

# Management's Discussion and Analysis

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

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*"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 115 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](http://www.brookfield.com), on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com) and on the EDGAR section of the U.S. Securities and Exchange Commission's ("SEC") website at [www.sec.gov](http://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 throughout this report does not form part of this report. All references in this report to websites are inactive textual references and are not incorporated by reference. Any other reports of the Company referred to herein are not incorporated by reference unless explicitly stated otherwise.

## 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. 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. 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 contained in this Report. The statements and information 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 Company 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: (i) investment returns that are lower than target; (ii) the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; (iii) the behavior of financial markets, including fluctuations in interest and foreign exchange rates; (iv) global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; (v) strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; (vi) changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); (vii) the ability to appropriately manage human capital; (viii) the effect of applying future accounting changes; (ix) business competition; (x) operational and reputational risks; (xi) technological change; (xii) changes in government regulation and legislation within the countries in which we operate; (xiii) governmental investigations; (xiv) litigation; (xv) changes in tax laws; (xvi) ability to collect amounts owed; (xvii) catastrophic events, such as earthquakes, hurricanes, or pandemics/epidemics; (xviii) the possible impact of international conflicts and other developments including terrorist acts and cyberterrorism; (xix) the introduction, withdrawal, success and timing of business initiatives and strategies; (xx) the failure of effective disclosure controls and procedures and internal controls over financial reporting and other risks; (xxi) health, safety and environmental risks; (xxii) the maintenance of adequate insurance coverage; (xxiii) the existence of information barriers between certain businesses within our asset management operations; (xxiv) risks specific to our business segments including our real estate, renewable power, infrastructure, private equity, and residential development activities; and (xxv) 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 USE OF NON-IFRS MEASURES

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 115 for all non-IFRS measures.

# PART 1 – OUR BUSINESS AND STRATEGY

## OVERVIEW

## ORGANIZATIONAL STRUCTURE

## COMPETITIVE ADVANTAGES

## OPERATING CYCLE

## LIQUIDITY AND CAPITAL RESOURCES

## RISK MANAGEMENT

## ESG

## OVERVIEW

We are a leading global alternative asset manager with a 120-year history and over \$540 billion of assets under management<sup>1</sup> across a broad portfolio of real estate, infrastructure, renewable power, private equity and credit assets. Our \$290 billion in fee-bearing capital<sup>1</sup> 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<sup>1</sup> and dedicated public vehicles, which allow investors to invest in our five 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, and hold a significant investment in Oaktree Capital Management ("Oaktree<sup>1</sup>"), which is a leading global alternative investment management firm with an expertise in credit.

### ✓ **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 perpetual 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<sup>1</sup> in a prudent manner to enhance returns while preserving capital throughout business cycles. Underlying investments are typically funded on a standalone, non-recourse, basis, providing a stable capitalization, with the vast majority of these borrowings done at investment-grade levels. Only 5% of the total leverage reported in our consolidated financial statements has recourse to the Corporation.

In addition, we maintain significant invested capital<sup>1</sup> 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 \$540 billion in assets under management and \$290 billion in fee-bearing capital<sup>1</sup>.

#### 2. **Operating expertise**

We have approximately 150,000 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")<sup>1</sup> which we use to evaluate the performance of our segments.

1. See definition in Glossary of Terms beginning on page 115.

## Asset Management

Our asset management activities encompass \$290 billion of fee-bearing capital across long-term private funds, perpetual strategies and public securities<sup>1</sup>. Together with our investment in Oaktree, we have over 1,800 unique institutional investors across our private funds business.

### *Long-term Private Funds – \$86 billion fee-bearing capital*

We manage and earn fees on a diverse range of real estate, renewable power, infrastructure, private equity and credit funds. These funds are long duration in nature and include closed-end value-add, credit and opportunistic strategies. On long-term private fund capital we earn:

1. Diversified and long-term **base management fees**<sup>1</sup> on capital that is typically committed for 10 years with two one-year extension options.
2. **Carried interest**<sup>1</sup>, 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.

### *Perpetual Strategies – \$79 billion fee-bearing capital*

We manage perpetual capital in our publicly listed partnerships<sup>1</sup> BPY<sup>1</sup>, BEP<sup>1</sup>, BIP<sup>1</sup>, BBU<sup>1</sup>, and TERP<sup>1</sup> as well as core and core plus private funds, which can continually raise new capital. On our perpetual strategies, we earn:

1. Long-term perpetual **base management fees**, which are based on total capitalization for our listed partnerships and net asset value for our perpetual private funds.
2. Stable **incentive distribution**<sup>1</sup> fees which are linked to cash distributions from listed partnerships (BPY, BEP and BIP) that exceed pre-determined thresholds. These cash distributions have a historical track record of growing annually and each of the listed partnership targets annual distribution growth rates within a range of 5-9%.
3. **Performance fees**<sup>1</sup> based on unit price performance (BBU) and carried interest on our perpetual private funds.

### *Oaktree – \$110 billion fee-bearing capital*

On September 30, 2019, we purchased approximately 61% of Oaktree and broadened our product offering. Oaktree provides a diverse range of long-term private fund and perpetual strategies to its investor base. Similar to our long-term private funds, we earn **base management fees** and **carried interest** on Oaktree's fund capital.

### *Public Securities – \$15 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 values, and performance income based on investment returns.

## Invested Capital<sup>1</sup>

We have approximately \$47 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 in our 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 115.

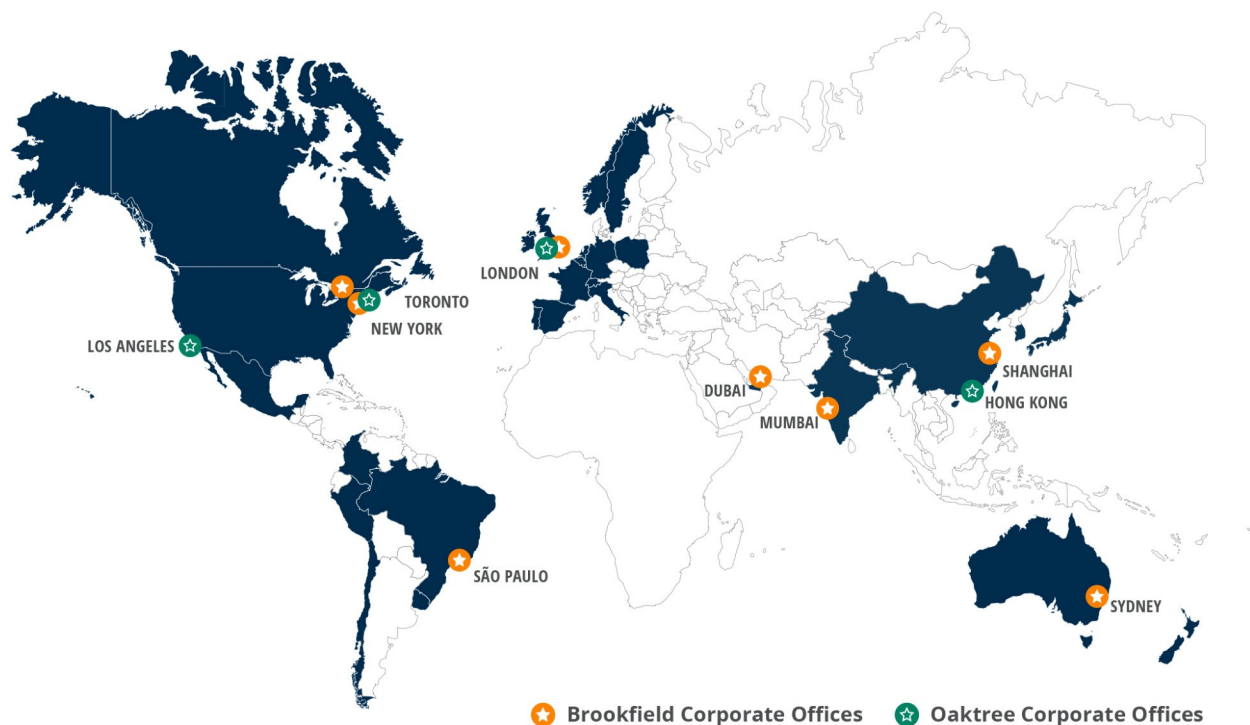
## ORGANIZATIONAL STRUCTURE

Our asset management business is organized across a wide range of investment products, primarily focused on real estate, infrastructure, renewable power, private equity and credit, and employs approximately 1,900 employees. In addition, we utilize our vast network of approximately 150,000 employees across our high-quality assets and businesses, largely owned through our affiliates and private funds.



1. Includes Oaktree and other alternative investments. Oaktree also has real estate and infrastructure products.
2. Economic ownership interest on a fully diluted basis.

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



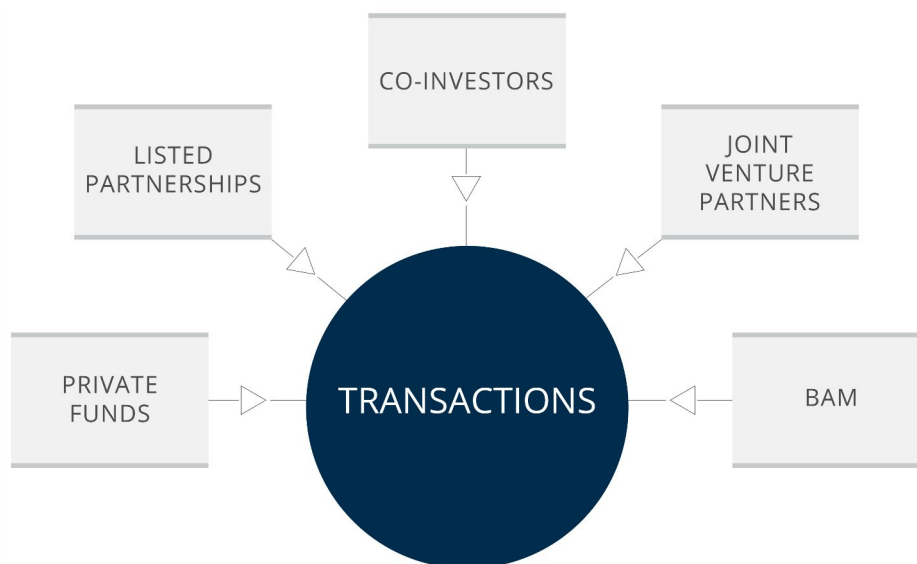
## COMPETITIVE ADVANTAGES

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 \$540 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 approximately 150,000 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 in turn will provide us with capital to invest and the opportunity to earn base management fees, incentive distributions and performance-based returns such as 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 predominantly 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

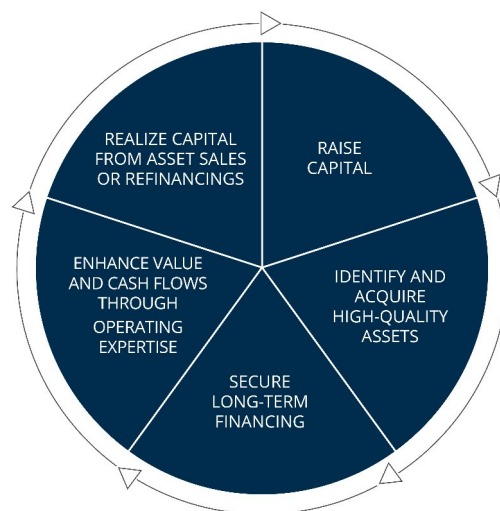
Our operating capabilities enable us to increase the value of the assets within our businesses and the cash flows they produce, and they protect capital better in adverse conditions. Our operating expertise, development capabilities and effective financing can help ensure that an investment's full value 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 Sales 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

Unlike many other alternative asset managers, much of the debt issued within our managed entities is included in our consolidated balance sheet notwithstanding that virtually none of this debt has any recourse to the Corporation. This is due in large part to the 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. As at December 31, 2019, only \$7 billion of the \$143 billion of long-term financing debt reported on our Consolidated Balance Sheet has recourse to the Corporation.

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 investments, either held directly or within listed partnerships:

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

### 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, which are predominantly at the asset or portfolio company level, 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 75% of our book capitalization in the form of common and preferred equity. Consistent with our conservative approach, our corporate borrowings represent only 15% of our corporate capitalization<sup>1</sup> 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.

1. See definition in Glossary of Terms beginning on page 115.



Our corporate capitalization is now approximately \$47 billion and our debt to book capitalization level remains at 15%. Based on our market capitalization the corporate debt to capitalization level is considerably lower at 9%.

AS AT DEC. 31  
(MILLIONS)

	2019	% of Total
<b>Corporate borrowings</b> .....	<b>\$ 7,083</b>	<b>15%</b>
Accounts payable and other liabilities .....	4,708	10 %
Preferred equity .....	4,145	9 %
Common equity – book value .....	30,868	66 %
<b>Corporate capitalization</b> .....	<b>\$ 46,804</b>	<b>100%</b>

## Liquidity

The Corporation has very few capital requirements. Nevertheless, we maintain significant liquidity (\$4.7 billion in the form of cash and financial assets and undrawn credit facilities as at December 31, 2019) 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 \$64 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, 2019  
(MILLIONS)

	Corporate Liquidity	Group Liquidity
Cash and financial assets, net.....	\$ 2,181	\$ 3,575
Undrawn committed credit facilities .....	2,524	9,808
Core liquidity <sup>1</sup> .....	4,705	13,383
Third-party uncalled private fund commitments.....	—	50,735
<b>Total liquidity<sup>1</sup></b> .....	<b>\$ 4,705</b>	<b>\$ 64,118</b>

1. See definition in Glossary of Terms beginning on page 115.

## 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<sup>1</sup> that are supported by long-term and perpetual contractual agreements.
- Distributions from listed investments that are stable and backed by high-quality operating assets.

These cash flows are supplemented with carried interest as we monetize mature investments and return capital to our investors.

Cash available for distribution and/or reinvestment<sup>1</sup> was \$2.6 billion for 2019, and over the past five years has grown at an 18% compound annual growth rate.

FOR THE YEARS ENDED DEC. 31  
(MILLIONS)

	2019	2018
Fee-related earnings .....	\$ 1,169	\$ 1,129
Realized carried interest, net <sup>1</sup> .....	386	188
Our share of Oaktree's distributable earnings.....	42	—
Distributions from investments.....	1,598	1,698
Other invested capital earnings		
Corporate activities .....	(483)	(486)
Other wholly-owned investments .....	(36)	41
	<b>2,676</b>	<b>2,570</b>
Preferred share dividends.....	(152)	(151)
Add back: equity-based compensation costs .....	87	84
<b>Total cash available for distribution and/or reinvestment<sup>1</sup></b> .....	<b>\$ 2,611</b>	<b>\$ 2,503</b>

1. Excludes \$32 million and \$10 million of fee-related earnings and realized carried interest, net from Oaktree, respectively. See definition in Glossary of Terms beginning on page 115.

## 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



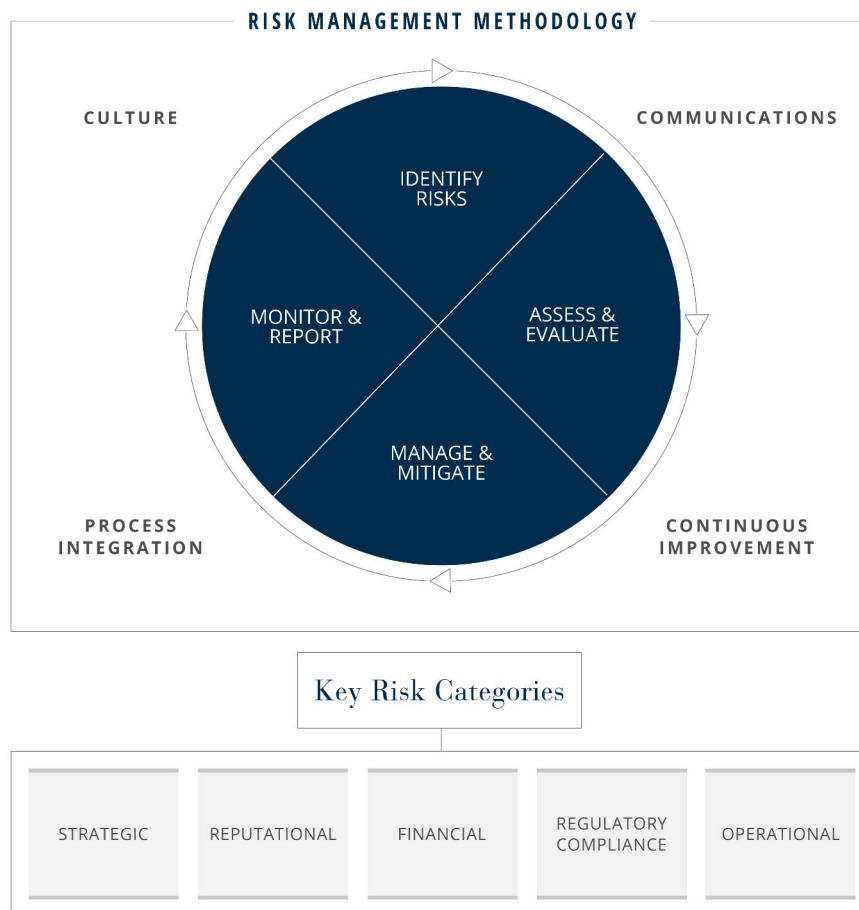
### OVERSIGHT & COORDINATION

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, including our compensation approach.

## 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 program. 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

At Brookfield, we have a long history of owning and operating real assets that form the backbone of the global economy, from real estate and renewable power plants to transportation and communication infrastructure networks. We understand that maintaining a disciplined focus on integrating environmental, social and governance (ESG) factors into our business model is integral to building resilient businesses and creating long-term value for our investors and other stakeholders.

As an asset manager, we hold our operating businesses and portfolio companies accountable for implementing strong ESG practices, and we set up appropriate support through ongoing reporting, portfolio company board oversight, and other mechanisms. For example, safety is an integral part of our approach to the companies in which we invest. While safety is managed at the portfolio company level, we have established a Safety Steering Committee at the Brookfield level, which comprises the CEOs of each of our business groups, whose mandate is to promote a strong safety culture across our operating businesses and portfolio companies.

We also recognize that strong governance is essential to sustainable business operations. The Corporation's Board of Directors is formally charged with oversight of the Corporation's ESG strategy and, through its Governance and Nominating Committee, is responsible for reviewing and approving the Corporation's material ESG initiatives and ESG disclosures and reports. Within Brookfield, ESG strategy is directed by our ESG Steering Committee, which comprises senior executives across each of our major business groups. The ESG Steering Committee's mandate is to set and implement ESG strategy, oversee and coordinate firm-wide ESG initiatives, share best practices across businesses, and improve our ESG performance.

### Recent Highlights

In 2019 and early 2020, we made progress on a number of initiatives to strengthen our ESG practices, some of which are noted below.

#### *i. Principles for Responsible Investment ("PRI")*

We became a signatory to the PRI in early 2020. The PRI is one of the world's leading proponents of responsible investing, with an emphasis on understanding the investment implications of ESG considerations as well as supporting an international network of investor signatories in incorporating these ESG factors into their investment and ownership decisions. While we believe that we have always been aligned with the PRI principles, becoming a signatory formalizes our ongoing commitment to ESG best practices.

#### *ii. Task Force on Climate-related Financial Disclosures ("TCFD")*

We continue to work to align to the TCFD, the preeminent framework for assessing climate change risks and opportunities. This alignment process is expected to take several years and will give us a deeper understanding of the physical and transition risks and opportunities related to climate change. We initiated this effort by undertaking a review to ensure that climate change implications are adequately considered in our governance and risk management protocols, and will continue to address the TCFD recommendations in the four areas of governance, strategy, risk management, and metrics and targets, with incremental disclosures published annually.

#### *iii. Greenhouse Gas ("GHG") Measurement*

We completed the first inventory of GHG emissions for our asset management activities. The results of this inventory can be found in our 2018 ESG Report. We also completed the second annual assessment of the carbon footprint of our renewable power operations. The energy generated by our solar, wind and hydroelectric facilities helped avoid approximately 27 million metric tons of carbon emissions on a net basis in 2019. This is equivalent to removing six million vehicles from the road annually or nearly all of London, England's emissions in one year. In addition, our renewable power business managed to reduce its 2019 Scope 1 and 2 emissions by approximately 20% year over year, and its global gross carbon intensity continues to be one of the lowest among comparable power companies.

#### *iv. Sustainable Financing*

We also have been active in the sustainable finance market, with total issuance reaching approximately \$2.7 billion across green bonds, sustainability-linked debt and green preferred shares in 2019, up from \$1.4 billion last year. In our renewable power business, we also completed our first sustainability-linked corporate revolving credit facility, that will allow us to reduce our cost of borrowing as we continue to accelerate the decarbonization of global electricity grids. Many of our assets and investments are well-suited for sustainable financing, and we continue to look for opportunities to access capital in this manner.

#### *v. Diversity and Inclusion*

Brookfield is committed to diversity and inclusion. We have a Board Diversity Policy, which reflects the Corporation's focus on ensuring that its Board promotes diversity of thought, background and opinions. This includes such factors as diversity of business expertise and international experience, in addition to geographic and gender diversity. We target having women comprise 30% of independent directors. In 2019, females represented 25% of the members of the Board of Directors and 44% of the independent directors. In addition, female representation within the management team has been steadily increasing. Currently, females represent 27% of the management team (titles of vice president and above) and 11% of our senior management team (titles of Managing Director and Managing Partner). This is an increase over the last four years from 20% and 6% respectively. These increases are particularly notable when considering that they were achieved over a period during which our workforce increased by 150%, further demonstrating our commitment to diversity.

In addition, Brookfield is focused on creating an inclusive environment where each of our team members can achieve their potential. 2019 initiatives include 360-degree feedback for senior management, training for people leaders, and clear performance criteria for the talent assessment and performance review process.

#### *vi. Cybersecurity*

In 2019, Brookfield continued to make a significant investment in its cybersecurity program to improve resiliency against cyberattacks. These improvements and the overall maturity of the program were validated through an independent third-party assessment of the program against all components of the National Institute of Standards & Technology Cybersecurity Framework ("NIST Framework"). The assessment confirmed a significant improvement over the previous assessment, and noted that the Brookfield cybersecurity program's maturity level was above average within our peer group.

Notable improvements per the 2019 assessment include (i) the implementation of additional security technologies and processes to enhance threat detection and response capabilities across the organization; (ii) proactive risk reduction through data analytics, enhanced vulnerability scanning and penetration testing; and (iii) increased employee training and testing to improve cybersecurity awareness. In 2020, we will continue to focus on additional improvements in order to further mitigate the risks of the ever-evolving threat landscape.

As part of Brookfield's continued effort to enhance communications with our stakeholder community, we publish an annual ESG report, which can be accessed on the Responsibility page of our website at [www.brookfield.com/responsibility](http://www.brookfield.com/responsibility). The report details our continued progress in key focus areas, including climate change and significant governance issues, and addresses current and future initiatives we are committed to undertaking as part of our broader ESG strategy.

## 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 46 we provide an overview of our fair value accounting process 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 was \$5.4 billion in the current year, with \$2.8 billion attributable to common shareholders (\$2.60 per share) and the remainder attributable to non-controlling interests.

During 2019, we benefited from a number of recent acquisitions across our segments, which together contributed \$14.9 billion of additional revenues and \$287 million of net income during the year. This was partially offset by recent asset sales.

Besides the impact of recent acquisitions, the \$2.1 billion decrease in consolidated net income and the \$777 million decrease in net income attributable to common shareholders compared to the prior year were primarily attributable to:

- the absence of one-time gains recorded in the prior year, including the impact of completing step-up acquisitions in our real estate and private equity operations;
- an income tax expense of \$495 million relating to lower amount of loss carryforwards recognized in the year, compared to a 2018 income tax recovery of \$248 million; and
- higher depreciation and interest expense primarily as a result of recent acquisitions; partially offset by
- same-store<sup>1</sup> growth across our operations; and
- higher equity accounted income as a result of valuation gains on some of our core retail and core office properties.

Additionally, our consolidated balance sheet was impacted by acquisitions and dispositions since the beginning of the year. We acquired \$50.8 billion of assets through business combinations, including Genesee & Wyoming<sup>1</sup>, a short-haul rail operator in North America; Genworth<sup>1</sup>, a mortgage insurance services business; Clarios<sup>1</sup>, a global automotive battery business and Healthscope<sup>1</sup>, an Australian-based private healthcare provider. Corporate borrowings increased from the prior year end due to the issuance of \$1.0 billion of corporate debt in the first quarter, partially offset by the repayment of a \$450 million (C\$600 million) bond in the second quarter. We also sold a number of assets during the year, including BGIS<sup>1</sup>, a global provider of facilities management services and BGRS<sup>1</sup>, an executive relocation services business, in our Private Equity segment, as well as a residential management services company and various investment properties in our Real Estate segment.

The adoption of IFRS 16 *Leases* (“IFRS 16”) impacted our balance sheet as operating leases which were previously reported as off-balance sheet commitments are now capitalized. This has resulted in higher investment properties and property, plant and equipment balances, as well as offsetting lease liabilities within accounts payable and other recorded on our consolidated balance sheet. There was no impact to total equity from the adoption of the new standard. Refer to Note 2 of the consolidated financial statements for further information on the impact of IFRS 16 on our consolidated financial statements.

1. See definition in Glossary of Terms beginning on page 115.



## INCOME STATEMENT ANALYSIS

The following table summarizes the financial results of the company for 2019, 2018 and 2017:

FOR THE YEARS ENDED DEC. 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Change				
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
Revenues .....	\$ 67,826	\$ 56,771	\$ 40,786	\$ 11,055	\$ 15,985
Direct costs .....	(52,728)	(45,519)	(32,388)	(7,209)	(13,131)
	15,098	11,252	8,398	3,846	2,854
Other income and gains .....	1,285	1,166	1,180	119	(14)
Equity accounted income .....	2,498	1,088	1,213	1,410	(125)
Expenses					
Interest .....	(7,227)	(4,854)	(3,608)	(2,373)	(1,246)
Corporate costs .....	(98)	(104)	(95)	6	(9)
Fair value changes .....	(831)	1,794	421	(2,625)	1,373
Depreciation and amortization .....	(4,876)	(3,102)	(2,345)	(1,774)	(757)
Income tax recovery (expense) .....	(495)	248	(613)	(743)	861
Net income .....	5,354	7,488	4,551	(2,134)	2,937
Non-controlling interests .....	(2,547)	(3,904)	(3,089)	1,357	(815)
Net income attributable to shareholders .....	\$ 2,807	\$ 3,584	\$ 1,462	\$ (777)	\$ 2,122
Net income per share .....	\$ 2.60	\$ 3.40	\$ 1.34	\$ (0.80)	\$ 2.06

### 2019 vs. 2018

Revenues for the year were \$67.8 billion, an increase of \$11.1 billion compared to 2018, primarily due to:

- \$14.9 billion of additional revenues from acquisitions during the current and prior year across each of our listed partnerships<sup>1</sup>, most notably the purchase of Clarios in the second quarter of the current year, which added \$5.8 billion of incremental revenues, and the purchase of Westinghouse<sup>1</sup>, a leading supplier of infrastructure services to the power industry, in the third quarter of the previous year, which contributed \$2.1 billion of incremental revenue; and
- same-store growth attributable largely to the utilities and transport operations in our Infrastructure segment, strong leasing activity in our core office assets held by the Real Estate segment and higher realized pricing in our Renewable Power segment; partially offset by
- lower revenue from our road fuel distribution business and the absence of \$2.0 billion of revenues from businesses sold in the current and prior year.

A discussion of the impact on revenues and net income from recent acquisitions and dispositions can be found on pages 36 and 37.

Direct costs increased by 16% or \$7.2 billion compared to a 19% increase in revenues. The increase relates primarily to:

- the recent acquisitions and growth initiatives as discussed above; partially offset by
- the impact of adopting IFRS 16, the new lease accounting standard, which reallocated operating lease expenses previously reported through direct costs to interest expense and depreciation and amortization. Please refer to Note 2 of the consolidated financial statements for further information on the impact of IFRS 16 on our financial results.

Other income and gains of \$1.3 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 BGIS, BGRS and our residential management services company all in the second quarter of 2019.

1. See definition in Glossary of Terms beginning on page 115.

Equity accounted income increased from \$1.1 billion to \$2.5 billion primarily due to:

- valuation gains at certain BPR<sup>1</sup> properties and our Canary Wharf investment, where we continue to benefit from strong leasing activity and rental growth; partially offset by
- decreases in earnings from our investment in Norbord<sup>1</sup> due to lower product pricing compared to the prior year.

Interest expense increased by \$2.4 billion largely due to additional borrowings associated with acquisitions across our portfolio, debts assumed from acquired businesses, and additional interest expense from lease liabilities recognized on adoption of IFRS 16.

We recorded fair value losses of \$831 million, compared to gains of \$1.8 billion in the prior year, primarily as a result of:

- higher transaction related expenses, primarily attributable to a number of acquisitions across our portfolios;
- higher impairment and provisions related to businesses within our Private Equity segment; and
- the absence of large step-up gains reported in the prior year related to the acquisition and consolidation of both GGP<sup>1</sup> and Teekay Offshore<sup>1</sup>, a service provider to the offshore oil production industry; partially offset by
- higher appraisal gains on investment properties in our Real Estate segment.

Refer to pages 37 and 38 for discussion on fair value changes.

Depreciation and amortization expense increased by \$1.8 billion to \$4.9 billion due to businesses acquired in the last twelve months, as well as the impact of revaluation gains in the fourth quarter of 2018, which increased the carrying value of our property, plant and equipment ("PP&E") from which depreciation is determined. The adoption of IFRS 16 also increased depreciation charges during the year.

We recorded an income tax expense of \$495 million this year compared to an income tax recovery of \$248 million in the prior year. The increase in income tax expense primarily relates to higher amount of taxable income in flow-through entities attributed to Brookfield compared to the prior year and a lower amount of loss carryforwards recognized in the year.

## **2018 vs. 2017**

Revenues in 2018 increased by \$16.0 billion compared to 2017 primarily due to the acquisition of new businesses and assets across all of our listed partnerships, most notably our first full year of contributions from Greenergy<sup>1</sup>, our road fuel distribution business, which we acquired in the second quarter of 2017. 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. Same-store growth from existing operations, including in our infrastructure transport businesses and improved performance at GrafTech<sup>1</sup>, our graphite electrode manufacturing business, also contributed to the increase. These were partially offset by the absence of revenues from businesses sold and the deconsolidation of Norbord in the fourth quarter of 2017.

Direct costs increased by \$13.1 billion in 2018 due to recent acquisitions 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 in 2018 include gains from the sale of our businesses in the prior year, including our Chilean electricity transmission business in the first quarter of 2018, a portfolio of self-storage properties in the third quarter of 2018, our U.S. logistics portfolio and our Australian energy operations in the fourth quarter of 2018.

Equity accounted income decreased by \$125 million to \$1.1 billion primarily related to valuation losses at GGP, higher depreciation costs relating to recent acquisitions and the consolidation of previously equity accounted entities. These were partially offset by contributions from recently acquired equity accounted investments, particularly the contribution from Norbord which was consolidated up to the fourth quarter of 2017.

Interest expense increased by \$1.2 billion as a result of additional borrowings associated with acquisitions across our portfolio and the addition of debt within newly acquired businesses. We also issued additional debt in certain listed partnerships, increasing total interest expense.

1. See definition in Glossary of Terms beginning on page 115.

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 Teekay Offshore in our Private Equity segment, partially offset by successful deal costs;
- valuation gains on properties in our core office and LP investments portfolios; 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 primarily from the impact of recent acquisitions, as well as the impact of revaluation gains in the fourth quarter of 2017, which increased the carrying value of our property, plant and equipment from which depreciation is determined.

Income tax recovery was \$248 million, compared to a \$613 million expense in 2017. This was primarily due to a deferred tax recovery on the recognition of previously unrecognized loss carryforwards that will offset future projected taxable income.

## Significant Acquisitions and Dispositions

We have summarized below the impact of recent significant acquisitions and dispositions on our results for 2019:

	Acquisitions		Dispositions	
	Revenue	Net Income	Revenue	Net Income
FOR THE YEAR ENDED DEC. 31, 2019 (MILLIONS)				
Real estate .....	\$ 2,568	\$ 844	\$ (528)	\$ (443)
Renewable power.....	259	75	(48)	(5)
Infrastructure.....	1,977	(14)	(41)	(20)
Private equity and other .....	10,133	(618)	(1,347)	(57)
	<u>\$ 14,937</u>	<u>\$ 287</u>	<u>\$ (1,964)</u>	<u>\$ (525)</u>

## Acquisitions

### Real Estate

Recent acquisitions contributed incremental revenues and net income of \$2.6 billion and \$844 million, respectively, in 2019. The most significant contributor was the consolidation of BPR towards the end of the third quarter of 2018, which added \$1.0 billion of revenues and \$207 million of net income in the year. Previously, we reported our 34% proportionate share of the core retail business's results as equity accounted income.

The other recent acquisition with a significant impact on current period revenues and net income is Forest City<sup>1</sup>, a diversified U.S. REIT, that we acquired in the fourth quarter of 2018, which added incremental revenues and net income of \$997 million and \$502 million in the current year, respectively. A number of other acquisitions in our LP investments' portfolio during the year also contributed to our results.

### Renewable Power

Within our Renewable Power segment, the acquisition of a portfolio of European wind and solar assets through TERP in June of 2018 added incremental contributions to revenues and net income of \$205 million and \$71 million in the current year, respectively. Other acquisitions include wind farms in India and China during the third quarter of 2019.

### Infrastructure

Recent acquisitions in our utilities, energy and data infrastructure businesses contributed incremental revenues of \$2.0 billion and a net loss of \$14 million. In 2019, we acquired a natural gas pipeline in India, contributing incremental revenues and a net loss of \$267 million and \$51 million, respectively. There were also acquisitions that we completed part way in 2018, which added significant contributions in the current year, including Enercare<sup>1</sup>, a North American provider of residential energy infrastructure services, a Colombian natural gas distribution and commercialization business, a portfolio of data centers in North America and a Canadian natural gas midstream business that collectively contributed \$1.6 billion of revenues and \$25 million of net income in the current year.

1. See definition in Glossary of Terms beginning on page 115.

## Private Equity

The current year's results included impacts from Clarios and Healthscope acquired in the second quarter of 2019. These two businesses together contributed \$6.8 billion of revenue and a \$212 million net loss for the year. Our results this year also benefited from Westinghouse acquired during the third quarter of 2018, which contributed additional revenues of \$2.1 billion and a net loss of \$2 million.

The overall contribution to our revenues and net income for the year ended December 31, 2019 from acquisitions in our Private Equity segment were revenues of \$10.1 billion and a net loss of \$618 million, respectively.

Further details relating to the significant acquisitions described above that were completed during the year ended December 31, 2019 are provided in Note 5 of the consolidated financial statements.

## Dispositions

Recent asset sales reduced revenues and net income by \$2.0 billion and \$525 million in the current year, respectively. The assets sold that most significantly impacted our results were BGIS and BGRS in our Private Equity segment.

## Fair Value Changes

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2019	2018	Change
Investment properties.....	\$ 1,710	\$ 1,610	\$ 100
Transaction related (losses) gains, net of deal costs .....	(895)	1,132	(2,027)
Financial contracts .....	(140)	(189)	49
Impairment and provisions .....	(825)	(309)	(516)
Other fair value changes .....	(681)	(450)	(231)
Total fair value changes .....	<u>\$ (831)</u>	<u>\$ 1,794</u>	<u>\$ (2,625)</u>

## 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)	2019	2018	Change
Core office .....	\$ 946	\$ 150	\$ 796
Core retail .....	(683)	(12)	(671)
LP investments and other .....	1,447	1,472	(25)
	<u>\$ 1,710</u>	<u>\$ 1,610</u>	<u>\$ 100</u>

We discuss the key valuation inputs of our investment properties on page 88.

## Core Office

Valuation gains in the current year totaled \$946 million. The gains relate primarily to:

- improved leasing assumptions on development properties in the U.K. and U.S as they near substantial completion;
- strong occupancy and compression of terminal capitalization rates in our Canadian portfolio to reflect recent comparable market transactions; and
- rate compression from improved rental markets in Australia.

Valuation gains of \$150 million in the prior year were primarily attributable to strong leasing activity in our Sydney and Toronto portfolios and an increase in value on properties in the U.K. as they neared completion, partially offset by fair value adjustments in our downtown New York properties.

## *Core Retail*

The appraisal losses in the current year were \$683 million as a result of lower assumed future cash flows on certain consolidated retail assets and adjustments to the timing of when those cash flows are received, partially offset by a decrease in capitalization and discount rates. The prior year had lesser impact in fair value changes as our core retail portfolio was an equity accounted investment prior to its privatization in the third quarter of the prior year, with changes in the fair value of the investment properties previously reported through equity accounted income.

## *LP Investments and Other*

Valuation gains of \$1.4 billion relate primarily to:

- rate compression as a result of lower interest rates in Brazil and improved market conditions in Brazil and India, which benefited our real estate investments in those countries;
- a decrease in terminal capitalization rates and higher projected cash flows at our U.K. student housing portfolio; and
- strong leasing activity in our directly held portfolios.

In the prior year, valuation gains of \$1.5 billion were primarily related to strong leasing activity and the completion of several developments in our India office and U.S. logistics portfolios as well as strengthened conditions in several markets.

## *Transaction Related Expenses, Net of Gains*

Transaction related expenses, net of gains, totaled \$895 million for the year. We incurred transaction related expenses across a number of acquisitions within our Asset Management, Private Equity, Infrastructure and Real Estate segments, most notably, the acquisitions of Oaktree, Clarios, Genesee & Wyoming and Aveo Group<sup>1</sup>, a portfolio of retirement homes in Australia.

The prior year net transaction related gain relates to the privatization of GGP and an extinguishment of outstanding debt related to a hospitality asset, partially offset by higher deal costs across the business.

## *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 \$140 million in the current year primarily relate to mark-to-market movements on our interest rate and cross-currency swaps and fair value changes on our currency hedges, which do not qualify for hedge accounting.

The prior year loss relate to similar factors as the current year.

## *Impairment and Provisions*

Impairment expense for the year of \$825 million mainly relates to charges taken on operating businesses within our Private Equity segment, where we adjusted the value of PP&E and goodwill to reflect a lower estimated recoverable amount.

## *Other Fair Value Changes*

Other fair value losses of \$681 million were reported for the year. Included in this balance are various one-time charges at our Infrastructure, Renewable Power and Real Estate segments.

1. See definition in Glossary of Terms beginning on page 115.

## Income Taxes

We recorded an aggregate income tax expense of \$495 million in 2019, including current tax expenses of \$970 million (2018 – \$861 million) and deferred tax recoveries of \$475 million (2018 – \$1.1 billion), compared to a \$248 million recovery in the prior year.

The increase in income tax expense primarily relates to a higher taxable income in flow-through entities attributed to Brookfield compared to the prior year and a lower amount of loss carryforwards recognized in the year.

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	2019	2018	Change
Statutory income tax rate.....	26%	26 %	—%
Increase (reduction) in rate resulting from:			
Portion of gains subject to different tax rates .....	(1)	(4)	3
Change in tax rates and new legislation .....	(2)	(4)	2
Taxable income attributed to non-controlling interests .....	(4)	(8)	4
International operations subject to different tax rates.....	(7)	(3)	(4)
Recognition of deferred tax assets .....	(9)	(12)	3
Non-recognition of the benefit of current year's tax losses.....	4	1	3
Other .....	1	1	—
Effective income tax rate.....	8%	(3)%	11%

Our income tax provision does not include a number of non-income taxes paid that are recorded elsewhere in our consolidated 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 a 4% and 8% reduction in the effective tax rate relative to the statutory tax rate in 2019 and 2018, 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 7% decrease in our effective tax rate in the current year, compared to a 3% decrease 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, 2019, 2018 and 2017:

AS AT DEC. 31 (MILLIONS)	Change				
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
<b>Assets</b>					
Investment properties <sup>1</sup> .....	\$ 96,686	\$ 84,309	\$ 56,870	\$ 12,377	\$ 27,439
Property, plant and equipment <sup>1</sup> .....	89,264	67,294	53,005	21,970	14,289
Equity accounted investments .....	40,698	33,647	31,994	7,051	1,653
Cash and cash equivalents <sup>2</sup> .....	6,778	8,390	5,139	(1,612)	3,251
Accounts receivable and other <sup>2</sup> .....	18,469	16,931	11,973	1,538	4,958
Intangible assets .....	27,710	18,762	14,242	8,948	4,520
Goodwill .....	14,550	8,815	5,317	5,735	3,498
Other assets .....	29,814	18,133	14,180	11,681	3,953
<b>Total assets</b> .....	<b>\$ 323,969</b>	<b>\$ 256,281</b>	<b>\$ 192,720</b>	<b>\$ 67,688</b>	<b>\$ 63,561</b>
<b>Liabilities</b>					
Corporate borrowings <sup>2</sup> .....	\$ 7,083	\$ 6,409	\$ 5,659	\$ 674	\$ 750
Non-recourse borrowings of managed entities <sup>2</sup> .....	136,292	111,809	72,730	24,483	39,079
Other non-current financial liabilities <sup>1,2</sup> .....	23,997	13,528	10,478	10,469	3,050
Other liabilities .....	39,751	27,385	23,981	12,366	3,404
<b>Equity</b>					
Preferred equity .....	4,145	4,168	4,192	(23)	(24)
Non-controlling interests .....	81,833	67,335	51,628	14,498	15,707
Common equity .....	30,868	25,647	24,052	5,221	1,595
<b>Total equity</b> .....	<b>116,846</b>	<b>97,150</b>	<b>79,872</b>	<b>19,696</b>	<b>17,278</b>
	<b>\$ 323,969</b>	<b>\$ 256,281</b>	<b>\$ 192,720</b>	<b>\$ 67,688</b>	<b>\$ 63,561</b>

1. The amounts for December 31, 2019 have been prepared in accordance with IFRS 16. Prior period amounts have not been restated (refer to Note 2 of the consolidated financial statements).

2. The amounts for December 31, 2019 and December 31, 2018 have been prepared in accordance with IFRS 9. Prior period 2017 amounts have not been restated (refer to Note 2 of the consolidated financial statements).

## 2019 vs. 2018

Total assets increased by \$67.7 billion since December 31, 2018 to \$324.0 billion as at December 31, 2019. The increase is driven by both business combinations and asset acquisitions, which totaled \$74.2 billion for the year. Recently completed business combinations added \$50.8 billion of total assets, whereas asset additions contributed \$23.4 billion of the increase. In addition to business combinations completed in the year, our acquisition of Oaktree added a further \$5.3 billion of assets in our equity accounted investment. The adoption of IFRS 16 increased our property, plant and equipment and investment properties through the recognition of right-of-use (“ROU”) assets. These increases were partially offset by assets sold during the year.

We have summarized the impact of business combinations as well as equity accounted investment, investment properties and property, plant and equipment additions for the year ended December 31, 2019 in the table below:

FOR THE YEAR ENDED DEC. 31, 2019 (MILLIONS)	Private Equity	Infrastructure	Real Estate	Other	Total
Cash and cash equivalents .....	\$ 344	\$ 94	\$ 31	\$ 6	\$ 475
Accounts receivable and other .....	6,706	553	114	110	7,483
Assets held for sale .....	—	1,584	—	—	1,584
Inventory .....	2,230	74	46	13	2,363
Equity accounted investments .....	863	1,517	1,066	5,645	9,091
Investment properties .....	—	221	15,084	2	15,307
Property, plant and equipment .....	8,178	9,518	1,438	1,914	21,048
Intangible assets .....	7,057	3,248	28	—	10,333
Goodwill .....	3,479	2,644	2	—	6,125
Deferred income tax assets .....	363	46	—	—	409
Total assets .....	29,220	19,499	17,809	7,690	74,218
Less:					
Accounts payable and other .....	(5,025)	(2,425)	(2,394)	(101)	(9,945)
Non-recourse borrowings .....	(1,084)	(1,980)	(537)	(319)	(3,920)
Deferred income tax liabilities .....	(1,142)	(1,248)	—	(36)	(2,426)
Non-controlling interests <sup>1</sup> .....	(1,749)	(828)	(88)	—	(2,665)
	(9,000)	(6,481)	(3,019)	(456)	(18,956)
Net assets acquired .....	\$ 20,220	\$ 13,018	\$ 14,790	\$ 7,234	\$ 55,262

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.

Investment properties consist primarily of the company’s real estate assets. The balance as at December 31, 2019 increased by \$12.4 billion, primarily due to:

- additions of \$15.3 billion primarily through acquisitions and purchases of investment properties during the year and enhancement or expansion of numerous properties through capital expenditures. Our fourth quarter acquisition of Aveo Group and the step-up to a controlling interest of a portfolio of retail malls, which previously were equity accounted in our Real Estate segment, collectively contributed \$3.5 billion to investment properties;
- the recognition of \$928 million of ROU investment properties, primarily land leases on which some of our investment properties are built, on the adoption of IFRS 16;
- net valuation gains of \$1.7 billion, largely driven by revaluations of certain core office developments as they near completion and by our LP investments and directly held portfolios, where properties benefited from improved market conditions in Brazil and India in addition to valuation gains at Forest City due to strong leasing activity. These gains were partially offset by losses in our core retail portfolio; and
- the positive impact of foreign currency translation of \$461 million; partially offset by
- asset sales and reclassifications to assets held for sale of \$6.0 billion, including multiple investment properties held within Forest City, Australian and North American office properties and various multifamily assets.

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

Property, plant and equipment increased by \$22.0 billion primarily as a result of:

- acquisitions of \$17.5 billion, most notably Genesee & Wyoming and a natural gas pipeline in India within our Infrastructure segment, Clarios, Healthscope and a Brazilian heavy equipment and light vehicle fleet management company in our Private Equity segment, and a North American solar portfolio within our Renewable Power segment;
- recognition of property, plant and equipment ROU assets which increased our balance by \$3.4 billion upon adopting IFRS 16;
- additions of \$3.6 billion primarily related to capital expenditures across our operating segments;
- revaluation surplus of \$3.3 billion mostly within our Renewable Power segment, attributed to lower discount rates and continued successful cost savings initiatives; and
- the impact of foreign currency translation of \$323 million; partially offset by
- dispositions and reclassification to assets held for sale of \$2.1 billion, in particular, the Colombian regulated distribution business within our Infrastructure segment; and
- depreciation of \$3.8 billion in the year.

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

Equity accounted investments increased from \$33.6 billion as at December 31, 2018 to \$40.7 billion in the current year, mainly due to:

- additions of \$9.1 billion, which included the acquisition of a \$5.3 billion interest in Oaktree and other businesses within our other operating segments, primarily a Brazilian data center operation and a New Zealand telecommunications company in our Infrastructure segment, as well as equity accounted investments assumed within the acquisition of Clarios in our Private Equity segment;
- our proportionate share of the comprehensive income reported by our investees; partially offset by
- the aforementioned step-up to a controlling interest of a portfolio of retail malls, which previously were equity accounted in our Real Estate segment; and
- dispositions and reclassifications to held for sale.

We provide a continuity of equity accounted investments in Note 10 of the consolidated financial statements.

Cash and cash equivalents decreased by \$1.6 billion as at December 31, 2019 compared to the prior year primarily due to the impact of cash used in business combinations, net of cash acquired, and the timing of recent asset sales and debt refinancings. 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.

Increases of \$8.9 billion and \$5.7 billion in our intangible assets and goodwill balances, respectively, are related to the acquisitions completed in our Private Equity and Infrastructure segments, partially offset by the impact of amortization, impairment and foreign exchange.

Other assets are comprised of inventory, deferred income tax assets, assets classified as held for sale and other financial assets. The increase of \$11.7 billion is primarily a result of:

- a \$3.3 billion increase in inventory primarily due to acquisitions completed in our Private Equity segment;
- an increase in assets held for sale of \$1.3 billion, primarily attributable to the reclassification of a U.S. electricity transmission operation and Colombian regulated distribution business within our Infrastructure segment, partially offset by assets sold during the year, including an equity accounted investment within the LP investments portfolio and core office properties within our Real Estate segment as well as the sale of our South African wind portfolio in our Renewable Power segment; and
- a \$6.2 billion increase in other financial assets primarily due to the acquisition of Genworth, adding \$4.7 billion to our consolidated financial assets, as well as additions and appreciation of our existing financial asset portfolios as the stock market recovered since December of the prior year.

Corporate borrowings increased by \$674 million due to a \$1.0 billion 10-year note issuance during the first quarter, as well as the impact of strengthened foreign exchange rates. This was partially offset by a repayment of a \$450 million (C\$600 million) note in the second quarter.

Non-recourse borrowings increased by \$24.5 billion as a result of:

- asset-level debt raised to fund our acquisition of Genesee & Wyoming in our Infrastructure segment, Aveo Group in our Real Estate segment, Clarios, Healthscope and the Brazilian heavy equipment and light vehicle fleet management company in our Private Equity segment; partially offset by
- the partial repayment of credit facilities within our Real Estate segment as well as dispositions and reclassification of businesses to held for sale.

Other non-current financial liabilities consist of our subsidiary equity obligations, non-current accounts payable and other long-term financial liabilities that are due after one year. Non-current accounts payable and other increased primarily due to the recognition of non-current lease liabilities on adoption of IFRS 16, aforementioned acquisitions, higher insurance liabilities within our annuities business and a higher stock compensation liability due to share price appreciation. Please see Note 17 of the consolidated financial statements for a further breakdown.

The increase of other liabilities of \$12.4 billion is primarily attributable to liabilities assumed on acquisitions completed during the year, current lease liabilities recognized on adoption of IFRS 16, an increase in deferred income tax liabilities primarily from the acquisitions of the global automotive battery business and our short-haul rail operator in North America, and liabilities associated with assets held for sale. Please see Note 9 of the consolidated financial statements for further information.

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

## **2018 vs. 2017**

Consolidated assets as at December 31, 2018 were \$256.3 billion, compared to \$192.7 billion as at December 31, 2017. Year-over-year increases were primarily due to acquisitions completed in 2018, 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. This was partially offset by foreign exchange as the majority of foreign currencies depreciated against the U.S. dollar.

Investment properties were \$27.4 billion higher at the end of 2018 compared to the prior year primarily due to the impact of various real estate investments completed during the year, in particular our acquisition of GGP and Forest City. In addition, the impact of capital expenditures and valuation gains were partially offset by numerous asset sales across our core office and LP investments portfolios.

Property, plant and equipment increased by \$14.3 billion during 2018. The increase was primarily a result of acquisitions completed across our operating segments during the year and revaluation gains largely in our Renewable Power segment. This was partially offset by depreciation recorded during the year.

Equity accounted investments were \$33.6 billion as at December 31, 2018, an increase of \$1.7 billion compared to 2017. The increase was primarily due to \$5.6 billion of net additions across multiple businesses, including the \$2.5 billion net impact of our privatization of GGP on August 28, 2018. The increase from our share of comprehensive income from equity accounted investments was partially offset by the sale of our Chilean electricity transmission business as well as distributions and return of capital.

The increase in intangible assets of \$4.5 billion was due to acquisitions completed in 2018, specifically Enercare in our Infrastructure segment and Westinghouse in our Private Equity segment.

Goodwill increased by \$3.5 billion from acquisitions of \$4.2 billion, largely within our Infrastructure segment.

Other assets increased by \$4.0 billion as a result of acquisitions completed in the year, increases in deferred tax assets related to recognition of net operating losses that can be used to offset future projected taxable income, as well as reclassifying certain assets in our Real Estate and Renewable Power segments to assets held for sale.

Corporate borrowings increased by \$750 million as the issuance of \$1.1 billion of corporate notes during 2018 was partially offset by the impact of foreign exchange and the absence of draws on the corporate credit facility.

Non-recourse borrowings increased by \$39.1 billion from 2017 to 2018, the majority of the increase relates to debt assumed on acquisitions, increased borrowings to finance these acquisitions and the impact of debt refinancings. These increases were partially offset by the repayment of amounts previously drawn on revolving or term bank facilities.

Other non-current financial liabilities increased by \$3.1 billion primarily due to liabilities assumed on acquiring businesses during the year.

## 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 year-over-year variances for common equity:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2019	2018
Common equity, beginning of year.....	\$ 25,647	\$ 24,052
Changes in period		
Net income attributable to shareholders.....	2,807	3,584
Common dividends .....	(620)	(575)
Preferred dividends .....	(152)	(151)
Other comprehensive income.....	524	406
Share issuances, net of repurchases .....	2,477	(359)
Changes in accounting policy .....	—	(218)
Ownership changes and other .....	185	(1,092)
	<u>5,221</u>	<u>1,595</u>
Common equity, end of year.....	<u>\$ 30,868</u>	<u>\$ 25,647</u>

Common equity increased by \$5.2 billion to \$30.9 billion during the year. The change includes:

- net income attributable to shareholders of \$2.8 billion;
- other comprehensive income of \$524 million relates to the net impact of \$714 million of gains from revaluation surplus and other, partially offset by foreign currency translation losses of \$190 million as the average foreign currency rates weakened relative to the U.S. dollar along with losses on our cash flow hedges;
- share issuances, net of repurchases, of \$2.5 billion, which included \$2.8 billion of common equity issued on the acquisition of Oaktree during the third quarter. This issuance was netted against the impact of share purchases for our escrowed stock plan, repurchases through our normal course issuer bid and our restricted share plans; and
- ownership changes and other which are primarily related to gains on the partial sale of interests in a Chilean toll road operation and GrafTech, as well as a dilution gain from our reduced ownership in BBU after their equity issuance in the second quarter; partially offset by
- distributions of \$772 million to shareholders as common and preferred share dividends.

### Non-controlling Interests

Non-controlling interests in our consolidated results primarily consist of third-party interests in BPY, BEP, BIP, 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)	2019	2018
Brookfield Property Partners L.P.....	\$ 29,165	\$ 31,580
Brookfield Renewable Partners L.P.....	13,321	12,457
Brookfield Infrastructure Partners L.P.....	20,036	12,752
Brookfield Business Partners L.P. ....	8,664	4,477
Other participating interests .....	10,647	6,069
	<u>\$ 81,833</u>	<u>\$ 67,335</u>

Non-controlling interests increased by \$14.5 billion during the year, primarily due to:

- net equity issuances to non-controlling interests totaling \$16.6 billion;
- comprehensive income attributable to non-controlling interests which totaled \$4.7 billion; this is inclusive of foreign currency translation gains as average foreign currency rates in the jurisdictions where we hold the majority of our non-U.S. dollar investments strengthened relative to the U.S. dollar; and
- ownership changes attributable to non-controlling interests of \$1.7 billion; partially offset by
- \$8.6 billion of distributions to non-controlling interests.

The increase in other participating interests relates primarily to our direct investment in the third flagship real estate fund, resulting in Brookfield consolidating the fund and investments that are controlled by the fund. The fund was previously consolidated by BPY.

## 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<sup>1</sup> 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.

1. See definition in Glossary of Terms beginning on page 115.



## 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	
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
AS AT DEC. 31										
Australian dollar....	<b>0.7018</b>	0.7050	0.7809	— %	(10)%	<b>0.6953</b>	0.7475	0.7669	(7)%	(3)%
Brazilian real <sup>1</sup> .....	<b>4.0306</b>	3.8745	3.3080	(4)%	(15)%	<b>3.9463</b>	3.6550	3.1928	(7)%	(13)%
British pound.....	<b>1.3255</b>	1.2760	1.3521	4 %	(6)%	<b>1.2767</b>	1.3350	1.2889	(4)%	4 %
Canadian dollar .....	<b>0.7699</b>	0.7331	0.7953	5 %	(8)%	<b>0.7538</b>	0.7718	0.7711	(2)%	— %

1. Using Brazilian real as the price currency.

As at December 31, 2019, our common equity of \$30.9 billion was invested in the following currencies: United States dollars – 54% (2018 – 56%); Brazilian reais – 12% (2018 – 13%); British pounds – 13% (2018 – 12%); Canadian dollars – 8% (2018 – 7%); Australian dollars – 6% (2018 – 6%); and other currencies – 7% (2018 – 6%). Currency exchange rates relative to the U.S. dollar at the end of 2019 were higher than December 31, 2018 for all of our significant non-U.S. dollar investments with the exception of the Brazilian real.

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)	2019	2018	Change
Australian dollar .....	\$ 66	\$ (629)	\$ 695
Brazilian real .....	(547)	(2,162)	1,615
British pound .....	400	(539)	939
Canadian dollar.....	282	(644)	926
Other .....	(114)	(714)	600
Total cumulative translation adjustments .....	87	(4,688)	4,775
Currency hedges <sup>1</sup> .....	(482)	1,365	(1,847)
Total cumulative translation adjustments net of currency hedges.....	\$ (395)	\$ (3,323)	\$ 2,928
Attributable to:			
Shareholders.....	\$ (190)	\$ (959)	\$ 769
Non-controlling interests .....	(205)	(2,364)	2,159
	<u>\$ (395)</u>	<u>\$ (3,323)</u>	<u>\$ 2,928</u>

1. Net of deferred income tax expense of \$8 million (2018 – \$69 million).

The foreign currency translation of our equity, net of currency hedges, for the year ended December 31, 2019 was a loss of \$395 million. This was primarily attributable to lower period end rates for our non-U.S. dollar investments, particularly the Brazilian real, the Colombian peso and the euro, partially offset by gains on the higher period end rates for our investments in the British pound and the Canadian dollar. During the year, losses on our hedges relate to those against the Canadian and British currencies, for which financial contracts and foreign currency debt are used to reduce exposures.

## CORPORATE DIVIDENDS

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

	Distribution per Security		
	2019	2018	2017
Class A and B <sup>1</sup> Limited Voting Shares (“Class A and B shares”)	\$ 0.64	\$ 0.60	\$ 0.56
Special distribution to Class A and B shares <sup>2</sup>	—	—	0.11
Class A Preferred Shares			
Series 2	0.52	0.48	0.39
Series 4	0.52	0.48	0.39
Series 8	0.74	0.68	0.55
Series 9	0.52	0.53	0.53
Series 13	0.52	0.48	0.39
Series 15	0.46	0.40	0.28
Series 17	0.89	0.92	0.92
Series 18	0.89	0.92	0.92
Series 24	0.57	0.58	0.58
Series 25 <sup>3</sup>	0.75	0.68	0.56
Series 26 <sup>4</sup>	0.65	0.67	0.72
Series 28 <sup>5</sup>	0.51	0.53	0.70
Series 30 <sup>6</sup>	0.88	0.90	0.93
Series 32 <sup>7</sup>	0.95	0.89	0.87
Series 34 <sup>8</sup>	0.82	0.81	0.81
Series 36	0.91	0.94	0.94
Series 37	0.92	0.95	0.95
Series 38	0.83	0.85	0.85
Series 40 <sup>9</sup>	0.83	0.87	0.87
Series 42	0.85	0.87	0.87
Series 44	0.94	0.96	0.97
Series 46 <sup>10</sup>	0.90	0.93	1.03
Series 48 <sup>11</sup>	0.90	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 on June 1, 2017.

3. Dividend rate reset commenced the last day of each quarter.

4. Dividend rate reset commenced March 31, 2017.

5. Dividend rate reset commenced June 30, 2017.

6. Dividend rate reset commenced December 31, 2017.

7. Dividend rate reset commenced September 30, 2018.

8. Dividend rate reset commenced March 31, 2019.

9. Dividend rate reset commenced September 30, 2019.

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.

## 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 industrials portfolio. 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:

FOR THE PERIODS ENDED (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues.....	\$ 17,819	\$ 17,875	\$ 16,924	\$ 15,208	\$ 16,006	\$ 14,858	\$ 13,276	\$ 12,631
Net income.....	1,638	1,756	704	1,256	3,028	941	1,664	1,855
Net income to shareholders .....	846	947	399	615	1,884	163	680	857
Per share								
– diluted .....	\$ 0.74	\$ 0.91	\$ 0.36	\$ 0.58	\$ 1.87	\$ 0.11	\$ 0.62	\$ 0.84
– basic .....	0.76	0.93	0.37	0.59	1.91	0.11	0.64	0.85

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

FOR THE PERIODS ENDED (MILLIONS)	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Fair value changes .....	\$ 4	\$ 394	\$ (1,398)	\$ 169	\$ 257	\$ 132	\$ 833	\$ 572
Income taxes .....	(200)	180	(239)	(236)	884	(144)	(339)	(153)
Net impact.....	<u>\$ (196)</u>	<u>\$ 574</u>	<u>\$ (1,637)</u>	<u>\$ (67)</u>	<u>\$ 1,141</u>	<u>\$ (12)</u>	<u>\$ 494</u>	<u>\$ 419</u>

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

- In the fourth quarter of 2019, revenues remained consistent with the prior quarter as we continued to benefit from contributions from recently acquired businesses and strong same-store growth across our operating segments. Net income decreased primarily due to lower fair value gains and the absence of a deferred tax recovery, partially offset by an increase in equity accounted income.
- In the third quarter of 2019, revenues increased from a full quarter contribution from Clarios and Healthscope, which we acquired in the second quarter of 2019. In addition, net income increased from the prior quarter due to the recognition of deferred income tax recoveries and valuation gains in our core office and LP investment properties.
- In the second quarter of 2019, revenues increased due to recent acquisitions across a number of segments, in particular industrials and infrastructure services in the Private Equity segment. The increase in revenue was offset by higher direct operating costs, interest expense from incremental borrowing, as well as valuation losses on some of our core retail properties and our service provider to the offshore oil production industry in the Private Equity segment.
- In the first quarter of 2019, revenues decreased slightly from the prior quarter primarily due to seasonality at our residential homebuilding business and certain of our private equity operations as well as a decrease in sales volumes at our road fuel distribution business. In addition, the absence of a deferred tax recovery in our Corporate segment, as well as higher depreciation and amortization expenses due to the impact of revaluation gains reported in the fourth quarter contributed to the decrease in net income.
- 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 of 2018 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 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.

# 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<sup>1</sup> 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, as well as our share of the asset management activities of Oaktree. 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.
- 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 industrials.
- 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<sup>1</sup> 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 115.

## 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 <sup>1</sup>			FFO <sup>2</sup>			Common Equity		
	2019	2018	Change	2019	2018	Change	2019	2018	Change
Asset Management .....	\$ 2,614	\$ 1,947	\$ 667	\$ 1,597	\$ 1,317	\$ 280	\$ 4,927	\$ 328	\$ 4,599
Real Estate .....	10,475	8,116	2,359	1,185	1,786	(601)	18,781	17,423	1,358
Renewable Power .....	3,974	3,762	212	333	328	5	5,320	5,302	18
Infrastructure .....	7,093	5,018	2,075	464	602	(138)	2,792	2,887	(95)
Private Equity .....	43,578	37,270	6,308	844	795	49	4,086	4,279	(193)
Residential Development .....	2,456	2,683	(227)	125	49	76	2,859	2,606	253
Corporate Activities .....	459	188	271	(359)	(476)	117	(7,897)	(7,178)	(719)
Total segments .....	<u>\$70,649</u>	<u>\$58,984</u>	<u>\$11,665</u>	<u>\$ 4,189</u>	<u>\$ 4,401</u>	<u>\$ (212)</u>	<u>\$30,868</u>	<u>\$25,647</u>	<u>\$ 5,221</u>

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

2. Total FFO is a non-IFRS measure – see definition in Glossary of Terms beginning on page 115.

Total revenues and FFO were \$70.6 billion and \$4.2 billion in 2019 compared to \$59.0 billion and \$4.4 billion in the prior year, respectively. FFO includes realized disposition gains of \$882 million in 2019, compared to \$1.5 billion in the prior year. Excluding disposition gains, FFO increased by \$422 million from the prior year.

Revenues increased primarily from the impact of recent acquisitions at our Private Equity segment and the consolidation of GGP's results after privatizing the business during the third quarter of the prior year. These increases were partially offset by sales of operating businesses since the prior year.

The increases to FFO excluding disposition gains is primarily as a result of:

- strong performance in our Asset Management segment where we benefited from fees earned on new capital raised within the latest series of flagship fund closes and higher market capitalization of our listed partnerships. Excluding the impact of a \$278 million performance fee recognized in the prior year, our total fee-related earnings increased by 41% to \$1.2 billion;
- realized carried interest, net of direct costs, of \$396 million recognized in the year, compared to \$188 million recognized in the prior year;
- contributions from recent acquisitions across all business groups, in particular the acquisitions of Clarios and Healthscope in our private equity operations and the full year FFO contribution from BPR in our real estate operations; and
- same-store growth from higher pricing at our Infrastructure segment, improved pricing and strong generation in our Renewable Power segment, decreased operating costs at Westinghouse within our Private Equity segment and improved corporate financial asset performance; partially offset by
- a reduced ownership interest in BPY following the privatization of GGP in the third quarter of 2018;
- absence of contributions from assets sold during the year, most notably BGRS and BGIS in our private equity operations; and
- lower product pricing from Norbord and our energy contracts.

We recognized \$882 million of disposition gains during 2019 as we continue to monetize mature assets to fund new investments and return capital to investors. At our real estate operations, we recognized disposition gains of \$404 million from the sale of our core office properties and our directly held investment in the residential management services company. In our private equity operation, we completed the sale of BGIS, BGRS, a partial interest in GrafTech and other assets for a combined gain of \$293 million. Our infrastructure and renewable power operations generated gains from the completed sale of a partial interest in a Chilean toll road and a partial interest in a portfolio of North American hydro assets, respectively.

Common equity increased by \$5.2 billion to \$30.9 billion primarily from a \$2.8 billion equity issuance in connection with our acquisition of a 61% interest in Oaktree and \$3.3 billion of comprehensive income recognized during the year. For segment reporting purposes, the value of Oaktree's asset management business was allocated to our Asset Management segment while Oaktree's balance sheet investments are allocated to our Corporate segment. The aforementioned contributions were partially offset by dividends paid during the year.



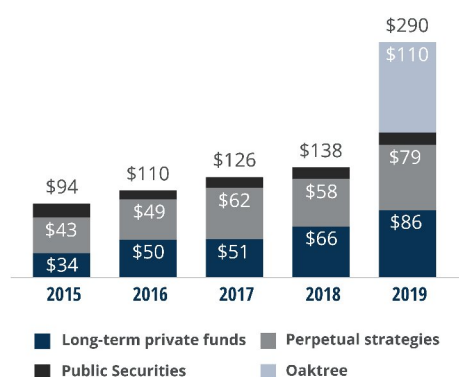
# Asset Management

## Business Overview

- We manage \$290 billion of fee-bearing capital, including \$86 billion in long-term private funds, \$79 billion in perpetual strategies, \$110 billion in funds managed by Oaktree and \$15 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 funds and perpetual fee revenues based on the total capitalization of our perpetual listed vehicles and net asset value of our perpetual private funds;
  - 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 \$120 billion of carry eligible capital<sup>1</sup>. 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 clawback.

## Fee-Bearing Capital<sup>1</sup>

AS AT DEC. 31 (BILLIONS)



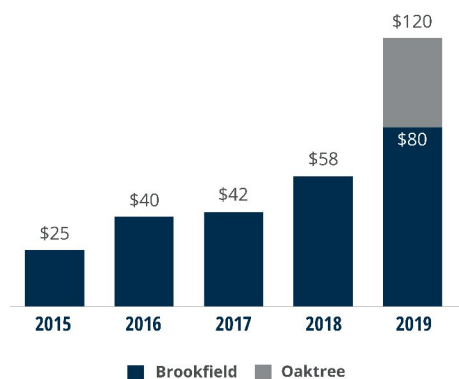
## Fee-Related Earnings<sup>1</sup>

FOR THE YEARS ENDED DEC. 31 (MILLIONS)



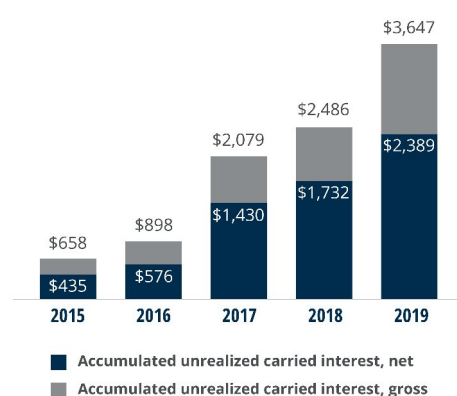
## Carry Eligible Capital<sup>1</sup>

AS AT DEC. 31 (BILLIONS)



## Accumulated Unrealized Carried Interest<sup>1</sup>

AS AT DEC. 31 (MILLIONS)



1. See definition in Glossary of Terms beginning on page 115.



## Five-Year Review

Asset Management FFO has increased over the past five years primarily due to the steady growth in fee-bearing capital from our flagship funds and our perpetual strategies. This has contributed to higher base fees and a corresponding increase in asset management FFO. Our long-term private funds have grown considerably, almost doubling in size over the last five years, when factoring in co-investments, and in September 2019 we completed the acquisition of a 61% interest in Oaktree. Increased capitalization from higher unit prices and capital markets activity within our perpetual strategies, along with the expiry of the 12-month fee waiver in the third quarter on BPY/BPR capital issued as part of the acquisition of GGP, further contributed to increases in fee-related earnings year over year. The result has been a 14% and 19% cumulative annual growth rate in fee-bearing capital and total fee-related earnings, respectively excluding Oaktree, over the last five years.

Our accumulated unrealized carried interest has increased each of the past five years due to the growth in long-term private funds fee-bearing capital discussed above, and the investment performance in many of our funds. The acquisition of Oaktree in the current year and significant dispositions within our flagship funds also contributed to an increase in generated unrealized carried interest across all of our major funds. We expect to 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

Alternative assets provide an attractive investment opportunity to institutional and high net worth investors. In periods when global interest rates are lower than they have ever been, alternatives continue to be an attractive investment as they have demonstrated the ability to provide attractive risk adjusted returns and 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 recently completed the final close of our fourth flagship infrastructure fund, bringing the total fund size to \$20 billion and making it one of the largest infrastructure funds ever raised. Including co-investment capital, this round of flagship fundraising closed with more than \$50 billion in commitments. The acquisition of Oaktree, a firm with expertise in credit strategies, further diversifies our fee streams and expands the product offerings available to our private fund investors. Our focus for 2020 will be on growing our other strategies, including our private perpetual funds, while continuing to deploy capital in a prudent manner.

We continue to expand our investor base through existing relationships and new channels. As of the final close of our fourth infrastructure fund, and with the addition of Oaktree, we have more than 1,800 investors. With respect to our investor base, our high net worth channel continues to grow and accounts for approximately 10% of the funds raised for the year. While the geographical split of capital raised across all channels has remained largely consistent with the prior year, we continue to grow the number of LPs and total dollar value of capital raised from target geographies, including Asia and Europe.

## Operations

### *Long-Term Private Funds (\$86 billion of fee-bearing capital)*

- We manage our fee-bearing capital through 40 active private funds across our major asset classes: real estate, infrastructure/renewable power, private equity and credit. These funds include co-investment, value-add and opportunistic closed-end funds which are primarily invested in the equity of private companies, or in certain cases, publicly traded equities.
- We refer to our largest long-term 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.
- 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 total fund profits if the fund performance exceeds the preferred return to investors.

### *Perpetual Strategies (\$79 billion of fee-bearing capital)*

- We manage fee-bearing capital through publicly listed perpetual capital entities, including BPY, BEP, BIP, BBU and TERP, along with core, core plus and credit perpetual private funds.
- Perpetual private funds are able to continually raise capital as new investments arise.

- We are compensated for managing our publicly listed perpetual capital entities through (i) base management fees, which are primarily determined by the market capitalization of these entities; and (ii) incentive distributions or performance fees.
- Incentive distributions for BPY, BEP, BIP and TERP are a portion of the increases in distributions above predetermined hurdles. Performance fees for BBU are based on increases in the unit price of BBU above a high-water mark threshold.

### ***Oaktree (\$110 billion of fee-bearing capital)***

- Oaktree continues to operate and manage their respective investment business, earning management fees on fee-bearing capital within their long-term closed-end, open-end and evergreen funds.
- Long-term private funds, which have an investment period generally ranging from three to five years from inception of the fund, typically pay management fees based on committed capital, drawn capital, gross assets, net asset value (“NAV”) or cost basis during the investment period.
- Perpetual strategies, which include open-end funds that do not have an investment period and do not distribute proceeds of realized investments to clients, and evergreen funds, which invests in marketable securities, private debt and equity on a long or short-term basis, generally without distributing proceeds of realized investments to clients. Perpetual strategies typically pay management fees based on NAV.

### ***Public Securities (\$15 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)	Long-Term Private Funds	Perpetual Strategies	Oaktree	Public Securities	Total 2019	Total 2018
Real estate.....	\$ 30,898	\$ 25,158	\$ —	\$ —	\$ 56,056	\$ 53,653
Renewable power .....	12,018	21,502	—	—	33,520	21,419
Infrastructure .....	28,432	25,788	—	—	54,220	33,712
Private equity .....	14,477	6,233	—	—	20,710	15,367
Oaktree .....	—	—	110,349	—	110,349	—
Diversified .....	—	—	—	14,957	14,957	13,377
<b>December 31, 2019 .....</b>	<b>\$ 85,825</b>	<b>\$ 78,681</b>	<b>\$ 110,349</b>	<b>\$ 14,957</b>	<b>\$ 289,812</b>	n/a
December 31, 2018.....	\$ 65,794	\$ 58,357	\$ —	\$ 13,377	n/a	\$ 137,528

Fee-bearing capital increased by \$152.3 billion during the year. The principal changes are set out in the following table:

AS AT AND FOR THE YEAR ENDED DEC. 31, 2019 (MILLIONS)	Long-Term Private Funds	Perpetual Strategies	Oaktree	Public Securities	Total
Balance, December 31, 2018.....	\$ 65,794	\$ 58,357	\$ —	\$ 13,377	\$ 137,528
Inflows .....	22,943	5,770	10,061	3,627	42,401
Outflows .....	—	—	(2,188)	(4,629)	(6,817)
Distributions .....	(1,362)	(4,426)	(945)	—	(6,733)
Market valuation.....	31	20,448	1,441	2,640	24,560
Other <sup>1</sup> .....	(1,581)	(1,468)	101,980	(58)	98,873
Change .....	20,031	20,324	110,349	1,580	152,284
<b>Balance, December 31, 2019 .....</b>	<b>\$ 85,825</b>	<b>\$ 78,681</b>	<b>\$ 110,349</b>	<b>\$ 14,957</b>	<b>\$ 289,812</b>

1. Oaktree – Other for the full year includes \$102 billion of initial fee-bearing capital related to the acquisition of our interest in Oaktree on September 30, 2019.

Long-term private funds capital increased by \$20.0 billion, primarily due to:

- \$22.9 billion of inflows, including \$14.1 billion of commitments to our fourth flagship infrastructure fund, \$1.1 billion to our fifth flagship private equity fund, \$0.9 billion to our third flagship real estate fund, \$4.6 billion of co-investment capital and \$2.2 billion of additional capital across other strategies; partially offset by
- \$1.4 billion of distributions and capital returned during the year.

Perpetual strategies capital increased by \$20.3 billion, due to:

- \$20.4 billion market valuation increase, primarily as a result of increased unit prices across our listed partnerships; and
- \$5.8 billion of inflows, including \$3.8 billion as a result of debt and equity issuances at our listed partnerships and an additional \$2.0 billion from our perpetual infrastructure, real estate and credit funds; partially offset by
- \$4.4 billion of distributions, including quarterly distributions paid to the listed partnerships' unitholders and unit repurchases; and
- \$1.5 billion of decreased capitalization as a result of changes in net debt of the listed partnerships during the year.

Oaktree capital increased by \$110.3 billion, due to:

- \$102.1 billion of fee-bearing capital assumed on the acquisition of a 61% interest in Oaktree on September 30, 2019;
- \$10.1 billion of inflows, including \$7.4 billion related to Oaktree's latest distressed debt fund, which became fee-earning on committed capital on January 1, 2020; partially offset by
- \$2.2 billion of outflows, primarily within closed and open-end funds.

Public securities capital increased by \$1.6 billion, due to:

- \$3.6 billion of inflows;
- \$2.6 billion appreciation in the net asset value of investments across our mutual funds and separately managed accounts; partially offset by
- \$4.6 billion of redemptions, primarily within our real estate and natural resources public funds.

## Carry Eligible Capital

Carry eligible capital<sup>1</sup> increased by \$61.5 billion during the year to \$119.8 billion as at December 31, 2019 (2018 – \$58.3 billion). This increase is a result of the privatization of Oaktree on September 30, 2019, as well as additional capital raised in our flagship infrastructure, private equity and real estate strategies.

As at December 31, 2019, \$72.2 billion of carry eligible capital was deployed (2018 – \$36.4 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 \$47.6 billion of uncalled fund commitments that will begin to earn carried interest once the capital is deployed and fund preferred returns are met (2018 – \$21.9 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 measure 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 and realized carried interest, net<sup>1</sup>, as these are the measures that we use to analyze the performance of the Asset Management segment. We also analyze unrealized carried interest, net<sup>1</sup>, to provide insight into the value our investments have created in the period.

1. See definition in Glossary of Terms beginning on page 115.

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref	Revenues		FFO	
		2019	2018	2019	2018
Fee-related earnings .....	i	\$ 2,014	\$ 1,693	\$ 1,201	\$ 1,129
Realized carried interest .....	ii	600	254	396	188
Asset management FFO .....		<u>\$ 2,614</u>	<u>\$ 1,947</u>	<u>\$ 1,597</u>	<u>\$ 1,317</u>
Unrealized carried interest					
Generated .....				\$ 1,001	\$ 802
Foreign exchange .....				(21)	(141)
				<u>980</u>	<u>661</u>
Less: direct costs .....				(292)	(171)
Unrealized carried interest, net .....	iii			<u>688</u>	<u>490</u>
Less: unrealized carried interest not attributable to BAM .....				(28)	—
				<u>\$ 660</u>	<u>\$ 490</u>

### *i. Fee-Related Earnings*

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2019	2018
Fee revenues		
Base management fees .....	\$ 1,708	\$ 1,195
Incentive distributions .....	262	206
Performance fees .....	—	278
Transaction and advisory fees .....	44	14
	<u>2,014</u>	<u>1,693</u>
Less: direct costs .....	(792)	(564)
	<u>1,222</u>	<u>1,129</u>
Less: fee-related earnings not attributable to BAM .....	(21)	—
Fee-related earnings .....	<u>\$ 1,201</u>	<u>\$ 1,129</u>

Excluding performance fees, fee-related earnings increased by \$350 million due mainly to higher base management fees earned during the year. This increase was partially offset by the absence of \$278 million of performance fees earned from BBU in the prior year.

Base management fees earned from our long-term private funds, perpetual strategies, Oaktree and public securities businesses increased by \$513 million to \$1.7 billion, a 43% increase from 2018. The increase is predominantly due to:

- \$162 million increase in long-term private fund fees, primarily due to third-party commitments raised during the year within our latest flagship infrastructure, private equity and real estate funds;
- Acquisition of the 61% interest in Oaktree on September 30, 2019, resulting in \$197 million of management fees earned, or \$121 million at our share; and
- \$113 million increase in listed partnership fees from unit price appreciation and capital markets activity since the prior year. Listed partnership unit prices continued to recover from the volatility at the end of 2018, which has led to higher listed partnership fee revenues over the year.
- Incentive distributions from BIP, BEP and BPY increased by \$56 million to \$262 million, a 27% increase from 2018. The growth represents our share as manager of increases in per unit distributions by BIP, BEP and BPY of 7%, 5% and 5%, respectively, as well as the impact of equity issued by BIP during 2019.

- Performance fees in the prior year were earned from BBU. The BBU fee is equal to 20% of the increase in the quarterly average unit price over the relevant threshold. The threshold is reset each time a fee is paid (e.g. a high-water mark). The current threshold is \$41.96 (2018 – \$41.96).
- Direct costs consist primarily of employee expenses and professional fees, as well as business related technology costs and other shared services. Direct costs increased by \$228 million year over year as we continue to build our organization to support the aforementioned growth in fee-bearing capital. Our investment in Oaktree also contributed to additional increases in direct costs of \$144 million, or \$88 million at our share.

The margin on our fee-related earnings, including our 61.2% share of Oaktree’s fee-related earnings, was 62% in the current year (2018 – 60%). Our fee-related earnings margin, including 100% of Oaktree’s fee-related earnings, was 61% in the current 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 \$396 million of carried interest, net of direct costs (2018 – \$188 million). This increase was primarily from return of capital, recapitalization of assets and the sale of our Manhattan multifamily portfolio within our first real estate flagship fund, as well as the sale of our facilities management services business and partial sale of GrafTech within our fourth private equity flagship fund.

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 consolidated 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:

	2019			2018		
	Unrealized Carried Interest	Direct Costs	Net	Unrealized Carried Interest	Direct Costs	Net
FOR THE YEARS ENDED DEC. 31 (MILLIONS)						
Accumulated unrealized, beginning of year .....	\$ 2,486	\$ (754)	\$ 1,732	\$ 2,079	\$ (649)	\$ 1,430
Oaktree acquisition <sup>1</sup> .....	1,346	(704)	642	—	—	—
	<u>3,832</u>	<u>(1,458)</u>	<u>2,374</u>	<u>2,079</u>	<u>(649)</u>	<u>1,430</u>
In-period change						
Unrealized in period .....	1,001	(294)	707	802	(202)	600
Foreign currency revaluation .....	(21)	2	(19)	(141)	31	(110)
	<u>980</u>	<u>(292)</u>	<u>688</u>	<u>661</u>	<u>(171)</u>	<u>490</u>
Less: realized .....	(600)	197	(403)	(254)	66	(188)
	<u>380</u>	<u>(95)</u>	<u>285</u>	<u>407</u>	<u>(105)</u>	<u>302</u>
Accumulated unrealized, end of year .....	4,212	(1,553)	2,659	2,486	(754)	1,732
Oaktree carried interest not attributable to BAM shareholders..	(565)	295	(270)	—	—	—
Accumulated unrealized, end of year, net .....	<u>\$ 3,647</u>	<u>\$ (1,258)</u>	<u>\$ 2,389</u>	<u>\$ 2,486</u>	<u>\$ (754)</u>	<u>\$ 1,732</u>

1. Represents the amounts, at 100%, assumed on the acquisition of Oaktree.

The acquisition of Oaktree contributed to \$1.3 billion of additional accumulated unrealized carried interest. Unrealized carried interest generated before foreign exchange and associated costs of \$1.0 billion in the current year, related to unrealized carried interest generated across our major funds, including significant amounts from dispositions in our first flagship real estate fund and increased valuations within our flagship infrastructure funds. Unrealized carried interest generated also includes amounts generated from Oaktree funds. During 2019 we realized \$600 million of carried interest, mainly as a result of asset monetizations within our BSREP I and BCP IV funds.

Accumulated unrealized carried interest totaled \$3.6 billion at December 31, 2019. We estimate that approximately \$1.3 billion of associated costs will arise on the realization of the amounts accumulated to date, predominantly related to employee long-term incentive plans and taxes. We expect to recognize \$1.7 billion of this carry, before costs, within the next three years; however, realization of this carried interest is dependent on future investment performance.



## **Business Overview**

- We own and operate real estate assets primarily through a 55% (51% fully diluted) economic ownership interest in BPY, a 28% interest in a portfolio of operating and development assets in New York and an 18% direct interest in our third flagship real estate fund (“BSREP III”).
- BPY is listed on the Nasdaq and Toronto Stock Exchange and had a market capitalization of \$18.6 billion as at December 31, 2019.
- 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 136 premier properties totaling 93 million square feet of office space.
- The properties are located primarily in the world’s leading commercial markets such as New York City, London, Los Angeles, Washington, D.C., Toronto, Berlin, Sydney and Sao Paulo.
- We also develop properties on a selective basis; active development and redevelopment projects consist of nine office, seven multifamily and one hotel site, totaling nearly 12 million square feet.

### ***Core Retail***

- On August 28, 2018, BPY completed the privatization of GGP, previously a 34%-owned equity accounted investment, and began consolidating its results.
- We own interests in and operate 122 best-in-class malls and urban retail properties in the United States, totaling 120 million square feet.
- Our portfolio consists of 100 of the top 500 malls in the United States.
- Our retail mall portfolio has a redevelopment pipeline that exceeds \$1 billion of redevelopment 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.
- Our LP investment business strategy is to acquire high quality assets at a discount to replacement cost or intrinsic value, to execute clearly defined strategies for operational improvement and to achieve opportunistic returns through net operating income (“NOI”) growth and realized gains on exit.
- 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.

### ***Other Real Estate Investments***

- We own direct interests in BSREP III, which is our third flagship real estate fund, a portfolio of operating and development assets in New York acquired in the third quarter of 2018 and a portfolio of residential and multifamily properties.

## Outlook and Growth Initiatives

### SAME-STORE GROWTH

Rent to market/occupancy

### DEVELOPMENT

Active development

### CAPITAL ALLOCATION

Capital recycling

Our real estate group remains focused on increasing the value of our properties through proactive leasing and select redevelopment initiatives, as well as recycling capital from mature properties, primarily core office assets, to fund new higher yielding investments, particularly in our LP investments real estate business. Our \$7.2 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 year.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)		Ref.	Revenues		FFO		Common Equity		
			2019	2018	2019	2018	2019	2018	
Brookfield Property Partners									
Equity units <sup>1</sup> .....	i	\$	8,196	\$ 7,164	\$	699	\$ 736	\$ 15,770	\$ 15,160
Preferred shares .....			11	64		11	64	16	435
			8,207	7,228		710	800	15,786	15,595
Other real estate investments .....	ii		2,268	888		71	47	2,995	1,828
Realized disposition gains.....	iii		—	—		404	939	—	—
		\$	10,475	\$ 8,116	\$	1,185	\$ 1,786	\$ 18,781	\$ 17,423

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<sup>2</sup> of 55% of BPY.

2. See "Economic ownership interest" in the Glossary of Terms beginning on page 115.

Revenues from our real estate operations increased by \$2.4 billion, primarily from a full year of contributions from the acquisition of Forest City, as well as the privatization and step up in ownership of GGP (now known as BPR), a previously equity accounted investment, in the third quarter of 2018. FFO prior to realized disposition gains decreased by \$66 million, as FFO increases from lease commencements and same-store growth, were more than offset by our reduced ownership interest in BPY following the GGP privatization as well as lower dividends from the preferred shares following their redemption.



## *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)	2019	2018
Core office .....	\$ 662	\$ 608
Core retail .....	772	651
LP investments .....	309	330
Corporate .....	(398)	(410)
Attributable to unitholders .....	1,345	1,179
Non-controlling interests .....	(611)	(444)
Segment reallocation and other <sup>1</sup> .....	(35)	1
Brookfield's interest .....	<u>\$ 699</u>	<u>\$ 736</u>

1. Reflects preferred dividend distributions as well as fee-related earnings, net carried interest and associated asset management expenses not included in FFO reclassified to the Asset Management segment.

BPY's FFO for 2019 was \$1.3 billion, of which our share was \$699 million, compared to \$736 million in the prior year.

### *Core Office*

FFO increased by \$54 million to \$662 million primarily due to same-store leasing growth driven by lease commencements, a one-time fee of \$51 million earned at Five Manhattan West and higher development management fees earned. This increase was partially offset by asset sales, as well as the impact of foreign currency translation.

### *Core Retail*

FFO increased by \$121 million from the prior year to \$772 million as a result of the incremental contribution from our step-up acquisition of GGP in August 2018.

### *LP Investments*

BPY's share of the FFO from its LP investments decreased by \$21 million from the prior year due to the absence of FFO from assets sold in our BSREP I fund, including our U.S. industrial portfolio and a portfolio of self-storage properties, and the impact of foreign currency translation.

### *Corporate*

BPY's corporate expenses include interest expense, management fees and other costs. Corporate expenses of \$398 million decreased from the prior year due to lower interest cost from decreased corporate borrowings, partially offset by an increase in management fees due to higher year-over-year capitalization.

## ***ii. Other Real Estate Investments***

FFO was \$71 million in the current year, \$24 million higher than the prior year due to a full year of contribution from our direct interest in a portfolio of operating and development assets in New York and from our direct investments in BSREP III.

## ***iii. Realized Disposition Gains***

Realized disposition gains of \$404 million relate to sales of properties across our portfolios. Most significantly, we sold:

- a directly held residential management services company, contributing a net gain of \$101 million;
- certain core office properties in Australia and North America with gains totaling \$67 million; and
- a number of multifamily and other LP investment properties.

Disposition gains of \$939 million in the prior year primarily relate to the sale of properties across our portfolios including the sale of core office buildings within the U.S., Canada, and Australia, certain core retail properties prior to the GGP privatization, as well as a U.S. logistics portfolio.

## **Common Equity**

Common equity in our Real Estate segment increased to \$18.8 billion as at December 31, 2019 from \$17.4 billion as at December 31, 2018. The increase is primarily from as a result of the contribution from positive comprehensive income as well as gains reported in equity on the repurchase of shares at a discount to book value. These increases were partially offset by distributions and share cancellations made during the year.



## 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 \$14.5 billion at December 31, 2019.
- BEP owns one of the world's largest publicly traded renewable power portfolios.

## Operations

### *Hydroelectric*

- We own, operate and invest in 219 hydroelectric generating stations on 82 river systems in North America, Brazil and Colombia. Our hydroelectric operations have 7,924 megawatts ("MW") of installed capacity and long-term average ("LTA")<sup>1</sup> generation of 19,661 gigawatt hours ("GWh") on a proportionate basis<sup>1</sup>.

### *Wind*

- Our wind operations include 102 wind facilities globally with 4,638 MW of installed capacity and LTA generation of 5,447 GWh on a proportionate basis.

### *Solar*

- Our solar operations include 4,934 solar facilities globally with 3,033 MW of installed capacity and 1,323 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 25% of BEP's power generated in North America pursuant to a long-term contract at a predetermined price, 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.
- 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 per megawatt hour ("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 115.

## Outlook and Growth Initiatives

### SAME-STORE GROWTH

Inflation/margin expansion

### DEVELOPMENT

Development pipeline

### CAPITAL ALLOCATION

Acquisitions

Revenues in our Renewable Power segment are 95% contracted over an average contract term of 13 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 13,000 MW of potential capacity globally, of which 717 MW are currently under construction that we expect to contribute an incremental \$16 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 2020, we intend to remain focused on progressing our key priorities, which includes 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, 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		FFO		Common Equity	
		2019	2018	2019	2018	2019	2018
Brookfield Renewable Partners <sup>1</sup>	i	\$ 4,152	\$ 3,864	\$ 430	\$ 381	\$ 4,810	\$ 4,749
Energy contracts <sup>2</sup>	ii	(178)	(102)	(194)	(91)	510	553
Realized disposition gains	iii	—	—	97	38	—	—
		<u>\$ 3,974</u>	<u>\$ 3,762</u>	<u>\$ 333</u>	<u>\$ 328</u>	<u>\$ 5,320</u>	<u>\$ 5,302</u>

1. Brookfield's interest in BEP consists of 129.7 million redemption-exchange units, 56.1 million Class A limited partnership units and 2.7 million general partnership units; together representing an economic interest of 61% of BEP. Segment revenues at BEP include \$1.0 billion (2018 – \$840 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 generated by our renewable power operations increased by \$212 million while FFO, excluding disposition gains, decreased by \$54 million. Revenues and FFO were both positively impacted by contributions from recent acquisitions and higher realized pricing at BEP; however, the overall decrease in FFO was largely a result of lower realized margins on generation sold within our directly held energy contracts.

## 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) <sup>1</sup>		Long-Term Average (GWh) <sup>1</sup>		FFO	
	2019	2018	2019	2018	2019	2018
Hydroelectric.....	19,921	20,305	19,722	20,389	\$ 720	\$ 671
Wind.....	4,794	4,176	5,489	4,731	171	160
Solar.....	949	753	978	724	103	72
Storage and other.....	374	519	—	—	27	32
Corporate.....	—	—	—	—	(260)	(259)
Attributable to unitholders.....	26,038	25,753	26,189	25,844	761	676
Non-controlling interests and other <sup>2</sup> .....					(331)	(290)
Segment reallocation <sup>3</sup> .....					—	(5)
Brookfield's interest.....					\$ 430	\$ 381

1. Proportionate to BEP; see "Proportionate basis generation" in Glossary of Terms beginning on page 115.

2. Includes incentive distributions paid to Brookfield of \$48 million (2018 – \$40 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 2019 was \$761 million, of which our share was \$430 million, compared to \$381 million in the prior year. Generation for the year totaled 26,038 GWh, largely in line with the long-term average ("LTA"). This represents a 1% increase compared to the prior year, or a 3% decrease on a same-store basis excluding the impact of acquisitions.

### Hydroelectric

The primary contributors to the \$49 million increase in FFO were:

- \$26 million increase in North American FFO as average realized revenue per MWh was higher due to inflation indexation and strong same-store generation. This increase was partially offset by the sale of a further 25% interest in certain of our Canadian assets;
- \$15 million increase in our Colombian business due to cost reduction initiatives and an increase in average revenue per MWh, partially offset by lower generation; and
- \$8 million increase in our Brazilian operations primarily from higher same-store generation and the release of a regulatory provision as the historical generation of our facilities was positively reaffirmed.

### Wind

Wind operations' FFO increased by \$11 million to \$171 million due to:

- our increased ownership in TERP and a portfolio of European wind assets acquired in June of 2018, acquisitions in Asia as well as recently commissioned development projects; partially offset by
- below average generation at our North American and Brazilian businesses.

### Solar

FFO from our solar operations increased by \$31 million over the prior year due to growth of our portfolio and our increased ownership in TERP.

### Storage and Other

Storage and other activities contributed \$27 million of FFO this year compared to \$32 million in the prior year due to lower realized capacity prices in the northeast United States and lower generation at our biomass facilities in Brazil.

## *Corporate*

The corporate FFO deficit was consistent with the prior year due to higher management service costs resulting from growth in our business offset by lower interest expense due to a lower level of debt outstanding and refinancing initiatives.

### ***ii. Energy Contracts***

In the fourth quarter of 2018, we transferred our North American energy marketing function to BEP, along with our long-term power contract in Ontario (refer to page 62 and Part 5 of Management's Discussion and Analysis for more information). As a result of the transfer, the New York power contract is the only power contract that remains in place between BAM and BEP.

During the year, we purchased 4,066 GWh from BEP at \$79 per MWh and sold the purchased generation at an average selling price of \$31 per MWh. The prior year results benefited from contracted sales which have now been internalized within BEP. The internalization has also reduced the level of generation we have committed to purchase from BEP.

As a result of the negative margins on a per MWh basis realized on the sale of power purchased in certain markets, we incurred an FFO deficit of \$194 million in 2019 compared to a deficit of \$91 million in the prior year.

### ***iii. Realized Disposition Gains***

Disposition gains of \$97 million for the year relate to the sale of interests in certain hydro and wind assets, particularly within North America.

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

## **Common Equity**

Common equity in our Renewable Power segment is \$5.3 billion at December 31, 2019, consistent with the prior year. Revaluation gains on our property, plant and equipment and contributions from FFO were offset by foreign exchange, depreciation and distributions paid to investors.



## 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 \$20.9 billion at December 31, 2019.
- 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 ~2,700 km of natural gas pipelines and ~2,200 km of transmission lines in North and South America, and ~3,600 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 1.3 million smart meters in our regulated distribution business.
- 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 ~22,000 km of railroad track in North America and Europe, ~5,500 km of railroad track in Western Australia and ~4,800 km of railroad track in South America.
- Our toll road operations include ~4,000 km of motorways in Brazil, Chile, Peru and India.
- Our ports operations include 13 terminals in North America, the U.K., and Australia.
- 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 ~16,500 km of natural gas transmission pipelines, primarily in the U.S., and 600 billion cubic feet of natural gas storage in the U.S. and Canada.
- In our district energy business we deliver ~3.2 million pounds per hour of heating and 305,000 tons of cooling capacity, and provide residential energy infrastructure services to ~1.6 million customers in the U.S. and Canada.
- 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 in France and over 10,000 km of fiber backbone in France and Brazil. In addition, we own ~1,600 cell sites and 10,000 km of fiber optic cable in New Zealand as well as ~2,100 active telecom towers and 70 distributed antenna systems primarily located in the U.K.
- In our data storage business, we manage 51 data centers with ~1.6 million square feet of raised floors and 176 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.



## Outlook and Growth Initiatives

### SAME-STORE GROWTH

Inflation and volumes

### DEVELOPMENT

Capital backlog

### CAPITAL ALLOCATION

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 2019, total capital to be commissioned in the next 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 same-store growth at the high end of our 6 to 9% target range. Furthermore, we are focused on executing the next phase of our capital recycling program and it is on track to raise a further \$1.5 billion. We plan to redeploy this capital into higher yielding new investments which should provide for another period of outsized FFO growth. While quarterly results this year may be impacted by the timing of new investments and sales, we anticipate that our run-rate exit FFO per unit in 2020 will be 12-15% higher than current levels.

## Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Infrastructure 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		FFO		Common Equity	
		2019	2018	2019	2018	2019	2018
Brookfield Infrastructure Partners <sup>1</sup> .....	i	\$ 6,805	\$ 4,752	\$ 354	\$ 327	\$ 2,141	\$ 1,916
Sustainable resources and other .....	ii	288	266	22	31	651	971
Realized disposition gains .....	iii	—	—	88	244	—	—
		<u>\$ 7,093</u>	<u>\$ 5,018</u>	<u>\$ 464</u>	<u>\$ 602</u>	<u>\$ 2,792</u>	<u>\$ 2,887</u>

1. Brookfield's interest in BIP consists of 122.0 million redemption-exchange units, 0.2 million limited partnership units and 1.6 million general partnership units together representing an economic interest of approximately 30% of BIP.

Revenues generated by our Infrastructure segment increased by \$2.1 billion and FFO excluding realized disposition gains increased by \$18 million compared to the prior year. We benefited from contributions from capital deployed across the operations and solid same-store growth.

## 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)	2019	2018
Utilities .....	\$ 577	\$ 576
Transport.....	530	518
Energy.....	412	269
Data infrastructure .....	136	77
Corporate .....	(271)	(209)
Attributable to unitholders.....	1,384	1,231
Segment reallocation <sup>1</sup> .....	(6)	—
Non-controlling interests and other <sup>2</sup> .....	(1,024)	(904)
Brookfield's interest .....	<u>\$ 354</u>	<u>\$ 327</u>

1. Segment reallocation refers to certain items, net of NCI, included in BIP's operating FFO that we reclassify. This allows us to present FFO attributable to unitholders on the same basis as BIP.

2. Includes incentive distributions paid to Brookfield of \$158 million (2018 – \$136 million) as the general partner of BIP.

BIP's FFO in 2019 was \$1.4 billion, of which our share was \$354 million compared to \$327 million in the prior year. Key variances for our businesses are described below.

### Utilities

FFO of \$577 million was largely in line with the prior year though impacted by:

- inflation-indexation and additions to rate base in our regulated transmission business, which includes an incremental contribution from acquiring the remaining 50% interest in 800 km of operating electricity lines in Brazil; and
- same-store growth in our regulated distribution business primarily due to inflation-indexation across our portfolio and strong connections activity at our U.K. operations; partially offset by
- the absence of FFO from the sale of our Chilean electricity transmission business in the prior year and incremental interest expense associated with the financing at our Brazilian regulated transmission business.

### Transport

FFO in our transport segment of \$530 million was \$12 million higher than the prior year. The increase is primarily due to:

- same-store growth from increased volumes in our rail and port operations; and
- inflationary tariff increases and traffic growth at our toll road portfolio; partially offset by
- the sale of a partial interest in our Chilean toll road operation and the sale of a European port operation.

### Energy

FFO from our energy operations of \$412 million was \$143 million higher than the prior year due to:

- full year contributions from two North American energy businesses acquired in 2018 and a recently acquired natural gas pipeline in India; and
- strong transportation volumes and the commissioning of the Gulf Coast expansion project at our North American natural gas transmission business; partially offset by
- lower spreads at our gas storage operations and the impact of the recent sale of our Australian district energy business.

## *Data Infrastructure*

FFO from our data infrastructure operations of \$136 million was \$59 million higher than the prior year due to:

- contributions from capital deployed in an integrated telecommunications business in New Zealand, as well as in our global data center portfolio; and
- same-store growth contributions from capital expenditure projects commissioned and inflationary price increases at our French telecommunications business.

## *Corporate*

The Corporate FFO deficit increased from \$209 million in the prior year to \$271 million due to:

- increase in management fees due to a higher market capitalization; and
- increase in interest expense on corporate credit facility draws and incremental debt raised over the year.

## *ii. Sustainable Resources and Other*

FFO at our agriculture operations decreased in the current year due to the sale of Acadian<sup>1</sup>.

## *iii. Realized Disposition Gains*

In 2019, we recognized disposition gains of \$88 million relating to the sale of Acadian and our partial interest in a Chilean toll road business. This gain was partially offset by a loss on the sale of a European port business.

## **Common Equity**

Common equity in our Infrastructure segment was fairly consistent at \$2.8 billion as at December 31, 2019 (2018 – \$2.9 billion) as the impact of contributions from earnings, our participation in BIP's equity offering and annual revaluation gains on our property, plant and equipment were more than offset by depreciation, distributions to unitholders and the sale of Acadian.

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.

1. See definition in Glossary of Terms beginning on page 115.



## Business Overview

- We own and operate private equity assets primarily through our 63% interest in BBU. BBU is listed on the New York and Toronto Stock Exchanges and had a market capitalization of \$6.2 billion at December 31, 2019.
- 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 43% 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 and provide services to residential real estate brokers through franchise arrangements under a number of brands in Canada.
- 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.
- Healthscope operates or manages a network of acute, psychiatric and rehabilitation and extended care facilities in Australia.
- Genworth, which is the largest private sector residential mortgage insurer in Canada, provides mortgage default insurance to Canadian residential mortgage lenders.
- Our Brazilian fleet management business is one of the leading providers in the country of heavy equipment and light vehicle leasing with value-added services.
- Other operations in our business services include entertainment facilities in the Greater Toronto Area and other financial advisory, logistics and wireless broadband services.

### *Infrastructure Services*

- We are the leading provider of services to the global power generation industry, through our investment in Westinghouse, 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, through our investment in Teekay Offshore, operating in the North Sea, Canada and Brazil.

### *Industrials*

- Our industrial portfolio is comprised of capital intensive businesses with significant barriers to entry that require technical operating expertise.
- We own Clarios, which supplies more than one third of the world's automotive batteries.
- 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.
- We own and operate a leading manufacturer of a broad range of high quality graphite electrodes, GrafTech and a manufacturer of returnable plastics packaging.
- We also 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

Expansion of  
service businesses

### DEVELOPMENT

Turnaround strategies

### CAPITAL ALLOCATION

Acquisitions

Our private equity business utilizes our 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 operations, we closed a number of acquisitions, including Healthscope, Genworth and Ouro Verde in 2019. At Healthscope we are working to address many of the challenges we identified during our due diligence process to improve the company's operational discipline, achieve labor savings and optimize the occupancy of our private hospital network. In December, we closed the acquisition of Genworth, where we hope to enhance returns over time by leveraging Brookfield's residential real estate expertise and relationships to grow market share. Going forward, we are seeking opportunities to optimize the capital structure and improve the returns earned on its investment portfolio. At our road fuel distribution and marketing business we are focused on our growth strategy and leveraging synergies between our network of gas stations and our fuel distribution operations to enhance the competitive position of our business. We also continue to seek monetization opportunities within this portfolio. Subsequent to year-end, we sold our cold storage warehousing business for proceeds to BBU of approximately \$45 million.

Within our infrastructure services operations, we continue to generate productivity gains at Westinghouse from our business improvement initiatives aimed at further enhancing the value of the business over the longer-term. During the year, Westinghouse completed several bolt-on acquisitions that should support the growth of Westinghouse's global presence and enhance its service offering capabilities. On January 22, 2020, together with institutional partners, we completed the privatization of Teekay Offshore for an aggregate investment of \$165 million, of which we funded approximately \$75 million. The shuttle tanker renewal program at Teekay Offshore remains on track with seven shuttle tankers under construction, all of which are expected to be delivered over the next two-year period.

Within our industrials operations, we completed the acquisition of Clarios, our global manufacturer of automotive batteries in 2019. The business is performing well and carve-out activities are progressing on plan with a focus on setting up new corporate functions. Going forward, we plan to optimize the manufacturing footprint and supply chain and are considering alternatives related to non-core activities and joint ventures. During 2019, Clarios closed the acquisition of Robert Bosch GmbH's 20% interest in our European battery manufacturing and sales joint venture. This acquisition positions Clarios well to take advantage of growth opportunities in the European market.

Given the significant liquidity and flexible investment approach, we believe BBU is well positioned for further growth in any economic environment. In January 2020, together with institutional partners, we announced the acquisition of a 40% interest in IndoStar for approximately \$220 million, of which BBU's share is expected to be approximately \$75 million. IndoStar is an Indian financing company that primarily services the used commercial vehicle segment. The transaction is expected to close in the second quarter of 2020 subject to certain regulatory approvals and other customary closing conditions. India is an attractive market; the ongoing Indian credit crisis which has resulted from an increase in the number of non-performing loans by state banks has given rise to more distressed valuations within India's financing sector today.

## 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		FFO		Common Equity	
		2019	2018	2019	2018	2019	2018
Brookfield Business Partners <sup>1</sup>	i	\$ 43,420	\$ 36,982	\$ 494	\$ 223	\$ 2,389	\$ 2,017
Other investments	ii	158	288	57	277	1,697	2,262
Realized disposition gains	iii	—	—	293	295	—	—
		<u>\$ 43,578</u>	<u>\$ 37,270</u>	<u>\$ 844</u>	<u>\$ 795</u>	<u>\$ 4,086</u>	<u>\$ 4,279</u>

1. Brookfield's interest in BBU consists of 69.7 million redemption-exchange units, 24.8 million limited partnership units and eight general partnership units together representing an economic interest of 63% of BBU.

Revenues generated from our private equity operations increased by \$6.3 billion primarily as a result of the acquisitions of Clarios and Healthscope during the second quarter of 2019, the consolidation of Teekay Offshore beginning from the third quarter of 2018 and a full year of contributions from Westinghouse. The increase was partially offset by absence of contributions from our facilities management business and our executive relocation business, which were sold in the second quarter of 2019.

FFO, prior to disposition gains, increased by \$51 million to \$551 million primarily due to the factors described above in addition to the absence of a performance fee expense in the current year. The increase in FFO was partially offset by weaker results from our directly held investments.

### 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)	2019	2018
Business services	\$ 432	\$ 131
Infrastructure services	314	195
Industrials	393	470
Corporate	(37)	(63)
Attributable to unitholders	1,102	733
Performance fees	—	(278)
Non-controlling interests	(379)	(146)
Segment reallocation and other <sup>1</sup>	(229)	(86)
Brookfield's interest	<u>\$ 494</u>	<u>\$ 223</u>

1. 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 \$1.1 billion of FFO in 2019, including realized gains. Excluding these gains, our share was \$494 million, compared to \$223 million in the prior year.

### Business Services

Business services' FFO increased by \$301 million to \$432 million for the year ended December 31, 2019 primarily due to greater realized disposition gains on the sale of BGIS and BGRS during the second quarter of the year. Excluding gains on assets sold that we reclassify to realized disposition gains, FFO increased primarily due to:

- contributions from the acquisitions of Healthscope and our Brazilian fleet management business; and
- increased margins from our construction services business due to higher project activity in Australia; partially offset by
- the loss of contribution from the dispositions of BGIS and BGRS in the second quarter of 2019.

## *Infrastructure Services*

Within our infrastructure services operations, we generated \$314 million of FFO, compared to \$195 million in the prior year, primarily due to:

- full year of contributions from Westinghouse; and
- increased ownership interest in Teekay Offshore, which took place during the third quarter of the previous year; partially offset by
- higher interest expense and the absence of a one-time customer settlement received during the prior year.

## *Industrials*

FFO from our industrials portfolio decreased by \$77 million to \$393 million. Excluding disposition gains that are reclassified out of our operating results, FFO decreased by \$37 million. The decrease is due to:

- lower volumes from GrafTech;
- the absence of contributions from an Australian oil and natural gas business sold during the fourth quarter of the prior year; partially offset by
- contributions from the acquisition of Clarios.

## *Corporate*

The Corporate FFO deficit decreased by \$26 million as interest earned on deposits and a current tax recovery recognized during the year were partially offset by increased management fees due to higher capitalization.

## *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 did not pay a performance fee, compared to \$278 million in the prior year, which was recorded as income in our Asset Management segment.

## **ii. Other Investments**

FFO from other investments decreased by \$220 million to \$57 million primarily as a result of losses at a manufacturer of automotive parts and a decrease in average OSB pricing at Norbord compared to the prior year. This decrease was partially offset by higher income from the direct investment in our service provider to the offshore oil production industry and distributions we received from Vistra.

## **iii. Realized Disposition Gains**

Realized disposition gains were \$293 million in the year, compared to \$295 million in the prior year. During the current year, we sold BGRS, BGIS, several industrial assets at our wastewater and industrial water treatment business in Brazil, our controlling interest in a palladium mining operations and a partial interest in GrafTech.

In the prior year, we recognized disposition gains relating to the sale of our Australian energy operations, the sale of a joint venture interest in a real estate brokerage services business and the partial sell down of our graphite electrode manufacturing business through a series of public offerings and a share buyback.

## **Common Equity**

Common equity in our Private Equity segment was \$4.1 billion as at December 31, 2019 (2018 – \$4.3 billion). The decrease is primarily attributable to a partial sale of our interest in Vistra, distributions to unit holders and depreciation expense. These decreases were partially offset by contributions from operating performance and an equity offering by BBU in the second quarter of the year. 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 87,000 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 \$603 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. Our operations saw a reasonable 2019 year, but performance was varied market by market.

Residential real estate development in Brazil remains challenging following years of industry over development. However, the combination of the lowest level of the Selic rate, competition among banks in mortgage lending and rising consumer confidence should lead to recovery in the housing market. 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	
	2019	2018	2019	2018	2019	2018
North America .....	\$ 1,987	\$ 2,213	\$ 146	\$ 161	\$ 2,083	\$ 1,758
Brazil and other.....	469	470	(21)	(112)	776	848
	<u>\$ 2,456</u>	<u>\$ 2,683</u>	<u>\$ 125</u>	<u>\$ 49</u>	<u>\$ 2,859</u>	<u>\$ 2,606</u>

## North America

FFO from our North American operations of \$146 million was \$15 million lower than the prior year.

Housing operations contributed less FFO than the prior year as:

- U.S. housing operations margin decreased primarily due to fewer home closings and a 1% decrease in gross margin; and
- Canadian housing operations margin decreased due to fewer home closings and a 4% decrease in the housing gross margin percentage.

FFO from our land development operations decreased due to fewer single family, multifamily and commercial lot sales, offset by additional raw and partially finished acre closings. Land gross margin decreased by 4% due to the mix of land sold. These decreases were partially offset by incremental contributions from cost savings, a decrease to share-based compensation costs, FFO contribution from our joint ventures and lower current tax expense.

As at December 31, 2019, we had 93 active housing communities (2018 – 88) and 28 active land communities (2018 – 30).

## ***Brazil and Other***

FFO from our Brazilian operations improved by \$91 million to a loss of \$21 million in the current year due to:

- higher margins on projects delivered during the year;
- a one-time gain on reversal of a previously accrued tax charge; partially offset by
- an increase to selling expenses from the higher number of projects delivered during the year when compared to last year.

Our focus over the past few years has been delivering projects and selling remaining inventory of units associated with projects launched prior to the economic downturn. During 2019, we completed and delivered 10 projects, compared to six projects in the prior year. We continued to sell down inventory from our legacy projects this year, and overall contributions from these sales were below the level required to cover fixed costs, including marketing expenses.

We began 2019 with 22 projects under construction and as of December 31, 2019, we have 23 projects under construction, of which 21 relate to new projects launched since late 2016 which command higher margins than older projects.

## **Common Equity**

Common equity was \$2.9 billion at December 31, 2019 (2018 – \$2.6 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 increase in equity is primarily attributable to contributions from operations, partially offset by the weakening of the Brazilian real compared to the U.S. dollar.



# Corporate Activities

## Business Overview

- Our corporate activities provide support to the overall business, including both our asset management franchise and our invested capital. These activities include the development, and seeding, of new fund strategies, supporting the growth in our listed partnerships, and providing liquidity to the organization, when needed. In addition, we will make direct investments on an opportunistic basis.
- We also hold cash and financial assets as part of our liquidity management operations and enter into financial contracts to manage residual foreign exchange and other risks, as appropriate.

## 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	
	2019	2018	2019	2018	2019	2018
Corporate cash and financial assets, net.....	\$ 112	\$ 17	\$ 123	\$ 11	\$ 2,181	\$ 2,275
Corporate borrowings.....	—	—	(348)	(323)	(7,083)	(6,409)
Preferred equity <sup>1</sup> .....	—	—	—	—	(4,145)	(4,168)
Other corporate investments .....	347	171	1	(1)	680	43
Corporate costs and taxes/net working capital.....	—	—	(135)	(163)	470	1,081
	<u>\$ 459</u>	<u>\$ 188</u>	<u>\$ (359)</u>	<u>\$ (476)</u>	<u>\$ (7,897)</u>	<u>\$ (7,178)</u>

1. FFO excludes preferred share distributions of \$152 million (2018 – \$151 million).

Our portfolio of corporate cash and financial assets is generally recorded at fair value with changes recognized 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, 2019, our portfolio of corporate cash and financial assets includes \$789 million of cash and cash equivalents (2018 – \$1.3 billion), which decreased primarily due to the cash outlay on the investment in Oaktree in the third quarter of the year and the repayment of \$450 million (C\$600 million) of corporate debt, partially offset by \$1.0 billion of corporate debt issued during the first quarter of 2019.

Our corporate cash and financial assets generated FFO of \$123 million in 2019, which was \$112 million higher than the prior year, primarily due to mark-to-market gains and distributions received within our financial assets portfolio for the year, and income earned on the settlement of certain derivative transactions, particularly our cross currency swaps.

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 \$348 million FFO expense reported through corporate borrowings reflects the interest expense on those borrowings. This increased from the prior year primarily as a result of the aforementioned net increase in our borrowings.

Preferred equity does not revalue under IFRS. In 2019, we purchased approximately one million preferred shares across different series through the normal-course issuer bid program, resulting in a \$23 million decrease.

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

Other corporate investments historically included our insurance and pension businesses. The current year increase relates to our investment in Oaktree, as the portion of the business related to non-asset management activities has been classified in the Corporate segment.

Net working capital includes accounts receivable, accounts payable, other assets and other liabilities, and was in an asset position of \$470 million as at December 31, 2019, a decrease from the prior year balance of \$1.1 billion. Included within this balance are net deferred income tax assets of \$2.2 billion (2018 – \$1.9 billion). The increase relates to the recognition of previously unrecognized net operating losses. The FFO deficit also includes corporate costs and cash taxes which decreased compared to the prior year due to a release of a previously recorded tax reserve in the third quarter of the current year.

The common equity deficit in our Corporate segment of \$7.9 billion at December 31, 2019 is higher than the prior year deficit of \$7.2 billion primarily due to cash paid on acquiring the asset management business of Oaktree and higher corporate borrowings. This was partially offset by gains in our investments portfolio, cash repatriated from the redemption of BPY's preferred shares that were issued to us on the formation of the listed partnership, as well as the impact of the proceeds that we received for syndicating an investment to third parties that we were warehousing on behalf of our long-life core infrastructure fund.

## 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.

*Corporate Capitalization*<sup>1</sup> – 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, 2019, our corporate capitalization was \$47.1 billion (2018 – \$38.7 billion) with a debt to capitalization of 15% (2018 – 17%).

*Consolidated Capitalization*<sup>1</sup> – reflects the full capitalization of wholly owned and partially owned entities that we consolidate in our financial statements. At December 31, 2019, 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. Much of the borrowings issued within our managed entities are included in our consolidated balance sheet notwithstanding that virtually none of this debt has any recourse to the Corporation.

*Our Share of Capitalization*<sup>1</sup> – 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:

AS AT DEC. 31 (MILLIONS)	Ref.	Corporate		Consolidated		Our Share	
		2019	2018	2019	2018	2019	2018
Corporate borrowings .....	i	\$ 7,083	\$ 6,409	\$ 7,083	\$ 6,409	\$ 7,083	\$ 6,409
Non-recourse borrowings							
Subsidiary borrowings .....	i	—	—	8,423	8,600	5,382	5,174
Property-specific borrowings .....	i	—	—	127,869	103,209	44,436	35,943
		<b>7,083</b>	<b>6,409</b>	<b>143,375</b>	<b>118,218</b>	<b>56,901</b>	<b>47,526</b>
Accounts payable and other .....		4,708	2,299	43,077	23,989	13,617	10,297
Deferred income tax liabilities .....		279	197	14,849	12,236	4,541	4,425
Subsidiary equity obligations .....		—	—	4,132	3,876	1,896	1,658
Liabilities associated with assets classified as held for sale .....		—	—	1,690	812	212	262
Equity							
Non-controlling interests .....		—	—	81,833	67,335	—	—
Preferred equity .....	ii	4,145	4,168	4,145	4,168	4,145	4,168
Common equity .....	iii	30,868	25,647	30,868	25,647	30,868	25,647
		<b>35,013</b>	<b>29,815</b>	<b>116,846</b>	<b>97,150</b>	<b>35,013</b>	<b>29,815</b>
Total capitalization .....		<b>\$ 47,083</b>	<b>\$ 38,720</b>	<b>\$ 323,969</b>	<b>\$ 256,281</b>	<b>\$ 112,180</b>	<b>\$ 93,983</b>
Debt to capitalization .....		<b>15%</b>	<b>17%</b>	<b>44%</b>	<b>46%</b>	<b>51%</b>	<b>51%</b>

1. See definition in Glossary of Terms beginning on page 115.

## i. Borrowings

### Corporate Borrowings

AS AT DEC. 31 (\$ MILLIONS)	Average Rate		Average Term (Years)		Consolidated	
	2019	2018	2019	2018	2019	2018
Term debt.....	4.6%	4.5%	10	10	\$ 7,128	\$ 6,450
Revolving facilities.....	—%	—%	4	4	—	—
Deferred financing costs.....	n/a	n/a	n/a	n/a	(45)	(41)
Total.....					<u>\$ 7,083</u>	<u>\$ 6,409</u>

As at December 31, 2019, corporate borrowings included term debt of \$7.1 billion (2018 – \$6.5 billion) which had an average term to maturity of 10 years (2018 – 10 years). Term debt consists of public and private bonds, all of which are fixed rate and have maturities ranging from March 2021 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 \$1.0 billion of 4.85% notes with maturity of 2029, as well as \$120 million of foreign currency appreciation, partially offset by the repayment of \$450 million (C\$600 million) of term debt on April 9, 2019.

Subsequent to December 31, 2019, we issued \$600 million of 3.45% notes with a 2050 maturity, and redeemed \$269 million (C\$350 million) of 5.30% notes due on March 1, 2021.

We had no commercial paper or bank borrowings outstanding at December 31, 2019 (2018 – \$nil). Our commercial paper program is supplemented by our \$2.6 billion revolving term credit facilities with maturities ranging from 2022 to 2024. As at December 31, 2019, \$66 million of the facilities were utilized for letters of credit (2018 – \$68 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		Average Term (Years)		Consolidated	
	2019	2018	2019	2018	2019	2018
Real estate.....	3.9%	4.4%	4	2	\$ 2,024	\$ 2,504
Renewable power.....	4.0%	4.0%	9	5	2,098	2,328
Infrastructure.....	3.4%	3.6%	6	5	2,470	1,993
Private equity.....	—%	3.9%	—	1	—	52
Residential development <sup>1</sup> .....	6.2%	6.2%	5	4	1,831	1,723
Total.....	<u>4.2%</u>	<u>4.5%</u>	<u>6</u>	<u>4</u>	<u>\$ 8,423</u>	<u>\$ 8,600</u>

1. Subsequent to year end, Residential development refinanced their \$500 million 6.13% notes due 2022 with newly issued \$500 million 10-year notes due 2030 with a coupon of 4.88%. With this refinance, Residential development's average rate decreased to 5.8% and the average term increased to 7 years.

Subsidiary borrowings include listed partnership's recourse term debt and credit facility draws. It generally has no recourse to the Corporation but are recourse to its principal subsidiaries (primarily BPY, BEP, BIP and BBU).

## 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 (Years)		Consolidated	
	2019	2018	2019	2018	2019	2018
Real estate.....	4.4%	4.7%	4	4	\$ 67,909	\$ 63,494
Renewable power .....	5.0%	5.4%	9	10	15,787	14,233
Infrastructure .....	4.7%	5.2%	7	6	20,776	14,334
Private equity and other.....	5.4%	6.2%	6	6	23,105	10,820
Residential development .....	5.4%	8.0%	3	2	292	328
Total.....	4.7%	5.0%	6	6	\$ 127,869	\$ 103,209

Property-specific borrowings have increased by \$24.7 billion since December 31, 2018. The additional borrowings in our private equity operations are primarily related to the acquisition of the global automotive battery business and the Australian private healthcare provider. The additional borrowings in our infrastructure operations are primarily related to the acquisition of the natural gas pipeline business in India and additional borrowings at our South American toll road business. In addition to acquisitions, the remainder of the increase in consolidated borrowings is driven by drawings on new or existing subscription facilities. 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, 2019, 70% 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:

AS AT DEC. 31 (MILLIONS)	Fixed Rate				Floating Rate			
	2019		2018		2019		2018	
	Average Rate	Consolidated	Average Rate	Consolidated	Average Rate	Consolidated	Average Rate	Consolidated
Corporate borrowings .....	4.6%	\$ 7,083	4.5%	\$ 6,409	—%	\$ —	—%	\$ —
Subsidiary borrowings .....	4.6%	6,152	4.8%	5,296	3.4%	2,271	4.0%	3,304
Property-specific borrowings..	5.2%	49,614	4.9%	39,318	4.4%	78,255	5.1%	63,891
Total .....	5.0%	\$ 62,849	4.9%	\$ 51,023	4.4%	\$ 80,526	5.0%	\$ 67,195

## 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		2019	2018
		2019	2018		
Fixed rate-reset .....	Perpetual	4.3%	4.3%	\$ 2,875	\$ 2,893
Fixed rate .....	Perpetual	4.8%	4.8%	739	744
Floating rate.....	Perpetual	2.9%	2.9%	531	531
Total.....		4.2%	4.2%	\$ 4,145	\$ 4,168



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, 2019 was 284 basis points.

During 2019, we repurchased 231,608 and 775,111 of our perpetual fixed rate and fixed rate-reset preferred shares, respectively, with a face value of \$23 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)	2019	2018
Outstanding at beginning of year .....	955.1	958.8
Issued (repurchased)		
Issuances .....	52.8	—
Repurchases .....	(7.2)	(9.6)
Long-term share ownership plans <sup>1</sup> .....	5.4	5.7
Dividend reinvestment plan and others .....	0.1	0.2
Outstanding at end of year .....	1,006.2	955.1
Unexercised options and other share-based plans <sup>1</sup> .....	46.7	42.1
Total diluted shares at end of year .....	1,052.9	997.2

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

The company holds 42.3 million Class A shares (2018 – 37.5 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 12.2 million (2018 – 3.9 million) shares issuable in respect of these plans based on the market value of the Class A shares at December 31, 2019 and 2018, resulting in a net reduction of 30.1 million (2018 – 33.6 million) diluted shares outstanding.

During 2019, 52.8 million Class A shares were issued in connection with the acquisition of an approximate 61% interest in Oaktree. In addition, 8.6 million options were exercised, of which 3.8 million and 0.3 million were issued on a net-settled and gross basis, respectively, resulting in the cancellation of 4.5 million vested options.

The cash value of unexercised options was \$1.2 billion as at December 31, 2019 (2018 – \$1.1 billion) based on the proceeds that would be paid on exercise of the options.

As of March 25, 2020, the Corporation had outstanding 1,009,355,628 Class A shares and 85,120 Class B shares. Refer to Note 21 of 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 \$13.4 billion, or inclusive of investor commitments to our private funds, was \$64.1 billion at the end of the year, 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. On January 31, 2019, the Corporation committed \$2.75 billion to our third flagship real estate fund alongside BPY's \$1 billion commitment. As of December 31, 2019, the Corporation has funded \$866 million of our \$2.75 billion commitment. 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. We refer to this as sustaining capital expenditures. The sustaining capital expenditure program 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	Oaktree	Total 2019	Total 2018
Cash and financial assets, net.....	\$ 2,181	\$ 40	\$ 238	\$ 273	\$ 274	\$ 569	\$ 3,575	\$ 3,752
Undrawn committed credit facilities.....	2,524	2,523	1,585	1,101	1,575	500	9,808	7,061
<b>Core liquidity<sup>1</sup></b> .....	<b>4,705</b>	<b>2,563</b>	<b>1,823</b>	<b>1,374</b>	<b>1,849</b>	<b>1,069</b>	<b>13,383</b>	<b>10,813</b>
Uncalled private fund commitments.....	—	13,113	3,264	10,855	7,597	15,906	50,735	23,575
<b>Total liquidity<sup>1</sup></b> .....	<b>\$ 4,705</b>	<b>\$ 15,676</b>	<b>\$ 5,087</b>	<b>\$ 12,229</b>	<b>\$ 9,446</b>	<b>\$ 16,975</b>	<b>\$ 64,118</b>	<b>\$ 34,388</b>

1. See definition in Glossary of Terms beginning on page 115.

As at December 31, 2019, the Corporation's core liquidity was \$4.7 billion, consisting of \$2.2 billion in cash and financial assets, net of deposits and other liabilities and \$2.5 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 84. 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 and/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 2019, we generated \$2.6 billion of cash available for distribution and/or reinvestment, inclusive of:

- \$1.2 billion fee-related earnings;
- \$386 million realized carried interest, net;
- \$42 million of distributable earnings from our investment in Oaktree; and
- \$1.6 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 \$584 million.

The Corporation paid \$620 million in cash dividends on its common equity during the year ended December 31, 2019.

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

FOR THE YEARS ENDED DEC. 31  
(MILLIONS)

	2019	2018
<b>1) Asset management FFO</b>		
Fee revenues .....	\$ 1,817	\$ 1,693
Direct costs .....	(648)	(564)
Fee-related earnings <sup>1</sup> .....	1,169	1,129
Realized carried interest, net <sup>1</sup> .....	386	188
	<u>1,555</u>	<u>1,317</u>
 Our share of Oaktree's distributable earnings .....	 42	 —
<b>2) Distributions from investments</b>		
Listed partnerships .....	1,359	1,339
Corporate cash and financial assets .....	132	156
Other investments .....	107	203
	<u>1,598</u>	<u>1,698</u>
<b>3) Other invested capital earnings</b>		
Corporate borrowings .....	(348)	(323)
Corporate costs and taxes .....	(135)	(163)
Other wholly owned investments .....	(36)	41
	<u>(519)</u>	<u>(445)</u>
Preferred share dividends .....	(152)	(151)
Add back: equity-based compensation costs .....	87	84
Cash available for distribution and/or reinvestment .....	<u>\$ 2,611</u>	<u>\$ 2,503</u>

1. Excludes \$32 million and \$10 million of fee-related earnings and realized carried interest, net from Oaktree, respectively.

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, 2019 (MILLIONS, EXCEPT PER UNIT AMOUNTS)	Ownership %	Brookfield Owned Units	Distributions Per Unit <sup>1</sup>	Quoted Value <sup>2</sup>	Current Distributions (Current Rate) <sup>3</sup>	YTD Distributions (Actual)
<b>Distributions from investments</b>						
<b>Listed partnerships</b>						
Brookfield Property Partners <sup>4</sup> .....	55%	522.3	\$ 1.33	\$ 9,564	\$ 695	\$ 699
Brookfield Renewable Partners .....	61%	188.4	2.17	8,784	409	390
Brookfield Infrastructure Partners...	30%	123.8	2.15	6,189	266	247
Brookfield Business Partners .....	63%	94.5	0.25	3,901	24	23
					<u>1,394</u>	<u>1,359</u>
Corporate cash and financial assets <sup>5</sup> ..	various	various	various	2,181	235	132
<b>Other investments</b>						
Norbord .....	43%	34.8	0.60	930	21	37
Other <sup>6</sup> .....	various	various	various	various	67	70
					<u>88</u>	<u>107</u>
<b>Total</b> .....					<u>\$ 1,717</u>	<u>\$ 1,598</u>

1. Based on current distribution policies.

2. Quoted value represents the value of Brookfield owned units as at market close on December 31, 2019.

3. Distributions (current rate) are calculated by multiplying units held as at December 31, 2019 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 115.

4. BPY's quoted value includes \$16 million of preferred shares. Fully diluted ownership is 51%, assuming conversion of convertible preferred shares held by a third party. For the year ended December 31, 2019, BPY's distributions include \$11 million of preferred share dividends received by the Corporation (2018 – \$64 million)

5. Includes cash and cash equivalents and financial assets net of deposits.

6. Other includes cash distributions from Acadian prior to the sale in the third quarter of 2019, our 27.5% interest in a BAM-sponsored real estate venture in New York and a listed investment in our Private Equity segment.

## 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)	2019	2018
Operating activities .....	\$ 6,328	\$ 5,159
Financing activities .....	28,746	18,136
Investing activities .....	(36,674)	(19,833)
Change in cash and cash equivalents .....	<u>\$ (1,600)</u>	<u>\$ 3,462</u>

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

### Operating Activities

Cash flows from operating activities totaled \$6.3 billion in 2019, a \$1.2 billion increase from 2018. Operating cash flows prior to non-cash working capital and residential inventory were \$7.6 billion this year, \$1.4 billion higher than the prior year due to the benefits of same-store growth from our existing operations and the contributions from assets acquired during the year, partially offset by the negative impact of foreign currency translation.

### Financing Activities

The company had a net cash inflow of \$28.7 billion from financing activities during 2019, compared to \$18.1 billion in 2018. Our subsidiaries issued \$64.6 billion (2018 – \$43.5 billion) and repaid \$42.2 billion (2018 – \$28.2 billion) of non-recourse borrowings, for a net issuance of \$22.4 billion (2018 – \$15.3 billion) during the year. We raised \$19.4 billion of capital from our institutional private fund partners and other investors to fund their portion of acquisitions, repaid \$926 million of short-term borrowings backed by private fund commitments and returned \$11.4 billion to our investors in the form of either distributions or returns of capital.

## Investing Activities

During 2019, we invested \$57.4 billion and generated proceeds of \$20.3 billion from dispositions for net cash deployed in investing activities of \$37.1 billion. This compares to net cash deployed of \$19.9 billion in 2018. We paid cash of \$31.1 billion to acquire consolidated subsidiaries, primarily within our private equity and infrastructure operations, as well as \$5.5 billion of equity accounted investments during the year driven by our 61% acquisition of Oaktree in the third quarter. Refer to our Acquisitions of Consolidated Entities in Note 5 and Equity Accounted Investments in Note 10 to the consolidated financial statements for further details. We continued to acquire and sell financial assets, which represent a net inflow of \$373 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 \$160 million (2018 – \$181 million), in its real estate operations were \$767 million (2018 – \$434 million), in its infrastructure operations were \$180 million (2018 – \$110 million) and in its private equity operations were \$482 million (2018 – \$211 million).

## CONTRACTUAL OBLIGATIONS

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

AS AT DEC. 31, 2019 (MILLIONS)	Payments Due by Period					Total
	Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years		
<b>Recourse Obligations</b>						
Corporate borrowings .....	\$ —	\$ 269 <sup>1</sup>	\$ 1,597	\$ 5,217	\$	<b>7,083</b>
Accounts payable and other <sup>2</sup> .....	2,662	347	4	1,695		<b>4,708</b>
Interest expense <sup>3</sup>						
Corporate borrowings .....	327	629	551	1,714		<b>3,221</b>
<b>Non-recourse Obligations</b>						
Principal repayments						
Non-recourse borrowings of managed entities						
Property-specific borrowings .....	15,546	26,727	31,071	54,525		<b>127,869</b>
Subsidiary borrowings .....	17	1,669	3,531	3,206		<b>8,423</b>
Subsidiary equity obligations .....	188	1,677	745	1,522		<b>4,132</b>
Accounts payable and other						
Lease obligations .....	766	1,171	992	11,064		<b>13,993</b>
Accounts payable and other <sup>2</sup> .....	19,897	3,615	2,251	3,008		<b>28,771</b>
Commitments .....	1,906	1,407	264	499		<b>4,076</b>
Interest expense <sup>3,4</sup>						
Non-recourse borrowings .....	5,210	8,524	6,641	7,749		<b>28,124</b>
Subsidiary equity obligations .....	151	261	212	107		<b>731</b>

1. Redeemed subsequent to year end and replaced with the issuance of \$600 million 30-year notes due 2050.

2. Excludes lease obligations and provisions.

3. Represents the aggregate interest expense expected to be paid over the term of the obligations.

4. 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 \$3.0 billion (2018 – \$1.8 billion).

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 2019 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 \$4.1 billion (2018 – \$3.1 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 62.

## **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 the consolidated financial statements requires management to select appropriate accounting policies and to make judgments and estimates that affect the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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, 2019 consolidated financial statements.

#### Adoption of New Accounting Standards

We adopted IFRS 16 *Leases* (“IFRS 16”) effective January 1, 2019.

The adoption of IFRS 16 eliminates the distinction between operating and finance leases and brings onto the balance sheet the discounted lease liabilities and corresponding ROU assets. We adopted the standard using a modified retrospective approach, whereby any transitional impact is recorded in equity as at January 1, 2019 and comparative periods are not restated. The opening adjustment resulted in the capitalization of approximately \$4.4 billion of lease liabilities and corresponding ROU assets, with no impact on our total equity. IFRS 16 substantially carries forward lessor accounting requirements.

IFRS 16 requires us to exercise significant judgment, including determining whether a contract is, or contains, a lease, determining what payments are to be included, including whether or not a lease extension or termination option is likely to be exercised, and determining if variable lease payments are in-substance fixed, which would require them to be included in the determination of the lease liability. Estimates used in applying the standard include estimating the total lease term of each contract that is in the scope of the standard as well as determining the appropriate rate at which to discount the lease payments.

We also adopted IFRIC 23, published in June 2017, the amendments IFRS 3, issued on October 2019, as well as the amendments to IFRS 9 and 7, issued in September 2019. There were no material impacts on the company’s consolidated financial statements as a result of these adoptions.

#### 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 Management’s Discussion and Analysis in the December 31, 2019 Annual Report for additional information.



## i. Investment Properties

We classify the majority of the property assets within our Real Estate segment as investment properties. 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. These valuations are updated at each balance sheet date with gains or losses recognized in net income.

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 93% occupancy level and an average 8.5-year lease life, while our core retail portfolio has an occupancy rate of 96%. 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 2019, 203 of our properties were externally appraised, representing \$55 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 2019 and 2018 are summarized below.

	Core Office		Core Retail		LP Investments and Other		Weighted Average	
	2019	2018	2019	2018	2019	2018	2019	2018
AS AT DEC. 31								
Discount rate.....	<b>6.7%</b>	6.8%	<b>6.7%</b>	7.1%	<b>8.1%</b>	7.5%	<b>7.3%</b>	7.2%
Terminal capitalization rate .....	<b>5.5%</b>	5.7%	<b>5.4%</b>	6.0%	<b>6.6%</b>	6.9%	<b>5.9%</b>	6.1%
Investment horizon (years) .....	<b>11</b>	11	<b>10</b>	12	<b>14</b>	8	<b>12</b>	10

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, 2019 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, 2019  
(MILLIONS)

	Fair Value	Sensitivity
<b>Core office</b>		
United States.....	\$ 15,748	\$ 764
Canada .....	4,806	223
Australia .....	2,300	174
Europe.....	2,867	20
Brazil .....	361	13
<b>Core retail.....</b>	<b>21,561</b>	<b>1,112</b>
<b>LP investments and other</b>		
LP investments office .....	8,756	363
LP investments retail .....	2,812	108
Logistics .....	94	3
Mixed-use .....	2,703	112
Multifamily.....	2,937	130
Triple net lease.....	4,508	160
Self-storage.....	1,007	38
Student housing .....	2,605	101
Manufactured housing .....	2,446	107
Other investment properties <sup>1</sup> .....	21,175	973
<b>Total .....</b>	<b>\$ 96,686</b>	<b>\$ 4,401</b>

1. Includes investments in office, mixed-use and student housing properties which are held through our direct investment in BSREP III as well as other directly held investment properties.

## 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 years 2026 to 2035 in North America, 2027 in Colombia and 2023 in Europe and 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 valuers 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 megawatt 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 2019, the fair value of the PP&E in our Renewable Power segment increased by \$2.2 billion, primarily attributable to the benefit of lower cost of capital across all classes of assets, as we observed a lowering of both interest rates and cost of equity in the market. Valuations also benefited from our continued cost savings and revenue enhancing initiatives.

The key valuation metrics of our hydroelectric, wind and solar generating facilities at the end of 2019 and 2018 are summarized below:

AS AT DEC. 31	North America		Brazil		Colombia		Europe	
	2019	2018	2019	2018	2019	2018	2019	2018
Discount rate								
Contracted.....	<b>4.6 – 4.9%</b>	4.8 – 5.6%	<b>8.2%</b>	9.0%	<b>9.0%</b>	9.6%	<b>3.5%</b>	4.0 – 4.3%
Uncontracted.....	<b>6.2 – 6.4%</b>	6.4 – 7.2%	<b>9.5%</b>	10.3%	<b>10.3%</b>	10.9%	<b>5.3%</b>	5.8 – 6.1%
Terminal capitalization rate <sup>1</sup> .....	<b>6.2 – 6.4%</b>	6.1 – 7.1%	<b>n/a</b>	n/a	<b>9.8%</b>	10.4%	<b>n/a</b>	n/a
Exit date.....	<b>2040</b>	2039	<b>2047</b>	2047	<b>2039</b>	2038	<b>2034</b>	2033

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, 2019 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, 2019  
(MILLIONS)

**25 bps change in discount and terminal capitalization rates<sup>1</sup>**

North America.....	\$	<b>1,305</b>
Colombia.....		<b>260</b>
Brazil.....		<b>80</b>
Europe.....		<b>10</b>

**5% change in electricity prices**

North America.....	<b>1,160</b>
Colombia.....	<b>400</b>
Brazil.....	<b>80</b>
Europe.....	<b>10</b>

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, 2019, including a one-time 30-year renewal for applicable hydroelectric assets, is 32 years (2018 – 29 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<sup>1</sup>) 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 3,632GWh 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, 2019, the contract was valued using weighted-average forward power price estimates of approximately \$63/MWh in years 1-10 and \$142/MWh in years 11-20, using a discount rate of approximately 6.7%.

1. See definition in Glossary of Terms beginning on page 115.

## 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 \$715 million in 2019. The increase was primarily due to revaluation gains reflecting growing cash flows and strong underlying performance at a number of businesses.

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

AS AT DEC. 31	Utilities		Transport		Energy		Data Infrastructure	
	2019	2018	2019	2018	2019	2018	2019	2018
Discount rate .....	<b>7 – 14%</b>	7 – 14%	<b>9 – 14%</b>	10 – 13%	<b>12 – 15%</b>	12 – 15%	<b>13 – 15%</b>	13 – 15%
Terminal capitalization multiples	<b>8x – 21x</b>	8x – 22x	<b>9x – 14x</b>	9x – 14x	<b>10x – 17x</b>	10x – 14x	<b>11x – 17x</b>	10x – 11x
Investment horizon / Termination valuation date (years) .....	<b>10 – 20</b>	10 – 20	<b>10 – 20</b>	10 – 20	<b>5 – 10</b>	10	<b>10 – 11</b>	10

## 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 \$323 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 current 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.



## Consolidated Financial Information

We report our financial results under IFRS while many of our peers report under U.S. GAAP. These GAAPs are aligned in many areas, but as it relates to asset management and investment companies, there is a significant difference between IFRS and U.S. GAAP. Under IFRS, while investment companies can account for their investments at fair value and report them on one line in their balance sheet on a net basis, a parent of an investment company cannot maintain that accounting and must look to whether it controls the underlying investments individually. For our peers under U.S. GAAP, investment companies can use the same treatment as in IFRS but the parent of an investment company would keep the same reporting as the subsidiary investment company. Therefore, the same investment could be fully consolidated under IFRS or shown as one line on a net basis under U.S. GAAP.

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. Our consolidation conclusions may differ from certain of our peers who report under U.S. GAAP as they are required to evaluate consolidation requirements using a voting interest model or a variable interest model depending on the circumstances.

## 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, 2019 and based on that assessment concluded that, as of December 31, 2019, 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 quarter or year ended December 31, 2019 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, 2019. 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, 2019 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 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 a 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, 2019, and of the development and performance of the business for the 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, 2019 or December 31, 2018.

## PART 6 – BUSINESS ENVIRONMENT AND RISKS

For purposes of Part 6 of this Report, references to the “company”, “we”, “us” or “our” refers to Brookfield Asset Management Inc., its consolidated subsidiaries, and Oaktree.

This section contains a review of certain aspects of the business environment and risks that could materially adversely impact our business, performance, 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) the general state of the securities markets; (v) market conditions and events specific to the industries in which we operate; (vi) changes and developments in general economic, political, or social conditions, including as a result of the recent coronavirus outbreak (referred to as COVID-19); (vii) 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; (viii) differences between our actual financial and operating results and those expected by investors and analysts; (ix) changes in analysts’ recommendations or earnings projections; (x) changes in the extent of analysts’ interest in covering the Corporation and its publicly traded affiliates; (xi) the depth and liquidity of the market for our Class A shares; (xii) dilution from the issuance of additional equity; (xiii) investor perception of our businesses and the industries in which we operate; (xiv) investment restrictions; (xv) our dividend policy; (xvi) the departure of key executives; (xvii) sales of Class A shares by senior management or significant shareholders; and (xviii) 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, and retention of capital raised from third-party investors. We depend on our business relationships and our global reputation for integrity and high-caliber 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. Our business relationships and reputation could be negatively impacted by a number of factors including poor performance; actual, potential or perceived conflicts of interest; misconduct or alleged misconduct by employees; rumors or innuendos; or failed or ineffective implementation of new investments or strategies. If we are unable to continue to raise and retain capital from third-party investors, either privately, publicly or both, or 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.

As a global alternative asset manager with various lines of business 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. Asset manager conflicts are subject to enhanced regulatory scrutiny 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. For information regarding conflicts of interests between the businesses within our asset management operations that operate on opposite sides of an information barrier, see Item (v) herein.

Our reputation also 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 to 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.

In addition to impacting our ability to raise and retain third-party capital and pursue investment opportunities, certain of the risks identified herein that may have a negative impact on our reputation also could, in extreme cases, result in our removal as general partner or an acceleration of the liquidation date of the private funds that we manage. The governing agreements of our private funds provide that, subject to certain conditions (which may, particularly in the case of our removal as general partner, include final legal adjudications of the merits of the particular issue), 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. Additionally, at any time, investors may terminate a fund and accelerate the liquidation date upon the vote of a supra-majority of investors in such fund. A significant negative impact to our reputation would be expected to increase the likelihood that investors could seek to terminate a private fund. 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.

### c) Asset Management

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

Our asset management business depends on our ability to fundraise third-party capital, deploy that capital effectively, and produce targeted investment returns.

Our ability to raise third-party capital depends on a number of factors, including many that are outside our control such as the general economic environment and the number of other investment funds being raised at the same time by our competitors. Investors may reduce (or even eliminate) their investment allocations to alternative investments, including closed-ended private funds. Investors that are required to maintain specific asset class allocations within their portfolio may be required to reduce their investment allocations to alternative investments, particularly during periods when other asset classes such as public securities are decreasing in value. In addition, investors may prefer to in source and make direct investments; therefore, becoming competitors and ceasing to be clients and/or make new capital commitments.

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, marketing efforts, 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. Our investors and potential investors continually assess investment performance and our ability to raise capital for existing and future funds depends on our funds' relative and absolute performance. 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 will be able to find new investors. Further, as competition and disintermediation in the asset management industry increases, we may face pressure to reduce or modify our asset management fees, including base management fees and/or carried interest, or modify other terms governing our current asset management fee structure, in order to attract and retain investors.

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.

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. In pursuing investment opportunities and returns, we and our managed entities face competition from other investment managers and investors worldwide. Each of our businesses is subject to competition in varying degrees and our competitors may have certain competitive advantages over us when pursuing investment opportunities. 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. 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. If we are unable to successfully raise, retain, and deploy third-party capital into investments, we may be unable to collect management fees, carried interest or transaction fees, which would materially reduce our revenue and cash flows and adversely affect our financial condition.

Our approach to investing often 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. 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.

We generally 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.

At times, we make investments in companies that we do not control. These investments are subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests.

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. In addition, certain of our funds hold publicly traded securities the price of which will be volatile and are likely to fluctuate due to a number of factors beyond our control, including actual or anticipated changes in the profitability of the issuers of such securities; general economic, social, or political developments; changes in industry conditions; changes in governance regulation; inflation; the general state of the securities markets; and other material events.

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.

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.

If any of our managed investments perform poorly or experience prolonged periods of volatility, or we are unable to deploy capital effectively, 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.

#### **d) Laws, Rules and Regulations**

*We are subject to numerous laws, rules, and regulatory requirements which may impact our business, including resulting in financial penalties, loss of business, and/or damage to our reputation in instances of non-compliance.*

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 in recent enforcement actions. Regulatory investigations and/or enforcement actions by our regulators could have a material adverse effect on our business and/or reputation. In addition, 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 E.U., the U.K., Canada, Brazil, Australia, and Hong Kong. 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.

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.

We have and may become subject to additional regulatory and compliance burdens as we expand our product offerings and investment platform which likely will carry additional legal and compliance costs, as well as additional operating requirements that may also increase costs.

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.

#### **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 continue to 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 with the expectation that our commitment is temporary. 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. LIBOR is widely used as a benchmark rate around the world for derivative financial instruments, bonds, and other floating-rate instruments. 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. For example, the gradual elimination of LIBOR rates may have an impact on over-the-counter derivative transactions including potential contract repricing. In addition, 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. This may result in market uncertainty until a new benchmark rate is established and potentially increased costs under such agreements.

## **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.*

Our ability to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees. Our senior management team has a significant role in our success and oversees the execution of our value investing strategy. 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 ability to retain and motivate our management team, attract suitable replacements should any members of our management team leave, or attract new investment professionals as our business grows, is dependent on, among other things, the competitive nature of the employment market and the career opportunities and compensation that we can offer. In all of our markets, we face intense competition in connection with the attraction and retention of qualified employees.

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. 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. Accordingly, the loss of services from key professionals 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.

Additionally, the departure of certain individuals could trigger certain “key person” provisions in the documentation governing certain of our private funds, which would permit the limited partners of those funds to suspend or terminate the funds’ investment periods or withdraw their capital prior to the expiration of the applicable lock-up date. Our key person provisions vary by both strategy and fund and, with respect to each strategy and fund, are typically tied to multiple individuals, meaning that it would require the departure of more than one individual to trigger the key person provisions. Our human capital risks may be exacerbated by the fact that we do not maintain any key person insurance.

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 or existing 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.

It is unclear how the withdrawal of the U.K. from the E.U. (“Brexit”) may impact the economies of the U.K., the E.U. countries and other nations where we have clients, as well as operations. Brexit could significantly disrupt the free movement of goods, services, and people between the U.K. and the E.U. and result in increased legal and regulatory complexities, as well as potential higher costs of conducting business in Europe, which may adversely affect our financial position, results of operations or cash flows. While we have not experienced any material financial impact from Brexit on our business to date, we cannot predict its future implications.

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 or social 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., Canadian, Brazilian, Australian, 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., Canada, Brazil, Europe, Middle East, Australia, 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); catastrophic events (including pandemics/epidemics such as the recent coronavirus outbreak COVID-19, earthquakes, tornadoes, or floods); 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) Catastrophic Event/Loss, Climate Change, and Terrorism**

*Catastrophic events (or combination of events), such as earthquakes, tornadoes, floods, pandemics/epidemics, terrorism/sabotage, or fire, 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, pandemics/epidemics, acts of malicious destruction, sabotage, war or terrorism, which could materially adversely impact our operations.

A local, regional, national or international outbreak of a contagious disease, such as COVID-19 which has spread across the globe at a rapid pace impacting global commercial activity and travel, may adversely affect trade and global and local economies, and could negatively impact clients and our businesses.

The World Health Organization declared COVID-19 to be a pandemic on March 11, 2020. COVID-19 has spread globally, and actions taken in response to COVID-19 have interrupted business activities and supply chains; disrupted travel; contributed to significant volatility in the financial markets, resulting in a general decline in equity prices and lower interest rates; impacted social conditions; and adversely impacted local, regional, national and international economic conditions, as well as the labor market. As a result of the rapid spread of COVID-19, many companies and various governments have imposed restrictions on business activity and travel which may continue and could expand. By March 2020, our asset management operations, as well as many of our portfolio companies, were operating in accordance with their business continuity plans, including, in many instances, transitioning employees to work remotely. Business has slowed around the globe including in certain of our operations, such as our malls and ports, and there can be no assurance that strategies to address potential disruptions in operations will mitigate the adverse impacts related to the outbreak. Given the ongoing and dynamic nature of the circumstances surrounding COVID-19, it is difficult to predict how significant the impact of this coronavirus outbreak, including any responses to it, will be on the global economy, our clients, and our businesses or for how long disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and cannot be predicted, including new information which may emerge concerning the severity of this coronavirus and actions taken to contain the COVID-19 or its impact, among others. Such developments, depending on their nature, duration, and intensity, could have a material adverse effect on our business, financial position, results of operations or cash flows.

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.

Additionally, our businesses rely on free movement of goods, services, and capital from around the globe. Any slowdown in international investment, business, or trade as a result of catastrophic events, including COVID-19, also could have a material adverse effect on our business, financial position, results of operations or cash flows.

## **n) 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, our tax planning could be subject to negative media coverage which may adversely impact our reputation.

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.

## **o) 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. In addition, we disclose certain metrics that do not have standardized meaning and are based on our own methodologies and assumptions, and which may not properly convey the information they purport to reflect.

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.

## **p) 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.

## **q) Data Security, Privacy, and Cyber-Terrorism**

*Failure to maintain the security of our information and technology systems could have a material adverse effect on us.*

We rely on certain information and technology systems, including the systems of others with whom we do business, which may be subject to security breaches or cyber-terrorism intended to obtain unauthorized access to proprietary information or personally identifiable information, 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 the ordinary course of our business, we collect and store sensitive data, including personally identifiable information of our employees and our clients. Data protection and privacy rules have become a focus for regulators globally. For instance, the European General Data Protection Regulation (“GDPR”) amended data protection rules for individuals that are residents of the E.U. GDPR imposes more stringent rules and greater penalties for non-compliance, which could have an adverse effect on our business.

Although we take various measures to ensure the integrity of our systems and to safeguard against failures or security breaches, there can be no assurance that these measures will provide adequate protection, and a compromise in these systems could go undetected for a significant period of time. If these information and technology 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 (particularly in light of increased regulatory focus on cyber-security by regulators around the world); 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.

## **r) Dependence on Information Technology Systems**

*The failure of our information technology systems, or those of our third-party service providers, could adversely impact our reputation and financial performance.*

We operate in businesses that are dependent on information systems and technology, and we rely on third-party service providers to manage certain aspects of our businesses, including for certain information systems and technology, data processing systems, and the secure processing, storage and transmission of information. In particular, our financial, accounting and communications processes are all conducted through data processing systems. Our information technology and communications systems and those of our third-party service providers are vulnerable to damages or disruption from fire, power loss, telecommunications failure, system malfunctions, natural disasters, acts of war or terrorism, employee errors or malfeasance, computer viruses, cyber-attacks or other events which are beyond our control.

Our information systems and technology and those of our third-party vendors 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.

Any interruption or deterioration in the performance or failures of the information systems and technology that are necessary for our businesses, including for business continuity purposes, could impair the quality of our operations and could adversely affect our business, financial condition and reputation.

## **s) 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.

#### **t) 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.

#### **u) 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.



## **v) Information Barriers**

Certain businesses within our asset management operations operate largely independently of one another pursuant to an information barrier. The information barrier restricts businesses on opposite sides from coordinating or consulting with one another with respect to investment activities and/or decisions. Accordingly, these businesses manage their investment operations independently of each other. The investment activities and decisions made by a business on one side of an information barrier are not expected to be subject to any internal approvals by any person who would have knowledge and/or decision-making control of the investment activities and decisions made by a business on the other side of the information barrier. This absence of coordination and consultation will give rise to certain conflicts and risks in connection with the activities of the businesses within our asset management operations and their portfolio companies, and make it more difficult to mitigate, ameliorate or avoid such situations. These conflicts (and potential conflicts) of interests may include: (i) competing from time to time for the same investment opportunities, (ii) the pursuit by a business on one side of the information barrier of investment opportunities suitable for a business on the other side of the information barrier, without making such opportunities available to such business, and (iii) the formation or establishment of new strategies or products that could compete or otherwise conduct their affairs without regard as to whether or not they adversely impact the strategies or products of our businesses operating on the other side of the information barrier. Investment teams managing the activities of businesses that operate on opposite sides of an information barrier are not expected to be aware of, and will not have the ability to manage, such conflicts which may impact the investment strategy, performance, and investment returns of certain businesses within our asset management operations and their portfolio companies.

The asset management businesses that operate on opposite sides of an information barrier are likely to be deemed affiliates for purposes of certain laws and regulations notwithstanding that such businesses may be operationally independent from one another. The information barrier does not eliminate the requirement that such businesses aggregate certain investment holdings for certain securities laws and other regulatory purposes. This may result in, among other things, earlier public disclosure of investments; restrictions on transactions (including the ability to make or dispose of certain investments at certain times); potential short-swing profit disgorgement; penalties and/or regulatory remedies; or adverse effects on the prices of investments for our asset management businesses that operate on the other side of such information barrier.

Although these information barriers were implemented to address the potential conflicts of interests and regulatory, legal and contractual requirements applicable to our asset management business, we may decide, at any time and without notice to our company or our shareholders, to remove or modify the information barriers within our asset management business. In addition, there may be breaches (including inadvertent breaches) of the information barriers and related internal controls. In the event that the information barrier is removed or modified, it would be expected that we will adopt certain protocols designed to address potential conflicts and other considerations relating to the management of the investment activities of those businesses that previously operated on opposite sides of an information barrier.

The breach or failure of our information barriers could result in the sharing of material non-public information between asset management businesses that operate on opposite sides of an information barrier, which may restrict the acquisition or disposition activities of one of our businesses and ultimately impact the returns generated for our investors. In addition, any such breach or failure could also result in potential regulatory investigations and claims for securities laws violations in connection with our direct and/or indirect investment activities. Any inadvertent trading on material non-public information, or perception of trading on material non-public information by one of our businesses or our personnel, could have a significant adverse effect on our reputation, result in the imposition of regulatory or financial sanctions, and negatively impact our ability to raise third-party capital and provide investment management services to our clients, all of which could result in negative financial impact to our investment activities.

## **w) 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 climate change; hurricanes, earthquakes, tsunamis, and other natural and man-made disasters; the potential spread of contagious diseases such as COVID-19; 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.

## **x) 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.

Our ability to develop greenfield renewable power projects in our development pipeline may be affected by a number of factors, including the ability to secure approvals, licenses and permits and the ability to secure a long-term power purchase agreement or other sales contracts on reasonable terms. The development of our pipeline of greenfield renewable power projects is also subject to environmental, engineering and construction risks that could result in cost-overruns, delays and reduced performance.

## **y) 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, including as a result of the current pandemic resulting from COVID-19, 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.

## **z) 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. 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. In addition, increasingly we have certain private equity businesses that provide goods and services directly to consumers across a variety of industries. These businesses are prone to greater liabilities, as well as reputational, litigation and other risks by virtue of being more public-facing and reliant on their ability to develop and preserve consumer relationships and achieve consumer satisfaction.

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. A wide variety of micro and macroeconomic factors affecting our clients and over which we have no control can impact how these companies operate. For example, our mortgage insurance services business is subject to significant regulation and may be adversely affected by changes in government policy. The majority of the revenue from our health services business is derived from private health insurance funds, which may be affected by a deterioration in the economic climate, a change in economic incentives, increases in private health insurance premiums, any sudden changes in Australia and New Zealand's disease burden and other factors. 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, declines or high volatility of the price of resources such as lead, oil, gas and limestone, as well as changes in the industries upon which our industrial operations are dependent, including the automotive, water, wastewater and oil and gas industries, 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 the U.S., Brazil, Australia, Europe and Asia, 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 the U.S., Brazil, Australia, Europe, Asia and elsewhere.

## **aa) 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 and the Alberta energy sector surrounding pipeline approval. 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, as well as pandemics/epidemics such as COVID-19, each of which could adversely affect our business and results of operations. For example, while none of our U.S. properties were materially adversely 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 40 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:

- |  |   |
|--|---|
| • <b>Acadian</b> – Acadian Timber Corp.                                | • <b>Forest City</b> – Forest City Realty Trust, Inc.   |
| • <b>Aveo Group</b> – Aveo Group Limited                               | • <b>Genworth</b> – Genworth MI Canada Inc.             |
| • <b>BBU</b> – Brookfield Business Partners L.P.                       | • <b>Genesee &amp; Wyoming</b> – Genesee & Wyoming Inc. |
| • <b>BEMI</b> – Brookfield Energy Marketing Inc.                       | • <b>GGP</b> – GGP Inc.                                 |
| • <b>BEP</b> – Brookfield Renewable Partners L.P.                      | • <b>GrafTech</b> – GrafTech International Ltd.         |
| • <b>BGIS</b> – Brookfield Global Integrated Solutions Canada L.P.     | • <b>Greenenergy</b> – Greenenergy Fuels Holdings Ltd.  |
| • <b>BGRS</b> – Brookfield Global Relocation Services                  | • <b>Healthscope</b> – Healthscope Limited              |
| • <b>BIP</b> – Brookfield Infrastructure Partners L.P.                 | • <b>Norbord</b> – Norbord Inc.                         |
| • <b>BPR</b> – Brookfield Property REIT Inc. (formerly GGP Inc.)       | • <b>Oaktree</b> – Oaktree Capital Management, L.P.     |
| • <b>BPY</b> – Brookfield Property Partners L.P.                       | • <b>Teekay Offshore</b> – Teekay Offshore              |
| • <b>Clarios</b> – Clarios (formerly Johnson Controls Power Solutions) | • <b>TERP</b> – TerraForm Power, Inc.                   |
| • <b>Enercare</b> – Enercare Inc.                                      | • <b>Westinghouse</b> – Westinghouse Electric Company   |

## 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 was subject to a 12-month fee waiver which expired 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)	2019	2018
Total consolidated liabilities and equity .....	\$ 323,969	\$ 256,281
Add: our share of debt of investments in associates .....	11,234	9,533
Less: non-controlling interests' share of liabilities		
Non-recourse borrowings .....	(97,708)	(80,225)
Liabilities associated with assets held for sale .....	(1,478)	(550)
Accounts payable and other .....	(29,460)	(13,692)
Deferred tax liabilities .....	(10,308)	(7,811)
Subsidiary equity obligations .....	(2,236)	(2,218)
Non-controlling interests .....	(81,833)	(67,335)
Total capitalization at our share .....	<u>\$ 112,180</u>	<u>\$ 93,983</u>

**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. A reconciliation of realized carried interest to realized carried interest, net, is shown below:

AS AT DEC. 31 (MILLIONS)	2019	2018
Realized carried interest <sup>1</sup> .....	\$ 600	\$ 254
Less: direct costs associated with realized carried interest .....	(197)	(66)
	403	188
Less: realized carried interest not attributable to BAM .....	(7)	—
Realized carried interest, net .....	<u>\$ 396</u>	<u>\$ 188</u>

1. Includes \$35 million of realized carried interest related to Oaktree. For segment reporting, Oaktree's revenue is shown on a 100% basis.

**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)	2019	2018
Carry eligible capital <sup>1</sup> .....	\$ 79,822	\$ 58,309
Less:		
Uncalled private fund commitments .....	(33,897)	(21,883)
Co-investments and other .....	(7,646)	(6,108)
Funds not yet at target preferred return .....	(15,759)	(9,442)
Adjusted carry eligible capital .....	<u>\$ 22,520</u>	<u>\$ 20,876</u>

1. Excludes carry eligible capital related to Oaktree.

**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; excluding equity-based compensation costs and net of preferred share dividend payments.

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2019	2018
Asset management FFO .....	\$ 1,555	\$ 1,317
Our share of Oaktree's distributable earnings .....	42	—
Distributions from investments .....	1,598	1,698
Other invested capital earnings		
Corporate borrowings .....	(348)	(323)
Corporate costs and taxes .....	(135)	(163)
Other wholly owned investments .....	(36)	41
	<u>(519)</u>	<u>(445)</u>
Preferred share dividends .....	(152)	(151)
Add back: equity-based compensation costs .....	87	84
Cash available for distribution and/or reinvestment .....	<u>\$ 2,611</u>	<u>\$ 2,503</u>

**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 valuation** includes gains (losses) on portfolio investments, listed partnerships and public securities based on market prices.
- **Other** includes 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:

	Total		Per Share	
	2019	2018	2019	2018
FOR THE YEARS ENDED DEC. 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)				
Net income .....	\$ 5,354	\$ 7,488	\$ 5.24	\$ 7.51
Realized disposition gains recorded as fair value changes or equity .....	621	1,445	0.63	1.48
Non-controlling interest in FFO .....	(7,161)	(6,015)	(7.22)	(6.15)
Financial statement components not included in FFO				
Equity accounted fair value changes and other non-FFO items .....	143	1,284	0.14	1.31
Fair value changes .....	831	(1,794)	0.84	(1.84)
Depreciation and amortization .....	4,876	3,102	4.91	3.17
Deferred income taxes .....	(475)	(1,109)	(0.47)	(1.13)
Total FFO .....	<u>\$ 4,189</u>	<u>\$ 4,401</u>	<u>\$ 4.07</u>	<u>\$ 4.35</u>

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, 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, 2019	Current Distribution Rate <sup>1</sup>	Distribution Hurdles (per unit) <sup>2</sup>	Incentive Distributions
Brookfield Infrastructure Partners (BIP).....	\$ 2.15	\$ 0.81 / \$ 0.88	15% / 25%
Brookfield Renewable Partners (BEP).....	2.17	1.50 / 1.69	15% / 25%
Brookfield Property Partners (BPY).....	1.33	1.10 / 1.20	15% / 25%

1. Current rate based on most recently 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 <sup>1</sup>	Adjusted Multiple of Capital <sup>2</sup>	Fund Target Carried Interest <sup>3</sup>	Current Carried Interest <sup>4</sup>
<b>2019</b>				
Real Estate .....	\$ 6,758	1.7x	20%	20%
Infrastructure .....	13,397	1.5x	20%	18%
Private Equity .....	2,365	2.7x	20%	15%
	<u>\$ 22,520</u>			
<b>2018</b>				
Real Estate .....	\$ 8,534	1.8x	20%	17%
Infrastructure .....	10,022	1.4x	20%	17%
Private Equity .....	2,320	2.5x	20%	20%
	<u>\$ 20,876</u>			

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	
	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
Real Estate .....	\$ 986	\$ 1,087	\$ 904	\$ (101)	\$ 183
Infrastructure .....	1,175	725	559	450	166
Private Equity .....	596	674	616	(78)	58
Oaktree .....	890	—	—	890	—
Accumulated unrealized carried interest .....	3,647	2,486	2,079	1,161	407
Less: associated expenses <sup>1</sup> .....	(1,258)	(754)	(649)	(504)	(105)
Accumulated unrealized carry, net .....	<u>\$ 2,389</u>	<u>\$ 1,732</u>	<u>\$ 1,430</u>	657	302
Add: realized carried interest, net .....				142	188
Unrealized carried interest, net .....				<u>\$ 799</u>	<u>\$ 490</u>

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.