

# INTERNAL CONTROL OVER FINANCIAL REPORTING

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Brookfield Asset Management Inc. (Brookfield) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and the Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board as defined in Regulation 240.13a-15(f) or 240.15d-15(f).

Management assessed the effectiveness of Brookfield's internal control over financial reporting as of December 31, 2018, based on the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of December 31, 2018, Brookfield's internal control over financial reporting is effective. Management excluded from its assessment the internal control over financial reporting for Brookfield Property REIT (formerly, GGP Inc.), Forest City Realty Trust, 666 Fifth Avenue, Extended-Stay Hotel Portfolio, Saeta Yield S.A., Gas Natural, S.A. ESP, NorthRiver Midstream Inc., Enercare Inc., Dawn Acquisitions LLC (Evoque), Schoeller Allibert Group B.V., Teekay Offshore Partners L.P. and Westinghouse Electric Company which were acquired during 2018, and whose total assets, net assets, revenues and net income on a combined basis constitute approximately 27%, 29%, 8% and 8% respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2018.

Brookfield's internal control over financial reporting as of December 31, 2018, has been audited by Deloitte LLP, the Independent Registered Public Accounting Firm, who also audited Brookfield's consolidated financial statements for the year ended December 31, 2018. As stated in the Report of Independent Registered Public Accounting Firm, Deloitte LLP expressed an unqualified opinion on the effectiveness of Brookfield's internal control over financial reporting as of December 31, 2018.



J. Bruce Flatt  
Chief Executive Officer



Brian D. Lawson  
Chief Financial Officer

March 26, 2019  
Toronto, Canada

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Brookfield Asset Management Inc.

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Brookfield Asset Management Inc. and subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018 of the Company and our report dated March 26, 2019, expressed an unqualified opinion on those financial statements.

As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Brookfield Property REIT (formerly, GGP Inc.), Forest City Realty Trust, Extended-Stay Hotel Portfolio, 666 Fifth Avenue, Gas Natural, S.A. ESP, NorthRiver Midstream Inc., Enercare Inc., Dawn Acquisitions LLC, Schoeller Allibert Group B.V., Teekay Offshore Partners L.P., Westinghouse Electric Company and Saeta Yield S.A., which were acquired during 2018 and whose financial statements constitute, in aggregate, 27% of total assets, 29% of net assets, 8% of revenues, and 8% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2018. Accordingly, our audit did not include the internal control over financial reporting at Brookfield Property REIT (formerly, GGP Inc.), Forest City Realty Trust, Extended-Stay Hotel Portfolio, 666 Fifth Avenue, Gas Natural, S.A. ESP, NorthRiver Midstream Inc., Enercare Inc., Dawn Acquisitions LLC, Schoeller Allibert Group B.V., Teekay Offshore Partners L.P., Westinghouse Electric Company and Saeta Yield S.A.

### Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

## **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte LLP

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
March 26, 2019

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements and other financial information in this Annual Report have been prepared by the company's management which is responsible for their integrity, consistency, objectivity and reliability. To fulfill this responsibility, the company maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate to provide a high degree of assurance that is relevant and reliable financial information is produced and assets are safeguarded. These controls include the careful selection and training of employees, the establishment of well-defined areas of responsibility and accountability for performance, and the communication of policies and code of conduct throughout the company. In addition, the company maintains an internal audit group that conducts periodic audits of the company's operations. The Chief Internal Auditor has full access to the Audit Committee.

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this Annual Report is generally consistent with the information contained in the accompanying consolidated financial statements.

Deloitte LLP, the Independent Registered Public Accounting Firm appointed by the shareholders, have audited the consolidated financial statements set out on pages 119 through 200 in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) to enable them to express to the board of directors and shareholders their opinion on the consolidated financial statements. Their report is set out on the following page.

The consolidated financial statements have been further reviewed and approved by the Board of Directors acting through its Audit Committee, which is comprised of directors who are neither officers nor employees of the company. The Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors, oversees management's responsibilities for the financial reporting and internal control systems. The auditors have full and direct access to the Audit Committee and meet periodically with the committee both with and without management present to discuss their audit and related findings.



J. Bruce Flatt  
Chief Executive Officer



Brian D. Lawson  
Chief Financial Officer

March 26, 2019  
Toronto, Canada

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Brookfield Asset Management Inc.

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Brookfield Asset Management Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 26, 2019, expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte LLP

Chartered Professional Accountants  
Licensed Public Accountants

March 26, 2019  
Toronto, Canada

We have served as the Company’s auditor since 1971.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

AS AT DEC. 31  
(MILLIONS)

	Note	2018	2017
<b>Assets</b>			
Cash and cash equivalents.....	6	\$ 8,390	\$ 5,139
Other financial assets.....	6	6,227	4,800
Accounts receivable and other .....	7	16,931	11,973
Inventory .....	8	6,989	6,311
Assets classified as held for sale .....	9	2,185	1,605
Equity accounted investments .....	10	33,647	31,994
Investment properties .....	11	84,309	56,870
Property, plant and equipment.....	12	67,294	53,005
Intangible assets .....	13	18,762	14,242
Goodwill.....	14	8,815	5,317
Deferred income tax assets.....	15	2,732	1,464
<b>Total Assets</b> .....		<b>\$ 256,281</b>	<b>\$ 192,720</b>
<b>Liabilities and Equity</b>			
Corporate borrowings.....	16	\$ 6,409	\$ 5,659
Accounts payable and other .....	17	23,989	17,965
Liabilities associated with assets classified as held for sale.....	9	812	1,424
Non-recourse borrowings of managed entities.....	18	111,809	72,730
Deferred income tax liabilities .....	15	12,236	11,409
Subsidiary equity obligations .....	19	3,876	3,661
<b>Equity</b>			
Preferred equity .....	21	4,168	4,192
Non-controlling interests.....	21	67,335	51,628
Common equity.....	21	25,647	24,052
Total equity .....		97,150	79,872
<b>Total Liabilities and Equity</b> .....		<b>\$ 256,281</b>	<b>\$ 192,720</b>

## CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DEC. 31  
(MILLIONS, EXCEPT PER SHARE AMOUNTS)

	Note	2018	2017
Revenues .....	22	\$ 56,771	\$ 40,786
Direct costs .....	23	(45,519)	(32,388)
Other income and gains .....		1,166	1,180
Equity accounted income .....	10	1,088	1,213
Expenses			
Interest .....		(4,854)	(3,608)
Corporate costs .....		(104)	(95)
Fair value changes .....	24	1,794	421
Depreciation and amortization .....		(3,102)	(2,345)
Income taxes .....	15	248	(613)
Net income .....		<u>\$ 7,488</u>	<u>\$ 4,551</u>
Net income attributable to:			
Shareholders .....		\$ 3,584	\$ 1,462
Non-controlling interests .....		3,904	3,089
		<u>\$ 7,488</u>	<u>\$ 4,551</u>
Net income per share:			
Diluted .....	21	\$ 3.40	\$ 1.34
Basic .....	21	<u>3.47</u>	<u>1.37</u>

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DEC. 31  
(MILLIONS)

	Note	2018	2017
Net income .....		<u>\$ 7,488</u>	<u>\$ 4,551</u>
Other comprehensive income (loss)			
Items that may be reclassified to net income			
Financial contracts and power sale agreements .....		(20)	278
Marketable securities .....		(34)	95
Equity accounted investments .....	10	(29)	6
Foreign currency translation .....		(3,254)	439
Income taxes .....	15	(90)	11
		<u>(3,427)</u>	<u>829</u>
Items that will not be reclassified to net income			
Revaluations of property, plant and equipment .....	12	6,290	934
Revaluation of pension obligations .....	17	(19)	4
Equity accounted investments .....	10	547	509
Marketable securities .....		94	—
Income taxes .....	15	(1,324)	314
		<u>5,588</u>	<u>1,761</u>
Other comprehensive income .....		<u>2,161</u>	<u>2,590</u>
Comprehensive income .....		<u>\$ 9,649</u>	<u>\$ 7,141</u>
Attributable to:			
Shareholders			
Net income .....		\$ 3,584	\$ 1,462
Other comprehensive income .....		406	849
Comprehensive income .....		<u>\$ 3,990</u>	<u>\$ 2,311</u>
Non-controlling interests			
Net income .....		\$ 3,904	\$ 3,089
Other comprehensive income .....		1,755	1,741
Comprehensive income .....		<u>\$ 5,659</u>	<u>\$ 4,830</u>



## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AS AT AND FOR THE YEAR ENDED DEC. 31, 2018 (MILLIONS)	Common Share Capital	Contributed Surplus	Retained Earnings	Ownership Changes <sup>1</sup>	Accumulated Other Comprehensive Income			Common Equity	Preferred Equity	Non- controlling Interests	Total Equity
					Revaluation Surplus	Currency Translation	Other Reserves <sup>2</sup>				
Balance as at December 31, 2017..	\$ 4,428	\$ 263	\$ 11,864	\$ 1,459	\$ 6,881	\$ (878)	\$ 35	\$ 24,052	\$ 4,192	\$ 51,628	\$ 79,872
Changes in accounting policies <sup>3</sup> .....	—	—	(215)	—	—	—	(3)	(218)	—	(84)	(302)
Adjusted balance as at January 1, 2018.....	4,428	263	11,649	1,459	6,881	(878)	32	23,834	4,192	51,544	79,570
Changes in period:											
Net income.....	—	—	3,584	—	—	—	—	3,584	—	3,904	7,488
Other comprehensive income .....	—	—	—	—	1,060	(959)	305	406	—	1,755	2,161
Comprehensive income .....	—	—	3,584	—	1,060	(959)	305	3,990	—	5,659	9,649
Shareholder distributions											
Common equity .....	—	—	(575)	—	—	—	—	(575)	—	—	(575)
Preferred equity .....	—	—	(151)	—	—	—	—	(151)	—	—	(151)
Non-controlling interests .....	—	—	—	—	—	—	—	—	—	(6,709)	(6,709)
Other items											
Equity issuances, net of redemptions	29	(44)	(344)	—	—	—	—	(359)	(24)	6,663	6,280
Share-based compensation .....	—	52	(33)	—	—	—	—	19	—	7	26
Ownership changes.	—	—	114	(814)	(385)	4	(30)	(1,111)	—	10,171	9,060
Total change in period	29	8	2,595	(814)	675	(955)	275	1,813	(24)	15,791	17,580
Balance as at December 31, 2018..	\$ 4,457	\$ 271	\$ 14,244	\$ 645	\$ 7,556	\$ (1,833)	\$ 307	\$ 25,647	\$ 4,168	\$ 67,335	\$ 97,150

1. Includes gains or losses on changes in ownership interests of consolidated subsidiaries.
2. Includes changes in fair value of marketable securities, cash flow hedges, actuarial changes on pension plans and equity accounted other comprehensive income, net of associated income taxes.
3. See financial statement Note 2(b).

AS AT AND FOR THE YEAR ENDED DEC. 31, 2017 (MILLIONS)	Common Share Capital	Contributed Surplus	Retained Earnings	Ownership Changes <sup>1</sup>	Accumulated Other Comprehensive Income			Common Equity	Preferred Equity	Non- controlling Interests	Total Equity
					Revaluation Surplus	Currency Translation	Other Reserves <sup>2</sup>				
Balance as at December 31, 2016..	\$ 4,390	\$ 234	\$ 11,490	\$ 1,199	\$ 6,750	\$ (1,256)	\$ (308)	\$ 22,499	\$ 3,954	\$ 43,235	\$ 69,688
Changes in period:											
Net income.....	—	—	1,462	—	—	—	—	1,462	—	3,089	4,551
Other comprehensive income .....	—	—	—	—	237	280	332	849	—	1,741	2,590
Comprehensive income .....	—	—	1,462	—	237	280	332	2,311	—	4,830	7,141
Shareholder distributions											
Common equity .....	—	—	(642)	—	—	—	—	(642)	—	—	(642)
Preferred equity .....	—	—	(145)	—	—	—	—	(145)	—	—	(145)
Non-controlling interests .....	—	—	—	—	—	—	—	—	—	(4,907)	(4,907)
Other items											
Equity issuances, net of redemptions	38	(23)	(118)	—	—	—	—	(103)	238	7,193	7,328
Share-based compensation .....	—	52	(31)	—	—	—	—	21	—	4	25
Ownership changes.	—	—	(152)	260	(106)	98	11	111	—	1,273	1,384
Total change in period	38	29	374	260	131	378	343	1,553	238	8,393	10,184
Balance as at December 31, 2017..	\$ 4,428	\$ 263	\$ 11,864	\$ 1,459	\$ 6,881	\$ (878)	\$ 35	\$ 24,052	\$ 4,192	\$ 51,628	\$ 79,872

1. Includes gains or losses on changes in ownership interests of consolidated subsidiaries.
2. Includes changes in fair value of marketable securities, cash flow hedges, actuarial changes on pension plans and equity accounted other comprehensive income, net of associated income taxes.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DEC. 31  
(MILLIONS)

	Note	2018	2017
<b>Operating activities</b>			
Net income .....		\$ 7,488	\$ 4,551
Other income and gains.....		(1,166)	(1,180)
Share of undistributed equity accounted earnings .....		(294)	(481)
Fair value changes.....	24	(1,794)	(421)
Depreciation and amortization .....		3,102	2,345
Deferred income taxes .....	15	(1,109)	327
Investments in residential inventory .....		258	19
Net change in non-cash working capital balances .....		(1,326)	(1,155)
		<u>5,159</u>	<u>4,005</u>
<b>Financing activities</b>			
Corporate borrowings arranged .....		1,090	1,284
Corporate borrowings repaid .....		—	(434)
Commercial paper and bank borrowings, net .....		(103)	103
Non-recourse borrowings arranged.....		43,541	26,251
Non-recourse borrowings repaid.....		(28,243)	(21,636)
Non-recourse credit facilities, net .....		3,291	819
Subsidiary equity obligations issued.....		212	419
Subsidiary equity obligations redeemed .....		(485)	(347)
Capital provided from non-controlling interests.....		9,306	9,488
Capital repaid to non-controlling interests.....		(2,643)	(2,295)
Preferred equity issuance .....		—	241
Preferred equity redemptions .....		(17)	(7)
Common shares issued.....		11	15
Common shares repurchased .....		(389)	(124)
Distributions to non-controlling interests .....		(6,709)	(4,907)
Distributions to shareholders .....		(726)	(685)
		<u>18,136</u>	<u>8,185</u>
<b>Investing activities</b>			
Acquisitions			
Investment properties .....		(2,879)	(2,114)
Property, plant and equipment .....		(1,962)	(1,690)
Equity accounted investments.....		(953)	(2,718)
Financial assets and other .....		(5,288)	(4,623)
Acquisition of subsidiaries.....		(22,269)	(10,336)
Dispositions			
Investment properties .....		4,311	2,906
Property, plant and equipment .....		787	66
Equity accounted investments.....		2,163	889
Financial assets and other .....		4,523	2,843
Disposition of subsidiaries .....		1,729	2,834
Restricted cash and deposits .....		5	549
		<u>(19,833)</u>	<u>(11,394)</u>
<b>Cash and cash equivalents</b>			
Change in cash and cash equivalents .....		3,462	796
Net change in cash classified within assets held for sale .....		(1)	(20)
Foreign exchange revaluation .....		(210)	64
Balance, beginning of year.....		5,139	4,299
Balance, end of year.....		<u>\$ 8,390</u>	<u>\$ 5,139</u>
<b>Supplemental cash flow disclosures</b>			
Income taxes paid.....		\$ 980	\$ 402
Interest paid .....		4,712	3,374

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

Brookfield Asset Management Inc. (the “Corporation”) is a global alternative asset management company. References in these financial statements to “Brookfield,” “us,” “we,” “our” or “the company” refer to the Corporation and its direct and indirect subsidiaries and consolidated entities. The company owns and operates assets with a focus on real estate, renewable power, infrastructure and private equity. The Corporation is listed on the New York, Toronto and Euronext stock exchanges under the symbols BAM, BAM.A and BAMA, respectively. The Corporation was formed by articles of amalgamation under the Business Corporations Act (Ontario) and is registered in Ontario, Canada. The registered office of the Corporation is Brookfield Place, 181 Bay Street, Suite 300, Toronto, Ontario, M5J 2T3.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements were authorized for issuance by the Board of Directors of the company on March 26, 2019.

### b) Adoption of Accounting Standards

The company has applied new and revised standards issued by the IASB that are effective for the period beginning on or after January 1, 2018 resulting in a \$302 million reduction to opening total equity. The new standards were applied as follows:

#### i. *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”), specifies how and when revenue should be recognized and requires disclosures about the nature, amount, timing and uncertainty of revenues and cash flows arising from customer contracts. The company adopted the standard on January 1, 2018 on a modified retrospective basis with a cumulative catch-up adjustment booked to retained earnings as of January 1, 2018 as if the standard had always been in effect.

The standard is applied only to contracts that are not completed as at January 1, 2018 and we availed ourselves of the practical expedient that permits adopters of the standard to not apply the requirements for contract modifications retrospectively for contracts that were modified before January 1, 2018. Where available, the company has also elected the practical expedient available under IFRS 15 for measuring progress toward complete satisfaction of a performance obligation and for disclosure requirements of remaining performance obligations. This permits the company to recognize revenue in the amount to which we have the right to invoice such that the company has a right to the consideration in an amount that corresponds directly with the value to the customer for performance completed to date.

Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

This change in accounting policy affected our opening equity as follows:

(MILLIONS)	Balance at December 31, 2017	IFRS 15 Adjustments	Balance at January 1, 2018
<b>Assets</b>			
Accounts receivable and other .....	\$ 11,973	\$ (368)	\$ 11,605
Inventory .....	6,311	258	6,569
Equity accounted investments.....	31,994	(3)	31,991
Deferred income tax assets .....	1,464	42	1,506
Other assets .....	140,978	—	140,978
Total assets .....	<u>\$ 192,720</u>	<u>\$ (71)</u>	<u>\$ 192,649</u>
<b>Liabilities</b>			
Accounts payable and other .....	\$ 17,965	\$ 208	\$ 18,173
Deferred income tax liabilities.....	11,409	1	11,410
Other liabilities.....	83,474	—	83,474
Total liabilities.....	<u>112,848</u>	<u>209</u>	<u>113,057</u>
<b>Equity</b>			
Preferred equity.....	4,192	—	4,192
Non-controlling interests.....	51,628	(83)	51,545
Common equity.....	24,052	(197)	23,855
Total equity .....	<u>79,872</u>	<u>(280)</u>	<u>79,592</u>
Total liabilities and equity.....	<u>\$ 192,720</u>	<u>\$ (71)</u>	<u>\$ 192,649</u>

The \$280 million reduction in opening total equity is primarily due to the following:

- within our Private Equity segment, an increase of \$120 million in the contract work in progress liability and the reduction of \$125 million of accounts receivable. The impact on opening total equity was \$265 million. These adjustments were primarily the result of construction contracts for which the cost-to-cost input method was adopted to measure progress towards the satisfaction of performance obligations and for which variable consideration will only be recognized when it is highly probable that revenue from such amounts will not be reversed; and
- within our Residential segment, a reduction of \$190 million of accounts receivable, and increases of \$250 million in inventory and \$90 million in deferred revenue. The impact on opening total equity was \$15 million. These adjustments were primarily the result of our Brazilian residential homebuilding business for which customers have the ability to cancel their contract prior to the transfer of possession and recent legal cases support that control of the asset does not take place until the client takes possession of the unit.

During the year ended December 31, 2018, revenues were \$273 million higher than they would have been under the superseded standard. The difference is primarily due to:

- our residential homebuilding business in Brazil, where revenues were \$150 million higher under IFRS 15 due to the impact on the timing of revenue recognition which resulted in additional units considered sold during 2018; and
- our Private Equity segment, which recognized additional revenues of \$91 million in our construction services business and an incremental \$32 million in our infrastructure services and industrial operations businesses.

The adoption of IFRS 15 did not have a material effect on our other operations, and there was no material impact to our other financial statement accounts as at and for the year ended December 31, 2018.

## *Revenue Recognition Policies by Segment*

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. A performance obligation is a promise in a contract to transfer a distinct good or service (or a bundle of goods and services) to the customer and is the unit of account in IFRS 15. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue, as, or when, the performance obligation is satisfied. The company recognizes revenue when it transfers control of a product or service to a customer.

The company recognizes revenue from the following major sources:

### **Asset Management**

The company's primary asset management revenue streams, which include base management fees, incentive fees (including incentive distributions and performance fees) and realized carried interest, are satisfied over time. A significant portion of our asset management revenue is inter-segment in nature and thus eliminated on consolidation; that which survives is recorded as revenue in the Consolidated Statements of Operations.

The company earns base management fees in accordance with contractual arrangements with our private funds, listed partnerships and public securities' investment vehicles. Fees are typically equal to a percentage of fee-bearing capital within the respective fund or entity and are accrued quarterly. These fees are earned over the period of time that the management services are provided and are allocated to the distinct services provided by the company during the reporting period.

Incentive distributions and performance fees are incentive payments to reward the company for meeting or exceeding certain performance thresholds of managed entities. Incentive distributions, paid to us by our listed partnerships, are determined by contractual arrangements and represent a portion of distributions paid by the listed partnerships above a predetermined hurdle. They are accrued as revenue on the respective partnerships' distribution record dates if that hurdle has been achieved. BBU pays performance fees if the growth in its market value exceeds a predetermined threshold, with the value based on the quarterly volume-weighted average price of publicly traded units. These fees are accrued on a quarterly basis subject to the performance of the listed vehicle.

Carried interest is a performance fee arrangement in which we receive a percentage of investment returns, generated within a private fund on carry eligible capital, based on a contractual formula. We are eligible to earn carried interest from a fund once returns exceed the fund's contractually defined performance hurdles at which point 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. We defer recognition of carried interest as revenue until the fund's cumulative returns exceed its preferred returns and when the probability of clawback is remote, which is generally met when an underlying fund investment is profitably disposed of. Typically carried interest is not recognized as revenue until the fund is near the end of its life.

### **Real Estate**

Revenue from hospitality operations is generated by providing accommodation, food and beverage and leisure facilities to hotel guests. Revenue from accommodation is recognized over the period that the guest stays at the hotel; food and beverage revenue as well as revenue from leisure activities is recognized when goods and services are provided.

Real estate rental income is recognized in accordance with IAS 17, *Leases*. As the company retains substantially all the risks and benefits of ownership of its investment properties, it accounts for leases with its tenants as operating leases and begins recognizing revenue when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight line or free rent receivable, as applicable, is recorded as a component of investment property representing the difference between rental revenue recorded and the contractual amount received. Percentage participating rents are recognized when tenants' specified sales targets have been met.

### **Renewable Power**

Revenue is earned by selling electricity sourced from our power generating facilities. It is derived from the output delivered and capacity provided at rates specified under contract terms or at prevailing market rates if the sale is uncontracted. Performance obligations are satisfied over time as the customer simultaneously receives and consumes benefits as we deliver electricity and related products.

We also sell power and related products under bundled arrangements. Energy, capacity and renewable credits within power purchase agreements (“PPA”) are considered to be distinct performance obligations. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue over time as the performance obligation is satisfied. The sale of energy and capacity are distinct goods that are substantially the same and have the same pattern of transfer as measured by the output method. Renewable credits are performance obligations satisfied at a point in time. Measurement of satisfaction and transfer of control to the customer of renewable credits in a bundled arrangement coincides with the pattern of revenue recognition of the underlying energy generation.

#### Infrastructure

Our infrastructure revenue is predominantly recognized over time as services are rendered. Performance obligations are satisfied based on actual usage or throughput depending on the terms of the arrangement. Contract progress is determined using a cost-to-cost input method. Any upfront payments that are separable from the recurring revenue are recognized over time for the period the services are provided.

In addition, we have certain contracts where we earn revenue at a point in time when control of the product ultimately transfers to the customer, which for our sustainable resources operations coincides with product delivery.

#### Private Equity

Revenue from our private equity operations primarily consists of: (i) sales of goods or products which are recognized as revenue when the product is shipped and title passes to the customer; and (ii) the provision of services which are recognized as revenue over the period of time that they are provided.

Revenue recognized over a period of time is determined using the cost-to-cost input method to measure progress towards satisfaction of the performance obligations as the work performed on the contracts creates or enhances an asset that is controlled by the customer. A contract asset is recognized as costs are incurred and reclassified to accounts receivable when invoiced. A contract liability is recognized if payments are received before work is completed. Variable consideration, such as claims, incentives and variations resulting from contract modifications, is included in the transaction price when it is highly probable that such revenue will not reverse, which is when the uncertainty associated with the variable consideration is subsequently resolved.

#### Residential

Revenue from residential land sales, sales of homes and the completion of residential condominium projects is recognized at the point in time when our performance obligations are met. Performance obligations are satisfied when we transfer title over a product to a customer and all material conditions of the sales contract have been met. If title of a property transfers but material future development is required, revenue will be delayed until the point in time at which the remaining performance obligations are satisfied.

#### Corporate Activities and Other

Dividend and interest income from other financial assets are recognized as revenue when declared or on an accrual basis using the effective interest method, in accordance with IFRS 9 *Financial Instruments* (“IFRS 9”).

Interest revenue from loans and notes receivable, less a provision for uncollectable amounts, is recorded on the accrual basis using the effective interest method, in accordance with IFRS 9.

### **ii. Financial Instruments**

IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. This new standard also includes new guidance which aligns hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it allows more hedging strategies that are used for risk management purposes to qualify for hedge accounting. The company adopted the standard on January 1, 2018 and applied IFRS 9 retrospectively, using transitional provisions that allowed the company to not restate prior period comparative information, recording an insignificant adjustment to opening equity. The company has elected to use IFRS 9 hedge accounting. The standard is applied only to financial instruments held as at January 1, 2018. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

## Classification of Financial Instruments

The company classifies its financial assets as fair value through profit and loss (“FVTPL”), fair value through other comprehensive income (“FVTOCI”) and amortized cost according to the company’s business objectives for managing the financial assets and based on the contractual cash flow characteristics of the financial assets. The company classifies its financial liabilities as amortized cost or FVTPL.

- Financial instruments that are not held for the sole purpose of collecting contractual cash flows are classified as FVTPL and are initially recognized at their fair value and are subsequently measured at fair value at each reporting date. Gains and losses recorded on each revaluation date are recognized within net earnings. Transaction costs of financial assets classified as FVTPL are expensed in profit or loss.
- Financial assets classified as FVTOCI are initially recognized at their fair value and are subsequently measured at fair value at each reporting date. The cumulative gains or losses related to FVTOCI equity instruments are not reclassified to profit or loss on disposal, whereas the cumulative gains or losses on all other FVTOCI assets are reclassified to profit or loss on disposal, when there is a significant or prolonged decline in fair value or when the company acquires a controlling or significant interest in the underlying investment and commences equity accounting or consolidating the investment. The cumulative gains or losses on all FVTOCI liabilities are reclassified to profit or loss on disposal.
- Financial instruments that are held for the purpose of collecting contractual cash flows that are solely payments of principal and interest are classified as amortized cost and are initially recognized at their fair value and are subsequently measured at amortized cost using the effective interest rate method. Transaction costs of financial instruments classified as amortized cost are capitalized and amortized in profit or loss on the same basis as the financial instrument.

Expected credit losses associated with debt instruments carried at amortized cost and FVOCI are assessed on a forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment charges are recognized in profit or loss based on the expected credit loss model.

The following table presents the types of financial instruments held by the company within each financial instrument classification under IAS 39 and IFRS 9:

Financial Instrument Type	Measurement	
	IAS 39	IFRS 9
<b>Financial Assets</b>		
Cash and cash equivalents	Loans and receivables	Amortized cost
Other financial assets		
Government bonds	FVTPL, Available for sale	FVTPL, FVTOCI
Corporate bonds	FVTPL, Available for sale	FVTPL, FVTOCI
Fixed income securities and other	FVTPL, Available for sale	FVTPL, FVTOCI
Common shares and warrants	FVTPL, Available for sale	FVTPL, FVTOCI
Loan and notes receivable	FVTPL, Loans and receivables	FVTPL, Amortized cost
Accounts receivable and other <sup>1</sup>	FVTPL, Loans and receivables	FVTPL, FVTOCI, Amortized cost
<b>Financial Liabilities</b>		
Corporate borrowings	Loans and receivables	Amortized cost
Property-specific borrowings	Loans and receivables	Amortized cost
Subsidiary borrowings	Loans and receivables	Amortized cost
Accounts payable and other <sup>1</sup>	FVTPL, Loans and receivables	FVTPL, Amortized cost
Subsidiary equity obligations	FVTPL, Loans and receivables	FVTPL, Amortized cost

1. Includes derivative instruments.

## *Other Financial Assets*

Other financial assets are recognized on their trade date and initially recorded at fair value with changes in fair value recorded in net income or other comprehensive income in accordance with their classification. Fair values of financial instruments are determined by reference to quoted bid or ask prices, as appropriate. Where bid and ask prices are unavailable, the closing price of the most recent transaction of that instrument is used.

Other financial assets also include loans and notes receivable which are recorded initially at fair value and, with the exception of loans and notes receivable designated as FVTPL, are subsequently measured at amortized cost using the effective interest method, less any applicable provision for impairment. A provision for impairment is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Loans and receivables designated as FVTPL are recorded at fair value, with changes in fair value recorded in net income in the period in which they arise.

## *Allowance for Credit Losses*

For financial assets classified as amortized cost or debt instruments as FVTOCI, at each reporting period, the company assesses if there has been a significant increase in credit risk since the asset was originated to determine if a 12-month expected credit loss or a life-time expected credit loss should be recorded regardless of whether there has been an actual loss event. The company uses unbiased, probability-weighted loss scenarios which consider multiple loss scenarios based on reasonable and supportable forecasts in order to calculate the expected credit losses. These changes have not had a material impact on the company's consolidated financial statements as at January 1, 2018 and December 31, 2018.

The company assesses the carrying value of FVTOCI and amortized cost securities for impairment when there is objective evidence that the asset is impaired such as when an asset is in default. Impaired financial assets continue to record life-time expected credit losses; however interest revenue is calculated based on the net amortized carrying amount after deducting the loss allowance. When objective evidence of impairment exists, losses arising from impairment are reclassified from accumulated other comprehensive income to net income.

## *Derivative Financial Instruments and Hedge Accounting*

The company selectively utilizes derivative financial instruments primarily to manage financial risks, including interest rate, commodity and foreign exchange risks. Derivative financial instruments are recorded at fair value within the company's consolidated financial statements. Hedge accounting is applied when the derivative is designated as a hedge of a specific exposure and there is assurance that it will continue to be effective as a hedge based on an expectation of offsetting cash flows or fair values. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as a hedge or the hedging relationship is terminated. Once discontinued, the cumulative change in fair value of a derivative that was previously recorded in other comprehensive income by the application of hedge accounting is recognized in net income over the remaining term of the original hedging relationship. The assets or liabilities relating to unrealized mark-to-market gains and losses on derivative financial instruments are recorded in accounts receivable and other or accounts payable and other, respectively.

## *Items Classified as Hedges*

Realized and unrealized gains and losses on foreign exchange contracts designated as hedges of currency risks relating to a net investment in a subsidiary or an associate are included in equity. Gains or losses are reclassified into net income in the period in which the subsidiary or associate is disposed of or to the extent that the hedges are ineffective. Where a subsidiary is partially disposed, and control is retained, any associated gains or costs are reclassified within equity to ownership changes. Derivative financial instruments that are designated as hedges to offset corresponding changes in the fair value of assets and liabilities and cash flows are measured at their estimated fair value with changes in fair value recorded in net income or as a component of equity, as applicable. Unrealized gains and losses on interest rate contracts designated as hedges of future variable interest payments are included in equity as a cash flow hedge when the interest rate risk relates to an anticipated variable interest payment. The periodic exchanges of payments on interest rate swap contracts designated as hedges of debt are recorded on an accrual basis as an adjustment to interest expense. The periodic exchanges of payments on interest rate contracts designated as hedges of future interest payments are amortized into net income over the term of the corresponding interest payments. Unrealized gains and losses on electricity contracts designated as cash flow hedges of future power generation revenue are included in equity as a cash flow hedge. The periodic exchanges of payments on power generation commodity swap contracts designated as hedges are recorded on a settlement basis as an adjustment to power generation revenue.

Certain hedge accounting relationships relating to aggregated foreign currency exposures qualify for hedge accounting under this new standard and the company has completed the hedge documentation for these relationships in order to apply hedge accounting to these relationships prospectively, commencing on January 1, 2018.



## Items Not Classified as Hedges

Derivative financial instruments that are not designated as hedges are carried at their estimated fair value, and gains and losses arising from changes in fair value are recognized in net income in the period in which the change occurs. Realized and unrealized gains and losses on equity derivatives used to offset changes in share prices in respect of vested deferred share units and restricted share units are recorded together with the corresponding compensation expense. Realized and unrealized gains on other derivatives not designated as hedges are recorded in revenues, direct costs or corporate costs, as applicable. Realized and unrealized gains and losses on derivatives which are considered economic hedges, and where hedge accounting is not able to be elected, are recorded in fair value changes in the Consolidated Statements of Operations.

### ***iii. Foreign Currency Transactions and Advance Consideration***

IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (“IFRIC 22”) clarifies that the date of foreign currency transactions for purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The interpretation is effective for periods beginning on or after January 1, 2018 and may be applied either retrospectively or prospectively. The company adopted the standard using the prospective approach, and there is no material impact.

## **c) Future Changes in Accounting Standards**

### ***i. Leases***

In January 2016, the IASB published a new standard: IFRS 16 *Leases* (“IFRS 16”). Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For leasees, the new standard brings most leases on balance sheet, eliminating the distinction between operating and finance leases. While adopting IFRS 16 will not impact underlying cash flows, there is expected to be a change in the timing and classification of items reported in the Consolidated Statements of Operations as operating expenses for leases will be presented as interest expense (to adjust the value of the lease liability) and amortization expense (to adjust the value of the right-of-use asset). Right-of-use assets will be tested for impairment in accordance with IAS 36 *Impairment of assets*. This will replace the previous requirement to recognize a provision for onerous lease contracts. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 *Leases* and related interpretations and is effective for periods beginning on or after January 1, 2019.

Management has substantially completed its assessment of existing contractual arrangements in order to identify the population of leases that will be capitalized under the new standard. Management has also calculated the present value of the identified obligations by determining the appropriate incremental borrowing rates for each contract. At this time, management has nearly finalized the documented analysis and assessment of the potential impact to IT systems and internal controls and has drafted a preliminary version of the disclosures required by the new standard. Prior to adopting the standard in the first quarter of 2019, management needs to complete its assessment of leases held by certain consolidated subsidiaries acquired in the fourth quarter of 2018.

We will be adopting IFRS 16 using the modified retrospective approach which will result in a one-time adjustment to opening equity as of January 1, 2019 as if the standard had always been in effect; comparative periods will not be restated. We will be applying certain practical expedients and transition reliefs as permitted by the standard; specifically we have elected to apply practical expedients associated with short-term and low value leases that allow the company to record operating expenses on such leases on a straight-line basis without having to capitalize the lease arrangement. The adoption of IFRS 16 is expected to result in the recognition of right-of-use assets and lease liabilities of approximately \$3 billion as at January 1, 2019, excluding the impact relating to the subsidiaries for which the assessment is in progress; the equity impact is not expected to be material.

### ***ii. Uncertainty Over Income Tax Treatments***

In June 2017, the IASB published IFRIC 23 *Uncertainty over Income Tax Treatments* (“IFRIC 23”), effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The interpretation may be applied on either a fully retrospective basis or a modified retrospective basis without restatement of comparative information. The company does not expect a material impact on its consolidated financial statements.

### **iii. Business Combinations**

In October 2018, the IASB issued an amendment to IFRS 3 *Business Combinations* (“IFRS 3”), effective for annual periods beginning on or after January 1, 2020. The amendment clarifies the definition of a business and assists companies in determining whether an acquisition is a business combination or an acquisition of a group of assets. The amendment emphasizes that the output of a business is to provide goods and services to customers and also provide supplementary guidance. The company will adopt the standard prospectively and is currently evaluating the impact on its consolidated financial statements.

#### **d) Basis of Presentation**

The consolidated financial statements are prepared on a going concern basis.

##### **i. Subsidiaries**

The consolidated financial statements include the accounts of the company and its subsidiaries, which are the entities over which the company exercises control. Control exists when the company is able to exercise power over the investee, is exposed to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of its returns. Subsidiaries are consolidated from the date control is obtained and continue to be consolidated until the date when control is lost. The company includes 100% of its subsidiaries’ revenues and expenses in the Consolidated Statements of Operations and 100% of its subsidiaries’ assets and liabilities on the Consolidated Balance Sheets, with non-controlling interests in the equity of the company’s subsidiaries included within the company’s equity. All intercompany balances, transactions, unrealized gains and losses are eliminated in full.

The company continually reassesses whether or not it controls an investee, particularly if facts and circumstances indicate there is a change to one or more of the control criteria previously mentioned. In certain circumstances when the company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The company considers all relevant facts and circumstances in assessing whether or not the company’s voting rights are sufficient to give it control of an investee.

Certain of the company’s subsidiaries are subject to profit sharing arrangements, such as carried interest, between the company and the non-controlling equity holders, whereby the company is entitled to a participation in profits, as determined under the agreements. The attribution of net income amongst equity holders in these subsidiaries reflects the impact of these profit sharing arrangements when the attribution of profits as determined in the agreement is no longer subject to adjustment based on future events and correspondingly reduces non-controlling interests’ attributable share of those profits.

Gains or losses resulting from changes in the company’s ownership interest of a subsidiary that do not result in a loss of control are accounted for as equity transactions and are recorded within ownership changes as a component of equity. When we dispose of all or part of a subsidiary resulting in a loss of control, the difference between the carrying value of what is sold and the proceeds from disposition is recognized within other income and gains in the Consolidated Statements of Operations.

Refer to Note 2(p) for an explanation of the company’s accounting policy for business combinations and to Note 4 for additional information on subsidiaries of the company with significant non-controlling interests.

##### **ii. Associates and Joint Ventures**

Associates are entities over which the company exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have the rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The company accounts for associates and joint ventures using the equity method of accounting within equity accounted investments on the Consolidated Balance Sheets.

Interests in associates and joint ventures accounted for using the equity method are initially recognized at cost. At the time of initial recognition, if the cost of the associate or joint venture is lower than the proportionate share of the investment’s underlying fair value, the company records a gain on the difference between the cost and the underlying fair value of the investment in net income. If the cost of the associate or joint venture is greater than the company’s proportionate share of the underlying fair value, goodwill relating to the associate or joint venture is included in the carrying amount of the investment. Subsequent to initial recognition, the carrying value of the company’s interest in an associate or joint venture is adjusted for the company’s share of comprehensive income and distributions of the investee. Profit and losses resulting from transactions with an associate or joint venture are recognized in the consolidated financial statements based on the interests of unrelated investors in the investee. The carrying value of associates or joint ventures is assessed for impairment at each balance sheet date. Impairment losses on equity accounted investments may be subsequently reversed in net income. Further information on the impairment of long-lived assets is available in Note 2(m).

### **iii. Joint Operations**

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, related to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require unanimous consent of parties sharing control. The company recognizes only its assets, liabilities and share of the results of operations of the joint operation. The assets, liabilities and results of joint operations are included within the respective line items of the Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income.

### **e) Foreign Currency Translation**

The U.S. dollar is the functional and presentation currency of the company. Each of the company's subsidiaries, associates, joint ventures and joint operations determines its own functional currency and items included in the consolidated financial statements of each subsidiary, associate, joint venture and joint operation are measured using that functional currency.

Assets and liabilities of foreign operations having a functional currency other than the U.S. dollar are translated at the rate of exchange prevailing at the reporting date and revenues and expenses at average rates during the period. Gains or losses on translation are accumulated as a component of equity. On the disposal of a foreign operation, or the loss of control, joint control or significant influence, the component of accumulated other comprehensive income relating to that foreign operation is reclassified to net income. Gains or losses on foreign currency denominated balances and transactions that are designated as hedges of net investments in these operations are reported in the same manner.

Foreign currency denominated monetary assets and liabilities of the company are translated using the rate of exchange prevailing at the reporting date and non-monetary assets and liabilities measured at fair value are translated at the rate of exchange prevailing at the date when the fair value was determined. Revenues and expenses are measured at average rates during the period. Gains or losses on translation of these items are included in net income. Gains or losses on transactions which hedge these items are also included in net income. Foreign currency denominated non-monetary assets and liabilities, measured at historic cost, are translated at the rate of exchange at the transaction date.

### **f) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, demand deposits and highly liquid short-term investments with original maturities of three months or less.

### **g) Related Party Transactions**

In the normal course of operations, the company enters into various transactions on market terms with related parties. The majority of transactions with related parties are between consolidated entities and eliminate on consolidation. The company and its subsidiaries may also transact with entities over which the company has significant influence or joint control. Amounts owed to and by associates and joint ventures are not eliminated on consolidation. The company's subsidiaries with significant non-controlling interests are described in Note 4 and its associates and joint ventures are described in Note 10.

In addition to our subsidiaries and equity accounted investments, we consider key management personnel, the Board of Directors and material shareholders to be related parties. See additional details in Note 28.

### **h) Operating Assets**

#### **i. Investment Properties**

The company uses the fair value method to account for real estate classified as investment properties. A property is determined to be an investment property when it is principally held either to earn rental income or for capital appreciation, or both. Investment properties also include properties that are under development or redevelopment for future use as investment property. Investment properties are initially measured at cost including transaction costs, or at fair value if acquired in a business combination. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are included in net income during the period in which they arise.

Fair values are completed by undertaking one of two accepted approaches: (i) discounting the expected future cash flows, generally over a term of 10 years including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows, typically used for our office, retail and logistics assets; or (ii) undertaking a direct capitalization approach for certain of our LP investments and directly held multifamily assets whereby a capitalization rate is applied to estimated current year cash flows. The future cash flows of each property are based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases.

Commercial developments are also measured using a discounted cash flow model, net of costs to complete, as of the balance sheet date. Development sites in the planning phases are measured using comparable market values for similar assets.

## *ii. Property, Plant and Equipment*

The company uses the revaluation method of accounting for certain classes of property, plant and equipment as well as certain assets which are under development for future use as property, plant and equipment. Property, plant and equipment measured using the revaluation method is initially measured at cost, or at fair value if acquired in a business combination, and subsequently carried at its revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and any accumulated impairment losses. Revaluations are performed on an annual basis at the end of each fiscal year, commencing in the first year subsequent to the date of acquisition, unless there is an indication that assets are impaired. Where the carrying amount of an asset increases as a result of a revaluation, the increase is recognized in other comprehensive income and accumulated in equity in revaluation surplus, unless the increase reverses a previously recognized impairment recorded through net income, in which case that portion of the increase is recognized in net income.

Where the carrying amount of an asset decreases, the decrease is recognized in other comprehensive income to the extent of any balance existing in revaluation surplus in respect of the asset, with the remainder of the decrease recognized in net income. Depreciation of an asset commences when it is available for use. On loss of control or partial disposition of an asset measured using the revaluation method, all accumulated revaluation surplus or the portion disposed of, respectively, is transferred into retained earnings or ownership changes, respectively.

Property, plant and equipment held in our Private Equity segment is measured at cost. Land is carried at cost whereas finite-life assets such as buildings and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on a systematic basis over the assets' useful life.

Depreciation methods and useful lives are reassessed at least annually regardless of the measurement method used.

### *Renewable Power*

Renewable power generating assets, including assets under development, are classified as property, plant and equipment and are accounted for using the revaluation method. The company determines the fair value of its renewable power generating assets using discounted cash flow analysis, which includes estimates of forecasted revenue, operating costs, maintenance and other capital expenditures. Discount rates are selected for each facility giving consideration to the expected proportion of contracted to uncontracted revenue and markets into which power is sold.

For perpetual assets, such as many of our hydroelectric facilities, the first 20 years of cash flow are discounted with a residual value based on the terminal value cash flows. For assets with finite lives, which include wind and solar farms, the company discounts projected cash flows over the assets' estimated remaining service lives. The fair value and estimated remaining service lives are reassessed on an annual basis.

Depreciation on renewable power generating assets is calculated on a straight-line basis over the estimated service lives of the assets, which are as follows:

(YEARS)	Useful Lives
Dams .....	Up to 115
Penstocks .....	Up to 60
Powerhouses .....	Up to 115
Hydroelectric generating units .....	Up to 115
Wind generating units .....	Up to 41
Solar generating units .....	Up to 30
Other assets .....	Up to 60

Cost is allocated to the significant components of power generating assets and each component is depreciated separately.

The depreciation of property, plant and equipment in our Brazilian renewable power operations is based on the duration of the authorization or the useful life of a concession. The weighted-average remaining duration at December 31, 2018 is 29 years (2017 – 15 years). Land rights are included as part of the concession or authorization and are subject to depreciation. In June of 2018, the federal government of Brazil provided further clarification to a law that was passed in 2016, which resulted in Brookfield Renewable including a one-time thirty year concession renewal period in the valuation of certain of its hydroelectric facilities in Brazil.

### *Infrastructure*

Utilities, transport, communication and energy assets within our infrastructure operations as well as assets under development classified as property, plant and equipment on the Consolidated Balance Sheets are accounted for using the revaluation method. The company determines the fair value of its utilities, transport, energy and data infrastructure assets using discounted cash flow analyses, which include estimates of forecasted revenue, operating costs, maintenance and other capital expenditures. Valuations are performed internally on an annual basis. Discount rates are selected for each asset, giving consideration to the volatility and geography of its revenue streams.

Depreciation on utilities, transport, energy and data infrastructure assets is calculated on a straight-line or declining balance basis over the estimated service lives of the components of the assets, which are as follows:

(YEARS)	Useful Lives
Buildings.....	Up to 75
Transmission stations, towers and related fixtures .....	Up to 40
Leasehold improvements .....	Up to 50
Plant and equipment.....	Up to 40
Network systems.....	Up to 65
Track .....	Up to 40
District energy systems .....	Up to 50
Gas storage assets .....	Up to 50

The fair value and the estimated remaining service lives are reassessed annually.

Public service concessions that provide the right to charge users for a service in which the service and fee is regulated by the grantor are accounted for as intangible assets.

In our sustainable resources operations, land used in the production of standing timber, as well as bridges and roads used in sustainable resources production, are accounted for using the revaluation method and included in property, plant and equipment. Bridges, roads and equipment are depreciated over their useful lives, generally 3 to 30 years.

### *Real Estate – Hospitality Assets*

Hospitality operating assets within our real estate operations are classified as property, plant and equipment and are accounted for using the revaluation method. The company determines the fair value for these assets by using a depreciated replacement cost method based on the age, physical condition and the construction costs of the assets. Fair value of hospitality properties are also reviewed in reference to each hospitality asset's enterprise value which is determined using a discounted cash flow model.

Depreciation on hotel assets is calculated on a straight-line basis over the estimated useful lives of each component of the asset as follows:

(YEARS)	Useful Lives
Buildings and improvements .....	Up to 45
Equipment and fixtures.....	Up to 20

## *Private Equity*

The company accounts for its private equity property, plant and equipment using the cost model. Costs include expenditures that are directly attributable to the acquisition of the asset. Depreciation of an asset commences when it is available for use. PP&E is depreciated on a straight-line basis over the estimated useful lives of each component of the asset as follows:

(YEARS)	Useful Lives
Buildings .....	Up to 50
Leasehold improvements .....	Up to 40
Machinery and equipment .....	Up to 20
Oil and gas related equipment .....	Up to 10
Vessels .....	Up to 35

Oil and natural gas pre-licensing costs incurred before the legal right to explore a specific area have been obtained are expensed in the period in which they are incurred. Once the legal right to explore has been acquired and development and exploration costs commence, attributable costs are capitalized. The net carrying value of oil and gas properties is depleted using a unit-of-production method based on estimated proved, plus probable oil and natural gas reserves.

### *iii. Inventory*

#### *Private Equity*

Fuel inventories within our Private Equity segment are traded in active markets and are purchased with the view to resell in the near future, generating a profit from fluctuations in prices or margins. As a result, fuel inventories are carried at market value by reference to prices in a quoted active market, in accordance with the commodity broker-trader exemption granted by IAS 2, *Inventories*. Changes in fair value less costs to sell are recognized in direct costs. Fuel products that are held for extended periods in order to benefit from future anticipated increases in fuel prices or located in territories where no active market exists are recognized at the lower of cost and net realizable value. Products and chemicals used in the production of biofuels are valued at the lower of cost and net realizable value.

#### *Real Estate*

Residential development lots, homes and residential condominium projects are recorded in inventory. Residential development lots are recorded at the lower of cost, which includes pre-development expenditures and capitalized borrowing costs and net realizable value, which the company determines as the estimated selling price of the inventory in the ordinary course of business in its completed state, less estimated expenses, including holding costs, costs to complete and costs to sell.

Homes and other properties held for sale, which include properties subject to sale agreements, are recorded at the lower of cost and net realizable value in inventory. Costs are allocated to the salable acreage of each project or subdivision in proportion to the anticipated revenue.

#### *Residential Development*

Inventories consist of land held for development, land under development, homes under construction, completed homes and model homes. In addition to direct land acquisitions, land development and improvement costs and home construction costs, costs also include interest, real estate taxes and direct overhead related to development and construction, which are capitalized to inventory during the period beginning with the commencement of development and ending with the completion of construction or development. Indirect costs are allocated to homes or lots based on the number of units in a community.

Land and housing assets are recorded at the lower of cost and net realizable value, which the company determines as the estimated selling price of the inventory in the ordinary course of business in its completed state, less estimated expenses, including holding costs, costs to complete and costs to sell.

#### *Sustainable Resources*

Harvested timber is included in inventory and is measured at the lower of fair value less estimated costs to sell at the time of harvest and net realizable value.



#### ***iv. Sustainable Resources – Standing Timber and Other Agricultural Assets***

Sustainable resources consist of standing timber and other agricultural assets and are measured at fair value after deducting the estimated selling costs and are recorded in accounts receivable and other on the Consolidated Balance Sheets. Estimated selling costs include commissions, levies, delivery costs, transfer taxes and duties. The fair value of standing timber is calculated using the present value of anticipated future cash flows for standing timber before tax and terminal dates of 30 years. Fair value is determined based on felling plans, assessments regarding growth, timber prices and felling and silviculture costs. Changes in fair value are recorded in net income in the period of change. The company determines fair value of its standing timber using external valuations on an annual basis.

##### **i) Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value measurement is disaggregated into three hierarchical levels: Level 1, 2 or 3. Fair value hierarchical levels are directly based on the degree to which the inputs to the fair value measurement are observable. The levels are as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the asset or liability's anticipated life.

Level 3 – Inputs are unobservable and reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs in determining the estimate.

Refer to the investment properties and revaluation of property, plant and equipment explanations for the approach taken to determine the fair value of these operating assets.

Further information on fair value measurements is available in Notes 6, 7, 11 and 12.

##### **j) Accounts Receivable**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less an allowance for expected credit losses for uncollectability.

##### **k) Intangible Assets**

Finite life intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses and are amortized on a straight-line basis over their estimated useful lives. Amortization is recorded within depreciation and amortization in the Consolidated Statements of Operations.

Certain of the company's intangible assets have an indefinite life as there is no foreseeable limit to the period over which the asset is expected to generate cash flows. Indefinite life intangible assets are recorded at cost unless an impairment is identified which requires a write-down to its recoverable amount.

Indefinite life intangible assets are evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Any impairment of the company's indefinite life intangible assets is recorded in net income in the period in which the impairment is identified. Impairment losses on intangible assets may be subsequently reversed in net income.

#### ***Infrastructure***

Intangible assets within our Infrastructure segment primarily consist of service concession arrangements that are accounted for as intangible assets under IFRIC 12, *Service Concession Arrangements* ("IFRIC 12"). Concession arrangements were mostly acquired through acquisitions of gas transmission, terminal and toll road businesses and are amortized on a straight line basis over the term of the arrangement.

The intangible asset at the Australian regulated terminal operation relates to use of a specific coal port terminal for a contractual length of time and is amortized over the life of the contractual arrangement with 82 years remaining on a straight-line basis. The intangible assets at the Brazilian regulated gas transmission operation relate to pipeline concession contracts, amortized on a straight-line basis over the life of the contractual arrangement. The intangible assets at the Chilean, Indian and Peruvian toll roads relate to the right to operate a road and charge users a specified tariff for a contractual length of time and is amortized over the life of the contractual arrangement with an average of 15, 15 and 24 years remaining, respectively.

Refer to Note 13 of the consolidated financial statements for additional information on these concession arrangements.

The intangible assets at our residential infrastructure operation comprise contractual customer relationships, customer contracts, proprietary technology and brands. The contractual customer relationships and customer contracts represent ongoing economic benefits from leasing customers and annuity-based management agreements. Proprietary technology is recognized for the development of new metering technology, which allows the business to generate revenue through its sub-metering business. Brands represent the intrinsic value customers place on the operation's various brand names. Brands are classified as having an indefinite life and are subject to annual impairment reviews. The remaining intangible assets are amortized straight-line over 10 to 20 years.

### *Private Equity*

Our private equity operations include intangible assets across a number of operating companies. The majority are finite life intangibles with the following useful lives:

(YEARS)	Useful Lives
Water and sewage concession agreements.....	Up to 40
Brand names .....	Up to 20
Computer software.....	Up to 10
Customer relationships .....	Up to 30
Patents and trademarks .....	Up to 40
Proprietary technology.....	Up to 15
Product development costs .....	Up to 5
Distribution networks .....	Up to 25
Loyalty program .....	Up to 15

### *Real Estate*

Intangible assets in our real estate segment are primarily trademarks associated with hospitality assets. These assets have indefinite lives.

## **l) Goodwill**

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the cash-generating unit to which it relates. The company identifies cash-generating units as identifiable groups of assets that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of a cash-generating unit, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a cash-generating unit are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the cash-generating unit. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. On disposal of a subsidiary, any attributable amount of goodwill is included in determination of the gain or loss on disposal.



## **m) Impairment of Long-Lived Assets**

At each balance sheet date or more often if events or circumstances indicate there may be impairment, the company assesses whether its assets, other than those measured at fair value with changes in value recorded in net income, have any indication of impairment. An impairment is recognized if the recoverable amount, determined as the higher of the estimated fair value less costs of disposal and the discounted future cash flows generated from use and eventual disposal from an asset or cash-generating unit, is less than their carrying value. Impairment losses are recorded as fair value changes within the Consolidated Statements of Operations. The projections of future cash flows take into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the lesser of the revised estimate of its recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

## **n) Subsidiary Equity Obligations**

Subsidiary equity obligations include subsidiary preferred equity units, subsidiary preferred shares and capital securities as well as limited-life funds and redeemable fund units.

Subsidiary preferred equity units and capital securities are preferred shares that may be settled by a variable number of common equity units upon their conversion by the holders or the company. These instruments, as well as the related accrued distributions, are classified as liabilities at amortized cost on the Consolidated Balance Sheets. Dividends or yield distributions on these instruments are recorded as interest expense. To the extent conversion features are not closely related to the underlying liability the instruments are bifurcated into debt and equity components.

Limited-life funds represent the interests of others in the company's consolidated funds that have a defined maximum fixed life where the company has an obligation to distribute the residual interests of the fund to fund partners based on their proportionate share of the fund's equity in the form of cash or other financial assets at cessation of the fund's life.

Redeemable fund units represent interests of others in consolidated subsidiaries that have a redemption feature that requires the company to deliver cash or other financial assets to the holders of the units upon receiving a redemption notice.

Limited-life funds and redeemable fund units are classified as liabilities and recorded at fair value within subsidiary equity obligations on the Consolidated Balance Sheets. Changes in the fair value are recorded in net income in the period of the change.

## **o) Income Taxes**

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Current and deferred income tax relating to items recognized directly in equity are also recognized in equity. Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences and for the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax assets will be recovered. Deferred income tax assets and liabilities are measured using the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

## **p) Business Combinations**

Business combinations are accounted for using the acquisition method. The cost of a business acquisition is measured at the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date, except for non-current assets that are classified as held for sale which are recognized and measured at fair value less costs to sell. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, the excess is recorded as goodwill. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible and intangible assets, the excess is recognized in net income.

When a business combination is achieved in stages, previously held interests in the acquired entity are re-measured to fair value at the acquisition date, which is the date control is obtained, and the resulting gain or loss, if any, is recognized in net income, other than amounts transferred directly to retained earnings. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to net income. Transaction costs are recorded as an expense within fair value changes in the Consolidated Statements of Operations.

## **q) Other Items**

### ***i. Capitalized Costs***

Capitalized costs related to assets under development and redevelopment include all eligible expenditures incurred in connection with the acquisition, development and construction of the asset until it is available for its intended use. These expenditures consist of costs that are directly attributable to these assets.

Borrowing costs are capitalized when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that takes a substantial period of time to prepare for its intended use.

### ***ii. Share-based Payments***

The company issues share-based awards to certain employees and non-employee directors. The cost of equity-settled share-based transactions, comprised of share options, restricted shares and escrowed shares, is determined as the fair value of the award on the grant date using a fair value model. The cost of equity-settled share-based transactions is recognized as each tranche vests and is recorded in contributed surplus as a component of equity. The cost of cash-settled share-based transactions, comprised of Deferred Share Units (“DSUs”) and Restricted Share Units (“RSUs”), is measured as the fair value at the grant date, and expensed on a proportionate basis consistent with the vesting features over the vesting period with the recognition of a corresponding liability. The liability is recorded as a provision within accounts payable and other and measured at each reporting date at fair value with changes in fair value recognized in net income.

### ***iii. Provisions***

A provision is a liability of uncertain timing that is recognized when the company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The company’s significant provisions consist of pensions and other long-term and post-employment benefits, warranties on some products or services, obligations to retire or decommission tangible long-lived assets and the cost of legal claims arising in the normal course of operations.

#### ***a. Pensions and Other Post-Employment Benefits***

The company offers pension and other post-employment benefit plans to employees of certain of its subsidiaries, with certain of these subsidiaries offering defined benefit plans. Defined benefit pension expenses, which include the current year’s service cost, are included in direct costs. For each defined benefit plan, we recognize the present value of our defined benefit obligations less the fair value of the plan assets as a defined benefit liability reported in accounts payable and other on our Consolidated Balance Sheets. The company’s obligations under its defined benefit pension plans are determined periodically through the preparation of actuarial valuations.

#### ***b. Other Long-Term Incentive Plans***

The company provides long-term incentive plans to certain employees whereby the company allocates a portion of the amounts realized through subsidiary profit sharing agreements to its employees. The cost of these plans is recognized over the requisite service period, provided it is probable that the vesting conditions will be achieved, based on the underlying subsidiary profit sharing arrangement. The liability is recorded within accounts payable and other and measured at each reporting date with the corresponding expense recognized in direct costs.

#### ***c. Warranties, Asset Retirement, Legal and Other***

Certain consolidated entities offer warranties on the sale of products or services. A provision is recorded to provide for future warranty costs based on management’s best estimate of probable warranty claims.

Certain consolidated entities have legal obligations to retire tangible long-lived assets. A provision is recorded at each reporting date to provide for the estimated fair value of the asset retirement obligation upon decommissioning of the asset period.

In the normal course of operations, the company may become involved in legal proceedings. Management analyzes information about these legal matters and provides provisions for probable contingent losses, including estimated legal expenses to resolve the matters. Internal and external legal counsel are used in order to estimate the probability of an unfavorable outcome and the amount of loss.

## **r) Critical Estimates and Judgments**

The preparation of financial statements requires management to make estimates and judgments that affect the carried amounts of certain assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses recorded during the period. Actual results could differ from those estimates.

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

### ***i. Critical Estimates***

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

#### ***a. Investment Properties***

The critical assumptions and estimates used when determining the fair value of commercial properties are: the timing of rental income from future leases reflecting current market conditions, less assumptions of future cash costs in respect of current and future leases; maintenance and other capital expenditures; discount rates; terminal capitalization rates; and terminal valuation dates. Properties under development are recorded at fair value using a discounted cash flow model which includes estimates in respect of the timing and cost to complete the development.

Further information on investment property estimates is provided in Note 11.

#### ***b. Revaluation Method for Property, Plant and Equipment***

When determining the carrying value of property, plant and equipment using the revaluation method, the company uses the following critical 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 property, plant and equipment under development includes estimates in respect of the timing and cost to complete the development.

Further information on estimates used in the revaluation method for property, plant and equipment is provided in Note 12.

#### ***c. Financial Instruments***

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.

Further information on estimates used in determining the carrying value of financial instruments is provided in Notes 6, 25 and 26.

#### ***d. Inventory***

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

#### ***e. 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.

*f. 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.

***ii. Critical 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:

***a. 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 it 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 as a result of 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.

***b. 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.

***c. Property, Plant and Equipment***

The company's accounting policy for its property, plant and equipment requires critical judgments over the assessment of carrying value, whether certain costs are additions to the carrying amount of the property, plant and equipment 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, discount and capitalization rates. Judgment is applied when determining future electricity prices considering broker quotes for the years in which there is a liquid market available and, for the subsequent years, our best estimate of electricity prices from renewable sources that would allow new entrants into the market.

***d. Identifying Performance Obligations for Revenue Recognition***

Management is required to identify performance obligations relating to contracts with customers at the inception of each contract. IFRS 15, the new revenue recognition standard, requires a contract's transaction price to be allocated to each distinct performance obligation and subsequently recognized into income when, or as, the performance obligation is satisfied. Judgment is used when assessing the pattern of delivery of the product or service to determine if revenue should be recognized at a point in time or over time. For certain service contracts recognized over time, judgment is required to determine if revenue from variable consideration such as incentives, claims and variations from contract modifications has met the required probability threshold to be recognized.

Management also uses judgment to determine whether contracts for the sale of products and services have distinct performance obligations that should be accounted for separately or as a single performance obligation. Goods and services are considered distinct if (1) a customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and (2) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Additional details about revenue recognition policies across our operating segments are included in Note 2(b) of the consolidated financial statements.

#### *e. Common Control Transactions*

The purchase and sale of businesses or subsidiaries between entities under common control are not specifically addressed in 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.

#### *f. 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.

#### *g. Income Taxes*

The company makes judgments when determining the future tax rates applicable to subsidiaries and identifying the temporary differences 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 that would follow the disposition of the property. Otherwise, deferred taxes are measured on the basis the carrying value of the investment property will be recovered substantially through use.

#### *h. Classification of Non-Controlling Interests in Limited-Life Funds*

Non-controlling interests in limited-life funds are classified as liabilities (subsidiary equity obligations) 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 another financial asset or assets delivered in kind. Judgment is required to determine what the governing documents of each entity require or permit in this regard.

#### *i. 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.

### **3. SEGMENTED INFORMATION**

#### **a) Operating Segments**

Our operations are organized into five operating business groups in addition to our corporate and asset management activities, which collectively represent seven operating segments for internal and external reporting purposes. We measure performance primarily using Funds from Operations ("FFO") generated by each operating segment and the amount of capital invested by the Corporation in each segment using common equity by segment.

Our operating segments are as follows:

- 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, LP investments 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, data infrastructure and sustainable resource assets.

- v. *Private equity* operations include a broad range of industries, and are mostly focused on business services, infrastructure services 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 leverage, 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.

## **b) Segment Financial Measures**

FFO is a key measure of our financial performance and our segment measure of profit and loss. It is utilized by our Chief Operating Decision Maker in assessing operating results and the performance of our businesses on a segmented basis. We define FFO as net income excluding fair value changes, depreciation and amortization and deferred income taxes, net of non-controlling interests. When determining FFO, we include our proportionate share of the FFO from equity accounted investments on a fully diluted basis. FFO also includes realized disposition gains and losses, which are gains or losses arising from transactions during the reporting period, adjusted to include associated fair value changes and revaluation surplus recorded in prior periods, taxes payable or receivable in connection with those transactions and amounts that are recorded directly in equity, such as ownership changes.

We use FFO to assess our performance as an asset manager and as an investor in our assets. FFO from our asset management segment includes fees, net of the associated costs, that we earn from managing capital in our listed partnerships, private funds and public securities accounts. We are also eligible to earn incentive payments in the form of incentive distributions, performance fees or carried interest. As an investor in our assets, our FFO represents the company's share of revenues less costs incurred within our operations, which include interest expenses and other costs. Specifically, it includes the impact of contracts that we enter into to generate revenues, including power sales agreements, contracts that our operating businesses enter into such as leases and take or pay contracts and sales of inventory. FFO includes the impact of changes in leverage or the cost of that financial leverage and 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 equity 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 increases 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.

We illustrate how we derive FFO for each operating segment and reconcile total FFO to net income in Note 3(c)(v) of the consolidated financial statements.

## ***Segment Balance Sheet Information***

We use common equity by segment as our measure of segment assets when reviewing our deconsolidated balance sheet because it is utilized by our Chief Operating Decision Maker for capital allocation decisions.



## Segment Allocation and Measurement

Segment measures include amounts earned from consolidated entities that are eliminated on consolidation. The principal adjustment is to include asset management revenues charged to consolidated entities as revenues within the company's Asset Management segment with the corresponding expense recorded as corporate costs within the relevant segment. These amounts are based on the in-place terms of the asset management contracts between the consolidated entities. Inter-segment revenues are determined under terms that approximate market value.

The company allocates the costs of shared functions that would otherwise be included within its corporate activities segment, such as information technology and internal audit, pursuant to formal policies.

### c) Reportable Segment Measures

AS AT AND FOR THE YEAR ENDED DEC. 31, 2018 (MILLIONS)	Asset Management	Real Estate	Renewable Power	Infrastructure	Private Equity	Residential Development	Corporate Activities	Total Segments	Note
External revenues .....	\$ 187	\$ 8,075	\$ 3,751	\$ 5,013	\$ 36,828	\$ 2,683	\$ 234	\$ 56,771	
Inter-segment revenues .....	1,760	41	11	5	442	—	(46)	2,213	i
Segmented revenues .....	1,947	8,116	3,762	5,018	37,270	2,683	188	58,984	
FFO from equity accounted investments .....	—	945	46	846	526	15	(6)	2,372	ii
Interest expense .....	—	(2,464)	(930)	(586)	(520)	(57)	(323)	(4,880)	iii
Current income taxes .....	—	(213)	(32)	(326)	(186)	(45)	(59)	(861)	iv
Funds from operations .....	1,317	1,786	328	602	795	49	(476)	4,401	v
Common equity .....	328	17,423	5,302	2,887	4,279	2,606	(7,178)	25,647	
Equity accounted investments .....	—	22,949	685	7,636	1,943	395	39	33,647	
Additions to non-current assets <sup>1</sup> .....	—	51,111	3,729	10,524	10,139	124	190	75,817	

1. Includes equity accounted investments, investment properties, property, plant and equipment, sustainable resources, intangible assets and goodwill.

AS AT AND FOR THE YEAR ENDED DEC. 31, 2017 (MILLIONS)	Asset Management	Real Estate	Renewable Power	Infrastructure	Private Equity	Residential Development	Corporate Activities	Total Segments	Note
External revenues .....	\$ 286	\$ 6,824	\$ 2,788	\$ 3,859	\$ 24,220	\$ 2,447	\$ 362	\$ 40,786	
Inter-segment revenues .....	1,181	38	—	12	357	—	—	1,588	i
Segmented revenues .....	1,467	6,862	2,788	3,871	24,577	2,447	362	42,374	
FFO from equity accounted investments .....	—	904	23	904	229	1	8	2,069	ii
Interest expense .....	—	(1,901)	(691)	(453)	(237)	(83)	(261)	(3,626)	iii
Current income taxes .....	—	(63)	(39)	(111)	(84)	(46)	57	(286)	iv
Funds from operations .....	970	2,004	270	345	333	34	(146)	3,810	v
Common equity .....	312	16,725	4,944	2,834	4,215	2,915	(7,893)	24,052	
Equity accounted investments .....	—	19,597	509	8,793	2,387	346	362	31,994	
Additions to non-current assets <sup>1</sup> .....	—	10,025	7,555	7,991	6,307	74	328	32,280	

1. Includes equity accounted investments, investment properties, property, plant and equipment, sustainable resources, intangible assets and goodwill.

### i. Inter-Segment Revenues

For the year ended December 31, 2018, the adjustment to external revenues when determining segmented revenues consists of asset management revenues earned from consolidated entities totaling \$1.8 billion (2017 – \$1.2 billion), revenues earned on construction projects between consolidated entities totaling \$430 million (2017 – \$357 million), and interest income and other revenues totaling \$23 million (2017 – \$19 million), which were eliminated on consolidation to arrive at the company's consolidated revenues.

## ii. FFO from Equity Accounted Investments

The company determines FFO from its equity accounted investments by applying the same methodology utilized in adjusting net income of consolidated entities. The following table reconciles the company's consolidated equity accounted income to FFO from equity accounted investments:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Consolidated equity accounted income .....	\$ 1,088	\$ 1,213
Non-FFO items from equity accounted investments <sup>1</sup> .....	1,284	856
FFO from equity accounted investments .....	<u>\$ 2,372</u>	<u>\$ 2,069</u>

1. Adjustment to back out non-FFO expenses (income) that are included in consolidated equity accounted income including depreciation and amortization, deferred taxes and fair value changes from equity accounted investments.

## iii. Interest Expense

For the year ended December 31, 2018, the adjustment to interest expense consists of interest on loans between consolidated entities totaling \$26 million (2017 – \$18 million) that is eliminated on consolidation, along with the associated revenue.

## iv. Current Income Taxes

Current income taxes are included in FFO but are aggregated with deferred income taxes in income tax expense on the company's Consolidated Statements of Operations. The following table reconciles consolidated income taxes to current income taxes by segment:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Current tax expense .....	\$ (861)	\$ (286)
Deferred income tax recovery (expense) .....	1,109	(327)
Income tax recovery (expense) .....	<u>\$ 248</u>	<u>\$ (613)</u>

## v. Reconciliation of Net Income to Total FFO

The following table reconciles net income to total FFO:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Note	2018	2017
Net income .....		\$ 7,488	\$ 4,551
Realized disposition gains in fair value changes or equity .....	vi	1,445	1,116
Non-controlling interests in FFO .....		(6,015)	(4,964)
Financial statement components not included in FFO			
Equity accounted fair value changes and other non-FFO items .....		1,284	856
Fair value changes .....		(1,794)	(421)
Depreciation and amortization .....		3,102	2,345
Deferred income taxes .....		(1,109)	327
Total FFO .....		<u>\$ 4,401</u>	<u>\$ 3,810</u>

## vi. Realized Disposition Gains

Realized disposition gains include gains and losses recorded in net income arising from transactions during the current period, adjusted to include fair value changes and revaluation surplus recorded in prior periods in connection with the assets sold. Realized disposition gains also include amounts that are recorded directly in equity as changes in ownership, as opposed to net income, because they result from a change in ownership of a consolidated entity.

The realized disposition gains recorded in fair value changes, revaluation surplus or directly in equity were \$1.4 billion for the year ended December 31, 2018 (2017 – \$1.1 billion), of which \$1.1 billion relates to prior periods (2017 – \$1.0 billion), \$242 million has been recorded directly in equity as changes in ownership (2017 – \$nil) and \$95 million has been recorded in fair value changes (2017 – \$78 million).



#### d) Geographic Allocation

The company's revenues by location of operations are as follows:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
United Kingdom .....	\$ 23,684	\$ 15,106
United States .....	9,756	8,284
Canada .....	6,422	5,883
Australia .....	4,968	4,405
Brazil .....	4,048	3,206
Other Europe .....	3,275	617
Asia .....	1,643	1,119
Colombia .....	1,594	970
Other .....	1,381	1,196
	<u>\$ 56,771</u>	<u>\$ 40,786</u>

The company's consolidated assets by location are as follows:

AS AT DEC. 31 (MILLIONS)	2018	2017
United States .....	\$ 128,808	\$ 84,860
Canada .....	27,850	21,897
United Kingdom .....	23,093	20,005
Brazil .....	22,539	23,931
Australia .....	13,309	14,501
Other Europe .....	13,250	3,979
Asia .....	10,479	8,089
Colombia .....	9,862	7,362
Other .....	7,091	8,096
	<u>\$ 256,281</u>	<u>\$ 192,720</u>

#### 4. SUBSIDIARIES

The following table presents the details of the company's subsidiaries with significant non-controlling interests:

AS AT DEC. 31	Jurisdiction of Formation	Ownership Interest Held by Non-Controlling Interests <sup>1,2</sup>	
		2018	2017
Brookfield Property Partners L.P. ("BPY") .....	Bermuda	46.2%	30.6%
Brookfield Renewable Partners L.P. ("BEP") .....	Bermuda	39.5%	39.8%
Brookfield Infrastructure Partners L.P. ("BIP") .....	Bermuda	70.5%	70.1%
Brookfield Business Partners L.P. ("BBU") .....	Bermuda	32.0%	32.0%

1. Control and associated voting rights of the limited partnerships (BPY, BEP, BIP and BBU) resides with their respective general partners which are wholly owned subsidiaries of the company. The company's general partner interest is entitled to earn base management fees and incentive payments in the form of incentive distribution rights or performance fees.
2. The company's ownership interest in BPY, BEP, BIP and BBU includes a combination of redemption-exchange units (REUs), Class A limited partnership units, special limited partnership units, general partnership units and units or shares that are exchangeable for units in our listed partnerships, in each subsidiary, where applicable. Each of BPY, BEP, BIP and BBU's partnership capital includes its Class A limited partnership units whereas REUs and general partnership units are considered non-controlling interests for the respective partnerships. REUs share the same economic attributes in all respects except for the redemption right attached thereto. 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.

During 2018, the ownership interest held by non-controlling interests in BPY increased from 30.6% to 46.2% primarily as a result of equity issued to GGP's shareholders as consideration when GGP was privatized in the third quarter. This increase in the proportion of BPY held by NCI was partially offset by the impact of BPY units acquired by BAM and BPY during the third and fourth quarters.

The table below presents the exchanges on which the company's subsidiaries with significant non-controlling interests were publicly listed as of December 31, 2018:

	TSX	NYSE	Nasdaq
BPY.....	BPY.UN	N/A	BPY
BEP.....	BEP.UN	BEP	N/A
BIP.....	BIP.UN	BIP	N/A
BBU.....	BBU.UN	BBU	N/A

The following table outlines the composition of accumulated non-controlling interests presented within the company's consolidated financial statements:

AS AT DEC. 31 (MILLIONS)	2018	2017
BPY.....	\$ 31,580	\$ 19,736
BEP.....	12,457	10,139
BIP.....	12,752	11,376
BBU.....	4,477	4,000
Individually immaterial subsidiaries with non-controlling interests.....	6,069	6,377
	<u>\$ 67,335</u>	<u>\$ 51,628</u>

All publicly listed entities are subject to independent governance. Accordingly, the company has no direct access to the assets of these subsidiaries. Summarized financial information with respect to the company's subsidiaries with significant non-controlling interests is set out below. The summarized financial information represents amounts before intra-group eliminations:

	BPY		BEP		BIP		BBU	
AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017	2018	2017	2018	2017	2018	2017
Current assets.....	\$ 7,114	\$ 3,912	\$ 1,961	\$ 1,666	\$ 2,276	\$ 1,512	\$ 9,781	\$ 6,433
Non-current assets.....	115,406	80,435	32,142	29,238	34,304	27,965	17,537	9,371
Current liabilities.....	(10,306)	(11,829)	(1,689)	(2,514)	(2,417)	(1,564)	(9,016)	(5,690)
Non-current liabilities.....	(65,474)	(37,394)	(15,208)	(14,108)	(19,495)	(14,439)	(11,808)	(4,050)
Non-controlling interests.....	(31,580)	(19,736)	(12,457)	(10,139)	(12,752)	(11,376)	(4,477)	(4,000)
Equity attributable to Brookfield.....	<u>\$ 15,160</u>	<u>\$ 15,388</u>	<u>\$ 4,749</u>	<u>\$ 4,143</u>	<u>\$ 1,916</u>	<u>\$ 2,098</u>	<u>\$ 2,017</u>	<u>\$ 2,064</u>
Revenues.....	<u>\$ 7,239</u>	<u>\$ 6,135</u>	<u>\$ 2,982</u>	<u>\$ 2,625</u>	<u>\$ 4,652</u>	<u>\$ 3,535</u>	<u>\$ 37,168</u>	<u>\$ 22,823</u>
Net income attributable to:								
Non-controlling interests.....	\$ 2,356	\$ 2,234	\$ 401	\$ 103	\$ 724	\$ 569	\$ 1,106	\$ 296
Shareholders.....	1,298	234	2	(52)	82	5	97	(81)
	<u>\$ 3,654</u>	<u>\$ 2,468</u>	<u>\$ 403</u>	<u>\$ 51</u>	<u>\$ 806</u>	<u>\$ 574</u>	<u>\$ 1,203</u>	<u>\$ 215</u>
Other comprehensive income (loss) attributable to:								
Non-controlling interests.....	\$ (122)	\$ 532	\$ 2,292	\$ 786	\$ (859)	\$ 269	\$ (292)	\$ 64
Shareholders.....	(294)	348	972	564	(86)	54	(96)	45
	<u>\$ (416)</u>	<u>\$ 880</u>	<u>\$ 3,264</u>	<u>\$ 1,350</u>	<u>\$ (945)</u>	<u>\$ 323</u>	<u>\$ (388)</u>	<u>\$ 109</u>

The summarized cash flows of the company's subsidiaries with material non-controlling interests are as follows:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	BPY		BEP		BIP		BBU	
	2018	2017	2018	2017	2018	2017	2018	2017
Cash flows from (used in):								
Operating activities .....	\$ 1,357	\$ 639	\$ 1,103	\$ 928	\$ 1,362	\$ 1,481	\$ 1,341	\$ 290
Financing activities .....	8,873	1,248	(1,080)	(27)	4,418	3,814	3,561	1,353
Investing activities .....	(8,406)	(1,886)	(624)	(328)	(5,564)	(5,721)	(3,999)	(1,595)
Distributions paid to non-controlling interests in common equity .....	\$ 427	\$ 255	\$ 244	\$ 227	\$ 558	\$ 489	\$ 11	\$ 9

## 5. ACQUISITIONS OF CONSOLIDATED ENTITIES

### a) Completed During 2018

The following table summarizes the balance sheet impact as a result of business combinations that occurred in the year ended December 31, 2018. No material changes were made to the provisional allocations:

(MILLIONS)	Real Estate	Infrastructure	Private Equity	Renewable Power and Other	Total
Cash and cash equivalents .....	\$ 1,056	\$ 71	\$ 658	\$ 388	\$ 2,173
Accounts receivable and other .....	2,247	511	2,267	623	5,648
Inventory .....	150	23	686	5	864
Equity accounted investments .....	12,379	15	329	29	12,752
Investment properties .....	33,024	—	—	—	33,024
Property, plant and equipment .....	1,748	2,945	4,913	2,970	12,576
Intangible assets .....	54	3,208	2,942	386	6,590
Goodwill .....	96	2,905	971	186	4,158
Deferred income tax assets .....	220	—	38	582	840
Total assets .....	50,974	9,678	12,804	5,169	78,625
Less:					
Accounts payable and other .....	(2,177)	(591)	(3,654)	(715)	(7,137)
Non-recourse borrowings .....	(18,218)	(1,484)	(3,668)	(2,023)	(25,393)
Deferred income tax liabilities .....	(58)	(839)	(157)	(210)	(1,264)
Non-controlling interests <sup>1</sup> .....	(2,603)	(544)	(515)	(22)	(3,684)
	(23,056)	(3,458)	(7,994)	(2,970)	(37,478)
Net assets acquired .....	\$ 27,918	\$ 6,220	\$ 4,810	\$ 2,199	\$ 41,147
Consideration <sup>2</sup> .....	\$ 26,759	\$ 6,220	\$ 4,810	\$ 1,807	\$ 39,596

1. Includes non-controlling interests recognized on business combinations measured as the proportionate share of fair value of the identifiable assets and liabilities on the date of acquisition. For certain business combinations in our Private Equity segment, non-controlling interests recognized on business combinations are measured at the proportionate fair value of the total net assets on date of acquisition.

2. Total consideration, including amounts paid by non-controlling interests that participated in the acquisition as investors in Brookfield-sponsored private funds or as co-investors.

Brookfield recorded \$5.1 billion of revenue and \$711 million of net income in 2018 from the acquired operations as a result of the acquisitions made during the year. If the acquisitions had occurred at the beginning of the year, they would have contributed \$12.6 billion and \$1.8 billion to total revenue and net income, respectively.

The following table summarizes the balance sheet impact as a result of significant business combinations that occurred in 2018. The valuations of the assets acquired are still under evaluation and as such the business combinations have been accounted for on a provisional basis.

(MILLIONS)	Real Estate			Private Equity	Infrastructure			Renewable Power
	666 Fifth	GGP	Forest City	Westinghouse	NorthRiver	Enercare	Evoque	Saeta Yield
Cash and cash equivalents .....	\$ —	\$ 424	\$ 451	\$ 250	\$ 10	\$ 24	\$ —	\$ 187
Accounts receivable and other .....	11	592	960	1,854	55	187	3	216
Inventory .....	—	—	89	626	—	—	—	—
Equity accounted investments .....	—	10,829	1,467	7	—	—	—	14
Investment properties	1,292	17,991	9,397	—	—	—	—	—
Property, plant and equipment .....	—	56	—	931	1,442	669	440	2,724
Intangible assets .....	—	—	—	2,683	157	1,863	221	258
Goodwill .....	—	—	—	213	524	1,260	463	115
Deferred income tax assets .....	—	—	—	7	—	23	—	—
Total assets .....	1,303	29,892	12,364	6,571	2,188	4,026	1,127	3,514
Less:								
Accounts payable and other .....	(4)	(691)	(1,119)	(2,645)	(46)	(235)	(24)	(320)
Non-recourse borrowings .....	—	(13,147)	(3,664)	(3)	—	(877)	—	(1,906)
Deferred income tax liabilities .....	—	(11)	—	(81)	(186)	(472)	—	(174)
Non-controlling interests <sup>1</sup> .....	—	(1,882)	(633)	(7)	—	—	—	—
	(4)	(15,731)	(5,416)	(2,736)	(232)	(1,584)	(24)	(2,400)
Net assets acquired ....	\$ 1,299	\$ 14,161	\$ 6,948	\$ 3,835	\$ 1,956	\$ 2,442	\$ 1,103	\$ 1,114
Consideration <sup>2</sup> .....	\$ 1,299	\$ 13,240	\$ 6,948	\$ 3,835	\$ 1,956	\$ 2,442	\$ 1,103	\$ 1,114

1. Includes non-controlling interests recognized on business combinations measured as the proportionate share of fair value of the identifiable assets and liabilities on the date of acquisition. For certain business combinations in our Private Equity segment, non-controlling interests recognized on business combinations are measured at the proportionate fair value of the total net assets on date of acquisition.

2. Total consideration, including amounts paid by non-controlling interests that participated in the acquisition as investors in Brookfield-sponsored private funds or as co-investors.

On June 12, 2018, a subsidiary of the company, along with institutional investors, acquired a 95% interest in Saeta Yield, S.A. (“Saeta Yield”) for total cash consideration of \$1.1 billion, funded through an equity issuance at the subsidiary, amounts drawn on a non-recourse credit facility and available cash on hand. The acquisition resulted in \$115 million of goodwill due to the recognition of a deferred tax liability because the tax bases of the net assets are lower than their acquisition date fair value. None of the goodwill recognized is deductible for income tax purposes. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$407 million and \$63 million, respectively.

On August 1, 2018, a subsidiary of the company, together with institutional investors, acquired a 100% interest in Westinghouse Electric Company (“Westinghouse”). Total consideration paid was \$3.8 billion in cash, with \$886 million provided by the subsidiary and its partners and the balance funded through asset level debt raised concurrently on closing. On acquisition, goodwill of \$213 million was recognized, which represents future growth the subsidiary expects to receive from the integration of Westinghouse’s operations; this goodwill is not deductible for income tax purposes. Total revenues and net losses that would have been recorded if the transaction had occurred at the beginning of the year are \$3.9 billion and \$239 million, respectively.

On August 3, 2018, a subsidiary of the company, together with institutional investors, acquired a 100% leasehold interest in 666 Fifth Avenue, a commercial office asset in New York, for total consideration of \$1.3 billion. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$84 million and \$85 million, respectively.

On August 28, 2018, a subsidiary of the company acquired all outstanding shares of GGP other than those shares already held by the subsidiary for total consideration of \$13.2 billion, plus the payment of a pre-closing dividend of \$9.05 billion. The pre-closing dividend was funded by financing activity and proceeds from the sales of partial interests in certain properties within GGP.

- A new entity, Brookfield Property REIT (“BPR”), was formed to hold the GGP assets; BPR issued 161 million shares to GGP shareholders as consideration. BPR shares, which are structured to provide an economic return equivalent to that of BPY units, are presented as non-controlling interests within equity.
- The acquisition was accounted for as a business combination achieved in stages. Our existing equity interest in GGP was remeasured to its fair value of \$7.8 billion immediately prior to the completion of the transaction based on our interest in the fair value of GGP’s identifiable net assets and liabilities. As a result of this remeasurement, a loss of approximately \$502 million was recognized in fair value changes.
- Total consideration of \$13.2 billion is made up of our existing equity investment of \$7.8 billion, new equity, in the form of 88 million BPY LP units and 161 million BPR Class A shares, issued to GGP’s shareholders totaling \$5.2 billion, cash consideration of \$200 million and share-based payment awards to GGP employees with a fair value of \$28 million. On acquisition, we recognized a bargain purchase gain of \$921 million in fair value changes as the agreed upon transaction price and the fair value of the consideration transferred was less than the aggregate fair value of the assets acquired net of the liabilities assumed.
- Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$1.8 billion and \$1.1 billion, respectively.

On October 1, 2018, a subsidiary of the company, together with institutional investors, acquired a 100% interest in NorthRiver Midstream Inc. (“NorthRiver”), a western Canadian natural gas gathering and processing business, for total cash consideration of \$2.0 billion. The acquisition was funded through cash on hand and asset level debt raised concurrently on closing. On acquisition, goodwill of \$524 million was recognized, which represents the potential for obtaining long-term contracts for the business’ unutilized capacity and production growth in certain locations. None of the goodwill acquired is deductible for tax purposes. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$246 million and \$16 million, respectively.

On October 16, 2018, a subsidiary of the company, together with institutional investors, acquired a 100% interest in Enercare Inc. (“Enercare”), a North American residential energy infrastructure business, for total consideration of \$2.4 billion. The acquisition was funded through \$2.2 billion of cash with the remainder through equity issued to certain Enercare shareholders. On acquisition, goodwill of \$1.3 billion was recognized, which represents potential growth prospects and a strong market position as a key provider of residential energy infrastructure in North America. None of the goodwill recognized is deductible for tax purposes. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$949 million and \$5 million, respectively.

On December 7, 2018, a subsidiary of the company, together with institutional investors, acquired a 100% interest in Forest City Realty Trust, Inc. (“Forest City”) for total cash consideration of \$6.9 billion. The acquisition was funded through cash on hand and asset level debt raised concurrently on closing. The non-controlling interest acquired represents equity in partially-owned and consolidated operations which are not attributable to Forest City. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$1.1 billion and \$381 million, respectively.

On December 31, 2018, a subsidiary of the company, together with institutional investors, acquired a 100% interest in Evoque Data Center Solutions (“Evoque”), AT&T’s large-scale data center business, for total cash consideration of \$1.1 billion. The acquisition was funded through cash on hand and asset level debt raised concurrently on closing. On acquisition, goodwill of \$463 million was recognized, which is largely reflective of potential customer growth, arising from the business’ position as one of the largest colocation providers in the United States and the increasing rate of worldwide data consumption. All of the goodwill is deductible for income tax purposes. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$321 million and \$6 million, respectively.

In addition to the significant business combinations described above, we acquired a number of businesses across the organization in 2018. These include:

- On February 1, 2018, a subsidiary of the company in our Real Estate segment acquired a portfolio of 15 student housing properties in the U.K. for total consideration of \$752 million.
- On February 1, 2018, a subsidiary of the company in our Real Estate segment acquired a portfolio of 105 extended-stay hotel properties across the U.S. for total consideration of \$764 million.
- On March 9, 2018, the company obtained control over an entity, previously held as an equity-accounted investment. The company recognized a bargain purchase gain of \$393 million as a result of the recognition of deferred tax assets which were not previously utilized.
- On May 15, 2018, a subsidiary of the company in our Private Equity segment acquired, together with institutional investors, a 70% interest in Schoeller Allibert Group B.V (“Schoeller”) for total consideration of \$231 million. Total revenues and net loss that would have been recorded if the transaction had occurred at the beginning of the year are \$635 million and \$27 million, respectively.
- On June 1, 2018, a subsidiary of the company in our Infrastructure segment, along with institutional investors, acquired a 55% interest in Gas Natural, S.A. ESP (“Gas Natural”), for total consideration of \$522 million. The future growth arising from the business’ position as a key distributor of natural gas in Colombia gave rise to goodwill of \$621 million, the remainder of the goodwill is due to the difference between the book value and tax bases of the assets acquired. None of the goodwill recognized is deductible for income tax purposes. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$884 million and \$70 million, respectively.
- On July 3, 2018, a subsidiary of the company in our Private Equity segment, together with institutional investors, exercised its general partner option to obtain an additional 2% voting interest in the general partner of Teekay Offshore (“Teekay”), granting it control of the entity. Our equity interest in Teekay was remeasured to fair value immediately prior to obtaining control, resulting in a gain of approximately \$206 million. Total consideration paid was \$653 million, \$651 million of which was the fair market value of our existing investment. Total assets acquired are \$5.3 billion and include \$3.7 billion in property plant and equipment. Total liabilities assumed are \$4.1 billion and include \$3.3 billion of non-recourse borrowings. Goodwill of \$547 million represents benefits we expect to receive from the integration of the operations; none of the goodwill recognized is deductible for income tax purposes. The value of assets and liabilities acquired are still under evaluation and accounted for on a provisional basis. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$1.3 billion and \$214 million, respectively.

## b) Completed During 2017

The following table summarizes the balance sheet impact as a result of business combinations that occurred in 2017. No material changes were made to the provisional allocations disclosed in the 2017 consolidated financial statements:

(MILLIONS)	Renewable Power	Private Equity	Infrastructure	Real Estate and Other	Total
Cash and cash equivalents.....	\$ 762	\$ 335	\$ 89	\$ 39	\$ 1,225
Accounts receivable and other .....	980	2,393	345	134	3,852
Inventory .....	—	701	—	3	704
Equity accounted investments.....	—	231	—	—	231
Investment properties.....	—	—	—	5,851	5,851
Property, plant and equipment.....	6,923	501	100	281	7,805
Intangible assets .....	27	2,870	5,515	—	8,412
Goodwill.....	—	342	815	—	1,157
Deferred income tax assets.....	18	59	—	—	77
Total assets .....	<u>8,710</u>	<u>7,432</u>	<u>6,864</u>	<u>6,308</u>	<u>29,314</u>
Less:					
Accounts payable and other .....	(1,391)	(2,109)	(222)	(169)	(3,891)
Non-recourse borrowings .....	(4,902)	(1,678)	(30)	(1,955)	(8,565)
Deferred income tax liabilities .....	(59)	(806)	(957)	(45)	(1,867)
Non-controlling interests <sup>1</sup> .....	(830)	(826)	(477)	(123)	(2,256)
	<u>(7,182)</u>	<u>(5,419)</u>	<u>(1,686)</u>	<u>(2,292)</u>	<u>(16,579)</u>
Net assets acquired.....	<u>\$ 1,528</u>	<u>\$ 2,013</u>	<u>\$ 5,178</u>	<u>\$ 4,016</u>	<u>\$ 12,735</u>
Consideration <sup>2</sup> .....	<u>\$ 1,528</u>	<u>\$ 2,006</u>	<u>\$ 5,178</u>	<u>\$ 3,845</u>	<u>\$ 12,557</u>

1. Includes non-controlling interests recognized on business combinations measured as the proportionate share of fair value of the assets and liabilities on the date of acquisition.

2. Total consideration, including amounts paid by non-controlling interests that participated in the acquisition as investors in Brookfield-sponsored private funds or as co-investors.

Brookfield recorded \$15.9 billion of revenue and \$694 million of net income in 2017 from the acquired operations as a result of the acquisitions made during the year. If the acquisitions had occurred at the beginning of the year, they would have contributed \$25.5 billion and \$1.0 billion to total revenue and net income, respectively.

The following table summarizes the balance sheet impact as a result of significant business combinations that occurred in 2017:

	Renewable Power		Private Equity		Infrastructure	Real Estate		
(MILLIONS)	TerraForm Power	TerraForm Global	BRK	Greenergy	NTS	Manufactured Housing	Houston Center	Mumbai Office Portfolio
Cash and cash equivalents.....	\$ 149	\$ 611	\$ 296	\$ 28	\$ 89	\$ 16	\$ —	\$ 11
Accounts receivable and other...	707	266	1,043	1,290	317	79	22	12
Inventory.....	—	—	10	650	—	—	—	—
Equity accounted investments ...	—	—	109	114	—	—	—	—
Investment properties .....	—	—	—	—	—	2,107	825	679
Property, plant and equipment...	5,678	1,208	200	154	—	—	—	—
Intangible assets.....	—	—	2,467	212	5,515	—	—	—
Goodwill.....	—	—	17	92	804	—	—	—
Deferred income tax assets.....	—	18	50	9	—	—	—	—
Total assets.....	6,534	2,103	4,192	2,549	6,725	2,202	847	702
Less:								
Accounts payable and other....	(1,239)	(142)	(227)	(1,744)	(202)	(36)	(28)	(44)
Non-recourse borrowings .....	(3,714)	(1,188)	(1,468)	(210)	—	(1,261)	—	(511)
Deferred income tax liabilities	(33)	(15)	(746)	(52)	(946)	—	—	(45)
Non-controlling interests <sup>1</sup> .....	(829)	(1)	(745)	(81)	(477)	(30)	—	—
	(5,815)	(1,346)	(3,186)	(2,087)	(1,625)	(1,327)	(28)	(600)
Net assets acquired .....	\$ 719	\$ 757	\$ 1,006	\$ 462	\$ 5,100	\$ 875	\$ 819	\$ 102
Consideration <sup>2</sup> .....	\$ 719	\$ 757	\$ 1,006	\$ 462	\$ 5,100	\$ 768	\$ 819	\$ 102

1. Includes non-controlling interests recognized on business combinations measured as the proportionate share of fair value of the assets and liabilities on the date of acquisition.

2. Total consideration, including amounts paid by non-controlling interests that participated in the acquisition as investors in Brookfield-sponsored private funds or as co-investors.

On March 9, 2017, a subsidiary of the company acquired Manufactured Housing, a portfolio of manufactured housing communities in the U.S., for total consideration of \$768 million, including \$578 million cash consideration with the remainder funded through debt financing. The acquisition was made through a Brookfield-sponsored real estate fund and generated a bargain purchase gain of \$107 million recorded in fair value changes as a result of changes in the underlying market conditions subsequent to signing the purchase and sale agreement in the second quarter of 2016. Excluding the impact of the bargain purchase gain, total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$237 million and \$86 million, respectively.

On April 4, 2017, we acquired a 90% ownership interest in Nova Transportadora do Sudeste S.A. (“NTS”), a Brazilian regulated gas transmission business, alongside our institutional partners. Total consideration paid by the consortium was \$5.1 billion, which consists of a cash consideration of \$4.2 billion and deferred consideration of less than \$1.0 billion payable five years from the close of the transaction. Upon acquisition of NTS, an additional deferred tax liability of \$893 million was recorded. The deferred income tax liability arose as the tax bases of the net assets acquired were lower than their fair values. The inclusion of this liability in the net book value of the acquired business gave rise to goodwill of \$804 million which is recoverable so long as the tax circumstances that gave rise to the goodwill do not change. To date, no such changes have occurred. None of the goodwill recognized is deductible for income tax purposes. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$1.3 billion and \$660 million, respectively.

On April 25, 2017, a subsidiary of the company acquired a 70% interest in BRK Ambiental Participações S.A. (“BRK”), a Brazilian water treatment business, together with institutional investors, for total consideration of \$1.0 billion. BRK owns several other investments, all at different ownership levels. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$758 million and \$64 million, respectively.



On May 10, 2017, a subsidiary of the company acquired an 85% ownership interest of Greenergy Fuels Holdings Ltd. (“Greenergy”), a U.K. road fuel provider, together with our institutional partners. The acquisition was made for total consideration of \$462 million. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$19.8 billion and \$26 million, respectively.

On October 16, 2017, a subsidiary of the company, along with its institutional partners, acquired a 51% interest in TerraForm Power, Inc., a large scale diversified portfolio of solar and wind assets located predominantly in the U.S., for total consideration of \$719 million. Total revenues and net loss that would have been recorded if the transaction had occurred at the beginning of the year are \$622 million and \$46 million, respectively.

On December 1, 2017, a subsidiary of the company acquired Houston Center, a 4.2 million square foot mixed-use office and retail complex in Houston, Texas, for total consideration of \$819 million, including \$175 million cash consideration with the remainder funded through debt financing. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$120 million and \$26 million, respectively.

On December 7, 2017, a subsidiary of the company acquired a portfolio of 14 office properties with 2.7 million square feet of office space in Mumbai, India (“Mumbai Office Portfolio”), for total consideration of \$102 million. Total revenues and net income that would have been recorded if the transaction had occurred at the beginning of the year are \$53 million and \$1 million, respectively.

On December 28, 2017, a subsidiary of the company, along with its institutional partners, acquired a 100% interest in TerraForm Global, Inc., a large scale diversified portfolio of solar and wind assets located predominantly in Asia and South America, for total consideration of \$757 million. Total revenues and net loss that would have been recorded if the transaction had occurred at the beginning of the year are \$249 million and \$33 million, respectively.

## 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instrument disclosures as at December 31, 2018 are in accordance with IFRS 9; prior period amounts have not been restated (refer to Note 2 of the consolidated financial statements for additional information).

### a) Financial Instrument Classification

The following tables list the company’s financial instruments by their respective classification as at December 31, 2018 and 2017:

AS AT DEC. 31, 2018 (MILLIONS)	Fair Value Through Profit or Loss	Fair Value Through OCI	Amortized Cost	Total
<b>Financial assets<sup>1</sup></b>				
Cash and cash equivalents.....	\$ —	\$ —	\$ 8,390	\$ 8,390
Other financial assets				
Government bonds.....	68	20	—	88
Corporate bonds.....	536	96	273	905
Fixed income securities and other .....	570	311	156	1,037
Common shares and warrants.....	689	1,690	—	2,379
Loans and notes receivable.....	50	—	1,768	1,818
	1,913	2,117	2,197	6,227
Accounts receivable and other <sup>2</sup> .....	2,113	—	10,449	12,562
	<u>\$ 4,026</u>	<u>\$ 2,117</u>	<u>\$ 21,036</u>	<u>\$ 27,179</u>
<b>Financial liabilities</b>				
Corporate borrowings.....	\$ —	\$ —	\$ 6,409	\$ 6,409
Non-recourse borrowings of managed entities				
Property-specific borrowings .....	—	—	103,209	103,209
Subsidiary borrowings.....	—	—	8,600	8,600
	—	—	111,809	111,809
Accounts payable and other <sup>2</sup> .....	3,362	—	20,627	23,989
Subsidiary equity obligations.....	1,725	—	2,151	3,876
	<u>\$ 5,087</u>	<u>\$ —</u>	<u>\$ 140,996</u>	<u>\$ 146,083</u>

1. Financial assets include \$7.2 billion of assets pledged as collateral.

2. Includes derivative instruments which are elected for hedge accounting, totaling \$1.5 billion included in accounts receivable and other and \$465 million included in accounts payable and other, for which changes in fair value are recorded in other comprehensive income.

AS AT DEC. 31, 2017  
(MILLIONS)

Measurement basis	Fair Value Through Profit or Loss (Fair Value)	Available for Sale (Fair Value)	Loans and Receivables/ Other Financial Liabilities (Amortized Cost)	Total
<b>Financial assets<sup>1</sup></b>				
Cash and cash equivalents .....	\$ —	\$ —	\$ 5,139	\$ 5,139
Other financial assets				
Government bonds .....	34	15	—	49
Corporate bonds .....	382	253	8	643
Fixed income securities and other .....	230	432	—	662
Common shares and warrants .....	585	1,247	—	1,832
Loans and notes receivable .....	63	—	1,551	1,614
	1,294	1,947	1,559	4,800
Accounts receivable and other <sup>2</sup> .....	1,383	—	8,233	9,616
	<u>\$ 2,677</u>	<u>\$ 1,947</u>	<u>\$ 14,931</u>	<u>\$ 19,555</u>
<b>Financial liabilities</b>				
Corporate borrowings .....	\$ —	\$ —	\$ 5,659	\$ 5,659
Non-recourse borrowings of managed entities				
Property-specific borrowings .....	—	—	63,721	63,721
Subsidiary borrowings .....	—	—	9,009	9,009
	—	—	72,730	72,730
Accounts payable and other <sup>2</sup> .....	3,841	—	14,124	17,965
Subsidiary equity obligations .....	1,559	—	2,102	3,661
	<u>\$ 5,400</u>	<u>\$ —</u>	<u>\$ 94,615</u>	<u>\$ 100,015</u>

1. Financial assets include \$4.1 billion of assets pledged as collateral.

2. Includes derivative instruments which are elected for hedge accounting, totaling \$630 million included in accounts receivable and other and \$950 million included in accounts payable and other, for which changes in fair value are recorded in other comprehensive income.

Gains or losses arising from changes in the fair value through profit or loss (“FVTPL”) financial assets are presented in the Consolidated Statements of Operations in the period in which they arise. Dividends from FVTPL and fair value through other comprehensive income (“FVTOCI”) financial assets are recognized in the Consolidated Statements of Operations when the company’s right to receive payment is established. Interest on FVTOCI financial assets is calculated using the effective interest method and reported in our Consolidated Statements of Operations.

FVTOCI debt and equity securities are recorded on the balance sheet at fair value with changes in fair value recorded through other comprehensive income. As at December 31, 2018, the unrealized gains and losses relating to the fair value of FVTOCI securities amounted to \$212 million (2017 – available for sale gains of \$26 million) and \$152 million (2017 – available for sale losses of \$nil), respectively.

During the year ended December 31, 2018, \$nil of net deferred losses (2017 – \$69 million) previously recognized in accumulated other comprehensive income were reclassified to net income as a result of the disposition or impairment of certain of our FVTOCI financial assets that are not equity instruments.

Included in cash and cash equivalents is \$7.7 billion (2017 – \$4.5 billion) of cash and \$685 million (2017 – \$635 million) of short-term deposits as at December 31, 2018.

## b) Carrying and Fair Value

The following table provides the carrying values and fair values of financial instruments as at December 31, 2018 and 2017:

AS AT DEC. 31 (MILLIONS)	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents .....	\$ 8,390	\$ 8,390	\$ 5,139	\$ 5,139
Other financial assets				
Government bonds .....	88	88	49	49
Corporate bonds .....	905	905	643	643
Fixed income securities and other .....	1,037	1,037	662	662
Common shares and warrants .....	2,379	2,379	1,832	1,832
Loans and notes receivable .....	1,818	1,818	1,614	1,657
	6,227	6,227	4,800	4,843
Accounts receivable and other .....	12,562	12,562	9,616	9,616
	<u>\$ 27,179</u>	<u>\$ 27,179</u>	<u>\$ 19,555</u>	<u>\$ 19,598</u>
<b>Financial liabilities</b>				
Corporate borrowings .....	\$ 6,409	\$ 6,467	\$ 5,659	\$ 6,087
Non-recourse borrowings of managed entities				
Property-specific borrowings .....	103,209	104,291	63,721	65,399
Subsidiary borrowings .....	8,600	8,557	9,009	9,172
	111,809	112,848	72,730	74,571
Accounts payable and other .....	23,989	23,989	17,965	17,965
Subsidiary equity obligations .....	3,876	3,876	3,661	3,661
	<u>\$ 146,083</u>	<u>\$ 147,180</u>	<u>\$ 100,015</u>	<u>\$ 102,284</u>

The current and non-current balances of other financial assets are as follows:

AS AT DEC. 31 (MILLIONS)	2018	2017
Current .....	\$ 3,382	\$ 2,568
Non-current .....	2,845	2,232
Total .....	<u>\$ 6,227</u>	<u>\$ 4,800</u>

### c) Fair Value Hierarchy Levels

The following table categorizes financial assets and liabilities, which are carried at fair value, based upon the fair value hierarchy levels:

AS AT DEC. 31 (MILLIONS)	2018			2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial assets</b>						
Other financial assets						
Government bonds .....	\$ —	\$ 88	\$ —	\$ —	\$ 49	\$ —
Corporate bonds .....	—	632	—	127	508	—
Fixed income securities and other .....	22	369	490	20	233	409
Common shares and warrants .....	1,928	229	222	1,586	—	246
Loans and notes receivables .....	—	46	4	—	62	1
Accounts receivable and other .....	44	1,990	79	15	1,155	213
	<u>\$ 1,994</u>	<u>\$ 3,354</u>	<u>\$ 795</u>	<u>\$ 1,748</u>	<u>\$ 2,007</u>	<u>\$ 869</u>
<b>Financial liabilities</b>						
Accounts payable and other .....	\$ 81	\$ 2,622	\$ 659	\$ 134	\$ 3,003	\$ 704
Subsidiary equity obligations .....	—	85	1,640	—	—	1,559
	<u>\$ 81</u>	<u>\$ 2,707</u>	<u>\$ 2,299</u>	<u>\$ 134</u>	<u>\$ 3,003</u>	<u>\$ 2,263</u>

During the years ended December 31, 2018 and 2017, there were no transfers between Level 1, 2 or 3.

Fair values of financial instruments are determined by reference to quoted bid or ask prices, as appropriate. If bid and ask prices are unavailable, the closing price of the most recent transaction of that instrument is used. In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market inputs.

The following table summarizes the valuation techniques and key inputs used in the fair value measurement of Level 2 financial instruments:

(MILLIONS) Type of Asset/Liability	Carrying Value Dec. 31, 2018	Valuation Techniques and Key Inputs
Derivative assets/Derivative liabilities (accounts receivable/ accounts payable) .....	\$ 1,990/ (2,622)	Foreign currency forward contracts – discounted cash flow model – forward exchange rates (from observable forward exchange rates at the end of the reporting period) and discounted at credit adjusted rate  Interest rate contracts – discounted cash flow model – forward interest rates (from observable yield curves) and applicable credit spreads discounted at a credit adjusted rate  Energy derivatives – quoted market prices, or in their absence internal valuation models, corroborated with observable market data
Other financial assets .....	1,364	Valuation models based on observable market data
Redeemable fund units (subsidiary equity obligations) ..	(85)	Aggregated market prices of underlying investments

Fair values determined using valuation models requiring the use of unobservable inputs (Level 3 financial assets and liabilities) include assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those unobservable inputs, the company uses observable external market inputs such as interest rate yield curves, currency rates and price and rate volatilities, as applicable, to develop assumptions regarding those unobservable inputs.

The following table summarizes the valuation techniques and significant unobservable inputs used in the fair value measurement of Level 3 financial instruments:

(MILLIONS) Type of Asset/Liability	Carrying Value Dec. 31, 2018	Valuation Techniques	Significant Unobservable Inputs	Relationship of Unobservable Inputs to Fair Value
Fixed income securities and other .....	\$ 490	Discounted cash flows	<ul style="list-style-type: none"> <li>• Future cash flows</li> <li>• Discount rate</li> </ul>	<ul style="list-style-type: none"> <li>• Increases (decreases) in future cash flows increase (decrease) fair value</li> <li>• Increases (decreases) in discount rate decrease (increase) fair value</li> </ul>
Common shares (common shares and warrants) .....	222	Black-Scholes model	<ul style="list-style-type: none"> <li>• Volatility</li> <li>• Term to maturity</li> <li>• Risk free interest rate</li> </ul>	<ul style="list-style-type: none"> <li>• Increases (decreases) in volatility increase (decreases) fair value</li> <li>• Increases (decreases) in term to maturity increase (decrease) fair value</li> <li>• Increases (decreases) in the risk-free interest rate increase (decrease) fair value</li> </ul>
Limited-life funds (subsidiary equity obligations) .....	(1,640)	Discounted cash flows	<ul style="list-style-type: none"> <li>• Future cash flows</li> <li>• Discount rate</li> <li>• Terminal capitalization rate</li> <li>• Investment horizon</li> </ul>	<ul style="list-style-type: none"> <li>• Increases (decreases) in future cash flows increase (decrease) fair value</li> <li>• Increases (decreases) in discount rate decrease (increase) fair value</li> <li>• Increases (decreases) in terminal capitalization rate decrease (increase) fair value</li> <li>• Increases (decreases) in the investment horizon decrease (increase) fair value</li> </ul>
Derivative assets/Derivative liabilities (accounts receivable/payable) .....	79/ (659)	Discounted cash flows	<ul style="list-style-type: none"> <li>• Future cash flows</li> <li>• Forward exchange rates (from observable forward exchange rates at the end of the reporting period)</li> <li>• Discount rate</li> </ul>	<ul style="list-style-type: none"> <li>• Increases (decreases) in future cash flows increase (decrease) fair value</li> <li>• Increases (decreases) in the forward exchange rate increase (decrease) fair value</li> <li>• Increases (decreases) in discount rate decrease (increase) fair value</li> </ul>

The following table presents the changes in the balance of financial assets and liabilities classified as Level 3 for the years ended December 31, 2018 and 2017:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018		2017	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
Balance, beginning of year .....	\$ 869	\$ 2,263	\$ 1,739	\$ 1,449
Fair value changes in net income .....	(113)	(89)	(313)	(2)
Fair value changes in other comprehensive income <sup>1</sup> .....	(2)	(48)	5	67
Additions, net of disposals .....	41	173	(562)	749
Balance, end of year .....	<u>\$ 795</u>	<u>\$ 2,299</u>	<u>\$ 869</u>	<u>\$ 2,263</u>

1. Includes foreign currency translation.

The following table categorizes liabilities measured at amortized cost, but for which fair values are disclosed based upon the fair value hierarchy levels:

AS AT DEC. 31 (MILLIONS)	2018			2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Corporate borrowings .....	\$ 6,376	\$ 91	\$ —	\$ 6,087	\$ —	\$ —
Property-specific borrowings .....	6,918	30,214	67,159	2,123	24,502	38,774
Subsidiary borrowings .....	3,640	2,355	2,562	3,825	2,030	3,317
Subsidiary equity obligations .....	—	—	2,151	—	—	2,102

Fair values of Level 2 and Level 3 liabilities measured at amortized cost but for which fair values are disclosed are determined using valuation techniques such as adjusted public pricing and discounted cash flows.

#### d) Hedging Activities

The company uses derivatives and non-derivative financial instruments to manage or maintain exposures to interest, currency, credit and other market risks. Derivative financial instruments are recorded at fair value. For certain derivatives which are used to manage exposures, the company determines whether hedge accounting can be applied. Hedge accounting is applied when the derivative is designated as a hedge of a specific exposure and there is assurance that it will continue to be highly effective as a hedge based on an expectation of offsetting cash flows or fair value. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as a hedge or the hedging relationship is terminated. Once discontinued, the cumulative change in fair value of a derivative that was previously recorded in other comprehensive income by the application of hedge accounting is recognized in profit or loss over the remaining term of the original hedging relationship as amounts related to the hedged item are recognized in profit or loss. The assets or liabilities relating to unrealized mark-to-market gains and losses on derivative financial instruments are recorded in financial assets and financial liabilities, respectively.

##### i. Cash Flow Hedges

The company uses the following cash flow hedges: energy derivative contracts to hedge the sale of power; interest rate swaps to hedge the variability in cash flows or future cash flows related to a variable rate asset or liability; and equity derivatives to hedge long-term compensation arrangements. For the year ended December 31, 2018, pre-tax net unrealized gains of \$38 million (2017 – \$42 million) were recorded in other comprehensive income for the effective portion of the cash flow hedges. As at December 31, 2018, there was an unrealized derivative asset balance of \$468 million relating to derivative contracts designated as cash flow hedges (2017 – \$349 million asset).

##### ii. Net Investment Hedges

The company uses foreign exchange contracts and foreign currency denominated debt instruments to manage its foreign currency exposures arising from net investments in foreign operations. For the year ended December 31, 2018, unrealized pre-tax net gains of \$999 million (2017 – net unrealized losses of \$748 million) were recorded in other comprehensive income for the effective portion of hedges of net investments in foreign operations. As at December 31, 2018, there was an unrealized derivative asset balance of \$523 million relating to derivative contracts designated as net investment hedges (2017 – liability balance of \$676 million).

#### e) Netting of Financial Instruments

Financial assets and liabilities are offset with the net amount reported in the Consolidated Balance Sheets where the company currently has a legally enforceable right to offset and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The company enters into derivative transactions under International Swaps and Derivatives Association (“ISDA”) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day are aggregated into a single net amount that is payable by one party to the other. The agreements provide the company with the legal and enforceable right to offset these amounts and accordingly the following balances are presented net in the consolidated financial statements:

AS AT DEC. 31 (MILLIONS)	Accounts Receivable and Other		Accounts Payable and Other	
	2018	2017	2018	2017
Gross amounts of financial instruments before netting .....	\$ 2,367	\$ 1,605	\$ 1,873	\$ 2,124
Gross amounts of financial instruments set-off in Consolidated Balance Sheets..	(254)	(223)	(250)	(267)
Net amount of financial instruments in Consolidated Balance Sheets .....	<u>\$ 2,113</u>	<u>\$ 1,382</u>	<u>\$ 1,623</u>	<u>\$ 1,857</u>

## 7. ACCOUNTS RECEIVABLE AND OTHER

AS AT DEC. 31 (MILLIONS)	Note	2018	2017
Accounts receivable .....	(a)	\$ 9,167	\$ 7,209
Prepaid expenses and other assets .....	(a)	5,508	3,350
Restricted cash .....	(b)	1,923	1,024
Sustainable resources .....	(c)	333	390
Total .....		<u>\$ 16,931</u>	<u>\$ 11,973</u>

The current and non-current balances of accounts receivable and other are as follows:

AS AT DEC. 31 (MILLIONS)	2018	2017
Current .....	\$ 11,911	\$ 8,492
Non-current .....	5,020	3,481
Total .....	<u>\$ 16,931</u>	<u>\$ 11,973</u>

### a) Accounts Receivable and Other Assets

The increase in accounts receivable and other during 2018 is primarily due to business combinations, with significant contributions from Westinghouse, Forest City and the privatization of GGP. This increase was partially offset by the impact of foreign exchange.

Accounts receivable includes contract assets of \$641 million. Contract assets relate primarily to work-in-progress on our long-term construction services contracts for which customers have not yet been billed.

### b) Restricted Cash

Restricted cash primarily relates to the company’s real estate, renewable power and private equity financing arrangements including defeasement of debt obligations, debt service accounts and deposits held by the company’s insurance operations.

### c) Sustainable Resources

The company held 1.7 million acres of consumable freehold timberlands at December 31, 2018 (2017 – 1.7 million), representing 40.3 million cubic meters (2017 – 40.6 million) of mature timber and timber available for harvest. Additionally, the company provides management services to approximately 1.3 million acres (2017 – 1.3 million) of licensed timberlands.

The following table presents the change in the balance of timberlands and other agricultural assets:

AS AT AND FOR THE YEARS ENDED DEC. 31  
(MILLIONS)

	2018	2017
Balance, beginning of year .....	\$ 390	\$ 387
Additions, net of disposals .....	21	78
Fair value adjustments .....	42	21
Decrease due to harvest .....	(89)	(103)
Foreign currency changes .....	(31)	7
Balance, end of year .....	<u>\$ 333</u>	<u>\$ 390</u>

The carrying values are based on external appraisals completed annually as at December 31. The appraisals utilize a combination of the discounted cash flow and sales comparison approaches to arrive at the estimated value. The significant unobservable inputs (Level 3) included in the discounted cash flow models used when determining the fair value of standing timber and agricultural assets include:

Valuation Techniques	Significant Unobservable Inputs	Relationship of Unobservable Inputs to Fair Value	Mitigating Factors
Discounted cash flow analysis	• Future cash flows	• Increases (decreases) in future cash flows increase (decrease) fair value	• Increases (decreases) in cash flows tend to be accompanied by increases (decreases) in discount rates that may offset changes in fair value from cash flows
	• Timber / agricultural prices	• Increases (decreases) in price increase (decrease) fair value	• Increases (decreases) in price tend to be accompanied by increases (decreases) in discount rates that may offset changes in fair value from price
	• Discount rate / terminal capitalization rate	• Increases (decreases) in discount rate or terminal capitalization rate decrease (increase) fair value	• Decreases (increases) in discount rates or terminal capitalization rates tend to be accompanied by increases (decreases) in cash flows that may offset changes in fair value from rates
	• Exit Date	• Increases (decreases) in exit date decrease (increase) fair value	• Increases (decreases) in the exit date tend to be the result of changing cash flow profiles that may result in higher (lower) growth in cash flows prior to stabilizing in the terminal year

Key valuation assumptions include a weighted-average discount and terminal capitalization rate of 5.7% (2017 – 5.7%), and terminal valuation dates of 30 years (2017 – 30 years). Timber and agricultural asset prices were based on a combination of forward prices available in the market and price forecasts.



## 8. INVENTORY

AS AT DEC. 31 (MILLIONS)	2018	2017
Residential properties under development .....	\$ 2,001	\$ 2,245
Land held for development .....	1,794	1,922
Completed residential properties .....	1,398	917
Industrial products and other <sup>1</sup> .....	1,796	1,227
Total .....	<u>\$ 6,989</u>	<u>\$ 6,311</u>

1. Industrial products and other includes fuel inventory of \$585 million (2017 – \$612 million).

The current and non-current balances of inventory are as follows:

AS AT DEC. 31 (MILLIONS)	2018	2017
Current .....	\$ 4,578	\$ 3,585
Non-current .....	2,411	2,726
Total .....	<u>\$ 6,989</u>	<u>\$ 6,311</u>

During the year ended December 31, 2018, the company recognized \$25.7 billion (2017 – \$15.2 billion) of inventory relating to cost of goods sold and a \$22 million recovery of previously impaired inventory (2017 – \$37 million impairment expense). The carrying amount of inventory pledged as collateral at December 31, 2018 was \$3.5 billion (2017 – \$2.9 billion).

## 9. HELD FOR SALE

The following is a summary of the assets and liabilities classified as held for sale as at December 31, 2018 and December 31, 2017:

AS AT DEC. 31 (MILLIONS)	Real Estate	Renewable Power	Private Equity	2018 Total	2017 Total
<b>Assets</b>					
Cash and cash equivalents .....	\$ 13	\$ 8	\$ —	\$ 21	\$ 20
Accounts receivables and other .....	4	75	33	112	44
Investment properties .....	617	—	—	617	1,007
Property, plant and equipment .....	—	749	30	779	490
Equity accounted investments .....	568	—	—	568	—
Other long-term assets .....	—	88	—	88	44
Assets classified as held for sale .....	<u>\$ 1,202</u>	<u>\$ 920</u>	<u>\$ 63</u>	<u>\$ 2,185</u>	<u>\$ 1,605</u>
<b>Liabilities</b>					
Accounts payable and other .....	\$ 11	\$ 173	\$ 9	\$ 193	\$ 212
Non-recourse borrowings of managed entities .....	259	360	—	619	1,212
Liabilities associated with assets classified as held for sale .....	<u>\$ 270</u>	<u>\$ 533</u>	<u>\$ 9</u>	<u>\$ 812</u>	<u>\$ 1,424</u>

As at December 31, 2018, assets held for sale within the company's Real Estate segment include ten office assets in the U.S., three office assets in Brazil, two triple-net lease assets in the U.S. and an equity accounted investment within the LP Investments portfolio. Within our Renewable Power segment, we are currently holding for sale portfolios of wind and solar assets in South Africa, Thailand and Malaysia.

During the year, the company sold certain assets and subsidiaries, including our Chilean electricity transmission business for proceeds of \$1.3 billion, a core office property in Toronto for proceeds of \$660 million, a portfolio of self-storage properties for proceeds of \$1.3 billion and a U.S. logistics portfolio for proceeds of \$3.4 billion.

## 10. EQUITY ACCOUNTED INVESTMENTS

The following table presents the ownership interests and carrying values of the company's investments in associates and joint ventures, all of which are accounted for using the equity method:

AS AT DEC. 31 (MILLIONS)	Ownership Interest <sup>1</sup>		Carrying Value	
	2018	2017	2018	2017
<b>Real estate</b>				
Associates				
Core office .....	7 – 23%	10 – 23%	\$ 107	\$ 123
Core retail <sup>2</sup> .....	n/a	34%	n/a	8,845
LP Investments and other .....	6 – 90%	12 – 90%	1,173	1,563
Joint ventures				
Core office .....	15 – 56%	15 – 56%	8,258	8,112
Core retail <sup>2</sup> .....	12 – 68%	n/a	11,159	n/a
LP Investments and other .....	12 – 90%	12 – 90%	2,252	954
			<b>22,949</b>	<b>19,597</b>
<b>Infrastructure</b>				
Associates				
Utilities .....	11 – 50%	11 – 39%	339	1,279
Transport .....	26 – 58%	26 – 58%	4,100	4,639
Data infrastructure .....	45%	45%	1,705	1,607
Other .....	22 – 50%	20 – 40%	232	162
Joint ventures				
Energy .....	50%	50%	1,121	1,013
Other .....	50%	50%	139	93
			<b>7,636</b>	<b>8,793</b>
<b>Private equity</b>				
Associates				
Norbord .....	42%	40%	1,287	1,364
Other .....	13 – 90%	14 – 90%	656	1,023
			<b>1,943</b>	<b>2,387</b>
<b>Renewable power and other</b>				
Renewable power associates .....	14 – 60%	16 – 50%	685	509
Other equity accounted investments <sup>3</sup> .....	18 – 85%	12 – 85%	434	708
			<b>1,119</b>	<b>1,217</b>
<b>Total .....</b>			<b>\$ 33,647</b>	<b>\$ 31,994</b>

1. Joint ventures or associates in which the ownership interest is greater than 50% represent investments for which control is either shared or does not exist resulting in the investment being equity accounted.
2. On August 28, 2018, a subsidiary of the company acquired all outstanding shares of GGP Inc. other than those shares previously held by the company and its affiliates. At this time, the company took control of the entity and it ceased to be accounted for using the equity method. There are a number of joint ventures within our core retail operations that are now included in the company's consolidated financial results. Refer to Note 5 of the consolidated financial statements for additional information on the acquisition of GGP Inc.
3. Carrying value of joint ventures in other equity accounted investments is \$395 million (2017 – \$346 million).

The following tables presents the change in the balance of investments in associates and joint ventures:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Real Estate	Infrastructure	Private Equity	Renewable Power and Other	2018 Total	2017 Total
Balance, beginning of year .....	\$ 19,597	\$ 8,793	\$ 2,387	\$ 1,217	\$ 31,994	\$ 24,977
Net additions (disposals) .....	(8,068)	(811)	(638)	(255)	(9,772)	5,063
Acquisitions through business combinations .....	12,379	15	328	30	12,752	231
Share of comprehensive income .....	980	303	128	195	1,606	1,728
Distributions received .....	(1,519)	(121)	(221)	(42)	(1,903)	(732)
Foreign exchange .....	(420)	(543)	(41)	(26)	(1,030)	727
<b>Balance, end of year .....</b>	<b>\$ 22,949</b>	<b>\$ 7,636</b>	<b>\$ 1,943</b>	<b>\$ 1,119</b>	<b>\$ 33,647</b>	<b>\$ 31,994</b>

Disposals, net of additions, of \$9.8 billion in 2018 relate primarily to the GGP privatization. On completing the step-up acquisition, we recognized a \$502 million fair value loss as we wrote down the carrying amount immediately prior to acquiring control and we derecognized our \$7.8 billion investment in GGP. Other disposals during the year include the sales of our Chilean electricity transmission business and an Australian energy operation, as well as the reclassification of our service provider to the offshore oil production industry and two entities in our Real Estate and Corporate segments to consolidated subsidiaries. These were partially offset by new investments in a European student housing portfolio and a gaming operations business in Ontario.

Acquisitions of equity accounted investments through business combinations relate primarily to the \$10.8 billion of joint ventures held within GGP that we are consolidating after completing the step-up acquisition as well as \$1.5 billion of joint ventures held by a diversified U.S. REIT that was acquired in the fourth quarter.

The following table presents current and non-current assets, as well as current and non-current liabilities of the company's investments in associates and joint ventures:

AS AT DEC. 31 (MILLIONS)	2018				2017			
	Current Assets	Non- Current Assets	Current Liabilities	Non- Current Liabilities	Current Assets	Non- Current Assets	Current Liabilities	Non- Current Liabilities
<b>Real estate</b>								
Associates								
Core office.....	\$ 15	\$ 1,998	\$ 12	\$ 457	\$ 18	\$ 1,671	\$ 14	\$ 456
Core retail.....	—	—	—	—	1,028	37,840	948	13,063
LP Investments and other.....	86	3,430	56	966	410	6,554	204	2,788
Joint ventures								
Core office.....	1,789	33,245	2,766	13,998	1,531	31,351	2,225	13,762
Core retail.....	832	40,136	734	16,537	n/a	n/a	n/a	n/a
LP Investments and other.....	686	11,645	776	5,256	166	3,312	343	803
<b>Infrastructure</b>								
Associates								
Utilities.....	289	2,227	325	1,391	631	9,068	756	4,891
Transport.....	1,507	15,676	1,871	6,358	1,532	16,876	1,387	6,951
Data infrastructure.....	447	6,692	438	2,902	464	6,281	561	2,968
Other.....	118	659	117	117	40	371	36	121
Joint ventures								
Energy.....	165	5,034	144	2,813	139	4,741	139	2,716
Other.....	13	216	5	89	17	228	8	51
<b>Private equity</b>								
Associates								
Norbord.....	509	4,574	363	1,204	709	2,374	356	728
Other.....	930	2,187	628	1,140	2,001	18,122	3,124	13,192
<b>Renewable power and other</b>								
Renewable power associates.....	182	2,845	93	974	153	2,536	115	1,080
Other equity accounted investments.....	1,081	53	142	152	800	60	90	100
	<u>\$ 8,649</u>	<u>\$ 130,617</u>	<u>\$ 8,470</u>	<u>\$ 54,354</u>	<u>\$ 9,639</u>	<u>\$ 141,385</u>	<u>\$ 10,306</u>	<u>\$ 63,670</u>

Certain of the company's investments in associates are subject to restrictions on the extent to which they can remit funds to the company in the form of cash dividends or repay loans and advances as a result of borrowing arrangements, regulatory restrictions and other contractual requirements.

The following table presents total revenues, net income and other comprehensive income (“OCI”) of the company’s investments in associates and joint ventures:

AS AT DEC. 31 (MILLIONS)	2018			2017		
	Revenue	Net Income	OCI	Revenue	Net Income	OCI
<b>Real estate</b>						
Associates						
Core office.....	\$ 60	\$ 71	\$ —	\$ 41	\$ 116	\$ —
Core retail.....	1,536	(1,013)	(15)	2,405	(591)	12
LP Investments and other.....	545	301	191	586	320	103
Joint ventures						
Core office.....	1,559	1,544	(34)	1,439	1,066	5
Core retail.....	889	449	—	n/a	n/a	n/a
LP Investments and other.....	342	487	(2)	160	222	16
<b>Infrastructure</b>						
Associates						
Utilities.....	541	92	110	1,164	101	779
Transport.....	3,673	(309)	(826)	3,723	196	704
Data infrastructure.....	804	64	244	783	58	435
Other.....	84	83	363	45	(9)	(181)
Joint ventures						
Energy.....	695	92	—	681	15	(1)
Other.....	75	19	(29)	73	17	14
<b>Private equity</b>						
Associates						
Norbord.....	2,424	248	(21)	498	(8)	5
Other.....	1,947	148	(36)	2,548	710	(76)
<b>Renewable power and other</b>						
Renewable power associates.....	491	79	469	65	11	59
Other equity accounted investments.....	133	44	(3)	194	23	4
	<u>\$ 15,798</u>	<u>\$ 2,399</u>	<u>\$ 411</u>	<u>\$ 14,405</u>	<u>\$ 2,247</u>	<u>\$ 1,878</u>

Certain of the company’s investments are publicly listed entities with active pricing in a liquid market. The fair value based on the publicly listed price of these equity accounted investments in comparison to the company’s carrying value is as follows:

AS AT DEC. 31 (MILLIONS)	2018		2017	
	Public Price	Carrying Value	Public Price	Carrying Value
GGP <sup>1</sup> .....	n/a	n/a	\$ 7,570	\$ 8,844
Norbord.....	\$ 925	\$ 1,287	1,176	1,364
Other.....	36	—	286	201
	<u>\$ 961</u>	<u>\$ 1,287</u>	<u>\$ 9,032</u>	<u>\$ 10,409</u>

1. Our investment in GGP was consolidated as at December 31, 2018 and therefore has not been included in current year figures.

At December 31, 2018, the company performed a review to determine if there is any objective evidence that its investment in Norbord was impaired. As a result of this review, management determined there is no objective evidence of impairment of Norbord at December 31, 2018.

## 11. INVESTMENT PROPERTIES

The following table presents the change in the fair value of the company's investment properties:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Fair value, beginning of year .....	\$ 56,870	\$ 54,172
Additions .....	3,069	593
Acquisitions through business combinations .....	33,024	5,851
Dispositions <sup>1</sup> .....	(8,555)	(6,169)
Fair value changes .....	1,610	1,021
Foreign currency translation .....	(1,709)	1,402
Fair value, end of year .....	<u>\$ 84,309</u>	<u>\$ 56,870</u>

1. Includes amounts reclassified to held for sale.

Investment properties include the company's office, retail, multifamily, logistics and other properties as well as higher-and-better-use land within the company's sustainable resources operations. Acquisitions and additions of \$36.1 billion relate mainly to business combinations completed during the year. The step-up acquisition of GGP within our Real Estate segment accounted for \$18.0 billion of this increase. GGP was previously an equity accounted investment, but effective August 28, 2018, began to meet the criteria for control and was consolidated for financial statement purposes. During the fourth quarter, the acquisition of a diversified U.S. REIT with office, multifamily and retail assets in our real estate segment added a further \$9.4 billion of investment properties to the company's portfolio. Other acquisitions and additions include additions to our existing U.K. student housing portfolio, an office building in New York and capital investments to enhance or expand numerous properties throughout our portfolio.

Dispositions of \$8.6 billion in 2018 relate primarily to the sale of core office properties, a portfolio of storage properties and a U.S. logistics portfolio.

Investment properties generated \$5.4 billion (2017 – \$4.4 billion) in rental income and incurred \$2.1 billion (2017 – \$1.6 billion) in direct operating expenses. Most of our investment properties are pledged as collateral for the non-recourse borrowings at their respective properties.

The following table presents our investment properties measured at fair value:

AS AT DEC. 31 (MILLIONS)	2018	2017
Core office .....		
United States .....	\$ 15,237	\$ 14,827
Canada .....	4,245	4,597
Australia .....	2,391	2,480
Europe .....	1,331	1,040
Brazil .....	329	327
Core retail .....	17,607	—
LP Investments and other .....		
LP Investments office .....	8,438	6,275
LP Investments retail .....	3,414	3,412
Logistics .....	183	1,942
Mixed-use .....	12,086	2,315
Multifamily .....	4,151	3,925
Triple net lease .....	5,067	4,804
Self-storage .....	931	1,854
Student housing .....	2,417	1,353
Manufactured housing .....	2,369	2,206
Other investment properties .....	4,113	5,513
	<u>\$ 84,309</u>	<u>\$ 56,870</u>

Significant unobservable inputs (Level 3) are utilized when determining the fair value of investment properties. The significant Level 3 inputs include:

Valuation Technique	Significant Unobservable Inputs	Relationship of Unobservable Inputs to Fair Value	Mitigating Factors
Discounted cash flow analysis <sup>1</sup>	• Future cash flows – primarily driven by net operating income	• Increases (decreases) in future cash flows increase (decrease) fair value	• Increases (decreases) in cash flows tend to be accompanied by increases (decreases) in discount rates that may offset changes in fair value from cash flows
	• Discount rate	• Increases (decreases) in discount rate decrease (increase) fair value	• Increases (decreases) in discount rates tend to be accompanied by increases (decreases) in cash flows that may offset changes in fair value from discount rates
	• Terminal capitalization rate	• Increases (decreases) in terminal capitalization rate decrease (increase) fair value	• Increases (decreases) in terminal capitalization rates tend to be accompanied by increases (decreases) in cash flows that may offset changes in fair value from terminal capitalization rates
	• Investment horizon	• Increases (decreases) in the investment horizon decrease (increase) fair value	• Increases (decreases) in the investment horizon tend to be the result of changing cash flow profiles that may result in higher (lower) growth in cash flows prior to stabilizing in the terminal year

1. Certain investment properties are valued using the direct capitalization method instead of a discounted cash flow model. Under the direct capitalization method, a capitalization rate is applied to estimated current year cash flows.

The company's investment properties are diversified by asset type, asset class, geography and markets. Therefore, there may be mitigating factors in addition to those noted above such as changes to assumptions that vary in direction and magnitude across different geographies and markets.

The following table summarizes the key valuation metrics of the company's investment properties:

	2018			2017		
	Discount Rate	Terminal Capitalization Rate	Investment Horizon (years)	Discount Rate	Terminal Capitalization Rate	Investment Horizon (years)
AS AT DEC. 31						
Core office						
United States.....	6.9%	5.6%	12	7.0%	5.8%	13
Canada .....	6.0%	5.4%	10	6.1%	5.5%	10
Australia .....	7.0%	6.2%	10	7.0%	6.1%	10
Brazil .....	9.6%	7.7%	6	9.7%	7.6%	7
Core retail.....	7.1%	6.0%	12	n/a	n/a	n/a
LP Investments and other						
LP Investments office .....	10.2%	7.0%	6	10.2%	7.5%	7
LP Investments retail.....	8.9%	7.8%	9	9.0%	8.0%	10
Logistics .....	9.3%	8.3%	10	6.8%	6.2%	10
Mixed-use .....	7.8%	5.4%	10	8.4%	5.3%	10
Multifamily <sup>1</sup> .....	4.8%	n/a	n/a	4.8%	n/a	n/a
Triple net lease <sup>1</sup> .....	6.3%	n/a	n/a	6.4%	n/a	n/a
Self-storage <sup>1</sup> .....	5.7%	n/a	n/a	5.8%	n/a	n/a
Student housing <sup>1</sup> .....	5.6%	n/a	n/a	5.8%	n/a	n/a
Manufactured housing <sup>1</sup> .....	5.4%	n/a	n/a	5.8%	n/a	n/a
Other investment properties <sup>1</sup> .....	7.0%	n/a	n/a	5.8%	n/a	n/a

1. Multifamily, triple net lease, self-storage, student housing, manufactured housing and other investment properties are valued using the direct capitalization method. The rates presented as the discount rate represent the overall implied capitalization rate. The terminal capitalization rate and the investment horizon are not applicable.

## 12. PROPERTY, PLANT AND EQUIPMENT

The company's property, plant and equipment relates to the operating segments as shown below:

AS AT DEC. 31 (MILLIONS)	Renewable Power (a)		Infrastructure (b)		Real Estate (c)		Private Equity and Other (d)		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Costs .....	<b>\$26,108</b>	\$24,991	<b>\$12,059</b>	\$ 9,253	<b>\$ 7,713</b>	\$ 5,854	<b>\$ 9,027</b>	\$ 4,050	<b>\$54,907</b>	\$44,148
Accumulated fair value changes .....	<b>18,260</b>	13,280	<b>3,480</b>	3,272	<b>1,045</b>	798	<b>(434)</b>	(231)	<b>22,351</b>	17,119
Accumulated depreciation.....	<b>(5,497)</b>	(4,681)	<b>(1,889)</b>	(1,622)	<b>(1,106)</b>	(873)	<b>(1,472)</b>	(1,086)	<b>(9,964)</b>	(8,262)
Total .....	<b>\$38,871</b>	\$33,590	<b>\$13,650</b>	\$10,903	<b>\$ 7,652</b>	\$ 5,779	<b>\$ 7,121</b>	\$ 2,733	<b>\$67,294</b>	\$53,005

1. Includes amounts reclassified to held for sale.

Renewable Power, Infrastructure and Real Estate segments carry property, plant and equipment assets at fair value, classified as Level 3 in the fair value hierarchy due to the use of significant unobservable inputs when determining fair value. Private Equity and other segments carry property, plant and equipment assets at amortized cost. As at December 31, 2018, \$50.5 billion (2017 – \$38.3 billion) of property, plant and equipment, at cost, were pledged as collateral for the property debt at their respective properties.

### a) Renewable Power

Our renewable power property, plant and equipment consists of the following:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Hydroelectric		Wind <sup>1</sup>		Solar and Other		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Cost, beginning of year .....	<b>\$ 14,667</b>	\$ 14,382	<b>\$ 7,622</b>	\$ 3,285	<b>\$ 2,702</b>	\$ 364	<b>\$ 24,991</b>	\$ 18,031
Additions, net of disposals and assets reclassified as held for sale .....	<b>189</b>	256	<b>(21)</b>	(273)	<b>(684)</b>	—	<b>(516)</b>	(17)
Acquisitions through business combinations...	—	—	<b>1,184</b>	4,585	<b>1,784</b>	2,338	<b>2,968</b>	6,923
Foreign currency translation .....	<b>(988)</b>	29	<b>(209)</b>	25	<b>(138)</b>	—	<b>(1,335)</b>	54
Cost, end of year .....	<b>13,868</b>	14,667	<b>8,576</b>	7,622	<b>3,664</b>	2,702	<b>26,108</b>	24,991
Accumulated fair value changes, beginning of year.....	<b>12,176</b>	11,440	<b>1,053</b>	807	<b>51</b>	51	<b>13,280</b>	12,298
Fair value changes.....	<b>3,688</b>	341	<b>1,221</b>	33	<b>702</b>	—	<b>5,611</b>	374
Dispositions and assets reclassified as held for sale .....	—	(8)	—	—	—	—	—	(8)
Foreign currency translation .....	<b>(448)</b>	403	<b>(195)</b>	213	<b>12</b>	—	<b>(631)</b>	616
Accumulated fair value changes, end of year ..	<b>15,416</b>	12,176	<b>2,079</b>	1,053	<b>765</b>	51	<b>18,260</b>	13,280
Accumulated depreciation, beginning of year .	<b>(3,564)</b>	(2,947)	<b>(1,008)</b>	(740)	<b>(109)</b>	(89)	<b>(4,681)</b>	(3,776)
Depreciation expenses.....	<b>(547)</b>	(579)	<b>(416)</b>	(267)	<b>(192)</b>	(20)	<b>(1,155)</b>	(866)
Dispositions and assets reclassified as held for sale.....	<b>5</b>	—	<b>6</b>	51	<b>35</b>	—	<b>46</b>	51
Foreign currency translation .....	<b>227</b>	(38)	<b>60</b>	(52)	<b>6</b>	—	<b>293</b>	(90)
Accumulated depreciation, end of year.....	<b>(3,879)</b>	(3,564)	<b>(1,358)</b>	(1,008)	<b>(260)</b>	(109)	<b>(5,497)</b>	(4,681)
Balance, end of year .....	<b>\$ 25,405</b>	\$ 23,279	<b>\$ 9,297</b>	\$ 7,667	<b>\$ 4,169</b>	\$ 2,644	<b>\$ 38,871</b>	\$ 33,590

1. Our wind property, plant and equipment is now being presented separately from solar and other.



The following table presents our renewable power property, plant and equipment measured at fair value by geography:

AS AT DEC. 31 (MILLIONS)	2018	2017
North America .....	\$ 24,274	\$ 22,832
Colombia .....	6,665	5,401
Europe .....	3,748	1,088
Brazil .....	3,505	3,443
Other <sup>1</sup> .....	679	826
	<u>\$ 38,871</u>	<u>\$ 33,590</u>

1. Other refers primarily to China, India, Chile and Uruguay in 2018 and South Africa, China, India, Malaysia and Thailand in 2017.

Renewable power assets are accounted for under the revaluation model and the most recent date of revaluation was December 31, 2018. Valuations utilize significant unobservable inputs (Level 3) when determining the fair value of renewable power assets. The significant Level 3 inputs include:

Valuation Technique	Significant Unobservable Inputs	Relationship of Unobservable Inputs to Fair Value	Mitigating Factors
Discounted cash flow analysis	• Future cash flows – primarily impacted by future electricity price assumptions	• Increases (decreases) in future cash flows increase (decrease) fair value	• Increases (decreases) in cash flows tend to be accompanied by increases (decreases) in discount rates that may offset changes in fair value from cash flows
	• Discount rate	• Increases (decreases) in discount rate decrease (increase) fair value	• Increases (decreases) in discount rates tend to be accompanied by increases (decreases) in cash flows that may offset changes in fair value from discount rates
	• Terminal capitalization rate	• Increases (decreases) in terminal capitalization rate decrease (increase) fair value	• Increases (decreases) in terminal capitalization rates tend to be accompanied by increases (decreases) in cash flows that may offset changes in fair value from terminal capitalization rates
	• Exit date	• Increases (decreases) in the exit date decrease (increase) fair value	• Increases (decreases) in the exit date tend to be the result of changing cash flow profiles that may result in higher (lower) growth in cash flows prior to stabilizing in the terminal year

Key valuation metrics of the company's hydroelectric, wind and solar generating facilities at the end of 2018 and 2017 are summarized below.

	North America		Brazil		Colombia		Europe	
AS AT DEC. 31	2018	2017	2018	2017	2018	2017	2018	2017
Discount rate .....								
Contracted .....	4.8 – 5.6%	4.9 – 6.0%	9.0%	8.9%	9.6%	11.3%	4.0 – 4.3%	4.1 – 4.5%
Uncontracted .....	6.4 – 7.2%	6.5 – 7.6%	10.3%	10.2%	10.9%	12.6%	5.8 – 6.1%	5.9 – 6.3%
Terminal capitalization rate <sup>1</sup> ..	6.1 – 7.1%	6.2 – 7.5%	n/a	n/a	10.4%	12.6%	n/a	n/a
Exit date .....	2039	2037	2047	2032	2038	2037	2033	2031

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

Terminal values are included in the valuation of hydroelectric assets in the United States, Canada and Colombia. 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, 2018, which includes a one-time 30-year renewal for applicable hydroelectric assets completed in the current year, is 29 years (2017 – 15 years). Consequently, there is no terminal value attributed to the hydroelectric assets in Brazil.

Key assumptions on contracted generation and future power pricing are summarized below:

AS AT DEC. 31, 2018 (MILLIONS)	Total Generation Contracted under Power Purchase Agreements		Power Prices from Long- Term Power Purchase Agreements (weighted average)		Estimates of Future Electricity Prices (weighted average)	
	1 – 10 years	11 – 20 years	1 – 10 years	11 – 20 years	1 – 10 years	11 – 20 years
North America (prices in US\$/MWh).	<b>44%</b>	<b>21%</b>	<b>93</b>	<b>95</b>	<b>62</b>	<b>114</b>
Brazil (prices in R\$/MWh) .....	<b>69%</b>	<b>35%</b>	<b>286</b>	<b>397</b>	<b>287</b>	<b>452</b>
Colombia (prices in COP\$/MWh) .....	<b>22%</b>	<b>—%</b>	<b>201,000</b>	<b>—</b>	<b>252,000</b>	<b>354,000</b>
Europe (prices in €/MWh) .....	<b>72%</b>	<b>25%</b>	<b>93</b>	<b>111</b>	<b>79</b>	<b>92</b>

The company's estimate of future renewable power pricing is based on management's estimate of the cost of securing new energy from renewable sources to meet future demand between 2022 and 2025 (2017 – between 2021 and 2025), which will maintain system reliability and provide adequate levels of reserve generation.

## b) Infrastructure

Our infrastructure property, plant and equipment consists of the following:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Utilities		Transport		Energy		Data Infrastructure		Sustainable Resources		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Cost, beginning of year .....	\$3,473	\$2,894	\$ 2,655	\$2,361	\$ 2,630	\$2,382	\$ —	\$ —	\$ 495	\$ 408	\$ 9,253	\$ 8,045
Additions, net of disposals and assets reclassified as held for sale .....	422	350	73	103	146	81	4	—	(2)	93	643	627
Acquisitions through business combinations .....	394	—	—	—	2,111	100	440	—	—	—	2,945	100
Foreign currency translation .....	(269)	229	(243)	191	(206)	67	—	—	(64)	(6)	(782)	481
Cost, end of year .....	<b>4,020</b>	<b>3,473</b>	<b>2,485</b>	<b>2,655</b>	<b>4,681</b>	<b>2,630</b>	<b>444</b>	<b>—</b>	<b>429</b>	<b>495</b>	<b>12,059</b>	<b>9,253</b>
Accumulated fair value changes, beginning of year .....	1,256	1,044	873	782	629	351	—	—	514	513	3,272	2,690
Fair value changes .....	218	136	18	24	224	257	—	—	12	13	472	430
Foreign currency translation .....	(73)	76	(81)	67	(31)	21	—	—	(79)	(12)	(264)	152
Accumulated fair value changes, end of year .....	<b>1,401</b>	<b>1,256</b>	<b>810</b>	<b>873</b>	<b>822</b>	<b>629</b>	<b>—</b>	<b>—</b>	<b>447</b>	<b>514</b>	<b>3,480</b>	<b>3,272</b>
Accumulated depreciation, beginning of year .....	(509)	(384)	(687)	(517)	(383)	(258)	—	—	(43)	(31)	(1,622)	(1,190)
Depreciation expenses .....	(148)	(113)	(147)	(147)	(134)	(117)	—	—	(8)	(10)	(437)	(387)
Dispositions and assets reclassified as held for sale .....	5	16	22	22	7	4	—	—	4	3	38	45
Foreign currency translation .....	39	(28)	68	(45)	18	(12)	—	—	7	(5)	132	(90)
Accumulated depreciation, end of year .....	<b>(613)</b>	<b>(509)</b>	<b>(744)</b>	<b>(687)</b>	<b>(492)</b>	<b>(383)</b>	<b>—</b>	<b>—</b>	<b>(40)</b>	<b>(43)</b>	<b>(1,889)</b>	<b>(1,622)</b>
Balance, end of year .....	<b>\$4,808</b>	<b>\$4,220</b>	<b>\$ 2,551</b>	<b>\$2,841</b>	<b>\$ 5,011</b>	<b>\$2,876</b>	<b>\$ 444</b>	<b>\$ —</b>	<b>\$ 836</b>	<b>\$ 966</b>	<b>\$ 13,650</b>	<b>\$ 10,903</b>

Infrastructure's PP&E assets are accounted for under the revaluation model, and the most recent date of revaluation was December 31, 2018. The company's utilities assets consist of regulated transmission and regulated distribution networks, which are operated primarily under regulated rate base arrangements. In the company's transport operations, the PP&E assets consist of railroads, toll roads and ports. PP&E assets in the energy operations are comprised of energy transmission, distribution and storage and district energy assets. Data infrastructure PP&E include mainly telecommunications towers, fiber optic networks and data storage assets. PP&E within our sustainable resource operations include standing timber, land, roads and other agricultural assets.

Valuations utilize significant unobservable inputs (Level 3) when determining the fair value of infrastructure's utilities, transport, energy, data infrastructure and sustainable resources assets. The significant Level 3 inputs include:

Valuation Technique	Significant Unobservable Inputs	Relationship of Unobservable Inputs to Fair Value	Mitigating Factors
Discounted cash flow analysis	• Future cash flows	• Increases (decreases) in future cash flows increase (decrease) fair value	• Increases (decreases) in cash flows tend to be accompanied by increases (decreases) in discount rates that may offset changes in fair value from cash flows
	• Discount rate	• Increases (decreases) in discount rate decrease (increase) fair value	• Increases (decreases) in discount rates tend to be accompanied by increases (decreases) in cash flows that may offset changes in fair value from discount rates
	• Terminal capitalization multiple	• Increases (decreases) in terminal capitalization multiple increases (decreases) fair value	• Increases (decreases) in terminal capitalization multiple tend to be accompanied by increases (decreases) in cash flows that may offset changes in fair value from terminal capitalization multiple
	• Investment horizon	• Increases (decreases) in the investment horizon decrease (increase) fair value	• Increases (decreases) in the investment horizon tend to be the result of changing cash flow profiles that may result in higher (lower) growth in cash flows prior to stabilizing in the terminal year

Key valuation metrics of the company's utilities, transport, energy, data infrastructure and sustainable resources assets at the end of 2018 and 2017 are summarized below.

	Utilities		Transport		Energy		Data Infrastructure		Sustainable Resources	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
AS AT DEC. 31										
Discount rates .....	7 – 14%	7 – 12%	10 – 13%	10 – 15%	12 – 15%	12 – 15%	13 – 15%	n/a	5 – 8%	5 – 8%
Terminal capitalization multiples ...	8x – 22x	7x – 21x	9x – 14x	9x – 14x	10x – 14x	8x – 13x	10x – 11x	n/a	12x – 23x	12x – 23x
Investment horizon / Exit date (years) .....	10 – 20	10 – 20	10 – 20	10 – 20	10	10	10	n/a	3 – 30	3 – 30

### c) Real Estate

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Cost		Accumulated Fair Value Changes		Accumulated Depreciation		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Balance, beginning of year .....	\$ 5,854	\$ 5,783	\$ 798	\$ 694	\$ (873)	\$ (825)	\$ 5,779	\$ 5,652
Additions/(dispositions) <sup>1</sup> , net of assets reclassified as held for sale.....	352	(502)	5	44	43	246	400	(212)
Acquisitions through business combinations ..	1,748	281	—	—	—	—	1,748	281
Foreign currency translation.....	(241)	292	(3)	1	27	(13)	(217)	280
Fair value changes .....	—	—	245	59	—	—	245	59
Depreciation expenses .....	—	—	—	—	(303)	(281)	(303)	(281)
Balance, end of year .....	\$ 7,713	\$ 5,854	\$ 1,045	\$ 798	\$ (1,106)	\$ (873)	\$ 7,652	\$ 5,779

1. For accumulated depreciation, (additions)/dispositions.

The company's real estate PP&E assets include hospitality assets accounted for under the revaluation model, with the most recent revaluation as at December 31, 2018. The company determined fair value for these assets by using the depreciated replacement cost method. Valuations utilize significant unobservable inputs (Level 3) when determining the fair value of real estate assets. The significant Level 3 inputs include estimates of assets' replacement cost and remaining economic life.

## d) Private Equity and Other

Private equity and other PP&E includes assets owned by the company's private equity and residential development operations. These assets are accounted for under the cost model, which requires the assets to be carried at cost less accumulated depreciation and any accumulated impairment losses. The following table presents the changes to the carrying value of the company's property, plant and equipment assets included in these operations:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Cost		Accumulated Impairment		Accumulated Depreciation		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Balance, beginning of year .....	\$ 4,050	\$ 5,268	\$ (231)	\$ (243)	\$ (1,086)	\$ (1,429)	\$ 2,733	\$ 3,596
Additions/(dispositions) <sup>1</sup> , net of assets reclassified as held for sale.....	360	(1,966)	1	36	72	752	433	(1,178)
Acquisitions through business combinations ..	4,915	501	—	—	—	—	4,915	501
Foreign currency translation.....	(298)	247	15	(16)	78	(51)	(205)	180
Depreciation expenses.....	—	—	—	—	(536)	(358)	(536)	(358)
Impairment charges .....	—	—	(219)	(8)	—	—	(219)	(8)
Balance, end of year .....	<u>\$ 9,027</u>	<u>\$ 4,050</u>	<u>\$ (434)</u>	<u>\$ (231)</u>	<u>\$ (1,472)</u>	<u>\$ (1,086)</u>	<u>\$ 7,121</u>	<u>\$ 2,733</u>

1. For accumulated depreciation, (additions)/dispositions.

## 13. INTANGIBLE ASSETS

The following table presents the breakdown of, and changes to, the balance of the company's intangible assets:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Cost		Accumulated Amortization and Impairment		Total	
	2018	2017	2018	2017	2018	2017
Balance, beginning of year .....	\$ 15,251	\$ 6,733	\$ (1,009)	\$ (660)	\$ 14,242	\$ 6,073
Additions, net of disposals .....	266	(25)	16	121	282	96
Acquisitions through business combinations .....	6,590	8,412	—	—	6,590	8,412
Amortization.....	—	—	(659)	(442)	(659)	(442)
Foreign currency translation.....	(1,803)	131	110	(28)	(1,693)	103
Balance, end of year .....	<u>\$ 20,304</u>	<u>\$ 15,251</u>	<u>\$ (1,542)</u>	<u>\$ (1,009)</u>	<u>\$ 18,762</u>	<u>\$ 14,242</u>

The following table presents intangible assets by geography:

AS AT DEC. 31 (MILLIONS)	2018	2017
Brazil .....	\$ 6,270	\$ 7,537
United States.....	2,986	73
Canada .....	2,051	364
Australia .....	1,873	2,078
United Kingdom .....	1,860	1,489
Peru.....	1,118	1,144
Chile .....	928	1,100
India.....	843	130
Other .....	833	327
	<u>\$ 18,762</u>	<u>\$ 14,242</u>

Intangible assets are allocated to the following operating segments:

AS AT DEC. 31 (MILLIONS)	Note	2018	2017
Infrastructure .....	(a)	\$ 11,641	\$ 9,900
Private equity .....	(b)	5,523	3,094
Real estate .....	(c)	1,179	1,188
Renewable power and other .....		419	60
		<u>\$ 18,762</u>	<u>\$ 14,242</u>

#### a) Infrastructure

The intangible assets in our Infrastructure segment are primarily related to:

- Concession arrangements of \$4.2 billion (2017 – \$5.1 billion) at the company's Brazilian regulated gas transmission operation that provide the right to charge a tariff over the term of the agreements. The agreements have an expiration date between 2039 and 2041, which is the basis for the company's determination of its remaining useful life. Upon expiry of the agreements, the asset shall be returned to the government and the concession will be subject to a public bidding process.
- Access agreements of \$1.8 billion (2017 – \$2.0 billion) with the users of the company's Australian regulated terminal which are 100% take-or-pay contracts at a designated tariff rate based on the asset value. The access arrangements have an expiration date of 2051 and the company has an option to extend the arrangement an additional 49 years. The aggregate duration of the arrangements and the extension option represents the remaining useful life.
- Concession arrangements totaling \$2.9 billion (2017 – \$2.4 billion) relating to the company's Peruvian, Chilean and Indian toll roads which provide the right to charge a tariff to users of the roads over the terms of the concessions. The Chilean and Peruvian concessions have expiration dates of 2033 and 2043 while the Indian concessions have expiration dates ranging from 2027 to 2041. The company uses these expiration dates as a basis for determining the assets' remaining useful lives.
- Contractual customer relationships, customer contracts and proprietary technology of \$1.4 billion (2017 – n/a) at the company's North American residential energy infrastructure operations. These assets are amortized straight line over 10 to 20 years.
- Indefinite life intangible assets of \$653 million (2017 – \$297 million). The increase from 2017 is primarily attributable to the brand value at our recently acquired North American residential energy infrastructure operations.

#### b) Private Equity

The intangible assets in our Private Equity segment are primarily related to:

- Water and sewage concession agreements, the majority of which are arrangements with municipal governments across Brazil, of \$1.8 billion (2017 – \$2.1 billion). The concession agreements provide the company the right to charge fees to users over the terms of the agreements in exchange for water treatment services, ongoing and regular maintenance work on water distribution assets and improvements to the water treatment and distribution systems. The concession agreements have expiration dates that range from 2037 to 2055 which is the basis for the company's determination of its remaining useful life. Upon expiry of the agreements, the assets shall be returned to the government.
- Computer software, patents, trademarks and proprietary technology of \$2.1 billion (2017 – \$126 million). The increase from 2017 is primarily attributable to the proprietary technology at a service provider to the power generation industry, which we acquired in 2018. The proprietary technology has the potential to provide competitive advantages and product differentiation and is assessed to have a useful life of 15 years.

#### c) Real Estate

The company's intangible assets in its Real Estate segment are attributable to indefinite life trademarks associated with its hospitality assets, primarily Center Parcs and Atlantis. The Center Parcs and Atlantis trademark assets have been determined to have an indefinite useful life as the company has the legal right to operate these trademarks exclusively in certain territories and in perpetuity. The business models of Center Parcs and Atlantis are not subject to technological obsolescence or commercial innovations in any material way.

## Inputs Used to Determine Recoverable Amounts of Intangible Assets

We test finite life intangible assets for impairment when an impairment indicator is identified. Indefinite life intangible assets are tested for impairment annually. We use a discounted cash flow valuation to determine the recoverable amount and consider the following significant unobservable inputs as part of our valuation:

Valuation Technique	Significant Unobservable Input(s)	Relationship of Unobservable Input(s) to Fair Value	Mitigating Factor(s)
Discounted cash flow models	• Future cash flows	• Increases (decreases) in future cash flows increase (decrease) the recoverable amount	• Increases (decreases) in cash flows tend to be accompanied by increases (decreases) in discount rates that may offset changes in recoverable amounts from cash flows
	• Discount rate	• Increases (decreases) in discount rate decrease (increase) the recoverable amount	• Increases (decreases) in discount rates tend to be accompanied by increases (decreases) in cash flows that may offset changes in recoverable amounts from discount rates
	• Terminal capitalization rate	• Increases (decreases) in terminal capitalization rate decrease (increase) the recoverable amount	• Increases (decreases) in terminal capitalization rates tend to be accompanied by increases (decreases) in cash flows that may offset changes in recoverable amounts from terminal capitalization rates
	• Exit date	• Increases (decreases) in the exit date decrease (increase) the recoverable amount	• Increases (decreases) in the exit date tend to be the result of changing cash flow profiles that may result in higher (lower) growth in cash flows prior to stabilizing in the terminal year

## 14. GOODWILL

The following table presents the breakdown of, and changes to, the balance of goodwill:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Cost		Accumulated Impairment		Total	
	2018	2017	2018	2017	2018	2017
Balance, beginning of year .....	\$ 5,707	\$ 4,162	\$ (390)	\$ (379)	\$ 5,317	\$ 3,783
Acquisitions through business combinations .....	4,158	1,157	—	—	4,158	1,157
Impairment losses .....	—	—	—	(5)	—	(5)
Foreign currency translation and other <sup>1</sup> .....	(667)	388	7	(6)	(660)	382
Balance, end of year .....	\$ 9,198	\$ 5,707	\$ (383)	\$ (390)	\$ 8,815	\$ 5,317

1. Includes adjustment to goodwill based on final purchase price allocation.

The following table presents goodwill by geography:

AS AT DEC. 31 (MILLIONS)	2018	2017
Europe .....	\$ 2,131	\$ 1,257
Canada .....	1,923	432
Colombia .....	1,384	912
United States .....	1,306	400
Australia .....	876	1,026
Brazil .....	762	905
Other .....	433	385
	<u>\$ 8,815</u>	<u>\$ 5,317</u>

Goodwill is allocated to the following operating segments:

AS AT DEC. 31 (MILLIONS)	Note	2018	2017
Infrastructure .....	(a)	\$ 3,859	\$ 1,301
Private equity .....	(b)	2,411	1,555
Real estate .....	(c)	1,157	1,127
Renewable power .....	(d)	941	901
Asset management .....		328	312
Other .....		119	121
Total .....		<u>\$ 8,815</u>	<u>\$ 5,317</u>

#### a) Infrastructure

Goodwill in our Infrastructure segment is primarily attributable to acquisitions completed in 2018, including a North American residential energy infrastructure operation (\$1.3 billion), a Colombian natural gas distribution business (\$621 million), a Western Canadian natural gas gathering and processing business (\$524 million) and a portfolio of North American data centers (\$463 million). The purchase price allocations for these acquisitions have been completed on a preliminary basis.

Excluding the acquisitions completed in 2018, the remainder of the goodwill is primarily attributable to a Brazilian regulated gas transmission business and Australian port business.

Goodwill attributable to our Brazilian regulated gas transmission arose from the inclusion of a deferred tax liability as the tax bases of the net assets acquired were lower than their fair values. The goodwill is recoverable as long as the tax circumstances that gave rise to the goodwill do not change. To date, no such changes have occurred.

The valuation assumptions used to determine the recoverable amount for our Australian port business are a discount rate of 13.3% (2017 – 15.0%), terminal capitalization multiple of 9.1x (2017 – 8.9x) and a cash flow period of 10 years (2017 – 10 years). The recoverable amounts for the years ended 2018 and 2017 were determined to be in excess of their carrying values.

#### b) Private Equity

Goodwill in our Private Equity segment is primarily attributable to our construction services business, which we test for impairment using a discounted cash flow analysis to determine the recoverable amount. The recoverable amounts for the years ended 2018 and 2017 were determined to be in excess of their carrying values. The valuation assumptions used to determine the recoverable amount are a discount rate of 10.0% (2017 – 9.7%), terminal growth rate of 2.8% (2017 – 2.9%) and terminal year of 2023 for cash flows included in the assumptions (2017 – 2022). The discount rate represents the market-based weighted-average cost of capital adjusted for risks specific to each operating region and the terminal growth rate represents the regional five-year forecasted average growth rate from leading industry organizations, weighted by our geographic exposure which can vary year over year.

Acquisitions completed in 2018 increased the amount of goodwill in our Private Equity segment, including a service provider to the offshore oil production industry (\$547 million) and our service provider to the power generation industry (\$213 million). The purchase price allocations for these acquisitions have been completed on a preliminary basis. The remaining goodwill is primarily associated with our road fuel distribution business and our western Canadian energy operations.

#### c) Real Estate

Goodwill in our Real Estate segment is primarily attributable to Center Parcs and IFC Seoul. Goodwill is tested annually for impairment by assessing if the carrying value of the cash-generating unit, including the allocated goodwill, exceeds its recoverable amount, determined as the greater of the estimated fair value less costs to sell or the value in use. The recoverable amounts for the years ended 2018 and 2017 were determined to be in excess of their carrying values.

The valuation assumptions used to determine the recoverable amount for Center Parcs are a discount rate of 7.4% (2017 – 7.7%) based on a market-based-weighted-average cost of capital, and a long-term growth rate of 2.0% (2017 – 2.3%).

The valuation assumptions used to determine the recoverable amount for IFC Seoul were a discount rate of 7.7% (2017 – n/a) based on a market-based-weighted-average cost of capital, and a long-term growth rate of 2.0% (2017 – n/a).

## d) Renewable Power

Goodwill in our Renewable Power segment, which is primarily attributable to a hydroelectric portfolio in Colombia, arose from the inclusion of a deferred tax liability as the tax bases of the net assets acquired were lower than their fair values. The goodwill is recoverable as long as the tax circumstances that gave rise to the goodwill do not change. To date, no such changes have occurred.

### *Inputs used to Determine Recoverable Amounts of Goodwill*

The recoverable amounts used in goodwill impairment testing are calculated using discounted cash flow models based on the following significant unobservable inputs:

Valuation Technique	Significant Unobservable Input(s)	Relationship of Unobservable Input(s) to Fair Value	Mitigating Factor(s)
Discounted cash flow models	• Future cash flows	• Increases (decreases) in future cash flows increase (decrease) the recoverable amount	• Increases (decreases) in cash flows tend to be accompanied by increases (decreases) in discount rates that may offset changes in recoverable amounts from cash flows
	• Discount rate	• Increases (decreases) in discount rate decrease (increase) the recoverable amount	• Increases (decreases) in discount rates tend to be accompanied by increases (decreases) in cash flows that may offset changes in recoverable amounts from discount rates
	• Terminal capitalization rate / multiple	• Increases (decreases) in terminal capitalization rate/multiple decrease (increase) the recoverable amount	• Increases (decreases) in terminal capitalization rates/multiple tend to be accompanied by increases (decreases) in cash flows that may offset changes in recoverable amounts from terminal capitalization rates
	• Exit date / terminal year of cash flows	• Increases (decreases) in the exit date/ terminal year of cash flows decrease (increase) the recoverable amount	• Increases (decreases) in the exit date/ terminal year of cash flows tend to be the result of changing cash flow profiles that may result in higher (lower) growth in cash flows prior to stabilizing in the terminal year

## 15. INCOME TAXES

The major components of income tax expense for the years ended December 31, 2018 and 2017 are set out below:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Current income taxes .....	\$ 861	\$ 286
Deferred income tax expense / (recovery)		
Origination and reversal of temporary differences .....	143	499
Expense / (recovery) arising from previously unrecognized tax assets .....	(955)	3
Change of tax rates and new legislation .....	(297)	(175)
Total deferred income taxes .....	(1,109)	327
Income taxes .....	\$ (248)	\$ 613



The company's Canadian domestic statutory income tax rate has remained consistent at 26% throughout both of 2018 and 2017. The company's effective income tax rate is different from the company's domestic statutory income tax rate due to the following differences set out below:

FOR THE YEARS ENDED DEC. 31	2018	2017
Statutory income tax rate.....	26 %	26 %
Increase (reduction) in rate resulting from:		
Change in tax rates and new legislation.....	(4)	(3)
International operations subject to different tax rates.....	(3)	3
Taxable income attributable to non-controlling interests .....	(8)	(9)
Portion of gains subject to different tax rates .....	(4)	(5)
Recognition of deferred tax assets .....	(12)	(2)
Non-recognition of the benefit of current year's tax losses.....	1	3
Other .....	1	(1)
Effective income tax rate.....	(3)%	12 %

Deferred income tax assets and liabilities as at December 31, 2018 and 2017 relate to the following:

AS AT DEC. 31 (MILLIONS)	2018	2017
Non-capital losses (Canada).....	\$ 685	\$ 657
Capital losses (Canada) .....	108	171
Losses (U.S.) .....	2,219	590
Losses (International) .....	645	861
Difference in basis .....	(13,161)	(12,224)
Total net deferred tax liabilities.....	\$ (9,504)	\$ (9,945)

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized as at December 31, 2018 is approximately \$6 billion (2017 – approximately \$5 billion).

The company regularly assesses the status of open tax examinations and its historical tax filing positions for the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes. The company believes that it has adequately provided for any tax adjustments that are more likely than not to occur as a result of ongoing tax examinations or historical filing positions.

The dividend payment on certain preferred shares of the company results in the payment of cash taxes in Canada and the company obtaining a deduction based on the amount of these taxes.

The following table details the expiry date, if applicable, of the unrecognized deferred tax assets:

AS AT DEC. 31 (MILLIONS)	2018	2017
One year from reporting date .....	\$ 16	\$ —
Two years from reporting date .....	—	—
Three years from reporting date .....	2	6
After three years from reporting date .....	1,125	530
Do not expire .....	1,526	990
Total.....	\$ 2,669	\$ 1,526

The components of the income taxes in other comprehensive income for the years ended December 31, 2018 and 2017 are set out below:

FOR THE YEARS ENDED DEC. 31  
(MILLIONS)

	2018	2017
Revaluation of property, plant and equipment .....	\$ 1,302	\$ (315)
Financial contracts and power sale agreements .....	26	27
Fair value through OCI securities <sup>1</sup> .....	10	5
Foreign currency translation .....	69	(43)
Revaluation of pension obligation .....	7	1
Total deferred tax in other comprehensive income .....	<u>\$ 1,414</u>	<u>\$ (325)</u>

1. Prior period amounts have not been restated (refer to Note 2 of the consolidated financial statements).

## 16. CORPORATE BORROWINGS

AS AT DEC. 31  
(MILLIONS)

	Maturity	Annual Rate	Currency	2018	2017
Term debt					
Public – Canadian .....	Apr. 9, 2019	3.95%	C\$	\$ 440	\$ 478
Public – Canadian .....	Mar. 1, 2021	5.30%	C\$	257	278
Public – Canadian .....	Mar. 31, 2023	4.54%	C\$	441	479
Public – Canadian .....	Mar. 8, 2024	5.04%	C\$	367	398
Public – U.S. ....	Apr. 1, 2024	4.00%	US\$	749	748
Public – U.S. ....	Jan. 15, 2025	4.00%	US\$	500	500
Public – Canadian .....	Jan. 28, 2026	4.82%	C\$	633	689
Public – U.S. ....	Jun. 2, 2026	4.25%	US\$	496	496
Public – Canadian .....	Mar. 16, 2027	3.80%	C\$	366	397
Public – U.S. ....	Jan. 25, 2028	3.90%	US\$	648	—
Public – U.S. ....	Mar. 1, 2033	7.38%	US\$	250	250
Public – Canadian .....	Jun. 14, 2035	5.95%	C\$	309	335
Private – Japanese .....	Dec. 1, 2038	1.42%	JPY	91	—
Public – U.S. ....	Sep. 20, 2047	4.70%	US\$	903	546
				<u>6,450</u>	<u>5,594</u>
Commercial paper and bank borrowings .....		—%	C\$	—	103
Deferred financing costs <sup>1</sup> .....				(41)	(38)
Total .....				<u>\$ 6,409</u>	<u>\$ 5,659</u>

1. Deferred financing costs are amortized to interest expense over the term of the borrowing using the effective interest method.

Corporate borrowings have a weighted-average interest rate of 4.5% (2017 – 4.6%) and include \$2.8 billion (2017 – \$3.2 billion) repayable in Canadian dollars of C\$3.8 billion (2017 – C\$4.0 billion) and \$91 million (2017 – \$nil) repayable in Japanese Yen of ¥10 billion (2017 – ¥nil).

## 17. ACCOUNTS PAYABLE AND OTHER

AS AT DEC. 31 (MILLIONS)	2018	2017
Accounts payable.....	\$ 6,873	\$ 5,158
Provisions .....	2,830	1,651
Other liabilities .....	14,286	11,156
Total .....	<u>\$ 23,989</u>	<u>\$ 17,965</u>

The current and non-current balances of accounts payable, provisions and other liabilities are as follows:

AS AT DEC. 31 (MILLIONS)	2018	2017
Current .....	\$ 14,337	\$ 11,148
Non-current.....	9,652	6,817
Total .....	<u>\$ 23,989</u>	<u>\$ 17,965</u>

### Post-Employment Benefits

The company offers pension and other post-employment benefit plans to employees of certain of its subsidiaries. The company's obligations under its defined benefit pension plans are determined periodically through the preparation of actuarial valuations. The 2018 acquisition in our Private Equity segment of a service provider to the power generation industry resulted in an increase in our plan assets and accrued benefit obligations. The benefit plans' in-year valuation change was a decrease of \$19 million (2017 – an increase of \$4 million). The discount rate used was 2% (2017 – 4%) with an increase in the rate of compensation of 2% (2017 – 3%), and an investment rate of 3% (2017 – 5%).

AS AT DEC. 31 (MILLIONS)	2018	2017
Plan assets.....	\$ 1,981	\$ 516
Less accrued benefit obligation:		
Defined benefit pension plan .....	(2,548)	(685)
Other post-employment benefits.....	(148)	(90)
Net liability .....	<u>(715)</u>	<u>(259)</u>
Less: net actuarial gains (losses) and other .....	(10)	(2)
Accrued benefit liability .....	<u>\$ (725)</u>	<u>\$ (261)</u>

## 18. NON-RECOURSE BORROWINGS OF MANAGED ENTITIES

AS AT DEC. 31	Note	2018	2017
Subsidiary borrowings.....	(a)	\$ 8,600	\$ 9,009
Property-specific borrowings .....	(b)	103,209	63,721
Total .....		<u>\$ 111,809</u>	<u>\$ 72,730</u>

## a) Subsidiary Borrowings

Principal repayments on subsidiary borrowings due over the next five calendar years and thereafter are as follows:

(MILLIONS)	Real Estate	Renewable Power	Infrastructure	Private Equity	Residential Development	Total
2019 .....	\$ 343	\$ —	\$ —	\$ 52	\$ —	\$ 395
2020 .....	1	330	275	—	603	1,209
2021 .....	1,868	—	—	—	86	1,954
2022 .....	—	293	330	—	497	1,120
2023 .....	292	—	510	—	184	986
Thereafter.....	—	1,705	878	—	353	2,936
<b>Total – Dec. 31, 2018 .....</b>	<b>\$ 2,504</b>	<b>\$ 2,328</b>	<b>\$ 1,993</b>	<b>\$ 52</b>	<b>\$ 1,723</b>	<b>\$ 8,600</b>
Total – Dec. 31, 2017.....	\$ 3,214	\$ 1,665	\$ 2,102	\$ 380	\$ 1,648	\$ 9,009

The weighted-average interest rate on subsidiary borrowings as at December 31, 2018 was 4.5% (2017 – 4.1%).

The current and non-current balances of subsidiary borrowings are as follows:

AS AT DEC. 31 (MILLIONS)	2018	2017
Current.....	\$ 395	\$ 1,956
Non-current.....	8,205	7,053
Total.....	<b>\$ 8,600</b>	<b>\$ 9,009</b>

Subsidiary borrowings by currency include the following:

AS AT DEC. 31 (MILLIONS)	2018	Local Currency	2017	Local Currency
U.S. dollars .....	\$ 6,846	US\$ 6,846	\$ 5,305	US\$ 5,305
Canadian dollars .....	1,613	C\$ 2,200	3,547	C\$ 4,460
Australian dollars .....	141	A\$ 200	156	A\$ 199
British pounds .....	—	£ —	1	£ 1
Total.....	<b>\$ 8,600</b>		<b>\$ 9,009</b>	

## b) Property-Specific Borrowings

Principal repayments on property-specific borrowings due over the next five calendar years and thereafter are as follows:

(MILLIONS)	Real Estate	Renewable Power	Infrastructure	Private Equity	Residential Development	Total
2019 .....	\$ 6,108	\$ 1,196	\$ 1,544	\$ 1,772	\$ 144	\$ 10,764
2020 .....	11,895	788	1,112	1,003	105	14,903
2021 .....	13,731	603	834	792	29	15,989
2022 .....	5,742	1,346	839	986	40	8,953
2023 .....	6,721	2,441	3,595	807	10	13,574
Thereafter.....	19,297	7,859	6,410	5,460	—	39,026
<b>Total – Dec. 31, 2018 .....</b>	<b>\$ 63,494</b>	<b>\$ 14,233</b>	<b>\$ 14,334</b>	<b>\$ 10,820</b>	<b>\$ 328</b>	<b>\$ 103,209</b>
Total – Dec. 31, 2017.....	\$ 37,235	\$ 14,230	\$ 9,010	\$ 2,898	\$ 348	\$ 63,721

The weighted-average interest rate on property-specific borrowings as at December 31, 2018 was 5.0% (2017 – 4.9%).

The current and non-current balances of property-specific borrowings are as follows:

AS AT DEC. 31 (MILLIONS)	2018	2017
Current .....	<b>\$ 10,764</b>	\$ 8,800
Non-current .....	<b>92,445</b>	54,921
Total .....	<b><u>\$ 103,209</u></b>	<u>\$ 63,721</u>

Property-specific borrowings by currency include the following:

AS AT DEC. 31 (MILLIONS)	2018	Local Currency	2017	Local Currency
U.S. dollars .....	<b>\$ 72,747</b>	US\$ 72,747	\$ 39,164	US\$ 39,164
British pounds .....	<b>7,200</b>	£ 5,643	6,117	£ 4,525
Canadian dollars .....	<b>6,285</b>	C\$ 8,573	5,272	C\$ 6,627
Brazilian reais .....	<b>3,825</b>	R\$ 14,820	2,677	R\$ 8,856
European Union euros .....	<b>3,264</b>	€\$ 2,846	766	€\$ 638
Australian dollars .....	<b>2,968</b>	A\$ 4,210	3,518	A\$ 4,506
Indian rupees .....	<b>2,026</b>	Rs 140,694	1,346	Rs 85,720
Colombian pesos .....	<b>1,855</b>	COP\$ 6,025,270	1,556	COP\$ 4,645,648
Korean won .....	<b>1,613</b>	₩ 1,797,415	1,682	₩ 1,795,518
Chilean unidades de fomento .....	<b>837</b>	UF 21	976	UF 22
Other currencies .....	<b>589</b>	n/a n/a	647	n/a n/a
Total .....	<b><u>\$ 103,209</u></b>		<u>\$ 63,721</u>	

## 19. SUBSIDIARY EQUITY OBLIGATIONS

Subsidiary equity obligations consist of the following:

AS AT DEC. 31 (MILLIONS)	Note	2018	2017
Subsidiary preferred equity units .....	(a)	<b>\$ 1,622</b>	\$ 1,597
Limited-life funds and redeemable fund units .....	(b)	<b>1,724</b>	1,559
Subsidiary preferred shares and capital .....	(c)	<b>530</b>	505
Total .....		<b><u>\$ 3,876</u></b>	<u>\$ 3,661</u>

### a) Subsidiary Preferred Equity Units

In 2014, BPY issued \$1.8 billion of exchangeable preferred equity units in three \$600 million tranches redeemable 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 that remain outstanding will be converted into BPY equity units at the lower of \$25.70 or the then market price of a BPY equity unit. The preferred equity units represent a compound financial instrument comprised of the financial liability representing the company's obligations to redeem the preferred equity units at maturity for a variable number of BPY units and an equity instrument representing the holder's right to convert the preferred equity units to a fixed number of BPY units. The company is required under certain circumstances to purchase the preferred equity units at their redemption value in equal amounts in 2021 and 2024 and may be required to purchase the 2026 tranche, as further described in Note 29(a).

AS AT DEC. 31 (MILLIONS, EXCEPT PER SHARE INFORMATION)	Shares Outstanding	Cumulative Dividend Rate	Local Currency	2018	2017
Series 1 .....	24,000,000	6.25%	US\$	<b>\$ 562</b>	\$ 551
Series 2 .....	24,000,000	6.50%	US\$	<b>537</b>	529
Series 3 .....	24,000,000	6.75%	US\$	<b>523</b>	517
Total .....				<b><u>\$ 1,622</u></b>	<u>\$ 1,597</u>

## b) Limited-Life Funds and Redeemable Fund Units

Limited-life funds and redeemable fund units represent interests held in our consolidated funds by third-party investors that have been classified as a liability rather than as non-controlling interest, as holders of these interests can cause our funds to redeem their interest in the fund for cash equivalents at a specified time. As at December 31, 2018, we have \$1.7 billion of subsidiary equity obligations arising from limited-life funds and redeemable fund units (2017 – \$1.6 billion arising from limited-life funds).

In our real estate business, limited-life fund obligations include \$813 million (2017 – \$813 million) of equity interests held by third-party investors in two consolidated funds that have been classified as a liability, instead of non-controlling interest, as holders of these interests can cause the funds to redeem their interests in the fund for cash equivalents at the fair value of the interest at a set date.

As at December 31, 2018, we have \$826 million (2017 – \$746 million) of subsidiary equity obligations arising from limited-life fund units in our infrastructure business. These obligations are primarily composed of the portion of the equity interest held by third-party investors in our timberland and agriculture funds that are attributed to the value of the land held in the fund. The value of this equity interest has been classified as a liability, instead of non-controlling interest, as we are obligated to purchase the land from the third-party investors on maturity of the fund.

We also have \$85 million of redeemable fund units (2017 – \$nil) in certain funds managed by our public securities business.

## c) Subsidiary Preferred Shares and Capital

Preferred shares are classified as liabilities if the holders of the preferred shares have the right, after a fixed date, to convert the shares into common equity of the issuer based on the market price of the common equity of the issuer at that time unless they are previously redeemed by the issuer. The dividends paid on these securities are recorded in interest expense. As at December 31, 2018 and 2017, the balance related to obligations of BPY and its subsidiaries.

AS AT DEC. 31 (MILLIONS, EXCEPT PER SHARE INFORMATION)	Shares Outstanding	Cumulative Dividend Rate	Local Currency	2018	2017
Brookfield Property Split Corp ("BOP Split") senior preferred shares					
Series 1 .....	924,390	5.25%	US\$	\$ 23	\$ 23
Series 2 .....	699,165	5.75%	C\$	13	14
Series 3 .....	909,994	5.00%	C\$	17	18
Series 4 .....	940,486	5.20%	C\$	17	19
BSREP II RH B LLC ("Manufactured Housing") preferred capital .....	—	9.00%	US\$	249	249
Rouse Series A preferred shares .....	5,600,000	5.00%	US\$	142	142
Forest City Enterprises L.P. ("Forest City") Preferred Capital .....	1,111,004	2.00%	US\$	29	—
BSREP II Vintage Estate Partners LLC ("Vintage Estates") preferred shares .....	10,000	5.00%	US\$	40	40
Total .....				<u>\$ 530</u>	<u>\$ 505</u>

Each series of the BOP Split senior preferred shares are redeemable at the option of either the issuer or the holder as the redemption and conversion option dates have passed.

Subsidiary preferred capital includes \$249 million at December 31, 2018 (2017 – \$249 million) of preferred equity interests held by a third-party investor in Manufactured Housing which has been classified as a liability, rather than as non-controlling interest, due to the fact the holders are only entitled to distributions equal to their capital balance plus 9% annual return payable in monthly distributions until maturity in December 2025. The preferred capital was issued to partially fund the acquisition of the Manufactured Housing portfolio during the first quarter of 2017.

Subsidiary preferred shares include \$142 million at December 31, 2018 (2017 – \$142 million) of preferred equity interests held by a third-party investor in Rouse Properties, L.P., which have been classified as a liability, rather than as non-controlling interests, due to the fact that the interests have no voting rights and are mandatorily redeemable on or after November 12, 2025 for a set price per unit plus any accrued but unpaid distributions; distributions are capped and accrue regardless of available cash generated.

Subsidiary preferred shares also include \$40 million at December 31, 2018 (2017 – \$40 million) of preferred equity interests held by a co-investor in Vintage Estates, which have been classified as a liability, rather than as non-controlling interests, due to the fact that the preferred equity interests are mandatorily redeemable on April 26, 2023 for cash at an amount equal to the outstanding principal balance of the preferred equity plus any accrued but unpaid dividends.

## 20. SUBSIDIARY PUBLIC ISSUERS AND FINANCE SUBSIDIARY

Brookfield Finance Inc. (“BFI”) is an indirect 100% owned subsidiary of the Corporation that may offer and sell debt securities. Any debt securities issued by BFI are fully and unconditionally guaranteed by the Corporation. BFI issued \$500 million of 4.25% notes due in 2026 on June 2, 2016, \$550 million and \$350 million of 4.70% notes due in 2047 on September 14, 2017 and January 17, 2018, respectively, and \$650 million of 3.90% notes due in 2028 on January 17, 2018.

Brookfield Finance LLC (“BFL”) is a Delaware limited liability company formed on February 6, 2017 and an indirect 100% owned subsidiary of the Corporation. BFL is a “finance subsidiary,” as defined in Rule 3-10 of Regulation S-X. Any debt securities issued by BFL are fully and unconditionally guaranteed by the Corporation. On March 10, 2017, BFL issued \$750 million of 4.00% notes due in 2024. On December 31, 2018, as part of an internal reorganization, BFI acquired substantially all of BFL’s assets and became a co-obligor of BFL’s 2024 notes. BFL has no independent activities, assets or operations other than in connection with any debt securities it may issue.

Brookfield Investments Corporation (“BIC”) is an investment company that holds investments in the real estate and forest products sectors, as well as a portfolio of preferred shares issued by the Corporation’s subsidiaries. The Corporation provided a full and unconditional guarantee of the Class 1 Senior Preferred Shares, Series A issued by BIC. As at December 31, 2018, C\$42 million of these senior preferred shares were held by third-party shareholders and are retractable at the option of the holder.

The following tables contain summarized financial information of the Corporation, BFI, BFL, BIC and non-guarantor subsidiaries:

AS AT AND FOR THE YEAR ENDED DEC. 31, 2018 (MILLIONS)	The Corporation <sup>1</sup>	BFI	BFL	BIC	Subsidiaries of the Corporation other than BFI, BFL and BIC <sup>2</sup>	Consolidating Adjustments <sup>3</sup>	The Company Consolidated
Revenues .....	\$ 810	\$ 43	\$ 53	\$ 163	\$ 62,984	\$ (7,282)	\$ 56,771
Net income attributable to shareholders .....	3,584	(46)	(1)	145	4,506	(4,604)	3,584
Total assets .....	59,105	4,330	13	3,296	271,534	(81,997)	256,281
Total liabilities .....	29,290	2,909	6	2,198	154,458	(29,730)	159,131

AS AT AND FOR THE YEAR ENDED DEC. 31, 2017 (MILLIONS)	The Corporation <sup>1</sup>	BFI	BFL	BIC	Subsidiaries of the Corporation other than BFI, BFL and BIC <sup>2</sup>	Consolidating Adjustments <sup>3</sup>	The Company Consolidated
Revenues .....	\$ 168	\$ 30	\$ 43	\$ 22	\$ 44,908	\$ (4,385)	\$ 40,786
Net income attributable to shareholders .....	1,462	—	—	59	2,019	(2,078)	1,462
Total assets .....	53,688	1,060	757	3,761	206,907	(73,453)	192,720
Total liabilities .....	25,444	1,042	756	2,309	113,336	(30,039)	112,848

1. This column accounts for investments in all subsidiaries of the Corporation under the equity method.

2. This column accounts for investments in all subsidiaries of the Corporation other than BFI, BFL and BIC on a combined basis.

3. This column includes the necessary amounts to present the company on a consolidated basis.

## 21. EQUITY

Equity consists of the following:

AS AT DEC. 31 (MILLIONS)	Note	2018	2017
Preferred equity .....	(a)	\$ 4,168	\$ 4,192
Non-controlling interests .....	(b)	67,335	51,628
Common equity .....	(c)	25,647	24,052
		<u>\$ 97,150</u>	<u>\$ 79,872</u>

## a) Preferred Equity

Preferred equity includes perpetual preferred shares and rate-reset preferred shares and consists of the following:

AS AT DEC. 31 (MILLIONS)	Average Rate		2018	2017
	2018	2017		
Perpetual preferred shares				
Floating rate.....	2.90%	2.33%	\$ 531	\$ 531
Fixed rate.....	4.82%	4.82%	744	749
	4.02%	3.78%	1,275	1,280
Fixed rate-reset preferred shares.....	4.26%	4.21%	2,893	2,912
	4.19%	4.08%	\$ 4,168	\$ 4,192

Further details on each series of preferred shares are as follows:

AS AT DEC. 31 (MILLIONS, EXCEPT PER SHARE INFORMATION)		Issued and Outstanding			
		Rate	2018	2017	2018
Class A preferred shares					
Perpetual preferred shares					
Series 2 .....	70% P	10,457,685	10,465,100	\$ 169	\$ 169
Series 4 .....	70% P/8.5%	2,795,910	2,800,000	45	45
Series 8 .....	Variable up to P	2,476,185	2,479,585	42	43
Series 13 .....	70% P	9,290,096	9,297,700	195	195
Series 15 .....	B.A. + 40 b.p. <sup>1</sup>	2,000,000	2,000,000	42	42
Series 17 .....	4.75%	7,901,476	7,950,756	172	173
Series 18 .....	4.75%	7,921,178	7,966,158	179	180
Series 25 .....	3-Month T-Bill + 230 b.p.	1,529,133	1,533,133	38	38
Series 36 .....	4.85%	7,900,764	7,949,024	199	200
Series 37 .....	4.90%	7,888,143	7,949,083	194	195
				1,275	1,280
Rate-reset preferred shares <sup>2</sup>					
Series 9 .....	2.75%	1,515,981	1,519,115	21	21
Series 24 .....	3.01%	9,338,572	9,394,250	228	230
Series 26 .....	3.47%	9,840,588	9,903,348	241	243
Series 28 .....	2.73%	9,289,397	9,359,387	233	235
Series 30 <sup>3</sup> .....	4.69%	9,852,258	9,934,050	243	245
Series 32 <sup>4</sup> .....	5.06%	11,849,808	11,982,568	300	303
Series 34 .....	4.20%	9,926,620	9,977,889	254	255
Series 38 .....	4.40%	7,955,948	8,000,000	180	181
Series 40 .....	4.50%	11,914,515	12,000,000	273	275
Series 42 .....	4.50%	11,943,400	12,000,000	268	269
Series 44 .....	5.00%	9,882,879	9,945,189	188	189
Series 46 .....	4.80%	11,810,653	11,895,790	219	220
Series 48 .....	4.75%	11,961,701	12,000,000	245	246
				2,893	2,912
Total .....				\$ 4,168	\$ 4,192

1. Rate determined quarterly.

2. Dividend rates are fixed for 5 to 6 years from the quarter end dates after issuance, June 30, 2011, March 31, 2012, June 30, 2012, December 31, 2012, September 30, 2013, March 31, 2014, June 30, 2014, December 31, 2014, December 31, 2015, December 31, 2016 and December 31, 2017, respectively and reset after 5 to 6 years to the 5-year Government of Canada bond rate plus between 180 and 417 basis points.

3. Dividend rate reset commenced December 31, 2017.

4. Dividend rate reset commenced September 30, 2018.

P – Prime Rate, B.A. – Bankers' Acceptance Rate, b.p. – Basis Points.



The company is authorized to issue an unlimited number of Class A preferred shares and an unlimited number of Class AA preferred shares, issuable in series. No Class AA preferred shares have been issued.

The Class A preferred shares are entitled to preference over the Class A and Class B Limited Voting Shares (“Class A and B shares”) on the declaration of dividends and other distributions to shareholders. All series of the outstanding preferred shares have a par value of C\$25.00 per share.

## b) Non-controlling Interests

Non-controlling interests represent the common and preferred equity in consolidated entities that are owned by other shareholders.

AS AT DEC. 31 (MILLIONS)	2018	2017
Common equity .....	\$ 62,109	\$ 47,281
Preferred equity .....	5,226	4,347
Total .....	<u>\$ 67,335</u>	<u>\$ 51,628</u>

Further information on non-controlling interests is provided in Note 4 – Subsidiaries.

## c) Common Equity

The company’s common equity is comprised of the following:

AS AT DEC. 31 (MILLIONS)	2018	2017
Common shares .....	\$ 4,457	\$ 4,428
Contributed surplus .....	271	263
Retained earnings .....	14,244	11,864
Ownership changes .....	645	1,459
Accumulated other comprehensive income .....	6,030	6,038
Common equity .....	<u>\$ 25,647</u>	<u>\$ 24,052</u>

The company is authorized to issue an unlimited number of Class A shares and 85,120 Class B shares, together referred to as common shares. The company’s common shares have no stated par value. The holders of Class A shares and Class B shares rank on par with each other with respect to the payment of dividends and the return of capital on the liquidation, dissolution or winding up of the company or any other distribution of the assets of the company among its shareholders for the purpose of winding up its affairs. Holders of the Class A shares are entitled to elect half of the Board of Directors of the company and holders of the Class B shares are entitled to elect the other half of the Board of Directors. With respect to the Class A and Class B shares, there are no dilutive factors, material or otherwise, that would result in different diluted earnings per share between the classes. This relationship holds true irrespective of the number of dilutive instruments issued in either one of the respective classes of common stock, as both classes of shares participate equally, on a pro rata basis, in the dividends, earnings and net assets of the company, whether taken before or after dilutive instruments, regardless of which class of shares is diluted.

The holders of the company’s common shares received cash dividends during 2018 of \$0.60 per share (2017 – \$0.56 per share).

The number of issued and outstanding common shares and unexercised options are as follows:

AS AT DEC. 31	2018	2017
Class A shares <sup>1</sup> .....	955,057,721	958,688,000
Class B shares .....	85,120	85,120
Shares outstanding <sup>1</sup> .....	955,142,841	958,773,120
Unexercised options and other share-based plans <sup>2</sup> .....	42,086,712	47,474,284
Total diluted shares .....	<u>997,229,553</u>	<u>1,006,247,404</u>

1. Net of 37,538,531 (2017 – 30,569,215) Class A shares held by the company in respect of long-term compensation agreements.

2. Includes management share option plan and escrowed stock plan.

The authorized common share capital consists of an unlimited number of Class A shares and 85,120 Class B shares. Shares issued and outstanding changed as follows:

AS AT AND FOR THE YEARS ENDED DEC. 31	2018	2017
Outstanding, beginning of year <sup>1</sup>	958,773,120	958,168,417
Issued (repurchased)		
Repurchases	(9,579,740)	(3,448,665)
Long-term share ownership plans <sup>2</sup>	5,752,331	3,826,248
Dividend reinvestment plan and others	197,130	227,120
Outstanding, end of year <sup>3</sup>	955,142,841	958,773,120

1. Net of 30,569,215 Class A shares held by the company in respect of long-term compensation agreements as at December 31, 2017 (December 31, 2016 – 27,846,452).

2. Includes management share option plan and restricted stock plan.

3. Net of 37,538,531 Class A shares held by the company in respect of long-term compensation agreements as at December 31, 2018 (December 31, 2017 – 30,569,215).

## Earnings Per Share

The components of basic and diluted earnings per share are summarized in the following table:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Net income attributable to shareholders	\$ 3,584	\$ 1,462
Preferred share dividends	(151)	(145)
Dilutive effect of conversion of subsidiary preferred shares	(105)	—
Net income available to shareholders	\$ 3,328	\$ 1,317
Weighted average – common shares	957.6	958.8
Dilutive effect of the conversion of options and escrowed shares using treasury stock method	19.8	21.2
Common shares and common share equivalents	977.4	980.0

## Share-Based Compensation

The expense recognized for share-based compensation is summarized in the following table:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Expense arising from equity-settled share-based payment transactions	\$ 73	\$ 69
Expense/(Recovery) arising from cash-settled share-based payment transactions	(64)	281
Total expense arising from share-based payment transactions	9	350
Effect of hedging program	75	(275)
Total expense included in consolidated income	\$ 84	\$ 75

The share-based payment plans are described below. There were no cancellations of or modifications to any of the plans during 2018 and 2017.

## Equity-settled Share-based Awards

### Management Share Option Plan

Options issued under the company's Management Share Option Plan ("MSOP") vest over a period of up to five years, expire 10 years after the grant date and are settled through issuance of Class A shares. The exercise price is equal to the market price at the grant date.

The changes in the number of options during 2018 and 2017 were as follows:

	Number of Options (000's) <sup>1</sup>	Weighted- Average Exercise Price	Number of Options (000's) <sup>2</sup>	Weighted- Average Exercise Price
Outstanding at January 1, 2018.....	2,797	C\$ 12.35	34,893	US\$ 27.71
Granted.....	—	—	4,538	40.42
Exercised.....	(2,007)	12.59	(2,492)	23.58
Canceled.....	—	—	(197)	34.81
Outstanding at December 31, 2018.....	<u>790</u>	<u>C\$ 11.77</u>	<u>36,742</u>	<u>US\$ 29.52</u>

- Options to acquire TSX listed Class A shares.
- Options to acquire NYSE listed Class A shares.

	Number of Options (000's) <sup>1</sup>	Weighted- Average Exercise Price	Number of Options (000's) <sup>2</sup>	Weighted- Average Exercise Price
Outstanding at January 1, 2017.....	7,684	C\$ 15.63	31,483	US\$ 25.77
Granted.....	—	—	6,331	36.92
Exercised.....	(4,887)	17.50	(2,149)	24.36
Canceled.....	—	—	(772)	33.28
Outstanding at December 31, 2017.....	<u>2,797</u>	<u>C\$ 12.35</u>	<u>34,893</u>	<u>US\$ 27.71</u>

- Options to acquire TSX listed Class A shares.
- Options to acquire NYSE listed Class A shares.

The cost of the options granted during the year was determined using the Black-Scholes valuation model, with inputs to the model as follows:

FOR THE YEARS ENDED DEC. 31	Unit	2018	2017
Weighted-average share price.....	US\$	40.42	36.92
Weighted-average fair value per option.....	US\$	5.38	4.92
Average term to exercise.....	Years	7.5	7.5
Share price volatility <sup>1</sup> .....	%	16.3	18.9
Liquidity discount.....	%	25.0	25.0
Weighted-average annual dividend yield.....	%	1.9	2.1
Risk-free rate.....	%	2.8	2.3

- Share price volatility was determined based on historical share prices over a similar period to the average term to exercise.

At December 31, 2018, the following options to purchase Class A shares were outstanding:

Exercise Price	Weighted-Average Remaining Life	Options Outstanding (000's)		
		Vested	Unvested	Total
C\$11.77.....	0.2 years	790	—	790
US\$15.45.....	1.2 years	4,255	—	4,255
US\$16.83 – US\$23.37.....	2.8 years	5,160	—	5,160
US\$25.21 – US\$30.59.....	5.5 years	8,410	3,293	11,703
US\$33.75 – US\$36.32.....	6.1 years	2,873	2,115	4,988
US\$36.88 – US\$44.24.....	8.6 years	1,197	9,439	10,636
		<u>22,685</u>	<u>14,847</u>	<u>37,532</u>

At December 31, 2017, the following options to purchase Class A shares were outstanding:

Exercise Price	Weighted-Average Remaining Life	Options Outstanding (000's)		
		Vested	Unvested	Total
C\$11.77 .....	1.2 years	2,620	—	2,620
C\$21.08 .....	0.1 years	177	—	177
US\$15.45 .....	2.2 years	4,772	—	4,772
US\$16.83 – US\$23.37 .....	3.8 years	5,834	—	5,834
US\$25.21 – US\$30.59 .....	6.5 years	6,858	5,967	12,825
US\$33.75 – US\$36.32 .....	7.1 years	2,049	3,191	5,240
US\$36.88 – US\$37.75 .....	9.1 years	—	6,222	6,222
		<u>22,310</u>	<u>15,380</u>	<u>37,690</u>

### *Escrowed Stock Plan*

The Escrowed Stock Plan (the “ES Plan”) provides executives with indirect ownership of Class A shares. Under the ES Plan, executives are granted common shares (the “ES Shares”) in one or more private companies that own Class A shares. The Class A shares are purchased on the open market with the purchase cost funded by the company. The ES shares vest over one to five years and must be held until the fifth anniversary of the grant date. At a date no less than five years, and no more than 10 years, from the grant date, all outstanding ES shares will be exchanged for Class A shares issued by the company based on the market value of Class A shares at the time of the exchange. The number of Class A shares issued on exchange will be less than the Class A shares purchased under the ES Plan resulting in a net reduction in the number of Class A shares issued by the company.

During 2018, 5.8 million Class A shares were purchased in respect of ES shares granted to executives under the ES Plan (2017 – 3.7 million Class A shares) during the year. For the year ended December 31, 2018, the total expense incurred with respect to the ES Plan totaled \$25 million (2017 – \$26 million).

The cost of the escrowed shares granted during the year was determined using the Black-Scholes model of valuation with inputs to the model as follows:

FOR THE YEARS ENDED DEC. 31	Unit	2018	2017
Weighted-average share price.....	US\$	<b>40.39</b>	36.88
Weighted-average fair value per share.....	US\$	<b>5.38</b>	4.92
Average term to exercise .....	Years	<b>7.5</b>	7.5
Share price volatility <sup>1</sup> .....	%	<b>16.3</b>	18.9
Liquidity discount.....	%	<b>25</b>	25
Weighted-average annual dividend yield.....	%	<b>1.9</b>	2.1
Risk-free rate .....	%	<b>2.8</b>	2.3

1. Share price volatility was determined based on historical share prices over a similar period to the average term to exercise.

The change in the number of ES shares during 2018 and 2017 was as follows:

	Number of Units (000's)	Weighted- Average Exercise Price
Outstanding at January 1, 2018.....	27,772	\$ 29.01
Granted.....	5,815	40.39
Exercised.....	(6,484)	21.40
Outstanding at December 31, 2018.....	27,103	\$ 33.27

  

	Number of Units (000's)	Weighted- Average Exercise Price
Outstanding at January 1, 2017.....	24,167	\$ 27.77
Granted.....	3,700	36.88
Exercised.....	(95)	21.74
Outstanding at December 31, 2017.....	27,772	\$ 29.01

### ***Restricted Stock Plan***

The Restricted Stock Plan awards executives with Class A shares purchased on the open market (“Restricted Shares”). Under the Restricted Stock Plan, Restricted Shares awarded vest over a period of up to five years, except for Restricted Shares awarded in lieu of a cash bonus, which may vest immediately. Vested and unvested Restricted Shares are subject to a hold period of up to five years. Holders of Restricted Shares are entitled to vote Restricted Shares and to receive associated dividends. Employee compensation expense for the Restricted Stock Plan is charged against income over the vesting period.

During 2018, Brookfield granted 581,051 Class A shares (2017 – 760,754) pursuant to the terms and conditions of the Restricted Stock Plan, resulting in the recognition of \$20 million (2017 – \$18 million) of compensation expense.

### **Cash-settled Share-based Awards**

#### ***Deferred Share Unit Plan and Restricted Share Unit Plan***

The Deferred Share Unit Plan and Restricted Share Unit Plan provide for the issuance of DSUs and RSUs, respectively. Under these plans, qualifying employees and directors receive varying percentages of their annual incentive bonus or directors’ fees in the form of DSUs and RSUs. The DSUs and RSUs vest over periods of up to five years, and DSUs accumulate additional DSUs at the same rate as dividends on common shares based on the market value of the common shares at the time of the dividend. Participants are not allowed to convert DSUs and RSUs into cash until retirement or cessation of employment.

The value of the DSUs, when converted to cash, will be equivalent to the market value of the common shares at the time the conversion takes place. The value of the RSUs, when converted into cash, will be equivalent to the difference between the market price of equivalent number of common shares at the time the conversion takes place and the market price on the date the RSUs are granted. The company uses equity derivative contracts to offset its exposure to the change in share prices in respect of vested and unvested DSUs and RSUs. The fair value of the vested DSUs and RSUs as at December 31, 2018 was \$894 million (2017 – \$1.0 billion).

Employee compensation expense for these plans is charged against income over the vesting period of the DSUs and RSUs. The amount payable by the company in respect of vested DSUs and RSUs changes as a result of dividends and share price movements. All of the amounts attributable to changes in the amounts payable by the company are recorded as employee compensation expense in the period of the change. For the year ended December 31, 2018, employee compensation expense totaled \$11 million (2017 – \$7 million), net of the impact of hedging arrangements.

The change in the number of DSUs and RSUs during 2018 and 2017 was as follows:

	DSUs	RSUs	
	Number of Units (000's)	Number of Units (000's)	Weighted-Average Exercise Price
Outstanding at January 1, 2018.....	14,944	10,920	C\$ 9.09
Granted and reinvested.....	466	—	—
Exercised and canceled.....	(773)	(380)	5.89
Outstanding at December 31, 2018.....	14,637	10,540	C\$ 9.21

	DSUs	RSUs	
	Number of Units (000's)	Number of Units (000's)	Weighted-Average Exercise Price
Outstanding at January 1, 2017.....	14,986	10,920	C\$ 9.09
Granted and reinvested.....	661	—	—
Exercised and canceled.....	(703)	—	—
Outstanding at December 31, 2017.....	14,944	10,920	C\$ 9.09

The fair value of each DSU is equal to the traded price of the company's common shares.

	Unit	Dec. 31, 2018	Dec. 31, 2017
Share price on date of measurement.....	C\$	52.32	54.72
Share price on date of measurement.....	US\$	38.35	43.54

The fair value of RSUs was determined primarily using the following inputs:

	Unit	Dec. 31, 2018	Dec. 31, 2017
Share price on date of measurement.....	C\$	52.32	54.72
Weighted-average fair value of a unit.....	C\$	43.11	45.63

## 22. REVENUES

Revenues for the year ended December 31, 2018 totaled \$56.8 billion (2017 – \$40.8 billion). The amounts for the year ended December 31, 2018 have been determined in accordance with IFRS 15. Prior period amounts have not been restated (refer to Note 2 of the consolidated financial statements).

We perform a disaggregated analysis of revenues considering the nature, amount, timing and uncertainty of revenues. This includes disclosure of our revenues by segment and type, as well as a breakdown of whether revenues from goods or services are recognized at a point in time or delivered over a period of time.

### a) Revenue by Type

FOR THE YEAR ENDED DEC. 31, 2018 (MILLIONS)	Asset Management	Real Estate	Renewable Power	Infrastructure	Private Equity	Residential Development	Corporate Activities	Total Revenues
Revenue from contracts with customers.....	\$ 187	\$ 3,107	\$ 3,651	\$ 4,859	\$ 36,693	\$ 2,651	\$ 13	\$ 51,161
Other revenue.....	—	4,968	100	154	135	32	221	5,610
	<u>\$ 187</u>	<u>\$ 8,075</u>	<u>\$ 3,751</u>	<u>\$ 5,013</u>	<u>\$ 36,828</u>	<u>\$ 2,683</u>	<u>\$ 234</u>	<u>\$ 56,771</u>

## b) Timing of Recognition of Revenue from Contracts with Customers

FOR THE YEAR ENDED DEC. 31, 2018 (MILLIONS)	Asset Management	Real Estate	Renewable Power	Infrastructure	Private Equity	Residential Development	Corporate Activities	Total Revenues
Goods and services provided at a point in time .....	\$ —	\$ 1,118	\$ 79	\$ 201	\$ 28,860	\$ 2,651	\$ 13	\$ 32,922
Services transferred over a period of time .....	187	1,989	3,572	4,658	7,833	—	—	18,239
	<u>\$ 187</u>	<u>\$ 3,107</u>	<u>\$ 3,651</u>	<u>\$ 4,859</u>	<u>\$ 36,693</u>	<u>\$ 2,651</u>	<u>\$ 13</u>	<u>\$ 51,161</u>

### Remaining Performance Obligations

#### Private Equity

In our construction services business, backlog is defined as revenue yet to be delivered (i.e. remaining performance obligations) on construction projects that have been secured via an executed contract, work order or letter of intent. As at December 31, 2018 our backlog of construction projects was approximately \$8 billion, with an overall weighted average remaining project life of approximately two years.

In our Brazilian water and wastewater services business, our long-term, inflation-adjusted concession service contracts with various municipalities have an average remaining contract duration of 25 years as at December 31, 2018.

#### Others

In our asset management, infrastructure and renewable power businesses, revenue is generally recognized as invoiced for contracts recognized over a period of time as the amounts invoiced are commensurate with the value provided to the customers.

## 23. DIRECT COSTS

Direct costs include all attributable expenses except interest, depreciation and amortization, taxes and fair value changes and primarily relate to cost of sales and compensation. The following table lists direct costs for 2018 and 2017 by nature:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Cost of sales .....	<u>\$ 37,506</u>	<u>\$ 26,461</u>
Compensation .....	<u>3,954</u>	<u>2,795</u>
Selling, general and administrative expenses .....	<u>1,765</u>	<u>1,339</u>
Property taxes, sales taxes and other .....	<u>2,294</u>	<u>1,793</u>
	<u><u>\$ 45,519</u></u>	<u><u>\$ 32,388</u></u>

## 24. FAIR VALUE CHANGES

Fair value changes recorded in net income represent gains or losses arising from changes in the fair value of assets and liabilities, including derivative financial instruments, accounted for using the fair value method and are comprised of the following:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Investment properties .....	<u>\$ 1,610</u>	<u>\$ 1,021</u>
Transaction related gains, net of deal costs .....	<u>1,132</u>	<u>637</u>
Financial contracts .....	<u>(189)</u>	<u>(868)</u>
Impairments and provisions .....	<u>(309)</u>	<u>(344)</u>
Other fair value changes .....	<u>(450)</u>	<u>(25)</u>
	<u><u>\$ 1,794</u></u>	<u><u>\$ 421</u></u>

## 25. DERIVATIVE FINANCIAL INSTRUMENTS

The company's activities expose it to a variety of financial risks, including market risk (i.e. currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The company selectively uses derivative financial instruments principally to manage these risks.

The aggregate notional amount of the company's derivative positions at December 31, 2018 and 2017 is as follows:

AS AT DEC. 31 (MILLIONS)	Note	2018	2017
Foreign exchange .....	(a)	\$ 33,298	\$ 28,573
Interest rates .....	(b)	38,490	18,433
Credit default swaps .....	(c)	56	43
Equity derivatives.....	(d)	1,375	1,384
Commodity instruments .....	(e)	2018	2017
Energy (GWh) .....		14,752	28,808
Natural gas (MMBtu – 000's).....		63,076	48,163

### a) Foreign Exchange

The company held the following foreign exchange contracts with notional amounts at December 31, 2018 and December 31, 2017:

(MILLIONS)	Notional Amount (U.S. Dollars)		Average Exchange Rate	
	2018	2017	2018	2017
Foreign exchange contracts				
Canadian dollars.....	\$ 4,959	\$ 2,619	0.76	0.78
British pounds .....	4,952	7,312	1.32	1.29
European Union euros .....	3,829	2,754	1.21	1.15
Australian dollars .....	3,781	3,610	0.74	0.75
Indian rupees <sup>1</sup> .....	697	256	72.73	65.24
Chilean pesos <sup>1</sup> .....	615	—	647	—
Korean won <sup>1</sup> .....	561	578	1,102	1,100
Chinese yuan <sup>1</sup> .....	543	346	6.85	6.72
Japanese yen <sup>1</sup> .....	404	14	104.45	110.17
Colombian pesos <sup>1</sup> .....	370	—	2,977	—
Brazilian reais.....	78	62	0.24	0.27
Other currencies .....	530	—	various	—
Cross currency interest rate swaps				
Canadian dollars.....	4,167	2,442	0.75	0.76
European Union euros.....	1,914	1,914	1.06	1.06
Australian dollars .....	1,454	1,610	1.00	0.98
Japanese yen <sup>1</sup> .....	750	750	113.32	113.33
British pounds .....	257	272	1.49	1.45
Colombian pesos <sup>1</sup> .....	125	299	3,056	3,056
Other currencies .....	15	—	various	—
Foreign exchange options				
British pounds .....	1,736	534	1.31	1.19
Indian rupee <sup>1</sup> .....	500	—	67.95	—
Chinese yuan <sup>1</sup> .....	500	—	7.10	—
European Union euros.....	463	1,801	1.15	1.21
Canadian dollars.....	—	1,000	—	0.76
Japanese yen <sup>1</sup> .....	—	400	—	118.00
Other currencies .....	98	—	various	—

1. Average rate is quoted using USD as base currency.



Included in net income are unrealized net gains on foreign currency derivative contracts amounting to \$457 million (2017 – loss of \$364 million) and included in the cumulative translation adjustment account in other comprehensive income are gains in respect of foreign currency contracts entered into for hedging purposes amounting to \$1.3 billion (2017 – loss of \$1.5 billion).

## b) Interest Rates

At December 31, 2018, the company held interest rate swap and forward starting swap contracts having an aggregate notional amount of \$13.9 billion (2017 – \$8.8 billion), interest rate swaptions with an aggregate notional amount of \$5.3 billion (2017 – \$872 million) and interest rate cap contracts with an aggregate notional amount of \$19.3 billion (2017 – \$8.7 billion).

## c) Credit Default Swaps

As at December 31, 2018, the company held credit default swap contracts with an aggregate notional amount of \$56 million (2017 – \$43 million). Credit default swaps are contracts which are designed to compensate the purchaser for any change in the value of an underlying reference asset, based on measurement in credit spreads, upon the occurrence of predetermined credit events. The company is entitled to receive payments in the event of a predetermined credit event for up to \$56 million (2017 – \$43 million) of the notional amount and could be required to make payments in respect of \$nil (2017 – \$nil) of the notional amount.

## d) Equity Derivatives

At December 31, 2018, the company held equity derivatives with a notional amount of \$1.4 billion (2017 – \$1.4 billion) which includes \$1.1 billion (2017 – \$1.1 billion) notional amount that hedges long-term compensation arrangements. The balance represents common equity positions established in connection with the company's investment activities. The fair value of these instruments was reflected in the company's consolidated financial statements at year end.

## e) Commodity Instruments

The company has entered into energy derivative contracts primarily to hedge the sale of generated power. The company endeavors to link forward electricity sale derivatives to specific periods in which it expects to generate electricity for sale. All energy derivative contracts are recorded at an amount equal to fair value and are reflected in the company's consolidated financial statements. The company has financial contracts outstanding on 63,076,000 MMBtu's (2017 – 48,163,000 MMBtu's) of natural gas as part of its electricity sale price risk mitigation strategy.

### *Other Information Regarding Derivative Financial Instruments*

The following table classifies derivatives elected for hedge accounting during the years ended December 31, 2018 and 2017 as either cash flow hedges or net investment hedges. Changes in the fair value of the effective portion of the hedge are recorded in either other comprehensive income or net income, depending on the hedge classification, whereas changes in the fair value of the ineffective portion of the hedge are recorded in net income:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018			2017		
	Notional	Effective Portion	Ineffective Portion	Notional	Effective Portion	Ineffective Portion
Cash flow hedges <sup>1</sup> .....	\$ 24,999	\$ 38	\$ (3)	\$ 10,254	\$ 42	\$ (16)
Net investment hedges.....	17,319	999	9	14,587	(748)	—
	<u>\$ 42,318</u>	<u>\$ 1,037</u>	<u>\$ 6</u>	<u>\$ 24,841</u>	<u>\$ (706)</u>	<u>\$ (16)</u>

1. Notional amount does not include 6,040 GWh, 8,423 MMBtu – 000's and 3,151 bbls – millions of commodity derivatives at December 31, 2018 (2017 – 15,586 GWh, 45,014 MMBtu – 000's and 3,087 bbls – millions).

The following table presents the change in fair values of the company's derivative positions during the years ended December 31, 2018 and 2017, for derivatives that are fair valued through profit or loss, and derivatives that qualify for hedge accounting:

(MILLIONS)	Unrealized Gains During 2018	Unrealized Losses During 2018	Net Change During 2018	Net Change During 2017
Foreign exchange derivatives.....	\$ 570	\$ (113)	\$ 457	\$ (364)
Interest rate derivatives .....	33	(50)	(17)	(15)
Credit default swaps .....	3	—	3	2
Equity derivatives.....	87	(216)	(129)	169
Commodity derivatives .....	27	(93)	(66)	(34)
	<u>\$ 720</u>	<u>\$ (472)</u>	<u>\$ 248</u>	<u>\$ (242)</u>

The following table presents the notional amounts underlying the company's derivative instruments by term to maturity as at December 31, 2018 and 2017, for derivatives that are classified as fair value through profit or loss, and derivatives that qualify for hedge accounting:

AS AT DEC. 31 (MILLIONS)	2018				2017
	<1 Year	1 to 5 Years	>5 Years	Total Notional Amount	Total Notional Amount
<b>Fair value through profit or loss</b>					
Foreign exchange derivatives.....	\$ 7,402	\$ 1,901	\$ —	\$ 9,303	\$ 10,632
Interest rate derivatives .....	3,738	11,123	1,760	16,621	11,532
Credit default swaps .....	—	56	—	56	43
Equity derivatives.....	537	838	—	1,375	1,362
Commodity instruments					
Energy (GWh) .....	1,100	7,612	—	8,712	13,222
Natural gas (MMBtu – 000's).....	53,283	1,370	—	54,653	3,149
<b>Elected for hedge accounting</b>					
Foreign exchange derivatives.....	\$ 15,819	\$ 6,700	\$ 1,476	\$ 23,995	\$ 17,941
Interest rate derivatives .....	9,955	10,127	1,787	21,869	6,901
Equity derivatives.....	—	—	—	—	22
Commodity instruments					
Energy (GWh) .....	674	3,357	2,009	6,040	15,586
Natural gas (MMBtu – 000's).....	8,423	—	—	8,423	45,014

## 26. MANAGEMENT OF RISKS ARISING FROM HOLDING FINANCIAL INSTRUMENTS

The company is exposed to the following risks as a result of holding financial instruments: market risk (i.e. interest rate risk, currency exchange risk and other price risk that impact the fair value of financial instruments), credit risk and liquidity risk. The following is a description of these risks and how they are managed:

### a) Market Risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates, such as changes in equity prices, commodity prices or credit spreads.

The company manages market risk from foreign currency assets and liabilities and the impact of changes in currency exchange rates and interest rates by funding assets with financial liabilities in the same currency and with similar interest rate characteristics, and by holding financial contracts such as interest rate and foreign exchange derivatives to minimize residual exposures.

Financial instruments held by the company that are subject to market risk include other financial assets, borrowings and derivative instruments such as interest rate, currency, equity and commodity contracts.

### ***i. Interest Rate Risk***

The observable impacts on the fair values and future cash flows of financial instruments that can be directly attributable to interest rate risk include changes in the net income from financial instruments whose cash flows are determined with reference to floating interest rates and changes in the value of financial instruments whose cash flows are fixed in nature.

The company's assets largely consist of long-duration interest-sensitive physical assets. Accordingly, the company's financial liabilities consist primarily of long-term fixed-rate debt or floating-rate debt that has been swapped with interest rate derivatives. These financial liabilities are, with few exceptions, recorded at their amortized cost. The company also holds interest rate caps to limit its exposure to increases in interest rates on floating rate debt that has not been swapped, and holds interest rate contracts to lock in fixed rates on anticipated future debt issuances and as an economic hedge against the changes in value of long duration interest sensitive physical assets that have not been otherwise matched with fixed rate debt.

The result of a 50 basis-point increase in interest rates on the company's net floating rate financial assets and liabilities would have resulted in a corresponding decrease in net income before tax of \$198 million (2017 – \$80 million) on a current basis.

Changes in the value of fair value through profit or loss interest rate contracts are recorded in net income and changes in the value of contracts that are elected for hedge accounting are recorded in other comprehensive income. The impact of a 50 basis-point parallel increase in the yield curve on the aforementioned financial instruments is estimated to result in a corresponding increase in net income before tax of \$128 million (2017 – \$53 million) and an increase in other comprehensive income of \$149 million (2017 – \$98 million), for the years ended December 31, 2018 and 2017.

### ***ii. Currency Exchange Rate Risk***

Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the U.S. dollar.

The company holds financial instruments with net unmatched exposures in several currencies, changes in the translated value of which are recorded in net income. The impact of a 1% increase in the U.S. dollar against these currencies would have resulted in an \$80 million (2017 – \$44 million) increase in the value of these positions on a combined basis. The impact on cash flows from financial instruments would be insignificant. The company holds financial instruments to limit its exposure to the impact of foreign currencies on its net investments in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would increase the value of these hedging instruments by \$240 million (2017 – \$142 million) as at December 31, 2018, which would be recorded in other comprehensive income and offset by changes in the U.S. dollar carrying value of the net investment being hedged.

### ***iii. Other Price Risk***

Other price risk is the risk of variability in fair value due to movements in equity prices or other market prices such as commodity prices and credit spreads.

Financial instruments held by the company that are exposed to equity price risk include equity securities and equity derivatives. A 5% decrease in the market price of equity securities and equity derivatives held by the company, excluding equity derivatives that hedge compensation arrangements, would have decreased net income by \$50 million (2017 – \$45 million) and decreased other comprehensive income by \$85 million (2017 – \$62 million), prior to taxes. The company's liability in respect of equity compensation arrangements is subject to variability based on changes in the company's underlying common share price. The company holds equity derivatives to hedge almost all of the variability. A 5% change in the common equity price of the company in respect of compensation agreements would increase the compensation liability and compensation expense by \$53 million (2017 – \$65 million). This increase would be offset by a \$53 million (2017 – \$65 million) change in value of the associated equity derivatives of which \$51 million (2017 – \$64 million) would offset the above-mentioned increase in compensation expense and the remaining \$2 million (2017 – \$1 million) would be recorded in other comprehensive income.

The company sells power and generation capacity under long-term agreements and financial contracts to stabilize future revenues. Certain of the contracts are considered financial instruments and are recorded at fair value in the consolidated financial statements, with changes in value being recorded in either net income or other comprehensive income as applicable. A 5% increase in energy prices would have decreased net income for the year ended December 31, 2018 by approximately \$9 million (2017 – \$11 million) and decreased other comprehensive income by \$9 million (2017 – \$4 million), prior to taxes. The corresponding increase in the value of the revenue or capacity being contracted, however, is not recorded in net income until subsequent periods.

The company held credit default swap contracts with a total notional amount of \$63 million (2017 – \$43 million) at December 31, 2018. The company is exposed to changes in the credit spread of the contracts' underlying reference assets. A 50 basis-point increase in the credit spread of the underlying reference assets would have increased net income by \$1 million (2017 – \$1 million) for the year ended December 31, 2018, prior to taxes.

## b) Credit Risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations. The company's exposure to credit risk in respect of financial instruments relates primarily to counterparty obligations regarding derivative contracts, loans receivable and credit investments such as bonds and preferred shares.

The company assesses the creditworthiness of each counterparty before entering into contracts with a view to ensuring that counterparties meet minimum credit quality requirements. Management evaluates and monitors counterparty credit risk for derivative financial instruments and endeavors to minimize counterparty credit risk through diversification, collateral arrangements, and other credit risk mitigation techniques. The credit risk of derivative financial instruments is generally limited to the positive fair value of the instruments, which, in general, tends to be a relatively small proportion of the notional value. Substantially all of the company's derivative financial instruments involve either counterparties that are banks or other financial institutions in North America, the United Kingdom and Australia, or arrangements that have embedded credit risk mitigation features. The company does not expect to incur credit losses in respect of any of these counterparties. The maximum exposure in respect of loans receivable and credit investments is equal to the carrying value.

## c) Liquidity Risk

Liquidity risk is the risk that the company cannot meet a demand for cash or fund an obligation as it comes due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

To help ensure the company is able to react to contingencies and investment opportunities quickly, the company maintains sources of liquidity at the corporate and subsidiary levels. The primary source of liquidity consists of cash and other financial assets, net of deposits and other associated liabilities, and undrawn committed credit facilities.

The company is subject to the risks associated with debt financing, including the ability to refinance indebtedness at maturity. The company believes these risks are mitigated through the use of long-term debt secured by high quality assets, maintaining debt levels that are in management's opinion relatively conservative, and by diversifying maturities over an extended period of time. The company also seeks to include in its agreements terms that protect the company from liquidity issues of counterparties that might otherwise impact the company's liquidity.

The following tables present the contractual maturities of the company's financial liabilities at December 31, 2018 and 2017:

AS AT DEC. 31, 2018 (MILLIONS)	Payments Due by Period				
	<1 Year	1 to 3 Years	4 to 5 Years	After 5 Years	Total
Principal repayments					
Corporate borrowings .....	\$ 440	\$ 257	\$ 441	\$ 5,271	\$ 6,409
Non-recourse borrowings of managed entities .....	11,159	34,055	24,633	41,962	111,809
Subsidiary equity obligations .....	185	1,417	356	1,918	3,876
Interest expense <sup>1</sup>					
Corporate borrowings .....	278	535	504	1,697	3,014
Non-recourse borrowings .....	5,126	8,124	5,820	7,324	26,394
Subsidiary equity obligations .....	151	307	218	209	885

1. Represents the aggregated interest expense expected to be paid over the term of the obligations. Variable interest rate payments have been calculated based on current rates.

AS AT DEC. 31, 2017 (MILLIONS)	Payments Due by Period				
	<1 Year	1 to 3 Years	4 to 5 Years	After 5 Years	Total
Principal repayments					
Corporate borrowings .....	\$ —	\$ 478	\$ 278	\$ 4,903	\$ 5,659
Non-recourse borrowings of managed entities .....	10,756	17,695	16,764	27,515	72,730
Subsidiary equity obligations .....	76	53	1,001	2,531	3,661
Interest expense <sup>1</sup>					
Corporate borrowings .....	259	494	462	1,433	2,648
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 aggregated interest expense expected to be paid over the term of the obligations. Variable interest rate payments have been calculated based on current rates.

## 27. CAPITAL MANAGEMENT

The capital of the company consists of the components of equity in the company's consolidated balance sheet (i.e. common and preferred equity). As at December 31, 2018, the recorded values of these items in the company's consolidated financial statements totaled \$29.8 billion (2017 – \$28.2 billion).

The company's objectives when managing this capital are to maintain an appropriate balance between holding a sufficient amount of capital to support its operations, which includes maintaining investment-grade ratings at the corporate level and providing shareholders with a prudent amount of corporate debt to enhance returns. Corporate debt, which includes subsidiary obligations that are guaranteed by the company or are otherwise considered corporate in nature, totaled \$6.4 billion based on carrying values at December 31, 2018 (2017 – \$5.7 billion). The company monitors its capital base and leverage primarily in the context of its deconsolidated debt-to-total capitalization ratios. The ratio as at December 31, 2018 was 17% (2017 – 16%).

The consolidated capitalization of the company includes the capital and financial obligations of consolidated entities, including long-term property-specific borrowings, subsidiary borrowings, capital securities as well as common and preferred equity held by other investors in these entities. The capital in these entities is managed at the entity level with oversight by management of the company. The capital is managed with the objective of maintaining investment-grade levels in most circumstances and is, except in limited and carefully managed circumstances, without any recourse to the company. Management of the company also takes into consideration capital requirements of consolidated and non-consolidated entities in which it has interests in when considering the appropriate level of capital and liquidity on a deconsolidated basis.

The company is subject to limited covenants in respect of its corporate debt and is in full compliance with all such covenants as at December 31, 2018 and 2017. The company is also in compliance with all covenants and other capital requirements related to regulatory or contractual obligations of material consequence to the company.

## 28. RELATED PARTY TRANSACTIONS

### a) Related Parties

Related parties include subsidiaries, associates, joint ventures, key management personnel, the Board of Directors ("Directors"), immediate family members of key management personnel and Directors and entities which are directly or indirectly controlled by, jointly controlled by or significantly influenced by key management personnel, Directors or their close family members.

### b) Key Management Personnel and Directors

Key management personnel are those individuals who have the authority and responsibility for planning, directing and controlling the company's activities, directly or indirectly, and consist of the company's Senior Executives. The company's Directors do not plan, direct or control the activities of the company directly; they provide oversight over the business.

The remuneration of key management personnel and Directors of the company during the years ended December 31, 2018 and 2017 was as follows:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Salaries, incentives and short-term benefits .....	\$ 21	\$ 18
Share-based payments .....	90	54
	<u>\$ 111</u>	<u>\$ 72</u>

The remuneration of key management personnel and Directors is determined by the Management Resources and Compensation Committee of the Board of Directors having regard to the performance of individuals and market funds.

### c) Related Party Transactions

In the normal course of operations, the company executes transactions on market terms with related parties that have been measured at exchange value and are recognized in the consolidated financial statements, including, but not limited to: 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. Transactions and balances between consolidated entities are fully eliminated upon consolidation.

The following table lists the related party balances included within the consolidated financial statements as at and for the years ended December 31, 2018 and 2017:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Investment and other losses .....	\$ —	\$ (268)
Management fees received .....	<u>56</u>	<u>47</u>

## 29. OTHER INFORMATION

### a) Guarantees and Contingencies

In the normal course of business, the company enters into contractual obligations which include commitments to provide bridge financing, letters of credit, guarantees and reinsurance obligations. As at December 31, 2018, the company had \$3.1 billion (2017 – \$2.6 billion) of such commitments outstanding. The company also had \$9.8 billion of future operating lease obligations at December 31, 2018 (2017 – \$3.8 billion).

In addition, the company executes 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 ventures, 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 that 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 further contingent events or circumstances applicable to the counterparty and therefore cannot be determined at this time.

The company is contingently liable with respect to litigation and claims that arise in the normal course of business. It is not reasonably possible that any of the ongoing litigation as at December 31, 2018 could result in a material settlement liability.

The company has up to \$4 billion of insurance for damage and business interruption costs sustained as a result of an act of terrorism. However, a terrorist act could have a material effect on the company's assets to the extent damages exceed the coverage.

The company, through its subsidiaries within the residential properties operations, is contingently liable for obligations of its associates in its land development joint ventures. In each case, all of the assets of the joint venture are available first for the purpose of satisfying these obligations, with the balance shared among the participants in accordance with predetermined joint venture arrangements.

The Corporation has entered into arrangements with respect to the \$1.8 billion of exchangeable preferred equity units issued by BPY discussed in Note 19, 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.

## **b) Supplemental Cash Flow Information**

During the year, the company capitalized \$176 million (2017 – \$203 million) of interest primarily to investment properties and residential inventory under development.

## **30. SUBSEQUENT EVENTS**

On March 13, 2019, the company announced an agreement whereby it will acquire approximately 62% of Oaktree Capital Group, LLC (“Oaktree”). As part of the transaction, the company will acquire all outstanding Oaktree Class A units for, at the election of Oaktree Class A unit holders, either \$49.00 in cash or 1.0770 Class A shares of Brookfield per unit. Elections will be made on a per unit basis and will be subject to pro-rata such that the approximate \$4.7 billion consideration to be paid by the company consists of 50% cash and 50% Brookfield Class A shares. The cash portion of the consideration will be funded from available liquidity. Commencing in 2022, Oaktree’s founders, senior management and employee-unitholders will be able to sell their remaining Oaktree units to Brookfield over time pursuant to an agreed upon liquidity schedule. Pursuant to this liquidity schedule, the earliest year in which Brookfield could own 100% of Oaktree is 2029.

The agreement also provides for the payment by Oaktree of a \$225 million termination fee if the agreement is terminated under certain specified circumstances.

The transaction is subject to the approval of Oaktree unitholders representing at least a majority of the voting interests of Oaktree and other customary closing conditions, including certain regulatory approvals. Oaktree Capital Group Holdings, L.P., which represents approximately 92% of the voting interests of Oaktree, has agreed to vote all of its units in favor of the transaction. The transaction is expected to close in the third quarter of 2019.