Letter to Shareholders

OVERVIEW

2018 was a strong year in the global economy, punctuated by considerable political drama and towards the end of the year, stock market volatility. Behind the volatility, most companies reported good results and ours were no exception. Net income in aggregate was a record $7.5 billion or $3.40 per share. Funds from operations (FFO) were $4.35 per share, an increase of 16% over 2017. FFO should grow substantially in 2019, as we expect to sell a number of assets and therefore record upwards of $1 billion of carried interest into income.

Our assets under management grew to over $350 billion, and asset management results increased commensurately by 36% to $1.3 billion. We raised $40 billion of capital during the year, invested or committed $35 billion and sold $14 billion of mature assets. We recently closed our latest opportunistic real estate fund at $15 billion, raised $7 billion for the first close of our successor private equity fund and are now in the market with our successor infrastructure fund, which should be by far our largest. In total, this round of flagship funds should raise ±$50 billion of capital for deployment.

Today we have approximately $35 billion of deployable capital for activities and this should grow as we continue to raise capital across flagship and other strategies. On a corporate basis, we have started devoting some of our free cash flow to share repurchases. During the year, $625 million of free cash flow was invested to repurchase shares of BAM and our listed partnerships.

STOCK PERFORMANCE

We manage our business for the long term. We regularly provide our stock performance as a measure of the achievement of our goals, although it is not our primary measure of value. Our longer dated returns highlight that our business is resilient through market cycles and we continue to seek to deliver on our goal of generating in excess of 12% to 15% compound returns. Volatility toward the end of 2018 led to a small decline in our one-year performance, but it has recovered in the last month, so we have shown the numbers in the table for the year to February 13, 2019.

More importantly, our view of the intrinsic value of the business increased significantly over the last twelve months. We successfully raised and deployed significant amounts of capital and sold several investments in our funds, building up our accrued carried interest balance. This increased intrinsic value of our businesses should enable us to continue compounding these results well into the future.

Investment Performance (Years)	Brookfield NYSE	S&P 500	10-Year U.S. Treasuries
1 (to February 13, 2019)	—%	5%	1%
10	17%	13%	3%
20	17%	6%	5%
25	17%	9%	4%

MARKET ENVIRONMENT

Economic fundamentals generally remain strong globally. We continue to see good availability of liquidity in debt markets, and inflows into our fund strategies have been robust. This is all playing out against a backdrop of political upheaval and the reality that we are in the late stages of the business cycle, and therefore will likely see a recession at some point in the next few years.

The U.S. economy, while slowing from the pace in late 2017 and early 2018, continues to be strong. Interest rates are still historically low and we expect that to continue. The stock market took a welcome pause at the end of 2018 which brought rationality back to the equity markets. In the context of this backdrop and amidst these conditions in 2018, we found a number of great businesses to acquire.

Economic momentum in Europe has been slow for some time due to uncertainty over Brexit, Italy's budget deadlock with the EU, and long-term structural issues. We expect activity to be better once the outlook on Brexit becomes clearer, but in the meantime, we believe there will be select opportunities to deploy capital.

Canada and Australia are exceptional long-term markets for investment and while they are small on a global basis, both are very important to us, given our major presence in each. We believe they will continue to be excellent markets for us, given their stability and resilience. In 2018, we were successful on a number of fronts in both countries.

The South American markets in which we invest have been recovering nicely, with Brazil the slowest, but are set to recover now that a new government is in place. We invested significant capital in South America over the past three years and will both continue to tuck-in assets around these businesses and monetize investments as the currencies and economies recover.

Asia continues to increase its importance in the global economy. While trade issues have been disruptive in the short term, and growth is slowing due to the law of large numbers, these countries are very important global investment markets. We continue to judiciously increase our investments in India, China, Japan and South Korea.

A SUMMARY OF 2018

Total assets under management are now over $350 billion, as we continue to raise and deploy large amounts of capital across our businesses.

AS AT AND FOR THE TWELVE MONTHS ENDED DEC. 31 (MILLIONS)	2014	2015	2016	2017	2018	CAGR
Total assets under management	$ 203,840	$ 227,803	$ 239,825	$ 283,141	$ 354,736	15%
Fee bearing capital	85,936	94,262	109,576	125,590	137,528	12%
Gross annual run rate of fees plus target carry	1,204	1,489	2,031	2,475	2,975	25%
Fee related earnings (after costs)	378	496	712	896	1,129	31%
Cash available for reinvestment or distribution to BAM shareholders	1,024	1,274	1,782	1,899	2,419	24%

Asset Management Activities

Our fee bearing capital has seen step-change increases over the past few fund series, increasing from $49 billion in 2009 to $86 billion in 2014 and $138 billion in 2018. This growth in fee bearing capital will continue to contribute to an even higher growth of fee related earnings, carried interest and cash flows. In early 2019, we completed the final close for our flagship real estate fund, had a first close for our flagship private equity fund in late 2018, and recently launched our next infrastructure fund. In 2018, we also launched an Australian long-life real estate fund and long-life infrastructure fund. With all this, we raised $22 billion of third-party private capital across our strategies.

Our cash flow available for distribution and reinvestment was $2.4 billion for the year, a 27% increase over 2017. Our cash flows from invested capital, largely the LP commitments that we make alongside our investors, were $1.7 billion in 2018. Cash available for distribution is the sum of our asset management activities and the earnings or distributions received from our invested capital, net of our corporate expenses. The contributors to cash available for distribution within our asset management activities are fee related earnings and realized carried interest. Our fee related earnings were $1.1 billion in 2018, a $233 million increase from 2017.

We generated carried interest before costs of $661 million in 2018 and realized into income carried interest of $254 million before costs. We realize carried interest when the fund's cumulative returns are in excess of preferred returns and are no longer subject to clawback. During 2018, our first global flagship real estate fund achieved the milestone of returning 100% of invested capital as well as a 9% preferred return on capital to all investors. In 2019, we expect to generate and record into income and cash flow up to $1 billion of realized carried interest before costs from this fund and other various earlier vintage funds.

Operating Activities

Despite the fact that investment markets were more finely priced for most of 2018, we succeeded in acquiring a number of very high-quality assets by leveraging our key strengths – access to significant pools of capital, global scale and deep operating expertise. We invested or committed over $35 billion of capital in 2018 across our business groups and realized $14 billion of proceeds from the sale of mature assets.

While the market capitalization of some of our listed partnerships were impacted by the market volatility in the second half of the year, our underlying businesses' operations continued to grow and achieve record results. Overall, our share of the underlying funds from operations from our invested capital totaled $1.6 billion before disposition gains.

Our real estate operations had a strong year. In addition to acquisitions that drove increased FFO within our core office and core retail businesses, we sold a number of assets at favorable returns, returning significant capital to fund investors. We made great progress on our development activities, including Manhattan West in New York, where we topped out the 2.1 million square foot One Manhattan West office tower and recently launched the last office tower and a boutique hotel. On acquisitions, we acquired the balance of GGP we didn't already own and purchased Forest City Realty Trust. With respect to realizations, we sold a large U.S. logistics business, generating a 2.5 times gross multiple of capital and a gross IRR of 22%.

Our renewable power operations benefited from a full year of contribution from our investment in TerraForm, a large portfolio of solar and wind facilities, where we realized more than $100 million in cost savings through operational improvements and balance sheet initiatives. We also benefited from the acquisition of a western European portfolio of solar and wind assets that closed in the second quarter. In China, we established a joint venture to develop and operate rooftop solar projects across logistics and commercial rooftops. We also continue to see strong demand from investors for mature, contracted renewable assets, and in the third quarter, announced the sale of a 25% interest in a Canadian hydroelectric portfolio.

Our infrastructure operations continue to generate strong performance, with increases from our recent investments, largely offset by the absence of FFO from the sale of our Chilean transmission company. Within our energy business, results were up 29%, in part the result of the contribution from both the acquisitions of Enercare, as well as a group of Canadian midstream assets. This was partly offset by our utilities and transportation businesses which have significant Brazilian operations that were impacted by the depreciation of the Brazilian real. In total, we committed to seven acquisitions totaling approximately $13.1 billion. In addition to Enercare and our new Canadian midstream assets, these included three data center businesses located in the U.S., South America and Australia, and a 1,500 km gas pipeline in India.

Our private equity operating results more than doubled compared to the prior year, benefiting from both organic growth and capital deployment. In our industrials business, our graphite electrode business benefited significantly from strong pricing and long-term contracts put in place at the beginning of the year. Our infrastructure services business saw a significant increase in cash flows from a full-year contribution of our marine oil services business, as well as the acquisition of Westinghouse Electric Company. Within our business services group, we started redevelopment of the gaming facilities in the Greater Toronto Area. In addition, we committed to acquire a market-leading global battery manufacturing business slated to close in the first half of 2019. On the realization side, we began the process of monetizing our investment in our global manufacturer of graphite electrodes, following a very successful turnaround over the last few years, and sold our Australia-based oil and gas company, returning more than 3 times our initial investment within three and a half years.

2018 – A SMALLER NUMBER OF LARGE DEALS

Despite competitive conditions for most of 2018, we acquired a number of businesses that should do very well over the longer term. More importantly at this point in the cycle, each has inherent defensive protections. This is important as it is likely we will own all of these businesses through the next downturn.

Each one of these acquisitions is different but they all have one or more of the following in common: they are large in size and therefore the competition was limited; they are diverse in nature so many cannot participate due to their limited global reach; or they require significant operational enhancements to generate value – this is where our 100,000 operating team members come in. While none of the above guarantees success, we have found that by relentlessly focusing on these competitive advantages, the odds favor a greater chance of success.

We acquired a natural gas gathering and processing business for $3.3 billion in western Canada. This business is a long-term contracted business which protects our downside. On a leveraged basis, this business is generating 8% cash-on-cash yields which on the downside gives us substantial protection, while we are in the midst of re working the business to enhance returns.

We closed the acquisition of an $11.4 billion portfolio of largely office and residential properties in four premier markets in the U.S. – New York, San Francisco, Washington and Boston. Given that these assets sit in the premier U.S. markets for real estate and that we acquired this portfolio with few competitors due to size and diversity of assets, we should have limited downside risk even in a market downturn. On the upside, we believe we can generate 15% to 20% leveraged gross equity returns through optimizing the asset portfolio, operating improvements, and completing the development on a few large projects.

We acquired Westinghouse Electric Company for $4 billion. Westinghouse is an infrastructure services company that provides services to the power industry. There were few other potential buyers, given that the company was in bankruptcy and that the acquisition was large. We are currently generating approximately 20% cash-on-cash yields on equity and believe that through cost synergies and small amounts of growth this can be an exceptional investment.

Our renewable power business acquired Saeta Yield, a $3.1 billion portfolio of assets. The portfolio consists of 1,000 megawatts of wind and solar facilities in Spain and was available to Brookfield with little competition because it was a large concentration of assets in one country for any one investor. The difference for us is that, given our scale, these assets could be tucked into our overall portfolio. The business is generating +12% cash-on-cash yields on purchase price with upsides expected to come from a number of operational enhancements that we are working on.

We committed to acquire a $13.2 billion global battery maker for vehicles. This business is a global market leader in the industry and with technology. Despite this, there was a misperception on the impact of automotive electrification on demand for lead acid batteries. As a result of this, we were able to acquire this business on an unleveraged 8% cash-on-cash yield – with leveraged cash-on-cash gross returns increasing to over 20% as we execute our business plan. These strong cash yields should give us significant downside protection and underpin our investment returns. The electrification of the car parc is an opportunity for our business to increase sales of advanced low voltage batteries for electric vehicles, which we have higher market share in and earn higher margins on than traditional lead acid batteries installed in internal combustion vehicles. All electric vehicles require a low voltage battery to power auxiliary systems, manage the high voltage lithium ion propulsion battery, and ensure functional safety of critical vehicle functions.

BROOKFIELD OR BROOKFIELD OR BROOKFIELD?

We are often asked by investors which Brookfield stock they should own – BAM or one of our four listed partnerships. While it sounds self-serving, we recommend "all of them," because while each carries the Brookfield brand and owns and operates high-quality businesses, each one is different and has a specific goal of being best in class in their specific area of expertise – asset management, real estate, renewable power, infrastructure or private equity.

Of course, BAM is a significant owner of each of our listed partnerships, benefiting from their cash flows and value creation, but is focused and driven by our asset management business. It is though notable that our franchise is differentiated in the asset management industry by the scale and growth potential of these best-in-class listed partnerships which are managed by us in the same way as we manage our private funds for private investors. Furthermore, with very large ownership stakes in each partnership, we are incented to ensure each creates long-term value because as each of our entities does well, and trades well, this translates into further value creation for BAM.

The commonality of our entities is that all share the same disciplined investment approach, respect for capital, and access to our global operating platform and relationships. These characteristics have stood us well for a long time.

Brookfield Property Partners (BPY) is a premier, diversified commercial real estate portfolio featuring some of the world's premier properties. This is a portfolio that is well leased to high credit-quality tenants, generating stable, sustainable cash flows. The business features significant organic growth through an active development and redevelopment pipeline, in which the company leverages its multi-sector expertise. Investment returns are supplemented by BPY's participation in Brookfield-sponsored real estate opportunity funds, which invest in high-quality assets that are mispriced or feature significant operational upside across various property sectors, such as logistics, multifamily and self-storage.

Brookfield Infrastructure Partners (BIP) owns high-quality infrastructure assets that are the backbone of the global economy. Infrastructure cash flows are supported by regulated and long-term contractual frameworks and typically their cash flows are linked to inflation and/or global growth. The opportunity set in the business is very substantial as governments and corporations outsource their infrastructure investment to entities specialized in managing these types of assets. BIP is positioned with an investment-grade balance sheet, and irreplaceable assets on five continents across four sectors; energy, transportation, utilities and data.

Brookfield Renewable Partners (BEP) is one of the largest pure-play renewable power businesses globally, offering exposure to decarbonized energy, at a time when the global power grid is transforming from fossil fuels to renewables. BEP has 100+ years of experience in power generation, with over 17,000 megawatts of hydro, wind, solar, distributed generation and storage capacity across four continents. Over 75% of the generation is from hydro, leading to long-term cash flows with minimal annual re-investment.

Brookfield Business Partners (BBU) offers a unique opportunity to invest publicly in private equity investments. BBU invests in businesses with high barriers to entry, low production costs and those with the potential to benefit from Brookfield's global operating expertise. BBU has the flexibility to invest in any form (debt, equity, public, private) and across industries, enabling investment flexibility for when we find "good businesses" in times of market dislocation.

While each of our five securities is different, they are all investments that we expect will generate significant value creation over the long term. We hope that at least one of them will suit your investment needs, but we think all of them can belong in a well-diversified portfolio of investments.

THE 50-YEAR INFRASTRUCTURE RUNWAY

We are in the early stages of the bulk of the infrastructure backbone of the global economy being transferred into private hands from the public sector. We believe that this will translate into an opportunity of many tens of trillions of dollars over the next 50 years for the private sector.

There are a number of reasons for this shift from the public to private sector, but we think there are three main reasons. The first is that governments are highly indebted; despite this, they still need to keep up with both investment of capital into new infrastructure in the developing world, as well as the maintenance of old infrastructure in the developed world. The second is that private enterprise has proven to be far more efficient at building new infrastructure, as well as operating that infrastructure, than the public sector. The third is that interest rates are very low(ish) by historical standards and are expected to be that way for the foreseeable future. As a result, institutions need something to replace fixed income allocations in their portfolios that has low risk but reasonable returns. Infrastructure is part of the solution.

As a result, we expect that over the next 50 years there will be both a very large supply of capital for projects, and very large demand by governments for infrastructure capital. Our goal is to continue to build our reputation for fair dealing, good stewardship, and astute investing, to the benefit of the governments/ companies we deal with, the communities that these infrastructure assets serve, and those we invest on behalf of.

Our most recent flagship infrastructure fund is $14 billion and is now over 85% invested or committed. As such, we are now raising the successor private fund. On our existing fund, we do not believe we have compromised our returns to put capital to work, and therefore we see no reason that our next fund will not be significantly larger than the last.

We are often asked why we do not have the same issues that some public equity managers have investing funds as they grow larger. The difference is that infrastructure (as well as real estate and private equity) usually becomes more attractive as investments get larger. The competition for larger acquisitions is less and the sophistication required to operate these assets increases because of their complexity, therefore favoring large and experienced managers. Lastly, the larger assets acquired are generally also higher quality – they often have better counterparties, and stronger management teams. As a result we believe that our infrastructure business can scale to many times the size it is today.

ALTERNATIVES CANNOT BE REPLACED BY ETFs

Allocations to private investments (real estate, infrastructure and private equity) in the institutional investment market are circa 20% and look to double over the coming decades. Most institutional investors we deal with are increasing overall allocations to real estate, infrastructure and private equity through fund allocations, co-investments, or direct investments. As a result, we are in the midst of vast sums of capital being allocated to these areas and this should continue for many years to come.

This is due, in part, to the fact that traditional fixed income investments today do not generate enough yield to support the returns needed by institutional funds. Equally important is the desire to shed the historic volatility in public market assets that these institutions have traditionally had by holding liquid traded investments. In summary, alternative assets have been and will increasingly become the new fixed income component in most institutional portfolios.

Another major trend affecting the financial markets is that large sums of capital are being allocated from active public equity mandates towards passive strategies (through ETF's and other means). This shift is being driven by passive products offering low, sometimes no, fee alternatives and the perception (rightly or wrongly) that the returns, after fees, on passive funds can match or exceed those of active public market equity strategies.

In the face of this pressure on active mandates, private investing continues to grow rapidly – for many reasons, but primarily because private asset investing simply cannot be done passively. The good news is that ETF's cannot replace what we do! More specifically, it takes a lot of time and skill to acquire assets, and a lot of time, expertise and effort to operate and optimize these types of assets.

We believe that the current market environment will exist into the foreseeable future and that this backdrop will therefore enable quality private managers of assets to continue to grow. Furthermore, within this group of managers, we believe we are particularly well positioned, with three main competitive advantages in which we have invested decades establishing. The first is our scale; the capital we have available is in excess of that of most others. The second is our global platform: we have a presence in 30 countries over many years. And the third is our culture and operating capabilities: this is exemplified by our 100,000 operating team members around the world. These attributes define Brookfield and we attempt to continuously use one or more of these differentiators in everything we do.

CLOSING

In summary, 2018 was a successful year for us. Thank you for your continued support.

We remain committed to being a leading, world-class alternative asset manager, and investing capital for you and our investment partners in high-quality assets that earn solid cash returns on equity, while emphasizing downside protection for the capital employed. The primary objective of the company continues to be generating increased cash flows on a per share basis and as a result, higher intrinsic value per share over the longer term.

Please do not hesitate to contact any of us should you have suggestions, questions, comments, or ideas you wish to share with us.

Sincerely,

J. Bruce Flatt
Chief Executive Officer

February 14, 2019

Note: In addition to the disclosures set forth in the cautionary statements included elsewhere in this Report, there are other important disclosures that must be read in conjunction with, and that have been incorporated in, this letter as posted on our website at https://bam.brookfield.com/en/reports-and-filings.