Management's Discussion and Analysis

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

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

Please refer to the Glossary of Terms beginning on page 108 which defines our key performance measures that we use to measure our business. Other businesses include Residential Development and Corporate.

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This Report contains "forward-looking information" within the meaning of Canadian provincial securities laws and "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as "expects," "anticipates," "plans," "believes," "estimates," "seeks," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may," "will," "should," "would" and "could."

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

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

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

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

This Report contains "forward-looking information" within the meaning of Canadian provincial securities laws and "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. We may provide such information and make such statements in the Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission or in other communications. See "Cautionary Statement Regarding Forward-Looking Statements and Information" above.

We disclose a number of financial measures in this Report that are calculated and presented using methodologies other than in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). We utilize these measures in managing the business, including for performance measurement, capital allocation and valuation purposes and believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses. These financial measures should not be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures or other financial metrics may differ from the calculations disclosed by other businesses and, as a result, may not be comparable to similar measures presented by other issuers and entities. Reconciliations of these non-IFRS financial measures to the most directly comparable financial measures calculated and presented in accordance with IFRS, where applicable, are included within this Report. Please refer to our Glossary of Terms beginning on page 108 for all non-IFRS measures.

PART 1 – OUR BUSINESS AND STRATEGY

OUR BUSINESS

We are a leading global alternative asset manager with a 120-year history and over $350 billion of assets under management across a broad portfolio of Real Estate, Infrastructure, Renewable Power and Private Equity assets. Our $138 billion in fee bearing capital is invested on behalf of some of the world's largest institutional investors, sovereign wealth funds and pension plans, along with thousands of individuals.

We provide a diverse product mix of flagship private funds and dedicated public vehicles, which allow investors to invest in our four key asset classes and participate in the strong performance of the underlying portfolio. We invest in a disciplined manner, targeting 12-15% returns with strong downside protection, allowing our investors and their stakeholders to meet their goals and protect their financial futures.

- ✓ **Investment focus**
  We predominantly invest in real assets across Real Estate, Infrastructure, Renewable Power and Private Equity
- ✓ **Diverse products offering**
  We offer public and private vehicles to invest across a number of product lines, including core, value-add, opportunistic and credit in both closed-end and long-life vehicles
- ✓ **Focused investment strategies**
  We invest where we can bring our competitive advantages to bear, such as our strong capabilities as an owner-operator, our large-scale capital and our global reach
- ✓ **Disciplined financing approach**
  We employ leverage in a prudent manner to enhance returns while preserving capital throughout business cycles

In addition, we maintain significant invested capital on the Corporation's balance sheet where we invest alongside our investors. This capital generates annual cash flows that enhance the returns we earn as an asset manager, creates a strong alignment of interest, and allows us to bring the following strengths to bear on all our investments.

1. **Large-scale capital**
   We have over $350 billion in assets under management and $138 billion in fee bearing capital
2. **Operating expertise**
   We have more than 100,000 operating employees worldwide who maximize value and cash flows from our operations
3. **Global presence**
   We operate in more than 30 countries around the world

Our financial returns are represented by the combination of the earnings of our asset manager as well as capital appreciation and distributions from our invested capital. Our primary performance measure is funds from operations ("FFO") which we use to evaluate the performance of our segments.

Asset Management

Our asset management activities encompass $138 billion of fee bearing capital across private funds, listed partnerships and public securities.

Private Funds – $70 billion fee bearing capital

We manage and earn fees on 42 private funds across real estate, renewable power, infrastructure and private equity. Our fund strategies include core, credit, value-add and opportunistic, and we offer both closed-end and long-life vehicles. We have nearly 600 unique institutional investors, who on average invest in 2.1 funds. On private fund capital we earn:

1. Diversified and long-term **base management fees** which are based on closed-end and long-life fund capital. Closed-end fund capital is typically committed for 10 years with two one-year extension options, and our long-life funds are perpetual vehicles that can continually raise new capital.
2. **Carried interest**, which enables us to receive a portion of overall fund profits provided that investors receive a minimum prescribed preferred return. Carried interest is recognized once it is no longer subject to clawback.

Listed Partnerships – $54 billion fee bearing capital

We manage publicly listed perpetual-capital vehicles BPY, BEP, BIP, BBU, TERP and Acadian Timber Corp. (“Acadian”). On listed partnership capital, we earn:

1. Long-term perpetual **base management fees**, which are based on our listed vehicles’ total capitalization.
2. Stable **incentive distribution fees** which are linked to cash distributions (BPY, BEP and BIP). These cash distributions have exceeded pre-determined thresholds and have a historic annual growth rate of 5-9%.
3. **Performance fees** based on unit price performance (BBU).

Public Securities – $13 billion fee bearing capital

We manage public funds and separately managed accounts, focused on fixed income and equity securities within the real estate, infrastructure and natural resources asset classes. We earn **management fees**, which are based on committed capital and fund net asset value and performance income based on investment returns.

Invested Capital[1]

We have approximately $40 billion of invested capital on the Corporation’s balance sheet as a result of our history as an owner and operator of real assets, which provides attractive financial returns and important flexibility to our asset management business.

Key attributes of our invested capital:

- Transparent – approximately 80% of our invested capital is listed partnerships (BPY, BEP, BIP, BBU) and other smaller publicly traded investments. The remaining is primarily held in a residential homebuilding business, and a few other directly held investments.
- Diversified, long-term, stable cash flows – received from our underlying public investments. These cash flows are underpinned by investments in real assets which should provide inflation protection and less volatility compared to traditional equities, and higher yields compared to fixed income.
- Strong alignment of interests – the Corporation is the largest investor into each of our listed partnerships, and in turn, the listed partnerships are typically the largest investor in each of our private funds.

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

1. See definition in Glossary of Terms beginning on page 108.

ORGANIZATIONAL STRUCTURE

We employ approximately 1,700 employees within our asset management business and a further 100,000 operating employees within the assets we own through managed funds.

Brookfield Asset Management Inc. (the "Corporation")

ASSET MANAGER

Managed Entities

Listed Partnerships

- Brookfield Property Partners
- Brookfield Renewable Partners
- Brookfield Infrastructure Partners
- Brookfield Business Partners

Private Funds

Flagship
- BSREP
- BIF
- BCP

Core and Credit
- Real Estate Finance
- Infrastructure Debt
- Core Real Estate

Public Securities

- Separately Managed Accounts
- Mutual Funds
- Closed-End Funds

Operating Assets

Real Estate

- Office
- Retail
- Multifamily
- Hospitality

Renewable Power

- Hydroelectric
- Wind
- Solar
- Storage

Infrastructure

- Utilities
- Transport
- Energy
- Data Infrastructure
- Sustainable Resources

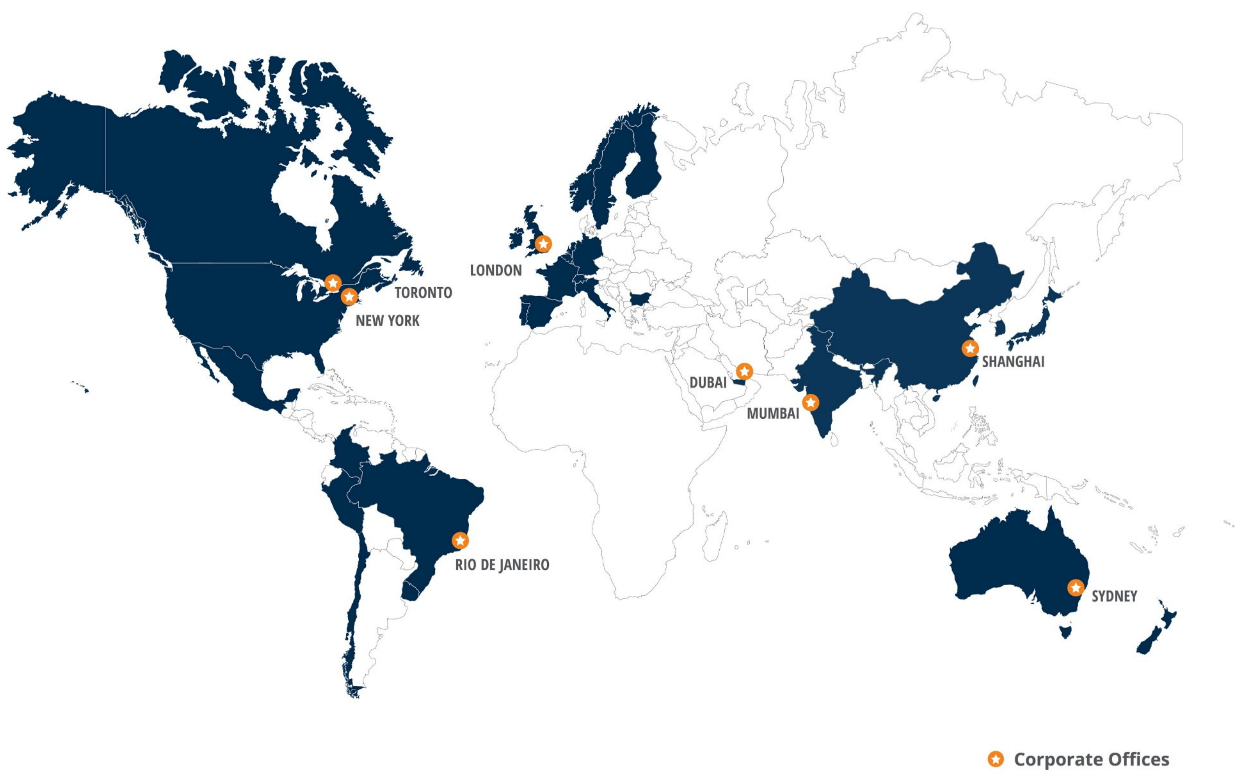
Private Equity

- Business Services
- Infrastructure Services
- Industrial Operations

Public Securities

- Real Estate Equities
- Infrastructure Equities
- Energy Infrastructure Equities
- Real Asset Debt Securities

Our global presence spans over 30 countries and covers major economies around the world.



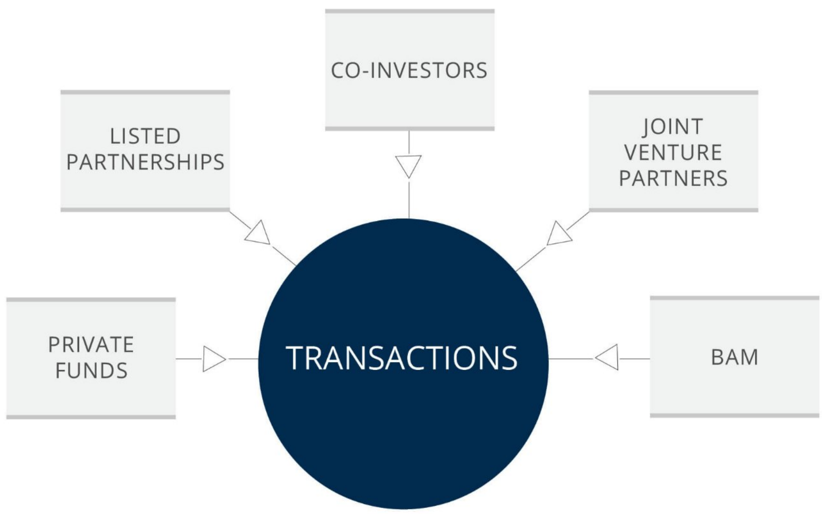
COMPETITIVE ADVANTAGES

We have three distinct competitive advantages that allow us to consistently identify and acquire high quality assets and create significant value in the assets that we own and operate.

Large-Scale Capital

We have over $350 billion in assets under management.

We offer our investors a large portfolio of private funds which have global mandates and diversified strategies. Our access to large-scale capital from our private funds and co-investors enables us to pursue transactions where there is less competition. In addition, investing significant amounts of our own capital either through our listed partnerships or through the Corporation's balance sheet ensures alignment of interest with our investors and additional flexible capital to fund larger investments.



Operating Expertise

We have more than 100,000 operating employees worldwide who are instrumental in maximizing the value and cash flows from our operations.

We believe that real operating experience is essential in maximizing efficiency and productivity – and ultimately, returns. We do this by maintaining a culture of long-term focus, alignment of interest and collaboration through the people we hire and our operating philosophy. This in-house operating expertise developed through our heritage as an owner-operator is invaluable in underwriting acquisitions and executing value-creating development and capital projects.

Global Presence

We operate in more than 30 countries around the world.

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

OPERATING CYCLE

Raise Capital

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

Identify and Acquire High-Quality Assets

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

Secure Long-Term Financing

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

Enhance Value and Cash Flows Through Operating Expertise

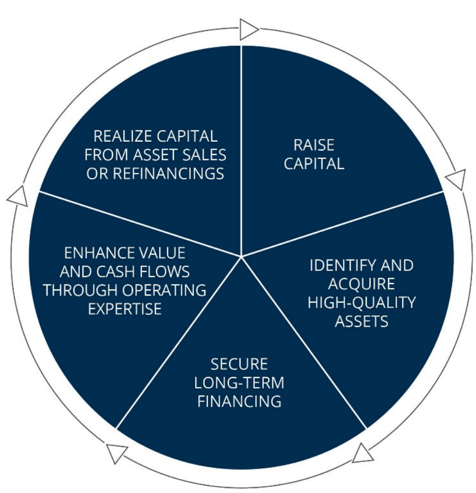
Our operating capabilities enable us to increase the value of the assets within our businesses and the cash flows they produce, and they protect capital better in adverse conditions. Our operating expertise, development capabilities and effective financing can help ensure that an investment's full value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

Realize Capital from Asset Sale or Refinancings

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

Our Operating Cycle Leads to Value Creation

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



LIQUIDITY AND CAPITAL RESOURCES

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

i) The Corporation:

- Strong levels of liquidity are maintained to support growth and ongoing operations.
- Capitalization consists of a large common equity base, supplemented with perpetual preferred shares, long-dated corporate bonds and, from time to time, draws on our corporate credit facilities.
- Negligible guarantees are provided on the financial obligations of listed partnerships and managed funds.
- High levels of cash flows are available after common share dividends.

ii) Our listed partnerships (BPY, BEP, BIP and BBU):

- Strong levels of liquidity are maintained at each of the listed partnerships to support their growth and ongoing operations.
- Listed partnerships are intended to be self-funding with stable capitalization through market cycles.
- Financial obligations have no recourse to the Corporation.

iii) Managed funds, or operating asset level in directly held investments:

- Each underlying investment is typically funded on a standalone basis.
- Fund level borrowings are generally limited to subscription facilities which are backed by the capital commitments to the fund.
- Financial obligations have no recourse to the Corporation.

Unlike many other alternative asset managers, much of the debt issued within our managed entities is included in our consolidated balance sheet not withstanding that virtually none of this debt has any recourse to the Corporation. This is due in large part to the larger amount of capital that we invest in our funds relative to other managers, which causes us to consolidate these entities in our Consolidated Balance Sheets.

Approach to Capitalization

Our overall approach is to maintain appropriate levels of liquidity throughout the organization to fund operating, development and investment activities as well as unforeseen requirements. The following are key elements of our capital strategy:

- Maintain significant liquidity at the corporate level, primarily in the form of cash, financial assets and undrawn credit lines. Ensure our listed partnerships can finance their operations on a standalone basis without recourse to or reliance on the Corporation.
- Structure our borrowings and other financial obligations to provide a stable capitalization at levels that are attractive to investors, are sustainable on a long-term basis and can withstand business cycles.
- The vast majority of this debt is at investment-grade levels, however, periodically, we may borrow at sub-investment grade levels in certain parts of our business where the borrowings are carefully structured and monitored.
- Provide recourse only to the specific businesses or assets being financed, without cross-collateralization or parental guarantees.
- Match the duration of our debt to the underlying leases or contracts and match the currency of our debt to that of the assets such that our remaining exposure is on the net equity of the investment.

We maintain a prudent level of capitalization at the Corporation with 77% of our capitalization in the form of common and preferred equity. Consistent with our conservative approach, our corporate borrowings represent only 17% of our corporate capitalization and equate to just 5% of our consolidated debt. The remaining 95% of consolidated debt obligations have no recourse to the Corporation, are held within managed entities and have virtually no cross-collateralization or parental guarantees.

Our corporate capitalization is now more than $38 billion and our debt to capitalization level remains below 20%.

AS AT DEC. 31 (MILLIONS)		2018	% of Total
Corporate borrowings	**$**	**6,409**	**17%**
Accounts payable and other liabilities		2,496	6%
Preferred equity		4,168	11%
Common equity - book value		25,647	66%
Corporate capitalization	**$**	**38,720**	**100%**

Liquidity

The Corporation has very few capital requirements. Nevertheless, we maintain significant liquidity ($4 billion in the form of cash and financial assets and undrawn credit facilities as at December 31, 2018) at the corporate level to bridge larger fund transactions, seed new fund products or participate in equity issuances by our listed partnerships.

On a group basis, we have over $34 billion of liquidity, which includes corporate liquidity, listed partnership liquidity and uncalled private fund commitments. Uncalled private fund commitments are third party commitments available for drawdown in our private funds.

AS AT DEC 31, 2018 (MILLIONS)		Corporate Liquidity		Group Liquidity
Cash and financial assets, net	$	2,275	$	3,752
Undrawn committed credit facilities		1,867		7,061
Core liquidity[1]		4,142		10,813
Third-party uncalled private fund commitments		—		23,575
Total liquidity[1]	**$**	**4,142**	**$**	**34,388**

1. See definition in Glossary of Terms beginning on page 108.

Cash Flow Generation

We generate significant, recurring cash flows at the corporate level, which may be used for (i) reinvestment into the business; or (ii) returning cash to shareholders. These cash flows are underpinned by:

- Fee related earnings that are supported by long-term and perpetual contractual agreements.
- Distributions from listed investments that are stable and backed by high-quality operating assets.

In 2018, cash available for distribution and/or reinvestment was $2.4 billion, and over the past five years has grown at a 19% compound annual growth rate:

FOR THE YEAR ENDED DEC. 31 (MILLIONS)		2018		2017
Fee related earnings	**$**	**1,129**	$	896
Realized carried interest		**188**		74
Distributions from investments		**1,698**		1,351
Other invested capital earnings				
Corporate activities		**(486)**		(300)
Other wholly-owned investments		**41**		23
		(445)		(277)
Preferred share dividends		**(151)**		(145)
Total cash available for distribution and/or reinvestment[1]	**$**	**2,419**	$	1,899

1. See definition in Glossary of Terms beginning on page 108.

RISK MANAGEMENT

FOCUS ON RISK CULTURE

Maintain an effective risk culture that aligns our business strategy and activities with our risk appetite

SHARED EXECUTION

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

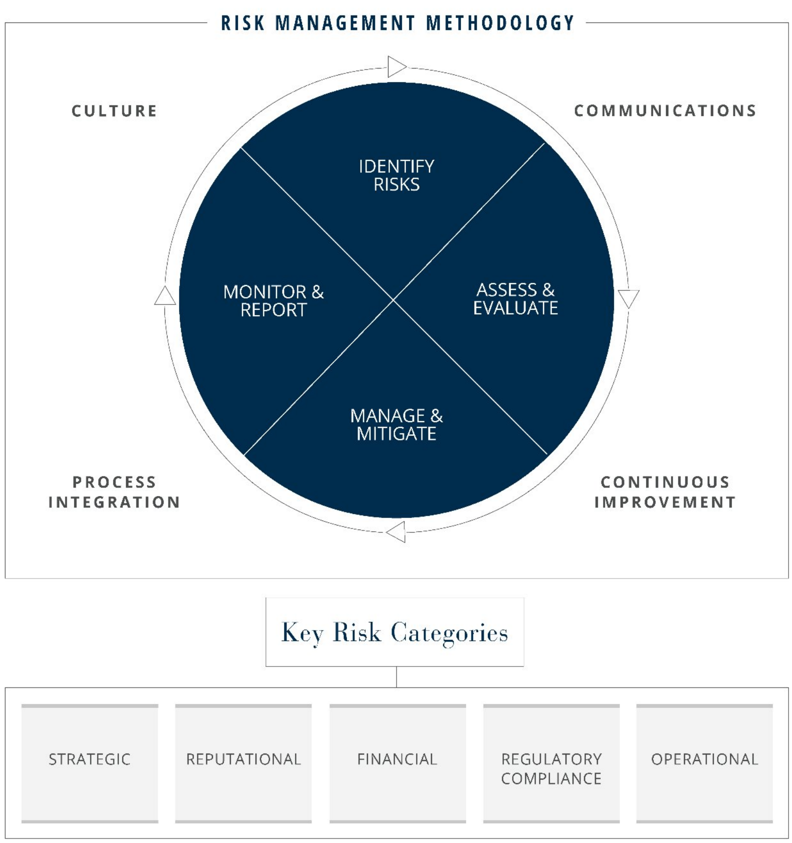
OVERSIGHT & COORDINATION

Consistent approach and practices across business and functional groups, with coordinated management of common risks

Our Approach

Managing risk is an integral part of our business. We have a well-established and disciplined risk management approach that is based on clear operating methods and a strong risk culture. Brookfield's risk management program emphasizes the proactive management of risks, ensuring that we have the necessary capacity and resilience to respond to changing environments by evaluating both current and emerging risks. We have implemented a risk management framework and methodology that is designed to enable comprehensive and consistent management of risk across the organization.

We use a thorough and integrated risk assessment process to identify and evaluate risk areas across the business such as human capital, climate change, foreign exchange and other strategic, financial, regulatory and operational risks. Management and mitigation approaches and practices are tailored to the specific risk areas and executed by business and functional groups for their businesses, with appropriate coordination and oversight through monitoring and reporting processes.



Focus on Risk Culture

A strong risk culture is the cornerstone of our risk management program: one that promotes conservative risk-taking, addresses current and emerging risks and ensures employees conduct business with a long-term perspective and in a sustainable and ethical manner. This culture is reinforced by the strong commitment and leadership from our senior executives, as well as the policies and practices we have implemented.

Our compensation program reflects this focus on long-term decision making to generate sustainable growth and risk adjusted returns by emphasizing equity compensation which has long-term vesting and retention requirements as well as reimbursement provisions in the event of restatements or detrimental conduct. Approximately 85% of total compensation for named executive officers is in the form of long-term incentive awards. This approach ensures consideration of the risks associated with decisions, minimizes the possibility that executives are rewarded in the short-term for actions which are detrimental in the long term, and reinforces the alignment of the interests of management with the long-term interests of fund investors and shareholders.

Shared Execution

Given the diversified and decentralized nature of our operations, we seek to ensure that risk is managed as close to its source as possible and by the management teams that have the most knowledge and expertise in the specific business or risk area. As such, business specific risks overall such as safety, environment and other operational risks are generally managed at the operating business group level, as the risks vary based on the nature of each business. At the same time, we monitor many of these risks organization-wide to ensure adequacy of risk management, adherence to applicable Brookfield policies, and sharing of best practices.

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

Oversight & Coordination

We have implemented strong governance practices to monitor and oversee our risk management practices. Management committees have been formed to bring together required expertise to manage key risk areas, ensuring appropriate application and coordination of approaches and practices across our business and functional groups:

- **Risk Management Steering Committee** to coordinate the risk management program on an enterprise-wide basis;
- **Investment Committees** to oversee the investment process, as well as monitor the ongoing performance of investments;
- **Conflicts Committee** to resolve potential conflict situations in the investment process and other corporate transactions;
- **Financial Risk Oversight Committee** to review and monitor financial exposures;
- **Environmental, Social and Governance ("ESG") Committee** to coordinate ESG initiatives;
- **Safety Steering Committee** to focus on health, safety and security matters; and
- **Disclosure Committee** to oversee the public disclosure of material information.

Brookfield's Board of Directors oversees risk management with a focus on more significant risks and leverages management's monitoring processes. The Board has delegated responsibility for oversight of specific risks to the following board committees:

- **Risk Management Committee** oversees the management of Brookfield's significant financial and non-financial risk exposures, including review of risk assessment and risk management practices and confirming that the company has an appropriate risk-taking philosophy and suitable risk capacity.
- **Audit Committee** oversees the management of risks related to Brookfield's systems and procedures for financial reporting, as well as for associated audit processes (internal and external).
- **Management Resources and Compensation Committee** oversees the risks related to Brookfield's management resource planning, including succession planning, executive compensation and senior executives' performance.
- **Governance and Nominating Committee** oversees the risks related to Brookfield's governance structure, including the effectiveness of board and committee activities and potential conflicts of interest.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE MANAGEMENT

We believe that acting responsibly toward our stakeholders is fundamental to operating a productive, profitable and sustainable business. This is consistent with our philosophy of conducting business with a long-term perspective in a sustainable and ethical manner. Our bottom line is that having robust ESG principles and practices is good business for a wide variety of reasons. Accordingly, we have embedded ESG principles and practices into both our asset management activities and underlying business operations.

We incorporate ESG factors into our investment decisions, starting with the due diligence of a potential investment through to the exit process. During the initial due diligence phase, we utilize our operating expertise to identify material ESG opportunities or risks relevant to the potential investment and then perform a deeper due diligence if required, where we utilize internal experts and, as needed, third-party consultants. All investments made by Brookfield must be approved by our investment committees based on a set of predetermined criteria that evaluate potential risks, mitigants and opportunities. ESG matters are part of this evaluation, including anti-bribery and corruption, health and safety, environmental and social considerations.

As part of each acquisition, the investment teams create a tailored integration plan that, among other things, includes material ESG-related matters for review or execution. ESG risks and opportunities are actively managed by the portfolio companies with oversight from the investment team responsible for the investment. This recognizes the importance of local expertise, which provides valuable insight given the wide range of asset types and locations in which we invest, coupled with the broad Brookfield investment expertise. We believe there is a strong correlation between actively managing these considerations effectively and enhancing investment returns.

With respect to environmental considerations, we believe that our operating businesses are well positioned as the world transitions toward lower carbon and more sustainable economies. Our renewable power business is one of the largest pure-play global owners and operators of hydroelectric, wind and solar generation facilities and is committed to supporting the global transition toward a low-carbon economy; we also benefit by having negligible fossil fuel inputs and enhanced revenues. Further, we are one of the world's largest owners of real estate; our office and retail portfolios are heavily weighted towards properties that meet high environmental sustainability standards consistent with the expectations of our tenants, which enhances rental revenues and lowers operating costs. Our infrastructure and private equity businesses include a wide variety of businesses, many of which are well positioned to have a positive environmental impact and benefit from our focus on operational efficiency, including energy efficiency.

Regarding the management of social considerations, we would not be able to operate our businesses without our 100,000 operating employees and 1,700 employees within our asset management operations. Therefore, we are constantly focused on human capital development. We believe that diversity adds significant benefits to a workplace and so we are continuing to introduce measures to increase diversity. Diversity is about having a workplace that reflects a variety of perspectives, but a diverse work environment is not enough. We also are focused on maintaining an inclusive environment—meaning one in which all are encouraged to contribute, enabling the organization as a whole to benefit from different perspectives in order to achieve better business outcomes.

We also recognize that we must be positive contributors to the communities in which we operate and not just an employer. We encourage and support numerous community and philanthropic initiatives across Brookfield, and we believe that these programs have a positive impact not just on the communities but on our many employees that participate.

Finally, we understand that good governance is critical to sustainable business operations. We have developed a comprehensive governance framework across Brookfield. This is greatly assisted by operating through public companies, including Brookfield Asset Management and our listed partnerships, as well as within the regulatory requirements of a global asset manager. Governance extends to all facets of our activities, including those related to ESG matters. We maintain a committee of senior executives representing each of our major business operations to coordinate ESG initiatives across our business groups, share best practices and encourage a firm-wide effort to constantly improve our activities in these regards. While our board of directors has always had oversight over ESG matters, in 2018, our board formally embedded ESG management into the various board and committee mandates to acknowledge these areas as priorities, as noted on the following page.

2018 Highlights

In 2018, we embedded ESG management into the charter for the Corporation's Board of Directors, as well as its Governance and Nominating Committee, which allows for more formal director engagement with respect to our ESG initiatives. This ensures that sustainability is a priority and is explicitly addressed in our long-term business strategy and risk management.

We are taking specific actions to better measure our greenhouse gas ("GHG") emissions. Our renewable power business now measures its scope 1 and 2 GHG emissions globally. In 2018, which represents the base-year calculation, BEP's global gross carbon intensity was measured to be one of the lowest among comparable power companies. Our North American core office business, U.S. retail and our London office businesses also measure their GHG emissions and report their results annually to the Global Real Estate Sustainability Benchmark, or GRESB, a leading sustainability assessment tool. In 2018, all three businesses maintained their GRESB Green Star rating.

Another environmental focus area is the recycling and reduction of waste across our operating businesses. Many of our real estate, infrastructure and private equity businesses have either launched innovative programs in this area or continued to improve their waste reduction measures. These initiatives span groundbreaking programs, such as the removal of plastic waste from the ocean at our U.K. ports business and the commitment by our London office business to becoming the world's first plastic-free commercial center, to ongoing waste reduction and recycling initiatives.

We are becoming more active in sustainable finance initiatives. In 2018, our renewable power business issued C$300 million in corporate green bonds and developed the Brookfield Renewable Green Bond Framework, which defines the investments that are eligible for green bond issuance and how performance will be measured. Sustainalytics, a leading global provider of ESG ratings, confirmed its view that the framework aligns to its 2018 Green Bond Principles. The growing green bond market allows debt investors to participate in the financing of sustainable products, and we plan to offer additional green bond issuances.

We continue to implement measures to improve diversity within our employee base. We have now formalized our requirement that candidate pools be sufficiently diverse as part our recruiting process. Further, we have broadened the number of activities that promote and support success for our female employees. The following provides an indication of our progress at the asset management level.

At the Corporation, women comprise:

>40% ↗ of our overall workforce

40% ↗ of our independent board directors

20% ↗ of our senior vice-presidents and above (up from 11% three years ago)

Recently, we released a Positive Work Environment Policy, which consolidates our previous regional harassment policies into one global policy and sets a consistent and high standard across all our jurisdictions by explicitly expressing our commitment to maintaining a workplace free from discrimination, violence and harassment. Each employee is required to report any actions or incidents that they witness or experience that are in violation of this policy.

In recent years, data privacy and cybersecurity have become key ESG priorities for global companies. At Brookfield, we have continued to focus on strengthening our processes in this area through a number of measures. For example, we have established an information security steering committee, which ensures that our cybersecurity efforts are aligned across the organization. In addition, our cybersecurity program consists of key internal and external initiatives ranging from regular scanning of our data systems for vulnerabilities to improving our employees' cybersecurity awareness through mandatory firm-wide training.

PART 2 – REVIEW OF CONSOLIDATED FINANCIAL RESULTS

The following section contains a discussion and analysis of line items presented within our consolidated financial statements. The financial data in this section has been prepared in accordance with IFRS. Starting on page 42 we provide an overview of our fair value accounting across our business and why we believe it provides useful information for investors about our performance. We also provide an overview of our application of the control-based model under IFRS used to determine whether or not an investment should be consolidated.

OVERVIEW

Net income increased to $7.5 billion in 2018, with $3.6 billion attributable to common shareholders ($3.40 per share) and $3.9 billion attributable to non-controlling interests.

During 2018, we acquired a number of businesses across each of our operating segments that contributed to our results, the most significant of which was through the privatization of GGP Inc. ("GGP") in the third quarter within our real estate segment. BPY previously held a 34% interest in this entity and started to consolidate the results effective August 28, 2018 through Brookfield Property REIT Inc. ("BPR"), a real estate trust created to consolidate GGP's operations. As BPY issued equity to pay a portion of the consideration, our ownership interest in BPY decreased to 54%, as compared to 69% at the beginning of the year. Refer to pages 33 and 34 for more information about significant acquisitions and dispositions.

Our balance sheet was also impacted by acquisition and divestment activity as we acquired $78.6 billion of assets through business combinations during the year. In addition to the privatization of GGP which increased our asset base by $22.1 billion, the acquisitions of a diversified U.S. REIT, a portfolio of European wind and solar assets, a service provider to the power generation industry, a service provider to the offshore oil production industry and a North American residential energy infrastructure business had the most significant impact on our asset base. We also sold businesses throughout the year, most notably our Chilean electricity transmission business, various assets in our real estate LP investments portfolio, including our U.S. logistics portfolio and a portfolio of self-storage assets, an office property in Toronto and our Australian energy operations.

In addition to the impact of recent acquisitions, the $2.9 billion increase in consolidated net income and the $2.1 billion increase in net income attributable to common shareholders are primarily attributable to:

- same-store[1] growth across many of our businesses;
- fair value gains of $1.8 billion relating primarily to investment property valuation gains and various transaction-related gains, including the impact of completing step-up acquisitions in our real estate and private equity businesses; and
- deferred tax recoveries, relating primarily to the projected utilization of previously unrecognized loss carryforwards; partially offset by
- the absence of income from assets sold, higher taxes and increases in interest expense on new borrowings.

1. See definition in Glossary of Terms beginning on page 108.

INCOME STATEMENT ANALYSIS

The following table summarizes the financial results of the company for 2018, 2017 and 2016:

FOR THE YEARS ENDED DEC. 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2018	2017	2016	Change 2018 vs 2017	Change 2017 vs 2016
Revenues[1]	**$ 56,771**	$ 40,786	$ 24,411	$ 15,985	$ 16,375
Direct costs	**(45,519)**	(32,388)	(17,718)	(13,131)	(14,670)
	11,252	8,398	6,693	2,854	1,705
Other income and gains	**1,166**	1,180	482	(14)	698
Equity accounted income	**1,088**	1,213	1,293	(125)	(80)
Expenses					
Interest	**(4,854)**	(3,608)	(3,233)	(1,246)	(375)
Corporate costs	**(104)**	(95)	(92)	(9)	(3)
Fair value changes	**1,794**	421	(130)	1,373	551
Depreciation and amortization	**(3,102)**	(2,345)	(2,020)	(757)	(325)
Income taxes	**248**	(613)	345	861	(958)
Net income	**7,488**	4,551	3,338	2,937	1,213
Non-controlling interests	**(3,904)**	(3,089)	(1,687)	(815)	(1,402)
Net income attributable to shareholders	**$ 3,584**	$ 1,462	$ 1,651	$ 2,122	$ (189)
Net income per share	**$ 3.40**	$ 1.34	$ 1.55	$ 2.06	$ (0.21)

1. 2017 and 2016 revenues have not been restated as we adopted IFRS 15 using the modified retrospective method as at January 1, 2018.

2018 vs. 2017

Revenues for the year were $56.8 billion, an increase of $16.0 billion compared to 2017 primarily due to:

- $16.3 billion of additional revenues earned from acquisitions during the current and prior year across each of our listed partnerships[1], most notably the purchase of our road fuel distribution business in the second quarter of last year, which added $8.8 billion of incremental revenues. Included in this business' revenues and direct costs are significant flow-through duty amounts that are passed through to the customers and recorded gross in both accounts, without impact to margin generated by the business;
- initiatives in our existing infrastructure businesses, in particular from strong connections activity at our regulated distribution business and higher tariffs and strong volumes across a number of our transport operations; and
- same-store increases, including improved performance at our graphite electrode manufacturing business and growth in our real estate business from strong core office same-property leasing growth of 5.9%; partially offset by
- the absence of $390 million of revenues from businesses sold and the deconsolidation of Norbord Inc. ("Norbord")[1] in the fourth quarter of 2017, which contributed $1.7 billion of revenues in 2017.

A discussion of the impact on revenues and net income from recent acquisitions and dispositions can be found on pages 33 and 34.

Changes in direct costs correspond with the growth of revenue. Our direct costs increased by $13.1 billion in 2018 due to recent acquisitions, as discussed above, as well as higher costs to support same-store growth within existing operations. These increases were partially offset by the absence of direct costs from assets sold and the impact of the Norbord deconsolidation.

Other income and gains of $1.2 billion relate primarily to portfolio premiums as we sold a number of assets for more than their IFRS carrying values. The most significant gains reported during the year were the sale of our Chilean electricity transmission business in the first quarter, the sale of a portfolio of self-storage properties in the third quarter, the sale of our U.S. logistics portfolio in the fourth quarter and the sale of our Australian energy operations in the fourth quarter.

1. See definition in Glossary of Terms beginning on page 108.

Equity accounted income decreased by $125 million to $1.1 billion primarily due to:

- valuation losses at various equity accounted investments, particularly certain GGP investment properties prior to its privatization;
- higher depreciation costs of $190 million relating to recent acquisitions; and
- the consolidation of previously equity accounted entities as a result of increases in our ownership interest; partially offset by
- an increase in FFO from equity accounted investments of $303 million due to contributions from recent investments, particularly our investment in our entertainment operations and the impact of FFO generated by Norbord which was consolidated up until the fourth quarter of 2017.

Interest expense increased by $1.2 billion largely due to additional borrowings associated with acquisitions across our portfolio, debts assumed from acquired businesses and $1.6 billion of corporate recourse debt issued since the third quarter of 2017 on which we have incurred interest expense. We also issued additional debt in certain listed partnerships, increasing total interest expense.

We recorded fair value gains of $1.8 billion, compared to $421 million in 2017, primarily as a result of:

- the impact of step-up acquisitions of GGP in our Real Estate segment and a service provider to the offshore oil production industry in our Private Equity segment, partially offset by successful deal costs;
- valuation gains on properties in our core office and LP investments[1] portfolios;
- gains recorded on the extinguishment of a debt obligation associated with a hospitality property; and
- gains related to the acquisitions and restructuring of businesses within our U.S. operations that resulted in the recognition of deferred tax assets; partially offset by
- net unrealized losses on financial contracts entered into to manage foreign currency, interest rates and pricing exposures.

Depreciation and amortization expense increased by $757 million to $3.1 billion due primarily to businesses acquired in the last twelve months as well as the impact of revaluation gains in the fourth quarter of 2017, which increased the carrying value of our PP&E from which depreciation is determined.

We recorded an income tax recovery of $248 million in 2018 compared to an expense of $613 million last year. This was primarily due to a deferred tax recovery on the recognition of previously unrecognized loss carryforwards that will offset future projected taxable income.

2017 vs. 2016

Revenues in 2017 increased by $16.4 billion compared to 2016 primarily due to the acquisition of new businesses and assets across all of our listed partnerships, most notably our road fuel distribution business. Same-store growth from existing operations, including in our infrastructure transport businesses and private equity construction services business, also contributed to the increase. These were partially offset by the absence of revenues from merchant development sales realized in 2016 and fewer deliveries in our Brazilian residential business.

Direct costs increased by $14.7 billion in 2017 due to recent acquisitions and higher than planned construction services costs, partially offset by a reduction in expenses from businesses sold and the benefits of operational improvements.

Other income and gains of $1.2 billion in 2017 include gains from the sale of our bath and shower business, the partial sale of Norbord and the sale of a European logistics portfolio. The 2016 results include realized gains from the sales of a German hotel portfolio, a hospitality trademark and a toehold position in our Australian port business.

Equity accounted income decreased by $80 million to $1.2 billion as valuation losses at GGP and the absence of a one-time gain in our infrastructure business related to the privatization of our Brazilian toll road investment were partially offset by lower mark-to-market losses on interest rate swap contracts in our U.K. office portfolio.

Interest expense increased by $375 million as a result of additional borrowings associated with acquisitions across our portfolio and the addition of debt within newly acquired businesses, particularly in our renewable power, infrastructure and private equity operations.

1. Formerly referred to as Opportunistic.

We recorded fair value gains of $421 million, which compared to a loss of $130 million in 2016, primarily as a result of:

- increases in the values of our LP investments real estate portfolios;
- a gain recorded when we deconsolidated our investment in Norbord; and
- the absence of a one-time impairment loss in 2016 on the conversion of a debt instrument to equity in our Private Equity segment; partially offset by
- valuation losses in our core office portfolio, mark-to-market losses on our GGP warrants prior to exercise and mark-to-market losses on foreign exchange derivatives that do not qualify for hedge accounting.

Depreciation and amortization expense increased by $325 million to $2.3 billion due primarily to the impact of recent acquisitions.

Income tax expense was $613 million, compared to a $345 million recovery in 2016. The prior year included a one-time income tax recovery of approximately $900 million as a result of a change in tax rates arising from the reorganization of certain of our U.S. real estate operations. Excluding the impact of this recovery, income tax expenses were consistent year over year as increased expenses associated with acquisitions were offset by $157 million of recoveries associated with U.S. tax reform.

Significant Acquisitions and Dispositions

We have summarized below the impact of recent significant acquisitions and dispositions on our results for 2018:

FOR THE YEAR ENDED DEC. 31, 2018 (MILLIONS)	Acquisitions		Dispositions	
	Revenue	Net Income	Revenue	Net Income
Real estate	$ 1,430	$ 516	$ (336)	$ (118)
Renewable power	1,117	165	(15)	(13)
Infrastructure	1,157	211	—	(9)
Private equity and other	12,642	62	(39)	(15)
	16,346	954	(390)	(155)
Gains recognized in net income	—	833	—	592
	$ 16,346	$ 1,787	$ (390)	$ 437

Acquisitions

Real Estate

Recent acquisitions contributed an incremental $1.4 billion of revenues and $516 million of net income, respectively, in 2018. The most significant contributor was our core retail portfolio as we have been consolidating our results in BPR since August 28, 2018. Previously, we reported our 34% proportionate share of GGP's results as equity accounted income. We have recognized $588 million of revenues since we began to consolidate this entity. We are also reporting our increased share of GGP's net income, an incremental $237 million this year relative to the net income we would have reported if GGP were still equity accounted, to reflect our increased ownership. The net impact of the gains relating to the privatization is reported through the "Gains recognized in net income" line.

Other recent acquisitions that have had a significant impact on current period revenues and net income include our extended-stay property portfolios, an office property in Houston, a hospitality asset in Toronto and our office parks in India.

Renewable Power

Within our Renewable Power segment, the recent acquisitions of TERP and TerraForm Global, portfolios of wind and solar assets acquired in the fourth quarter of 2017, as well as a portfolio of European wind and solar assets acquired by TERP in the second quarter of 2018, contributed an additional $1.1 billion of revenues and net income of $165 million this year.

Infrastructure

Within our infrastructure operations, revenues increased by $1.2 billion and net income increased by $211 million due to recent acquisitions. Our Brazilian regulated gas transmission business acquired partway through 2017 contributed an additional $305 million in revenues and $154 million in net income this year. We were also impacted by contributions from our recently acquired Colombian natural gas distribution business and certain businesses acquired in the fourth quarter, most notably a North American provider of residential energy infrastructure services.

Private Equity

Recent acquisitions within our Private Equity segment contributed an additional $12.6 billion of revenues in 2018. Our road fuel distribution business, acquired partway through 2017, contributed an additional $8.8 billion of revenues in 2018. Other recent acquisitions that had a significant impact on revenues include Westinghouse Electric Company ("Westinghouse") which is our service provider to the power generation industry, a returnable plastic container business and our fuel marketing business. Revenues also benefited from the consolidation of our service provider to the offshore oil production industry in the third quarter of this year, previously an equity accounted investment. Gains that relate directly to the initial impact of consolidating this business are reported through the "Gains recognized in net income" line.

Gains Recognized in Net Income

A significant portion of the $833 million in gains related to the impact of the step-up acquisitions of GGP and our service provider to the offshore oil production industry. Additional gains include those arising from the recognition of a deferred tax asset upon acquiring control of an investment that was not reflected in the carrying amount of the investment prior to the business combination. These gains were partially offset by transaction costs incurred relating to acquisitions completed during the year.

Further details relating to the significant acquisitions described above are provided in Note 5 of the consolidated financial statements.

Dispositions

Recent asset sales across our listed partnerships resulted in the absence of revenues and net income of $390 million and $155 million, respectively. The assets sold that most significantly impacted our results were our European logistics business, several office properties and a portfolio of self-storage assets in our Real Estate segment.

The gains recognized in net income relate primarily to portfolio premiums on various assets sold, most notably our U.S. logistics operations, a portfolio of self-storage assets, our Chilean electricity transmission business and our Australian energy operations.

Fair Value Changes

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	**2018**	2017	Change
Investment properties	**$ 1,610**	$ 1,021	$ 589
Transaction related gains, net of deal costs	**1,132**	637	495
Financial contracts	**(189)**	(868)	679
Impairments and provisions	**(309)**	(344)	35
Other fair value changes	**(450)**	(25)	(425)
Total fair value changes	**$ 1,794**	$ 421	$ 1,373

Investment Properties

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	**2018**	2017	Change
Core office	**$ 150**	$ (864)	$ 1,014
LP Investments and other	**1,460**	1,885	(425)
	$ 1,610	$ 1,021	$ 589

We discuss the key valuation inputs of our investment properties on page 85.

Core Office

Valuation gains totaled $150 million. The gains relate primarily to:

- strong leasing activity in our Sydney and Toronto portfolios; and
- an increase in value in a London development property as the asset nears completion; partially offset by
- fair value adjustments in our downtown New York properties.

Valuation losses of $864 million in the prior year were primarily attributable to a change of valuation metrics and a slowdown in leasing activity in our properties in downtown New York, partially offset by gains in certain properties from rate compression and strong leasing activity.

LP Investments and Other

Valuation gains of $1.5 billion relate primarily to:

- our U.S. logistics portfolio, for which we reduced discount rates as development properties approached stabilization, increased cash flow assumptions due to strong overall leasing and updated values to reflect recent market transactions and purchase offers; and
- higher cash flow projections for our office portfolio in India to reflect the impact of regulatory changes that allow for an increase in leasable area; partially offset by
- valuation losses on our opportunistic retail portfolio.

In the prior year, valuation gains of $1.9 billion were primarily related to valuation gains on our European logistics operations, increases in the values of our Indian office properties and mixed-use property in South Korea due to improved leasing activity and market rents and occupancy increases in our U.K. student housing portfolio.

Transaction Related Gains, Net of Deal Costs

Transaction related gains of $1.1 billion relate primarily to:

- gains of $584 million arising from the acquisitions and restructuring of businesses within our U.S. operations that resulted in the recognition of tax assets;
- the privatization of GGP, resulting in a net transaction related gain of $422 million. The net gain on acquisition was partially offset by fair value adjustments to adjust the carrying value of our investment in GGP to its fair value immediately prior to acquiring control;
- a $411 million gain following the extinguishment of outstanding debt relating to a hospitality asset; and
- a $250 million gain recognized on taking control of a service provider to the offshore oil production industry. This includes a gain of $44 million on the settlement of subsidiary level debt and warrants; partially offset by
- deal costs of $582 million across the company, primarily from acquisitions completed during the year in our private equity and real estate businesses.

The prior year gains relate primarily to the deconsolidation of Norbord Inc. We reduced our interest in Norbord to less than 50% in the fourth quarter of 2017 and recognized a gain when we revalued the assets and liabilities on the change of control.

Financial Contracts

Financial contracts include mark-to-market gains and losses on financial contracts related to foreign currency, interest rate and pricing exposures that are not designated as hedges.

Unrealized losses of $189 million relate primarily to the mark-to-market movements on our interest rate and cross-currency swaps, as well as fair value changes on currency hedges which do not qualify for hedge accounting.

The prior year losses relate to the valuation of contracts in our financial asset portfolio and foreign exchange contracts that do not qualify for hedge accounting.

Impairments and Provisions

Impairments and provisions totaled $309 million. We recognized impairment in our Private Equity segment following a write-down of property, plant and equipment in a Canadian natural gas operation. Additionally, our Brazilian residential business recorded a provision as a result of an ongoing assessment of outstanding claims.

In the prior year, impairments and provisions related primarily to the cost of terminations on condominium sales agreements in our Brazilian residential business, as well as impairment losses in our hospitality assets, timber assets and certain investments in our Private Equity segment.

Income Taxes

We recorded an aggregate income tax recovery of $248 million in 2018, compared to an expense of $613 million in the prior year, including current taxes of $861 million (2017 – $286 million) and a deferred tax recovery of $1.1 billion (2017 – expense of $327 million).

The decrease in income tax expense relates primarily to a lower effective tax rate primarily attributable to (1) an increase in the projected utilization of previously unrecognized loss carryforwards; and (2) changes in the proportion of income in the jurisdictions with different tax rates.

The company recognized additional tax loss carryforwards as a result of higher projected taxable income in our revised business plan that we expect to be able to offset with previously unrecognized loss carryforwards. This resulted in a deferred tax recovery of approximately $700 million which contributed to the 12% reduction to our effective income tax rate.

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

FOR THE YEARS ENDED DEC. 31	**2018**	2017	Change
Statutory income tax rate	**26 %**	26%	— %
Increase (reduction) in rate resulting from:			
Portion of gains subject to different tax rates	**(4)**	(5)	1
Change in tax rates and new legislation	**(4)**	(3)	(1)
International operations subject to different tax rates	**(3)**	3	(6)
Taxable income attributed to non-controlling interests	**(8)**	(9)	1
Recognition of deferred tax assets	**(12)**	(2)	(10)
Non-recognition of the benefit of current year's tax losses	**1**	3	(2)
Other	**1**	(1)	2
Effective income tax rate	**(3)%**	12%	(15)%

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

As an asset manager, many of our operations are held in partially owned "flow through" entities, such as partnerships, and any tax liability is incurred by the investors as opposed to the entity. As a result, while our consolidated earnings includes income attributable to non-controlling ownership interests in these entities, our consolidated tax provision includes only our proportionate share of the associated tax provision of these entities. In other words, we are consolidating all of the net income, but only our share of the associated tax provision. This gave rise to an 8% and 9% reduction in the effective tax rate relative to the statutory tax rate in 2018 and 2017, respectively.

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

BALANCE SHEET ANALYSIS

The following table summarizes the statement of financial position of the company as at December 31, 2018, 2017 and 2016:

AS AT DEC. 31 (MILLIONS)	2018	2017	2016	Change 2018 vs 2017	Change 2017 vs 2016
Assets					
Investment properties	**$ 84,309**	$ 56,870	$ 54,172	$ 27,439	$ 2,698
Property, plant and equipment	**67,294**	53,005	45,346	14,289	7,659
Equity accounted investments	**33,647**	31,994	24,977	1,653	7,017
Cash and cash equivalents[1]	**8,390**	5,139	4,299	3,251	840
Accounts receivable and other[1]	**16,931**	11,973	9,133	4,958	2,840
Intangible assets	**18,762**	14,242	6,073	4,520	8,169
Goodwill	**8,815**	5,317	3,783	3,498	1,534
Other assets	**18,133**	14,180	12,043	3,953	2,137
Total Assets	**$ 256,281**	$ 192,720	$ 159,826	$ 63,561	$ 32,894
Liabilities					
Corporate borrowings[1]	**$ 6,409**	$ 5,659	$ 4,500	$ 750	$ 1,159
Non-recourse borrowings of managed entities[1]	**111,809**	72,730	60,391	39,079	12,339
Other non-current financial liabilities[1]	**13,528**	10,478	7,759	3,050	2,719
Other liabilities	**27,385**	23,981	17,488	3,404	6,493
Equity					
Preferred equity	**4,168**	4,192	3,954	(24)	238
Non-controlling interests	**67,335**	51,628	43,235	15,707	8,393
Common equity	**25,647**	24,052	22,499	1,595	1,553
Total Equity	**97,150**	79,872	69,688	17,278	10,184
	$ 256,281	$ 192,720	$ 159,826	$ 63,561	$ 32,894

1. The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9. Prior period amounts have not been restated (refer to Note 2 of the consolidated financial statements).

2018 vs. 2017

Consolidated assets at December 31, 2018 were $256.3 billion, an increase of $63.6 billion since December 31, 2017. The increases noted in the table above are largely attributable to $78.6 billion of assets acquired through business combinations, increases in the fair value of our investment properties and property, plant and equipment, and additions to our fixed asset portfolios, including ongoing construction of existing assets and asset purchases. We have summarized below the impact of acquisitions on our consolidated assets and liabilities:

(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)	(3,657)	(715)	**(7,140)**
Non-recourse borrowings	(18,218)	(1,484)	(3,669)	(2,023)	**(25,394)**
Deferred income tax liabilities	(58)	(839)	(156)	(210)	**(1,263)**
Non-controlling interests[1]	(2,603)	(544)	(512)	(22)	**(3,681)**
	(23,056)	(3,458)	(7,994)	(2,970)	**(37,478)**
Net assets acquired	$ 27,918	$ 6,220	$ 4,810	$ 2,199	**$ 41,147**

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 interest recognized on business combinations is measured at the proportionate fair value of the total net assets on the date of acquisition.

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

During 2018, we sold $11.1 billion of assets, while the impact of decreasing foreign exchange rates also partially offset the increases described above.

Investment properties consist primarily of the company's real estate assets. The balance as at December 31, 2018 increased by $27.4 billion, primarily due to:

- acquisitions of $33.0 billion, including $18.0 billion of investment properties at GGP which were previously reported through equity accounted investments and $9.4 billion through the acquisition of a diversified U.S. REIT with office, multifamily and retail assets. Other notable investments include a U.K. student housing portfolio, office buildings in New York and Chicago, an office park in Mumbai and a mixed-use entertainment complex in Germany;
- additions of $3.1 billion as we enhanced or expanded numerous properties through capital expenditures; and
- valuation gains recorded in fair value changes of $1.6 billion, largely within our LP investments portfolio (refer to page 34 for further information); partially offset by
- the $1.7 billion impact of decreasing foreign exchange rates; and
- sales or reclassifications of $8.6 billion, including office properties in Toronto and Sydney, 112 storage properties across the U.S., our U.S. logistics portfolio and the reclassification of a number of properties to held for sale, including office properties in the U.S. and Brazil and a mixed-use portfolio in China.

We provide a continuity of investment properties in Note 11 to the consolidated financial statements.

Property, plant and equipment increased by $14.3 billion primarily as a result of:

- acquisitions of $12.6 billion across our operating segments, including one of North America's leading providers of essential residential energy infrastructure, a western Canadian natural gas gathering and processing business, a service provider to the power generation industry, extended-stay hotels across the U.S., wind and solar assets in Europe and the consolidation of a service provider to the offshore oil production industry that was previously equity accounted;
- revaluation surplus of $5.6 billion in our Renewable Power segment, primarily attributed to the benefit of the United States tax reform enacted into law in 2017 and the successful integration of key acquisitions into the business; and
- additions of $2.1 billion primarily related to growth capital expenditures across our operating segments; partially offset by
- the negative impact of foreign currency translation of $3.0 billion; and
- sales and depreciation in the period, including the impact of reclassifying $749 million to assets held for sale as part of the expected sale of certain wind and solar assets in non-core regions within our Renewable Power segment.

We provide a continuity of property, plant and equipment in Note 12 to the consolidated financial statements.

The increase of $1.7 billion in equity accounted investments is primarily due to:

- the $2.5 billion net impact of the GGP transaction, as the consolidation of equity accounted investments held within GGP was partially offset by the derecognition of the carrying value of our investment prior to consolidation;
- $3.1 billion of other additions or acquisitions through business combinations across our operating segments, including assets acquired as part of the acquisition of a diversified U.S. REIT in the fourth quarter; and
- our share of comprehensive income of $1.6 billion; partially offset by
- the sale of our $1.0 billion Chilean electricity transmission business;
- the reclassification of a service provider to the offshore oil production industry and two entities in our Real Estate and Corporate segments after increasing our ownership, thereby gaining control during the year; and
- distributions received and returns of capital of $1.9 billion.

Cash and cash equivalents increased by $3.3 billion as at December 31, 2018 compared to the prior year end primarily due to timing of cash flows. For further information, refer to our Consolidated Statements of Cash Flows and to the Review of Consolidated Statements of Cash Flows within Part 4 – Capitalization and Liquidity.

Intangible assets increased by $4.5 billion primarily from new acquisitions completed during the year, particularly a North American residential energy infrastructure business acquired in the fourth quarter in our Infrastructure segment and a service provider to the power generation industry acquired in the third quarter in our Private Equity segment. This was partially offset by amortization during the year of $659 million and the negative impact of foreign currency, which reduced the balance by $1.7 billion.

Goodwill increased by $3.5 billion, primarily from acquisitions of $4.2 billion. Our Infrastructure segment completed many acquisitions during the year that resulted in goodwill, including a residential energy infrastructure business, a Colombian natural gas distribution business, a large-scale data center business and a western Canadian natural gas gathering and processing business. This was partially offset by the negative impact of foreign currency, which reduced the balance by $635 million.

Other assets are comprised of inventory, deferred income tax assets, assets classified as held for sale and other financial assets. The increase of $4.0 billion is primarily a result of:

- acquisitions completed in the year;
- $840 million of deferred income tax assets from the recognition of net operating losses that can be used to offset future projected net income; and
- an increase in assets held for sale of $580 million, primarily attributable to the reclassification of certain wind and solar assets in our Renewable Power segment, as well as a Shanghai property portfolio in our Real Estate segment.

Corporate borrowings increased by $750 million due to $1.1 billion of corporate debt issued during the year, partially offset by the impact of decreasing foreign exchange rates and the absence of draws on the corporate revolving facility.

Non-recourse borrowings increased by $39.1 billion primarily due to acquisitions across our businesses, most notably in our Real Estate segment. The balance also increased due to the use of leverage to fund certain recent acquisitions, specifically in our Private Equity segment, and the impact of debt refinancings in various businesses, including our graphite electrode manufacturing business and our Brazilian regulated gas transmission business. These increases were partially offset by the impact of decreasing foreign exchange rates and the repayment of amounts previously drawn on revolving or term bank facilities.

Other non-current financial liabilities consist of our subsidiary equity obligations, non-current accounts payable and other long-term liabilities that are due after one year. The balance increased as a result of liabilities assumed on acquiring businesses during the year.

Refer to Part 4 – Capitalization and Liquidity for more information.

2017 vs. 2016

Consolidated assets as at December 31, 2017 were $192.7 billion, compared to $159.8 billion as at December 31, 2016. Year-over-year increases were primarily due to the impact of acquisitions completed in 2017. In addition, most foreign currency-denominated assets increased as the majority of foreign currencies appreciated against the U.S. dollar.

Investment properties were $2.7 billion higher at the end of 2017 compared to the prior year as the impact of various real estate investments completed during the year, as well as the impact of valuation gains and foreign exchange, was partially offset by numerous asset sales across our core office and LP investments portfolios.

Property, plant and equipment increased by $7.7 billion during 2017. The increase was primarily a result of acquisitions completed during the year, most notably solar and wind assets within our renewable power business. The increase from asset acquisitions was partially offset by depreciation recorded during the year.

Equity accounted investments were $32.0 billion as at December 31, 2017, an increase of $7.0 billion compared to the prior year. The increase was due primarily to $5.3 billion of additions, net of dispositions, related to increases across multiple businesses, including higher ownership of our investment in GGP and increases to our Brazilian toll road portfolio and our North American natural gas transmission business. In 2017, we also reclassified our investment in Norbord to an equity accounted investment. We benefited from comprehensive income of $1.7 billion and $727 million of foreign exchange gains in 2017, partially offset by distributions of $732 million.

The increase in intangible assets of $8.2 billion was due to acquisitions completed in 2017, specifically a Brazilian regulated gas transmission business in our Infrastructure segment and a Brazilian water treatment business in our Private Equity segment.

Corporate borrowings increased by $1.2 billion as the issuance of $1.3 billion of corporate notes and the impact of foreign exchange were partially offset by the repayment of $250 million and C$250 million of corporate notes during the year.

Non-recourse borrowings increased by $12.3 billion from 2016 to 2017, the majority of which relates to debt assumed on acquisitions and increased borrowings to finance these acquisitions.

Other liabilities increased by $6.5 billion primarily due to the impact of recent acquisitions, including deferred income tax liabilities recorded in business combinations where the tax bases of the net assets acquired were lower than their fair values.

Equity

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

Common Equity

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

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Common equity, beginning of year	**$ 24,052**	$ 22,499
Changes in period		
Changes in accounting policies	**(218)**	—
Net income to shareholders	**3,584**	1,462
Common dividends	**(575)**	(642)
Preferred dividends	**(151)**	(145)
Foreign currency translation	**(959)**	280
Other comprehensive income	**1,365**	569
Share repurchases, net of issuances and vesting	**(359)**	(103)
Ownership changes and other	**(1,092)**	132
	1,595	1,553
Common equity, end of year	**$ 25,647**	$ 24,052

Common equity increased by $1.6 billion to $25.6 billion during 2018. The change includes:

- a reduction in opening common equity of $218 million to reflect the adjustments required to transition to IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9 *Financial Instruments* ("IFRS 9");
- net income attributable to shareholders of $3.6 billion;
- foreign currency translation losses of $959 million as average foreign currency rates in the jurisdictions where we hold the majority of our non-U.S. dollar investments weakened relative to the U.S. dollar;
- other comprehensive income of $1.4 billion relating primarily to the revaluation surplus recorded on revaluing our property, plant and equipment at year end;
- share repurchases, net of issuances and vesting, of $359 million, which included $388 million paid to repurchase 9.6 million Class A common shares ("Class A shares"), of which $310 million was to fund long-term compensation plans; and
- ownership changes and other which are primarily related to the dilution loss to reflect our reduced ownership interest in BPY following the GGP privatization, partially offset by gains relating to the partial disposition of our graphite electrode manufacturing business through initial and secondary public offerings in the second and third quarters, respectively.

Non-controlling Interests

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

AS AT DEC. 31 (MILLIONS)	2018	2017
Brookfield Property Partners L.P.	**$ 31,580**	$ 19,736
Brookfield Renewable Partners L.P.	**12,457**	10,139
Brookfield Infrastructure Partners L.P.	**12,752**	11,376
Brookfield Business Partners L.P.	**4,477**	4,000
Other participating interests	**6,069**	6,377
	$ 67,335	$ 51,628

Non-controlling interests increased by $15.7 billion in 2018 to $67.3 billion, primarily due to:

- comprehensive income attributable to non-controlling interests which totaled $5.7 billion; this is inclusive of foreign currency translation losses as average foreign currency rates in the jurisdictions where we hold the majority of our non-U.S. dollar investments weakened relative to the U.S. dollar;
- ownership changes attributable to non-controlling interests of $10.2 billion; and
- net equity issuances to non-controlling interests totaling $6.7 billion; partially offset by
- $6.7 billion of distributions to non-controlling interests.

CONSOLIDATION AND FAIR VALUE ACCOUNTING

As a Canadian domiciled public corporation, we report under IFRS, while many of our alternative asset manager peers report under U.S. GAAP. There are many differences between U.S. GAAP and IFRS, but the two principal differences affecting our consolidated financial statements compared to those of our peers are consolidation and fair value accounting.

In particular, U.S. GAAP allows some of our alternative asset manager peers to report their investments at fair value on one line in their balance sheet on a net basis as opposed to consolidating the funds. This approach is not available under IFRS. This can create significant differences in the presentation of our financial statements as compared to our alternative asset manager peers.

Consolidation

Our consolidation conclusions under IFRS may differ from our peers who report under U.S. GAAP for two primary reasons:

- U.S. GAAP uses a voting interest model or a variable interest model to determine consolidation requirements, depending on the circumstances, whereas IFRS uses a control-based model. We generally have the contractual ability to unilaterally direct the relevant activities of our funds; and
- we generally invest significant amounts of capital alongside our investors and partners, which, in addition to our customary management fees and incentive fees, means that we earn meaningful returns as a principal investor in addition to our asset management returns compared to a manager who acts solely as an agent.

As a result, in many cases, we control entities in which we hold only a minority economic interest. For example, a Brookfield-sponsored private fund to which we have committed 30% of the capital may acquire 60% of the voting interest in an investee company. The contractual arrangements generally provide us with the irrevocable ability to direct the funds' activities. Based on these facts, we would control the investment because we exercise decision making power over a controlling interest of that business and our 18% economic interest provides us with exposure to the variable returns of a principal.

All entities that we control are consolidated for financial reporting purposes. As a result, we include 100% of these entities' revenues and expenses in our Consolidated Statements of Operations, even though a substantial portion of their net income is attributable to non-controlling interests. Furthermore, we include all of the assets and liabilities of these entities in our Consolidated Balance Sheets, and include the portion of equity held by others as non-controlling interests.

Intercompany revenues and expenses between Brookfield and its subsidiaries, such as asset management fees, are eliminated in our Consolidated Statements of Operations; however, these items affect the attribution of net income between shareholders and non-controlling interests. For example, asset management fees paid by our listed partnerships to the Corporation are eliminated from consolidated revenues and expenses. However, as the common shareholders are attributed all of the fee revenues while only attributed their proportionate share of the listed partnerships' expenses, the amount of net income attributable to common shareholders is increased with a corresponding decrease in net income attributable to non-controlling interests.

Fair Value Accounting

Under U.S. GAAP, many of our alternative asset manager peers account for their funds as investment companies and reflect their investments at fair value.

Under IFRS, as a parent company, we are required to look through our consolidated and equity accounted investments and account for their assets and liabilities under the applicable IFRS guidance. We reflect a large number of assets at fair value, namely our commercial properties, renewable power facilities and certain infrastructure assets which are typically recorded at amortized cost under U.S. GAAP. However, there are other assets that are not subject to fair value accounting under IFRS and are therefore carried at amortized cost, which would be more consistent with U.S. GAAP.

Under both IFRS and U.S. GAAP, the value of asset management activities is generally not reflected on the balance sheet despite being material components of the value of these businesses.

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

FOREIGN CURRENCY TRANSLATION

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

	Year-End Spot Rate			Change		Average Rate			Change	
AS AT DEC. 31	**2018**	2017	2016	2018 vs 2017	2017 vs 2016	**2018**	2017	2016	2018 vs 2017	2017 vs 2016
Australian dollar	**0.7050**	0.7809	0.7197	**(10)%**	9 %	**0.7475**	0.7669	0.7441	(3)%	3 %
Brazilian real[1]	**3.8745**	3.3080	3.2595	**(15)%**	(1)%	**3.6550**	3.1928	3.4904	(13)%	9 %
British pound	**1.2760**	1.3521	1.2357	**(6)%**	9 %	**1.3350**	1.2889	1.3554	4 %	(5)%
Canadian dollar	**0.7331**	0.7953	0.7439	**(8)%**	7 %	**0.7718**	0.7711	0.7555	— %	2 %

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

As at December 31, 2018, our IFRS net equity of $25.6 billion was invested in the following currencies: United States dollars – 56% (2017 – 48%); Brazilian reais – 13% (2017 – 17%); British pounds – 12% (2017 – 15%); Canadian dollars – 7% (2017 – 6%); Australian dollars – 6% (2017 – 9%); and other currencies – 6% (2017 – 5%). Currency exchange rates relative to the U.S. dollar at the end of 2018 were lower than December 31, 2017 for all of our significant non-U.S. dollar investments.

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	**2018**	2017	Change
Australian dollar	**$ (629)**	$ 406	$ (1,035)
Brazilian real	**(2,162)**	(506)	(1,656)
British pound	**(539)**	768	(1,307)
Canadian dollar	**(644)**	752	(1,396)
Other	**(714)**	662	(1,376)
Total cumulative translation adjustments	**(4,688)**	2,082	(6,770)
Currency hedges[1]	**1,365**	(1,643)	3,008
Total cumulative translation adjustments net of currency hedges	**$ (3,323)**	$ 439	$ (3,762)
Attributable to:			
Shareholders	**$ (959)**	$ 280	$ (1,239)
Non-controlling interests	**(2,364)**	159	(2,523)
	$ (3,323)	$ 439	$ (3,762)

1. Net of deferred income tax expense of $69 million.

Lower period end rates for our non-U.S. dollar investments, particularly the Brazilian real which decreased 15% from the beginning of the year, reduced our equity, net of currency hedges, by $3.3 billion. Gains on our hedges against the Australian, British and Canadian currencies, for which financial contracts and foreign currency debt are used to reduce exposures, partially offset the foreign currency translation losses. The overall result has been a net decrease in net equity.

For the year ended December 31, 2017, the year-over-year foreign exchange rates relative to the U.S. dollar for our significant currency exposures increased with the exception of the Brazilian real, leading to an increase in net equity of $439 million.

We typically do not hedge our equity in Brazil and other emerging markets due to the high costs associated with these contracts.

SUMMARY OF QUARTERLY RESULTS

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

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

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

Revenues and direct costs in our private equity operations vary from quarter to quarter primarily due to acquisitions and dispositions of businesses, fluctuations in foreign exchange rates, business and economic cycles and weather and seasonality in underlying operations. Broader economic factors and commodity market volatility may have a significant impact on a number of our businesses, in particular within our industrial operations. For example, seasonality affects our contract drilling and well-servicing operations as the ability to move heavy equipment safely and efficiently in western Canadian oil and gas fields is dependent on weather conditions. Within our infrastructure services, the core operating plants business of our service provider to the power generation industry generates the majority of its revenue during the fall and spring, when power plants go offline to perform maintenance and replenish their fuel. Some of our business services operations will typically have stronger performance in the latter half of the year whereas others, such as our fuel marketing and road fuel distribution businesses, will generate stronger performance in the second and third quarters. Net income is impacted by periodic gains and losses on acquisitions, monetization and impairments.

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

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

	2018				2017			
FOR THE PERIODS ENDED (MILLIONS, EXCEPT PER SHARE AMOUNTS)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues[1]	**$ 16,006**	$ 14,858	$ 13,276	$ 12,631	$ 13,065	$ 12,276	$ 9,444	$ 6,001
Net income	**3,028**	941	1,664	1,855	2,083	992	958	518
Net income (loss) to shareholders	**1,884**	163	680	857	1,046	228	225	(37)
Per share								
– diluted	**$ 1.87**	$ 0.11	$ 0.62	$ 0.84	$ 1.02	$ 0.20	$ 0.19	$ (0.08)
– basic	**1.91**	0.11	0.64	0.85	1.05	0.20	0.20	(0.08)

1. 2017 revenues have not been restated as we adopted IFRS 15 using the modified retrospective method as at January 1, 2018.

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

	2018				2017			
FOR THE PERIODS ENDED (MILLIONS)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Fair value changes	**$ 257**	$ 132	$ 833	$ 572	$ 280	$ 132	$ 213	$ (204)
Income taxes	**884**	(144)	(339)	(153)	(110)	(259)	(119)	(125)
Net impact	**$ 1,141**	$ (12)	$ 494	$ 419	$ 170	$ (127)	$ 94	$ (329)

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

- The increase in revenues in the fourth quarter of 2018 is due primarily to recent acquisitions, including a full quarter of revenues from GGP following the privatization, as well as the impact of same-store growth across the business. Consolidated net income is higher than prior period due to gains on sales of businesses, fair value valuation gains on investment properties and a deferred tax recovery in our Corporate segment. These increases were partially offset by higher interest expense from new borrowings to fund acquisitions and debts assumed from acquired businesses.
- Revenues increased in the third quarter primarily due to recent acquisitions across all segments, including the privatization of GGP, and same-store growth, in particular improved pricing at our graphite electrode manufacturing business. Higher interest and depreciation expenses associated with recent acquisitions, and the recognition of a deferred tax expense associated with the GGP privatization, more than offset the increase in revenues.
- The increase in revenues in the second quarter of 2018 is primarily attributable to recent acquisitions, additional home closings in our North American residential business and improved pricing at our graphite electrodes manufacturing business. Increases in direct costs offset these changes in revenue. While net income also benefited from strong performance at Norbord and valuation and transaction-related gains in our Real Estate segment, results were more than offset by higher income tax expenses and the absence of a one-time gain recognized on the sale of a business in the first quarter.
- In the first quarter of 2018, revenues decreased due to the seasonality of our residential homebuilding and construction services businesses, partially offset by a full quarter of revenues contributed by recent acquisitions in our Renewable Power segment. Net income benefited from investment property valuation gains and other fair value gains recognized in the current quarter.
- The increase in revenues in the fourth quarter of 2017 is attributable to same-store growth in existing operations across our business and acquisitions throughout the year. Net income benefited from gains from the sale of the European logistics company and from a change in basis of accounting for Norbord.
- Revenues in the third quarter of 2017 increased as a result of incremental contributions from acquisitions made partway through the second quarter of 2017, as described below, that have now contributed to a full quarter. Current quarter acquisitions also added to the increase, namely the acquisition of a fuel marketing business in our Private Equity segment. Results were partially offset by higher income tax expenses in the quarter.
- The overall increase in results in the second quarter of 2017 is predominantly attributable to acquisitions completed in the quarter, including the regulated gas transmission operation and the leading water treatment business, both in Brazil and the U.K. road fuel distribution business.
- In the first quarter of 2017, we recorded fair value losses, predominantly driven by mark-to-market losses on the GGP warrants, as well as decreases in valuations in our core office portfolio. Revenue declined from the prior quarter due to seasonality in the residential business.

CORPORATE DIVIDENDS

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

	Distribution per Security		
	2018	2017	2016
Class A and B[1] Limited Voting Shares ("Class A and B shares")	**$ 0.60**	$ 0.56	$ 0.52
Special distribution to Class A and B shares[2,3]	**—**	0.11	0.45
Class A Preferred Shares			
Series 2	**0.48**	0.39	0.36
Series 4	**0.48**	0.39	0.36
Series 8	**0.68**	0.55	0.48
Series 9	**0.53**	0.53	0.75
Series 13	**0.48**	0.39	0.36
Series 14[4]	**—**	—	0.11
Series 15	**0.40**	0.28	0.23
Series 17	**0.92**	0.92	0.90
Series 18	**0.92**	0.92	0.90
Series 24[5]	**0.58**	0.58	0.80
Series 25[5]	**0.68**	0.56	0.27
Series 26[6]	**0.67**	0.72	0.85
Series 28[7]	**0.53**	0.70	0.87
Series 30[8]	**0.90**	0.93	0.90
Series 32[9]	**0.89**	0.87	0.85
Series 34	**0.81**	0.81	0.80
Series 36	**0.94**	0.94	0.92
Series 37	**0.95**	0.95	0.92
Series 38	**0.85**	0.85	0.83
Series 40	**0.87**	0.87	0.85
Series 42	**0.87**	0.87	0.85
Series 44	**0.96**	0.97	0.94
Series 46[10]	**0.93**	1.03	—
Series 48[11]	**0.92**	0.28	—

1. Class B Limited Voting Shares ("Class B shares").
2. Distribution of one common share of Trisura Group Ltd. for every 170 Class A Shares and Class B Shares held as of the close of business of June 1, 2017.
3. Distribution of a 20.7% interest in Brookfield Business Partners on June 20, 2016, based on IFRS values.
4. Redeemed March 1, 2016.
5. 1,533,133 shares were converted from Series 24 to Series 25 on July 1, 2016.
6. Dividend rate reset commenced March 31, 2017.
7. Dividend rate reset commenced June 30, 2017.
8. Dividend rate reset commenced December 31, 2017.
9. Dividend rate reset commenced September 30, 2018.
10. Issued November 18, 2016.
11. Issued September 13, 2017.

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

PART 3 – OPERATING SEGMENT RESULTS

BASIS OF PRESENTATION

How We Measure and Report Our Operating Segments

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

Our operating segments are global in scope and 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.

In assessing results, we separately identify the portion of FFO and common equity within our segments that relate to our primary listed partnerships: BPY, BEP, BIP and BBU. We believe that identifying the FFO and common equity attributable to our listed partnerships enables investors to understand how the results of these public entities are integrated into our financial results and is helpful in analyzing variances in FFO between reporting periods. Additional information with respect to these listed partnerships is available in their public filings. We also separately identify the components of our asset management FFO and realized disposition gains[1] included within the FFO of each segment in order to facilitate analysis of variances in FFO between reporting periods.

1. See definition in Glossary of Terms beginning on page 108.

SUMMARY OF RESULTS BY OPERATING SEGMENT

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

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Revenues[1]			FFO[2]			Common Equity		
	2018	2017	Change	**2018**	2017	Change	**2018**	2017	Change
Asset Management	**$ 1,947**	$ 1,467	$ 480	**$ 1,317**	$ 970	$ 347	**$ 328**	$ 312	$ 16
Real Estate	**8,116**	6,862	1,254	**1,786**	2,004	(218)	**17,423**	16,725	698
Renewable Power	**3,762**	2,788	974	**328**	270	58	**5,302**	4,944	358
Infrastructure	**5,018**	3,871	1,147	**602**	345	257	**2,887**	2,834	53
Private Equity	**37,270**	24,577	12,693	**795**	333	462	**4,279**	4,215	64
Residential Development	**2,683**	2,447	236	**49**	34	15	**2,606**	2,915	(309)
Corporate Activities	**188**	362	(174)	**(476)**	(146)	(330)	**(7,178)**	(7,893)	715
Total	**$58,984**	$42,374	$16,610	**$ 4,401**	$ 3,810	$ 591	**$25,647**	$24,052	$ 1,595

1. Revenues include inter-segment revenues which are adjusted to arrive at external revenues for IFRS purposes. Please refer to Note 3(c) of the consolidated financial statements.
2. Total FFO is a non-IFRS measure – see definition in Glossary of Terms beginning on page 108.

Total revenues and FFO were $59.0 billion and $4.4 billion in 2018 compared to $42.4 billion and $3.8 billion in the prior year, respectively. FFO includes realized disposition gains of $1.5 billion in 2018 compared to $1.3 billion in the prior year.

Revenues increased by $16.6 billion to $59.0 billion in the year, primarily as a result of:

- recent acquisitions across all business groups, in particular a road fuel distribution business and a service provider to the power generation industry in our Private Equity segment; the step-up acquisition of GGP in our Real Estate segment; a Colombian gas commercialization and distribution business and one of North America's leading providers of essential residential energy infrastructure in our Infrastructure segment; and portfolios of wind and solar assets in our Renewable Power segment; and
- same-store growth, including the impact of improved pricing in our graphite electrode manufacturing business and same-property leasing growth in our core office properties; partially offset by
- the absence of revenues from Norbord which was consolidated up until the fourth quarter of 2017 at which time we sold a partial interest and therefore no longer hold a controlling interest in the business.

FFO excluding disposition gains increased by $391 million from the prior year primarily due to:

- continued expansion of our asset management activities, with significant increases in fee bearing capital resulting in higher management fees;
- strong market performance by BBU resulting in higher performance fees earned; and
- contributions from recent acquisitions and same-store growth as described above; partially offset by
- the impact of foreign exchange.

We recorded realized disposition gains in 2018 across all our operating segments. In our real estate business, we monetized mature core office properties, sold core retail assets prior to the privatization of GGP and began to sell holdings in our first flagship opportunistic fund resulting in gains of $939 million. In our Private Equity segment, we realized gains on the partial sell-down of our graphite electrode manufacturing business through an IPO, secondary offering and share buyback. The sale of our Chilean electricity transmission business resulted in gains of $244 million for our Infrastructure segment while in our Renewable Power segment, gains of $38 million included the sale of a partial interest in certain of our Canadian hydroelectric assets.

Common equity increased by $1.6 billion to $25.6 billion due to contributions from earnings across our businesses and increases in the fair value of our operating assets, particularly in our renewable power business, partially offset by the impact of unfavorable foreign exchange rates and ownership changes on the privatization of GGP.

Further details on segment revenues, FFO and common equity are discussed in the following sections.

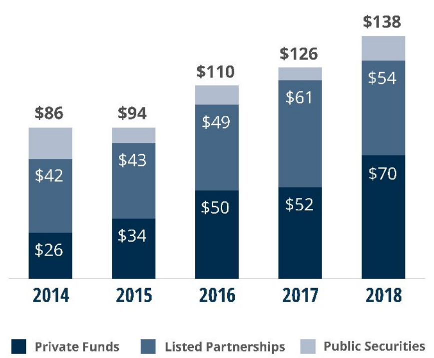
Asset Management

Business Overview

- We manage $138 billion of fee bearing capital, including $70 billion in private funds, $54 billion in listed partnerships and $13 billion within our public securities group. We earn recurring long-term fee revenues from this fee bearing capital, in the form of:
  - Long-term, diversified base management fee revenues from third party capital in our closed-end and long-life funds and perpetual fee revenues based on the total capitalization of our listed partnerships;
  - Incentive distributions from BIP, BEP and BPY, all of which have exceeded pre-determined thresholds; and
  - Performance fees, linked to the unit price performance of BBU and other transaction and advisory fees.
- Included within our private fund fee bearing capital is $58 billion of carry eligible capital. We earn carried interest from this capital when fund performance achieves its preferred return, allowing us to receive a portion of fund profits returned to investors. We recognize this carried interest once it is no longer subject to claw-back.

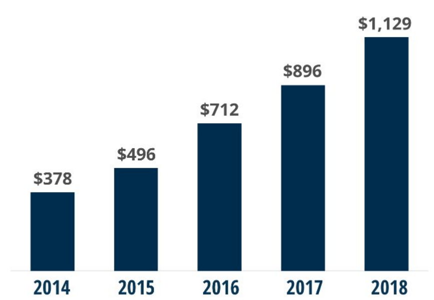
Fee Bearing Capital[1]

AS AT DEC. 31 (BILLIONS)



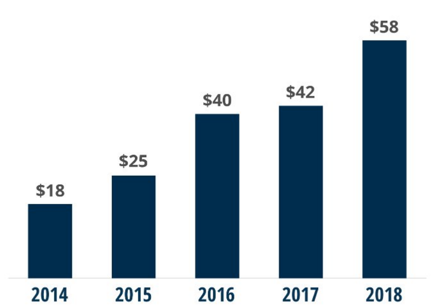
Fee Related Earnings[1]

FOR THE YEARS ENDED DEC. 31 (MILLIONS)



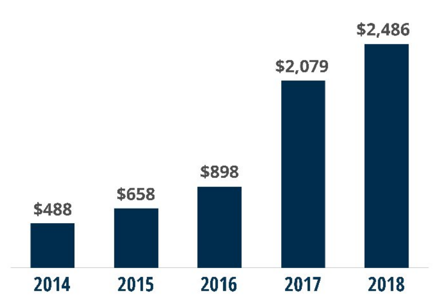
Carry Eligible Capital[1]

AS AT DEC. 31 (BILLIONS)



Accumulated Unrealized Carried Interest[1]

AS AT DEC. 31 (MILLIONS)



1. See definition in Glossary of Terms beginning on page 108.

Five-Year Review

Asset Management FFO has increased over the past five years primarily as a result of steady growth in fee bearing capital from increased market capitalization of our listed partnerships and growing private fund capital. This has contributed to higher base fees and a corresponding increase in Asset Management FFO. In particular, our private fund fee bearing capital significantly increased in 2016 and 2018 as we closed record levels of private fund capital. Higher FFO and distribution levels at our listed partnerships further contributed to increases in fee related revenues year over year.

Our accumulated unrealized carried interest has increased each of the past five-years due to the private fund fee bearing capital growth discussed above and as a result of the investment performance in many of our funds, which have recently entered the carry generation phase of their fund lives. We participate in the favorable investment performance of our private funds in the form of carried interest, and will recognize a growing amount of realized carried interest into FFO and net income as our earlier vintage funds begin to monetize investments and return significant capital to investors.

Outlook and Growth Initiatives

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

We currently have eight funds in the market. Funds in the market include our fifth flagship private equity fund, our fourth flagship infrastructure fund and a European infrastructure debt fund, along with five long-life funds focused on real estate and infrastructure assets across multiple geographies. We continue to develop additional products in response to investor demand. In March 2019, we announced the agreement to acquire a 62% ownership in Oaktree Capital Management (“Oaktree”), a leading global alternative investment management firm with expertise in credit strategies. The successful completion of this acquisition will allow our shareholders access to increasingly diversified fee streams and will expand the product offerings available to our private fund investors.

Separate from the acquisition of Oaktree, we continue to expand our investor base bringing our total private fund investors to more than 600 following the successful final close of our third flagship real estate fund. This fund was our largest to date at $15 billion and included $2 billion from high net worth investors. We continue to advance our fundraising efforts in the high net worth space and raised $3 billion through multiple channels in 2018 and the start of 2019.

Operations

Private Funds ($70 billion of fee bearing capital)

- We manage our fee bearing capital through 42 active private funds across our major asset classes: real estate, infrastructure/renewable power and private equity. These funds include core, credit, value-add and opportunistic closed-end funds and core, core plus and credit long-life funds. These are primarily invested in the equity of private companies, although in certain cases, are invested in publicly traded equities. Our credit strategies invest in debt of companies in our areas of focus.
- We refer to our largest private fund series as our flagship funds. We have flagship funds within each of our major asset classes: Real Estate (BSREP series), Infrastructure (BIF series, which includes infrastructure and renewable power investments) and Private Equity (BCP series).
- Closed-end private fund capital is typically committed for 10 years from the inception of the fund with two one-year extension options.
- Long-life private funds are perpetual vehicles that are able to continually raise capital as new investments arise.
- We are compensated for managing these private funds through base management fees, which are generally determined on committed capital during the investment period and invested capital thereafter. We are entitled to receive carried interest on these funds, which represents a portion of fund profits above a preferred return to investors.

Listed Partnerships ($54 billion of fee bearing capital)

- We manage fee bearing capital through publicly listed perpetual capital entities, including BPY, BEP, BIP, BBU, TERP and Acadian.
- We are compensated for managing these entities through (i) base management fees, which are primarily determined by the market capitalization of these entities; and (ii) incentive distributions or performance fees.

- Incentive distributions for BPY, BEP, BIP, TERP and Acadian are a portion of the increases in distributions above predetermined hurdles. Performance fees for BBU are based on increases in the unit price of BBU above an escalating threshold.

Public Securities ($13 billion of fee bearing capital)

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

Fee Bearing Capital

The following table summarizes fee bearing capital:

AS AT DEC. 31 (MILLIONS)	Private Funds	Listed Partnerships	Public Securities	**Total 2018**	Total 2017
Real estate	$ 33,737	$ 19,916	$ —	**$ 53,653**	$ 41,636
Renewable power	7,595	13,824	—	**21,419**	23,930
Infrastructure	17,766	15,946	—	**33,712**	38,751
Private equity	10,714	4,653	—	**15,367**	8,618
Diversified	—	—	13,377	**13,377**	12,655
December 31, 2018	**$ 69,812**	**$ 54,339**	**$ 13,377**	**$ 137,528**	n/a
December 31, 2017	$ 52,375	$ 60,560	$ 12,655	n/a	$ 125,590

Fee bearing capital increased by $11.9 billion during the year. The principal changes are set out in the following table:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Private Funds	Listed Partnerships	Public Securities	**Total**
Balance, December 31, 2017	$ 52,375	$ 60,560	$ 12,655	**$ 125,590**
Inflows	21,832	8,660	4,458	**34,950**
Outflows	—	—	(6,045)	**(6,045)**
Distributions	(4,035)	(4,422)	—	**(8,457)**
Market valuation	247	(9,970)	(1,716)	**(11,439)**
Other	(607)	(489)	4,025	**2,929**
Change	17,437	(6,221)	722	**11,938**
Balance, December 31, 2018	**$ 69,812**	**$ 54,339**	**$ 13,377**	**$ 137,528**

Private fund capital increased by $17.4 billion, primarily due to:

- $21.8 billion of inflows, including $8.2 billion of commitments to our third flagship real estate fund, $4.2 billion to our fifth flagship private equity funds, $2.1 billion to our long-life strategies and $1.2 billion to our other credit and multifamily strategies, as well as $6.1 billion to co-investments; partially offset by
- $4.0 billion of distributions and capital returned during the year.

Listed partnership capital decreased by $6.2 billion, due to:

- $8.7 billion of inflows, including $5.7 billion related to the BPY and BPR capital issued as a result of the GGP privatization (BAM is entitled to earn incentive distributions on the units issued as part of the transaction effective on the closing date but has agreed to a one-year management fee holiday on this capital). Additional inflows included $3.0 billion of debt and/or preferred equity issued at BIP, BEP and BPY; more than offset by
- $4.4 billion of distributions to unitholders; and
- lower unit prices across each of the listed partnerships, which were impacted by market volatility late in 2018 (unit prices improved in early 2019 as markets recovered from the declines seen in December).

Public securities capital increased by $722 million, due to:

- $4.5 billion of inflows, including $1.0 billion in new managed accounts and subscriptions into our energy and real estate mutual funds, as well as additional inflows from retail and institutional investors; and
- $4.0 billion due to the acquisition of an energy and infrastructure investment advisor; partially offset by
- $6.0 billion of redemptions, including investor reallocations out of infrastructure funds due in part to recent volatility within the infrastructure market; and
- $1.7 billion decrease in market value of investments across our public securities funds due to market volatility noted above.

Carry Eligible Capital

Carry eligible capital increased during the year to $58.3 billion as at December 31, 2018 (December 31, 2017 – $42.4 billion). This includes an increase of $19.0 billion from commitments to new carry eligible funds, partially offset by capital that was returned to investors following asset dispositions.

As at December 31, 2018, $36.4 billion of carry eligible capital has already been deployed (December 31, 2017 – $24.2 billion). This capital is either currently earning carried interest or will begin earning carried interest once its related funds have reached their preferred return threshold. There is currently an additional $21.9 billion of uncalled fund commitments that will begin to earn carried interest once the capital is deployed and fund preferred returns are met (December 31, 2017 – $18.2 billion).

Operating Results

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

To facilitate analysis, the following table disaggregates our Asset Management segment revenues and FFO into fee related earnings, realized carried interest, net, as these are the measures that we use to analyze the performance of the Asset Management segment. We also analyze unrealized carried interest, net[1], to provide insight into the value our investments have created in the period.

We have provided additional detail, where referenced, to explain significant variances from the prior period.

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref	Revenues		FFO	
		2018	2017	**2018**	2017
Fee related earnings	i	**$ 1,693**	$ 1,368	**$ 1,129**	$ 896
Realized carried interest	ii	**254**	99	**188**	74
Asset Management FFO		**$ 1,947**	$ 1,467	**$ 1,317**	$ 970
Unrealized carried interest					
Generated				**$ 802**	$ 1,279
Foreign exchange				**(141)**	1
				661	1,280
Less: direct costs				**(171)**	(352)
Unrealized carried interest, net	iii			**$ 490**	$ 928

1. See definition in Glossary of Terms beginning on page 108.

i. Fee Related Earnings

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Fee revenues		
Base management fees	**$ 1,195**	$ 1,048
Incentive distributions	**206**	151
Performance fees	**278**	142
Transaction and advisory fees	**14**	27
	1,693	1,368
Direct costs and other	**(564)**	(472)
Fee related earnings	**$ 1,129**	$ 896

Fee related earnings increased by $233 million from the prior year as a result of commitments to new private funds, increased performance fees and higher incentive distributions. The increases were partially offset by the absence of one-time advisory fees earned in the prior year relating to co-investments.

- Base management fees of $1.2 billion in the year include fees earned from our private funds, listed partnerships and public securities businesses. The increase of $147 million is due to:
  - $133 million increase in private funds fees due to capital raised during late 2017 and 2018; and
  - $32 million of public securities fee revenues from an energy and infrastructure investment advisor acquired in the first quarter of 2018; partially offset by
  - $18 million decline in listed partnership fees due to lower unit prices across the listed partnerships.
- Incentive distributions from BIP, BEP and BPY increased by $55 million to $206 million, a 36% increase from 2017. The growth represents our share as manager of increases in per unit distributions by BIP, BEP and BPY of 8%, 5% and 7%, respectively, as well as the impact of equity issued by BIP and BEP.
- Performance fees of $278 million represent fees earned from BBU and are calculated on an escalating threshold as 20% of the quarterly average unit price over the previous threshold. The current threshold is $41.96.
- Direct costs and other consist primarily of employee expenses and professional fees, as well as business related technology costs and other shared services. Direct costs increased by $92 million year over year as we continue to build out our organization to manage the aforementioned growth in fee bearing capital.

The margin on our fee related earnings, excluding the impact of BBU performance fee, and transaction and advisory fees, was 60% in the current year compared to 61% in the prior year.

ii. Realized Carried Interest

We realize carried interest when a fund's cumulative returns are in excess of preferred returns and are no longer subject to future investment performance (e.g. subject to "clawback"). During the year, we realized $188 million of carried interest, net of direct costs (2017 – $74 million). Our first flagship real estate fund exceeded its preferred return after distributing the earnings from the sale of our U.S. logistics business during the fourth quarter. Our fourth private equity fund exceeded its preferred return after distributing proceeds from the partial sell down of our position in our graphite electrode manufacturing business and the sale of our Australian energy business during the year. We also earned carried interest in the year from dispositions within our real estate credit and multifamily funds.

We provide supplemental information and analysis below on the estimated amount of unrealized carried interest (see section iii) that has accumulated based on fund performance up to the date of the financial statements.

iii. Unrealized Carried Interest

The amounts of accumulated unrealized carried interest and associated costs are not included in our Consolidated Balance Sheets or Consolidated Statements of Operations as they are still subject to clawback. These amounts are shown in the following table:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018 Unrealized Carried Interest	2018 Direct Costs	2018 Net	2017 Unrealized Carried Interest	2017 Direct Costs	2017 Net
Accumulated unrealized, beginning of year	**$ 2,079**	**$ (649)**	**$ 1,430**	$ 898	$ (322)	$ 576
In-period change						
Unrealized in period	**802**	**(202)**	**600**	1,279	(348)	931
Foreign currency revaluation	**(141)**	**31**	**(110)**	1	(4)	(3)
	661	**(171)**	**490**	1,280	(352)	928
Less: realized	**(254)**	**66**	**(188)**	(99)	25	(74)
	407	**(105)**	**302**	1,181	(327)	854
Accumulated unrealized, end of year	**$ 2,486**	**$ (754)**	**$ 1,732**	$ 2,079	$ (649)	$ 1,430

Favorable investment performance in our private funds generated $802 million of unrealized carried interest during the year. This was partially offset by $141 million of foreign exchange losses which was largely due to the depreciation of South American currencies relating to assets within our real estate and infrastructure funds.

Accumulated unrealized carried interest totaled $2.5 billion at December 31, 2018. We estimate that approximately $754 million of associated costs will arise on the realization of the amounts accumulated to date, predominantly associated with employee long-term incentive plans and taxes. We expect to recognize $1.6 billion of this carry, before costs, within the next three years. Recognition of this carried interest is dependent on future investment performance.

Real Estate

Business Overview

- We own and operate real estate assets primarily through a 54% (51% fully diluted) economic ownership interest in BPY and a 27.5% interest in a portfolio of operating and development assets in New York.
- BPY is listed on the Nasdaq and Toronto Stock Exchange and had a market capitalization of $17.1 billion as at December 31, 2018.
- BPY owns real estate assets directly as well as through private funds that we manage.

Operations

Core Office

- We own interests in and operate Class A office assets in gateway markets around the globe, consisting of 142 premier properties totaling 96 million square feet of office space.
- The properties are located primarily in the world's leading commercial markets such as New York, London, Los Angeles, Washington, D.C., Sydney, Toronto and Berlin.
- We also develop properties on a selective basis; active development projects consist of seven office and eight multifamily sites, totaling 10 million square feet.

Core Retail

- We own interests in and operate 124 best-in-class malls and urban retail properties in the United States, totaling 121 million square feet.
- Our portfolio consists of 100 of the top 500 malls in the United States.
- Our retail mall portfolio has a development and redevelopment pipeline that exceeds $1 billion of development costs on a proportionate basis.

LP Investments

- We own and operate global portfolios of real estate investments through our opportunistic real estate funds, which are targeted to achieve higher returns than our core office and core retail portfolios.
- We invest in mispriced portfolios and/or properties with significant value-add opportunities.
- Our LP Investments portfolios consist of high-quality assets with operational upside across the multifamily, triple net lease, hospitality, office, retail, mixed-use, self-storage, manufactured housing and student housing sectors.

Outlook and Growth Initiatives

SAME-STORE GROWTH	DEVELOPMENT	CAPITAL ALLOCATION
Rent to market/occupancy	Active development	Capital recycling

Our real estate group remains focused on increasing the value of our properties through proactive leasing and select redevelopment initiatives, as well as recycling capital from mature properties, primarily core office assets, to fund new higher yielding investments, particularly in our LP Investments real estate business. Our $6.6 billion capital backlog gives us the opportunity to deploy additional capital throughout our portfolio for planned capital expansion that should continue to increase earnings for the next several years as these projects are completed. Our development track record reflects on-time and on-budget completions. This includes development projects in progress across our premier office buildings, retail malls and mixed-use complexes located primarily in North America and Europe.

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

In our LP Investments operations, we will continue to acquire high-quality properties through our global opportunistic private funds as these generally produce higher returns relative to core strategies. These funds have a wide scope in terms of real estate asset classes and geographic reach. We target an average gross 20% total return in our portfolio and a 2.0x multiple of capital on the equity that we invest into these vehicles. These investments have a defined hold period and typically generate the majority of profits from gains recognized from realization events, including the sale of an asset or portfolio of assets, or exit of the entire investment. Funding for these transactions will continue to include proceeds from asset sales as part of our capital recycling program.

Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Real Estate segment, and summarizes realized disposition gains. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref	Revenues 2018	Revenues 2017	FFO 2018	FFO 2017	Common Equity 2018	Common Equity 2017
Brookfield Property Partners							
Equity units[1]	i	**$ 7,164**	$ 6,012	**$ 736**	$ 668	**$ 15,160**	$ 15,388
Preferred shares		**64**	76	**64**	76	**435**	1,265
		7,228	6,088	**800**	744	**15,595**	16,653
Other real estate investments		**888**	774	**47**	36	**1,828**	72
Realized disposition gains	ii	**—**	—	**939**	1,224	**—**	—
		$ 8,116	$ 6,862	**$ 1,786**	$ 2,004	**$ 17,423**	$ 16,725

1. Brookfield's equity units in BPY consist of 432.6 million redemption-exchange units, 81.7 million Class A limited partnership units, 4.8 million special limited partnership units, 0.1 million general partnership units, and 3.0 million BPR Class A shares, together representing an effective economic interest[2] of 54% of BPY.
2. See "Economic ownership interest" in the Glossary of Terms beginning on page 108.

The following transactions had a significant impact on BPY's results:

- On August 28, 2018, BPY completed the privatization of GGP, previously a 34%-owned equity accounted investment, and began consolidating its results.
  - A new publicly traded entity, BPR, was formed and issued 161 million BPR Class A shares to former GGP shareholders as consideration. As BPR shareholders are entitled to an economic return equivalent to that of BPY unitholders, BPR Class A shares are treated as a separate class of BPY equity.
  - Consideration paid to GGP's shareholders also included 88 million newly issued BPY LP units. In addition, BAM acquired 21 million BPY LP units on conversion of its $500 million Class C preferred shares. As a result of these transactions, BAM's effective ownership of BPY was reduced from 69% to 53%.
  - BPR's results are included in BPY's core retail operations. For the first eight months of the year, BPY picked-up its 34% share of GGP's results and we reported our 69% share of BPY's FFO. Beginning in September, BPR is incorporated into BPY's consolidated results. After accounting for the impact of BAM's purchases of BPY shares in the fourth quarter, we now own 54% of the combined entity.
- During the second half of the year, BPY sold 27.5% of its interest in a portfolio of operating and development assets in New York to BAM for net cash proceeds of $1.4 billion. We expect to syndicate out our interest to third-party investors in the near term. Our share of this portfolio of assets' FFO and common equity are included in "other real estate investments."

Revenues and FFO, prior to disposition gains, from our real estate operations increased by $1.3 billion and $67 million, respectively. These changes are primarily attributable to:

- the aforementioned privatization of GGP, previously an equity-accounted investment. BPR's results are included in BPY's consolidated results beginning August 28th; and
- same-property growth throughout our portfolio; partially offset by
- the absence of revenues and FFO from assets sold in the year; and
- incremental one-time contributions in the prior year from settlement gains related to historic legal disputes and ancillary revenue from condominium sales.

Refer below for a detailed analysis of disposition gains.

i. Brookfield Property Partners

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Core office	**$ 608**	$ 592
Core retail	**651**	515
LP Investments[1]	**330**	335
Corporate[1]	**(410)**	(425)
Attributable to unitholders	**1,179**	1,017
Non-controlling interests	**(444)**	(322)
Segment reallocation and other[2]	**1**	(27)
Brookfield's interest	**$ 736**	$ 668

1. BPY realigned its segments during the year. Comparative figures have been restated to conform with the new segment presentation.
2. Reflects fee related earnings and net carried interest reclassified to the Asset Management segment as well as current taxes related to disposition gains.

BPY's FFO for 2018 was $1.2 billion, of which our share was $736 million, compared to $668 million in the prior year.

Core Office

FFO increased by $16 million to $608 million. Included in prior year results are one-time gains on legal settlement claims for a total of $60 million, while in the current year, FFO benefited from an increase in lease termination income and fees earned from third parties.

Excluding these results, FFO increased by $69 million, primarily due to same-property growth as a result of strong leasing activity, primarily in New York, Toronto and Sydney, resulting in an increase in occupancy rates from 91.2% in the prior year to 92.7%. These gains were partially offset by the absence of FFO from assets sold in the year as we continue to recycle capital out of core, stable assets into higher-yielding opportunistic investments.

Core Retail

FFO increased by $136 million from the prior year to $651 million. The prior year results included one-time gains from condominium sales related to ancillary developments and lease termination income. Excluding these gains, FFO increased by $162 million as a result of:

- the incremental contributions from BPR on a consolidated basis beginning August 28th, after the aforementioned privatization of GGP; partially offset by
- the absence of FFO from properties sold, which were greater than the incremental contributions from businesses acquired in the year.

LP Investments

BPY's share of the FFO from its LP investments was largely in line with prior year as:

- the absence of FFO from assets sold, namely the sale of our European logistics portfolio in the fourth quarter of 2017 and a portfolio of self-storage properties in the third quarter of 2018; was partially offset by
- income earned on the sales of merchant build assets in our multifamily portfolio; and
- same-property growth at existing portfolio assets.

Recent acquisitions and dispositions have been further discussed on pages 33 and 34.

Corporate

BPY's corporate expenses include interest expense, management fees and other costs. Corporate expenses of $410 million decreased from the prior year due to lower management fees as a result of a lower average capitalization value during the year, partially offset by higher interest expense.

ii. Realized Disposition Gains

Realized disposition gains of $939 million relate to sales of properties across our portfolios. Most significantly, we sold:

- interests in certain core retail properties to joint-venture partners for realized gains of $246 million prior to the privatization of GGP in the third quarter;
- full or partial interests of a number of core office properties throughout Canada, U.S. and Australia, for a total of $410 million, including the sale of 50% of a building in downtown Toronto for $161 million and our interest in an office property in Denver for a $73 million net gain; and
- numerous LP investments, including our interest in a U.S. logistics portfolio for realized gains of $135 million and a portfolio of self-storage assets for gains of $36 million.

Prior year disposition gains of $1.2 billion relate primarily to the sale an office building in midtown Manhattan, our European logistics portfolio and the partial sale of an office building in London.

Common Equity

Common equity in our Real Estate segment increased to $17.4 billion as at December 31, 2018 from $16.7 billion as at December 31, 2017. Positive contributions from FFO and valuation gains on investment properties were partially offset by distributions paid during the year. In addition, the above-noted significant transactions impacted our common equity. Specifically:

- the acquisition of our 27.5% interest in a portfolio of operating and development assets in New York added $1.4 billion to the period end common equity in the directly held investments; partially offset by
- attribution of a portion of our common equity to non-controlling interests resulting from a dilution loss on the change in our effective ownership of BPY to 54%.

Renewable Power

Business Overview

- We own and operate renewable power assets primarily through a 61% ownership interest in BEP, which is listed on the New York and Toronto Stock Exchanges and had a market capitalization of $8.1 billion at December 31, 2018.
- BEP owns one of the world's largest publicly traded renewable power portfolios.

Operations

Hydroelectric

- We own, operate and invest in 218 hydroelectric generating stations on 82 river systems in North America, Brazil and Colombia. Our hydroelectric operations have 7,906 megawatts ("MW") of installed capacity and long-term average ("LTA")[1] generation of 20,033 gigawatt hours ("GWh") on a proportionate basis.

Wind

- Our wind operations include 106 wind facilities globally with 4,448 MW of installed capacity and LTA generation of 5,372 GWh on a proportionate basis.

Solar

- Our solar operations include 545 solar facilities globally with 1,787 MW of installed capacity and 974 GWh of LTA generation on a proportionate basis.

Storage

- Our storage operations have 2,698 MW of installed capacity at four pumped storage facilities in North America and Europe.

Energy Contracts

- We purchase a portion of BEP's power generated in North America (predominantly in New York) pursuant to a long-term contract at predetermined prices, thereby increasing the stability of BEP's revenue profile.
- We sell the power into the open market and also earn ancillary revenues, such as capacity fees and renewable power credits and premiums. This provides us with increased participation in future increases or decreases in power prices.
- We substantially transferred our North American energy marketing function (formerly Brookfield Energy Marketing Inc., or BEMI) to BEP on October 31, 2018 along with our long-term power contract in Ontario. BEP will assume all the benefits of the contract, some of which previously accrued to us. This transfer was paid for by a reduction of the price paid to BEP on the New York contract which we continue to hold. Under the New York contract, we are required to purchase power that BEP generates at certain of its New York assets at a fixed price. Based on LTA, we will purchase approximately 3,600 GWh of power each year. The fixed price that we are required to pay BEP will gradually step down over time resulting in an approximate $20/MWh reduction by 2026 until the contract expiry in 2046. Refer to Part 5 of this MD&A for additional information.

1. See definition in Glossary of Terms beginning on page 108.

Outlook and Growth Initiatives

SAME-STORE GROWTH	DEVELOPMENT	CAPITAL ALLOCATION
Inflation/margin expansion	Development pipeline	Acquisitions

Revenues in our Renewable Power segment are 87% contracted over an average contract term of 14 years, on a proportionate basis, with pricing that is inflation linked. Combining this with a stable cost profile, we are able to achieve consistent growth year over year within our existing business. In addition, we consistently identify capital development projects that enable us to put capital to work to provide an additional source of same-store growth. Our development pipeline represents over 8,000 MW of potential capacity globally, of which 151 MW are currently under construction or in late stage of development that we expect to contribute an incremental $15 million to BEP's FFO when commissioned. We also have a strong track record of adding to our renewable power business through acquisitions and will continue to seek out these opportunities.

We believe that the growing global demand for low-carbon energy will lead to continued growth opportunities for us in the future. In 2019, we intend to remain focused on progressing our key priorities including on surfacing margin expansion opportunities, progressing our development pipeline and assessing select contracting opportunities across the portfolio. We believe the investment environment for renewable power remains favorable and we expect to continue to advance our pipeline of opportunities.

Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Renewable Power segment. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref	Revenues 2018	Revenues 2017	FFO 2018	FFO 2017	Common Equity 2018	Common Equity 2017
Brookfield Renewable Partners[1]	i	**$ 3,864**	$ 2,826	**$ 381**	$ 336	**$ 4,749**	$ 4,143
Energy contracts[2]	ii	**(102)**	(38)	**(91)**	(76)	**553**	801
Realized disposition gains	iii	**—**	—	**38**	10	**—**	—
		$ 3,762	$ 2,788	**$ 328**	$ 270	**$ 5,302**	$ 4,944

1. Brookfield's interest in BEP consists of 129.7 million redemption-exchange units, 56.1 million Class A limited partnership units and 2.7 million general partnership units; together representing an economic interest of 61% of BEP. Segment revenues at BEP include $840 million (2017 – $147 million) revenue from TERP.
2. Known as Brookfield Energy Marketing prior to the internalization of the function by BEP effective October 31, 2018. Refer to Reference ii below for more information.

Compared to the prior year, revenues and FFO generated by our renewable power operations increased by $974 million and $58 million, respectively. Contributions from recent acquisitions, favorable price increases and cost reductions were partially offset by lower generation across same-store assets compared to the prior year which benefited from above average generation.

i. Brookfield Renewable Partners

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

FOR THE YEARS ENDED DEC. 31 (GIGAWATT HOURS AND $ MILLIONS)	Actual Generation (GWh)[1]		Long-Term Average (GWh)[1]		FFO	
	2018	2017	**2018**	2017	**2018**	2017
Hydroelectric	**20,305**	21,051	**20,389**	20,421	**$ 671**	$ 686
Wind	**4,176**	2,533	**4,731**	2,777	**160**	105
Solar	**753**	56	**724**	53	**72**	2
Storage and other	**519**	328	**—**	—	**32**	19
Corporate	**—**	—	**—**	—	**(259)**	(231)
Attributable to unitholders	**25,753**	23,968	**25,844**	23,251	**676**	581
Non-controlling interests and other[2]					**(290)**	(245)
Segment reallocation[3]					**(5)**	—
Brookfield's interest					**$ 381**	$ 336

1. Proportionate to BEP; refer to definition of *Proportionate basis generation* in Glossary of Terms beginning on page 108.
2. Includes incentive distributions paid to Brookfield of $40 million (2017 – $30 million) as the general partner of BEP.
3. Segment reallocation refers to disposition gains, net of NCI, included in BEP's operating FFO that we reclassify to realized disposition gains. This allows us to present FFO attributable to unitholders on the same basis as BEP.

BEP's FFO for the year was $676 million, of which our share was $381 million, compared to $336 million in 2017. Generation for the year totaled 25,753 GWh, which is consistent with the LTA. This represents a 7% increase compared to the prior year, but a 2% decrease on a same-store basis excluding the impact of acquisitions.

Hydroelectric

Hydroelectric FFO decreased by $15 million to $671 million due to:

- a $43 million decrease in North American FFO as generation was 5% below the prior year (3% above LTA). This decrease was partially offset by cost reduction initiatives; and
- the impact of unfavorable foreign exchange at our Brazilian operations which more than offset contributions from stronger generation and higher average revenue per MWh due to re-contracting initiatives, leading to a decrease in FFO of $6 million compared to the prior year; partially offset by
- an increase of $34 million in our Colombian business as revenue per MWh increased by 23% attributable to inflation indexation, renegotiation efforts of certain of our power purchase agreements, higher market prices and cost reduction initiatives, slightly offset by lower generation.

Wind

Wind operations' FFO increased by $55 million to $160 million due to:

- a full year of contributions from wind assets acquired as part of the TERP and TerraForm Global businesses in the fourth quarter of 2017 and a portfolio of European wind assets acquired in the second quarter of 2018; and
- contributions from our recently commissioned development projects and improved realized pricing from re-contracting initiatives; partially offset by
- a decrease in foreign exchange rates in Brazil and lower same-store generation across our European and Brazilian portfolios.

Solar

FFO from our solar operations increased by $70 million over the prior year due to contributions from our acquisitions of TERP and TerraForm Global in the fourth quarter of 2017 as well as the acquisition of a portfolio of European solar assets in the second quarter of 2018.

1. See definition in Glossary of Terms beginning on page 108.

Storage and Other

Storage and other activities contributed $32 million of FFO this year compared to $19 million in the prior year. The increase is due to improved capacity pricing and generation at our existing pumped storage facility in North America.

Corporate

The corporate FFO deficit increased by $28 million due to increased preferred share unit distributions as a result of the completed preferred share unit issuance in the first quarter of 2018 and higher interest expense from increased borrowings to fund growth in the business.

ii. Energy Contracts

During the year, we purchased 7,417 GWh from BEP at $69 per MWh, compared to 9,566 GWh at $68 per MWh in the prior year, which we sold through contracted and uncontracted channels for an average of $56 per MWh compared to $60 per MWh in the prior year.

As a result of the negative margins realized on the sale of power purchased in certain markets, we incurred an FFO deficit of $91 million in 2018 compared to $76 million in the prior year. The increase in our FFO deficit this year was mainly attributable to lower realized pricing on generation sold.

iii. Realized Disposition Gains

Realized disposition gains relate to the sale of a 25% interest in select Canadian hydroelectric assets in Ontario and British Columbia in the fourth quarter of 2018 as well as to a development asset in Europe.

Common Equity

Common equity in our Renewable Power segment increased to $5.3 billion at December 31, 2018 from $4.9 billion at December 31, 2017 as revaluation gains on our property, plant and equipment and contributions from FFO were partially offset by depreciation, distributions paid to investors and unfavorable foreign exchange.

Infrastructure

Business Overview

- We own and operate infrastructure assets primarily through our 30% economic ownership interest in BIP, which is listed on the New York and Toronto Stock Exchanges and had a market capitalization of $13.8 billion at December 31, 2018.
- BIP is one of the largest globally diversified owners and operators of infrastructure in the world.
- We also have direct investments in sustainable resource operations.

Principal Operations

Utilities

- Our regulated transmission business includes ~2,000 km of natural gas pipelines in Brazil, ~2,200 km of transmission lines in North and South America[1], and ~2,700 km of greenfield electricity transmission under development in South America.
- We own and operate 6.6 million connections, predominantly electricity and natural gas connections, and approximately 1.1 million smart meters in our regulated distribution business.
- Our regulated terminal operations includes ~85 million tons per annum of coal handling capacity.
- These businesses typically generate long-term returns on a regulated or contractual asset base which increase with capital we invest to upgrade and/or expand our systems.

Transport

- We operate ~5,500 km of railroad track in Western Australia and ~4,800 km of railroad track in South America.
- Our toll road operations include ~4,200 km of motorways in Brazil, Chile, Peru and India.
- Our ports operations include 37 terminals in North America, the U.K., Australia and across Europe.
- These operations are comprised of networks that provide transportation for freight, bulk commodities and passengers, for which we are paid an access fee. This includes businesses with price ceilings as a result of regulation, such as our rail and toll road operations, as well as unregulated businesses, such as our ports.

Energy

- We own and operate ~15,000 km of natural gas transmission pipelines, primarily in the U.S., and 600 billion cubic feet of natural gas storage in the U.S. and Canada.
- In our district energy business we deliver ~3.4 million pounds per hour of heating and 336,000 tons of cooling capacity, as well as servicing ~24,900 natural gas, water and wastewater connections.
- These operations are comprised of businesses, typically unregulated or subject to price ceilings, that provide energy transmission and storage services, with profitability based on the volume and price achieved for the provision of these services.

Data Infrastructure

- We own and operate ~7,000 multi-purpose communication towers and active rooftop sites and 5,500 km of fiber backbone located in France.
- In our data storage business, we manage 33 data centers with ~1.3 million square feet of raised floors and 103 MW of critical load capacity.
- These businesses provide essential services and critical infrastructure to media broadcasting and telecom sectors and are secured by long-term inflation-linked contracts.

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

Outlook and Growth Initiatives

SAME-STORE GROWTH	DEVELOPMENT	CAPITAL ALLOCATION
Inflation and volumes	Capital backlog	Active acquisitions

Our infrastructure business owns and operates assets that are critical to the global economy. Our expertise in managing and developing such assets make us ideal partners for the stakeholders who rely on these assets. Our goal is to continue demonstrating our stewardship of critical infrastructure which should enable us to participate in future opportunities to acquire high-quality infrastructure assets.

FFO in our Infrastructure segment is approximately 95% contracted or regulated with pricing that is inflation-linked. Approximately 75% of FFO should capture inflationary tariff increases and 40% should benefit from GDP growth by capturing increased volumes. As a result, we are able to achieve consistent growth year to year within our existing business. In addition, we have been consistently able to identify capital development projects that enable us to put capital to work to provide an additional source of growth. At the end of 2018, total capital to be commissioned in the next two to three years is ~$2.2 billion. Our backlog, coupled with inflation-indexation and higher volumes from our GDP sensitive businesses, should result in another year of robust same-store growth at the higher end of our long-term 6-9% growth targets. Furthermore, we plan to close three secured transactions in the first half of 2019, investing approximately $700 million. These new investments should be contributing fully to results by the second half of the year, generating attractive going-in FFO yields.

Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Infrastructure segment. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref	Revenues 2018	Revenues 2017	FFO 2018	FFO 2017	Common Equity 2018	Common Equity 2017
Brookfield Infrastructure Partners[1]	i	**$ 4,752**	$ 3,625	**$ 327**	$ 316	**$ 1,916**	$ 2,098
Sustainable resources and other	ii	**266**	246	**31**	29	**971**	736
Realized disposition gains	iii	**—**	—	**244**	—	**—**	—
		$ 5,018	$ 3,871	**$ 602**	$ 345	**$ 2,887**	$ 2,834

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

Revenues generated by our Infrastructure segment increased by $1.1 billion and FFO excluding realized disposition gains increased by $13 million compared to the prior year due to same-store growth and initial contributions from recent acquisitions. We deployed a significant amount of capital during the second half of 2018, and while these businesses have started to generate value, they have not yet had a significant impact on our results.

These increases were partially offset by the absence of a full year of contributions from our Chilean electricity transmission business and the unfavorable impact of foreign exchange.

i. Brookfield Infrastructure Partners

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Utilities	**$ 576**	$ 610
Transport	**518**	532
Energy	**269**	209
Data infrastructure	**77**	76
Corporate	**(209)**	(257)
Attributable to unitholders	**1,231**	1,170
Non-controlling interests and other[1]	**(904)**	(854)
Brookfield's interest	**$ 327**	$ 316

1. Includes incentive distributions paid to Brookfield of $136 million (2017 – $113 million) as the general partner of BIP.

BIP's FFO in 2018 was $1.2 billion, of which our share was $327 million compared to $316 million in the prior year.

Results from our data infrastructure (formerly "communications") business line was fairly consistent with the prior year. Key variances for our utilities, transport, energy and corporate businesses are described below.

Utilities

FFO of $576 million was $34 million lower than the prior year. The decrease is primarily due to:

- the impact of the sale of our Chilean electricity transmission business in the first quarter of 2018;
- increased borrowing costs from the issuance of debt by our Brazilian regulated gas transmission business; and
- the impact of lower foreign exchange rates; partially offset by
- a full year of contributions from our Brazilian regulated gas transmission business, acquired during the second quarter of 2017; and
- 5% same-store growth on a constant currency basis, primarily due to strong connection activity at our U.K. regulated distribution business.

Transport

FFO in our transport segment of $518 million was $14 million lower than the prior year due to:

- lower ore volumes in our Australian rail business;
- the expiry of one of our state concessions in our Brazilian toll road business; and
- the impact of lower foreign exchange rates; partially offset by
- 5% same-store growth on a constant currency basis relating to higher tariffs and initial contributions from our recently acquired toll roads in India.

Energy

FFO from our energy operations of $269 million was $60 million higher than the prior year due to:

- initial contributions from acquisitions, including our North American residential infrastructure and Canadian natural gas midstream businesses; and
- higher transportation volumes from newly secured contracts in our North American natural gas transmission business; partially offset by
- lower natural gas price spreads that reduced margins at our gas storage business.

Corporate

The FFO deficit of $209 million is lower than last year's deficit of $257 million due to:

- lower base management fees due to lower capitalization values;
- lower interest expense due to lower draws on the corporate credit facility; and
- higher investment income earned by investing proceeds received from the sale of our Chilean electricity transmission business.

ii. Sustainable Resources and Other

FFO in the current period was largely in line with the prior year as same-store growth offset the impact of unfavorable exchange rates.

iii. Realized Disposition Gains

BIP sold its investment in a Chilean electricity transmission business during the first quarter of 2018, realizing disposition gains of $244 million.

Common Equity

Common equity in our Infrastructure segment was fairly consistent at $2.9 billion as at December 31, 2018 (2017 – $2.8 billion) as contributions from earnings and the impact of the annual revaluation of PP&E were offset by distributions paid.

This equity is primarily our investment in property, plant and equipment and certain concessions, which are recorded as intangible assets. Our PP&E is recorded at fair value and revalued annually while concessions are considered intangible assets under IFRS and therefore recorded at historical cost and amortized over the life of the concession. Accordingly, a smaller portion of our equity is impacted by revaluation compared to our Real Estate and Renewable Power segments, where a larger portion of the balance sheet is subject to revaluations.

Private Equity

Business Overview

- We own and operate private equity assets primarily through our 68% interest in BBU. BBU is listed on the New York and Toronto Stock Exchanges and had a market capitalization of $3.9 billion at December 31, 2018.
- BBU focuses on owning and operating high-quality businesses that benefit from barriers to entry and/or low production costs.
- We also own certain businesses directly, including a 42% interest in Norbord which is one of the world's largest producers of oriented strand board ("OSB").

Operations

Business Services

- We own and operate a road fuel distribution and marketing business with significant import and storage infrastructure, provide services to residential real estate brokers through franchise arrangements under a number of brands in Canada and facilities management services for corporate and government investors with over 320 million square feet of managed real estate.
- We provide contracting services with a focus on high-quality construction of large-scale and complex landmark buildings and social infrastructure. Construction projects are generally delivered through contracts, whereby we take responsibility for design, program, procurement and construction at a defined price. Our backlog currently stands at $8 billion, with a weighted average remaining project life of 1.8 years.
- Other operations in our business services include entertainment facilities in the Greater Toronto Area, financial advisory, logistics and wireless broadband.

Infrastructure Services

- We are the leading provider of services to the global power generation industry, which includes providing original equipment or technology for approximately 50% of global nuclear capacity and servicing two thirds of the world's nuclear reactors.
- We also provide services to the offshore oil production industry, operating in the North Sea, Canada and Brazil,

Industrial Operations

- Our industrial portfolio is comprised of capital intensive businesses with significant barriers to entry that require technical operating expertise.
- We own and operate a leading manufacturer of a broad range of high quality graphite electrodes and a manufacturer of returnable plastics packaging.
- We own a water distribution, collection and treatment business which operates through long-term concessions and public-private partnerships, and services 15 million customers in Brazil.
- Our mining activities include interests in specialty metal and aggregates mining operations in Canada, including a palladium mine in northern Ontario with ~15,000 tonnes per day of processing capacity.
- We own and operate a natural gas exploration and production business, and a contract drilling and well servicing business in western Canada.

Outlook and Growth Initiatives

SAME-STORE GROWTH	DEVELOPMENT	CAPITAL ALLOCATION
Expansion of service businesses	Turnaround strategies	Acquisitions

Our private equity business utilizes Brookfield's expertise in evaluating investments, operating and financing businesses as well as turnaround execution. BBU has made excellent progress since listing as a publicly listed partnership in 2016 with most of its value today generated from diverse services and industrial operations. We expect this trend to continue as we move forward with recently announced initiatives and continue to expand our operations.

Within our business services segment, we have grown our facilities management globally and signed a definitive agreement to sell our interest in GIS for $1 billion in March 2019. We are also increasing the earnings potential of several recent acquisitions across our portfolio through operational improvements, tuck-in acquisitions and expanding into new regions and product lines. Our construction services business is one of the strongest operators globally and we continue to win new work and maintain a strong backlog in core markets as we focus on returning to more historical levels of profitability. Our recent acquisition of a provider of a high speed fixed wireless broadband in rural Ireland, provides us an initial entry point into technology services, an area of huge potential growth given the increasing number of opportunities.

Within our infrastructure services segment, we recently acquired Westinghouse, a service provider to the power generation industry. We continue to work with the management team to implement our business plan to further enhance profitability by strengthening the supply chain and enhancing focus on customers.

Within our industrial operations segment, we monetized a number of assets this year, including the sale of a portion of our holdings in our graphite electrode manufacturing business through an IPO and secondary offering and the sale of our Australian Energy operations. Looking ahead, our graphite electrode manufacturing business continues to find operational improvements at its plants and optimizing remaining sales. We also continue to progress initiatives at our water distribution and sewage treatment operations, including safety performance, completion of our water quality assurance program, expanding our lending relationships, reducing overall borrowing costs and accelerating capital expenditures to increase the scope of operations.

Given the significant liquidity and flexible investment approach, we believe BBU is well positioned for further growth in any economic environment. In the fourth quarter of 2018, BBU entered into a definitive agreement alongside institutional partners to acquire Johnson Controls' power solutions business, a market leader in the production of automotive batteries. In January 2019, BBU also entered into a definitive agreement alongside institutional partners to acquire up to a 100% interest in Healthscope Limited, the second largest private health operator in Australia and the largest pathology services provider in New Zealand.

Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Private Equity segment, and summarizes realized disposition gains. We have provided additional detail, where referenced, to explain significant movements from the prior year.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref	Revenues 2018	Revenues 2017	FFO 2018	FFO 2017	Common Equity 2018	Common Equity 2017
Brookfield Business Partners[1]	i	**$ 36,982**	$ 22,803	**$ 223**	$ 35	**$ 2,017**	$ 2,064
Norbord	ii	**—**	1,680	**243**	219	**1,287**	1,364
Other investments	iii	**288**	94	**34**	(3)	**975**	787
Realized disposition gains	iv	**—**	—	**295**	82	**—**	—
		$ 37,270	$ 24,577	**$ 795**	$ 333	**$ 4,279**	$ 4,215

1. Brookfield's interest in BBU consists of 63.1 million redemption-exchange units, 24.8 million limited partnership units and eight general partnership units together representing an economic interest of 68% of BBU.

Revenues generated from our private equity operations increased by $12.7 billion primarily as a result of a full year of revenues contributed by our road fuel distribution business which was acquired in May 2017. Included in this business's revenues and direct costs are significant flow-through duty amounts that are passed through to the customers and recorded gross in both accounts, without impact to margin generated by the business. In addition to the above, revenues increased due to improved pricing at our graphite electrode manufacturing business, the acquisition of Westinghouse, which is a leading service provider to the power generation industry and the consolidation of our services provider to the offshore oil production industry beginning in the third quarter of 2018.

These increases were partially offset by the deconsolidation of our investment in Norbord in the fourth quarter of 2017 after we sold our controlling stake in the business. We now record our share of Norbord's income through the equity accounted income line in our Consolidated Statements of Operations.

FFO, prior to disposition gains, increased by $249 million to $500 million due to:

- strong performance across multiple operations, particularly improved pricing at our graphite electrode manufacturing business;
- contributions from recent acquisitions in 2018, most notably Westinghouse which we acquired in the third quarter of 2018, and a full year of contributions from businesses we acquired during 2017, most notably our service provider to the offshore oil production industry; partially offset by
- higher management and performance fees due to increases in BBU's capitalization value since the prior year.

i. Brookfield Business Partners

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	**2018**	2017
Business services[1]	**$ 131**	$ 92
Infrastructure services[1]	**195**	21
Industrial operations[1]	**470**	163
Corporate	**(63)**	(24)
Attributable to unitholders	**733**	252
Performance fees	**(278)**	(142)
Non-controlling interests	**(146)**	(25)
Segment reallocation and other[2]	**(86)**	(50)
Brookfield's interest	**$ 223**	$ 35

1. BBU reclassified its segments during the year. Comparative figures have been restated to conform with the new segment presentation.
2. Segment reallocation and other refers to disposition gains, net of NCI, included in BBU's operating FFO that we reclassify to realized disposition gains. This allows us to present FFO attributable to unitholders on the same basis as BBU.

BBU generated $733 million of FFO, of which our share was $223 million, compared to $35 million in the prior year.

Business Services

In 2018, we combined our construction services with our business services operations and restated our comparative results. Our current year FFO increased by $39 million to $131 million. Excluding gains on assets sold that we reclassify to realized disposition gains, FFO decreased by $7 million due to:

- the absence of contributions from our recently sold real estate brokerage services business; and
- lower diesel margins at our road fuel distribution business; partially offset by
- contributions from acquisitions since the prior year, most notably our entertainment facilities in Ontario.

Infrastructure Services

FFO increased primarily due to the acquisition of Westinghouse. Current year FFO of $195 million includes:

- contributions from new project activities at Westinghouse; and
- a full year of contributions from our service provider to the offshore oil production industry, as well as receipt of a one-time customer settlement at this business.

Industrial Operations

During the year, FFO from our industrial operations increased by $307 million to $470 million. Excluding disposition gains that are reclassified out of our operating results, FFO increased by $275 million. The increase is due to strong pricing and operational performance at our graphite electrode manufacturing business and our palladium mining operations.

Corporate

The Corporate FFO deficit increased by $39 million to $63 million as increases in BBU's capitalization value led to higher management fees. In addition, we incurred more operating expenses due to growth in the business.

Performance Fees

BBU pays performance fees quarterly based on the volume-weighted average increase in BBU's unit price above the previous threshold on which fees were paid. During the year, BBU paid $278 million in performance fees which we record as income in our Asset Management segment.

ii. Norbord

Our share of Norbord's FFO increased by $24 million to $243 million as higher volumes were partially offset by a decrease in North American benchmark average OSB prices and our lower ownership of the business during the year.

iii. Other Investments

FFO from other investments increased by $37 million to $34 million primarily due to the direct investment in our service provider to the offshore oil production industry which we made in the third quarter of 2017.

iv. Realized Disposition Gains

Realized disposition gains recorded in the current year include the partial sell down of our graphite electrode manufacturing business through a series of public offerings and a share buyback, the sale of our Australian energy operations and the sale of a joint venture interest in a real estate brokerage services business.

In the prior year, we recognized disposition gains relating to the sale of our bath and shower products manufacturing business and the sale of Norbord shares as part of a secondary bought deal offering. This gain was partially offset by a loss on the sale of an oil and gas producer in western Canada.

Common Equity

Common equity in our Private Equity segment increased by $64 million to $4.3 billion as at December 31, 2018. Contributions from operating performance were partially offset by an adjustment to opening equity as the adoption of IFRS 15 affected our construction services business. The assets held in these operations are recorded at amortized cost, with depreciation recorded on a quarterly basis, with the exception of investments in financial assets, which are carried at fair value based predominantly on quoted prices.

Residential Development

Business Overview

- Our residential development businesses operate predominantly in North America and Brazil.
- Our North American business is conducted through Brookfield Residential Properties Inc., is active in 12 principal markets in Canada and the U.S. and controls over 88,000 lots.
- Our Brazilian business includes construction, sales and marketing of a broad range of residential and commercial office units, with a primary focus on middle income residential units in Brazil's largest markets of São Paulo and Rio de Janeiro.

Outlook and Growth Initiatives

In our North American residential business, we are actively working on closing our backlog of $612 million while growing our mixed-use development business and evaluating other built forms to keep us in step with the changing preferences and requirements of our consumer base.

Residential real estate development in Brazil remains challenging following years of industry overdevelopment. However, recently implemented regulatory changes and a new government are expected to positively impact the industry going forward. We remain focused on developing high margin projects in select key markets and excelling in all operational areas.

Summary of Operating Results

The following table disaggregates segment revenues, FFO and common equity into the amounts attributable to the two principal operating regions of our wholly owned residential development businesses:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Revenues		FFO		Common Equity	
	2018	2017	**2018**	2017	**2018**	2017
North America	**$ 2,213**	$ 2,062	**$ 161**	$ 169	**$ 1,758**	$ 1,711
Brazil and other	**470**	385	**(112)**	(135)	**848**	1,204
	$ 2,683	$ 2,447	**$ 49**	$ 34	**$ 2,606**	$ 2,915

North America

FFO from our North American operations of $161 million was $8 million lower than the prior year.

Housing operations contributed $6 million less FFO than the prior year as:

- U.S. housing operations' gross margin improved by $27 million, resulting primarily from a 25% increase in the number of home closings; offset by
- A decrease in Canadian housing operations margins of $33 million due to a 14% decrease in the number of home closings compared to the prior year.

FFO from our land development operations improved by $5 million due to higher prices and more land closings in the U.S. partially offset by lower prices in our Canadian market.

In addition, higher selling, general and administrative expenses and current taxes impacted FFO in 2018.

As at December 31, 2018, we had 88 active housing communities (2017 – 81) and 30 active land communities (2017 – 28).

Brazil and Other

FFO from our Brazilian operations improved by $23 million to a loss of $112 million in the current year due to:

- improved margins and a one-time gain recognized on sales of completed inventory; and
- the impact of foreign exchange, as the weakening of the Brazilian real against the U.S. dollar reduced the deficit; partially offset by
- a decrease in the number of units closed compared to the prior year.

Our Brazilian operations were affected by the adoption of IFRS 15, the new revenue recognition accounting standard (see Note 2 to the consolidated financial statements). Recognition of revenue is now delayed until keys are delivered to the client, whereas previously revenue was recognized when the building was completed.

Our focus over the past two years has been delivering projects and selling remaining inventory of units associated with projects launched prior to the economic downturn. During 2018, we completed and delivered six projects as compared to 16 projects in 2017. We continued to sell down the remaining inventory in 2018, however, overall contributions from these sales were below the level required to cover fixed costs, including marketing expenses.

We began 2018 with 19 projects under construction and as of December 31, 2018, we have 22 projects under construction, of which 20 relate to new projects launched since late 2016 which command higher margins than older projects.

Common Equity

Common equity was $2.6 billion at December 31, 2018 (2017 – $2.9 billion) and consists largely of residential development inventory which is carried at historical cost, or the lower of cost and market, notwithstanding the length of time that we may have held these assets and created value through the development process. The decrease in the equity balance as at December 31, 2018 is primarily attributable to the impact of the Brazilian real weakening compared to the U.S. dollar. Additionally, equity in our Residential segment is inclusive of a $15 million adjustment that reduced common equity as at January 1, 2018 due to the adoption of the new revenue recognition standard discussed above.

Corporate Activities

Business Overview

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

Summary of Operating Results

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

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Revenues		FFO		Common Equity	
	2018	2017	**2018**	2017	**2018**	2017
Corporate cash and financial assets, net	**$ 17**	$ 193	**$ 11**	$ 145	**$ 2,275**	$ 2,255
Corporate borrowings	**—**	—	**(323)**	(261)	**(6,409)**	(5,659)
Preferred equity[1]	**—**	—	**—**	—	**(4,168)**	(4,192)
Other corporate investments	**171**	169	**(1)**	9	**43**	41
Corporate costs and taxes/net working capital	**—**	—	**(163)**	(39)	**1,081**	(338)
	$ 188	$ 362	**$ (476)**	$ (146)	**$ (7,178)**	$ (7,893)

1. FFO excludes preferred share distributions of $151 million (2017 – $145 million).

Our portfolio of corporate cash and financial assets is generally recorded at fair value with changes recognized quarterly through net income, unless the underlying financial investments are classified as fair value through other comprehensive income, in which case changes in value are recognized in other comprehensive income. Loans and receivables are typically carried at amortized cost. As at December 31, 2018, our portfolio of corporate cash and financial assets includes $1.3 billion of cash and cash equivalents (2017 – $807 million).

Our corporate cash and financial assets generated FFO of $11 million which was $134 million lower than the prior year. Market conditions in the fourth quarter resulted in mark-to-market losses in our portfolio. These losses were partially offset by gains on the settlement of certain derivatives as well as interest income from a direct loan that was funded in the second half of 2017.

Corporate borrowings are generally issued with fixed interest rates. Many of these borrowings are denominated in Canadian dollars and therefore the carrying value fluctuates with changes in the exchange rate. A number of these borrowings have been designated as hedges of our Canadian dollar net investments within our other segments, resulting in the majority of the currency revaluation being recognized in other comprehensive income. The $323 million FFO loss reported through corporate borrowings reflects the interest expense on those borrowings. This increased from the prior year as a result of $1.6 billion of corporate debt issued since the third quarter of 2017.

Preferred equity does not revalue under IFRS. In the fourth quarter of 2018, we purchased approximately one million preferred shares across different series through the normal-course issuer bid (“NCIB”) program, resulting in a $24 million decrease in the amount outstanding.

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

Net working capital includes accounts receivable, accounts payable, other assets and other liabilities and was in an asset position of $1.1 billion as at December 31, 2018 (2017 – liability of $338 million). Included within this balance are net deferred income tax assets of $1.9 billion (2017 – $590 million). Our deferred tax assets increased following the acquisition of a business in the first quarter of 2018 with net operating losses as well as the recognition in the fourth quarter of previously unrecognized loss carryforwards that will offset future projected taxable income. FFO includes corporate costs and cash taxes which increased due to continued expansion of business activity and cash taxes paid during the current year as opposed to a recovery in the prior year.

The common equity deficit in our Corporate segment of $7.2 billion at December 31, 2018 is lower than the prior year deficit of $7.9 billion primarily due to the increase in deferred tax assets as well as the weakening of the Canadian dollar relative to the U.S. dollar, which reduced the translated value of our Canadian dollar denominated debt. This was partially offset by $1.1 billion of corporate debt issued during the year.

PART 4 – CAPITALIZATION AND LIQUIDITY

CAPITALIZATION

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

Consolidated Capitalization[1] – reflects the full capitalization of wholly-owned and partially-owned entities that we consolidate in our financial statements. At December 31, 2018, consolidated capitalization increased compared to the prior year largely due to acquisitions, which resulted in additional associated borrowings, working capital balances and non-controlling interests.

Corporate Capitalization[1] – reflects the amount of debt held in the corporate segment and our issued and outstanding common and preferred shares. Corporate debt includes unsecured bonds and, from time to time, draws on revolving credit facilities. At December 31, 2018, 77% of our corporate capitalization was common and preferred equity, which totaled $29.8 billion (2017 – $28.2 billion).

Capitalization at Our Share[1] – reflects our proportionate exposure of debt and equity balances in consolidated entities and our share of the debt and equity in our equity accounted investments.

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

		Corporate		Consolidated		Our Share	
AS AT DEC. 31 (MILLIONS)	Ref	**2018**	2017	**2018**	2017	**2018**	2017
Corporate borrowings	i	**$ 6,409**	$ 5,659	**$ 6,409**	$ 5,659	**$ 6,409**	$ 5,659
Non-recourse borrowings							
Subsidiary borrowings	i	**—**	—	**8,600**	63,721	**5,174**	5,711
Property-specific borrowings	i	**—**	—	**103,209**	9,009	**35,943**	30,210
		6,409	5,659	**118,218**	78,389	**47,526**	41,580
Accounts payable and other		**2,299**	2,140	**23,989**	17,965	**10,297**	10,880
Deferred income tax liabilities		**197**	160	**12,236**	11,409	**4,425**	5,204
Subsidiary equity obligations		**—**	—	**3,876**	3,661	**1,658**	1,648
Liabilities associated with assets classified as held for sale		**—**	—	**812**	1,424	**262**	703
Equity							
Non-controlling interests		**—**	—	**67,335**	51,628	**—**	—
Preferred equity	ii	**4,168**	4,192	**4,168**	4,192	**4,168**	4,192
Common equity	iii	**25,647**	24,052	**25,647**	24,052	**25,647**	24,052
		29,815	28,244	**97,150**	79,872	**29,815**	28,244
Total capitalization		**$ 38,720**	$ 36,203	**$ 256,281**	$ 192,720	**$ 93,983**	$ 88,259

1. See definition in Glossary of Terms beginning on page 108.

i. Borrowings

Corporate Borrowings

AS AT DEC. 31 (MILLIONS)	Average Rate 2018	Average Rate 2017	Average Term (Years) 2018	Average Term (Years) 2017	Consolidated 2018	Consolidated 2017
Term debt	**4.5%**	4.6%	**10**	10	**$ 6,450**	$ 5,594
Revolving facilities	**—%**	1.6%	**4**	4	**—**	103
Deferred financing costs	**n/a**	n/a	**n/a**	n/a	**(41)**	(38)
Total					**$ 6,409**	$ 5,659

As at December 31, 2018, corporate borrowings included term debt of $6.5 billion (2017 – $5.6 billion) which had an average term to maturity of 10 years (2017 – 10 years). Term debt consists of public and private bonds, all of which are fixed rate and have maturities ranging from April 2019 until 2047. These financings provide an important source of long-term capital and are appropriately matched to our long-term asset profile.

The increase in term debt compared to the prior year is due to the issuance of $650 million of 3.9% notes, ¥10 billion of 1.42% notes and $350 million of 4.7% notes with maturities of 2028, 2038 and 2047, respectively. This is partially offset by $238 million of foreign currency depreciation and repayments of $103 million on the corporate revolving facility.

Subsequent to December 31, 2018, we issued $1 billion of 4.85% notes with a 2029 maturity.

We had no commercial paper or bank borrowings outstanding at December 31, 2018 (2017 – $103 million). Commercial paper and bank borrowings are pursuant to, or backed by, $1.9 billion of committed revolving term credit facilities with terms ranging from one to five years. As at December 31, 2018, $68 million of the facilities were utilized for letters of credit (2017 – $79 million).

Subsidiary Borrowings

We endeavor to capitalize our principal subsidiaries to enable continuous access to the debt capital markets, usually on an investment-grade basis, thereby reducing the demand for capital from the Corporation.

AS AT DEC. 31 (MILLIONS)	Average Rate 2018	Average Rate 2017	Average Term 2018	Average Term 2017	Consolidated 2018	Consolidated 2017
Real estate	**4.4%**	3.3%	**2**	2	**$ 2,504**	$ 3,214
Renewable power	**4.0%**	4.5%	**5**	6	**2,328**	1,665
Infrastructure	**3.6%**	3.1%	**5**	4	**1,993**	2,102
Private equity	**3.9%**	3.9%	**1**	2	**52**	380
Residential development	**6.2%**	6.3%	**4**	5	**1,723**	1,648
Total	**4.5%**	4.1%	**4**	4	**$ 8,600**	$ 9,009

Subsidiary borrowings generally have no recourse to the Corporation but are recourse to its principal subsidiaries (primarily BPY, BEP, BIP and BBU). Subsidiary borrowings decreased by $409 million as our subsidiaries repaid amounts drawn on their credit facilities with proceeds from capital recycling programs.

Property-Specific Borrowings

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

AS AT DEC. 31 (MILLIONS)	Average Rate		Average Term		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017
Real estate	**4.7%**	4.4%	**4**	4	**$ 63,494**	$ 37,235
Renewable power	**5.4%**	5.9%	**10**	9	**14,233**	14,230
Infrastructure	**5.2%**	4.7%	**6**	8	**14,334**	9,010
Private equity and other	**6.2%**	6.7%	**6**	6	**10,820**	2,898
Residential development	**8.0%**	9.6%	**2**	2	**328**	348
Total	**5.0%**	4.9%	**6**	6	**$ 103,209**	$ 63,721

Property-specific borrowings have increased by $39.5 billion since December 31, 2017. The additional borrowings in our real estate operations are primarily related to the consolidation of GGP following privatization and the acquisitions of Forest City, an extended-stay hospitality business and a U.K. student housing business. The additional borrowings in our renewable power operations are primarily related to the acquisition of a European solar and wind portfolio. The additional borrowings in our infrastructure operations are primarily related to additional financings at our Brazilian regulated gas transmission business. The additional borrowings in our private equity operations are primarily related to the acquisition of a service provider to the power generation industry and additional financings at our graphite electrode manufacturing business. In addition to acquisitions, the remainder of the increase in consolidated borrowings is driven by drawings on new or existing subscription facilities and additional debt assumed for growth capital expenditures. These increases were partially offset by asset sales across the business.

Fixed and Floating Interest Rate Exposure

Many of our borrowings, including all corporate borrowings recourse to the Corporation, are fixed rate, long-term financings. The remainder of our borrowings are at floating rates; however, from time to time, we enter into interest rate contracts to swap our floating rate debt to fixed rates.

As at December 31, 2018, 69% of our share of debt outstanding, reflecting swaps, was fixed rate. Accordingly, changes in interest rates are typically limited to the impact of refinancing borrowings at prevailing market rates or changes in the level of debt as a result of acquisitions and dispositions.

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

	Fixed Rate				Floating Rate			
	2018		2017		**2018**		2017	
AS AT DEC. 31 (MILLIONS)	**Average Rate**	**Consolidated**	Average Rate	Consolidated	**Average Rate**	**Consolidated**	Average Rate	Consolidated
Corporate borrowings	**4.5%**	**$ 6,409**	4.6%	$ 5,556	**—%**	**$ —**	1.6%	$ 103
Subsidiary borrowings	**4.8%**	**5,296**	4.8%	4,800	**4.0%**	**3,304**	3.2%	4,209
Property-specific borrowings	**4.9%**	**39,318**	5.0%	33,106	**5.1%**	**63,891**	4.8%	30,615
Total	**4.9%**	**$ 51,023**	5.0%	$ 43,462	**5.0%**	**$ 67,195**	4.6%	$ 34,927

The average floating rate associated with our property-specific borrowings was impacted by higher underlying floating rate indices in the first half of 2018.

ii. Preferred Equity

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

AS AT DEC. 31 (MILLIONS)	Term	Average Rate			
		2018	2017	**2018**	2017
Fixed rate-reset	Perpetual	**4.3%**	4.2%	**$ 2,893**	$ 2,912
Fixed rate	Perpetual	**4.8%**	4.8%	**744**	749
Floating rate	Perpetual	**2.9%**	2.3%	**531**	531
Total		**4.2%**	4.1%	**$ 4,168**	$ 4,192

Fixed rate-reset preferred shares are issued with an initial fixed rate coupon that is reset after an initial period, typically five years, at a predetermined spread over the Canadian five-year government bond yield. The average reset spread as at December 31, 2018 was 284 basis points.

During the year, we repurchased 26,509, 203,460 and 829,266 of our perpetual floating, fixed and fixed rate-reset preferred shares, respectively, with a face value of $24 million.

iii. Common Equity

Issued and Outstanding Shares

Changes in the number of issued and outstanding common shares during the years are as follows:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Outstanding at beginning of year	**958.8**	958.2
Issued (repurchased)		
Repurchases	**(9.6)**	(3.5)
Long-term share ownership plans[1]	**5.7**	3.8
Dividend reinvestment plan and others	**0.2**	0.3
Outstanding at end of year	**955.1**	958.8
Unexercised options and other share-based plans[1]	**42.1**	47.5
Total diluted shares at end of year	**997.2**	1,006.3

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

The company holds 37.5 million Class A shares (2017 – 30.6 million) purchased by consolidated entities in respect of long-term share ownership programs, which have been deducted from the total amount of shares outstanding at the date acquired. Diluted shares outstanding include 3.9 million (2017 – 9.2 million) shares issuable in respect of these plans based on the market value of the Class A shares at December 31, 2018 and 2017, resulting in a net reduction of 33.6 million (2017 – 21.4 million) diluted shares outstanding.

During 2018, 4.5 million options were exercised, of which 2.0 million were exercised on a net-settled basis, resulting in the cancellation of 2.5 million vested options.

The cash value of unexercised options was $1.1 billion as at December 31, 2018 (2017 – $994 million) based on the proceeds that would be paid on exercise of the options.

As of March 25, 2019, the Corporation had outstanding 955,802,479 Class A shares and 85,120 Class B shares. Refer to Note 21 to the consolidated financial statements for additional information on equity.

LIQUIDITY

Corporate Liquidity

We maintain significant liquidity at the corporate level. Our primary sources of liquidity, which we refer to as core liquidity, consist of:

- Cash and financial assets, net of deposits and other associated liabilities; and
- Undrawn committed credit facilities.

We further assess overall liquidity inclusive of our principal subsidiaries BPY, BEP, BIP and BBU because of their role in funding acquisitions both directly and through our managed funds. Overall core liquidity at year end was $10.8 billion, or inclusive of investor commitments to our private funds, was $34.4 billion at the end of the period, as we continue to pursue a number of attractive investment opportunities.

Capital Requirements

The Corporation has very few non-discretionary capital requirements. Our largest normal course capital requirement is our debt maturities. Periodically, we will also fund acquisitions and seed new investment strategies. At the listed partnership level, the largest normal course capital requirements are debt maturities and the pro-rata share of private fund capital calls. New acquisitions are primarily funded through the private funds or listed partnerships that we manage. We endeavor to structure these entities so that they are predominantly self-funding, preferably on an investment-grade basis, and in almost all circumstances do not rely on financial support from the Corporation.

In the case of private funds, the necessary equity capital is obtained by calling on commitments made by the limited partners in each fund, which include commitments made by our listed partnerships. In the case of our real estate, infrastructure and private equity funds, these commitments are expected to be funded by BPY, BEP, BIP and BBU. Subsequent to year end, the Corporation committed $2.75 billion to our flagship real estate fund alongside BPY. In the case of listed partnerships, capital requirements are funded through their own resources and access to capital markets, which may be supported by us from time to time through participation in equity offerings or bridge financings.

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

Core and Total Liquidity

The following table presents core liquidity of the Corporation and operating segments:

AS AT DEC. 31 (MILLIONS)	Corporate	Real Estate	Renewable Power	Infrastructure	Private Equity	**Total 2018**	2017
Cash and financial assets, net	$ 2,275	$ 65	$ 286	$ 238	$ 888	**$ 3,752**	$ 3,218
Undrawn committed credit facilities	1,867	1,980	971	1,418	825	**7,061**	4,839
Core liquidity	4,142	2,045	1,257	1,656	1,713	**10,813**	8,057
Uncalled private fund commitments	—	12,326	1,302	3,788	6,159	**23,575**	18,591
Total liquidity	$ 4,142	$ 14,371	$ 2,559	$ 5,444	$ 7,872	**$ 34,388**	$ 26,648

1. See definition in Glossary of Terms beginning on page 108.

As at December 31, 2018, the Corporation's core liquidity was $4.1 billion, consisting of $2.3 billion in cash and financial assets, net of deposits and other liabilities and $1.9 billion in undrawn credit facilities. The Corporation's liquidity is readily available for use without any material tax consequences. We utilize this liquidity to support our asset management business which includes supporting the activities of our listed partnerships and private funds, as well as seeding new investment products.

The Corporation also has the ability to raise additional liquidity through the issuance of securities and sale of holdings of listed investments in our principal subsidiaries and other holdings including from those listed on page 81. However, this is not included in our core liquidity as we are generally able to finance our operations and capital requirements through other means.

The Corporation generates significant cash available for distribution or reinvestment. Our primary sources of recurring cash flows include:

- Fee related earnings from our asset management activities and proceeds in the form of realized carried interest from asset sales within private funds.
- Distributions from invested capital, in particular our listed partnerships.
- Other invested capital earnings: comprised of our wholly-owned investments offset by corporate interest expense, corporate costs and taxes and dividends paid on preferred shares.

During 2018, we generated $2.4 billion of cash available for distribution or reinvestment, inclusive of:

- $1.1 billion fee related earnings;
- $188 million realized carried interest, net;
- $1.7 billion of distributions from our listed partnerships and other investments; partially offset by
- other invested capital earnings, including preferred share dividends paid, which resulted in expenses of $596 million.

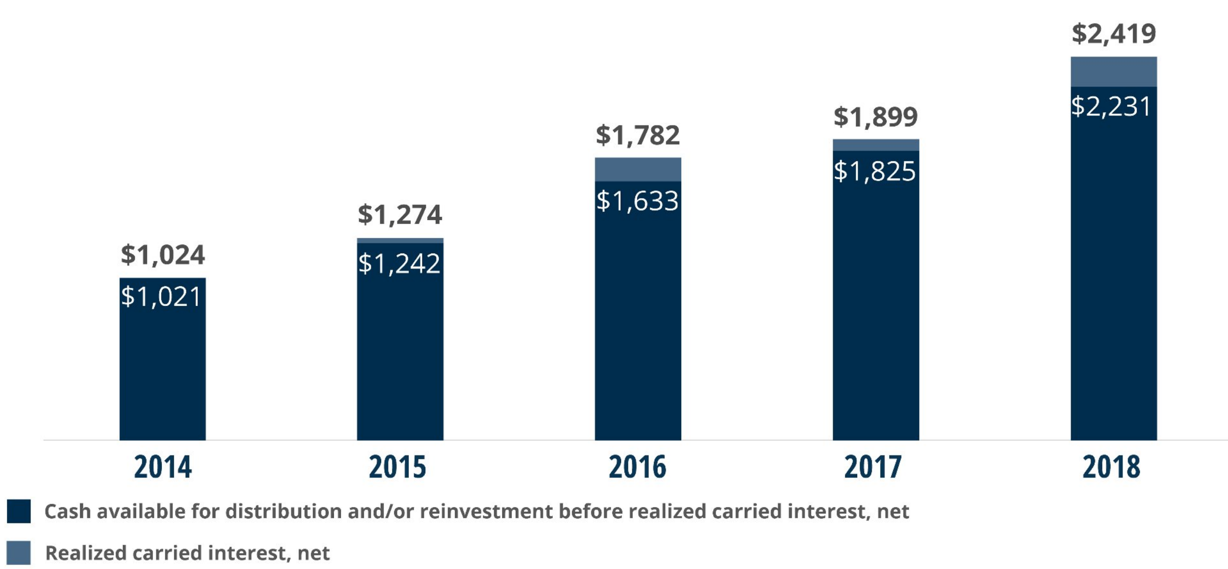
The Corporation paid $575 million in cash dividends on its common equity during the year ended December 31, 2018.

Earnings and distributions received by the Corporation are available for distribution or reinvestment and are as follows:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
1) Asset management FFO		
Fee revenues	**$ 1,693**	$ 1,368
Direct costs	**(564)**	(472)
Fee related earnings	**1,129**	896
Realized carried interest	**188**	74
	1,317	970
2) Distributions from investments		
Listed partnerships	**1,339**	1,218
Corporate cash and financial assets	**156**	75
Other investments	**203**	58
	1,698	1,351
3) Other invested capital earnings		
Corporate borrowings	**(323)**	(261)
Corporate costs and taxes	**(163)**	(39)
Other wholly owned investments	**41**	23
	(445)	(277)
Preferred share dividends	**(151)**	(145)
Cash available for distribution and/or reinvestment	**$ 2,419**	$ 1,899

Five-Year Cash Available for Distribution and/or Reinvestment

FOR THE YEARS ENDED DEC. 31 (MILLIONS)



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

AS AT AND FOR THE YEAR ENDED DEC. 31, 2018 (MILLIONS, EXCEPT PER UNIT AMOUNTS)	Ownership %	Brookfield Owned Units	Distributions Per Unit[1]	Quoted Value[2]	Distributions (Current Rate)[3]	Distributions (Actual)
Distributions from investments						
Listed partnerships						
Brookfield Property Partners[4]	54%	522.3	$ 1.32	$ 8,855	$ 729	$ 725
Brookfield Renewable Partners	61%	188.4	2.06	4,879	388	370
Brookfield Infrastructure Partners	30%	117.7	2.01	4,063	237	222
Brookfield Business Partners	68%	87.9	0.25	2,671	22	22
					1,376	1,339
Corporate cash and financial assets[5]	various	various	various	2,275	218	156
Other investments						
Norbord[6]	42%	34.8	1.17	925	41	167
Other[7]	various	various	various	various	62	36
					103	203
Total					$ 1,697	$ 1,698

1. Based on current distribution policies.
2. Quoted value represents the value of Brookfield owned units as at market close on December 31, 2018.
3. Distributions (current rate) are calculated by multiplying units held as at December 31, 2018 by distributions per unit. Actual dividends may differ due to timing of dividend increases and payment of special dividends, which are not factored into the current rate calculation. See definition in Glossary of Terms beginning on page 108.
4. BPY's quoted value includes $435 million of preferred shares. Fully diluted ownership is 51%, assuming conversion of convertible preferred shares held by a third party. BPY's distributions include $64 million of preferred share dividends received by the Corporation.
5. Includes cash and cash equivalents and financial assets net of deposits.
6. Actual distribution received from Norbord in 2018 was higher than distributions at the current rate due to a C$4.50/share special dividend paid in the third quarter.
7. Other includes cash distributions from Acadian and from our 27.5% interest in a BAM-sponsored real estate venture in New York.

REVIEW OF CONSOLIDATED STATEMENTS OF CASH FLOWS

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Operating activities	**$ 5,159**	$ 4,005
Financing activities	**18,136**	8,185
Investing activities	**(19,833)**	(11,394)
Change in cash and cash equivalents	**$ 3,462**	$ 796

This statement reflects activities within our consolidated operations and therefore excludes activities within non-consolidated entities.

Operating Activities

Cash flows from operating activities totaled $5.2 billion in 2018, a $1.2 billion increase from 2017. Operating cash flows prior to non-cash working capital and residential inventory were $6.2 billion during 2018, $1.1 billion higher than 2017 due to the benefits of same-store growth from our existing operations and the contributions from assets acquired during the last twelve months, partially offset by the negative impact of foreign currency translation.

Financing Activities

The company generated $18.1 billion of cash flows from financing activities during 2018, as compared to $8.2 billion in 2017. Our subsidiaries issued $43.5 billion (2017 – $26.3 billion) and repaid $28.2 billion (2017 – $21.6 billion) of property-specific and subsidiary borrowings, for a net issuance of $15.3 billion (2017 – $4.7 billion) during the year. We raised $9.3 billion of capital from our institutional private fund partners and other investors to fund their portion of acquisitions, arranged $3.3 billion of short-term borrowings backed by private fund commitments, and returned $9.4 billion to our investors in the form of either distributions or returns of capital. Most of the activity related to acquisitions across our various operating segments.

Investing Activities

During 2018, we invested $33.4 billion and generated proceeds of $13.5 billion from dispositions for net cash deployed in investing activities of $19.9 billion. This compares to net cash deployed of $12.0 billion during the same period in 2017. We acquired $22.3 billion of consolidated subsidiaries within our real estate, infrastructure, renewable power and private equity operations, as well as $953 million of equity accounted investments during the year. Refer to our Acquisitions of Consolidated Entities in Note 5 to the consolidated financial statements for further details. We continued to acquire and sell financial assets, which represent a net outflow of $527 million, relating to investments in debt and equity securities as well as contract assets associated with managing currency risk.

Sustaining capital expenditures in the company's renewable power operations were $181 million (2017 – $140 million), in its real estate operations were $434 million (2017 – $223 million) and in its infrastructure operations were $110 million (2017 – $927 million).

CONTRACTUAL OBLIGATIONS

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

AS AT DEC. 31, 2018 (MILLIONS)	Payments Due by Period Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years	Total
Recourse Obligations					
Corporate borrowings	$ 440	$ 257	$ 441	$ 5,271	**$ 6,409**
Accounts payable and other	1,044	198	14	1,043	**2,299**
Interest expense[1]					
Corporate borrowings	278	535	504	1,697	**3,014**
Non-recourse Obligations					
Principal repayments					
Non-recourse borrowings of managed entities					
Property-specific borrowings	10,764	30,892	22,527	39,026	**103,209**
Subsidiary borrowings	395	3,163	2,106	2,936	**8,600**
Subsidiary equity obligations	185	1,417	356	1,918	**3,876**
Accounts payable and other					
Capital lease obligations	25	51	28	145	**249**
Accounts payable and other	13,293	2,758	1,330	4,060	**21,441**
Commitments	1,395	1,117	215	356	**3,083**
Operating leases	516	834	661	7,823	**9,834**
Interest expense[1,2]					
Non-recourse borrowings	5,126	8,124	5,820	7,324	**26,394**
Subsidiary equity obligations	151	307	218	209	**885**

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

The recourse obligations, those amounts that have recourse to the Corporation, which are due in less than one year totaled $1.8 billion (2017 – $1.0 billion). Corporate borrowings of $440 million due in April 2019 have been pre-funded through a corporate debt issuance completed in January 2019, while the remaining will be funded through working capital and cash flows from operating activities.

The Corporation entered into arrangements in 2014 with respect to $1.8 billion of exchangeable preferred equity units issued by BPY, which are redeemable in equal tranches of $600 million in 2021, 2024 and 2026, respectively. The preferred equity units are exchangeable into equity units of BPY at $25.70 per unit, at the option of the holder, at any time up to and including the maturity date. BPY may redeem the preferred equity units after specified periods if the BPY equity unit price exceeds predetermined amounts. At maturity, the preferred equity units will be converted into BPY equity units at the lower of $25.70 or the then market price of a BPY equity unit. In order to provide the purchaser with enhanced liquidity, the Corporation has agreed to purchase the preferred equity units for cash at the option of the holder, for the initial purchase price plus accrued and unpaid dividends. In order to decrease dilution risk to BPY, the Corporation has agreed with the holder and BPY that if the price of a BPY equity unit is less than 80% of the exchange price of $25.70 at the redemption date of the 2021 and 2024 tranches, the Corporation will acquire the preferred equity units subject to redemption, at the redemption price, and to exchange these preferred equity units for preferred equity units with similar terms and conditions, including redemption date, as the 2026 tranche. Accordingly, commitments in 2018 include $178 million, which represents the carrying value of the exchange option at the time of issuance in respect of BPY's subsidiary preferred units, and the remaining $1.6 billion was recorded within subsidiary equity obligations.

Commitments of $3.1 billion (2017 – $2.6 billion) represent various contractual obligations assumed in the normal course of business by our various operating subsidiaries. These included commitments to provide bridge financing and letters of credit and guarantees provided in respect of power sales contracts and reinsurance obligations. These commitments shall be funded through the cash flows of the company's subsidiaries.

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

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

We have also committed to purchase power produced by certain of BEP's hydroelectric assets as previously described on page 59.

EXPOSURES TO SELECTED FINANCIAL INSTRUMENTS

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

PART 5 – ACCOUNTING POLICIES AND INTERNAL CONTROLS

ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Overview

We are a Canadian corporation and, as such, we prepare our consolidated financial statements in accordance with IFRS.

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

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

In making judgments and estimates, management relies on external information and observable conditions, where possible, supplemented by internal analysis, as required. These estimates have been applied in a manner consistent with the prior year and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in this report. As we update the fair values of our investment property portfolios quarterly, with gains reflected in net income, we discuss judgments and estimates relating to the key valuation metrics below.

For further reference on accounting policies, including new and revised standards issued by the IASB and judgments and estimates, see our significant accounting policies contained in Note 2 of the December 31, 2018 consolidated financial statements.

Adoption of New Accounting Standards

We adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9 *Financial Instruments* ("IFRS 9") effective January 1, 2018.

The adoption of IFRS 15, which applies to nearly all contracts with customers and specifies how and when revenue should be recognized, required the application of significant critical estimates and judgments. We adopted the standard using the modified retrospective approach in which a cumulative catch-up adjustment was recorded through opening equity on January 1, 2018 as if the standard had always been in effect and whereby comparative periods were not restated. The adoption of IFRS 15 resulted in a $280 million reduction to opening total equity, attributable primarily to our construction services business in the Private Equity segment. Under IFRS 15, revenue from construction services contracts will continue to be recognized over time; however, a higher threshold of probability must be achieved prior to recognizing revenue from variable consideration such as incentives and claims and variations resulting from contract modifications. Under the superseded standards, revenue was recognized when it was probable that work performed would result in revenue; under IFRS 15, revenue is recognized when it is highly probable that a significant reversal of revenue will not occur for these modifications.

IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities and 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, introducing greater judgment to assess the effectiveness of a hedging relationship. We adopted the standard on January 1, 2018 using transitional provisions permitting us to not restate prior period comparative information, recording an insignificant adjustment to opening equity.

Refer to the Accounting Judgments subsection within Part 5 of this MD&A for additional information relating to these new accounting standards and to Note 2(b) of our 2018 consolidated financial statements for the impact of the adoption and an overview of the new accounting policies.

Consolidated Financial Information

IFRS uses a control-based model to determine if consolidation is required. Therefore, we are deemed to control an investment if we (1) exercise power over the investee; (2) are exposed to variable returns from our involvement with the investee; and (3) have the ability to use our power to affect the amount of the returns. Due to the ownership structure of many of our subsidiaries, we control entities in which we hold only a minority economic interest. Please refer to Part 2 of this MD&A for additional information.

Accounting Estimates

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

i. Investment Properties

We classify the majority of the property assets within our Real Estate segment as investment properties. We determine investment property valuations by undertaking one of two accepted methods: (i) discounting the expected future cash flows, generally over a term of 10 years including a terminal value based on the application of a terminal capitalization rate, typically used for our office, retail and logistics assets; or (ii) undertaking a direct capitalization approach, typically used for our multifamily, triple net lease, self-storage, student housing and manufactured housing assets, whereby a capitalization rate is applied to current cash flows. Investment property valuations are updated quarterly, with gains or losses on revaluation reflected in net income.

Our valuations are prepared at the individual property level by internal investment professionals with the appropriate expertise in the respective industry, geography and asset type.

The majority of underlying cash flows in the models are comprised of contracted leases, many of which are long-term, with our core office portfolio having a combined 94% occupancy level and an average 8.3-year lease life, while our core retail portfolio has an occupancy rate of 97%. The models also include property-level assumptions for renewal probabilities, future leasing rates and capital expenditures. These are reviewed as part of the business planning process and external market data is utilized when determining the cash flows associated with lease renewals.

The valuation models must also be updated to reflect the appropriate discount rates and capitalization rates at the asset level. We verify our discount and terminal rate inputs by comparing to market data, third-party reports, research material and broker opinions. In certain circumstances, these rates are prepared by third-party consultants. For core retail properties, we utilize discount rates and capitalization rates provided by an independent third party. When using a direct capitalization method, we use an industry-supported market capitalization rate and apply that to individual property cash flows on a forward-looking basis up to twelve months, a back-looking basis, or a combination of the two to determine investment property values. Additionally, each year we sell a number of assets, which also provides support for our valuations, as we typically contract at prices comparable to IFRS values.

Once complete, the valuations are subject to various layers of review at the regional and business group senior management level, including an in-depth quantitative and qualitative review by the portfolio manager of the respective asset class. Once approved by the investment teams, the respective portfolio managers present the valuations to the real estate group senior management for final approval.

We test the outcome of our process by having a number of our properties externally appraised each year, including appraisals for core office properties, at least on a three-year rotating basis. We compare the results of the external appraisals to our internally prepared values and reconcile significant differences when they arise. During 2018, 93 of our properties were externally appraised, representing $36 billion of assets; external appraisals were within 1% of management's valuations.

The valuations are most sensitive to changes in cash flows, which include assumptions relating to lease renewal probabilities, downtime, capital expenditures, future leasing rates and associated leasing costs; discount rates; and terminal capitalization rates. The key valuation metrics of our real estate assets at the end of 2018 and 2017 are summarized below.

	Core Office		Core Retail[1]		LP Investments and Other		Weighted Average	
AS AT DEC. 31	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Discount rate	**6.8%**	6.9%	**7.1%**	n/a	**7.5%**	7.3%	**7.2%**	7.1%
Terminal capitalization rate	**5.7%**	5.8%	**6.0%**	n/a	**6.9%**	7.0%	**6.1%**	6.2%
Investment horizon (years)	**11**	11	**12**	n/a	**8**	9	**10**	10

1. After obtaining control of GGP on August 28, 2018, we are now consolidating multiple investment properties in our core retail operations. Please see Note 5 of the consolidated financial statements for additional information.

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

The following table presents the impact on the fair value of our consolidated investment properties as at December 31, 2018 from a 25-basis point change to the relevant unobservable inputs. For properties valued using the discounted cash flow method, the basis point change in valuation metrics relates to a change in discount and terminal capitalization rates. For properties valued using the direct capitalization approach, the basis point change in valuation metrics relates to a change in the overall capitalization rate.

AS AT DEC. 31, 2018 (MILLIONS)	Fair Value	Sensitivity
Core office		
United States	$ 15,237	$ 837
Canada	4,245	329
Australia	2,391	201
Europe	1,331	—
Brazil	329	10
Core retail	17,607	612
LP Investments and other		
LP Investments office	8,438	517
LP Investments retail	3,414	143
Logistics	183	8
Mixed-use	12,086	140
Multifamily	4,151	255
Triple net lease	5,067	176
Self-storage	931	30
Student housing	2,417	82
Manufactured housing	2,369	104
Other investment properties	4,113	220
Total	$ 84,309	$ 3,664

ii. Revaluation Method for PP&E

Within our Infrastructure and Renewable Power segments, we revalue our PP&E using a discounted cash flow ("DCF") approach; our Real Estate hospitality assets are valued using the depreciated replacement cost method. PP&E within our Private Equity segment is recorded at cost less accumulated depreciation and impairment losses.

Assets subject to the revaluation approach are revalued annually following a bottom-up approach, starting at the operating level with local professionals, and involving multiple levels of review, including by senior management. Changes in fair value are reported through other comprehensive income as revaluation surplus. Underlying cash flows used in DCF models are subject to detailed reviews as part of the business planning, with discount rates and other key variable inputs reviewed for reasonability and the models reviewed for mathematical accuracy. Key inputs are frequently compared to third-party reports commissioned by the respective entities to assess reasonability. In addition, comparable market transactions are analyzed to consider for benchmarking. Additional information about the revaluation methodology and current year results is provided below.

When determining the carrying value of PP&E using the revaluation method, the company uses the following assumptions and estimates: the timing of forecasted revenues; future sales prices and associated expenses; future sales volumes; future regulatory rates; maintenance and other capital expenditures; discount rates; terminal capitalization rates; terminal valuation dates; useful lives; and residual values. Determination of the fair value of PP&E under development includes estimates in respect of the timing and cost to complete the development. This process is further discussed in Part 2 of this MD&A.

Renewable Power

Perpetual renewable power assets, such as many of our hydroelectric facilities, are revalued using 20-year discounted cash flow models with a terminal value that is determined, where appropriate, using the Gordon growth model. For assets with finite lives, such as wind and solar farms, the cash flow model is based on the estimated remaining service life and the residual asset value is used to represent the terminal value. Key inputs into the models, which include forward merchant power prices, energy generation estimates, operating and capital expenditures, tax rates, terminal capitalization rates and discount rates are assessed on an asset-by-asset basis as part of the bottom-up preparation and review process. The key inputs that affect cash flow projections are outlined below:

- To determine estimated future energy pricing, we consider the contract pricing for the proportion of our revenue that is subject to power purchase agreements. Long-term pricing is driven by the economics required to support new entrants into the various power markets in which we operate. Our long-term view is anchored to the cost of securing new energy from renewable sources to meet future demand growth by the year 2025 in North America and Colombia, 2023 in Europe and 2022 in Brazil. The year of new entry is viewed as the point when generators must build additional capacity to maintain system reliability and provide an adequate level of reserve generation with the retirement of older coal-fired plants and rising environmental compliance costs in North America and Europe, and overall increasing demand in Colombia and Brazil. Once the year of new entrant is determined, data from industry sources, as well as inputs from our development teams, is used to model the all-in cost of the expected technology mix of new construction, and the resulting market price required to support its development. For the North American and European businesses, we have estimated our renewable power assets will contract at discount to new-build wind prices (the most likely source of new renewable generation in those regions). In Brazil and Colombia, the estimate of future electricity prices is based on a similar approach as applied in North America using a forecast of the all-in cost of development. For the remaining pricing, referred to as merchant pricing, we use a mix of external data and our own estimates to derive the price curves.
- Short-term merchant revenue forecasts consist of four years of externally sourced broker quotes in North America, two years of gas pricing in Europe and a combination of short-term contracts and local market pricing in South America. Short-term pricing is linked by linear extrapolation to long-term power views.
- Energy generation forecasts are based on LTA for which we have significant historical data. LTA for hydroelectric facilities is based on third-party engineering reports commissioned during asset acquisitions and financing activities. These studies are based on statistical models supported by decades of historical river flow data. Similarly, LTA for wind facilities is based on third-party wind resource studies completed prior to construction or acquisition. LTA for solar facilities is based on third-party irradiance level studies at the location of our project sites during construction or acquisition.
- Capital expenditure forecasts rely on independent engineering reports commissioned from reputable third-party firms during underwriting or financings.

Our discount rates, which are adjusted based on asset level and regional considerations, are compared to those used by third-party valuators for reasonability.

Review of our models also includes assessing comparable market transactions and reviewing third-party valuator reports. We compare EBITDA multiples and value per MW at the asset level to recent market transactions, and on a portfolio basis, we compare the valuation multiples to our most comparable competitors in the market and the resulting book value of our equity after revaluation to our share price in the market. Specifically, we have noted from reviews of market transactions in the U.S. northeast that the multiples paid for the asset indicate that market participants likely share our view on escalating power prices in the region. We also confirm the reasonability of our values through the use of a third-party valuator which provides an opinion on the valuation method and results. Each year we have a valuation report provided on approximately one-third of the assets, providing a reasonableness opinion in the range of +/- 10%. We compare our valuations to this report, along with other inputs, ensuring that they are within the reasonable range.

In 2018, the fair value of the PP&E in our Renewable Power segment increased by $5.6 billion, primarily attributable to the release of acquisition risk premiums factored into the initial valuations of PP&E held by Isagen, TERP and Terraform Global following successful integration into our operations and the impact of the U.S. tax reform, partially offset by the weakening of foreign currencies against the U.S. dollar.

The key valuation metrics of our 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[1]	**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. The terminal capitalization rate applies only to hydroelectric assets in North America and Colombia.

The following table presents the impact on fair value of property, plant and equipment in our Renewable Power segment as at December 31, 2018 from a 25-basis point change in discount and terminal capitalization rates, as well as a 5% change in electricity prices:

AS AT DEC. 31, 2018 (MILLIONS)	
25 bps change in discount and terminal capitalization rates[1]	
North America	**$ 1,230**
Colombia	**215**
Brazil	**80**
Europe	**20**
5% change in electricity prices	
North America	**1,150**
Colombia	**440**
Brazil	**100**
Europe	**20**

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 and Canada. For the hydroelectric assets in Brazil, cash flows have been included based on the duration of the authorization or useful life of a concession asset plus a one-time 30-year renewal term for the majority of the hydroelectric assets. The weighted-average remaining duration at December 31, 2018, including a one-time 30-year renewal for applicable hydroelectric assets, is 29 years (2017 – 15 years). Consequently, there is no terminal value attributed to the hydroelectric assets in Brazil.

Energy Contracts

We substantially transferred our North American energy marketing function (formerly Brookfield Energy Marketing Inc., or BEMI) to BEP on October 31, 2018 along with our long-term power contract in Ontario. BEP will assume all the benefits of the contract, some of which previously accrued to us. The value of the net benefits transferred to BEP was paid for by a reduction of the price paid by us to BEP on the New York contract which we continue to hold. Under the New York contract, we are required to purchase power that BEP generates at certain of its New York assets at a fixed price. Based on LTA, we purchase approximately 3,600 GWh of power each year. The fixed price that BAM is required to pay BEP will gradually step down over time by $3/MWh from 2021 to 2025 and $5/MWh in 2026 resulting in an approximate $20/MWh reduction by 2026 which will continue until the contract expires in 2046.

As a result of the transfer described above, the New York power contract is the only power contract that remains in place between BAM and BEP. The contract is valued annually based on price curves as at December 31 incorporating revised discount rates as required. As at December 31, 2018, the contract was valued using weighted-average forward power price estimates of approximately $69/MWh in years 1-10 and $125/MWh in years 11-20, using a discount rate of approximately 7.2%.

Infrastructure

Our infrastructure assets, revalued using DCF models, are generally subject to contractual and regulatory frameworks that underpin the cash flows. We also include the benefits of development projects for existing in-place assets to the extent that they have been determined to be feasible, typically by external parties, and have received the appropriate approvals. We are unable to include the benefits of development projects within our business that are not considered improvements to existing PP&E.

The underlying cash flow models supporting the revaluation process include a number of different inputs and variables with risks mitigated through controls incorporated in the bottom-up preparation and review process. Inputs are reviewed for qualitative and quantitative considerations and the mechanical accuracy is tested by appropriate finance and investment professionals. Once complete, the portfolio management team presents the valuations to the infrastructure CEO, COO and CFO for approval.

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

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

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

Within our Infrastructure segment, we reported valuation gains of $472 million in 2018. The increase was primarily due to growth capital deployed in the year, higher cash flows in our U.K. regulated distribution business and increased volumes following the completion of development initiatives across the portfolio.

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

	Utilities		Transport		Energy		Data Infrastructure	
AS AT DEC. 31	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Discount rate	**7 – 14%**	7 – 12%	**10 – 13%**	10 – 15%	**12 – 15%**	12 – 15%	**13 – 15%**	n/a
Terminal capitalization multiples	**8x – 22x**	7x – 21x	**9x – 14x**	9x – 14x	**10x – 14x**	8x – 13x	**10x – 11x**	n/a
Investment horizon / Termination valuation date (years)	**10 – 20**	10 – 20	**10 – 20**	10 – 20	**10**	10	**10**	n/a

Real Estate

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

Revaluation within our real estate PP&E increased the fair value of our hospitality assets by $245 million. The increase was due to capital improvements completed during the year which improved the physical condition and replacement cost of the properties.

iii. Sustainable Resources

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

iv. Financial Instruments

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

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

v. Inventory

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

vi. Other

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

Accounting Judgments

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

i. Control or Level of Influence

When determining the appropriate basis of accounting for the company's investees, the company makes judgments about the degree of influence that 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. Refer to Part 2 of this MD&A for additional information.

ii. Investment Properties

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

iii. Property, Plant and Equipment

The company's accounting policy for its 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.

iv. 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 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.

v. 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.

vi. 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.

vii. 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 that the carrying value of the investment property will be recovered substantially through use.

viii. 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.

ix. Other

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

MANAGEMENT REPRESENTATIONS AND INTERNAL CONTROLS

Assessment and Changes in Internal Control Over Financial Reporting

Management has evaluated the effectiveness of the company's internal control over financial reporting as of December 31, 2018 and based on that assessment concluded that, as of December 31, 2018, our internal control over financial reporting was effective. Refer to Management's Report on Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in the applicable U.S. and Canadian securities laws) as of December 31, 2018. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective as of December 31, 2018 in providing reasonable assurance that material information relating to the company and our consolidated subsidiaries would be made known to them by others within those entities.

Declarations Under the Dutch Act of Financial Supervision

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

- The 2018 consolidated financial statements accompanied by this MD&A give a true and fair view of the assets, liabilities, financial position, and profit or loss of the company and the undertakings included in the consolidated financial statements taken as whole; and
- The management report included in this MD&A gives a true and fair review of the information required under the Dutch Act regarding the company and the undertakings included in the consolidated financial statements taken as a whole as of December 31, 2018, and of the development and performance of the business for the financial year then ended.

RELATED PARTY TRANSACTIONS

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

There were no significant related party transactions during the years ended December 31, 2018 or December 31, 2017.

PART 6 – BUSINESS ENVIRONMENT AND RISKS

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

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

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

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

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

b) Reputation

Actions or conduct that have a negative impact on investors' or stakeholders' perception of us could adversely impact our ability to attract and/or retain investor capital and generate fee revenue.

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

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

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

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

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

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

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

c) Asset Management

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

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

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

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

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

If any of our managed entities perform poorly, our fee-based revenue, cash available for distribution and/or carried interest would decline. Moreover, we could experience losses on our capital invested in our managed entities. Accordingly, our expected returns on these investments may be less than we have assumed in forecasting the value of our business. Certain of our investments may be concentrated in particular asset types or geographic regions, which could exacerbate any negative performance of one or more of our managed entities to the extent those concentrated investments are in assets or regions that experience a market dislocation.

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

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

d) Laws, Rules and Regulations

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

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

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

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

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

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

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

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

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

e) Governmental Investigations and Anti-Bribery and Corruption

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

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

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

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

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

f) Foreign Exchange and Other Financial Exposures

Foreign exchange rate fluctuations could adversely impact our aggregate foreign currency exposure and hedging strategies may not be effective.

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

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

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

The Dodd-Frank Act and similar laws in other jurisdictions impose rules and regulations governing oversight of the over-the-counter derivatives market and its participants. These regulations may impose additional costs and regulatory scrutiny on us. If our derivative transactions are required to be executed through exchanges or regulated facilities, we will face incremental collateral requirements in the form of initial margin and require variation margin to be cash settled on a daily basis. Such an increase in margin requirements (relative to bilateral agreements), were it to occur, perhaps combined with a more restricted list of securities that qualify as eligible collateral, would require us to hold larger positions in cash and treasuries, which could reduce income. We cannot predict the effect of changing derivatives legislation on our hedging costs, our hedging strategy or its implementation, or the risks that we hedge. Regulation of derivatives may increase the cost of derivative contracts, reduce the availability of derivatives to protect against operational risk and reduce the liquidity of the derivatives market, all of which may reduce our use of derivatives and result in the increased volatility and decreased predictability of our cash flows.

g) Temporary Investments

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

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

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

h) Interest Rates

Rising interest rates could increase our interest costs and adversely affect our financial performance.

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

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

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

The Financial Conduct Authority in the U.K. has announced that it will cease to compel banks to participate in LIBOR after 2021. This change to the administration of LIBOR, and any other reforms to benchmark interest rates, could create risks and challenges for us, the entities that we manage, and our portfolio companies. The discontinuance of, or changes to, benchmark interest rates may require adjustments to agreements to which we and other market participants are parties, as well as to related systems and processes.

i) Financial and Liquidity

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

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

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

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

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

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

j) Human Capital

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

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

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

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

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

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

k) Geopolitical

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

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

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

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

l) Economic Conditions

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

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

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

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

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

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

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

m) Tax

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

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

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

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

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

n) Financial Reporting and Disclosures

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

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

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

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

o) Health, Safety and the Environment

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

The ownership and operation of some of the assets held in our portfolio companies carry varying degrees of inherent risk or liability related to worker health and safety and the environment, including the risk of government-imposed orders to remedy unsafe conditions and contaminated lands and potential civil liability. Compliance with health, safety and environmental standards and the requirements set out in the relevant licenses, permits and other approvals obtained by the portfolio companies is crucial.

Our portfolio companies have incurred and will continue to incur significant capital and operating expenditures to comply with health, safety and environmental standards, to obtain and comply with licenses, permits and other approvals, and to assess and manage potential liability exposure. Nevertheless, they may be unsuccessful in obtaining or maintaining an important license, permit or other approval or become subject to government orders, investigations, inquiries or other proceedings (including civil claims) relating to health, safety and environmental matters, any of which could have a material adverse effect on us.

Health, safety and environmental laws and regulations can change rapidly and significantly, and we and/or our portfolio companies may become subject to more stringent laws and regulations in the future. The occurrence of any adverse health, safety or environmental event, or any changes, additions to, or more rigorous enforcement of, health, safety and environmental standards, licenses, permits or other approvals could have a significant impact on operations and/or result in material expenditures.

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

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

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

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

p) Catastrophic Event/Loss, Climate Change, and Terrorism (including Cyber Terrorism)

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

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

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

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

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

q) Dependence on Information Technology Systems

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

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

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

r) Litigation

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

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

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

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

s) Insurance

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

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

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

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

t) Credit and Counterparty Risk

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

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

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

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

u) Real Estate

We face risks specific to our real estate activities.

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

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

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

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

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

v) Renewable Power

We face risks specific to our renewable power activities.

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

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

A portion of our renewable power revenue is tied, either directly or indirectly, to the wholesale market price for electricity, which is impacted by a number of external factors beyond our control. Additionally, a portion of the power we generate is sold under long-term power purchase agreements, shorter-term financial instruments and physical electricity contracts which are intended to mitigate the impact of fluctuations in wholesale electricity prices; however, they may not be effective in achieving this outcome. Certain of our power purchase agreements will be subject to re-contracting in the future. If the price of electricity in power markets is declining at the time of such re-contracting, it may impact our ability to re-negotiate or replace these contracts on terms that are acceptable to us.

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

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

w) Infrastructure

We face risks specific to our infrastructure activities.

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

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

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

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

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

x) Private Equity

We face risks specific to our private equity activities.

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

Unfavorable economic conditions could negatively impact the ability of investee companies to repay debt. Even with our support, adverse economic conditions facing our investee companies may adversely impact the value of our investments or deplete our financial or management resources. These investments are also subject to the risks inherent in the underlying businesses, some of which are facing difficult business conditions and may continue to do so for the foreseeable future. These risks are compounded by recent growth, as new acquisitions have increased the scale and scope of our operations, including in new geographic areas and industry sectors, and we may have difficulty managing these additional operations.

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

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

Our infrastructure services operations include investments in nuclear servicing and marine transportation. The nuclear power generation industry is politically sensitive and opposition to particular projects could lead to increased regulation and/or more onerous operating requirements. A future accident at a nuclear reactor could result in the shutdown of existing plants or impact the continued acceptance by the public and regulatory authorities of nuclear energy and the future prospects for nuclear generators. Accidents, terrorism, natural disasters or other incidents occurring at nuclear facilities or involving shipments of nuclear materials could reduce the demand for nuclear services. Marine transportation and oil production is inherently risky, particularly in the extreme conditions in which many of our vessels operate. An incident involving significant loss of product or environmental contamination by any of our vessels could harm our reputation and business.

We have industrial operations that are substantially dependent upon the prices we receive for the resources we produce. Those prices depend on factors beyond our control, and commodity price declines can have a significant negative impact on these operations. Sustained depressed levels or future declines of the price of resources such as oil, gas, limestone and palladium and other metals may adversely affect our operating results and cash flows. For these types of businesses, it can be difficult or expensive to obtain insurance. Our industrial operations can face labour disruptions and economically unfavorable collective bargaining agreements, as well as exposure to occupational health and safety and accident risks.

Unforeseen political events in markets where we own and operate assets and may look to for further growth, such as Brazil, India and China, may create economic uncertainty. Such uncertainty could cause disruptions to our businesses, including affecting the business of and/or our relationships with our customers and suppliers, as well as altering the relationship among tariffs and currencies. In addition, political outcomes in the markets in which we operate may also result in legal uncertainty and potentially divergent national laws and regulations, which can contribute to general economic uncertainty. Economic uncertainty impacting us and our managed entities could be exacerbated by near-term political events, including those in Brazil, India, China and elsewhere.

y) Residential Development

We face risks specific to our residential development and mixed-use activities.

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

Virtually all of our homebuilding customers finance their home acquisitions through mortgages. Even if potential customers do not need financing, changes in interest rates or the unavailability of mortgage capital could make it harder for them to sell their homes to potential buyers who need financing, resulting in a reduced demand for new homes. Rising mortgage rates or reduced mortgage availability could adversely affect our ability to sell new homes and the prices at which we can sell them. Our Canadian markets continue to be materially impacted by recent changes to mortgage qualification rules that introduced stress tests for homebuyers and government policies relating to the Ontario real estate market. In the United States, significant expenses incurred for purposes of owning a home, including mortgage interest expense and real estate taxes, generally are deductible expenses for an individual's U.S. federal and, in some cases, state income taxes. However, in 2017 mortgage interest deductibility was reduced significantly for both federal and state taxes, which may adversely impact demand for and sales prices of new homes.

The current economic environment also continues to impact the industry for retail and office properties in our mixed-use projects. As we depend on office, retail, and apartment tenants to generate income from these mixed-use projects, our results of operations and cash flows may be adversely affected by vacancies and tenant defaults or bankruptcy in our mixed-use properties, and we may be unable to renew leases or re-lease space in our mixed-use properties as leases expire.

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

Our residential development and mixed-use business is susceptible to adverse weather conditions, other environmental conditions, and natural disasters, which could adversely affect our business and results of operations. For example, in fiscal 2017, Hurricane Harvey disrupted our businesses in Texas, which resulted in temporary reductions in sales and closings and while none of our U.S. properties were directly affected by the recent significant wildfires throughout Southern California, we could experience labor shortages, construction delays, or utility company delays, which in turn could impact our results.

GLOSSARY OF TERMS

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

References

"Brookfield," the "company," "we," "us" or "our" refers to Brookfield Asset Management Inc. and its consolidated subsidiaries. The "Corporation" refers to our asset management business which is comprised of our asset management and corporate business segments.

We refer to investors in the Corporation as **shareholders** and we refer to investors in our private funds and listed partnerships as **investors.**

We use **asset manager** to refer to our asset management segment which offers a variety of investment products to our investors:

- We have 42 active funds across major asset classes; real estate, infrastructure/renewable power and private equity. These funds include core, credit, value-add and opportunistic closed-end funds and core long-life funds. We refer to these funds as our **private funds.**
- We refer to BPY, BEP, BIP and BBU as our **listed partnerships**.
- We refer to our public securities group as **public securities**. This group manages fee bearing capital through numerous funds and separately managed accounts, focused on fixed income and equity securities.

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

- **Acadian** – Acadian Timber Corp.
- **BBU** – Brookfield Business Partners L.P.
- **BEMI** – Brookfield Energy Marketing Inc.
- **BEP** – Brookfield Renewable Partners L.P.
- **BIP** – Brookfield Infrastructure Partners L.P.
- **BPY** – Brookfield Property Partners L.P.
- **BPR** – Brookfield Property REIT Inc. (formerly GGP Inc.)
- **GGP** – GGP Inc.
- **Norbord** – Norbord Inc.
- **TerraForm Power ("TERP")** – TerraForm Power, Inc.

Performance Measures

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

Assets under management ("AUM") refers to the total fair value of assets that we manage, on a gross asset value basis, including assets for which we earn management fees and those for which we do not. AUM is calculated as follows: (i) for investments that Brookfield consolidates for accounting purposes or actively manages, including investments of which Brookfield or a controlled investment vehicle is the largest shareholder or the primary operator or manager, at 100% of the investment's total assets on a fair value basis; and (ii) for all other investments, at Brookfield's or its controlled investment vehicle's, as applicable, proportionate share of the investment's total assets on a fair value basis. Brookfield's methodology for determining AUM may differ from the methodology employed by other alternative asset managers and Brookfield's AUM presented herein may differ from our AUM reflected in other public filings and/or our Form ADV and Form PF.

Base management fees, which are determined by contractual arrangements, are typically equal to a percentage of fee bearing capital and are accrued quarterly. Base management fees, including private fund base fees and listed partnership base fees, are IFRS measures.

> ***Private fund base fees*** are typically earned on fee bearing capital from third-party investors only and are earned on invested and/or uninvested fund capital, depending on the stage of the fund life.

> ***Listed partnership base fees*** are earned on the total capitalization, including debt and market capitalization, of the listed partnerships, which includes our investment. Base fees for BPY, BEP and TERP include a quarterly fixed fee amount of \$12.5 million, \$5 million and \$3 million, respectively. BPY and BEP each pay additional fees of 1.25% on the increase in market capitalization above their initial capitalization of \$11.5 billion and \$8 billion, respectively. TERP pays an additional fee of 1.25% on the increase above initial per unit price at the time of acquisition. Base fees for BPR, BIP and BBU are 1.25% of total capitalization. BPR capital is subject to a 12-month fee waiver which will expire at the end of August 2019.

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

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

AS AT DEC. 31 (MILLIONS)	**2018**	2017
Total consolidated liabilities and equity	**$ 256,281**	$ 192,720
Add: our share of debt of investments in associates	**9,533**	10,875
Less: non-controlling interests' share of liabilities		
Non-recourse borrowings	**(80,225)**	(47,684)
Liabilities associated with assets held for sale	**(550)**	(606)
Accounts payable and other	**(13,692)**	(7,200)
Deferred tax liabilities	**(7,811)**	(6,205)
Subsidiary equity obligations	**(2,218)**	(2,013)
Non-controlling interests	**(67,335)**	(51,628)
Total capitalization at our share	**$ 93,983**	$ 88,259

Carried interest is an IFRS measure that is a contractual arrangement whereby we receive a fixed percentage of investment gains generated within a private fund provided that the investors receive a pre-determined minimum return. Carried interest is typically paid towards the end of the life of a fund after the capital has been returned to investors and may be subject to clawback until all investments have been monetized and minimum investment returns are sufficiently assured.

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

> ***Realized carried interest, net*** is a non-IFRS measure and represents realized carried interest after direct costs, which include employee expenses and cash taxes.

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

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

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

AS AT DEC. 31 (MILLIONS)	2018	2017
Carry eligible capital	**$ 58,309**	$ 42,357
Less:		
Uncalled private fund commitments	**(21,883)**	(18,591)
Co-investments and other	**(6,108)**	(2,383)
Funds not yet at target preferred return	**(9,442)**	(2,508)
Adjusted carry eligible capital	**$ 20,876**	$ 18,875

Cash available for distribution and/or reinvestment is a non-IFRS measure that provides insight into earnings received by the Corporation that are available for distribution to common shareholders or to be reinvested into the business. It is calculated as the sum of our Asset Management segment FFO (i.e. fee related earnings and realized carried interest, net); distributions from our listed partnerships, other investments that pay regular cash distributions and distributions from our corporate cash and financial assets; other invested capital earnings, which include FFO from our residential operations, energy contracts, sustainable resources and other real estate, private equity, corporate investments that do not pay regular cash distributions, corporate costs and corporate interest expense; net of preferred share dividend payments.

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2018	2017
Asset management FFO	**$ 1,317**	$ 970
Distributions received from investments	**1,698**	1,351
Other invested capital earnings		
Corporate borrowings	**(323)**	(261)
Corporate costs and taxes	**(163)**	(39)
Other wholly-owned investments	**41**	23
	(445)	(277)
Preferred share dividends	**(151)**	(145)
Cash available for distribution and/or reinvestment	**$ 2,419**	$ 1,899

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

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

Total liquidity represents the sum of core liquidity and uncalled private fund commitments and is used to pursue new transactions.

Corporate capitalization represents the amount of debt issued by the Corporation, accounts payable and deferred tax liability in our Corporate segment as well as our issued and outstanding common and preferred shares.

Distributions (current rate) represents the distributions that we would receive during the next twelve months based on the current distribution rates of the investments that we currently hold. The dividends from our listed investments are calculated by multiplying the number of shares held by the most recently announced distribution policy. The yield on cash and financial assets portfolio is equal to 8% of the weighted average balance of the last four quarters of our corporate cash and financial assets. Distributions on our unlisted investments are calculated based on the quarterly distributions received in the most recent fiscal year.

Economic ownership interest represents the company's proportionate equity interest in our listed partnerships which can include redemption-exchange units ("REUs"), Class A limited partnership units, special limited partnership units and general partnership units in each subsidiary, where applicable, as well as any units or shares issued in subsidiaries that are exchangeable for units in our listed partnerships ("exchange units"). REUs and exchange units share the same economic attributes as the Class A limited partnership units in all respects except for our redemption right, which the listed partnership can satisfy through the issuance of

Class A limited partnership units. The REUs, general partnership units and exchange 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.

Fee bearing capital represents the capital committed, pledged or invested in the listed partnerships, private funds and public securities that we manage which entitles us to earn fee revenues. Fee bearing capital includes both called ("invested") and uncalled ("pledged" or "committed") amounts. When reconciling period amounts we utilize the following definitions:

- **Inflows** include capital commitments and contributions to our private and public securities funds and equity issuances in our listed partnerships.
- **Outflows** represent distributions and redemptions of capital from within the public securities capital.
- **Distributions** represent quarterly distributions from listed partnerships as well as returns of committed capital (excluding market valuation adjustments), redemptions and expiry of uncalled commitments within our private funds.
- **Market activity** includes gains (losses) on portfolio investments, listed partnerships and public securities based on market prices.
- **Other** include changes in net non-recourse leverage included in the determination of listed partnership capitalization and the impact of foreign exchange fluctuations on non-U.S. dollar commitments.

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

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

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Total		Per Share	
	2018	2017	**2018**	2017
Net income	**$ 7,488**	$ 4,551	**$ 7.51**	$ 4.50
Realized disposition gains recorded as fair value changes or equity	**1,445**	1,116	**1.48**	1.14
Non-controlling interest in FFO	**(6,015)**	(4,964)	**(6.15)**	(5.07)
Financial statement components not included in FFO				
Equity accounted fair value changes and other non-FFO items	**1,284**	856	**1.31**	0.87
Fair value changes	**(1,794)**	(421)	**(1.84)**	(0.43)
Depreciation and amortization	**3,102**	2,345	**3.17**	2.39
Deferred income taxes	**(1,109)**	327	**(1.13)**	0.34
Total FFO	**$ 4,401**	$ 3,810	**$ 4.35**	$ 3.74

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

We use realized disposition gains and losses within FFO in order to provide additional insight regarding the performance of investments on a cumulative realized basis, including any unrealized fair value adjustments that were recorded in 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.

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

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

AS AT DEC. 31, 2018	Current Distribution Rate[1]	Distribution Hurdles (per unit)[2]	Incentive Distributions
Brookfield Infrastructure Partners (BIP)	$ 2.01	$ 0.81 / $ 0.88	15% / 25%
Brookfield Renewable Partners (BEP)	2.06	1.50 / 1.69	15% / 25%
Brookfield Property Partners (BPY)	1.32	1.10 / 1.20	15% / 25%

1. Current rate based on February 2019 announced distribution rates.
2. We are also entitled to earn a portion of increases in distributions by TERP, based on distribution hurdles of $0.93 and $1.05. TERP's current annual distribution has not yet reached the first hurdle.

Invested capital consists of investments in our listed partnerships, other listed securities, unlisted investments and corporate working capital. Our invested capital provides us with FFO and cash distributions.

Invested capital, net consists of invested capital and leverage.

Leverage represents the amount of corporate borrowings and perpetual preferred shares held by the company.

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

Performance fees is an IFRS measure. Performance fees are paid to us when we exceed predetermined investment returns within BBU and on certain public securities portfolios. BBU performance fees are accrued quarterly based on the volume-weighted average increase in BBU unit price over the previous threshold, whereas performance fees within public securities funds are typically determined on an annual basis. Performance fees are not subject to clawback.

Proportionate basis generation is used in our Renewable Power segment to describe the total amount of power generated by facilities held by BEP, at BEP's respective economic ownership interest percentage.

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

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

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

Accumulated unrealized carried interest is based on carried interest that would be receivable under the contractual formula at the period end date as if a fund was liquidated and all investments had been monetized at the values recorded on that date. We use this measure to provide insight into our potential to realize carried interest in the future. Details of components of our accumulated unrealized carried interest are included in the definition of unrealized carried interest below.

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

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

AS AT DEC. 31 (MILLIONS)		Adjusted Carry Eligible Capital[1]	Adjusted Multiple of Capital[2]	Fund Target Carried Interest[3]	Current Carried Interest[4]
2018					
Real Estate	**$**	**8,534**	**1.8x**	**20%**	**17%**
Infrastructure		**10,022**	**1.4x**	**20%**	**17%**
Private Equity		**2,320**	**2.5x**	**20%**	**20%**
	$	**20,876**			
2017					
Real Estate	$	7,542	1.8x	20%	16 %
Infrastructure		9,613	1.4x	20%	14 %
Private Equity		1,720	2.7x	20%	20 %
	$	18,875			
2016					
Real Estate	$	5,376	1.8x	20%	12 %
Infrastructure		5,777	1.4x	20%	16 %
Private Equity		1,321	1.5x	20%	6 %
	$	12,474			

1. Excludes uncalled private fund commitments, co-investment capital and funds that have not met their preferred return.
2. Adjusted Multiple of Capital represents the ratio of total distributions plus estimates of remaining value to the equity invested, and reflects performance net of fund management fees and expenses, before carried interest. Our core, credit and value add funds pay management fees of 0.90 – 1.50% and our opportunistic and private equity funds pay fees of 1.50 – 2.00%. Funds typically incur fund expenses of approximately 0.35% of carry eligible capital annually.
3. Fund target carried interest percentage is the target carry average of the funds within adjusted carry eligible capital as at each period end.
4. When a fund has achieved its preferred return, we earn an accelerated percentage of the additional fund profit until we have earned the fund target carried interest percentage. Funds in their early stage of earning carry will not yet have earned the full percentage of total fund profit to which we are entitled.

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

AS AT DEC. 31 (MILLIONS)	Accumulated Unrealized Carried Interest			Change	
	2018	2017	2016	2018 vs 2017	2017 vs 2016
Real Estate	**$ 1,087**	$ 904	$ 503	$ 183	$ 401
Infrastructure	**725**	559	348	166	211
Private Equity	**674**	616	47	58	569
Accumulated unrealized carried interest	**2,486**	2,079	898	407	1,181
Less: associated expenses[1]	**(754)**	(649)	(322)	(105)	(327)
Accumulated unrealized carry, net	**$ 1,732**	$ 1,430	$ 576	302	854
Add: realized carried interest, net				188	74
Unrealized carried interest, net				$ 490	$ 928

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