was partially offset by lower mark-to-market losses on interest rate swap contracts at Canary Wharf Group plc (“Canary Wharf”), which increased equity accounted income by \$81 million.

Interest expense increased by \$375 million as a result of additional borrowings associated with acquisitions across our portfolio and the addition of debt within newly acquired businesses, particularly in the renewable power, infrastructure and private equity operations. We discuss the details of changes in debt and the cost of borrowings in Part 4 – Capitalization and Liquidity.

We recorded fair value gains of \$421 million, which compared to a loss of \$130 million in 2016, primarily as a result of a higher valuations in our opportunistic property portfolios, a gain recorded upon deconsolidation of Norbord and the absence of a one-time impairment loss that was recorded in the prior year on the conversion of a debt instrument to equity in our Private Equity segment. These positive impacts were partially offset by appraisal losses in our core office portfolio, mark-to-market losses on our GGP warrants prior to exercise and mark-to-market losses on foreign exchange derivatives that do not qualify for hedge accounting.

Depreciation and amortization expense increased by \$325 million to \$2.3 billion due to depreciation recorded in the businesses acquired within our infrastructure and private equity businesses, particularly the Brazilian regulated gas transmission business, the Brazilian water treatment business and the U.K. road fuel distribution business.

Income tax expense was \$613 million, compared to a \$345 million recovery in 2016. The prior year included a one-time income tax recovery of \$0.9 billion in the prior year as a result of a change in tax rates arising from the reorganization of certain of our U.S. property operations. Excluding the impact of this recovery, income tax expenses were consistent year over year as increased expenses associated with acquisitions were offset by \$157 million of recoveries associated with U.S. tax reform.

Net income attributable to common shareholders of \$1.5 billion or \$1.34 per share decreased from \$1.7 billion in the prior year. The decrease is largely driven by the absence of the aforementioned one-time tax recovery recorded in the prior year, of which \$600 million was attributed to common shareholders, and is partially offset by the positive impacts discussed above

2016 vs 2015

Revenues and direct costs increased by \$4.5 billion and \$3.3 billion, respectively. The increase is mainly attributable to new businesses that were acquired or completed during the year and operational improvements across our businesses, including the commencement of new leases in our real estate operations and improved pricing in Norbord.

Other income and gains in 2016 included gains on the disposition of a German hotel portfolio, a hospitality trademark and a partial disposition of a toehold position in publicly traded securities. In 2015, other income and gains included gains related to the sale of investments within our renewable energy and infrastructure operations.

Equity accounted income in 2016 decreased by \$402 million as same-store growth in GGP coming from operational improvements and a one-time transaction gain recorded on the privatization of our Brazilian toll road investment were more than offset by the absence of appraisal gains at Canary Wharf that were significant in 2015.

Interest expense increased by \$413 million in 2016 mainly due to additional borrowings associated with acquisitions, particularly within our real estate, infrastructure and renewable power operations, partially offset by repayments of credit facilities throughout the year.

In 2016 we recorded fair value losses of \$130 million, compared to a fair value gain of \$2.2 billion in 2015. The loss recorded in the year was mainly attributable to the recognition of a one-time loss on the conversion of a debt-to-equity instrument in our private equity business, which was partially offset by appraisal gains in our investment properties. Fair value gains in 2015 included higher appraisal gains in our core office investment properties that was caused by improving market conditions driving up underlying property values.

The increase of \$325 million in depreciation and amortization expense is primarily driven by acquisitions in our renewable power and infrastructure businesses, offset by the elimination of depreciation eliminated on the previously sold infrastructure assets and the impact of foreign exchange on our non-U.S. dollar denominated operations.

Income taxes reflected a net recovery of \$345 million in 2016 as a result of a reduction in the effective tax rate on certain real estate assets following a restructuring.

Net income attributable to common shareholders totaled \$1.7 billion, or \$1.55 per share, compared to \$2.3 billion, or \$2.26 per share in 2015. The decline of \$690 million in the amount of net income attributable to common shareholders reflects the lower level of appraisal gains, partially offset by a reattribution of income related to carried interest earned.

Significant Acquisitions and Dispositions

We have summarized below the impacts of significant acquisitions and dispositions on our current year results:

FOR THE YEAR ENDED DEC. 31, 2017 (MILLIONS)	Acquisitions		Dispositions	
	Revenue	Net Income	Revenue	Net Income
Real estate.....	\$ 830	\$ 475	\$ (118)	\$ (133)
Renewable power	240	9	(28)	(3)
Infrastructure	1,347	533	(65)	(28)
Private equity and other.....	14,821	26	(520)	109
	17,238	1,043	(731)	(55)
Gains recognized in net income	—	179	—	1,036
	<u>\$ 17,238</u>	<u>\$ 1,222</u>	<u>\$ (731)</u>	<u>\$ 981</u>

Acquisitions

Further details relating to the major acquisitions noted below are provided in Note 5 to the consolidated financial statements.

The acquisition of a U.K. road fuel distribution business in our Private Equity segment contributed \$13.1 billion of the incremental revenues. Revenue and direct operating costs for the business include approximately \$5.0 billion of import duty amounts that are passed through to the customers, which are recorded on a gross basis in revenues and direct costs, with no impact on the margin generated by the business. Revenues and direct costs also include amounts related to the sale of certificates that are generated by the business as a result of the U.K. government's Renewable Transport Fuel Obligation Order; these certificates are recorded in inventory at fair value and therefore, the margin generated from these sales are minimal. In addition to the aforementioned acquisition of the U.K. road fuel distribution business, our private equity business also completed several other investments throughout the year, including a leading Brazilian water treatment business and a fuel marketing business.

Acquisitions within our Real Estate segment include a portfolio of manufactured housing communities, as well as additional assets added to our existing U.K. student housing portfolio. Significant acquisitions made in the prior year that have now contributed a full year of results include a self-storage portfolio, the privatization of a regional mall business, a mixed-use property in South Korea, and an office building in the U.K.

Our Renewable Power segment completed two major acquisitions in the year: the acquisition of TerraForm Power, Inc. ("TERP"), followed by the acquisition of TerraForm Global, Inc. Since the close of the acquisitions in the fourth quarter of the year, they contributed approximately \$147 million and \$6 million in revenue and net income, respectively. Other acquisitions that contributed to the incremental revenues and net income this year include a North American pumped storage business and additions to our hydroelectric portfolio; these acquisitions were made partway through the prior year and have now contributed a full year of results.

In our infrastructure business, we acquired a Brazilian regulated gas transmission business which contributed \$951 million and \$495 million in revenue and net income, respectively. In addition, significant acquisitions made in the prior year that have now contributed a full year of results include a ports business in Australia, a portfolio of toll roads in Peru, and a North American gas storage business.

The gains recognized in net income of \$179 million relate primarily to bargain purchase gains arising on the acquisitions in our Real Estate segment.

Dispositions

Recent dispositions that impacted our current year's results include a bath and shower products manufacturing business in our private equity business, an Irish wind facility in our renewable power business, as well as an electricity transmission operation and an energy distribution operation in our infrastructure business. We also converted a debt instrument into an equity investment in the fourth quarter of the prior year, resulting in the absence of distribution and interest income from this investment in the current year. These dispositions collectively resulted in the absence of revenue and net income of \$731 million and \$55 million in the current year, respectively.

Realized gains of \$1.0 billion recognized in net income in the year relate to the aforementioned dispositions, as well as the sale of a European logistics portfolio within our real estate business. We realized a \$228 million gain from the disposition of the bath and shower products manufacturing business, \$847 million on the sale of the European logistics portfolio, and \$9 million on the sale of an Irish wind farm facility in our renewable power business. These results were partially offset by a realized loss of \$48 million on the disposition of an oil and gas producer in our Private Equity segment.

Fair Value Changes and Other Income and Gains

The following table disaggregates fair value changes into major components to facilitate analysis:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2017	2016	Change
Investment properties	\$ 1,021	\$ 960	\$ 61
GGP warrants	(268)	(110)	(158)
Impairment	(98)	(771)	673
Provisions	(246)	(99)	(147)
Transaction related gains (losses), net of deal costs	637	(148)	785
Financial contracts	(600)	65	(665)
Other fair value changes	(25)	(27)	2
Total fair value changes	421	(130)	551
Other income and gains	1,180	482	698
Fair value changes and other income and gains	<u>\$ 1,601</u>	<u>\$ 352</u>	<u>\$ 1,249</u>

Investment Properties

Our investment properties are recorded at fair value with changes recorded in net income. The following table disaggregates investment property fair value changes by asset type:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2017	2016	Change
Core office	\$ (864)	\$ 51	\$ (915)
Opportunistic and other	1,885	909	976
	<u>\$ 1,021</u>	<u>\$ 960</u>	<u>\$ 61</u>

Our investment properties are recorded at fair value, with changes in value reflected in income. We discuss the key valuation inputs of our investment properties on page 82.

Core office property values declined overall by \$864 million, compared to a \$51 million net gain in the prior year. These declines are primarily attributable to office buildings in New York as a result of revised cash flow projections, which now reflect lower growth rates and changes in other leasing assumptions. Our Houston market valuations were also impacted as a result of the challenges faced by commodity driven markets, causing declines in leasing activity and therefore valuation metrics. These were partially offset by valuation increases in our Canadian and Australian markets, as a result of new leases and strong market conditions. We had modest appraisal gains of \$51 million in 2016, reflecting de-risking in our portfolio through leasing activity being offset by lower pricing assumptions for projected lease renewals.

The fair value gains of \$1.9 billion in our opportunistic and other properties included \$1.4 billion from our opportunistic portfolio, \$365 million from our directly held assets, and \$72 million from our infrastructure investment properties. We have been investing additional capital into our opportunistic portfolio over the past years, increasing the asset base on which we record fair value change increments. The 2017 opportunistic portfolio gains mainly relate to appraisal gains on our European logistics operations throughout the year, recorded prior to its eventual sale in the fourth quarter. In addition, the value of our Indian office portfolio and mixed-used property in South Korea increased due to improved leasing activity and market rents, as well as overall occupancy increases in the U.K. student housing portfolio. The gains on our directly held assets primarily relate to stronger forecasted cash flows in our multifamily properties and an office property in Sydney. We recorded gains of \$909 million in 2016 due to improved leasing activity, higher projected rental rates and cash flow, as well as lower terminal capitalization rates resulting from operational improvements and market observations.

GGP Warrants

Our GGP warrants declined in value by \$268 million as a result of a 15% depreciation in the GGP's share price from the end of the prior year to the date we converted the warrants into common shares. The impact of this decrease is on net income and is partially offset by our share of the \$101 million gains on the corresponding decrease in the warrant liability recorded by GGP, which is included in equity accounted income. In 2016, we also recorded losses of \$110 million due to a decline in GGP's share price.

During the fourth quarter, BPY exercised all of its outstanding warrants in exchange for 68 million common shares of GGP. The aforementioned mark-to-market impact of the GGP warrants will no longer impact our results going forward.

Impairments

Impairment losses of \$98 million relate primarily to our hospitality assets, timber assets and certain investments within our private equity business as a result of year-end impairment testing. In addition, our Brazilian residential business recognized impairment losses on their inventory of completed condominium units. Prior year's impairment losses relate to the Brazilian residential business, as well as a mark-to-market valuation loss on the conversion of a previously acquired distressed debt into equity of an entity within our private equity operation upon emergence from a multi-year restructuring process.

Provisions

Provisions of \$246 million relate primarily to our Brazilian residential business arising from the cost of terminations on condominium sales agreements; prior year's results were also impacted by similar terminations. In addition, we recorded provisions related to our construction contracts in our private equity business and provisions related to corporate development and transaction costs within our renewable power business.

Transaction Related Gains, Net of Deal Costs

In 2017, transaction related gains related primarily to a \$790 million gain recognized on the revaluation of our investment in Norbord Inc. During the year, we reduced our interest to less than 50% which resulted in us no longer consolidating the investment, at which time we revalued Norbord's assets and liabilities based on the share price, resulting in the gain. These gains were partially offset by deal costs incurred across our business. We expensed transaction costs of \$148 million in 2016 upon completion of transactions.

Financial Contracts

Financial contracts include mark-to-market gains and losses on unrealized financial contracts that are not designated as hedges. We often enter into these contracts in order to offset against foreign currency, interest rate, and pricing exposures. Most currencies have appreciated against the U.S. dollar in the year, resulting in a loss on our long-term financial contracts. Refer to page 39 for further discussion on foreign currency impacts.

The unrealized losses recognized in the year of \$600 million relate primarily to contracts entered into to manage the risk of local currencies in the jurisdictions where we hold the majority of our non-U.S. dollar assets, as well as contracts entered into within our financial asset portfolio.

Other Income and Gains

Other income and gains relate to gains and losses upon disposition of assets across our business and realization of financial contracts noted above. The net gain of \$1.2 billion includes the disposition of assets throughout the year, including that of our bath and shower business for \$228 million, partial sale of our shares in our panel board business for \$82 million and the sale of a European logistics portfolio within our real estate business for \$847 million. We also realized gains on our infrastructure derivative contracts that were settled in the year. The gains in 2016 included realized gain from sales of a German hotel portfolio, a hospitality trademark, a toehold position in our Australian port business, as well as realized gains from financial contracts.

Income Taxes

We recorded an aggregate income tax expense of \$613 million in 2017, compared to a recovery of \$345 million in 2016 representing a variance of \$958 million.

The variance is due primarily to a recovery associated with a \$900 million reduction of deferred income tax liabilities in 2016 as a result of a reorganization of the ownership of certain real estate assets.

Income tax expense includes current taxes of \$286 million (2016 – \$213 million) and deferred taxes of \$327 million (2016 – recovery of \$558 million). The current tax provision represents the portion of the provision that gives rise to a current tax liability. The deferred tax provision arises from income that is subject to tax in future periods (commonly referred to as timing differences) and the utilization of existing tax assets such as accumulated tax losses.

In our case, the deferred tax provision relates principally to fair value gains, particularly from investment property appraisals, which are not taxable until the assets are sold and therefore do not give rise to a current tax liability, as well as the depreciation of assets that are depreciated for tax purposes at rates that differ from the rates used in our financial statements.

As a result of the recent U.S. income tax reform, the company's net deferred tax liability decreased by \$753 million, of which \$157 million was recorded as a tax recovery in net income and \$596 million was recorded as a tax recovery in other comprehensive income. The tax recovery recorded in other comprehensive income relates to tax liabilities that arose in conjunction with the revaluation of PP&E. Over the long term, we expect the decrease in the U.S. federal income tax rate to reduce our overall effective tax rate.

Our income tax provision does not include a number of non-income taxes paid that are recorded elsewhere in our financial statements. For example, a number of our operations in Brazil are required to pay non-recoverable taxes on revenue, which are included in direct costs as opposed to income taxes. In addition, we pay considerable property, payroll and other taxes that represent an important component of the tax base in the jurisdictions in which we operate, which are also predominantly recorded in direct costs.

Our effective income tax rate is different from the Canadian domestic statutory income tax rate due to the following differences:

FOR THE YEARS ENDED DEC. 31	2017	2016	Change
Statutory income tax rate.....	26%	26 %	—%
Increase (reduction) in rate resulting from:			
Change in tax rates and new legislation	(3)	(35)	32
International operations subject to different tax rates	3	(5)	8
Taxable income attributed to non-controlling interests	(9)	(2)	(7)
(Recognition) derecognition of deferred tax assets	(2)	1	(3)
Non-recognition of the benefit of current year's tax losses.....	3	6	(3)
Other	(6)	(3)	(3)
Effective income tax rate.....	12%	(12)%	24%

The change in tax rates and new legislation that reduced our effective tax rate by 3% in 2017 is primarily attributed to U.S. tax reform. The reduction of 35% in our effective tax rate in 2016 is primarily related to the reorganization of the ownership of certain real estate assets.

We operate in countries with different tax rates, most of which vary from our domestic statutory rate and we also benefit from tax incentives introduced in various countries to encourage economic activity. Differences in global tax rates gave rise to a 3% increase in our effective tax rate compared to a 5% reduction in 2016. The difference will vary from period to period depending on the relative proportion of income in each country.

As an asset manager, many of our operations are held in partially owned “flow through” entities, such as partnerships, and any tax liability is incurred by the investors as opposed to the entity. As a result, while our consolidated earnings includes income attributable to non-controlling ownership interests in these entities, our consolidated tax provision includes only our proportionate share of associated tax provision of these entities. In other words, we are consolidating all of the net income, but only our share of their tax provision. This gave rise to a 9% and 2% reduction in the effective tax rate relative to the statutory tax rate in 2017 and 2016, respectively.

Equity Accounted Income

Equity accounted income represents our share of the net income recorded by investments over which we exercise significant influence. The following table disaggregates consolidated equity accounted income to facilitate analysis:

FOR THE YEARS ENDED DEC. 31
(MILLIONS)

	2017	2016	Change
Real estate operations			
GGP	\$ 179	\$ 476	\$ (297)
Canary Wharf	91	10	81
Other real estate operations	610	445	165
Infrastructure operations	199	314	(115)
Private equity and other	134	48	86
	<u>\$ 1,213</u>	<u>\$ 1,293</u>	<u>\$ (80)</u>

Our share of GGP's equity accounted income decreased to \$179 million in the current year compared to \$476 million in prior year. This decrease is attributable to \$845 million in appraisal losses (2016 – \$10 million appraisal gains) recognized on the retail properties as a result of changes in cash flow assumptions. Excluding this impact, our share of GGP's income increased by \$558 million, primarily due to the recognition of \$442 million in gains relating to the exercise of GGP's warrants in exchange for common shares of the company, as the carrying value of the shares exceeded that of the warrants. Prior to the exercise of the warrants, we also recognized \$101 million in gains representing our share on the corresponding decrease in warrant liability recorded by GGP. The remainder of the increase represents improvement in operating results on a same-store basis.

Our share of Canary Wharf's equity accounted income was \$91 million in 2017 compared to \$10 million in 2016, benefiting from a reduction in unrealized losses on interest rate swap contracts compared 2016. Excluding the impact of fair value changes, income earned from Canary Wharf's operating activities was relatively consistent with the prior year.

Equity accounted income from other real estate operations, which consist mainly of core office properties, increased by \$165 million to \$610 million in 2017 due to the incremental income from our Brazilian retail operation as well as two office properties in New York that were partially disposed of and reclassified to equity accounted investments in the current year.

Equity accounted income in our infrastructure business decreased to \$199 million compared to \$314 million in 2016, as prior year's results include one-time gains that did not recur this year. These gains were attributable to an impairment reversal at our North American natural gas transmission operation as well as a transaction gain recognized on the privatization of our Brazilian toll road investment.

Equity accounted income from private equity and other investments was \$134 million for the year, an increase of \$86 million, mainly as a result of our recent investment in a marine energy services business and a joint venture in our Brazilian residential business. We also commenced equity accounting of Norbord following its deconsolidation in the fourth quarter of the year.

BALANCE SHEET ANALYSIS

The following table summarizes the statement of financial position of the company as at December 31, 2017, 2016, and 2015:

AS AT DEC. 31 (MILLIONS)	2017	2016	2015	Change	
				2017 vs 2016	2016 vs 2015
Assets					
Investment properties	\$ 56,870	\$ 54,172	\$ 47,164	\$ 2,698	\$ 7,008
Property, plant and equipment.....	53,005	45,346	37,273	7,659	8,073
Equity accounted investments	31,994	24,977	23,216	7,017	1,761
Cash and cash equivalents	5,139	4,299	2,774	840	1,525
Accounts receivable and other	11,973	9,133	7,044	2,840	2,089
Intangible assets	14,242	6,073	5,170	8,169	903
Other assets.....	19,497	15,826	16,873	3,671	(1,047)
Total Assets	\$ 192,720	\$ 159,826	\$ 139,514	\$ 32,894	\$ 20,312
Liabilities					
Borrowings and other non-current financial liabilities.....	\$ 88,867	\$ 72,650	\$ 65,420	\$ 16,217	\$ 7,230
Other liabilities	23,981	17,488	16,867	6,493	621
Equity					
Preferred equity	4,192	3,954	3,739	238	215
Non-controlling interests.....	51,628	43,235	31,920	8,393	11,315
Common equity	24,052	22,499	21,568	1,553	931
Total Equity	79,872	69,688	57,227	10,184	12,461
	\$ 192,720	\$ 159,826	\$ 139,514	\$ 32,894	\$ 20,312

2017 vs 2016

Consolidated assets at December 31, 2017 were \$192.7 billion, an increase of \$32.9 billion since December 31, 2016. The increases noted in the table above are largely attributable to acquisitions that made throughout the year. We have summarized below the acquisitions that have had the largest impact on our balance sheet as at December 31, 2017:

	Private Equity		Renewable Power	Infrastructure				
	Brazilian Water Treatment Business	U.K. Road Fuel Distribution Business	Solar and Wind Assets	Brazilian Regulated Gas Transmission Business	Real Estate	Other	Total	
(MILLIONS)								
Investment properties	\$ —	\$ —	\$ —	\$ —	\$ 5,851	\$ —	\$ 5,851	
Property, plant and equipment....	200	154	6,886	—	281	284	7,805	
Equity accounted investments	109	114	—	—	—	8	231	
Cash and cash equivalents	296	28	760	89	39	13	1,225	
Accounts receivable and other ¹ ..	978	1,184	279	317	133	961	3,852	
Intangible assets	2,467	212	—	5,515	—	218	8,412	
Other assets.....	142	857	712	804	—	(577)	1,938	
Total Assets	4,192	2,549	8,637	6,725	6,304	907	29,314	
Less:								
Accounts payable and other.....	(227)	(1,744)	(1,381)	(202)	(165)	(172)	(3,891)	
Non-recourse borrowings	(1,468)	(210)	(4,902)	—	(1,955)	(30)	(8,565)	
Deferred income tax liabilities.	(746)	(52)	(48)	(946)	(45)	(30)	(1,867)	
Non-controlling interests	(745)	(81)	(830)	(477)	(124)	1	(2,256)	
	(3,186)	(2,087)	(7,161)	(1,625)	(2,289)	(231)	(16,579)	
Net assets acquired	\$ 1,006	\$ 462	\$ 1,476	\$ 5,100	\$ 4,015	\$ 676	\$ 12,735	

1. Excludes financial assets; these are included within other assets

Further details are provided in Note 5 to the consolidated financial statements.

Investment properties consist primarily of the company's real estate assets. The balance as at December 31, 2017 increased by \$2.7 billion primarily due to acquisitions, as highlighted in the table above, as well as additions of \$593 million to the portfolio from the incremental capital invested to enhance properties. Additionally, the impact of valuation gains as well as foreign exchange increased the balances by \$1.0 billion and \$1.4 billion, respectively. These increases were partially offset by dispositions and assets reclassified to held for sale of \$6.2 billion. The dispositions include a European logistics company as well as several office properties in the U.S., Canada and Europe. Refer to Note 11 to the consolidated financial statements for further details.

Property, plant and equipment increased by \$7.7 billion primarily due to the acquisitions noted in the table above, offset by depreciation in the year. We provide a continuity of property, plant and equipment in Note 12 to the consolidated financial statements.

The increase of \$7.0 billion in equity accounted investments is mainly due to additions, net of dispositions, of \$5.3 billion related to increases in our ownership of GGP, our Brazilian toll road portfolio, our North American gas transmission business, as well as the acquisitions highlighted above. Additions also include the impact of the reclassification of our interest in Norbord to equity accounted investments, as well as an office building in midtown New York and a Brazilian retail fund upon deconsolidation of these investments in the current year. Equity accounted investments also increased due to \$1.7 billion of comprehensive income and \$727 million of foreign exchange gains, partially offset by distributions received of \$732 million.

Other assets consists of inventory, goodwill, deferred income tax assets, other financial assets and assets held for sale. The increase in inventory, goodwill, deferred income tax assets and other financial assets are all mainly attributable to the acquisitions noted in the table above, adding \$1.9 billion to the balances combined, while the increase of \$1.2 billion in assets held for sale is primarily attributable to the aforementioned reclassification of the office building in New York and a Las Vegas hotel.

Borrowings and other non-financial liabilities consist of our non-recourse borrowings, corporate borrowings, subsidiary equity obligations, non-current accounts payable and other long-term liabilities that are due after one year. The increase in the balance of \$16.2 billion in the year is primarily as a result of a \$12.3 billion increase in non-recourse borrowings, of which \$8.6 billion relates to debt assumed upon acquisitions. The remainder of the increase is primarily the result of higher borrowings used to finance acquisitions. Corporate borrowings and other non-current financial liabilities also added \$1.2 billion and \$2.6 billion to the balance. Refer to Part 4 – Capitalization and Liquidity.

Other liabilities include current accounts payable, deferred income tax liabilities, subsidiary equity obligations and liabilities associated with assets held for sale. The increase of \$6.5 billion is due to additional current accounts payable and other liabilities assumed in recent acquisitions and deferred income tax liabilities recorded in business combinations as the tax bases of the net assets acquired were lower than their fair values. Liabilities associated with assets held for sale also increased by \$1.3 billion as a result of the aforementioned investments reclassified to held for sale as at December 31, 2017.

2016 vs 2015

Consolidated assets at December 31, 2016 were \$159.8 billion, an increase of \$20.3 billion from December 31, 2015. The increase was primarily due to higher carrying values of our investment properties, property, plant and equipment and equity accounted investments which are discussed below and are predominantly due to acquisitions during the year. Our assets also increased as a result of the appreciation of the Brazilian real against the U.S. dollar, partially offset by a decrease in the value of the British pound.

Investment properties increased by \$7.0 billion during 2016. This was driven by acquisitions and additions of \$10.8 billion, including \$9.2 billion of acquisitions within our Real Estate business, including a mixed-use property in South Korea, a U.S. self-storage business, a U.K. student housing portfolio and the reclassification of properties within a retail mall business in the U.S. which was equity accounted prior to our acquisition of full control during the year. The acquisitions were partially offset by the disposition of mature office properties in 2016, including properties in Sydney and Vancouver and the sale of partial interest in a building in New York.

Property, plant and equipment increased by \$8.1 billion during 2016 as a result of acquisitions and revaluations within our renewable power business, including \$6.1 billion relating to the acquisitions of hydroelectric portfolios in South America, and \$1.1 billion of acquisitions and internal growth capital projects in our Infrastructure business, including the acquisition of an Australian ports business and a U.S. gas storage business. The residual increase is driven by acquisitions of a mixed-use complex and hospitality assets within our Real Estate business and was partially offset by the reclassification of certain operational assets to held for sale within our Private Equity business.

Accounts receivable and other assets increased by \$2.1 billion to \$9.1 billion as at December 31, 2016. Our private equity operations balance increased by over \$300 million primarily due to increased project volumes in our construction services and facilities management business. Our Brazilian residential operations balance increased by \$418 million as a result of higher home closings late in the current year as compared to the prior year. Acquisitions during the year throughout all our businesses further increased the balance by \$1.0 billion, particularly from our Colombian hydroelectric plants, North American gas storage business and our Peruvian toll roads.

Corporate borrowing increased by \$564 million due to the issuance of corporate notes during the year, partially offset by a repayment of maturing notes and the impact of foreign exchange on the Canadian dollar. Property-specific borrowings increased by \$6.4 billion during 2016 due to \$5.2 billion of debt assumed on acquisitions as well as debt arranged in individual businesses that we consolidate, partially offset by the elimination of debt associated with assets sold. Subsidiary borrowings decreased as a result of repayments of listed partnership credit facility balances outstanding at the end of the prior year, and were partially offset by medium term note issuances at our listed partnerships.

Equity

The significant variances in common equity and non-controlling interests are discussed below. Preferred equity is discussed in Part 4 of this report.

Common Equity

The following table presents the major contributors to the period-over-period variances for common equity:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2017	2016
Common equity, beginning of year	<u>\$ 22,499</u>	<u>\$ 21,568</u>
Changes in period		
Net income to shareholders.....	1,462	1,651
Common dividends	(642)	(941)
Preferred dividends	(145)	(133)
Foreign currency translation	280	405
Other comprehensive income	569	416
Share repurchases, net of option issuances	(103)	(124)
Ownership changes and other	132	(343)
	<u>1,553</u>	<u>931</u>
Common equity, end of year.....	<u>\$ 24,052</u>	<u>\$ 22,499</u>

Common equity increased by \$1.6 billion to \$24.1 billion during the year. Net income and other comprehensive income attributable to shareholders for the year totaled \$1.5 billion and \$849 million, respectively. We distributed \$787 million to shareholders as common and preferred share dividends, including a \$102 million special dividend distribution from the spin-off of an insurance company.

Non-controlling Interests

Non-controlling interests in our consolidated results primarily consist of third-party interests in BPY, BEP, BIP and BBU, and their consolidated entities as well as co-investors and other participating interests in our consolidated investments as follows:

AS AT DEC. 31 (MILLIONS)	2017	2016
Brookfield Property Partners L.P.....	<u>\$ 19,736</u>	<u>\$ 18,790</u>
Brookfield Renewable Partners L.P.....	10,139	8,879
Brookfield Infrastructure Partners L.P.....	11,376	7,710
Brookfield Business Partners L.P.	4,000	2,173
Other participating interests.....	6,377	5,683
	<u>\$ 51,628</u>	<u>\$ 43,235</u>

Non-controlling interests increased by \$8.4 billion in 2017 to \$51.6 billion. The increase was driven by comprehensive income attributable to non-controlling interests which totaled \$4.8 billion, net equity issuances to non-controlling interests by our listed partnerships totaling \$7.2 billion and ownership changes attributable to non-controlling interest of \$1.3 billion. These increases were partially offset by \$4.9 billion of distributions to non-controlling interests.

FOREIGN CURRENCY TRANSLATION

Approximately half of our capital is invested in non-U.S. currencies and the cash flow generated from these businesses, as well as our equity, is subject to changes in foreign currency exchange rates. From time to time, we utilize financial contracts to adjust these exposures. The most significant currency exchange rates that impact our business are shown in the following table:

	Average Rate			Change		Year-End Spot Rate			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015	2017	2016	2015	2017 vs 2016	2016 vs 2015
AS AT DEC. 31										
Australian dollar	0.7669	0.7441	0.7523	3 %	(1)%	0.7809	0.7197	0.7287	9 %	(1)%
Brazilian real ¹	3.1928	3.4904	3.2776	9 %	(6)%	3.3080	3.2595	3.9604	(1)%	18 %
British pound	1.2889	1.3554	1.5285	(5)%	(11)%	1.3521	1.2357	1.4736	9 %	(16)%
Canadian dollar	0.7711	0.7555	0.7832	2 %	(4)%	0.7953	0.7439	0.7227	7 %	3 %

1. Based on U.S. dollar to Brazilian real

Currency exchange rates relative to the U.S. dollar at the end of 2017 were higher than December 31, 2016, for most of our significant non-U.S. dollar investments, with the exception of the Brazilian real, which increases the carrying values of the assets and liabilities from our subsidiaries or investments in these regions. As at December 31, 2017, our IFRS net equity of \$24.1 billion was invested in the following currencies: United States dollars – 48%; Brazilian reais – 17%; British pounds – 15%; Australian dollars – 9%; Canadian dollars – 6%; and other currencies – 5%.

We use financial contracts and foreign currency debt to reduce exposures to most foreign currencies. We are largely hedged against the Australian, British and Canadian currencies with the result that the gains in the year were substantially offset by these currency hedges. We typically do not hedge our equity in Brazil and other emerging markets, such as Colombia and Peru, due to the high cost associated with these contracts. Foreign currency translation positively impacted equity by \$439 million in the current year, including the equity attributable to non-controlling interests, primarily as a result of the strengthening of the unhedged local currencies in the jurisdictions where we hold the majority of our non-U.S. dollar investments relative to the U.S. dollar, with the exception of the Brazilian real. The weakening of the Brazilian real, combined with increased equity from acquisitions in the current year, resulted in a loss of \$506 million.

The following table disaggregates the impact of foreign currency translation on our equity by the most significant non-U.S. currencies:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)				2017	2016	Change
Australian dollar				\$ 406	\$ (203)	\$ 609
Brazilian real				(506)	1,314	(1,820)
British pound				768	(1,434)	2,202
Canadian dollar				752	286	466
Other				662	397	265
				2,082	360	1,722
Currency hedges				(1,643)	876	(2,519)
				\$ 439	\$ 1,236	\$ (797)
Attributable to:						
Shareholders				\$ 280	\$ 405	\$ (125)
Non-controlling interests				159	831	(672)
				\$ 439	\$ 1,236	\$ (797)

The average annual foreign exchange rates relative to the U.S. dollar for the more significant currencies that impact our business, except for the British pound, were higher for the year ended December 31, 2017, than that of 2016 and lower than that of 2015. As a result of these rate variations, the U.S. dollar equivalents of the contributions from our subsidiaries and investments in these regions were higher in 2017 than in 2016 and lower than in 2015, all else being equal. From time to time, we mitigate the impacts of movements in foreign exchange rates through the use of financial contracts, where it is economically feasible to do so.

SUMMARY OF QUARTERLY RESULTS

In the past two years the quarterly variances in revenues are due primarily to acquisitions and dispositions. Variances in net income to shareholders relate primarily to the timing and amount of fair value changes and deferred tax provisions recognized, as well as seasonality and cyclical influences in certain businesses. Changes in ownership have resulted in the consolidation and deconsolidation of revenues from some of our assets, particularly in our real estate business. Other factors include the impact of foreign currency on non-U.S. revenues.

Our real estate operations typically generate consistent results on a quarterly basis due to the long-term nature of contractual lease arrangements subject to the intermittent recognition of disposition and lease termination gains. Our retail properties typically experience seasonally higher retail sales during the fourth quarter, and our resort hotels tend to experience higher revenues and costs as a result of increased visits during the first quarter. We fair value our real estate assets on a quarterly basis which results in variations in net income based on changes in the value.

Renewable power hydroelectric operations are seasonal in nature. Generation tends to be higher during the winter rainy season in Brazil and spring thaws in North America; however, this is mitigated to an extent by prices, which tend not to be as strong as they are in the summer and winter seasons due to the more moderate weather conditions and reductions in demand for electricity. Water and wind conditions may also vary from year to year. Our infrastructure operations are generally stable in nature as a result of regulation or long-term sales contracts with our investors, certain of which guarantee minimum volumes.

Our residential development operations are seasonal in nature and a large portion is correlated with the ongoing U.S. housing recovery and, to a lesser extent, economic conditions in Brazil. Results in these businesses are typically higher in the third and fourth quarters compared to the first half of the year, as weather conditions are more favorable in the latter half of the year which tends to increase construction activity levels.

Our condensed statements of operations for the eight most recent quarters are as follows:

FOR THE PERIODS ENDED (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues.....	\$ 13,065	\$ 12,276	\$ 9,444	\$ 6,001	\$ 6,935	\$ 6,285	\$ 5,973	\$ 5,218
Net income.....	2,083	992	958	518	97	2,021	584	636
Net income to shareholders	1,046	228	225	(37)	173	1,036	185	257
Per share								
– diluted	\$ 1.02	\$ 0.20	\$ 0.19	\$ (0.08)	\$ 0.14	\$ 1.03	\$ 0.15	\$ 0.23
– basic	1.05	0.20	0.20	(0.08)	0.15	1.05	0.16	0.23

The following table shows fair value changes and income taxes for the last eight quarters, as well as their combined impact on net income:

FOR THE PERIODS ENDED (MILLIONS)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Fair value changes	\$ 280	\$ 132	\$ 213	\$ (204)	\$ (488)	\$ (59)	\$ 65	\$ 352
Income taxes	(110)	(259)	(119)	(125)	(211)	992	(234)	(202)
Net impact.....	\$ 170	\$ (127)	\$ 94	\$ (329)	\$ (699)	\$ 933	\$ (169)	\$ 150

Over the last eight completed quarters, the factors discussed below caused variations in revenues and net income to shareholders on a quarterly basis.

The increase in revenues in the fourth quarter of 2017 are attributable to organic growth in existing operations across our business and acquisitions throughout the year. Our results also benefited from gains from the sale of the European logistics company and from a change in basis of accounting for Norbord.

Revenues in the third quarter of 2017 increased as a result of incremental contributions from acquisitions made partway through the second quarter of 2017, as described below, that have now contributed to a full quarter. Current quarter acquisitions also added to the increase, namely the acquisition of a fuel marketing business in our private equity group. Results were partially offset by higher income tax expenses in the quarter.

The overall increase in results in the second quarter of 2017 is predominantly attributable to acquisitions completed in the quarter, including the regulated gas transmission operation and the leading water treatment business, both in Brazil, and the U.K. road fuel provider.

In the first quarter of 2017, we recorded fair value losses, predominantly driven by mark-to-market losses on the GGP warrants, as well as decreases in valuations in our core office portfolio. Revenue declined from the prior quarter due to seasonality in the residential business.

In the fourth quarter of 2016, the effect of overall increases in revenues across our businesses was offset by an impairment of \$530 million on certain financial assets as a result of lower valuations based on stock market prices in our private equity operations.

In the third quarter of 2016, we recognized a \$900 million tax recovery which resulted from a reduction in effective tax rates arising from the restructuring of certain of our U.S. real estate operations, of which \$600 million was attributable to shareholders.

In the first and second quarters of 2016, revenues increased from the acquisition of our Colombian hydroelectric facilities, opportunistic real estate assets and private equity investments. The second quarter of 2016 also included \$208 million of revenue from the sale of three multifamily developments and additional revenue following an increase in the scale of our construction operations.

CORPORATE DIVIDENDS

The dividends paid by Brookfield on outstanding securities by class during the past three years are summarized in the following table:

	Distribution per Security		
	2017	2016	2015 ¹
Class A and B ² Limited Voting Shares (“Class A and B shares”).....	\$ 0.56	\$ 0.52	\$ 0.47
Special distribution to Class A and Class B shares ^{3,4}	0.11	0.45	—
Class A Preferred Shares			
Series 2	0.39	0.36	0.39
Series 4 + Series 7	0.39	0.36	0.39
Series 8	0.55	0.48	0.55
Series 9	0.53	0.75	0.74
Series 13	0.39	0.36	0.38
Series 14 ⁵	—	0.11	1.40
Series 15	0.28	0.23	0.24
Series 17	0.92	0.90	0.93
Series 18	0.92	0.90	0.93
Series 24 ⁶	0.58	0.80	1.06
Series 25 ⁶	0.56	0.27	—
Series 26	0.72	0.85	0.88
Series 28	0.70	0.87	0.90
Series 30	0.93	0.90	0.94
Series 32	0.87	0.85	0.88
Series 34	0.81	0.80	0.82
Series 36	0.94	0.92	0.95
Series 37	0.95	0.92	0.96
Series 38	0.85	0.83	0.86
Series 40	0.87	0.85	0.88
Series 42	0.87	0.85	0.88
Series 44 ⁷	0.97	0.94	0.23
Series 46 ⁸	1.03	—	—
Series 48 ⁹	0.28	—	—

1. 2015 dividends to the Class A and Class B shares have been adjusted to reflect a three-for-two stock split on May 12, 2015

2. Class B Limited Voting Shares (“Class B Shares”)

3. Distribution of one common share of Trisura Group Ltd. for every 170 Class A Shares and Class B Shares held as of the close of business of June 1, 2017

4. Distribution of a 20.7% interest in Brookfield Business Partners on June 20, 2016, based on IFRS values

5. Redeemed March 1, 2016

6. 1,533,133 shares were converted from Series 24 to Series 25 on July 1, 2016

7. Issued October 2, 2015

8. Issued November 18, 2016

9. Issued September 13, 2017

Dividends on the Class A and Class B shares are declared in U.S. dollars whereas Class A Preferred share dividends are declared in Canadian dollars.

PART 3 – OPERATING SEGMENT RESULTS

BASIS OF PRESENTATION

How We Measure and Report Our Operating Segments

Our operations are organized into our asset management business, five operating groups and our corporate activities, which collectively represent seven operating segments for internal and external reporting purposes. We measure operating performance primarily using FFO generated by each operating segment and the amount of capital invested by the corporation in each segment using common equity.¹ Common equity relates to invested capital allocated to a particular business segment which we use interchangeably with segment common equity. We also utilize ENI as a supplement to FFO for our Asset Management segment to assess operating performance, including the fee revenues and carried interest generated on unrealized changes in value of our private fund investment portfolios.

Effective the first quarter of 2017, we changed the name of the Property segment to Real Estate. The presentation of financial information for financial reporting and management decision making for this segment has remained the same under the new name. No quantitative changes have been applied to the periods presented as a result of the change of name.

Our operating segments are global in scope and are as follows. We generate fee revenues, incentive distributions and performance fees from our Asset Management segment, receive our share of earnings from the capital invested in our five operation groups, which include our Real Estate, Renewable Power, Infrastructure, Private Equity, Residential segments and generate returns on the investment of our cash and financial assets in our Corporate segment.

- i. *Asset management* operations include managing our listed partnerships, private funds and public securities on behalf of our investors and ourselves. We generate contractual base management fees for these activities as well as incentive distributions and performance income, including performance fees, transaction fees and carried interest. Common equity in our asset management segment is immaterial.
- ii. *Real estate* operations include the ownership, operation and development of core office, core retail, opportunistic and other properties.
- iii. *Renewable power* operations include the ownership, operation and development of hydroelectric, wind, solar, storage and other power generating facilities.
- iv. *Infrastructure* operations include the ownership, operation and development of utilities, transport, energy, communications and sustainable resource assets.
- v. *Private equity* operations include a broad range of industries, and are mostly focused on construction, other business services, energy, and industrial operations.
- vi. *Residential development* operations consist of homebuilding, condominium development and land development.
- vii. *Corporate activities* include the investment of cash and financial assets, as well as the management of our corporate capitalization, including corporate borrowings and preferred equity, which fund a portion of the capital invested in our other operations. Certain corporate costs such as technology and operations are incurred on behalf of our operating segments and allocated to each operating segment based on an internal pricing framework.

In assessing results, we separately identify the portion of FFO and common equity within our segments that relate to our primary listed partnerships: BPY, BEP, BIP and BBU. We believe that identifying the FFO and common equity attributable to our listed partnerships enables investors to understand how the results of these public entities are integrated into our financial results and is helpful in analyzing variances in FFO between reporting periods. Additional information with respect to these listed partnerships is available in their public filings. We also separately identify the components of our asset management FFO and realized disposition gains included within the FFO of each segment in order to facilitate analysis of variances in FFO between reporting periods.

1. See definition in Glossary of Terms on page 103

SUMMARY OF RESULTS BY OPERATING SEGMENT

The following table presents revenues, FFO and common equity by segment on a year-over-year basis for comparative purposes:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Revenues ¹			FFO ²			Common Equity		
	2017	2016	Change	2017	2016	Change	2017	2016	Change
Asset management	\$ 1,467	\$ 1,320	\$ 147	\$ 970	\$ 866	\$ 104	\$ 312	\$ 328	\$ (16)
Real estate	6,862	6,338	524	2,004	1,561	443	16,725	16,727	(2)
Renewable power	2,788	2,474	314	270	180	90	4,944	4,826	118
Infrastructure	3,871	2,414	1,457	345	374	(29)	2,834	2,697	137
Private equity	24,577	9,962	14,615	333	405	(72)	4,215	2,862	1,353
Residential development	2,447	3,019	(572)	34	63	(29)	2,915	2,679	236
Corporate activities	362	235	127	(146)	(212)	66	(7,893)	(7,620)	(273)
Total	<u>\$ 42,374</u>	<u>\$ 25,762</u>	<u>\$ 16,612</u>	<u>\$ 3,810</u>	<u>\$ 3,237</u>	<u>\$ 573</u>	<u>\$ 24,052</u>	<u>\$ 22,499</u>	<u>\$ 1,553</u>

1. Revenues include inter-segment revenues, which are adjusted to arrive at external revenues for IFRS purposes. Please refer to Note 3(c) of the consolidated financial statements for a reconciliation of revenues by segment to external revenues

2. Total FFO is a non-IFRS measure – see definition in Glossary of Terms on page 103

Total revenues and FFO were \$42.4 billion and \$3.8 billion in the current year, compared to \$25.8 billion and \$3.2 billion, in the prior year, respectively. FFO includes realized disposition gains of \$1.3 billion in 2017 compared to \$923 million in the prior year.

Revenues generated from our private equity operations increased by \$14.6 billion primarily as a result of our acquisition of a U.K. road fuel distribution business. Revenue also benefited from acquisitions in our infrastructure segment in Brazil and North America. Further increases across all segments were offset by lower contributions from our Brazilian operations within our Residential development segment.

FFO benefited from increases in tariffs within our infrastructure business, generation in our renewable business and stronger pricing and volumes within our private equity businesses, as well as contributions from recent investments. Realized disposition gains further contributed to increased FFO and included the sale of opportunistic and core office assets within our real estate business. Increases were partially offset by lower results in our construction and Brazilian residential operations and absence of FFO on assets sold prior to or during the current period.

Common equity increased by \$1.6 billion to \$24.1 billion due to equity issuances at BEP, BIP and BBU, as well as investment contributions from earnings across our businesses.

Further information on segment revenues, FFO and common equity are discussed below.



Asset Management

\$126B

FEE BEARING CAPITAL

\$970M

FFO

\$1.8B

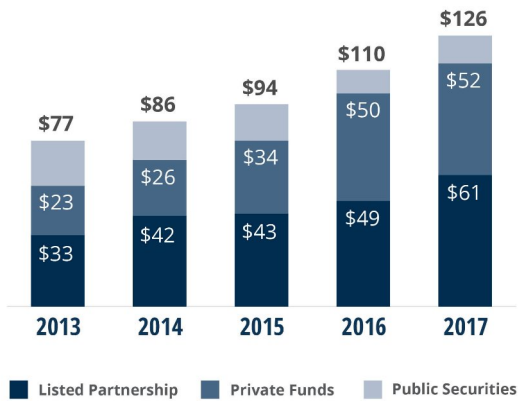
ECONOMIC NET INCOME

Business Overview

- We manage \$126 billion of fee bearing capital, of which \$61 billion is in listed partnerships, \$52 billion is in private funds and \$13 billion is within our public securities group.
- We earn recurring long-term base management fees and generate performance fees from managing private funds, listed partnerships and public securities on behalf of investors.

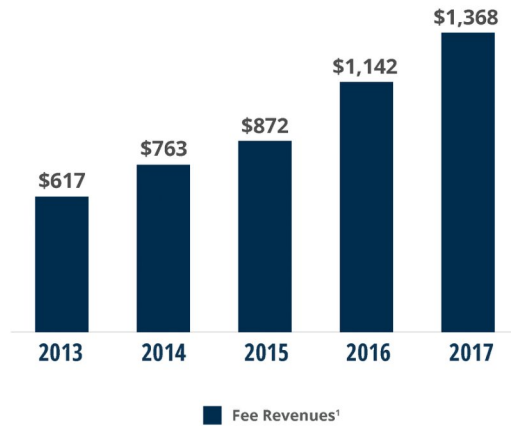
Five-Year Fee Bearing Capital

AS AT DEC. 31 (BILLIONS)



Five-Year Fee Revenues

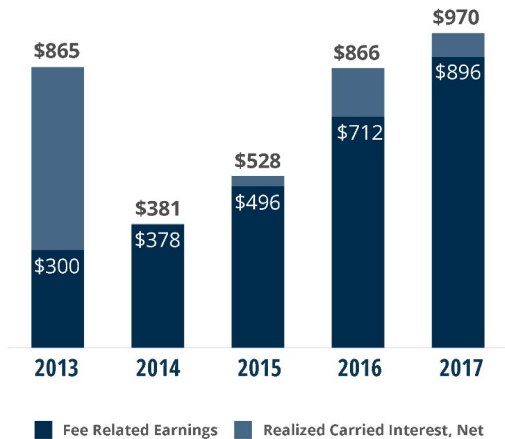
YEARS ENDED DEC. 31 (MILLIONS)



1. See definition in Glossary of Terms on page 103

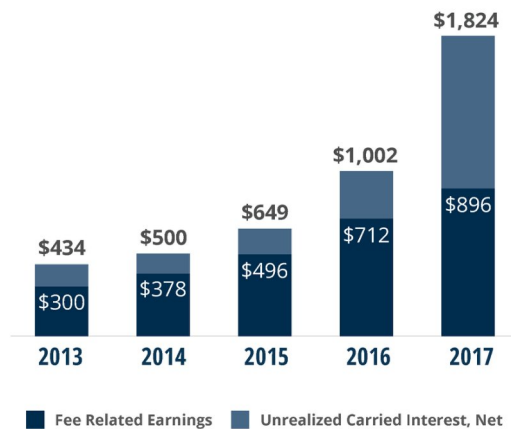
Five-Year FFO

YEARS ENDED DEC. 31 (MILLIONS)



Five-Year Economic Net Income

YEARS ENDED DEC. 31 (MILLIONS)



Operations

Listed Partnerships (\$61 billion fee bearing capital)

- We manage fee bearing capital through publicly listed perpetual capital entities, including BPY, BEP, BIP, BBU, TERP and Acadian Timber Corp. (“Acadian”).
- We are compensated for managing these entities through (i) base management fees, which are primarily determined by the market capitalization of these entities; and (ii) incentive distributions or performance fees.
- Incentive distributions for BPY, BEP, BIP and TERP are a portion of the increases in distributions above predetermined hurdles. Performance fees for BBU are based on increases in the unit price of BBU above an escalating threshold.

Private Funds (\$52 billion fee bearing capital)

- We manage our fee bearing capital through 40 active private funds across our major asset classes: real estate, infrastructure/renewable power and private equity. These funds include core, credit, value-add and opportunistic closed-end funds and core open-end funds. These are primarily invested in the equity of private companies, although in certain cases, are invested in publicly traded equities. Our credit strategies invest in debt of companies in our areas of focus.
- We refer to our largest private fund series as our flagship funds. We have flagship funds within each of our major asset classes: Real Estate (BSREP series), Infrastructure (BIF series, which includes infrastructure and renewable power investments) and Private Equity (BCP series).
- Closed-end private fund capital is typically committed for 10 years from the inception of the fund with two one-year extension options.
- Open-end private funds are perpetual vehicles that are able to continually raise capital as new investments arise.
- We are compensated for managing these private funds through base management fees, which are generally determined on committed capital during the investment period and invested capital thereafter. We are entitled to receive carried interest on these funds, which represents a portion of fund profits above a preferred return to investors.

Public Securities (\$13 billion fee bearing capital)

- We manage our fee bearing capital through numerous funds and separately managed accounts, focused on fixed income and equity securities.
- We act as advisor and sub-advisor, earning both base and performance fees.

Five-Year Review

Asset management FFO has increased over the past five years primarily as a result of steady growth in fee bearing capital from increased market capitalization of our listed partnerships and growing private fund capital. This has contributed to higher base fees and a corresponding increase in Asset Management FFO. In particular, our private fund fee bearing capital significantly increased in 2016 because we closed a record level of private fund capital. Higher FFO and distribution levels at our listed issuers further contributed to an increase in fee related revenues year over year. In 2013, strong FFO performance was due to the realization of \$558 million of accumulated carried interest on the reorganization of GGP.

Our ENI has increased each of the past five years and significantly the past two years as we have earned higher fee related earnings due to the fee bearing capital growth discussed above and as a result of investment performance in many of our funds recently entering the carry generation stage of their fund lives. We participate in the favorable investment performance of our private funds in the form of carried interest contributes to ENI when generated and to FFO when realized.

Fee Bearing Capital

The following table summarizes fee bearing capital:

AS AT DEC. 31 (MILLIONS)	Listed Partnerships	Private Funds	Public Securities	Total 2017	Total 2016
Real estate	\$ 20,171	\$ 21,465	\$ —	\$ 41,636	\$ 44,589
Renewable power	16,149	7,781	—	23,930	18,690
Infrastructure	20,599	18,152	—	38,751	28,909
Private equity	3,641	4,977	—	8,618	6,811
Other	—	—	12,655	12,655	10,577
December 31, 2017	\$ 60,560	\$ 52,375	\$ 12,655	\$ 125,590	n/a
December 31, 2016	\$ 49,375	\$ 49,624	\$ 10,577	n/a	\$ 109,576

Fee bearing capital increased by \$16.0 billion during the year. The principal changes are set out in the following table:

FOR THE YEAR ENDED DEC. 31, 2017 (MILLIONS)	Listed Partnerships	Private Funds	Public Securities	Total
Balance, December 31, 2016	\$ 49,375	\$ 49,624	\$ 10,577	\$ 109,576
Inflows	3,927	8,276	3,481	15,684
Outflows	—	—	(2,486)	(2,486)
Distributions	(2,440)	(2,272)	—	(4,712)
Market valuation	9,901	223	1,083	11,207
Other	2,300	(311)	—	1,989
Change	13,688	5,916	2,078	21,682
BPY managed capital ¹	(2,503)	(3,165)	—	(5,668)
Balance, December 31, 2017	\$ 60,560	\$ 52,375	\$ 12,655	\$ 125,590

1. Represents the removal of listed partnership and private fund capital managed by BPY during the year which reflects the privatization of the previously listed fund BOX and the reclassification of several BPO private funds in order to simplify our reporting

Listed partnership fee bearing capital increased by \$13.7 billion, of which \$9.9 billion was due to an increase in unit prices. Inflows of \$3.9 billion are from common equity issuances at BIP, BEP and BBU, debt and preferred equity issuances at BIP and BEP, and the acquisition of TERP for \$1.4 billion in October 2017. Drawings on recourse credit facilities included in capitalization values increased by \$2.3 billion to fund new investments. These increases were partially offset by \$2.4 billion of distributions to unitholders.

Private fund inflows of \$8.3 billion were contributed across each of our business groups. The inflows include \$2.2 billion of commitments to our third flagship real estate fund, \$977 million to our fifth real estate credit fund, \$636 million to our infrastructure debt funds, as well as \$511 million to other funds, including our real estate credit funds. Inflows also include \$3.3 billion of co-investment capital relating to acquisitions completed by our infrastructure and private equity funds, as well as \$605 million related to the acquisition of a European renewable power asset manager. Subsequent to December 31, 2017, we raised an additional \$4.4 billion of third-party capital within our third flagship real estate fund that is not included in the table above. Inflows were partially offset by the return of capital of \$2.3 billion across several funds as a result of asset dispositions, including the sale of our European logistics business within our first flagship real estate fund, our bath and shower products manufacturing business and an oil and gas producer in western Canada both within our second flagship private equity fund, as well as several dispositions across our multifamily and real estate credit funds.

Fee bearing capital was reduced by \$5.7 billion of listed partnership and private fund capital managed by BPY. This reflects the privatization of Brookfield Canada Office Properties (“BOX”) and the reclassification of several legacy Brookfield Office Properties (“BPO”) private funds in order to simplify our reporting. FFO from the reclassified funds is reflected in BPY’s results from the third quarter of 2017 forward.

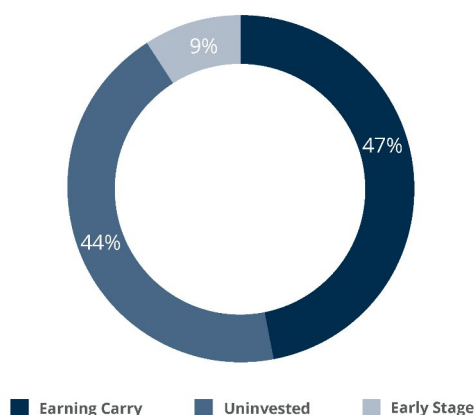
Public securities fee bearing capital increased due to inflows of \$3.5 billion to our real estate focused mutual funds and managed accounts, as well as market appreciation of \$1.1 billion. These inflows were partially offset by \$2.5 billion of redemptions due to client rebalancing that impacted our real estate and infrastructure mutual funds.

Carry Eligible Capital¹

Carry eligible capital increased by \$2.1 billion during the year to \$42.4 billion as at December 31, 2017. This represents an increase of \$4 billion from commitments to our new funds, partially offset by capital of approximately \$2 billion that was returned to investors following the asset dispositions discussed above.

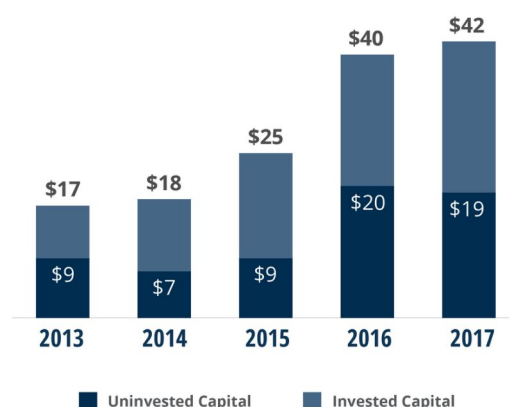
Over \$5.3 billion of private fund capital was deployed in 2017. The deployment resulted in a shift of uninvested carry eligible capital as a percentage of total carry eligible capital from 50% in 2016 to 44% in 2017.

Carry Eligible Capital Breakdown



Five-Year Carry Eligible Capital

AS AT DEC. 31 (BILLIONS)



Operating Results

Asset management revenues include fee related earnings and realized carried interest earned by us in respect of capital managed for investors, including the capital invested by us in the listed partnerships. This is representative of how we manage the business and measures the returns from our asset management activities.

To facilitate analysis, the following table disaggregates our Asset Management segment revenues and FFO into fee related earnings, realized carried interest, net, and ENI, as these are the measures that we use to analyze the performance of the Asset Management segment. We have provided additional detail, where referenced, to explain significant variances from the prior period.

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref.	Segment Revenues		Segment FFO	
		2017	2016	2017	2016
Fee related earnings.....	i	\$ 1,368	\$ 1,142	\$ 896	\$ 712
Realized carried interest.....	ii	99	178	74	149
Realized disposition gains.....		—	—	—	5
		<u>\$ 1,467</u>	<u>\$ 1,320</u>	<u>970</u>	<u>866</u>
Less: Realized carried interest, net.....				(74)	(149)
Less: Realized disposition gains				—	(5)
Unrealized carried interest, net	iii			928	290
Economic net income	iv			<u>\$ 1,824</u>	<u>\$ 1,002</u>

1. See definition in Glossary of Terms on page 103

i. Fee Related Earnings

Operating Highlights

FOR THE YEARS ENDED DEC. 31
(MILLIONS)

	2017	2016
Fee revenues		
Base management fees.....	\$ 1,048	\$ 1,005
Incentive distributions.....	151	104
Performance fees.....	142	—
Transaction and advisory fees.....	27	33
	<u>1,368</u>	<u>1,142</u>
Direct costs and other.....	(472)	(430)
Fee related earnings.....	<u>\$ 896</u>	<u>\$ 712</u>

Fee related earnings increased by \$184 million from prior year as a result of growth in base management fees and incentive distributions from our listed partnerships and increased private fund fees as a result of the contribution of a full year of fees from our latest flagship funds, partially offset by \$58 million of catch-up fees earned in the prior year and the absence of \$21 million of fees associated with the aforementioned reclassified office funds. The current year also includes our first performance fees earned from BBU. Excluding the impact of catch-up fees, reclassified office funds and the BBU performance fee, operating margins, which are calculated as fee related earnings divided by fee revenues, were 61% for the year compared to 59% in the prior year.

Base management fees of \$1.0 billion in 2017 include fees earned from our listed partnerships and private funds. Listed partnerships' fees increased by \$111 million to \$529 million and included \$87 million in fees relating to increased unit prices across our listed partnerships. Additional increases are due to the issuance of additional debt and equity secured by our listed partnership to fund growth. Excluding the impact of \$58 million in catch-up fees earned in the prior year (relating to our latest vintage of flagship funds) and the reclassification of office funds, our private fund fees increased by \$18 million to \$418 million as we realized a full year of fees from our latest flagship funds and invested capital within our real estate funds.

We received \$151 million of incentive distributions from BIP, BEP and BPY, representing a 45% increase from 2016. The growth represents our share as manager of increases in per unit distributions by BIP, BEP and BPY of 12%, 5% and 5%, respectively, as well as the impact of equity issued by BIP and BEP. Both BIP and BEP's distributions have surpassed their second incentive distribution hurdles and, accordingly, we receive 25% of future distribution increases by those entities. Based on the recently announced BPY dividend rate of \$1.26 for 2018, BPY's distributions will surpass its second hurdle of \$1.20, and we will receive 25% of future distribution increases by BPY.

Performance fees represent the first performance fees earned from BBU since it's spin-out in 2016 and are calculated on an escalating threshold of 20% of the quarterly volume-weighted average price. The initial threshold was \$25.00 and, following the fee paid in the fourth quarter of 2017, the threshold was revised upwards to \$31.19. The unit price appreciation in 2017 was 45% from the initial hurdle of \$25.00.

Transaction and advisory fees during the year were \$27 million (2016 – \$33 million) and include \$25 million of fees earned from co-investors relating to the acquisition of a U.K. road fuel distribution business and a regulated gas transmission business. The timing and size of these types of fees earned fluctuate based on transactions occurring.

Direct costs and other consist primarily of employee expenses and professional fees, as well as business related technology costs and other shared services. Direct costs increased by 10% year over year due to expansion of our operations to manage the aforementioned growth in fee bearing capital.

ii. Realized Carried Interest

We do not recognize carried interest until the end of the relevant determination period under IFRS, which typically occurs at or near the end of a fund term when the amount of carried interest to be recognized is no longer subject to future investment performance. We do, however, provide supplemental information and analysis below on the estimated amount of unrealized carried interest that has accumulated based on fund performance up to the date of the financial statements.

We realized \$99 million of carried interest during the year (2016 – \$178 million), or \$74 million (2016 – \$149 million) net of directly related costs, triggered primarily by the partial sale of Norbord within our second private equity fund. There were additional realizations relating to our real estate credit and value-add multifamily funds.

iii. Unrealized Carried Interest

The amounts of accumulated unrealized carried interest and associated costs are shown in the following table:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2017			2016		
	Unrealized Carried Interest	Direct Costs	Net	Unrealized Carried Interest	Direct Costs	Net
Accumulated unrealized, beginning of year	\$ 898	\$ (322)	\$ 576	\$ 658	\$ (223)	\$ 435
In-period change						
Unrealized ¹	1,280	(352)	928	418	(128)	290
Less: realized	(99)	25	(74)	(178)	29	(149)
Accumulated unrealized, end of year	\$ 2,079	\$ (649)	\$ 1,430	\$ 898	\$ (322)	\$ 576

1. Unrealized carried interest generated in period is defined in the Glossary of Terms and represents management's estimate of carried interest if funds were wound up at period end. Amounts that will be realized are dependent on future investment performance

Operating Highlights

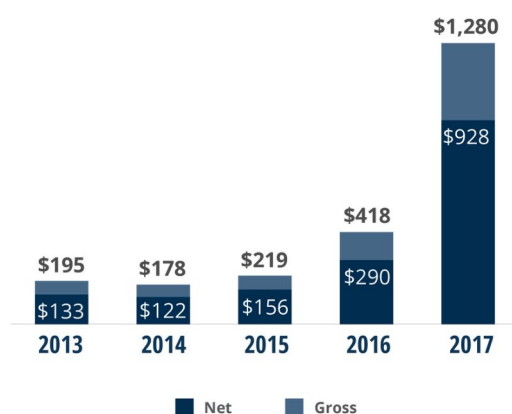
Favorable investment performance in our private funds generated \$1.3 billion of unrealized carried interest during the year, compared with \$418 million in the prior year, and we are currently tracking ahead of our expected generation pattern.

In 2017, we generated unrealized carried interest across all our major funds. The largest contributors were the increases in value of our graphite electrodes manufacturing business within our fourth private equity fund and our European logistics portfolio within our first flagship real estate fund. We estimate that approximately \$352 million of associated costs, comprised of employee compensation and taxes, will arise on the realization of the amounts accumulated in 2017.

Accumulated unrealized carried interest totaled \$2.1 billion at December 31, 2017. We estimate that approximately \$649 million of associated costs will arise on the realization of the amounts accumulated to date, predominantly associated with employee long-term incentive plans and taxes. The funds that comprise the current accumulated unrealized carried interest has a weighted-average term to realization of four years. Recognition of this carried interest is dependent on future investment performance.

Five-Year Unrealized Carried Interest¹

FOR THE YEARS ENDED DEC. 31 (MILLIONS)



1. The totals above the stacked columns represent the unrealized carried balance at the end of the period, gross of direct costs

iv. Economic Net Income

Economic net income for our Asset Management segment increased 82% over the prior year period driven by the growth in fee related earnings and unrealized carried interest discussed above. The following table summarizes economic net income for the years ended December 31, 2017 and 2016:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2017	2016
Fee related earnings	\$ 896	\$ 712
Unrealized carried interest, net ¹	928	290
Economic net income	\$ 1,824	\$ 1,002

1. Amounts dependent on future investment performance. Represents management's estimate of carried interest if funds were wound up at period end

Outlook and Growth Initiatives

Real assets and alternatives continue to provide an attractive investment opportunity to institutional and high net worth investors. In periods when stock equity values are high, real assets provide diversification as they have demonstrated the ability to retain their value across cycles. These assets classes also provide investors with alternatives to fix income investments by providing a strong yield profile. Institutional investors, in particular pension funds, must earn and generate returns to meet their long-term obligations while protecting their capital. As a result, inflows to alternative asset management are growing and managers are focused on new product development to meet this demand.

In order to meet the needs of our investors, we currently have five funds in the market and plan to launch five additional funds. These funds add new product strategies, including a European infrastructure debt fund, and open-ended core real estate and infrastructure funds across multiple geographies. We continue to develop additional products in response to investor demand, with a focus on credit products and perpetual capital funds.

Following the successful fundraising of our latest series of flagship funds in 2016, we focused on the deployment of this capital over the course of the year, resulting in both our latest real estate and private equity flagship funds growing to over 80% invested and committed. Accordingly, we have commenced the fundraising process for the next vintage of these funds and our latest flagship real estate fund has raised over \$7 billion to date. We have advanced our fundraising efforts in the high net worth space, raising over \$400 million through multiple channels in 2017 and the start of 2018.

Our public securities business is expanding as we successfully completed the acquisition of an investment manager and retail fund marketer in early 2018. This has increased our public securities fee bearing capital by over 25%, which will increase management fees as we begin to earn fees on this capital.



Real Estate

\$16.7B

INVESTED CAPITAL

\$2.0B

FFO

\$576M

CASH DISTRIBUTIONS
(paid to BAM)

Business Overview

- We own and operate property assets primarily through a 64% fully diluted economic ownership interest in BPY.
- BPY is listed on the Nasdaq and Toronto Stock Exchange; its equity capitalization was \$17.6 billion at December 31, 2017.
- BPY owns property assets directly as well as through private funds that we manage.
- We own \$1.3 billion of preferred shares of BPY which yield 6.2% based on their redemption value.

Operations

Core Office

- We own interests in and operate commercial office portfolios, consisting of 147 properties totaling 100 million square feet of office space.
- The properties are located primarily in the world's leading commercial markets, such as New York, London, Los Angeles, Washington, D.C., Sydney, Toronto and Berlin.
- We also develop office properties on a selective basis; active development projects consist of interests in six sites totaling 6 million square feet.

Core Retail

- Our core retail portfolio consists of interests in 125 regional malls and urban retail properties totaling 122 million square feet in the United States and Brazil, which are held primarily through our 34% equity accounted interest in GGP.
- Our retail mall portfolio has a redevelopment pipeline that exceeds \$513 million of development costs on a proportionate basis.

Opportunistic

- We own and operate global portfolios of property investments through our opportunistic real estate funds, which are targeted to achieve higher returns than our core office and retail portfolios.
- Our opportunistic portfolios consist of high-quality assets with operational upside across the office, retail, multifamily, industrial, hospitality, triple net lease, self-storage, manufactured housing and student housing sectors.

Summary of Operating Results

The following table disaggregates segment FFO and common equity into the amounts attributable to our ownership interests in BPY, the amounts represented by other real estate assets and liabilities, and realized disposition gains to facilitate analysis. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref.	Revenue		FFO		Common Equity	
		2017	2016	2017	2016	2017	2016
Brookfield Property Partners							
Equity units ¹	i	\$ 6,012	\$ 5,180	\$ 668	\$ 635	\$ 15,388	\$ 15,371
Preferred shares.....		76	76	76	76	1,265	1,265
		6,088	5,256	744	711	16,653	16,636
Other real estate investments.....		774	1,082	36	27	72	91
Realized disposition gains	ii	—	—	1,224	823	—	—
		\$ 6,862	\$ 6,338	\$ 2,004	\$ 1,561	\$ 16,725	\$ 16,727

1. Brookfield's equity units in BPY consist of 432.6 million redemption-exchange units, 50.4 million Class A limited partnership units, 4.8 million special limited partnership units and 0.1 million general partnership units, together representing an effective economic interest of 69% of BPY

Revenues and FFO from our real estate operations, including preferred shares, increased to \$6.9 billion and \$2.0 billion in the current year, respectively. The results benefited from recent acquisitions within our opportunistic portfolio, leasing activity in our core office and retail portfolios, partially offset by the impact of dispositions. In addition, the prior year included revenues and FFO related to the sale of merchant developments that did not recur in the current year. The current year's FFO also included larger realized disposition gains, mainly from the sale of several office properties in New York, two office properties in London and a logistics company in Europe.

i. Brookfield Property Partners

The following table disaggregates BPY's FFO by business line to facilitate analysis of the year-over-year variances in FFO:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2017	2016
Core office.....	\$ 592	\$ 630
Core retail.....	515	459
Opportunistic.....	377	341
Corporate.....	(467)	(463)
Attributable to unitholders.....	1,017	967
Non-controlling interests.....	(322)	(304)
Segment reallocation and other.....	(27)	(28)
Brookfield's interest.....	\$ 668	\$ 635

BPY's FFO for 2017 was \$1.0 billion, of which our share was \$668 million.

Core office FFO decreased by \$38 million to \$592 million as prior year's results included \$44 million of FFO arising from the recognition of a previously deferred development fee. Excluding this impact, FFO increased by \$6 million since prior year as a result of same-property growth of 2.2%, the incremental contributions from lease commencements at our recently completed developments, and the positive impact of foreign exchange. These increases were partially offset by the absence of FFO from assets sold as we continue to recycle capital out of core, stable assets into higher-yielding opportunistic investments.

Total consolidated in-place net rents¹ increased by 3.9% from year end to \$29.06 per square foot ("psf") as a result of leasing activities. Total consolidated occupancy increased to 91.7%, 40 basis points higher than the prior year. Overall in-place net rents are currently 12% below market net rents.

We currently have approximately 6 million square feet of active development projects, including properties in New York, London and Dubai. These development assets are 53% pre-leased in aggregate and we estimate an additional cost of \$1.5 billion to complete construction over the next three years.

1. See definition in Glossary of Terms beginning on page 103

BPY's core retail FFO increased to \$515 million, representing a 12% increase, primarily attributable to same-property growth of 1.6% from lease commencements and condominium sales, partially offset by the absence of FFO from assets sold. The condominium sales result from ancillary developments at its retail properties as an additional source of revenue. These types of developments also provide the added benefit of increased retail traffic as populations densify around malls.

Our same-property retail portfolio occupancy rate was 96.2%, as at December 31, 2017, a 40 bps decrease from December 31, 2016, as a result of a small number of tenant bankruptcies, although much of this space has been subsequently re-leased. Lease commencements on a same-property basis reduced in-place rents to \$62.57 psf at December 31, 2017 from \$62.65 psf at December 31, 2016. Initial and average lease spreads on signed leases which commenced since the prior year were 9.3% and 18.2% higher compared to expiring leases on a suite-to-suite basis. Additionally, tenant sales on a same property basis increased to \$587 psf from \$583 psf in prior year.

BPY's opportunistic assets are held primarily through private funds that are managed by us. BPY's share of the FFO from these assets increased to \$377 million from \$341 million in the prior year. This increase is primarily attributable to recently acquired assets, such as a manufactured housing portfolio and additions to our U.K. student housing portfolio, same-property growth primarily in our hospitality portfolio, reduced interest expense in our Brazilian retail fund and the positive impact of foreign exchange.

BPY's corporate expenses include interest expense, management fees paid and other costs. Corporate expenses were consistent with the prior year at \$467 million, primarily attributable to higher interest expense as a result of higher average balance on the corporate credit facility over the course of the year, offset by lower general and administrative expenses.

ii. Realized Disposition Gains

Realized disposition gains of \$1.2 billion for the year include a net gain of \$469 million from the disposition of an office building in midtown Manhattan, \$275 million from the disposition of our European logistics portfolio, and \$141 million from the partial sale of a mixed-use office building in London. The remainder is from the sale of 104 other investments for a total net gain of \$339 million. Prior year disposition gains include \$401 million of gains from the disposition of office buildings in Sydney, Vancouver and New York, a \$125 million gain from the partial sale of a hospitality trademark, a \$73 million gain from the sale of a hotel portfolio in Germany, a \$59 million gain from the sale of a hospitality trademark and \$165 million of net gains from the sale of more than 130 other investments.

Common Equity

Segment equity in our real estate business was \$16.7 billion as at year end, consistent with prior year.

Outlook and Growth Initiatives

SAME STORE GROWTH

Rent to market/occupancy

DEVELOPMENT

Active development

CAPITAL ALLOCATION

Capital recycling

Our real estate group remains focused on increasing the value of our properties through proactive leasing and select redevelopment initiatives, as well as recycling capital from mature properties, primarily core office assets, to fund new higher yielding investments, particularly in our opportunistic real estate business. Our \$6.8 billion capital backlog gives us the opportunity to deploy additional capital throughout our portfolio for planned capital expansion that should continue to increase earnings for the next several years as these projects are completed. This includes development projects in progress across our premier office buildings, retail malls and mixed-use complexes located primarily within North America and Europe.

In our core retail operations, we are focused on operating and developing high-quality shopping centers as these destinations continue to provide an attractive physical location for retailers and continue to demonstrate meaningful outperformance, relative to lower tier malls, despite a changing retail landscape.

In the first quarter of 2018, BPY signed a definitive agreement to acquire the common shares of GGP that it does not already own. The purchase price is comprised of a fixed amount of \$9.25 billion of cash and approximately 254 million units of BPY or an equivalent equity instrument that will be issued on the close of the transaction. The cash component of the transaction is expected to be funded through approximately \$4 billion of asset sales, with the balance funded through debt at the GGP level, that will be non-recourse to the corporation or BPY. We expect our ownership of BPY to be approximately 50% following this transaction. We believe that privatizing GGP through this transaction will provide us with the opportunity to optimize the use of these top tier malls, maximizing the value to investors.

In our opportunistic operations, we will continue to acquire properties through our global opportunistic private funds as these generally produce higher returns relative to core strategies. These funds have a wide scope in terms of real estate asset classes and geographic reach. Funding for these transactions will continue to include proceeds from asset sales as part of our capital recycling program.



Renewable Power

\$4.9B

INVESTED CAPITAL

\$270M

FFO

\$350M

CASH DISTRIBUTIONS

(paid to BAM)

Business Overview

- We own and operate renewable power assets primarily through a 60% ownership interest in BEP, which is listed on the New York and Toronto Stock Exchanges and had a market capitalization of \$10.9 billion at December 31, 2017.
- BEP owns one of the world's largest publicly traded renewable power portfolio.
- We arrange for the sale of power generated by BEP in North America through our energy marketing business ("Brookfield Energy Marketing" or "BEM").

Operations

Hydroelectric

- We own and operate and invest in 217 hydroelectric generating stations on 81 river systems in North America, Brazil and Colombia. Our hydroelectric operations have 7,878 megawatt ("MW") of installed capacity and long-term average generation¹ of 20,424 gigawatt hours ("GWh") on a proportionate basis.

Wind Energy

- We have 76 wind facilities in North America, Europe, Brazil, and Asia. Our wind energy operations have 3,529 MW of installed capacity and long-term average generation of 3,904 GWh on a proportionate basis.

Solar

- Our solar operations include 537 solar facilities globally with 1,511 MW of installed capacity and 457 GWh of generation on a proportionate basis including four pumped storage facilities in North America and Europe.

Storage

- Our storage operations have 2,698 MW of installed capacity and 843 GWh of storage on a proportionate basis.

Energy Marketing

- We purchase a portion of BEP's power generated in North America pursuant to long-term contracts at predetermined prices, thereby increasing the stability of BEP's revenue profile.
- We sell the power under long-term contracts as well as into the open market and also earn ancillary revenues, such as capacity fees and renewable power credits and premiums. This provides us with increased participation in future increases or decreases in power prices.

1. See definition in Glossary of Terms on page 103

Summary of Operating Results

The following table disaggregates segment revenues, segment FFO and common equity into the amounts attributable to our ownership interest in BEP, the operations of BEMI and realized disposition gains. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref.	Revenue		FFO		Common Equity	
		2017	2016	2017	2016	2017	2016
Brookfield Renewable Partners ¹	i	\$ 2,826	\$ 2,517	\$ 336	\$ 249	\$ 4,143	\$ 3,793
Brookfield Energy Marketing and other ² ..	ii	(38)	(43)	(76)	(69)	801	1,033
Realized disposition gains.....		—	—	10	—	—	—
		<u>\$ 2,788</u>	<u>\$ 2,474</u>	<u>\$ 270</u>	<u>\$ 180</u>	<u>\$ 4,944</u>	<u>\$ 4,826</u>

1. Brookfield's interest in BEP consists of 129.7 million redemption-exchange units, 56.1 million Class A limited partnership units and 2.6 million general partnership units; together representing an economic interest of 60% of BEP. Segment revenues at BEP include \$147 million (2016 – \$nil) revenue from TerraForm Power
2. Revenues in BEMI represents the incremental benefit or deficit on the North American power generated by BEP that is sold through BEMI on a contracted and uncontracted basis

Renewable power revenues and FFO increased during the year primarily as a result of improved hydroelectric generation in North America and Colombia, stronger market prices in Brazil and a full-year contribution from our Colombian business. These positive contributions were partially offset by negative revenues and FFO derived from BEMI as a result of higher volume energy purchases from BEP that were resold at a negative margin in the northeastern U.S. market.

i. Brookfield Renewable Partners

The following table disaggregates BEP's generation and FFO by business line to facilitate analysis of the year-over-year variances in segment FFO:

FOR THE YEARS ENDED DEC. 31 (GIGAWATT HOURS AND \$ MILLIONS)	Actual Generation (GWh) ¹		Long-Term Average (GWh) ¹		FFO	
	2017	2016	2017	2016	2017	2016
Hydroelectric.....	21,051	17,457	20,421	19,732	\$ 686	\$ 510
Wind energy	2,533	2,258	2,777	2,630	105	98
Solar, storage and other.....	384	507	53	—	21	19
Corporate.....	—	—	—	—	(231)	(208)
Attributable to unitholders	<u>23,968</u>	<u>20,222</u>	<u>23,251</u>	<u>22,362</u>	<u>581</u>	<u>419</u>
Non-controlling interests and other ²					<u>(245)</u>	<u>(170)</u>
Brookfield's interest.....					<u>\$ 336</u>	<u>\$ 249</u>

1. Proportionate to BEP
2. Includes incentive distributions paid to Brookfield of \$30 million (2016 – \$20 million) as the general partner of BEP

Generation for the year totaled 23,968 GWh, 3% above LTA and a 19% increase compared to the prior year.

FFO increased by \$162 million year over year supported by higher generation, completion of capital projects and contributions from new acquisitions.

Hydroelectric generation was 21,051 GWh, above LTA and an increase of 21% compared to the prior year. This was the primary contributor to the 20% increase in FFO. The higher generation was primarily attributable to strong hydrology, specifically in Canada and New York, that persisted throughout the year. The higher volume was partially offset by lower realized pricing in certain northeastern markets and the final step down in contracted pricing at our Louisiana facility. In Colombia, FFO benefited from a full year of ownership and higher water flows at our facilities, partially offset by lower market prices. In Brazil, strong market prices and contributions from completed development projects were partially offset by the impact of lower than average hydrology conditions.

Generation from the wind portfolio of 2,533 GWh was below LTA but was higher than the prior year. Strong generation in our Canadian and Brazilian facilities, in addition to new facilities commissioned during the year was partially offset by lower generation in our American and European facilities and the impact of dispositions of our Irish wind farm.

FFO from solar, storage and other increased by \$2 million over the prior year due to the addition of our First Hydro storage facility and the contribution from TERP, which was acquired in the fourth quarter. These increases were partially offset by an absence of FFO from a one-time gain recorded in 2016 pertaining to a settlement agreement on our North American co-gen assets.

Corporate and other activities include interest expense on corporate debentures, as well as unallocated corporate costs, which primarily consist of asset management fees paid and cash taxes. The corporate and other activities FFO deficit increased to \$231 million this year (2016 – \$208 million). The prior year included a \$20 million gain recorded on a legal settlement, which did not recur in the current year. In addition, FFO was impacted by higher management fees due to the increase in BEP’s capitalization.

ii. Brookfield Energy Marketing

Our wholly owned energy marketing group has entered into long-term purchase agreements and price guarantees with BEP as described below. We are entitled to sell the power we purchase from BEP as well as any ancillary revenues, such as capacity and renewable power credits or premiums.

FFO from BEMI was loss of \$76 million during the year compared to a \$69 million loss in 2016. BEMI purchased approximately 9,566 GWh of electricity from BEP during the year, compared with 7,862 GWh in 2016, as a result of higher contracted generation in the U.S. northeast. Power was purchased at an average price of \$68 per megawatt hour (“MWh”) compared with \$65 per MWh in 2016, and was sold at an average price, including ancillary revenues, of \$60 per MWh compared with \$57 per MWh in 2016. The increase in volumes at an unchanged negative margin of \$8 per MWh, resulted in a higher FFO deficit this year.

In 2017, approximately 3,477 GWh of sales were pursuant to long-term contracts at an average price of \$82 per MWh (2016 – \$76 per MWh). The balance of approximately 6,089 GWh was sold in the short-term market at an average price of \$48 per MWh, including ancillary revenues (2016 – \$47 per MWh). Ancillary revenues, which include capacity payments, green credits and other additional revenues, totaled \$150 million (2016 – \$94 million), adding \$16/MWh to average realized prices on short-term power sales in the current year as compared to \$12/MWh in the prior year.

Common Equity

Common equity in our Renewable Power segment was \$4.9 billion at December 31, 2017, an increase from \$4.8 billion at December 31, 2016 primarily due to the impact of comprehensive income earned and the equity issuance in the third quarter of 2017, partly offset by distributions paid to investors.

Outlook and Growth Initiatives

SAME STORE GROWTH

Inflation/margin expansion

DEVELOPMENT

Development pipeline

CAPITAL ALLOCATION

Acquisitions

Revenues in our Renewable Power segment is over 90% contracted over an average term of 15 years with pricing that is inflation linked. Combining this with a stable cost profile, we are able to achieve consistent growth year to year within our existing business. In addition, we consistently identify capital development projects that enable us to put capital to work to provide an additional source of organic growth. Our development pipeline represents over 7,000 MW of potential capacity globally, of which 143 MW are currently under construction or in late stage of development that we expect to contribute an incremental \$22 million to BEP’s FFO when commissioned. We also have a strong track record of adding to our renewable power business through acquisitions and will continue to seek out these opportunities.

In 2017, we completed a number of investments and added solar, wind, distributed generation and storage capacity in our core markets, providing approximately an additional 2,100 GWh to our share of annualized generation and expected to contribute addition FFO of \$95 million annually.

We believe that the growing global demand for low-carbon energy will lead to continued growth opportunities for us in the future. In 2018, we intend to remain focused on progressing our key priorities including on surfacing margin expansion opportunities, progressing our development pipeline, and assessing select contracting opportunities across the portfolio. We believe the investment environment for renewables remains favorable and continue to advance our pipeline of opportunities.



Infrastructure

\$2.8B

INVESTED CAPITAL

\$345M

FFO

\$201M

CASH DISTRIBUTIONS
(paid to BAM)

Business Overview

- We own and operate infrastructure assets primarily through our 30% economic ownership interest in BIP, which is listed on the New York and Toronto Stock Exchanges and had a market capitalization of \$17.7 billion at December 31, 2017.
- BIP is one of the largest globally diversified owners and operators of infrastructure in the world.
- We also have direct investments in sustainable resources operations.

Principal Operations

Utilities

- Regulated transmission business includes ~2,000 km of natural gas pipelines in Brazil, ~12,000 km of transmission lines in North and South America¹, and ~3,500 km of greenfield electricity transmission developments in South America.
- We own and operate 3.3 million connections, predominantly electricity and natural gas connections, and approximately 800,000 acquired smart meters in our regulated distribution business.
- Our regulated terminal operations includes ~85 million tonnes per annum of coal handling capacity.
- These businesses typically earn a predetermined return based on their asset base, invested capital or capacity and the applicable regulatory frameworks and long-term contracts. Accordingly, the returns tend to be predictable and are typically not impacted to any great degree by short-term volume or price fluctuations.

Transport

- We operate ~5,500 km of railroad track in Western Australia, and ~4,800 km of railroad track in South America.
- Our toll road operations includes ~4,000 km of motorways in Brazil, Chile, Peru and India.
- Our ports operations includes 37 terminals in North America, the U.K., Australia and across Europe.
- Approximately 85% of our transport operations are supported by long-term contracts or regulation.
- These operations are comprised of businesses with price ceilings as a result of regulation, such as our rail and toll road operations, as well as unregulated businesses, such as our ports. Certain of these operations, such as our toll roads, are awarded by governments in the form of concessions.

Energy

- We own and operate ~15,000 km of natural gas transmission pipelines, primarily in the U.S., and 600 billion cubic feet of natural gas storage in the U.S. and Canada.
- In our district energy business, we deliver ~3.2 million pounds per hour of heating and 315,000 tons of cooling capacity, as well as servicing ~18,700 natural gas, water and waste water connections.
- These operations are comprised of businesses that are subject to regulation, such as our natural gas transmission business whose services are subject to price ceilings, and businesses that are essentially unregulated like our district energy business.

1. On March 15, 2018 we sold ~10,700 km of regulated transmission lines in South America

Communications Infrastructure

- We own and operate ~7,000 multi-purpose communication towers and active rooftop sites, and 5,000 km of fiber backbone.
- This operation is located in France and generates stable, inflation-linked cash flows underpinned by long-term contracts.

Summary of Operating Results

The following table disaggregates segment revenues, segment FFO and common equity into the amounts attributable to our economic ownership interest of BIP, directly held sustainable resources operations and realized disposition gains. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref.	Revenues		FFO		Common Equity	
		2017	2016	2017	2016	2017	2016
Brookfield Infrastructure Partners ¹	i	\$ 3,625	\$ 2,196	\$ 316	\$ 254	\$ 2,098	\$ 1,934
Sustainable resources		246	218	29	25	736	763
Realized disposition gains		—	—	—	95	—	—
		<u>\$ 3,871</u>	<u>\$ 2,414</u>	<u>\$ 345</u>	<u>\$ 374</u>	<u>\$ 2,834</u>	<u>\$ 2,697</u>

1. Brookfield's interest in BIP consists of 115.8 million redemption-exchange units, 0.2 million limited partnership units and 1.6 million general partnership units together representing an economic interest of 30% of BIP

Revenue and FFO in our Infrastructure segment increased due to acquisitions completed within BIP during the year in Brazil and North America, as well as a full-year contribution from our Australian ports business acquired in 2016. In addition, organic growth of 10% on a constant-currency basis due to increased tariffs and higher volumes across the operations contributed additional FFO, which was partially offset by the impact of foreign exchange, higher corporate borrowing costs and higher management fees.

i. Brookfield Infrastructure Partners

The following table disaggregates BIP's FFO by business line to facilitate analysis of the year-over-year variances in segment FFO:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2017	2016
Utilities	\$ 610	\$ 399
Transport	532	423
Energy	209	175
Communications	76	77
Corporate and other	(257)	(130)
Attributable to unitholders	1,170	944
Non-controlling interests and other ¹	(854)	(690)
Brookfield's interest	<u>\$ 316</u>	<u>\$ 254</u>

1. Includes incentive distributions paid to Brookfield of \$113 million (2016 – \$80 million) as the general partner of BIP

BIP recorded \$1.2 billion of FFO in 2017, a \$226 million increase from the prior year, benefiting from the contribution from acquisitions, increased pricing and volumes, and completed organic growth projects. These increases were partially offset by the impact of foreign exchange, higher management fees and increased interest expense due to corporate borrowings used to fund new investments and organic growth projects.

FFO from our utilities operations increased by \$211 million over the prior year to \$610 million. The increase was primarily from the acquisition of our Brazilian regulated gas transmission business in April 2017, as well as strong connections activity in our U.K. regulated distribution business, inflation indexation and capital commissioned into rate bases across the operations. Partially offsetting these increases is the absence of FFO from an electricity transmission business sold during the fourth quarter of 2016.

Transport FFO increased by \$109 million to \$532 million primarily due to a higher contribution from our Brazilian toll road business following to an increase in traffic flows, lower interest expense and the contribution from an increased ownership stake. Additionally, FFO increased due to inflationary tariff increases across our businesses, higher volumes at our Brazilian rail operations, and a full year contribution from our Australian ports business. These increases were partially offset by the impact of foreign exchange.

FFO from our energy operations increased by \$34 million to \$209 million primarily due to lower interest expense from de-leveraging and refinancing activities completed over the past year as well as higher transportation volumes from newly secured contracts within our North American natural gas transmission business. Partially offsetting these increases are lower margins across our gas storage operations and the absence of FFO from the sale of our U.K. distribution business in the second quarter of 2016.

Our communications infrastructure FFO decreased by \$1 million to \$76 million due to the impact of foreign exchange.

Corporate and other FFO was a deficit of \$257 million compared to a deficit of \$130 million in the prior year primarily due to an increase in base management fees paid as a result of a higher market capitalization and higher financing costs from new borrowings to fund new investments and organic growth projects. In 2016, we had higher gains from our financial asset portfolio as we disposed of more financial assets than we acquired.

Common Equity

Common equity in our Infrastructure segment was \$2.8 billion at December 31, 2017 (2016 – \$2.7 billion) as a result of equity issued by BIP, the contributions from earnings and positive revaluation of PP&E, which were partially offset by distributions paid. Segment equity primarily represents our net investment in infrastructure PP&E, which is recorded at fair value and revalued annually, as well as certain concessions. Concession arrangements are considered intangible assets under IFRS and are recorded at historical cost and amortized over the term of the concession. These arrangements make up the majority of our intangible assets. Accordingly, a smaller portion of our equity is impacted by revaluation compared to our Real Estate and Renewable Power segments, where a larger portion of the balance sheet is subject to annual revaluations which are typically recorded at year end.

Outlook and Growth Initiatives



Our infrastructure business owns and operates assets that are critical to the global economy. Our expertise in managing, and developing such assets make us ideal partners for the stakeholders who rely on these assets. Our goal is to continue demonstrating our stewardship of critical infrastructure which should enable us to participate in future opportunities as governments and others seek to unitize existing assets or outsource development.

EBITDA in our Infrastructure segment is approximately 95% contracted or regulated with pricing that is inflation linked. Approximately 75% of EBITDA should capture inflationary tariff increases and 40% should benefit from GDP growth by capturing increased volumes. As a result, we are able to achieve consistent growth year to year within our existing business. In addition, we have been consistently able to identify capital development projects that enable us to put capital to work to provide an additional source of organic growth. At the end of 2017, we had a backlog of such projects of \$3.8 billion that we expect to deploy predominantly made up of upgrade and expansion projects within our transport and utilities segments. We have a strong track record of adding to our infrastructure business through acquisitions.

On March 15, 2018 we sold a regulated utilities business in Chile with ~10,700 km of transmission lines. This is part of our strategy to acquire, operate and sell businesses so that we can redeploy the capital into new investments which fit our returns profile.



Private Equity

\$4.2B

INVESTED CAPITAL

\$333M

FFO

\$73M

CASH DISTRIBUTIONS
(paid to BAM)

Business Overview

- We own and operate private equity assets primarily through our 68% interest in BBU. BBU is listed on the New York and Toronto Stock Exchanges and had a market capitalization of \$4.5 billion at December 31, 2017.
- BBU focuses on owning and operating high-quality businesses that benefit from barriers to entry and/or low production costs.
- We also own certain businesses directly, including a 40% interest in Norbord which is one of the world's largest producers of oriented strand board ("OSB").

Operations

Construction Services

- We provide contracting services with a focus on high-quality construction of large-scale and complex landmark buildings and social infrastructure. Construction projects are generally delivered through contracts, whereby we take responsibility for design, program, procurement and construction at a defined price.
- ~1,050 current and delivered projects since inception with a backlog of \$8.7 billion.

Business Services

- We own and operate a road fuel distribution and marketing business with ~300kT of biodiesel capacity, commercial and residential real estate services, including networks with ~67,500 real estate agents in Canada and the U.S., and facilities management services for corporate and government investors with over 300 million square feet of managed real estate.
- These services are typically provided under medium-to long-term contracts. Services activity can be seasonal in nature and is affected by the general level of economic activity and related volume of services purchased by our investors.

Energy

- We own and operate oil and gas exploration and production operations, principally through an offshore oil and gas business in Western Australia and coal-bed methane operations in central Alberta, Canada.
- Our operations include ~97,000 barrels of oil equivalent per day of production.
- Our energy portfolio includes a marine energy services business which operates in northern Europe, Brazil and Canada and a contract drilling and well servicing business which operates in western Canada.

Industrial Operations

- Our industrial portfolio is comprised of capital intensive businesses with significant barriers to entry and require technical operating expertise.
- We own and operate a leading manufacturer of graphite electrodes and a water distribution, collection and treatment business which operates through long-term concessions and public-private partnerships, and services 15 million customers in Brazil.
- Our mining activities include interests in specialty metal and aggregates mining operations in Canada, including a palladium mine in northern Ontario with ~6,400 per day palladium production.

Summary of Operating Results

The following table disaggregates revenues, FFO and common equity into the amounts attributable to the capital we have invested in BBU, Norbord and other investments as well as disposition gains, if any. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref.	Revenues		FFO		Common Equity	
		2017	2016	2017	2016	2017	2016
Brookfield Business Partners ¹	i	\$ 22,803	\$ 8,017	\$ 35	\$ 177	\$ 2,064	\$ 1,865
Norbord.....	ii	1,680	1,774	219	133	1,364	276
Other investments.....	iii	94	171	(3)	95	787	721
Realized disposition gains	iv	—	—	82	—	—	—
		<u>\$ 24,577</u>	<u>\$ 9,962</u>	<u>\$ 333</u>	<u>\$ 405</u>	<u>\$ 4,215</u>	<u>\$ 2,862</u>

1. Prior period figures for assets that are included in BBU have been reclassified to reflect current presentation. Brookfield's interest in BBU consists of 63.1 million redemption-exchange units, 24.8 million limited partnership units and eight general partnership units together representing an economic interest of 68% of BBU

Revenues generated from our private equity operations increased by \$14.6 billion primarily as a result of our acquisition of a U.K. road fuel distribution business completed in May 2017, which increased revenues by \$13.1 billion. Included in the revenue and direct operating costs for this business are significant costs that are passed through to the customers, which are recorded gross without impact on the margin generated by the business so the increase in FFO is not significant. The acquisitions of a leading Brazilian water treatment business and a fuel marketing business, a marine energy services business and improved prices and volumes from our graphite electrode and palladium mining operations in BBU, all added to FFO, however these increases were more than offset by the absence of FFO from the assets sold, performance fees, and decreased ownership of BBU, as well as lower FFO from other investments following the conversion of an interest bearing debt security into equity last year. Higher OSB pricing and volume increased our FFO from Norbord, notwithstanding a decrease in our ownership.

i. Brookfield Business Partners

The following table disaggregates BBU's FFO by business line to facilitate analysis of the year-over-year variances in FFO:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2017	2016
Construction	\$ 26	\$ 94
Business services.....	66	54
Energy	52	63
Industrial operations.....	132	6
Corporate and other.....	(24)	(17)
Attributable to unitholders	<u>252</u>	<u>200</u>
Performance fees.....	(142)	—
Non-controlling interests.....	(25)	(23)
Segment reallocation and other.....	(50)	—
Brookfield's interest.....	<u>\$ 35</u>	<u>\$ 177</u>

BBU generated \$252 million of FFO, representing a \$52 million increase from 2016. Higher contributions from acquisitions completed in 2017 in our business services and industrial operations were partially offset by activity in our construction operations and higher corporate costs due to management fees.

Construction services FFO decreased by \$68 million to \$26 million due to the underperformance at select projects, all of which were either completed in 2017 or will be completed in the first half of 2018. Our operations in Australia and Europe maintained strong levels of activity, while we have been selectively scaling back our Middle East operations. During the year, we secured new projects across Australia and the U.K. and our backlog now stands at \$8.7 billion compared to \$7.3 billion in 2016, representing nearly two years of activity on a weighted average basis.

Business services FFO increased by \$12 million due to positive contributions from our U.K. road fuel distribution business acquired during 2017, and strong performance in our real estate services businesses. Increases in FFO were partially offset by higher interest expenses from increased borrowings related to the aforementioned acquisitions during the year, and by lower levels of activity in our financial advisory services business.

Energy operations FFO decreased by \$11 million as improved results at our western Canadian energy operations, and contribution from the recently acquired marine services company, were more than offset by the absence of interest income from a bond that was converted to an equity investment. We also experienced lower contribution from our equity accounted Western Australian operation due to decreased ownership from a reorganization and partial sale.

FFO within our industrial operations increased by \$126 million to \$132 million primarily as a result of the \$84 million realized gain on disposition of our bath and shower products manufacturing business, which is reallocated to disposition gains for presentation purposes. Excluding this gain, FFO increased by \$42 million due to higher volumes and pricing in our graphite electrode manufacturing business and our palladium mining operations and contributions from our Brazilian water treatment business acquired in the second quarter of 2017.

Corporate FFO deficit increased by \$7 million due to increased management fees from higher market capitalization and corporate expenses upon the spin-off in the prior year.

BBU paid performance fees of \$142 million in 2017, representing 20% of the increase in BBU's unit price above the initial threshold. The performance fees are included in our Asset Management segment.

ii. Norbord

Our share of Norbord's FFO increased by \$86 million to \$219 million as North American benchmark OSB prices have increased year-over-year due to higher demand as U.S. housing starts, particularly for single family homes, continue to increase. Average North American OSB prices increased by 31% to \$353 per thousand square feet ("Msf") compared to an average pricing of \$269 per Msf in 2016. FFO also benefited from an increase in North American yearly volumes, partially offset by a lower ownership following a partial disposition in the fourth quarter.

iii. Other Investments

FFO from our other investments decreased by \$98 million primarily due to the absence of a one-time distribution and interest income that we received in the prior year from our directly held investment in the aforementioned bond prior to conversion into equity.

iv. Realized Disposition Gains

Realized disposition gains of \$82 million in the year relate to the gain on disposition of the sale of our bath and shower products manufacturing business and Norbord shares as part of a secondary bought deal offering. This gain was partially offset by a loss on disposition of an oil and gas producer in western Canada.

Common Equity

Common equity in our Private Equity segment increased by \$1.4 billion from December 31, 2017 to \$4.2 billion due to equity issued by BBU, investment contributions from earnings, and the gross-up of our retained equity interest in Norbord to fair value upon deconsolidation, partially offset by distributions paid. The assets held in these operations are recorded at amortized cost, with depreciation recorded on a quarterly basis, with the exception of investments in financial assets, which are carried at fair value based predominantly on quoted prices.

Outlook and Growth Initiatives

SAME STORE GROWTH

Expansion of
service businesses

DEVELOPMENT

Turnaround strategies

CAPITAL ALLOCATION

Acquisitions

Our private equity business utilizes Brookfield's expertise in evaluating investments, operating and financing businesses as well as turnaround execution. BBU made excellent progress in its first calendar year as a publicly listed partnership with most of its value today generated from diverse services and industrial operations. We expect this trend to continue as we move forward with recently announced initiatives and continue to expand our operations.

Within our business services segment, we are continuing to grow our facilities management business to handle large multi-site client portfolios and increased technical service capabilities. We are also increasing the earnings potential of several recent acquisitions across our portfolio through operational improvements, tuck-in acquisitions, and expanding into new regions. Our construction services business is one of the strongest operators globally and we continue to win new work and increase our backlog as we focus on returning to more historical levels of profitability, which may take until 2019. We have achieved particularly significant operational improvements and sales contracting initiatives at our graphite electrode business and we expect to undertake an initial public offering in the coming months. The proceeds distributed will fund a meaningful part of our acquisition activity in the coming year.

Given the significant liquidity and flexible investment approach, BBU is well positioned for further growth in any economic environment. Subsequent to year end, BBU entered into a definitive agreement alongside institutional partners to acquire Westinghouse Electric Company, a leading global provider of infrastructure services to the nuclear power generation industry. The company provides sophisticated engineering, maintenance, facilities management and repair services, as well as plant components and parts to its global customer base. In January 2018, BBU also entered into a definitive agreement alongside institutional partners to acquire a controlling interest in Schoeller Allibert Group B.V., one of Europe's largest manufacturers of returnable plastic packaging systems.



Residential Development

\$2.9B
INVESTED CAPITAL

\$34M
FFO

Business Overview

- Our residential development businesses operate predominantly in North America and Brazil.
- Our North American business is conducted through Brookfield Residential Properties Inc., is active in 12 principal markets in Canada and the U.S. and controls approximately 91,000 lots.
- Our Brazilian business includes construction, sales and marketing of a broad range of residential and commercial office units, with a primary focus on middle income residential units in Brazil's largest markets of São Paulo and Rio de Janeiro.

Summary of Operating Results

The following table disaggregates revenues, FFO and common equity into the amounts attributable to our two principal operating regions:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Revenues		FFO		Common Equity	
	2017	2016	2017	2016	2017	2016
North America.....	\$ 2,062	\$ 1,926	\$ 169	\$ 160	\$ 1,711	\$ 1,441
Brazil and other.....	385	1,093	(135)	(97)	1,204	1,238
	\$ 2,447	\$ 3,019	\$ 34	\$ 63	\$ 2,915	\$ 2,679

Revenues and FFO from our residential operations decreased by \$572 million and \$29 million, respectively as increased housing prices and land sales across the majority of our North American operations were more than offset by lower contributions from our Brazilian operations, which had lower deliveries compared to 2016.

FFO from our North American operations increased by \$9 million to \$169 million due to increased sales and improved margins in our housing and land operations. The increase in FFO from our housing operation is attributable to an increase in the average selling price and a shift in the product mix sold; we closed a higher number of homes in California in the current year, a market that typically commands higher prices, leading to an overall 6% year-over-year increase in the average selling prices in our U.S. operations. This was partially offset by our Canadian operations, where increases in average home selling prices of 9% were more than offset by a reduction in homes sold in 2017. The increase in FFO from our land operations was driven by an increase in single-family lot closings in Canada, partially offset by activity in our U.S. operations, where the average increase in land prices of 9% was more than offset by fewer single-family lot closings relative to last year. As at December 31, 2017, we had 28 (2016 – 29) active land communities and 81 (2016 – 85) active housing communities. The increases from our housing and land operations were partially offset by higher operating expenses and lower gains on commercial properties as none were sold in the year.

FFO from our Brazilian operations decreased by \$38 million to a loss of \$135 million in the current year. We delivered 16 projects during the year compared to 41 in 2016. We continue to sell down our remaining inventory of units associated with projects launched prior to the economic downturn. However, the overall contributions from these sales in the year were below the level required to cover fixed costs, which included marketing expenses in respect of completed development projects. Our focus over the past two years has been on delivering these legacy projects and reducing unsold inventory. During 2015 and 2016, 113 projects were completed and delivered, and we began 2017 with 27 projects under construction. As of December 31, 2017, we have 18 projects under development, of which 12 relate to new projects launched in late 2016 and 2017.

Common Equity

Common equity was \$2.9 billion at December 31, 2017 (2016 – \$2.7 billion) and consists largely of residential development inventory. We invested \$245 million in our Brazilian operations during the year. In Brazil, the investment was used to repay high cost debt, lowering leverage and associated interest expense. Our residential businesses are carried primarily at historical cost, or the lower of cost and market, notwithstanding the length of time that some of our assets have been held and the value created through the development process.

Outlook and Growth Initiatives

At the end of 2017, the North American backlog of homes sold but not delivered stood at a sales value of \$928 million, compared to a value of \$783 million at the same time last year. The units in our backlog increased primarily due to higher net new home orders in our California and Central & Eastern U.S. operating segments. As our markets continue to evolve, we look to grow our presence in our existing footprint and expand into the development of mixed-use properties. We also look to grow our infill business and evaluate other built forms to keep us closely in step with the changing demands and requirements of the consumer.

We believe our North American activities will continue to perform well as market conditions in the U.S. and Canada should remain favorable. The U.S. housing market continues to be backed by strong economic conditions, however, we will continue to be impacted by labor and material shortages along with the rest of the industry. In Canada, the recovery of oil prices has resulted in increased consumer confidence in Alberta and improved demand in the housing market. Ontario has seen some slowing of the housing market as a result of the measures introduced by the Ontario provincial government to address housing affordability; however, we continue to believe that the long-term view of the market is positive due to the ongoing shortage of land available for development.

Brazil is currently experiencing lower growth, which is having a negative impact on current returns. Although the market in Brazil remains challenging, consumer confidence levels are now rising, and GDP has started to rebound from negative growth during 2015 and 2016, enhancing the value of our business and our ability to generate stronger results over time. Evidence of this confidence is seen through our recent launch of new products towards the end of 2017. We are continuing to restructure the company's operations and refocus towards higher margin projects in select key markets predominantly in São Paulo and Rio de Janeiro.



Corporate Activities

Business Overview

- Our corporate activities primarily consist of allocating capital to our operating business groups, principally through our listed partnerships (BPY, BEP, BIP and BBU) and directly held investments, as well as funding this capital through the issuance of corporate borrowings and preferred shares.
- We hold cash and financial assets as part of our liquidity management operations and enter into financial contracts to manage our foreign currency and interest rate risks.
- We also utilize our corporate liquidity to support the development of new private fund products and to support transactions initiated by our subsidiaries.

Summary of Operating Results

The following table disaggregates revenue, FFO and common equity into the principal assets and liabilities within our corporate operations and associated FFO to facilitate analysis:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Revenue		FFO		Common Equity	
	2017	2016	2017	2016	2017	2016
Cash and financial assets, net.....	\$ 193	\$ 230	\$ 145	\$ 140	\$ 2,255	\$ 1,143
Corporate borrowings.....	—	—	(261)	(241)	(5,659)	(4,500)
Preferred equity ¹	—	—	—	—	(4,192)	(3,954)
Other corporate investments.....	169	5	9	11	41	42
Corporate costs and taxes/net working capital...	—	—	(39)	(122)	(338)	(351)
	<u>\$ 362</u>	<u>\$ 235</u>	<u>\$ (146)</u>	<u>\$ (212)</u>	<u>\$ (7,893)</u>	<u>\$ (7,620)</u>

1. FFO excludes preferred share distributions of \$145 million (2016 – \$133 million)

Our portfolio of cash and financial assets is generally recorded at fair value with changes recognized quarterly through net income, unless the underlying financial investments are classified as available-for-sale securities, in which case changes in value are recognized in other comprehensive income. Loans and receivables are typically carried at amortized cost. Our financial assets consist of \$2.4 billion of cash and other financial assets (2016 – \$1.4 billion), which are partially offset by \$183 million (2016 – \$190 million) of deposits and other liabilities. FFO from our cash and financial asset portfolio was \$145 million in the current year, reflecting favorable market performance, and includes \$14 million interest income from a direct loan that we funded in the year.

Corporate borrowings are generally issued with fixed interest rates. Many of these borrowings are denominated in Canadian dollars and therefore the carrying value fluctuates with changes in the exchange rate. A number of these borrowings have been designated as hedges of our Canadian dollar net investments within our other segments, resulting in the majority of the currency revaluation being recognized in other comprehensive income. Preferred equity does not revalue under IFRS. The FFO from corporate borrowings reflects the interest expense on those borrowings, which increased from the prior year as a result of corporate debt issuances during the year.

We describe cash and financial assets, corporate borrowings and preferred equity in more detail within Part 4 – Capitalization and Liquidity.

Net working capital includes accounts receivable, accounts payable, other assets and liabilities and was in liability position of \$338 million at December 31, 2017. Included within this balance are net deferred income tax assets of \$590 million (2016 – \$648 million). FFO includes corporate costs and cash taxes, which were lower in the current year as we had current tax recoveries whereas the prior year had current tax expenses.

Common equity in our Corporate segment decreased to a deficit of \$7.9 billion at December 31, 2017. The issuance of \$1.3 billion of corporate notes and C\$300 million preferred shares during the year, as well as the strengthening of the Canadian dollar were partially offset by higher levels of cash and financial assets, the repayment of \$250 million and C\$250 million of corporate notes and a lower net working capital liability.

PART 4 – CAPITALIZATION AND LIQUIDITY

STRATEGY

Our overall approach is to maintain appropriate levels of liquidity throughout the organization to fund operating, development and investment activities as well as fund unforeseen requirements. We structure our debt and other financial obligations to provide a stable capitalization that provides attractive leverage to investors, and that withstands business cycles.

We manage our liquidity and capital resources on a group-wide basis, however it is organized into three principal tiers:

- The corporation;
- Our flagship listed issuers such as BPY, BIP, BEP and BBU; and
- The operating asset level, which includes individual assets, businesses and portfolio investments.

The following are key elements of our capital strategy:

- Structure borrowings to investment-grade levels, or on a path to investment grade levels for certain newly acquired assets. This enables us to limit covenants and other performance requirements, thereby reducing the risk of early payment requirements or restrictions on the distribution of cash from the assets being financed.
- Provide recourse only to the specific assets being financed, without cross-collateralization or parental guarantees. This aims to limit the impact of weak performance by one asset or business group.
- Match the duration debt to the underlying leases or contracts and match the currency of our debt to that of the assets such that our remaining duration and currency exposure is on the net equity of the investment. We will hedge our remaining currency exposure on our net equity, unless it is cost prohibitive to do so.
- Maintain significant liquidity at the corporate level, primarily in the form of cash, financial assets and undrawn credit lines. Ensure our listed issuers are able to finance their operations, including investments and developments (whether direct or through private funds), on a standalone basis without recourse to or reliance on the corporation.

CAPITALIZATION

We review key components of our consolidated capitalization in the following sections. In several instances we have disaggregated the balances into the amounts attributable to our operating segments in order to facilitate discussion and analysis.

Consolidated Capitalization – reflects the full capitalization of wholly owned and partially owned entities that we consolidate in our financial statements. At December 31, 2017, consolidated capitalization increased compared to the prior year largely due to acquisitions, which resulted in additional associated borrowings, working capital balances and non-controlling interests.

Corporate Capitalization – reflects the amount of recourse debt held in the corporation and our issued and outstanding common and preferred shares. At December 31, 2017, 78% of our corporate capitalization is common and preferred equity, which totaled \$28.2 billion (2016 – \$26.5 billion).

Capitalization at Our Share – reflects our proportionate exposure of debt and equity balances in consolidated entities and our share of the debt and equity in our equity accounted investments. Capitalization at our share is a non-IFRS measure. We present a reconciliation of capitalization at our share to consolidated capitalization in the Glossary of Terms.

The following table presents our capitalization on a consolidated, corporate and our share basis:

AS AT DEC. 31 (MILLIONS)	Ref.	Consolidated ¹		Corporate ¹		Our Share ¹	
		2017	2016	2017	2016	2017	2016
Corporate borrowings	i	\$ 5,659	\$ 4,500	\$ 5,659	\$ 4,500	\$ 5,659	\$ 4,500
Non-recourse borrowings							
Property-specific borrowings	i	63,721	52,442	—	—	30,210	26,410
Subsidiary borrowings	i	9,009	7,949	—	—	5,711	5,231
		<u>78,389</u>	<u>64,891</u>	<u>5,659</u>	<u>4,500</u>	<u>41,580</u>	<u>36,141</u>
Accounts payable and other		17,965	11,915	2,140	1,901	10,880	7,714
Deferred tax liabilities		11,409	9,640	160	246	5,204	4,572
Capitalization associated with assets held for sale		1,424	127	—	—	703	23
Subsidiary equity obligations		3,661	3,565	—	—	1,648	1,828
Equity							
Non-controlling interests		51,628	43,235	—	—	—	—
Preferred equity	ii	4,192	3,954	4,192	3,954	4,192	3,954
Common equity	iii	24,052	22,499	24,052	22,499	24,052	22,499
		<u>79,872</u>	<u>69,688</u>	<u>28,244</u>	<u>26,453</u>	<u>28,244</u>	<u>26,453</u>
Total capitalization		<u>\$ 192,720</u>	<u>\$ 159,826</u>	<u>\$ 36,203</u>	<u>\$ 33,100</u>	<u>\$ 88,259</u>	<u>\$ 76,731</u>

1. See definition in Glossary of Terms on page 103

i. Borrowings

Corporate Borrowings

AS AT DEC. 31 (MILLIONS)	Average Rate		Average Term		Consolidated	
	2017	2016	2017	2016	2017	2016
Term debt	4.6%	4.8%	10	8	\$ 5,594	\$ 4,529
Revolving facilities	1.6%	—%	4	4	103	—
Deferred financing costs	n/a	n/a	n/a	n/a	(38)	(29)
Total					<u>\$ 5,659</u>	<u>\$ 4,500</u>

As at December 31, 2017, corporate borrowings included term debt of \$5.6 billion (2016 – \$4.5 billion) which had an average term to maturity of 10 years (2016 – eight years). Term debt consists of public bonds, all of which are fixed rate and have maturities ranging from April 2019 until 2047. These financings provide an important source of long-term capital and an appropriate match to our long-term asset profile.

The average interest rate on our term debt was 4.6% at December 31, 2017 (2016 – 4.8%). The increase in the term debt balance compared to the prior year is primarily due to the issuance of \$750 million and \$550 million notes and \$196 million of foreign currency appreciation, partially offset by the repayment of \$250 million and C\$250 million of term debt.

Subsequent to December 31, 2017, we issued \$650 million and \$350 million notes with maturities of 2028 and 2047, respectively. As a result of these note issuances, our average rate is unchanged and our average term on corporate borrowings increased to 11 years.

We also had \$103 million commercial paper and bank borrowings outstanding at December 31, 2017 (2016 – \$nil). Commercial paper and bank borrowings are pursuant to, or backed by, \$1.9 billion of committed revolving term credit facilities with terms ranging from one to five years. As at December 31, 2017, approximately \$79 million of the facilities were utilized for letters of credit (2016 – \$61 million).

Property-Specific Borrowings

As part of our financing strategy, the majority of our debt capital is in the form of property-specific borrowings and project financings, denominated in local currencies that have recourse only to the assets being financed and have no recourse to the corporation.

AS AT DEC. 31 (MILLIONS)	Average Rate		Average Term		Consolidated	
	2017	2016	2017	2016	2017	2016
Real estate	4.4%	4.5%	4	4	\$ 37,235	\$ 34,322
Renewable power.....	5.9%	6.6%	9	8	14,230	7,963
Infrastructure.....	4.7%	4.9%	8	9	9,010	7,901
Private equity and other	6.7%	4.4%	6	3	2,898	1,836
Residential development.....	9.6%	8.6%	2	1	348	420
Total	4.9%	4.9%	6	5	\$ 63,721	\$ 52,442

Property-specific borrowings increased by \$11.3 billion during 2017 due to \$8.6 billion of borrowings assumed on or issued in conjunction with acquisitions offset by repayment of amounts previously drawn on revolving or term bank facilities. The additional borrowings in our renewable power operations are primarily related to the acquisition of a global wind and solar business. The additional borrowings in our infrastructure operations are primarily related to the acquisition of a large regulated gas transmission business. In addition to acquisitions, the remainder of the increase is driven by increased drawings on subscription facilities, additional debt assumed for growth capital expenditures and the impact of foreign exchange. These increases were partially offset by asset dispositions across the business.

For property-specific borrowings, we generally match the term of the debt to the term of the leases or contracts, as applicable, in the associated investments, however this is often offset by development projects, planned asset dispositions, and markets with shorter debt terms, such as Australia.

Subsidiary Borrowings

We endeavor to capitalize our principal subsidiary entities to enable continuous access to the debt capital markets, usually on an investment-grade basis, thereby reducing the demand for capital from the corporation and sharing financing costs equally among equity holders in partially owned subsidiaries.

AS AT DEC. 31 (MILLIONS)	Average Rate		Average Term		Consolidated	
	2017	2016	2017	2016	2017	2016
Real estate	3.3%	2.9%	2	2	\$ 3,214	\$ 2,765
Renewable power.....	4.5%	3.9%	6	6	1,665	2,029
Infrastructure.....	3.1%	3.4%	4	3	2,102	1,002
Private equity	3.9%	4.6%	2	2	380	538
Residential development.....	6.3%	6.4%	5	6	1,648	1,615
Total	4.1%	4.1%	4	4	\$ 9,009	\$ 7,949

Subsidiary borrowings generally have no recourse to the corporation but are recourse to its principal subsidiaries (primarily BPY, BEP, BIP and BBU). Subsidiary borrowings increased by \$1.1 billion as our subsidiaries drew on their credit facilities used to fund investments and growth initiatives in the prior year, and a C\$700 million issuance in BIP during the first half of 2017.

Fixed and Floating Interest Rate Exposure

The majority of our borrowings are fixed rate long-term financing. Accordingly, changes in interest rates are typically limited to the impact of refinancing borrowings at current rates or changes in the level of debt as a result of acquisitions and dispositions.

The following table presents the fixed and floating rates of interest expense:

AS AT DEC. 31 (MILLIONS)	Fixed Rate				Floating Rate			
	2017		2016		2017		2016	
	Average Rate	Consolidated	Average Rate	Consolidated	Average Rate	Consolidated	Average Rate	Consolidated
Corporate borrowings	4.6%	\$ 5,556	4.8%	\$ 4,500	1.6%	\$ 103	—%	\$ —
Property-specific borrowings...	5.0%	33,106	5.2%	28,531	4.8%	30,615	4.6%	23,911
Subsidiary borrowings	4.8%	4,800	5.1%	4,570	3.2%	4,209	2.7%	3,379
Total	5.0%	\$ 43,462	5.1%	\$ 37,601	4.6%	\$ 34,927	4.4%	\$ 27,290

Our average floating interest rate associated with property-specific borrowings increased from the prior year due to rises in the underlying floating rate indexes, on which many of our floating rates are based upon.

From time to time, the businesses enter into interest rate contracts to swap their floating debt to fixed. As at December 31, 2017, our share of debt outstanding net of swaps is over 80% fixed.

Interest Rate Profile

As at December 31, 2017, our share of the net floating rate liability position was \$6.2 billion (2016 – \$7.5 billion). As a result, a 50 basis-point increase in interest rates would decrease FFO by \$31 million (2016 – \$37 million). Notwithstanding our practice of matching funding of long-term assets with long-term debt, we believe that the values and cash flows of certain assets are more appropriately matched with floating rate liabilities. We utilize interest rate contracts to manage our overall interest rate profile so as to achieve an appropriate floating rate exposure while preserving a long-term maturity profile.

The impact of a 50 basis-point increase in long-term interest rates on the carrying value of financial instruments recorded at market value is estimated to increase FFO by \$31 million, based on our positions at December 31, 2017 (2016 – \$26 million).

We have continued to take advantage of low long-term rates to fix the coupons on floating rate debt and near-term maturities. This has resulted in an increase in our current borrowing expense, but we believe this will result in lower costs in the long term. Throughout the year we completed approximately \$19 billion of debt and preferred share financings, related to our share of the portfolio. These refinancing activities have enabled us to extend or maintain our average maturity term at favorable rates. Approximately \$9 billion of the asset-specific financings and \$0.7 billion of our preferred shares issued have fixed rate coupons.

As at December 31, 2017, we held a \$2.2 billion notional amount (2016 – \$2.6 billion) of interest rate contracts, \$1.5 billion relating to our share (2016 – \$1.7 billion), to lock in the risk-free component of interest rates for projected debt refinancings over the next three years at an average risk-free rate of 1.6% (2016 – 1.5%). The effective rate will be approximately 4.1% (2016 – 4.2%) at the time of issuance, which reflects the premium relating to the slope of the yield curve during this period. This represents approximately 21% of expected issuance into the North American and U.K. markets (2016 – 31%) at our share in the next three years. The value of these contracts is correlated with changes in the reference interest rate, typically the U.S. 10-year government bond, such that a 50 basis-point increase in the interest rate would result in a \$109 million positive mark-to-market (2016 – \$129 million), of which \$74 million net to Brookfield (2016 – \$85 million) would be recorded in other comprehensive income.

ii. Preferred Equity

Preferred equity is comprised of perpetual preferred shares and represents permanent non-participating equity that provides leverage to our common equity. The shares are categorized by their principal characteristics in the following table:

AS AT DEC. 31 (\$ MILLIONS)	Term	Average Rate		2017	2016
		2017	2016		
Fixed rate-reset	Perpetual	4.2%	4.4%	\$ 2,912	\$ 2,669
Fixed rate	Perpetual	4.8%	4.8%	749	753
Floating rate	Perpetual	2.3%	2.0%	531	532
Total		4.1%	4.2%	\$ 4,192	\$ 3,954

Fixed rate-reset preferred shares are issued with an initial fixed rate coupon that is reset after an initial period, typically between five and seven years, at a predetermined spread over the Canadian five-year government bond yield. The average reset spread as at December 31, 2017 was 284 basis points.

On September 13, 2017, the company issued 12.0 million Series 48 fixed rate-reset preferred shares with an initial dividend rate of 4.75% for gross proceeds of C\$300 million.

During the year we repurchased 184,979 and 210,409 of our perpetual and fixed rate-reset preferred shares, respectively, with a face value of \$8.5 million.

iii. Common Equity

Issued and Outstanding Shares

Changes in the number of issued and outstanding Class A common shares (“Class A shares”) during the years are as follows:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2017	2016
Outstanding, beginning of year	958.2	961.3
Issued (repurchased)		
Repurchases.....	(3.5)	(4.7)
Long-term share ownership plans ¹	3.8	1.3
Dividend reinvestment plan and others	0.3	0.3
Outstanding, end of year.....	958.8	958.2
Unexercised options and other share-based plans ¹	47.5	43.8
Total diluted shares, end of year	1,006.3	1,002.0

1. Includes management share option plan and restricted stock plan

The company holds 30.6 million Class A shares (2016 – 27.8 million) purchased by consolidated entities in respect of long-term share ownership programs, which have been deducted from the total amount of shares outstanding at the date acquired. Diluted shares outstanding include 9.2 million (2016 – 4.2 million) shares issuable in respect of these plans based on the market value of the Class A shares at December 31, 2017 and 2016, resulting in a net reduction of 21.4 million (2016 – 23.6 million) diluted shares outstanding.

During 2017, 7.0 million options were exercised, of which 6.6 million were exercised on a net-settled basis, resulting in the cancellation of 3.7 million vested options.

The cash value of unexercised options was \$901 million as at December 31, 2017 (2016 – \$828 million) based on the proceeds that would be received on exercise of the options.

As of March 29, 2018, the corporation had outstanding 956,955,414 Class A shares and 85,120 Class B shares. Refer to Note 21 to the consolidated financial statements for additional information on equity.

LIQUIDITY

Capital Requirements

On a consolidated basis, our two largest normal course capital requirements are the funding of acquisitions and debt maturities. As an asset manager, most of our acquisitions are completed by private funds or listed partnerships that we manage. We endeavor to structure these entities so that they are self-funding, preferably on an investment-grade basis, and in almost all circumstances do not rely on financial support from the corporation.

In the case of private funds, the necessary equity capital is obtained by calling on commitments made by the limited partners in each fund, which include commitments made by us or our managed entities such as our listed partnerships. In the case of our real estate, infrastructure and private equity funds, these commitments are expected to be funded by BPY, BEP, BIP and BBU. In the case of listed partnerships, capital requirements are funded through their own resources and access to capital markets, which may be supported by us from time to time through participation in equity offerings or bridge financings.

We schedule ongoing capital expenditure programs to maintain the operating capacity of our assets at existing levels, which we refer to as sustaining capital expenditures, and which are typically funded by, and represent a relatively small proportion of, the operating cash flows within each business. The timing of these expenditures is discretionary; however, we believe it is important to maintain the productivity of our assets in order to optimize cash flows and value accretion and fund these expenditures with operating cash flow.

Core Liquidity

Our primary sources of liquidity, which we refer to as core liquidity, consists of:

- Cash and financial assets, net of deposits and other associated liabilities; and
- Undrawn committed credit facilities at the corporate and listed partnership level.

We include our principal subsidiaries BPY, BIP, BEP and BBU in assessing our overall liquidity, because of their role in funding acquisitions both directly and through our private funds. The following table presents core liquidity on a corporate and segment basis:

AS AT DEC. 31 (MILLIONS)	Corporate	Real Estate	Renewable Power	Infrastructure	Private Equity	Total 2017	2016
Cash and financial assets, net.....	\$ 2,255	\$ 40	\$ 327	\$ 205	\$ 391	\$ 3,218	\$ 2,592
Undrawn committed credit facilities..	1,748	910	812	1,139	230	4,839	6,375
Core liquidity.....	4,003	950	1,139	1,344	621	8,057	8,967
Uncalled private fund commitments..	—	9,126	2,354	5,437	1,674	18,591	19,904
Total liquidity	\$ 4,003	\$ 10,076	\$ 3,493	\$ 6,781	\$ 2,295	\$ 26,648	\$28,871

We continue to maintain elevated liquidity levels along with client commitments in our private funds, which totaled \$18.6 billion at the end of the period, because we continue to pursue a number of attractive investment opportunities.

Corporate Core Liquidity

As at December 31, 2017, core liquidity at the corporate level was \$4.0 billion, consisting of \$2.3 billion in cash and financial assets, net of deposits and other liabilities, and \$1.7 billion in undrawn credit facilities. Corporate level liquidity is readily available for use without any material tax consequences.

We also have the ability to raise additional liquidity through the issuance of securities and sale of holdings of listed investments in our principal subsidiaries and other holdings including from those listed on the following page. However, this is not considered a core source of liquidity at the corporate level as we are generally able to finance our operations and capital requirements through other means. Our primary sources of recurring cash flows at the corporate level are fee related earnings from our asset management activities and distributions from invested capital, in particular our listed partnerships. We also receive proceeds from time to time from the sale of directly held assets and in the form of realized carried interest from asset sales within private funds.

During 2017, we have earned \$896 million of fee related earnings. We received \$1.3 billion in distributions from our listed subsidiaries during 2017 and have the ability to distribute surplus cash flow of controlled, privately held investments. In addition, income generated by our financial asset portfolio was \$145 million. Interest expense and preferred share distributions totaled \$261 million and \$145 million, respectively, and corporate operating expenses, cash taxes and other investment income totaled \$30 million. We paid \$540 million in cash dividends on our common equity in 2017, which excludes the non-cash special dividend of \$102 million associated with the spin-out of our specialty insurance business. Earnings and distributions received by the corporation are available for distribution or reinvestment and are as follows:

FOR THE YEAR ENDED DEC. 31, 2017
(MILLIONS)

Asset management

Fee revenues.....	\$ 1,368
Direct costs.....	(472)
Fee related earnings.....	896
Realized carried interest.....	74
Asset management FFO.....	970

Invested capital

Cash distributions received from listed issuers.....	1,276
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Capitalization, net

Financial asset earnings.....	145
Corporate costs, cash taxes and other.....	(30)
Corporate interest expense.....	(261)
Corporate FFO.....	(146)
Preferred share dividends.....	(145)
	(291)

Available for distribution/reinvestment ¹	<u>\$ 1,955</u>
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1. See definition in Glossary of Terms on page 103

The following table shows the quoted market value of the company's listed securities and annual cash distributions based on current distribution policies for each entity:

AS AT DEC. 31, 2017
(MILLIONS, EXCEPT PER UNIT AMOUNTS)

	Ownership %	Units	Distributions Per Unit ¹	Distributions (Current) ²	Distributions (Actual)
Distribution from listed investments					
Brookfield Property Partners ³	69.4%	488.0	\$ 1.26	\$ 691	\$ 652
Brookfield Renewable Partners.....	60.2%	188.4	1.96	369	350
Brookfield Infrastructure Partners.....	29.9%	117.7	1.88	221	195
Brookfield Business Partners.....	68.0%	87.9	0.25	22	21
Norbord.....	40.3%	34.8	1.91	66	52
Acadian.....	44.9%	7.5	0.87	7	6
				1,376	1,276
Financial assets and other ⁴	Various	Various	Various	141	145
Total.....				<u>\$ 1,517</u>	<u>\$ 1,421</u>

1. Based on current distribution policies as announced in February 2018

2. Distribution (current) is calculated by multiplying units held as at December 31, 2017 by distributions per unit. BPY's distribution (current) include \$76 million of preferred share dividends received by the corporation

3. Quoted value includes \$1.3 billion of preferred shares and distributions includes \$76 million of preferred distributions. Fully diluted ownership is 63.8%, assuming conversion of convertible preferred shares held by a third party

4. Includes cash and cash equivalents, financial assets net of deposits, and other listed private equity investments

Segmented Core Liquidity

We hold virtually all of the balance sheet capital deployed in our private funds and operating assets through our principal listed partnerships, BPY, BIP, BEP and BBU. Each of these entities maintains significant liquidity in the form of cash and credit lines in order to pursue investment opportunities. They have the ability to raise capital in public markets in the form of common equity, perpetual preferred equity and medium to long-term debt. As perpetual entities they are also able to raise funds through assets sales and recycle this capital into new investments generating higher returns.

The core liquidity of our listed partnerships, including proceeds of asset dispositions, private fund distributions and financings, is typically retained by each listed partnership and is not distributed to the corporation or other unitholders. Should we, through our controlling interest, choose to repatriate this liquidity, the corporation would receive its proportionate share as a distribution from the principal subsidiaries. Such repatriations would not have any material tax consequences to the corporation.

Commitments

Commitments in our private funds include commitments made by us or our managed entities such as our listed partnerships. Generally, these commitments are expected to be funded by BPY, BEP, BIP and BBU. As at December 31, 2017 the company had commitments of \$8.4 billion to funds, of which \$8.1 billion is expected to be funded by managed entities and the balance of \$288 million by the corporation. In addition, we had \$18.6 billion of private fund commitments from third-party investors to fund qualifying transactions. Investments and capital expansion projects are discretionary and require approval under our investment policies including, where appropriate, our Board of Directors. The approval of these activities takes into consideration the availability of capital to fund them.

As discussed further on pages 92 and 93, we enter into financial instruments such as interest rate, foreign currency and power price contracts that require us to make or receive payments based on changes in value of the contracts, either to settle the contract or as collateral. We carefully monitor potential liquidity requirements to ensure that they remain within a reasonable amount and can easily be funded with core liquidity.

REVIEW OF CONSOLIDATED STATEMENTS OF CASH FLOWS

The following table summarizes the consolidated statements of cash flows within our consolidated financial statements:

FOR THE YEARS ENDED DEC. 31
(MILLIONS)

	2017	2016
Operating activities.....	\$ 4,005	\$ 3,083
Financing activities.....	8,185	6,993
Investing activities.....	(11,394)	(8,557)
Change in cash and cash equivalents.....	\$ 796	\$ 1,519

This statement reflects activities within our consolidated operations and therefore excludes activities within non-consolidated entities such as our equity accounted investment in GGP.

Operating Activities

Cash flow from operating activities totaled \$4.0 billion in 2017, a \$0.9 billion increase from 2016. Operating cash flow prior to non-cash working capital and residential inventory was \$5.1 billion during the current year, which was \$1.3 billion higher than 2016 due to the benefits of same-store growth from our existing operations and the contributions from assets acquired during the year.

Financing Activities

The company generated \$8.2 billion of cash flows from financing activities during 2017, as compared to \$7.0 billion in 2016. Our subsidiaries issued \$26.3 billion (2016 – \$23.8 billion) and repaid \$21.6 billion (2016 – \$20.4 billion) of property-specific and subsidiary borrowings, for a net issuance of \$4.7 billion (2016 – \$3.4 billion) during the year. We raised \$9.5 billion of capital from our institutional private fund partners and other investors to fund their portion of acquisitions, as well as \$0.8 billion of short-term borrowings backed by private fund commitments, and returned \$7.2 billion to our investors in the form of either distributions or return of capital. Most of the activity related to the acquisitions was within our real estate and infrastructure funds. The corporation issued \$1.3 billion of notes, the proceeds of which were partially used to repay other notes that came to maturity.

Investing Activities

During 2017, we invested \$21.5 billion and generated proceeds of \$9.5 billion from dispositions for net cash deployed in investing activities of \$12.0 billion. This compares to net cash investments of \$8.4 billion in 2016. We acquired \$10.3 billion of consolidated subsidiaries across our various strategies within our real estate, infrastructure, renewable power, and private equity operations, as well as \$2.7 billion of equity accounted investments during 2017. We continued to acquire financial assets, which represent a net outflow of \$1.8 billion, relating to investments in debt and equity securities. Disposition proceeds included \$2.9 billion from our real estate operations. Investing activities in the prior year included the acquisitions of various subsidiaries including a North American gas storage business, a U.S. regional retail mall business, and two portfolios of hydroelectric generation assets in Colombia and Pennsylvania.

CONTRACTUAL OBLIGATIONS

The following table presents the contractual obligations of the company by payment periods:

	Payments Due by Period				
AS AT DEC. 31, 2017 (MILLIONS)	Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years	Total
Recourse Obligations					
Corporate borrowings.....	\$ —	\$ 478	\$ 278	\$ 4,903	\$ 5,659
Accounts payable and other.....	773	25	12	1,330	2,140
Interest expense ¹					
Corporate borrowings	259	494	462	1,433	2,648
Non-recourse Obligations					
Principal repayments					
Non-recourse borrowings					
Property-specific borrowings.....	8,800	15,175	14,228	25,518	63,721
Subsidiary borrowings	1,956	2,520	2,536	1,997	9,009
Subsidiary equity obligations	76	53	1,001	2,531	3,661
Accounts payable and other					
Capital lease obligations	22	42	17	63	144
Accounts payable and other.....	10,353	2,329	1,506	1,493	15,681
Commitments	1,193	1,148	147	71	2,559
Operating leases ²	218	350	303	2,907	3,778
Interest expense ¹					
Non-recourse borrowings	3,248	5,024	3,575	5,314	17,161
Subsidiary equity obligations	226	428	340	322	1,316

1. Represents the aggregate interest expense expected to be paid over the term of the obligations. Variable interest rate payments have been calculated based on current rates
2. Operating land leases with agreements largely expiring after the year 2065 totaled \$1.7 billion as at December 31, 2017

The recourse obligations, those amounts that have recourse to the corporation, which are due in less than one year totaled \$1.0 billion (2016 – \$1.5 billion) and will be funded through working capital and cash flows from operating activities.

The corporation is required under certain circumstances to purchase BPY's preferred equity units at redemption, as described below. Accordingly, commitments in 2017 include \$203 million, which represents the carrying value of the exchange option at the time of issuance in respect of BPY's subsidiary preferred units, and the remaining \$1,597 million was recorded within subsidiary equity obligations. All other balances, with the exception of interest expense incurred in future periods, are included in our consolidated balance sheet.

The corporation entered into arrangements in 2014 with respect to \$1.8 billion of exchangeable preferred equity units issued by BPY, which are redeemable in equal tranches of \$600 million in 2021, 2024 and 2026, respectively. The preferred equity units are exchangeable into equity units of BPY at \$25.70 per unit, at the option of the holder, at any time up to and including the maturity date. BPY may redeem the preferred equity units after specified periods if the BPY equity unit price exceeds predetermined amounts. At maturity, the preferred equity units will be converted into BPY equity units at the lower of \$25.70 or the then market price of a BPY equity unit. In order to provide the purchaser with enhanced liquidity, the corporation has agreed to purchase the preferred equity units for cash at the option of the holder, for the initial purchase price plus accrued and unpaid dividends. In order to decrease dilution risk to BPY, the corporation has agreed with the holder and BPY that if the price of a BPY equity unit is less than 80% of the exchange price of \$25.70 at the redemption date of the 2021 and 2024 tranches, the corporation will acquire the preferred equity units subject to redemption, at the redemption price, and to exchange these preferred equity units for preferred equity units with similar terms and conditions, including redemption date, as the 2026 tranche.

Commitments of \$2.6 billion (2016 – \$1.5 billion) represent various contractual obligations assumed in the normal course of business by our various operating subsidiaries. These included commitments to provide bridge financing, and letters of credit and guarantees provided in respect of power sales contracts and reinsurance obligations. These commitments shall be funded through the cash flows of company's subsidiaries.

The company and its consolidated subsidiaries execute agreements that provide for indemnifications and guarantees to third parties in transactions or dealings such as business dispositions, business acquisitions, sales of assets, provision of services, securitization agreements, and underwriting and agency agreements. The company has also agreed to indemnify its directors and certain of its officers and employees. The nature of substantially all of the indemnification undertakings prevents the company from making a reasonable estimate of the maximum potential amount the company could be required to pay third parties, as in most cases the agreements do not specify a maximum amount, and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Neither the company nor its consolidated subsidiaries have made significant payments in the past, nor do they expect at this time to make any significant payments under such indemnification agreements in the future.

The company periodically enters into joint venture, consortium or other arrangements that have contingent liquidity rights in favor of the company or its counterparties. These include buy sell arrangements, registration rights and other customary arrangements. These agreements generally have embedded protective terms that mitigate the risk to us. The amount, timing and likelihood of any payments by the company under these arrangements is, in most cases, dependent on either future contingent events or circumstances applicable to the counterparty and therefore cannot be determined at this time.

Our wholly owned energy marketing group has committed to purchase power and other wind generation produced by BEP as previously described on page 58.

EXPOSURES TO SELECTED FINANCIAL INSTRUMENTS

As discussed elsewhere in this MD&A, we utilize various financial instruments in our business to manage risk and make better use of our capital. The fair values of these instruments that are reflected on our balance sheets are disclosed in Note 6 to our consolidated financial statements.

PART 5 – ACCOUNTING POLICIES AND INTERNAL CONTROLS

ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Accounting Policies

We are a Canadian corporation and, as such, we prepare our consolidated financial statements in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”).

We present our consolidated balance sheets on a non-classified basis, meaning that we do not distinguish between current and long-term assets or liabilities. We believe this classification is appropriate given the nature of our business strategy.

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments and estimates that affect the carried amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

In making judgments and estimates, management relies on external information and observable conditions, where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with the prior year and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in this report.

For further reference on accounting policies, including new and revised standards issued by the IASB, judgments and estimates, see our significant accounting policies contained in Note 2 of the December 31, 2017 consolidated financial statements.

Consolidated Financial Information

We consolidate a number of entities even though we hold only a minority economic interest. This is the result of our exercising control, as determined under IFRS, over the affairs of these entities due to contractual arrangements and our significant economic interest in these entities.

As a result, we include 100% of the revenues and expenses of these entities in our consolidated statements of operations, even though a substantial portion of the net income in these consolidated entities is attributable to non-controlling interests. On the other hand, revenues earned, and expenses paid between us and our subsidiaries, such as asset management fees, are eliminated in our consolidated statements of operations; however, these items affect the attribution of net income between shareholders and non-controlling interests. For example, asset management fees paid by our listed partnerships to the corporation are eliminated from consolidated revenues and expenses. However, as the common shareholders are attributed all of the fee revenues while only attributed their proportionate share of the listed partnerships’ expenses, the amount of net income attributable to common shareholders is increased with a corresponding decrease in net income attributable to non-controlling interests.

Interests in entities over which we exercise significant influence, but where we do not exercise control, are accounted for as equity accounted investments. We record our proportionate share of their net income on a “one-line” basis as equity accounted income within our Consolidated Statements of Operations and “two-lines” within Consolidated Statements of Comprehensive Income as equity accounted income that may be reclassified to net income and equity accounted income that will not be reclassified to net income. As a result, our share of items such as fair value changes, that would be included within fair value changes if the entity was consolidated, are instead included within equity accounted income.

Certain of our consolidated subsidiaries and equity accounted investments do not utilize IFRS for their own statutory reporting purposes. The comprehensive income utilized by us for these entities is determined using IFRS and may differ significantly from the comprehensive income pursuant to the accounting principles reported elsewhere by the investee. For example, IFRS provides a reporting issuer a policy election to fair value its investment properties, as described above, whereas other accounting principles such as U.S. GAAP may not. Accordingly, their statutory financial statements, which may be publicly available, may differ from those which we consolidate.

Accounting Estimates

The significant estimates used in determining the recorded amount for assets and liabilities in the consolidated financial statements include the following:

i. Investment Properties

We classify the vast majority of the property assets within our core office, core retail and opportunistic portfolios as investment properties. We determine investment property valuations by undertaking one of two accepted methods: (i) discounting the expected future cash flows, generally over a term of 10 years including a terminal value based on the application of a terminal capitalization rate, typically used for our office, retail and industrial assets; or (ii) undertaking a direct capitalization approach, typically used for our multifamily, triple net lease, self-storage, student housing and manufactured housing assets, whereby a capitalization rate is applied to current cash flows.

Our valuations are prepared at the individual property level by internal investment professionals with the appropriate expertise in the respective industry, geography and asset type. We leverage their extensive expertise and experience in the valuation of properties accumulated through involvement in acquisitions and dispositions, negotiations with lenders and interactions with institutional private fund investors. The underlying cash flow models for each investment are derived by management of each investment and are subject to detailed reviews as part of the business planning process. Many of the assets are subject to long-term leases, which form the basis of the cash flows. The majority of property cash flows are comprised of contracted leases with our core real estate portfolio having a combined 94.6% occupancy level and an average seven-year lease life. External market data is utilized when determining the cash flows associated with lease renewals. We also verify our discount rates and capitalization rates by comparing to market data, third-party reports and research material and brokers' opinions. In certain circumstances, these rates are prepared by third-party consultants for specific assets.

These valuations are subject to various layers of review at the regional and business group senior management level. The models supporting the valuation process include a number of different inputs and variables, such as assumptions prepared at the property level for renewal probabilities, future leasing rates and capital expenditures, which are prepared by the relevant investment professionals and reviewed by the portfolio manager of the respective asset class, including an in-depth review of the valuations with the supporting quantitative and qualitative analysis. Once approved by the investment teams, the respective portfolio managers present the valuations to the real estate group senior management for final approval.

We test the outcome of our process by having a number of our properties externally appraised each year, including appraisals for core office properties, at least on a three-year rotating basis. We compare the results of the external appraisals to our internally prepared values and reconcile significant differences when they arise. During 2017, 197 of our properties were externally appraised, representing \$47 billion of assets; external appraisals were 1% higher, in aggregate, than management's valuations.

Gains or losses on revaluation of investment properties are reflected in net income. The key valuation metrics of our investment properties are presented in the following table on a weighted-average basis, disaggregated into the principal operations of our Real Estate segment for analysis purposes. The valuations are most sensitive to changes in cash flows, discount rates and terminal capitalization rates. The following table presents the major contributors to the period-over-period variances for our investment properties.

The determination of fair value requires the use of estimates, as described above, which have been applied in a manner consistent with that in the prior year. There are currently no known trends, events or uncertainties that we reasonably believe could have a sufficiently pervasive impact across our businesses, which are diversified by asset class, geography and market, to materially affect the methodologies or assumptions utilized to determine the estimated fair values reflected in this report. Discount rates and capitalization rates are inherently uncertain and may be impacted by, among other things, movements in interest rates in the geographies and markets in which the assets are located. Changes in estimates across different geographies and markets, such as discount rates and terminal capitalization rates, often move independently of one another and not necessarily in the same direction or to the same degree. Furthermore, impacts on our estimated values from changes in discount rates, terminal capitalization rates and cash flows are usually inversely correlated as the circumstances that typically give rise to increased interest rates (i.e. strong economic growth, inflation) usually give rise to increased cash flows at the asset level.

The key valuation metrics of our real estate assets at the end of 2017 and 2016 are summarized below.

	Core Office		Opportunistic and Other		Weighted Average	
	2017	2016	2017	2016	2017	2016
AS AT DEC. 31						
Discount rate.....	6.9%	6.7%	7.3%	7.6%	7.1%	7.1%
Terminal capitalization rate.....	5.8%	5.6%	7.0%	7.6%	6.2%	6.2%
Investment horizon (years).....	11	12	9	10	10	11

The following table presents the impact on the fair value of our investment properties as at December 31, 2017 from a 25-basis point change to the relevant unobservable inputs. For properties valued using the discounted cash flow method, the basis point change in valuation metrics relates to a change in discount and terminal capitalization rates. For properties valued using the direct capitalization approach, the basis point change in valuation metrics relates to a change in the overall capitalization rate.

AS AT DEC. 31, 2017 (MILLIONS)	Fair Value		Sensitivity	
Core office				
United States	\$	14,827	\$	795
Canada		4,597		251
Australia		2,480		141
Europe		1,040		—
Brazil		327		36
Opportunistic and other				
Opportunistic Office.....		8,590		286
Opportunistic Retail		3,412		116
Industrial		1,942		78
Multifamily		3,925		196
Triple Net Lease		4,804		166
Self-storage		1,854		69
Student Housing		1,353		55
Manufactured Housing		2,206		91
Other investment properties		5,513		170
Total	\$	56,870	\$	2,450

ii. Revaluation Method for PP&E

When determining the carrying value of PP&E using the revaluation method, the company uses the following assumptions and estimates: the timing of forecasted revenues; future sales prices and associated expenses; future sales volumes; future regulatory rates; maintenance and other capital expenditures; discount rates; terminal capitalization rates; terminal valuation dates; useful lives; and residual values. Determination of the fair value of PP&E under development includes estimates in respect of the timing and cost to complete the development. This process is further discussed in Part 1 of this MD&A.

Renewable Power

Our renewable power facilities are classified as PP&E and are adjusted to fair value on an annual basis. Within our renewable power group, we take a discounted cash flow approach to value our assets, starting with our business plan as the basis for our cash flows. The approach is a 20-year discounted cash flow, with a terminal value that is determined, where appropriate, using the Gordon growth model for perpetual assets, such as hydroelectric facilities, and residual asset value for finite lived assets, such as wind farms. Key inputs into the model include forward merchant power prices, terminal capitalization and discount rates.

We take a bottom-up valuation approach, starting at the operating level with local professionals, involving multiple levels of review at the regional and business group senior management level. We assess the assumptions used in our models on an asset-by-asset basis; for example, our discount rates, which are adjusted based on asset level and regional considerations, are compared to those used by third-party valuers for reasonableness, while our capital expenditure forecasts rely on independent engineering reports commissioned from reputable third-party firms during underwriting or financings.

Estimated future energy pricing is a critical assumption in the valuation models. We consider the contract pricing for the proportion of our revenue that is subject to power purchase agreements. For the remaining pricing, referred to as merchant pricing, we use a mix of external data and our own estimates to derive the price curves.

Short-term merchant revenue forecasts consist of four years of externally sourced broker quotes in North America, two years of gas pricing in Europe, and a combination of short-term contracts and local market pricing in South America.

Long-term pricing is driven by the economics required to support new entrants into the various power markets in which we operate. Our long-term view is anchored to the cost of securing new energy from renewable sources to meet future demand growth by the year 2025 in North America and Colombia, 2023 in Europe, and 2021 in Brazil. The year of new entry is viewed as the point when generators must build additional capacity to maintain system reliability and provide an adequate level of reserve generation with the retirement of older coal-fired plants and rising environmental compliance costs in North America and Europe, and overall increasing demand in Colombia and Brazil. Once the year of new entrant is determined, data from industry sources, as well as inputs from our development teams, is used to model the all-in cost of the expected technology mix of new construction, and the resulting market price required to support its development. For the North American and European businesses, we have estimated our renewable assets will contract at discount to new-build wind prices (the most likely source of new renewable generation in those regions). In Brazil and Colombia, the estimate of future electricity prices is based on a similar approach as applied in North America using a forecast of the all-in cost of development.

Energy generation forecasts are based on LTA for which we have significant historical data. LTA for hydro facilities is based on third-party engineering reports commissioned during asset acquisitions and financing activities. These studies are based on statistical models supported by decades of historical river flow data. Similarly, LTA for wind facilities is based on third-party wind resource studies completed prior to construction or acquisition. LTA for co-gen and biomass facilities is based on fuel available and price, relative to revenue forecasts.

We also perform market comparisons at both the asset level, where we compare EBITDA multiples and value per MW to recent market transactions, and on a portfolio basis, where we compare the valuation multiples to our most comparable competitors in the market and the resulting book value of our equity after revaluation to our share price in the market. Specifically, we have noted from reviews of market transactions in the U.S. northeast that the multiples paid for the asset indicate that market participants likely share our view on escalating power prices in the region.

The results of the valuation are confirmed through the use of a third-party valuator which provides an opinion on the reasonableness of the valuation method and results. Each year we have a valuation report provided on approximately one-third of the assets, providing a reasonableness opinion in the range of +/- 10%. We compare our valuations to this report, along with other inputs, ensuring that they are within the reasonable range.

The revaluation of property, plant and equipment in our renewable power operations resulted in a \$374 million increase in the recorded fair value, primarily attributed to the accelerated realization of operating cash flows and operational improvements in our Brazilian business, offset by an increase in discount rates in North America.

The key valuation metrics of our hydro and wind generating facilities at the end of 2017 and 2016 are summarized below.

	North America		Brazil		Colombia		Europe	
AS AT DEC. 31	2017	2016	2017	2016	2017	2016	2017	2016
Discount rate								
Contracted	4.9 – 6.0%	4.8 – 5.5%	8.9%	9.2%	11.3%	n/a	4.1 – 4.5%	4.1 – 5.0%
Uncontracted	6.5 – 7.6%	6.6 – 7.2%	10.2%	10.5%	12.6%	n/a	5.9 – 6.3%	5.9 – 6.8%
Terminal capitalization rate ¹ ...	6.2 – 7.5%	6.3 – 6.9%	n/a	n/a	12.6%	n/a	n/a	n/a
Exit date	2037	2036	2032	2031	2037	n/a	2031	2031

1. The terminal capitalization rate applies only to hydroelectric assets in North America and Colombia

The following table presents the impact on fair value of property, plant and equipment in our Renewable Power segment as at December 31, 2017 from a 25-basis point change in discount and terminal capitalization rates, as well as a 5% change in electricity prices:

AS AT DEC. 31, 2017
(MILLIONS)

25 bps change in discount and terminal capitalization rates¹

North America.....	\$	977
Colombia.....		180
Brazil.....		50
Europe.....		20

5% change in electricity prices

North America.....	919
Colombia.....	310
Brazil.....	70
Europe.....	20

1. Terminal capitalization rate applies only to hydroelectric assets in in North America and Colombia

Terminal values are included in the valuation of hydroelectric assets in the United States and Canada. For the hydroelectric assets in Brazil, cash flows have been included based on the duration of the authorization or useful life of a concession asset without consideration of potential renewal value. The weighted-average remaining duration at December 31, 2017 is 15 years (2016 – 15 years). Consequently, there is no terminal value attributed to the hydroelectric assets in Brazil.

Infrastructure

We value the PP&E within our Infrastructure segment on an annual basis using the DCF approach. The majority of our infrastructure assets are subject to contractual and regulatory frameworks that underpin the cash flows. We will also include the benefits of development projects for existing in-place assets, to the extent that they have been determined to be feasible, typically by external parties, and have received the appropriate approvals. We are unable to include the benefits of development projects within our business that are not considered improvements to existing PP&E.

The valuations are determined using a bottom-up approach. The underlying cash flow models are derived by management of each business and are subject to detailed reviews as part of the business planning process. The DCF models supporting the revaluation process include a number of different inputs and variables. Controls around the DCF models include review of the supporting quantitative and qualitative analysis, as well as testing the mechanical accuracy thereof by appropriate finance personnel and investment professionals. The portfolio management team present the valuations to the infrastructure CEO, COO and CFO for approval.

As part of our process, we analyze comparable market transactions that we can consider for the purposes of benchmarking our analysis. Metrics such as the implied current year or forward-looking EBITDA multiples are reviewed against market transactions to assess whether our valuations are appropriate. On an overall segment level, we also assess whether the inputs used in the models are consistent amongst asset classes and geographies, where applicable, or that asset specific differences are supportable considering transactions in a given asset class or market.

We obtain third-party appraisals on the assets that are held through private funds on a three-year rotating basis. This covers approximately 65% of equity held by our infrastructure group. These appraisals are not directly utilized in the financial statements, rather they are used to confirm that management's assumptions in determining fair value are within a reasonable range.

On an aggregate basis, the value of the appraised assets is greater than the book value. This is primarily because a significant portion of our infrastructure operation's assets such as public service concessions are classified as intangible assets. These intangible assets are carried at amortized cost, subject to impairment tests, and are amortized over their useful lives. In addition, we have contracted growth projects within our businesses that cannot be included in IFRS fair value, unless these relate to improvements on existing PP&E.

The revaluation of PP&E within our Infrastructure segment resulted in a \$430 million increase in the value of our infrastructure assets in 2017. The increase was primarily due to growth capital deployed in the year, higher cash flows in our U.K. regulated distribution business and increased volumes following the completion of development initiatives across the portfolio.

The key valuation metrics of our utilities, transport and energy operations are summarized below:

AS AT DEC. 31	Utilities		Transport		Energy	
	2017	2016	2017	2016	2017	2016
Discount rate	7 – 12%	7 – 12%	10 – 15%	10 – 17%	12 – 15%	9 – 14%
Terminal capitalization multiples.....	7x – 21x	7x – 18x	9x – 14x	8x – 14x	8x – 13x	10x – 12x
Investment horizon / Termination valuation date (years).....	10 – 20	10 – 20	10 – 20	10 – 20	10	10

Real Estate

Real estate's PP&E assets primarily consist of hotel and resort operations, and these hospitality properties are accounted for under the revaluation model. Fair values of hospitality properties are determined internally on an annual basis using the depreciated replacement cost method, which factors in age, physical condition and construction costs of the properties. Fair values of hospitality properties are also reviewed in reference to each hospitality asset's enterprise value which is determined using a discounted cash flow model. These valuations are generally prepared by external valuation professionals using information provided by management of the operating business. The fair value estimates for hospitality properties represent the estimated fair value of the property, plant and equipment of the hospitality business only and do not include, for example, any associated intangible assets.

Revaluation within our real estate PP&E increased the fair value of our hospitality assets by \$59 million. The increase was due capital improvements completed during the year, which improved the physical condition and replacement cost of the properties.

Private Equity

PP&E assets included within our private equity operations are recorded at amortized historic cost or the lower of cost and net realizable value. PP&E in our private equity operations decreased by \$863 million primarily due to the deconsolidation of Norbord, sales of two subsidiaries and depreciation expenses, partially offset by increases through acquisitions of subsidiaries made during the year.

iii. Sustainable Resources

The fair value of standing timber and agricultural assets is based on the following estimates and assumptions: the timing of forecasted revenues and prices; estimated selling costs; sustainable felling plans; growth assumptions; silviculture costs; discount rates; terminal capitalization rates; and terminal valuation dates.

iv. Financial Instruments

Financial assets, financial contracts and other contractual arrangements that are treated as derivatives are recorded at fair value in our financial statements and changes in their value are recorded in net income or other comprehensive income, depending on their nature and business purpose. The more significant and more common financial contracts and contractual arrangements employed in our business that are fair valued include: interest rate contracts, foreign exchange contracts, and agreements for the sale of electricity. Financial assets and liabilities may be classified as level 1, 2 or 3 in the fair value hierarchy. Refer to Note 6 – Fair Value of Financial Instruments within the notes to the financial statements for additional information.

Estimates and assumptions used in determining the fair value of financial instruments are: equity and commodity prices; future interest rates; the credit worthiness of the company relative to its counterparties; the credit risk of the company's counterparties; estimated future cash flows; the amount of the liability and equity components of compound financial instruments; discount rates and volatility utilized in option valuations.

v. Inventory

The company estimates the net realizable value of its inventory using estimates and assumptions about future selling prices and future development costs.

vi. Other

Other estimates and assumptions utilized in the preparation of the company's consolidated financial statements are: the assessment or determination of net recoverable amount; oil and gas reserves; depreciation and amortization rates and useful lives; estimation of recoverable amounts of cash-generating units for impairment assessments of goodwill and intangible assets; ability to utilize tax losses and other tax measurements; fair value of assets held as collateral and the percentage of completion for construction contracts. Equity accounted investment, which follow the same accounting principles as our consolidated operations, include amounts recorded at fair value and amounts recorded at amortized cost or cost, depending on the nature of the underlying assets.

Accounting Judgments

Management is required to make critical judgments when applying its accounting policies. The following judgments have the most significant effect on the consolidated financial statements:

i. Control or Level of Influence

When determining the appropriate basis of accounting for the company's investees, the company makes judgments about the degree of influence that the company exerts directly or through an arrangement over the investees' relevant activities. This may include the ability to elect investee directors or appoint management. Control is obtained when the company has the power to direct the relevant investing, financing and operating decisions of an entity and does so in its capacity as principal of the operations, rather than as an agent for other investors. Operating as a principal includes having sufficient capital at risk in any investee and exposure to the variability of the returns generated by the decisions of the company as principal. Judgment is used in determining the sufficiency of the capital at risk or variability of returns. In making these judgments, the company considers the ability of other investors to remove the company as a manager or general partner in a controlled partnership.

ii. Investment Properties

When applying the company's accounting policy for investment properties, judgment is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property.

iii. Property, Plant and Equipment

The company's accounting policy for its PP&E requires critical judgments over the assessment of its carrying value, whether certain costs are additions to the carrying amount of the PP&E as opposed to repairs and maintenance, and for assets under development the identification of when the asset is capable of being used as intended and identifying the directly attributable borrowing costs to be included in the asset's carrying value.

For assets that are measured using the revaluation method, judgment is required when estimating future prices, volumes and discount and capitalization rates. Judgment is applied when determining future electricity prices considering market data for years that a liquid market is available and estimates of electricity prices from renewable sources that would allow new entrants into the market in subsequent years.

iv. Common Control Transactions

The purchase and sale of businesses or subsidiaries between entities under common control are not specifically addressed in the IFRS and accordingly, management uses judgment when determining a policy to account for such transactions taking into consideration other guidance in the IFRS framework and pronouncements of other standard-setting bodies. The company's policy is to record assets and liabilities recognized as a result of transfers of businesses or subsidiaries between entities under common control at carrying value. Differences between the carrying amount of the consideration given or received and the carrying amount of the assets and liabilities transferred are recorded directly in equity.

v. Indicators of Impairment

Judgment is applied when determining whether indicators of impairment exist when assessing the carrying values of the company's assets, including: the determination of the company's ability to hold financial assets; the estimation of a cash-generating unit's future revenues and direct costs; the determination of discount and capitalization rates; and when an asset's carrying value is above the value derived using publicly traded prices which are quoted in a liquid market.

vi. Income Taxes

The company makes judgments when determining the future tax rates applicable to subsidiaries and identifying the temporary difference that relate to each subsidiary. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the assets are realized, or the liabilities settled, using the tax rates and laws enacted or substantively enacted at the consolidated balance sheet dates. The company measures deferred income taxes associated with its investment properties based on its specific intention with respect to each asset at the end of the reporting period. Where the company has a specific intention to sell a property in the foreseeable future, deferred taxes on the building portion of an investment property are measured based on the tax consequences following from the disposition of the property. Otherwise, deferred taxes are measured on the basis that the carrying value of the investment property will be recovered substantially through use.

vii. Classification of Non-Controlling Interests in Limited-Life Funds

Non-controlling interests in limited-life funds are classified as liabilities (interests of others in consolidated funds) or equity (non-controlling interests) depending on whether an obligation exists to distribute residual net assets to non-controlling interests on liquidation in the form of cash or other financial assets or assets delivered in kind. Judgment is required to determine what the governing documents of each entity require or permit in this regard.

viii. Other

Other critical judgments include the determination of effectiveness of financial hedges for accounting purposes; the likelihood and timing of anticipated transactions for hedge accounting and the determination of functional currency.

MANAGEMENT REPRESENTATIONS AND INTERNAL CONTROLS

Assessment and Changes in Internal Control Over Financial Reporting

Management has evaluated the effectiveness of the company's internal control over financial reporting as of December 31, 2017 and based on that assessment concluded that, as of December 31, 2017, our internal control over financial reporting was effective. Refer to Management's Report on Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in the applicable U.S. and Canadian securities laws) as of December 31, 2017. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective as of December 31, 2017 in providing reasonable assurance that material information relating to the company and our consolidated subsidiaries would be made known to them by others within those entities.

Declarations Under the Dutch Act of Financial Supervision

The members of the Corporate Executive Board, as defined in the Dutch Act of Financial Supervision ("Dutch Act"), as required by section 5:25c, paragraph 2, under c of the Dutch Act confirm that to the best of their knowledge:

- The 2017 consolidated financial statements accompanied by this MD&A give a true and fair view of the assets, liabilities, financial position, and profit or loss of the company and the undertakings included in the consolidated financial statements taken as whole; and
- The management report included in this MD&A gives a true and fair review of the information required under the Dutch Act regarding the company and the undertakings included in the consolidated financial statements taken as a whole as of December 31, 2017, and of the development and performance of the business for the financial year then ended.

RELATED PARTY TRANSACTIONS

In the normal course of operations, we enter into transactions on market terms with related parties, including consolidated and equity accounted entities, which have been measured at exchange value and are recognized in the consolidated financial statements, including, but not limited to: manager or partnership agreements; base management fees, performance fees and incentive distributions; loans, interest and non-interest bearing deposits; power purchase and sale agreements; capital commitments to private funds; the acquisition and disposition of assets and businesses; derivative contracts; and the construction and development of assets.

The only significant related party transactions of the corporation during the years ended December 31, 2017 and 2016 is as follows:

- In connection with our open-ended real estate fund launched in 2016, BPY contributed certain operating buildings and development projects for net proceeds of approximately \$500 million, which was received in the form of cash and limited partner interest in the fund. We are the general partner of the fund and will earn fees for the management of this fund. This fund is equity accounted for in the consolidated financial statements of the company.

PART 6 – BUSINESS ENVIRONMENT AND RISKS

This section contains a review of certain aspects of the business environment and risks that could affect our performance.

The following is a review of certain risks that could materially adversely impact our business, financial condition, results of operations, cash flows and the value of our securities. Additional risks and uncertainties not previously known to the company, or that the company currently deems immaterial, may also impact our operations and financial results.

a) Volatility in the Trading Price of Our Class A Shares

The trading price of our Class A shares is subject to volatility due to market conditions and other factors and cannot be predicted.

Our shareholders may not be able to sell their Class A shares at or above the price at which they purchased such shares due to trading price fluctuations in the capital markets. The trading price could fluctuate significantly in response to factors both related and unrelated to our operating performance and/or future prospects, including, but not limited to: (i) variations in our operating results and financial condition; (ii) actual or prospective changes in government laws, rules or regulations affecting our businesses; (iii) material announcements by us, our affiliates or our competitors; (iv) market conditions and events specific to the industries in which we operate; (v) changes in general economic conditions; (vi) changes in the values of our investments (including in the market price of our publicly traded affiliates) or changes in the amount of distributions, dividends or interest paid in respect of investments; (vii) differences between our actual financial and operating results and those expected by investors and analysts; (viii) changes in analysts' recommendations or earnings projections; (ix) changes in the extent of analysts' interest in covering the corporation and its publicly traded affiliates; (x) the depth and liquidity of the market for our Class A shares; (xi) dilution from the issuance of additional equity; (xii) investor perception of our businesses and the industries in which we operate; (xiii) investment restrictions; (xiv) our dividend policy; (xv) the departure of key executives; (xvi) sales of Class A shares by senior management or significant shareholders; and (xvii) the materialization of other risks described in this section.

b) Reputation

Actions or conduct that have a negative impact on clients' or stakeholders' perception of us could adversely impact our ability to attract and/or retain client capital.

The growth of our asset management business relies on continuous fundraising for various private and public investment products. We depend on our business relationships and our reputation for integrity and high-calibre asset management services to attract and retain investors and advisory clients, and to pursue investment opportunities for us and the public and private entities we manage. If we are unable to continue to raise capital from third-party investors, either privately, publicly or both, and otherwise are unable to pursue our investment opportunities, this could materially reduce our revenue and cash flow and adversely affect our financial condition.

Poor performance of any kind could damage our reputation with current and potential investors in our managed entities, making it more difficult for us to raise new capital. Investors may decline to invest in current and future managed entities and may withdraw their investments from our managed entities as a result of poor performance in the entity in which they are invested, and investors in our private funds may demand lower fees for new or existing funds, all of which would decrease our revenue.

Because of our various lines of businesses and investment products, some of which have overlapping mandates, we may be subject to a number of actual, potential or perceived conflicts of interest greater than that to which we would otherwise be subject if we had just one line of business or investment product. These conflicts may be magnified for an asset manager that has many different capital sources available to pursue investment opportunities, including client capital and the corporation's own capital. In addition, the senior management team of the corporation and its affiliates has their own capital invested in Class A shares, directly and indirectly, and may have financial exposures with respect to their own investments which could lead to potential conflicts if such investments are similar to those made by the corporation or on behalf of clients in entities managed by the corporation. In addressing these conflicts, we have implemented certain policies and procedures that may be ineffective at mitigating actual, potential or perceived conflicts of interest, or reduce the positive synergies that we cultivate across our businesses. It is also possible that actual, potential or perceived conflicts of interest could give rise to investor dissatisfaction, litigation, regulatory enforcement actions or other detrimental outcomes. Appropriately dealing with conflicts of interest for an asset manager like us is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with actual, potential or perceived conflicts of interest. There has been enhanced regulatory scrutiny of asset manager conflicts in the markets in which we operate and in the U.S. in particular. Such regulatory scrutiny can lead to fines, penalties and other negative consequences. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation, business, financial condition or results of operations in a number of ways, including an inability to adequately capitalize existing managed entities or raise new managed entities, including private funds, and a reluctance of counterparties to do business with us.

The governing agreements of our private funds provide that, subject to certain conditions, third-party investors in these funds will have the right to remove us as general partner or to accelerate the liquidation date of the fund for convenience. Any negative impact to our reputation would be expected to increase the likelihood that a private fund could be terminated by investors for convenience. This effect would be magnified if, as is often the case, an investor is invested in more than one fund. Such an event, were it to occur, would result in a reduction in the fees we would earn from such fund, particularly if we are unable to maximize the value of the fund's investments during the liquidation process or in the event of the triggering of a "clawback" for fees already paid out to us as general partner.

We could be negatively impacted if there is misconduct or alleged misconduct by our personnel or those of our portfolio companies in which we and our managed entities invest, including historical misconduct prior to our investment. Risks associated with misconduct at our portfolio companies is heightened in cases where we do not have legal control or significant influence over a particular portfolio company or are not otherwise involved in actively managing a portfolio company. In such situations, given our ownership position and affiliation with the portfolio company we may still be negatively impacted from a reputational perspective through this association. In addition, even where we have control over a portfolio company if it is a newly acquired portfolio company that we are in the process of integrating then we may face reputational risks related to historical or current misconduct or alleged misconduct at such portfolio company for a period of time. We may also face increased risk of misconduct to the extent our capital allocated to emerging markets and distressed companies increases. If we face allegations of improper conduct by private litigants or regulators, whether the allegations are valid or invalid or whether the ultimate outcome is favorable or unfavorable to us, such allegations may result in negative publicity and press speculation about us, our investment activities or the asset management industry in general, which could harm our reputation and may be more damaging to our business than to other types of businesses.

We are subject to a number of obligations and standards arising from our asset management business and our authority over the assets we manage. The violation of these obligations and standards by any of our employees may adversely affect our partners and our business and reputation. Our business often requires that we deal with confidential matters of great significance to the companies in which we may invest and to other third parties. If our employees were to improperly use or disclose confidential information, or a security breach results in an inadvertent disclosure of such information, we could suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to detect or deter employee misconduct or security breaches, and the precautions we take in this regard may not be effective.

Implementation of new investment and growth strategies involves a number of risks that could result in losses and harm our professional reputation, including the risk that the expected results are not achieved, that new strategies are not appropriately planned for or integrated, that new strategies may conflict, detract from or compete against our existing businesses, and that the investment process, controls and procedures that we have developed will prove insufficient or inadequate. Furthermore, our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under our complete control or under the control of another.

c) Asset Management

Investment returns could be lower than target returns due to inappropriate allocation of capital or ineffective investment management, or growth in fee bearing capital could be adversely impacted by poor product development or marketing efforts.

Our value investing strategy focuses on acquiring high-quality businesses on a value basis, executing operational improvements and exiting through a competitive process that optimizes value. The successful execution of our investing strategy is uncertain as it requires suitable opportunities, careful timing and business judgment, as well as the resources to complete asset purchases and restructure them, if required, notwithstanding difficulties experienced in a particular industry.

Our approach to investing entails adding assets to our existing businesses when the competition for assets is weakest; typically, when depressed economic conditions exist in the market relating to a particular entity or industry. Such an investing style carries with it inherent risks when investments are made in either markets or industries that are undergoing some form of dislocation. In addition, there is no certainty that we will be able to identify suitable or sufficient opportunities that meet our investment criteria and be able to acquire additional high-quality assets at attractive prices to supplement our growth in a timely manner, or at all. We may fail to value opportunities accurately or to consider all relevant factors that may be necessary or helpful in evaluating an opportunity, or we may underestimate the costs necessary to bring an acquisition up to standards established for its intended market position, may be exposed to unexpected risks and costs associated with our investments, and/or be unable to quickly and effectively integrate new acquisitions into our existing operations or exit from the investment on favorable terms.

In addition, liabilities may exist that we or our managed entities do not discover in due diligence prior to the consummation of an acquisition, or circumstances may exist with respect to the entities or assets acquired that could lead to future liabilities and, in each case, we or our managed entities may not be entitled to sufficient, or any, recourse against the contractual counterparties to an acquisition. The failure of a newly acquired business to perform according to expectations could have a material adverse effect on our assets, liabilities, business, financial condition, results of operations and cash flows. Alternatively, we may be required to sell a business before it has realized our expected level of returns for such business.

We pursue investment opportunities that involve business, regulatory, legal and other complexities. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time consuming to finance and execute, and have a higher risk of execution failure. It can also be more difficult to manage or realize value from the assets acquired in such transactions and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities.

If any of our managed entities perform poorly, our fee-based revenue and cash flows would decline. Moreover, we could experience losses on our own capital invested in our managed entities. Certain of our investments may be concentrated in particular asset types or geographic regions, which could exacerbate any negative performance of one or more of our managed entities to the extent those concentrated investments are in assets or regions that experience a market dislocation.

Competition from other asset managers for raising public and private capital is intense, with competition based on a variety of factors, including investment performance, the quality of service provided to clients, investor liquidity and willingness to invest, and reputation. Poor investment performance could hamper our ability to compete for these sources of capital or force us to reduce our management fees. If poor investment returns or changes in investment mandates prevent us from raising further capital from our existing partners, we may need to identify and attract new investors in order to maintain or increase the size of our private funds, and there are no assurances that we can find new investors. Certain institutional investors may prefer to in source and make direct investments; therefore, becoming competitors and ceasing to be clients and/or make new capital commitments. If we cannot raise capital from third-party investors, we may be unable to deploy capital into investments and collect management fees, and potentially collect transaction fees or carried interest, which would materially reduce our revenue and cash flows and adversely affect our financial condition.

In pursuing investment returns, we and our managed entities face competition from other investors. Each of our businesses is subject to competition in varying degrees and our competitors may have certain competitive advantages over us. Some of our competitors may have higher risk tolerances, different risk assessments, lower return thresholds, a lower cost of capital, or a lower effective tax rate (or no tax rate at all), all of which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments. We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by our competitors, some of whom may have synergistic businesses which allow them to consider bidding a higher price than we can reasonably offer. Moreover, if we are forced to compete with other investment firms on the basis of price, we may not be able to maintain our current asset management fee structures, including with respect to base management fees, carried interest or other terms. Some of our competitors may be more successful than us in the development and implementation of new or alternative technology that impacts the demand for, or use of, the businesses or assets that we own and operate. These pressures could reduce investment returns and negatively affect our overall results of operations, cash flows and financial condition. While we attempt to deal with competitive pressures by leveraging our asset management strengths and operating capabilities and compete on more than just price, there is no guarantee these measures will be successful, and we may have difficulty competing for investment opportunities, particularly those offered through auction or other competitive processes.

d) Temporary Investments

We may be unable to syndicate, assign or transfer financial commitments entered into in support of our asset management franchise.

We periodically enter into agreements that commit us to acquire assets or securities in order to support our asset management franchise. For example, we may acquire an asset suitable for a particular managed entity that we are fundraising and warehouse that asset through the fundraising period before transferring the asset to the managed entity for which it was intended. Or, as another example, for a particular acquisition transaction we may commit capital as part of a consortium alongside certain of our managed entities with the expectation that we will syndicate or assign all or a portion of our own commitment to other investors prior to, at the same time as, or subsequent to, the anticipated closing of the transaction. In all of these cases, our support is intended to be of a temporary nature and we engage in this activity in order to further the growth and development of our asset management franchise. By leveraging the corporation's financial position to make temporary investments we can execute on investment opportunities prior to obtaining all third-party equity financing that we seek, and these opportunities may otherwise not be available without the corporation's initial equity participation.

While it is often our intention in these arrangements that the corporation's direct participation be of a temporary nature, we may be unable to syndicate, assign or transfer our interest as we intended and be required to take or keep ownership of an asset for an extended period. This would increase the amount of our own capital deployed to certain assets and could have an adverse impact on our liquidity, which may reduce our ability to pursue further acquisitions or meet other financial commitments.

e) Laws, Rules and Regulations

Failure to comply with regulatory requirements could result in financial penalties, loss of business, and/or damage to our reputation.

There are many laws, governmental rules and regulations and listing exchange rules that apply to us, our affiliates, our assets and our businesses. Changes in these laws, rules and regulations, or their interpretation by governmental agencies or the courts, could adversely affect our business, assets or prospects, or those of our affiliates, customers, clients or partners. The failure of us or our publicly listed affiliates to comply with these laws, rules and regulations, or with the rules and registration requirements of the respective stock exchanges on which we and they are listed could adversely affect our reputation and financial condition.

Our asset management business, including our investment advisory and broker-dealer business, is subject to substantial and increasing regulatory compliance and oversight, and this higher level of scrutiny may lead to more regulatory enforcement actions. There continues to be uncertainty regarding the appropriate level of regulation and oversight of asset management businesses in a number of jurisdictions in which we operate. The financial services industry recently has been the subject of heightened scrutiny, and the SEC has specifically focused on asset managers. The introduction of new legislation and increased regulation may result in increased compliance costs and could materially affect the manner in which we conduct our business and adversely affect our profitability. Although there may be some areas where governments in certain jurisdictions, including the United States, have proposed de-regulation, it is difficult to predict the timing and impact of any such de-regulation, and we may not materially benefit from any such changes.

Our asset management business is not only regulated in the United States, but also in other jurisdictions where we conduct operations including the EU, the U.K., Canada, Brazil and Australia. Similar to the environment in the U.S., the current environment in jurisdictions outside the U.S. in which we operate has become subject to further regulation. Governmental agencies around the world have proposed or implemented a number of initiatives and additional rules and regulations that could adversely affect our asset management business, and governmental agencies may propose or implement further regulations in the future. These regulations may impact how we market our managed entities in these jurisdictions and introduce compliance obligations with respect to disclosure and transparency, as well as restrictions on investor distributions. Such regulations may also prescribe certain capital requirements on our managed entities, and conditions on the leverage our managed entities may employ and the liquidity these managed entities must have. Compliance with additional regulatory requirements will impose additional compliance burdens and expense for us and could reduce our operating flexibility and fundraising opportunities.

We acquire and develop primarily real estate, renewable power, infrastructure, business services and industrial assets. In doing so, we must comply with extensive and complex municipal, state or provincial, national and international regulations. These regulations can result in uncertainty and delays, and impose on us additional costs, which may adversely affect our results of operations. Changes in these laws may negatively impact us and our businesses or may benefit our competitors or their businesses.

Additionally, liability under such laws, rules and regulations may occur without our fault. In certain cases, parties can pursue legal actions against us to enforce compliance as well as seek damages for non-compliance or for personal injury or property damage. Our insurance may not provide sufficient coverage in the event that a successful claim is made against us.

Our broker-dealer business is regulated by the SEC, the various Canadian provincial securities commissions, as well as self-regulatory organizations. These regulatory bodies may conduct administrative or enforcement proceedings that can result in censure, fine, suspension or expulsion of a broker-dealer, its directors, officers or employees. Such proceedings, whether or not resulting in adverse findings, can require substantial expenditures and can have an adverse impact on the reputation of a broker dealer.

The advisors of certain of our managed entities are registered as investment advisors with the SEC. Registered investment advisors are subject to the requirements and regulations of the Investment Advisers Act of 1940, which grants U.S. supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with laws or regulations. If such powers are exercised, the possible sanctions that may be imposed include the suspension of individual employees, limitations on the activities in which the investment advisor may engage, suspension or revocation of the investment advisor's registration, censure and fines. Compliance with these requirements and regulations results in the expenditure of resources, and a failure to comply could result in investigations, financial or other sanctions, and reputational damage.

The Investment Company Act of 1940 (the "40 Act") and the rules promulgated thereunder provide certain protections to investors and impose certain restrictions on entities that are deemed "investment companies" under the 40 Act. We are not currently, nor do we intend to become registered as an investment company under the 40 Act. To ensure that we are not deemed to be an investment company, we may be required to materially restrict or limit the scope of our operations or plans and the types of acquisitions that we may make; and we may need to modify our organizational structure or dispose of assets that we would not otherwise dispose of. If we were required to register as an investment company, we would, among other things, be restricted from engaging in certain business activities (or have conditions placed on our business activities) and issuing certain securities, be required to limit the amount of investments that we make as principal and face other limitations on our activities.

f) Governmental Investigations and Anti-Bribery and Corruption

Our policies and procedures designed to ensure compliance with applicable laws, including anti-bribery and corruption laws, may not be effective in all instances to prevent violations and as a result we may be subject to related governmental investigations.

We are from time to time subject to various governmental investigations, audits and inquiries, both formal and informal. These investigations, regardless of their outcome, can be costly, divert management attention, and damage our reputation. The unfavorable resolution of such investigations could result in criminal liability, fines, penalties or other monetary or non-monetary sanctions and could materially affect our business or results of operations.

There is an increasing global focus on the implementation and enforcement of anti-bribery and corruption legislation, and this focus has heightened the risks that we face in this area, particularly as we expand our operations globally. We are subject to a number of laws and regulations governing payments and contributions to public officials or other third parties, including restrictions imposed by the U.S. Foreign Corrupt Practices Act and similar laws in non-U.S. jurisdictions, such as the U.K. Bribery Act and the Canadian Corruption of Foreign Public Officials Act. This increased global focus on anti-bribery and corruption enforcement may also lead to more investigations, both formal and informal in this area, the results of which cannot be predicted.

Different laws and regulations that are applicable to us may contain conflicting provisions, making our compliance more difficult. If we fail to comply with such laws and regulations, we could be exposed to claims for damages, financial penalties, reputational harm, incarceration of our employees, restrictions on our operations and other liabilities, which could negatively affect our operating results and financial condition. In addition, we may be subject to successor liability for violations under these laws and regulations or other acts of bribery committed by entities in which we or our managed entities invest.

Instances of bribery, fraud, accounting irregularities and other improper, illegal or corrupt practices can be difficult to detect, in particular when conducting due diligence in connection with acquisitions, and fraud and other deceptive practices can be widespread in certain jurisdictions. We invest in emerging market countries that may not have established stringent anti-bribery and corruption laws and regulations, where existing laws and regulations may not be consistently enforced, or that are perceived to have materially higher levels of corruption according to international rating standards. Due diligence on investment opportunities in these jurisdictions is frequently more challenging because consistent and uniform commercial practices in such locations may not have developed or do not meet international standards. Bribery, fraud, accounting irregularities and corrupt practices can be especially difficult to detect in such locations. When acquiring assets in distress, the quality of financial information of the target may also make it difficult to identify irregularities.

g) Foreign Exchange

Foreign exchange rate fluctuations could adversely impact our aggregate foreign currency exposure.

We have pursued and intend to continue to pursue growth opportunities in international markets, and often invest in countries where the U.S. dollar is not the local currency. As a result, we are subject to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. A significant depreciation in the value of the currency utilized in one or more countries where we have a significant presence may have a material adverse effect on our results of operations and financial position. In addition, we are active in certain markets whose economic growth is dependent on the price of commodities and the currencies in these markets can be more volatile as a result.

Our businesses are impacted by changes in currency rates, interest rates, commodity prices and other financial exposures. We selectively utilize financial instruments to manage these exposures, including credit default swaps and other derivatives to hedge certain of our financial positions. However, a significant portion of these risks may remain unhedged. We may also choose to establish unhedged positions in the ordinary course of business.

There is no assurance that hedging strategies, to the extent they are used, will fully mitigate the risks they are intended to offset. Additionally, derivatives that we use are also subject to their own unique set of risks, including counterparty risk with respect to the financial well-being of the party on the other side of these transactions and a potential requirement to fund mark-to-market adjustments. Our financial risk management policies may not ultimately be effective at managing these risks.

The Dodd-Frank Act and similar laws in other jurisdictions impose rules and regulations governing oversight of the over-the-counter derivatives market and its participants. These regulations may impose additional costs and regulatory scrutiny on us. If our derivative transactions are required to be executed through exchanges or regulated facilities, we will face incremental collateral requirements in the form of initial margin and require variation margin to be cash settled on a daily basis. Such an increase in margin requirements (relative to bilateral agreements), were it to occur, perhaps combined with a more restricted list of securities that qualify as eligible collateral, would require us to hold larger positions in cash and treasuries, which could reduce income.

We cannot predict the effect of changing derivatives legislation on our hedging costs, our hedging strategy or its implementation, or the risks that we hedge. Regulation of derivatives may increase the cost of derivative contracts, reduce the availability of derivatives to protect against operational risk and reduce the liquidity of the derivatives market, all of which may reduce our use of derivatives and result in the increased volatility and decreased predictability of our cash flows.

h) Interest Rates

Rising interest rates could increase our interest costs.

A number of our long-life assets are interest rate sensitive. Increases in interest rates will, absent all else, decrease the value of an asset by reducing the present value of the cash flows expected to be produced by such asset. As the value of an asset declines as a result of interest rate increases, certain financial and other covenants under credit agreements governing such asset could be breached, even if we have satisfied and continue to satisfy our payment obligations. Such a breach could result in negative consequences on our financial performance and results of operations.

Additionally, any of our debt or preferred shares that are subject to variable interest rates, either as an obligation with a variable interest rate or as an obligation with a fixed interest rate that resets into a variable interest rate in the future, are subject to interest rate risk. Further, the value of any debt or preferred share that is subject to a fixed interest rate will be determined based on the prevailing interest rates and, accordingly, this type of debt or preferred share is also subject to interest rate risk.

In addition, interest rates remain at low levels in many jurisdictions in which we operate. These rates may remain relatively low, but they may rise significantly at some point in the future, either gradually or abruptly. A sudden or unexpected increase in interest rates may cause certain market dislocations that could negatively impact our financial performance. Interest rate increases would also increase the amount of cash required to service our obligations and our earnings could be adversely impacted.

i) Financial and Liquidity

Cash may not be available to meet our financial obligations when due or enable us to capitalize on investment opportunities when they arise.

We employ debt and other forms of leverage in the ordinary course of business to enhance returns to our investors and finance our operations. We are therefore subject to the risks associated with debt financing and refinancing, including but not limited to the following: (i) our cash flow may be insufficient to meet required payments of principal and interest; (ii) payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses and dividends; (iii) if we are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at high interest rates or on other unfavorable terms, we may have difficulty completing acquisitions or may generate profits that are lower than would otherwise be the case; (iv) we may not be able to refinance indebtedness at maturity due to company and market factors such as the estimated cash flow produced by our assets, the value of our assets, liquidity in the debt markets, and/or financial, competitive, business and other factors; and (v) if we are able to refinance our indebtedness, the terms of a refinancing may not be as favorable as the original terms for such indebtedness. If we are unable to refinance our indebtedness on acceptable terms, or at all, we may need to utilize available liquidity, which would reduce our ability to pursue new investment opportunities, or we may need to dispose of one or more of our assets on disadvantageous terms, or raise equity causing dilution to existing shareholders. Regulatory changes may also result in higher borrowing costs and reduced access to credit.

The terms of our various credit agreements and other financing documents require us to comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios, adequate insurance coverage and certain credit ratings. These covenants may limit our flexibility in conducting our operations and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness, even if we have satisfied and continue to satisfy our payment obligations.

A large proportion of our capital is invested in physical assets and securities that can be hard to sell, especially if market conditions are poor. Further, because our investment strategy can entail our having representation on public portfolio company boards, we may be restricted in our ability to effect sales during certain time periods. A lack of liquidity could limit our ability to vary our portfolio or assets promptly in response to changing economic or investment conditions. Additionally, if financial or operating difficulties of other owners result in distress sales, such sales could depress asset values in the markets in which we operate. The restrictions inherent in owning physical assets could reduce our ability to respond to changes in market conditions and could adversely affect the performance of our investments, our financial condition and results of operations.

Because there is significant uncertainty in the valuation of, or in the stability of the value of illiquid or non-public investments, the fair values of such investments do not necessarily reflect the prices that would actually be obtained when such investments are realized. Realizations at values significantly lower than the values at which investments have been recorded would result in losses, a decline in asset management fees and the potential loss of carried interest and incentive fees.

We enter into financing commitments in the normal course of business, which we may be required to fund. Additionally, in the ordinary course of business we guarantee the obligations of other entities that we manage and/or invest in. If we are required to fund these commitments and are unable to do so, this could result in damages being pursued against us or a loss of opportunity through default under contracts that are otherwise to our benefit.

j) Human Capital

Ineffective maintenance of our culture, or ineffective management of human capital could adversely impact our asset management business.

In all of our markets, we face competition in connection with the attraction and retention of qualified employees. Our ability to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees. If we are unable to attract and retain qualified employees this could limit our ability to compete successfully and achieve our business objectives, which could negatively impact our business, financial condition and results of operations.

Our senior management team has a significant role in our success and oversees the execution of our value investing strategy. Our ability to retain and motivate our management team or attract suitable replacements should any members of our management team leave is dependent on, among other things, the competitive nature of the employment market and the career opportunities and compensation that we can offer.

We may experience departures of key professionals in the future. We cannot predict the impact that any such departures will have on our ability to achieve our objectives, and such departures could adversely impact our financial condition and cash flow. Competition for the best human capital is intense and the loss of services from key members of the management team or a limitation in their availability could adversely impact our financial condition and cash flow. Furthermore, such a loss could be negatively perceived in the capital markets. Our human capital risks may be exacerbated by the fact that we do not maintain any key person insurance.

Our senior management team possesses substantial experience and expertise and has strong business relationships with investors in our managed entities and other members of the business communities and industries in which we operate. As a result, the loss of these personnel could jeopardize our relationships with investors in our managed entities and other members of the business communities and industries in which we operate and result in the reduction of our assets under management or fewer investment opportunities. The conduct of our businesses and the execution of our strategy rely heavily on teamwork. Our continued ability to respond promptly to opportunities and challenges as they arise depends on co-operation and co-ordination across our organization and our team-oriented management structure, which may not materialize in the way we expect.

A portion of the workforce in some of our businesses is unionized. If we are unable to negotiate acceptable collective bargaining agreements with any of our unions, as existing agreements expire we could experience a work stoppage, which could result in a significant disruption to the affected operations, higher ongoing labor costs and restrictions on our ability to maximize the efficiency of our operations, all of which could have an adverse effect on our financial results.

k) Geopolitical

Political instability, changes in government policy, or unfamiliar cultural factors could adversely impact the value of our investments.

We are subject to geopolitical uncertainties in all jurisdictions in which we operate, including North America. We also make investments in businesses that are based outside of North America and we may pursue investments in unfamiliar markets, which may expose us to additional risks not typically associated with investing in North America. We may not properly adjust to the local culture and business practices in such markets, and there is the prospect that we may hire personnel or partner with local persons who might not comply with our culture and ethical business practices; either scenario could result in the failure of our initiatives in new markets and lead to financial losses for us and our managed entities. There are risks of political instability in several of our major markets and in other parts of the world in which we conduct business, including, for example, the Korean Peninsula, from factors such as political conflict, income inequality, refugee migration, terrorism, the potential break-up of political-economic unions (or the departure of a union member — e.g., Brexit) and political corruption; the materialization of one or more of these risks could negatively affect our financial performance. For example, although the long-term impact on economic conditions is uncertain, Brexit may have an adverse effect on the rate of economic growth in the U.K. and continental Europe.

Any existing or new operations may be subject to significant political, economic and financial risks, which vary by country, and may include: (i) changes in government policies, including protectionist policies, or personnel; (ii) changes in general economic conditions; (iii) restrictions on currency transfer or convertibility; (iv) changes in labor relations; (v) political instability and civil unrest; (vi) less developed or efficient financial markets than in North America; (vii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements; (viii) less government supervision and regulation; (ix) a less developed legal or regulatory environment; (x) heightened exposure to corruption risk; (xi) political hostility to investments by foreign investors; (xii) less publicly available information in respect of companies in non-North American markets; (xiii) adversely higher or lower rates of inflation; (xiv) higher transaction costs; (xv) difficulty in enforcing contractual obligations and expropriation or confiscation of assets; and (xvi) fewer investor protections.

Unforeseen political events in markets where we own and operate assets and may look to for further growth of our businesses, such as the U.S., Brazil, European and Asian markets, may create economic uncertainty that has a negative impact on our financial performance. Such uncertainty could cause disruptions to our businesses, including affecting the business of and/or our relationships with our customers and suppliers, as well as altering the relationship among tariffs and currencies, including the value of the British pound and the Euro relative to the U.S. dollar. Disruptions and uncertainties could adversely affect our financial condition, operating results and cash flows. In addition, political outcomes in the markets in which we operate may also result in legal uncertainty and potentially divergent national laws and regulations, which can contribute to general economic uncertainty. Economic uncertainty impacting us and our managed entities could be exacerbated by near-term political events, including those in the U.S., Brazil, Europe, Asia and elsewhere.

l) Tax

Reassessments by tax authorities or changes in tax laws could create additional tax costs for us.

Our structure is based on prevailing taxation law and practice in the local jurisdictions in which we operate. Any change in tax policy, tax legislation (including in relation to taxation rates), the interpretation of tax policy or legislation or practice in these jurisdictions could adversely affect the return we earn on our investments, the level of capital available to be invested by us or our managed entities, and the willingness of investors to invest in our managed entities. This risk would include any reassessments by tax authorities on our tax returns if we were to incorrectly interpret or apply any tax policy, legislation or practice.

Taxes and other constraints that would apply to our operating entities in such jurisdictions may not apply to local institutions or other parties such as state-owned enterprises, and such parties may therefore have a significantly lower effective cost of capital and a corresponding competitive advantage in pursuing acquisitions. There are a number of factors that could increase our effective tax rates, which would have a negative impact on our net income, including, but not limited to, changes in the valuation of our deferred tax assets and liabilities, and any reassessment of taxes by a taxation authority.

Governments around the world are increasingly seeking to regulate multinational companies and their use of differential tax rates between jurisdictions. This effort includes a greater emphasis by various nations to co-ordinate and share information regarding companies and the taxes they pay. Governmental taxation policies and practices could adversely affect us and, depending on the nature of such policies and practices, could have a greater impact on us than on other companies. As a result of this increased focus on the use of tax planning by multinational companies, we could also face reputational risk as a result of negative media coverage of our tax planning or otherwise.

The corporation endeavors to be considered a “qualified foreign corporation” for U.S. federal income tax purposes and for the corporation’s dividends to therefore be considered generally eligible for “qualified dividend” treatment in the U.S. Whether dividends paid by the corporation will in fact be treated as “qualified dividends” for U.S. federal income tax purposes for a particular shareholder of the corporation will depend on that shareholder’s specific circumstances, including, but not limited to, the shareholder’s holding period for shares of the corporation on which dividends are received. The corporation provides no assurances that any or all of its dividends paid to shareholders will be treated as “qualified dividends” for U.S. federal income tax purposes.

m) Financial Reporting and Disclosures

Deficiencies in our public company financial reporting and disclosures could adversely impact our reputation.

As we expand the size and scope of our business, there is a greater susceptibility that our financial reporting and other public disclosure documents may contain material misstatements and that the controls we maintain to attempt to ensure the complete accuracy of our public disclosures may fail to operate as intended. The occurrence of such events could adversely impact our reputation and financial condition.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to give our stakeholders assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with international financial reporting standards. However, the process for establishing and maintaining adequate internal controls over financial reporting has inherent limitations, including the possibility of human error. Our internal controls over financial reporting may not prevent or detect misstatements in our financial disclosures on a timely basis, or at all. Some of these processes may be new for certain subsidiaries in our structure and in the case of acquisitions may take time to be fully implemented.

Our disclosure controls and procedures are designed to provide assurance that information required to be disclosed by us in reports filed or submitted under Canadian and U.S. securities laws is recorded, processed, summarized and reported within the time periods specified. Our policies and procedures governing disclosures may not ensure that all material information regarding us is disclosed in a proper and timely fashion, or that we will be successful in preventing the disclosure of material information to a single person or a limited group of people before such information is generally disseminated.

n) Economic Conditions

Unfavorable economic conditions or changes in the industries in which we operate could adversely impact our financial performance.

We are exposed to local, regional, national and international economic conditions and other events and occurrences beyond our control, including, but not limited to, the following: credit and capital market volatility, business investment levels, government spending levels, consumer spending levels, changes in laws, rules or regulations, trade barriers, commodity prices, currency exchange rates and controls, national and international political circumstances (including wars, terrorist acts or security operations), changes in interest rates, inflation rates, the rate and direction of economic growth, and general economic uncertainty. On a global basis, certain industries and sectors have created capacity that anticipated higher growth, which has caused volatility across all markets, including commodity markets, which may have a negative impact on our financial performance.

Unfavorable economic conditions could affect the jurisdictions in which our entities are formed and where we own assets and operate businesses, and may cause a reduction in: (i) securities prices; (ii) the liquidity of investments made by us and our managed entities; (iii) the value or performance of the investments made by us and our managed entities; and (iv) the ability of us and our managed entities to raise or deploy capital, each of which could adversely impact our financial condition.

In general, a decline in economic conditions, either in the markets or industries in which we participate, or both, will result in downward pressure on our operating margins and asset values as a result of lower demand and increased price competition for the services and products that we provide. In particular, given the importance of the U.S. to our operations, an economic downturn in this market could have a significant adverse effect on our operating margins and asset values.

Our private funds have a finite life that may require us to exit an investment made in a fund at an inopportune time. Volatility in the exit markets for these investments, increasing levels of capital required to finance companies to exit, and rising enterprise value thresholds to go public or complete a strategic sale can all contribute to the risk that we will not be able to exit a private fund investment successfully. We cannot always control the timing of our private fund investment exits or our realizations upon exit.

If global economic conditions deteriorate, our investment performance could suffer, resulting in, for example, the payment of less or no carried interest to us. The payment of less or no carried interest to us could cause our cash flow from operations to decrease, which could materially adversely affect our liquidity position and the amount of cash we have on hand to conduct our operations. A reduction in our cash flow from operations could, in turn, require us to rely on other sources of cash (such as the capital markets which may not be available to us on acceptable terms, or debt and other forms of leverage).

In addition, in an economic downturn, there is an increased risk of default by counterparties to our investments and other transactions. In these circumstances, it is more likely that such transactions will fail or perform poorly, which may in turn have a material adverse effect on our business, results of operation and financial condition.

o) Health, Safety and the Environment

Inadequate or ineffective health and safety programs could result in injuries to employees or the public and, as with ineffective management of environmental and sustainability issues, could damage our reputation, adversely impact our financial performance and may lead to regulatory action.

The ownership and operation of our assets carry varying degrees of inherent risk or liability related to worker health and safety and the environment, including the risk of government-imposed orders to remedy unsafe conditions and contaminated lands, and potential civil liability. Compliance with health, safety and environmental standards and the requirements set out in our licenses, permits and other approvals are material to our businesses.

We have incurred and will continue to incur significant capital and operating expenditures to comply with health, safety and environmental standards, to obtain and comply with licenses, permits and other approvals, and to assess and manage potential liability exposure. Nevertheless, we may be unsuccessful in obtaining or maintaining an important license, permit or other approval or become subject to government orders, investigations, inquiries or other proceedings (including civil claims) relating to health, safety and environmental matters, any of which could have a material adverse effect on us. Furthermore, where we do not legally control or significantly influence a portfolio company, or are otherwise involved in actively managing a business, we may have a limited ability to influence health, safety and environmental practices and outcomes.

Health, safety and environmental laws and regulations can change rapidly and significantly, and we may become subject to more stringent laws and regulations in the future. Recent proposals to reduce or eliminate any such regulations are uncertain and may not necessarily provide any benefit to us. The occurrence of any adverse health and safety or environmental event, or any changes, additions to, or more rigorous enforcement of, health, safety and environmental standards, licenses, permits or other approvals could have a significant impact on our operations and/or result in material expenditures.

As an owner and operator of real assets, we may become liable for the costs of removal and remediation of certain hazardous substances released or deposited on or in our properties, or at other locations regardless of whether or not we were responsible for the release or deposit of such hazardous materials. These costs could be significant and could reduce cash available for our businesses. The failure to remove or remediate such substances, if any, could adversely affect our ability to sell our assets or to borrow using these assets as collateral, and could potentially result in claims or other proceedings against us.

Certain of our businesses are involved in using, handling or transporting substances that are toxic, combustible or otherwise hazardous to the environment and may be in close proximity to environmentally sensitive areas or densely populated communities. If a leak, spill or other environmental incident occurred, it could result in substantial fines or penalties being imposed by regulatory authorities, revocation of licenses or permits required to operate the business or the imposition of more stringent conditions in those licenses or permits, or legal claims for compensation (including punitive damages) by affected stakeholders.

There is increasing stakeholder interest in environment, social and governance (“ESG”) factors and how they are managed. ESG factors include carbon footprints, human capital and labor management, corporate governance, gender diversity, and privacy and data security, among others. Investors or potential investors in our managed entities or in us may not invest given certain industries that we operate in. Increasingly, investors and lenders are incorporating ESG factors into their investment or lending process, respectively, alongside traditional financial considerations. If we are unable to successfully integrate ESG factors into our practices, we may incur a higher cost of capital or lower interest in our debt and/or equity securities.

Global ESG challenges such as carbon footprints, privacy and data security, demographic shifts, and regulatory pressures, are introducing new risk factors for us that we may not have dealt with previously. If we are unable to successfully manage our ESG compliance, this could have a negative impact on our reputation and our ability to raise future public and private capital, and could be detrimental to our economic value and the value of our managed entities.

p) Catastrophic Event/Loss and Cyber Terrorism

Catastrophic events (or combination of events), such as earthquakes, tornadoes, floods, terrorism/sabotage, or fire, as well as deliberate cyber terrorism, could adversely impact our financial performance.

Our assets under management could be exposed to effects of catastrophic events, such as severe weather conditions, natural disasters, major accidents, acts of malicious destruction, sabotage, war or terrorism, which could materially adversely impact our operations.

Ongoing changes to the physical climate in which we operate may have an impact on our businesses. Changes in weather patterns or extreme weather (such as floods, hurricanes and other storms) may impact hydrology and/or wind levels, thereby influencing power generation levels, affect other of our businesses or damage our assets. Further, rising sea levels could, in the future, affect the value of any low-lying coastal real assets that we may own or develop, result in the imposition of new property taxes, or increase property insurance rates. Climate change may also give rise to changes in regulations and consumer sentiment that could have a negative impact on our operations by increasing the costs of operating our business. The adverse effects of climate change and related regulation at provincial or state, federal and international levels could have a material adverse effect on our business, financial position, results of operations or cash flows.

Our commercial office portfolio is concentrated in large metropolitan areas, some of which have been or may be perceived to be threatened by terrorist attacks or acts of war. Furthermore, many of our properties consist of high-rise buildings, which may also be subject to this actual or perceived threat. The perceived threat of a terrorist attack or outbreak of war could negatively impact our ability to lease office space in our real estate portfolio. Renewable power and infrastructure assets, such as roads, railways, power generation facilities and ports, may also be targeted by terrorist organizations or in acts of war. Any damage or business interruption costs as a result of uninsured or underinsured acts of terrorism or war could result in a material cost to us and could adversely affect our business, financial condition or results of operation. Adequate terrorism insurance may not be available at rates we believe to be reasonable in the future. These risks could be heightened by foreign policy decisions of the U.S. (where we have significant operations) and other influential countries or general geopolitical conditions.

We rely on certain information technology systems, including the systems of others with whom we do business, which may be subject to cyber terrorism intended to obtain unauthorized access to our proprietary information and that of our business partners, destroy data or disable, degrade or sabotage these systems, through the introduction of computer viruses, fraudulent emails, cyber-attacks and other means, and could originate from a variety of sources including our own employees or unknown third parties. In addition, cyber security has become a top priority for regulators around the world. There can be no assurance that measures implemented to protect the integrity of these systems will provide adequate protection, and a compromise in these systems could go undetected for a significant period of time. If these information systems are compromised, we could suffer a disruption in one or more of our businesses and experience, among other things, financial loss, a loss of business opportunities, misappropriation or unauthorized release of confidential or personal information, damage to our systems, and those with whom we do business, violations of privacy and other laws, litigation, regulatory penalties and remediation and restoration costs as well as increased costs to maintain our systems. This could have a negative impact on our operating results and cash flows, and result in reputational damage.

q) Dependence on Information Technology Systems

The failure of our information technology systems could adversely impact our reputation and financial performance.

We operate in businesses that are dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level, either of which could have a material adverse effect on us.

We rely on third-party service providers to manage certain aspects of our business, including for certain information systems and technology, data processing systems, and the secure processing, storage and transmission of information. Any interruption or deterioration in the performance of these third parties or failures of their information systems and technology could impair the quality of our operations and could adversely affect our business and reputation.

r) Litigation

We and our affiliates may become involved in legal disputes in Canada, the U.S. and internationally that could adversely impact our financial performance and reputation.

In the normal course of our operations, we become involved in various legal actions, including claims relating to personal injury, property damage, property taxes, land rights and contract and other commercial disputes. The investment decisions we make in our asset management business and the activities of our investment professionals on behalf of the portfolio companies of our managed entities may subject us, our managed entities and our portfolio companies to the risk of third-party litigation. Further, we have significant operations in the U.S. which may, as a result of the prevalence of litigation in the U.S., be more susceptible to legal action than certain of our other operations.

Management of our litigation matters is generally handled by legal counsel in the business unit most directly impacted by the litigation, and not by a centralized legal department. As a result, the management of litigation that we face may not always be appropriate or effective.

The final outcome with respect to outstanding, pending or future litigation cannot be predicted with certainty, and the resolution of such actions may have an adverse effect on our financial position or results of our operations in a particular quarter or fiscal year. Any litigation may consume substantial amounts of our management's time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation. Even if ultimately unsuccessful against us, any litigation has the potential to adversely affect our business, including by damaging our reputation.

s) Insurance

Losses not covered by insurance may be large, which could adversely impact our financial performance.

We carry various insurance policies on our assets. These policies contain policy specifications, limits and deductibles that may mean that such policies do not provide coverage or sufficient coverage against all potential material losses. We may also self-insure a portion of certain of these risks, and therefore the company may not be able to recover from a third-party insurer in the event that the company, if it had asset insurance coverage from a third party, could make a claim for recovery. There are certain types of risk (generally of a catastrophic nature such as war or environmental contamination) which are either uninsurable or not economically insurable. Further, there are certain types of risk for which insurance coverage is not equal to the full replacement cost of the insured assets. Should any uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our assets or operations.

We also carry directors' and officers' liability insurance, or D&O insurance, for losses or advancement of defense costs in the event a legal action is brought against the company's directors, officers or employees for alleged wrongful acts in their capacity as directors, officers or employees. Our D&O insurance contains certain customary exclusions that may make it unavailable for the company in the event it is needed; and in any case our D&O insurance may not be adequate to fully protect the company against liability for the conduct of its directors, officers or employees. We may also self-insure a portion of our D&O insurance, and therefore the company may not be able to recover from a third-party insurer in the event that the company, if it had D&O insurance from a third-party insurer, could make a claim for recovery.

For economic efficiency and other reasons, the corporation and its affiliates may enter into insurance policies as a group which are intended to provide coverage for the entire group. Since they are group policies, any payments under a policy could have a negative impact on other entities covered under the policy since they may not be able to access adequate insurance in the event it is needed. While management attempts to design coverage limits under group policies to ensure that all entities covered under a policy have access to sufficient insurance coverage, there are no guarantees that these efforts will be effective in obtaining this result.

t) Credit and Counterparty Risk

Inability to collect amounts owing to us could adversely impact financial performance.

Third parties may not fulfill their payment obligations to us, which could include money, securities or other assets, thereby impacting our operations and financial results. These parties include deal and trading counterparties, governmental agencies, portfolio company customers and financial intermediaries. Third parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure, general economic conditions or other reasons.

We have business lines whose model is to earn investment returns by loaning money to distressed companies, either privately or via an investment in publicly traded debt securities. As a result, we actively take heightened credit risk in other entities from time to time and whether we realize satisfactory investment returns on these loans is uncertain and may be beyond our control. If some of these debt investments fail, our financial performance could be negatively impacted.

Investors in our private funds make capital commitments to these vehicles through the execution of subscription agreements. When a private fund makes an investment, these capital commitments are then satisfied by our investors via capital contributions. Investors in our private funds may default on their capital commitment obligations, which could have an adverse impact on our earnings or result in other negative implications to our businesses such as the requirement to redeploy our own capital to cover such obligations. This impact would be magnified if the investor that does so is in multiple funds.

u) Real Estate

We face risks specific to our real estate activities.

We invest in commercial properties and are therefore exposed to certain risks inherent in the commercial real estate business. Commercial real estate investments are subject to varying degrees of risk depending on the nature of the property. These risks include changes in general economic conditions (such as the availability and cost of mortgage capital), local conditions (such as an oversupply of space or a reduction in demand for real estate in the markets in which we operate), the attractiveness of the properties to tenants, competition from other landlords and our ability to provide adequate maintenance at an economical cost.

Certain expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made whether or not a property is producing sufficient income to service these expenses. Our commercial properties are typically subject to mortgages which require debt service payments. If we become unable or unwilling to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or of sale.

Continuation of rental income is dependent on favorable leasing markets to ensure expiring leases are renewed and new tenants are found promptly to fill vacancies. It is possible that we may face a disproportionate amount of space expiring in any one year. Additionally, rental rates could decline, tenant bankruptcies could increase, and tenant renewals may not be achieved, particularly in the event of an economic slowdown.

Our retail real estate operations are susceptible to any economic factors that have a negative impact on consumer spending. Lower consumer spending would have an unfavorable effect on the sales of our retail tenants, which could result in their inability or unwillingness to make all payments owing to us, and on our ability to keep existing tenants and attract new tenants. Significant expenditures associated with each equity investment in real estate assets, such as mortgage payments, property taxes and maintenance costs, are generally not reduced when there is a reduction in income from the investment, so our income and cash flow would be adversely affected by a decline in income from our retail properties. In addition, low occupancy or sales at our retail properties, as a result of competition or otherwise, could result in termination of or reduced rent payable under certain of our retail leases, which could adversely affect our retail property revenues.

Our hospitality and multifamily business are subject to a range of operating risks common to these industries. The profitability of our investments in these industries may be adversely affected by a number of factors, many of which are outside our control. For example, our hospitality business faces risks relating to hurricanes, earthquakes, tsunamis, and other natural and man-made disasters, the potential spread of contagious diseases such as the Zika virus, and insect infestations more common to rental accommodations. Such factors could limit or reduce the demand for or the prices our hospitality properties are able to obtain for their accommodations or could increase our costs and therefore reduce the profitability of our hospitality businesses. There are numerous housing alternatives which compete with our multifamily properties, including other multifamily properties as well as condominiums and single-family homes. This competitive environment could have a material adverse effect on our ability to lease apartment homes at our present properties or any newly developed or acquired real estate, as well as on the rents realized.

v) Renewable Power

We face risks specific to our renewable power activities.

Our renewable power operations are subject to changes in the weather, hydrology and price, but also include risks related to equipment or dam failure, counterparty performance, water rental costs, land rental costs, changes in regulatory requirements and other material disruptions.

The revenues generated by our power facilities are correlated to the amount of electricity generated, which in turn is dependent upon available water flows, wind, irradiance and other elements beyond our control. Hydrology, wind and irradiance levels vary naturally from year to year and may also change permanently because of climate change or other factors. It is therefore possible that low water, wind and irradiance levels at certain of our power generating operations could occur at any time and potentially continue for indefinite periods.

A significant portion of our renewable power revenue is tied, either directly or indirectly, to the wholesale market price for electricity, which is impacted by a number of external factors beyond our control. Additionally, a significant portion of the power we generate is sold under long-term power purchase agreements, shorter-term financial instruments and physical electricity and natural gas contracts, some or all of which may be above market. These contracts are intended to mitigate the impact of fluctuations in wholesale electricity prices; however, they may not be effective in achieving this outcome.

In our renewable power operations there is a risk of equipment failure due to wear and tear, latent defect, design error or operator error, among other things. The occurrence of such failures could result in a loss of generating capacity and repairing such failures could require the expenditure of significant capital and other resources. Failures could also result in exposure to significant liability for damages due to harm to the environment, to the public generally or to specific third parties.

In certain cases, some catastrophic events may not excuse us from performing our obligations pursuant to agreements with third parties and we may be liable for damages or suffer further losses as a result.

w) Infrastructure

We face risks specific to our infrastructure activities.

Our infrastructure operations include utilities, transport, energy, communications infrastructure, timberlands and agriculture operations. Our infrastructure assets include toll roads, telecommunication towers, electricity transmission systems, coal terminal operations, electricity and gas distribution companies, rail networks and ports. The principal risks facing the regulated and unregulated businesses comprising our infrastructure operations relate to government regulation, general economic conditions and other material disruptions, counterparty performance, capital expenditure requirements and land use.

Many of our infrastructure operations are subject to forms of economic regulation, including with respect to revenues. If any of the respective regulators in the jurisdictions in which we operate decide to change the tolls or rates we are allowed to charge, or the amounts of the provisions we are allowed to collect, we may not be able to earn the rate of return on our investments that we had planned, or we may not be able to recover our initial cost.

General economic conditions affect international demand for the commodities handled and services provided by our infrastructure operations and the goods produced and sold by our timberlands and agriculture businesses. A downturn in the economy generally, or specific to any of our infrastructure businesses, may lead to bankruptcies or liquidations of one or more large customers, which could reduce our revenues, increase our bad debt expense, reduce our ability to make capital expenditures or have other adverse effects on us.

Some of our infrastructure operations have customer contracts as well as concession agreements in place with public and private sector clients. Our operations with customer contracts could be adversely affected by any material change in the assets, financial condition or results of operations of such customers. Protecting the quality of our revenue streams through the inclusion of take-or-pay or guaranteed minimum volume provisions into our contracts, is not always possible or fully effective.

Our infrastructure operations may require substantial capital expenditures to maintain our asset base. Any failure to make necessary expenditures to maintain our operations could impair our ability to serve existing customers or accommodate increased volumes. In addition, we may not be able to recover investments in capital expenditures based upon the rates our operations are able to charge.

x) Private Equity

We face risks specific to our private equity activities.

The principal risks for our private equity businesses are potential loss of invested capital as well as insufficient investment or fee income to cover operating expenses and cost of capital. In addition, these investments are typically illiquid and may be difficult to monetize, limiting our flexibility to react to changing economic or investment conditions.

Unfavorable economic conditions could have a significant adverse impact on the ability of investee companies to repay debt and on the value of our equity investments and the level of income that they generate. Even with our support, adverse economic or business conditions facing our investee companies may adversely impact the value of our investments or deplete our financial or management resources. These investments are also subject to the risks inherent in the underlying businesses, some of which are facing difficult business conditions and may continue to do so for the foreseeable future.

Our private equity funds may invest in companies that are experiencing significant financial or business difficulties, including companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. Such an investment entails the risk that the transaction in which the business is involved will be unsuccessful, will take considerable time or will result in a distribution of cash or new securities the value of which may be less than the purchase price of the securities or other financial instruments in respect of which such distribution is received. In addition, if an anticipated transaction does not occur, the private equity business may be required to sell its investment at a loss. Investments in some of the businesses we target may become subject to legal and/or regulatory proceedings and therefore our investment may be adversely affected by external events beyond our control.

Our private equity businesses include industrial operations that are substantially dependent upon the prices we receive for the resources we produce. Those prices depend on factors beyond our control, and commodity price declines can have a significant negative impact on these operations. Sustained depressed levels or future declines of the price of resources such as oil, gas, limestone and palladium and other metals may adversely affect our operating results and cash flows.

We have several companies that operate in the highly competitive service industry. The revenues and profitability of these companies are largely dependent on the awarding of new contracts, which may not materialize, and they face uncertainty related to contract award timing. A wide variety of micro and macroeconomic factors affecting our clients and over which we have no control can impact whether and when these companies receive new contracts. In our construction business, the ability of the private or public sector to fund projects could adversely affect the awarding or timing of new contracts and margins. If an expected contract award is delayed or not received, or if an ongoing contract is cancelled, our construction business could incur significant costs.

y) Residential Development

We face risks specific to our residential development activities.

Our residential homebuilding and land development operations are cyclical and significantly affected by changes in general and local economic and industry conditions, such as consumer confidence, employment levels, availability of financing for homebuyers, household debt, levels of new and existing homes for sale, demographic trends and housing demand. Competition from rental properties and resale homes, including homes held for sale by investors and foreclosed homes, may reduce our ability to sell new homes, depress prices and reduce margins for the sale of new homes.

Virtually all of our homebuilding customers finance their home acquisitions through mortgages. Even if potential customers do not need financing, changes in interest rates or the unavailability of mortgage capital could make it harder for them to sell their homes to potential buyers who need financing, resulting in a reduced demand for new homes. Rising mortgage rates or reduced mortgage availability could adversely affect our ability to sell new homes and the prices at which we can sell them.

We hold land for future development and may in the future acquire additional land holdings. The risks inherent in purchasing, owning and developing land increase as the demand for new homes decreases. Real estate markets are highly uncertain, and the value of undeveloped land has fluctuated significantly and may continue to fluctuate. In addition, land carrying costs can be significant and can result in losses or reduced profitability. As a result, we hold certain land, and may acquire additional land, in our development pipeline at a cost we may not be able to fully recover or at a cost which precludes profitable development.

GLOSSARY OF TERMS

The below summarizes certain terms relating to our business that are made throughout the MD&A and it defines IFRS performance measures, non-IFRS performance measures and key operating measures that we use to analyze and discuss our results.

References

References to the “**corporation**” represent Brookfield Asset Management Inc. References in these financial statements to “**Brookfield**,” “**BAM**,” “**us**,” “**we**,” “**our**” or the “**company**” refer to the corporation and its direct and indirect subsidiaries and consolidated entities.

We refer to our **shareholders** as investors in the corporation and we refer to **investors** as investors of our private funds and listed issuers.

Throughout the MD&A and consolidated financial statements, the following operating companies, joint ventures and associates, and their respective subsidiaries, will be referenced as follows:

- **Acadian** – Acadian Timber Corp.
- **BBU** – Brookfield Business Partners L.P.
- **BEMI** – Brookfield Energy Marketing Inc.
- **BEP** – Brookfield Renewable Partners L.P.
- **BIP** – Brookfield Infrastructure Partners L.P.
- **BPY** – Brookfield Property Partners L.P.
- **Canary Wharf** – Canary Wharf Group plc
- **GGP** – GGP Inc.
- **Norbord** – Norbord Inc.
- **TerraForm Power (“TERP”)** – TerraForm Power, Inc.

We refer to BPY, BEP, BIP and BBU as **listed issuers** or **listed partnerships**.

Performance Measures

Definitions of performance measures, including non-IFRS measures and operating measures, are presented below in alphabetical order. We have specifically identified those measures which are non-IFRS measures with the remainder to being IFRS measures or operating measures.

Accumulated unrealized carried interest is a non-IFRS measure that is determined based on cumulative fund performance to date. At the end of each reporting period, the company calculates the carried interest that would be due to the company for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have actually been realized. We use this measure to provide insight into our potential to realize carried interest in the future.

Adjusted carry eligible capital excludes uncalled fund commitments and funds that have not yet reached their preferred return, as well as co-investments and separately managed accounts that are subject to lower carry interest than our standard funds.

A reconciliation from carry eligible capital to adjusted carry eligible capital is provided below:

AS AT DEC. 31 (MILLIONS)	2017	2016	2015
Carry eligible capital.....	\$ 42,357	\$ 40,284	\$ 25,000
Less:			
Uncalled private fund commitments	(18,591)	(19,904)	(9,265)
Co-investments and other.....	(2,383)	(716)	(597)
Funds not yet at target preferred return.....	(2,508)	(7,190)	(4,001)
Adjusted carry eligible capital	\$ 18,875	\$ 12,474	\$ 11,137

Assets under management refers to the total value of assets that we manage, on a gross asset value basis, including assets for which we earn management fees and those for which we do not. This reflects the consolidated asset values of our consolidated subsidiaries as well as the gross asset value of asset that we classify as equity accounted investments but operate on behalf of our partners. This measure provides users with insight into the scale of our business.

Available for distribution/reinvestment is a non-IFRS measure and is the sum of our Asset Management segment FFO and distributions received from our ownership of listed investments, net of Corporate FFO and preferred share dividends. This provides insight into earnings received by the corporation that are available for distribution to common shareholders or to be reinvested into the business. The components of cash available for distribution/reinvestment are provided below:

AS AT DEC. 31, 2017
(MILLIONS)

Asset management FFO.....	\$	970
Corporate activities FFO		(146)
Dividends received from listed issuers		1,276
Preferred share dividends		(145)
Available for distribution/reinvestment	\$	<u>1,955</u>

Average in-place net rents are used to evaluate leasing performance within our Real Estate segment and are calculated as the annualized amount of cash rent receivable from leases on a per square foot basis including tenant expense reimbursements, less operating expenses. This measure represents the amount of cash generated from leases in a given period and excludes the impact of rent escalations and free rent amortization.

Base management fees are determined by contractual arrangements, are typically equal to a percentage of fee bearing capital and are accrued quarterly. Private fund base fees are typically earned on fee bearing capital from third-party investors only and are earned on invested and/or uninvested fund capital, depending on the stage of the fund life. Base fees from listed partnerships are earned on the total capitalization of the listed partnerships, which includes our investment. Base fees for BPY, BEP and TERP include a quarterly fixed fee amount of \$12.5 million, \$5 million and \$3 million, respectively. These entities each pay additional fees of 1.25% on the increase in capitalization above their initial capitalization of \$11.5 billion, \$8 billion and \$1.4 billion, respectively. Base fees for BIP and BBU are 1.25% of total capitalization.

Capitalization at “our share” is a non-IFRS measure and presents our share of debt and other obligations based on our ownership percentage of the related investments. We use this measure to provide insight into the extent to which our capital is leveraged in each investment, which is an important component of enhancing shareholders returns. This may differ from our consolidated leverage because of the varying levels of ownership that we have in consolidated and equity accounted investment, that in turn have different degrees of leverage. We also use capitalization at our share to make financial risk management decisions at the corporation.

A reconciliation of consolidated capitalization to capitalization at our share is provided below:

AS AT DEC. 31
(MILLIONS)

	2017	2016
Total consolidated capitalization.....	\$ 192,720	159,826
Add: our share of debt of investments in associates	10,875	8,396
Less: non-controlling interests' share of liabilities		
Non-recourse borrowings	(47,684)	(37,146)
Liabilities associated with assets held for sale	(606)	(49)
Accounts payable and other.....	(7,200)	(4,256)
Deferred tax liabilities	(6,205)	(5,068)
Subsidiary equity obligations	(2,013)	(1,737)
Non-controlling interests	(51,628)	(43,235)
Total capitalization at our share	\$ <u>88,259</u>	<u>\$ 76,731</u>

Carried interest is a performance fee arrangement whereby we receive a percentage of investment returns, defined as total fund profit net of fees and expenses, generated within a private fund based on a contractual formula. We are eligible to earn carried interest once returns exceed performance hurdles, ranging from 6% to 10% (compounded annually). Once the fund has achieved the performance hurdles, we earn an accelerated percentage of the additional fund profit until we have earned the percentage of total fund profit, net of fees and expenses, to which we are entitled, ranging from 10% to 20%.

Carry eligible capital represents the capital committed, pledged or invested in the private funds that we manage and which entitle us to earn carried interest. Carry eligible capital includes both invested and uninvested (i.e. uncalled) private fund amounts as well as those amounts invested directly by investors (co-investments) when those entitle us to earn carried interest. We believe this measure is useful to investors as it provides additional insight into the capital base upon which we have potential to earn carried interest once minimum investment returns are sufficiently assured.

Cash distributions received from listed issuers represent dividends paid to the company by our listed issuers, Norbord and Acadian based on their publicly disclosed distribution policies and our ownership levels.

Common equity/invested capital is the amount of common equity in our operating segments. We measure segment assets based on common equity by segment, which we consider to be the amount of invested capital allocated to each segment. We utilize common equity by segment to analyze our deconsolidated balance sheet and to assist in capital allocation decisions.

Consolidated capitalization reflects the full capitalization of wholly owned and partially owned entities that we consolidate in our financial statements. Our consolidated capitalization includes 100% of the debt of the consolidated entities even though in many cases we only own a portion of the entity and therefore our pro-rata exposure to this debt is much lower. In other cases, this basis of presentation excludes the debt of partially owned entities that are accounted for following the equity method, such as our investments in GGP, Canary Wharf and several of our infrastructure businesses.

Core liquidity represents the amount of cash, financial assets and undrawn credit lines at the corporation and the listed partnerships. We use core liquidity as a key measure of our ability to fund future transactions and capitalize quickly on opportunities as they arise. Our core liquidity also allows us to backstop the transactions of our various businesses as necessary and fund the development of new activities that are not yet suitable for our investors.

Corporate capitalization represents the amount of debt issued by the corporation and our issued and outstanding common and preferred shares.

Economic net income (“ENI”) is a non-IFRS measure used for our Asset Management segment and is the sum of fee related earnings and unrealized carried interest, net of associated costs (which are predominantly associated with employee long-term incentive plans). We utilize this measure as a supplement to FFO for our Asset Management segment to assess operating performance, including the fee revenues and carried interest generated on unrealized changes in value of our private fund investment portfolios. We use this measure to evaluate the total value created within our funds in a period and it is a leading indicator for future growth of our Asset Management FFO. ENI is a widely used measure in the alternative asset management industry and we believe it provides investors a meaningful data point to benchmark the performance of our Asset Management segment against our peers.

FOR THE YEARS ENDED DEC. 31
(MILLIONS)

	2017	2016
Asset Management FFO	\$ 970	\$ 866
Less: Realized carried interest, net	(74)	(149)
Less: Realized disposition gains	—	(5)
Unrealized carried interest generated in the period, net	928	290
ENI	<u>\$ 1,824</u>	<u>\$ 1,002</u>

Economic ownership interest represents the company’s proportionate equity interest in our listed issuers which can include redemption-exchange units (REUs), Class A limited partnership units, special limited partnership units and general partnership units in each subsidiary, where applicable. REUs share the same economic attributes as the Class A limited partnership units in all respects except for our redemption right, which the partnership can satisfy through the issuance of Class A limited partnership units. The REUs and general partnership units participate in earnings and distributions on a per unit basis equivalent to the per unit participation of the Class A limited partnership units of the subsidiary. The company’s economic ownership interest in BPY is determined after considering the conversion of BPY’s preferred equity units into limited partnership units.

Fee bearing capital represents the capital committed, pledged or invested in the listed partnerships, private funds and public securities that we manage which entitles us to earn fee revenues. Fee bearing capital includes both invested and uninvested (i.e. uncalled) amounts, as well as amounts invested directly by investors (co-investments). We believe this measure is useful to investors as it provides additional insight into the capital base upon which we earn asset management fees and other forms of compensation.

Fee related earnings is comprised of fee revenues less direct costs associated with earning those fees, which include employee expenses and professional fees as well as business related technology costs, other shared services and taxes. We use this measure to provide additional insight into the operating profitability of our asset management activities.

Fee revenues include base management fees, incentive distributions, performance fees and transaction fees presented within our Asset Management segment. Many of these items do not appear in consolidated revenues because they are earned from consolidated entities and are eliminated on consolidation.

Funds from operations (“FFO”) is a key measure of our financial performance. We use FFO to assess operating results and the performance of our businesses on a segmented basis. While we use segment FFO as our segment measure of profit and loss (see Note 3 to our consolidated financial statements), the sum of FFO for all our segments, or total FFO, is a non-IFRS measure. The following table reconciles total FFO to net income:

	Total		Per Share	
	2017	2016	2017	2016
FOR THE YEARS ENDED DEC. 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)				
Net income	\$ 4,551	\$ 3,338	\$ 4.50	\$ 3.28
Realized disposition gains recorded as fair value changes or prior periods ...	1,116	766	1.14	0.78
Non-controlling interest in FFO	(4,964)	(2,917)	(5.07)	(2.99)
Financial statement components not included in FFO				
Equity accounted fair value changes and other non-FFO items	856	458	0.87	0.47
Fair value changes	(421)	130	(0.43)	0.13
Depreciation and amortization	2,345	2,020	2.39	2.07
Deferred income taxes	327	(558)	0.33	(0.56)
Total FFO	\$ 3,810	\$ 3,237	\$ 3.74	\$ 3.18

We use FFO to assess our performance as an asset manager and separately as an investor in our assets. FFO includes the fees that we earn from managing capital as well as our share of revenues earned and costs incurred within our operations, which include interest expense and other costs. Specifically, FFO includes the impact of contracts that we enter into to generate revenue, including asset management agreements, power sales agreements and contracts that our operating businesses enter into such as leases and take or pay contracts, and sales of inventory. FFO also includes the impact of changes in leverage or the cost of that financial leverage as well as other costs incurred to operate our business.

We use realized disposition gains and losses within FFO in order to provide additional insight regarding the performance of investments on a cumulative realized basis, including any unrealized fair value adjustments that were recorded in prior periods and not otherwise reflected in current period FFO, and believe it is useful to investors to better understand variances between reporting periods. We exclude depreciation and amortization from FFO, as we believe that the value of most of our assets typically increase over time, provided we make the necessary maintenance expenditures, the timing and magnitude of which may differ from the amount of depreciation recorded in any given period. In addition, the depreciated cost base of our assets is reflected in the ultimate realized disposition gain or loss on disposal. As noted above, unrealized fair value changes are excluded from FFO until the period in which the asset is sold. We also exclude deferred income taxes from FFO because the vast majority of the company’s deferred income tax assets and liabilities are a result of the revaluation of our assets under IFRS.

Our definition of FFO may differ from the definition used by other organizations, as well as the definition of FFO used by the Real Property Association of Canada (“REALPAC”) and the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”), in part because the NAREIT definition is based on U.S. GAAP, as opposed to IFRS. The key differences between our definition of FFO and the determination of FFO by REALPAC and/or NAREIT are that we include the following: realized disposition gains or losses and cash taxes payable or receivable on those gains or losses, if any; foreign exchange gains or losses on monetary items not forming part of our net investment in foreign operations; and foreign exchange gains or losses on the sale of an investment in a foreign operation. We do not use FFO as a measure of cash generated from our operations.

Incentive distributions are determined by contractual arrangements and are paid to us by BPY, BEP, BIP and TERP and represent a portion of distributions paid by listed partnerships above a predetermined hurdle. Incentive distributions are accrued on the record date of the associated distributions of the entity.

A summary of our distribution hurdles and current distribution rates is as follows:

AS AT DEC 31, 2017	Distribution Hurdles (per unit)		Incentive Distributions
Brookfield Infrastructure Partners (BIP)	\$ 0.81	/ \$ 0.88	15% / 25%
Brookfield Renewable Partners (BEP)	1.50	/ 1.69	15% / 25%
Brookfield Property Partners (BPY).....	1.10	/ 1.20	15% / 25%
TerraForm Power (TERP).....	0.93	/ 1.05	15% / 25%

Long-term average generation (“LTA”) is used in our Renewable Power segment and is determined based on its assets in commercial operation during the year. For assets acquired or reaching commercial operation during the year, long-term generation is calculated from the acquisition or commercial operation date. In Brazil, assured generation levels are used as a proxy for long-term average. We compare long-term average generation to actual generation levels to assess the impact on revenues and FFO of hydrology and wind generation levels, which vary from one period to the next.

Performance fees are paid to us when we exceed predetermined investment returns within BBU and on certain portfolios managed in our public securities activities. BBU performance fees are accrued quarterly, whereas performance fees within public security funds are typically determined on an annual basis. Performance fees are not subject to clawback.

Realized carried interest represents our share of investment returns based on realized gains within a private fund. Realized carried interest earned is recognized when an underlying investment is profitably disposed of and the fund’s cumulative returns are in excess of preferred returns, in accordance with the respective terms set out in the fund’s governing agreements, and when the probability of clawback is remote. We include realized carried interest when determining our Asset Management segment results within our consolidated financial statements.

Realized carried interest, net is after direct costs, which include employee expenses and cash taxes.

Realized disposition gains/losses include gains or losses arising from transactions during the reporting period together with any fair value changes and revaluation surplus recorded in prior periods and are presented net of cash taxes payable or receivable. Realized disposition gains include amounts that are recorded in net income, other comprehensive income and as ownership changes in our consolidated statements of equity, and exclude amounts attributable to non-controlling interests unless otherwise noted. We use realized disposition gains/losses to provide additional insight regarding the performance of investments on a cumulative realized basis, including any unrealized fair value adjustments that were recorded in prior periods and not otherwise reflected in current period FFO, and believe it is useful to investors to better understand variances between reporting periods.

Same-store or same-property represents the earnings contribution from assets or investments held throughout both the current and prior year on a constant ownership basis. We utilize same-store analysis to illustrate the growth in earnings excluding the impact of acquisitions or dispositions.

Uninvested capital represents capital that has been committed or pledged to private funds managed by us. We typically, but not always, earn base management fees on this capital from the time that the commitment or pledge to our private fund is effective. In certain cases, we earn fees only once the capital is invested or earn a higher fee on invested capital than committed capital. In certain cases, investors retain the right to approve individual investments before providing the capital to fund them. In these cases, we refer to the capital as pledged or allocated.

Unrealized carried interest is a non-IFRS measure and is the change in accumulated unrealized carried interest from prior period and represents the amount of carried interest generated during the period. We use this measure to provide insight into the value our investments have created in the period.

The following table identifies the inputs of accumulated carried interest to arrive at unrealized carried interest generated in the period:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Adjusted Carry Eligible Capital	Adjusted Multiple of Capital ¹	Fund Target Carried Interest ²	Current Carried Interest ³
2017				
Real Estate	\$ 7,542	1.8x	20%	16%
Infrastructure	9,613	1.4x	20%	14%
Private Equity	1,720	2.7x	20%	20%
	<u>\$ 18,875</u>			
2016				
Real Estate	\$ 5,376	1.8x	20%	12%
Infrastructure	5,777	1.4x	20%	16%
Private Equity	1,321	1.5x	20%	6%
	<u>\$ 12,474</u>			
2015				
Real Estate	\$ 5,602	1.7x	20%	8%
Infrastructure	5,168	1.3x	20%	15%
Private Equity	14,230	2.3x	20%	20%
	<u>\$ 25,000</u>			

- Adjusted Multiple of Capital represents the ratio of total distributions plus estimates of remaining values to the equity invested, and reflects performance net of fund management fees and expenses, before carried interest. Our core, credit and value add funds pay management fees of 1.00 – 1.50% and our Opportunistic and Private Equity funds pay fees of 1.50 – 2.00%. Funds typically incur fund expenses of approximately 0.35% of carry eligible capital annually
- Fund target carried interest percentage is the target carry average of the funds within adjusted carry eligible capital as at each period end
- When a fund has achieved its preferred return, we earn an accelerated percentage of the additional fund profit until we have earned the fund target carried interest percentage. Funds in their early stage of earning carry will not yet have earned the full percentage of total fund profit to which we are entitled

The following table summarizes the unrealized carried interest generated in the current and prior year:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Accumulated Unrealized Carried Interest			Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Real Estate	\$ 904	\$ 503	\$ 345	\$ 401	\$ 158
Infrastructure	559	348	204	211	144
Private Equity	616	47	109	569	(62)
Accumulated unrealized carried interest	<u>2,079</u>	<u>898</u>	<u>658</u>	<u>1,181</u>	<u>240</u>
Less: associated expenses ¹	<u>(649)</u>	<u>(322)</u>	<u>(223)</u>	<u>(327)</u>	<u>(99)</u>
Accumulated unrealized carry, net	<u>\$ 1,430</u>	<u>\$ 576</u>	<u>\$ 435</u>	<u>854</u>	<u>141</u>
Add: realized carried interest, net				<u>74</u>	<u>149</u>
Unrealized carried interest, net				<u>\$ 928</u>	<u>\$ 290</u>

- Carried interest generated is subject to taxes and long-term incentive expenses to investment professionals. These expenses are typically 30 – 35% of carried interest generated

Unrealized carried interest, net is after direct costs, which include employee expenses and taxes.