

# 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, 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 55 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 does not form part of this report. All references in this report to websites are inactive textual references and are not incorporated by reference.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

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

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

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

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

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

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

We disclose a number of financial measures in this Report that are calculated and presented using methodologies other than in accordance with IFRS. We utilize these measures in managing the business, including performance measurement, capital allocation and valuation purposes and believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures or other financial metrics may differ from the calculations disclosed by other businesses and, as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS financial measures to the most directly comparable financial measures calculated and presented in accordance with IFRS, where applicable, are included within this MD&A. Please refer to our Glossary of Terms beginning on page 55 for all non-IFRS measures.

# PART 1 – OUR BUSINESS AND STRATEGY

## OUR BUSINESS

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

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

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

In our **asset management** activities, we manage private funds, listed issuers and public securities portfolios for investors which we refer to as fee bearing capital.<sup>1</sup> FFO from these activities consist of: (i) base<sup>1</sup> and other recurring fees that we earn as manager less direct costs of doing so; (ii) incentive distributions<sup>1</sup> and performance fees<sup>1</sup> from our listed issuers; and (iii) realized carried interest<sup>1</sup> from private funds. As a supplement to our performance measurement, we also provide a calculation of economic net income<sup>1</sup> (“ENI”) which utilizes unrealized carried interest<sup>1</sup> instead of realized carried interest. Unrealized carried interest represents the amount of carried interest<sup>1</sup> generated based on investment performance to date and is therefore more indicative of earnings potential.

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

Our **balance sheet** also allows us to capitalize quickly on opportunities as they arise, backstop the transactions of our various businesses as necessary and fund the development of new activities by seeding new investment strategies that are not yet suitable for our investors. Finally, the amount of capital invested by us directly in our listed issuers, and through them into our private funds, creates alignment of interests with our investors.<sup>1</sup>

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

## OUR STRATEGY

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

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

1. See definition in Glossary of Terms beginning on page 55

## ORGANIZATIONAL STRUCTURE

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

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

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

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



1. See definition in Glossary of Terms beginning on page 55

## 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.

### OVERVIEW

Net income increased to \$1.7 billion in the current period, with \$680 million attributable to common shareholders (\$0.62 per share) and \$984 million attributable to non-controlling interests.

Our results have been impacted year over year by acquisitions and dispositions as well as organic growth across a number of our businesses. Acquisitions and dispositions are discussed in more detail on pages 15 and 16.

The \$706 million increase in consolidated net income and the \$455 million increase in net income attributable to common shareholders are primarily attributable to:

- recently acquired businesses and organic growth measures mentioned above; and
- fair value gains relating to transaction activity in the current quarter and mark-to-market increases on certain financial contracts; partially offset by
- the absence of income from assets sold, higher taxes and increases in interest expense.

Net income attributable to non-controlling interests increased by \$251 million due to contributions from recently acquired partially owned businesses, transaction-related gains and fair value appraisal gains on partially-owned real estate investment properties.

Our balance sheet was also impacted by acquisition and divestment activity since the beginning of the year. We acquired \$12.6 billion of assets through business combinations, including acquisitions within our U.K. student housing portfolio, a portfolio of 105 extended-stay hotels across the U.S., a portfolio of wind and solar assets located primarily in Spain and Portugal, a Colombian natural gas distribution and commercialization business and a manufacturer of returnable plastic containers. We also sold \$3.5 billion of assets during the first six months of 2018, most notably our Chilean electricity transmission business.

### INCOME STATEMENT ANALYSIS

The following table summarizes the financial results of the company for the three and six months ended June 30, 2018 and 2017:

FOR THE PERIODS ENDED JUN. 30 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Three Months Ended			Six Months Ended		
	2018	2017	Change	2018	2017	Change
Revenues .....	\$ 13,276	\$ 9,444	\$ 3,832	\$ 25,907	\$ 15,445	\$ 10,462
Direct costs .....	(10,781)	(7,332)	(3,449)	(20,872)	(11,719)	(9,153)
Other income and gains .....	95	—	95	437	265	172
Equity accounted income .....	342	250	92	630	585	45
Expenses						
Interest .....	(1,066)	(865)	(201)	(2,103)	(1,708)	(395)
Corporate costs .....	(24)	(20)	(4)	(51)	(45)	(6)
Fair value changes .....	833	213	620	1,405	9	1,396
Depreciation and amortization .....	(672)	(613)	(59)	(1,342)	(1,112)	(230)
Income taxes .....	(339)	(119)	(220)	(492)	(244)	(248)
<b>Net income</b> .....	<b>1,664</b>	<b>958</b>	<b>706</b>	<b>3,519</b>	<b>1,476</b>	<b>2,043</b>
Non-controlling interests .....	(984)	(733)	(251)	(1,982)	(1,288)	(694)
<b>Net income attributable to shareholders</b> .....	<b>\$ 680</b>	<b>\$ 225</b>	<b>\$ 455</b>	<b>\$ 1,537</b>	<b>\$ 188</b>	<b>\$ 1,349</b>
<b>Net income per share</b> .....	<b>\$ 0.62</b>	<b>\$ 0.19</b>	<b>\$ 0.43</b>	<b>\$ 1.43</b>	<b>\$ 0.12</b>	<b>\$ 1.31</b>

### Three months ended June 30

Revenues increased to \$13.3 billion, an increase of \$3.8 billion compared to the second quarter of 2017 primarily due to:

- \$4.0 billion of additional revenues earned from acquisitions completed since the prior year quarter, with significant contributions from:
  - a road fuel distribution business in our Private Equity segment acquired in May 2017 with significant revenues but a minimal impact on gross margin because revenues include significant flow through duty amounts that are entirely passed through to customers as costs but are required to be presented on a gross basis under IFRS; and
  - numerous acquisitions across each of our listed partnerships;
- organic growth from existing operations, including improved performance at our graphite electrode manufacturing and North American residential businesses; partially offset by
- lower gross revenues from Norbord Inc. (“Norbord”)<sup>1</sup> which was consolidated up until the fourth quarter of 2017 at which time we sold a portion of our investment and therefore no longer hold a controlling interest in the business. Norbord contributed \$536 million of revenues in the second quarter of 2017;
- lower generation from our existing North American hydroelectric assets in the Renewable Power segment; and
- \$78 million reduction in revenues from businesses sold.

Our direct costs increased by \$3.4 billion in the second quarter of 2018 due to:

- newly acquired businesses, including the road fuel distribution business discussed above; and
- organic growth within existing operations, in particular greater sales volumes at our North American residential business and higher input prices at our graphite electrode manufacturing business; partially offset by
- the absence of expenses from businesses sold.

Other income and gains of \$95 million in the second quarter of 2018 relate primarily to gains recognized in our Private Equity segment on the sale of a joint venture interest within a real estate brokerage business and the disposal of an operating division within our infrastructure support products manufacturing business.

Equity accounted income increased by \$92 million to \$342 million due primarily to contributions from Norbord, which has been equity accounted since the fourth quarter of 2017, and our marine energy services business, as well as from appraisal gains recorded at equity-accounted real estate investment properties.

Interest expense increased by \$201 million due to additional borrowings associated with acquisitions across our portfolio, and \$1.6 billion of corporate debt issued in the last twelve months.

We recorded fair value gains of \$833 million in the current quarter, compared to \$213 million in the second quarter of 2017, primarily as a result of:

- significant appraisal gains on properties in our opportunistic real estate portfolio in the current quarter;
- gains recorded on the extinguishment of a debt obligation associated with a hospitality property; and
- unrealized gains on financial contracts entered into to manage foreign currency, interest rate profiles and pricing exposures.

Depreciation and amortization expense increased by \$59 million to \$672 million due primarily to businesses acquired within our renewable power operations, particularly TerraForm Power, Inc. (“TERP”)<sup>1</sup> and TerraForm Global, Inc.

Income tax expense increased by \$220 million to \$339 million due to higher taxable income and a higher proportion of income earned in higher tax jurisdictions.

### Six months ended June 30

Revenues and direct costs for the first six months of 2018 increased by \$10.5 billion and \$9.2 billion, respectively, compared to the same period in 2017 due primarily to recent acquisitions, most notably the acquisition of our road fuel distribution business.

1. See definition in Glossary of Terms beginning on page 55

Other income and gains on a year-to-date basis include:

- a \$338 million gain from the sale of our Chilean electricity transmission business in the first quarter of 2018; and
- gains recognized on the sale of businesses in our Private Equity segment during the current quarter.

Equity accounted income in the first six months of 2018 remained relatively consistent with the prior year period as the impact of recent acquisitions, contributions from Norbord, and gains at certain equity-accounted investment properties were offset by a reduction in value of certain properties at GGP Inc. (“GGP”)<sup>1</sup> during the first quarter of 2018.

Fair value gains of \$1.4 billion for the first six months of 2018 were significantly higher than the \$9 million reported in the prior period. The current period gains include:

- transaction-related gains of \$977 million relating to the recognition of deferred tax assets following a restructuring of our U.S. group in the first quarter of 2018 and transaction gains in the current quarter; and
- strong valuation gains within our opportunistic real estate portfolio.

## Significant Acquisitions and Dispositions

We have summarized below the impact of recent significant acquisitions and dispositions on our results for the three and six months ended June 30:

	Three Months Ended				Six Months Ended			
	Acquisitions		Dispositions		Acquisitions		Dispositions	
	Revenue	Net Income	Revenue	Net Income	Revenue	Net Income	Revenue	Net Income
FOR THE PERIODS ENDED JUN. 30, 2018 (MILLIONS)								
Real estate.....	\$ 183	\$ 52	\$ (75)	\$ (98)	\$ 333	\$ 59	\$ (160)	\$ (110)
Renewable power.....	255	(22)	—	—	481	(69)	—	—
Infrastructure.....	82	7	—	(9)	399	162	—	(14)
Private equity and other.....	3,492	(23)	(3)	10	9,341	(10)	(7)	11
	4,012	14	(78)	(97)	10,554	142	(167)	(113)
Gains recognized in net income.....	—	25	—	—	—	609	—	53
	<u>\$ 4,012</u>	<u>\$ 39</u>	<u>\$ (78)</u>	<u>\$ (97)</u>	<u>\$ 10,554</u>	<u>\$ 751</u>	<u>\$ (167)</u>	<u>\$ (60)</u>

## Acquisitions

### Private Equity

Recent acquisitions within our Private Equity segment contributed an additional \$3.5 billion and \$23 million of revenues and net loss, respectively, for the three months ended June 30, 2018. Significant acquisitions include our road fuel distribution business acquired partway through the second quarter of 2017, a fuel marketing business acquired in the third quarter of 2017 and a returnable plastic container business acquired this quarter.

### Renewable Power

Within our Renewable Power segment, recent acquisitions, primarily TERP and TerraForm Global, portfolios of wind and solar assets acquired in the fourth quarter of 2017, contributed an additional \$255 million of revenues and a net loss of \$22 million this quarter.

1. See definition in Glossary of Terms beginning on page 55

## Real Estate

The incremental revenues and net income earned from numerous acquisitions in the core office and opportunistic portfolios were \$183 million and \$52 million, respectively.

## Infrastructure

Within our infrastructure operations, we acquired a Colombian natural gas distribution and commercialization business that contributed \$82 million and \$7 million to our current quarter's revenues and net income, respectively.

Revenues and net income for the six months ended June 30, 2018 increased by \$10.6 billion and \$751 million, respectively, from the aforementioned acquisitions and certain businesses acquired in the second quarter of 2017, notably our Brazilian regulated gas transmission business and our Brazilian water treatment business, which impacted results in the first quarter. On a year-to-date basis, we also recognized gains in net income of \$609 million relating primarily to gains arising from changes in the ownership of entities which gave rise to the recognition of previously unrecognized tax assets, as well as a gain recognized on the acquisition of a mixed-use entertainment complex in Germany.

Further details relating to the significant acquisitions described above that were completed during the six months ended June 30, 2018 are provided in Note 4 of this interim report.

## Dispositions

Recent asset sales across our listed issuers, particularly our Chilean electricity transmission operation, our European logistics business, several office properties and a joint venture interest within our real estate brokerage services business resulted in the absence of revenues and net income of \$78 million and \$97 million, respectively in the second quarter of 2018.

In addition to the asset sales described above, the absence of revenues and net income from an office property in Midtown Manhattan sold during the second quarter of 2017 are reflected in the results for the six months ended June 30, 2018.

## Fair Value Changes

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

FOR THE PERIODS ENDED JUN. 30 (MILLIONS)	Three Months Ended			Six Months Ended		
	2018	2017	Change	2018	2017	Change
Investment properties .....	\$ 394	\$ 412	\$ (18)	\$ 864	\$ 389	\$ 475
Transaction related gains, net of deal costs...	443	26	417	977	125	852
Financial contracts .....	176	(124)	300	(17)	(314)	297
Impairment and provisions.....	(14)	(36)	22	(51)	(80)	29
Other fair value changes .....	(166)	(65)	(101)	(368)	(111)	(257)
Total fair value changes .....	\$ 833	\$ 213	\$ 620	\$ 1,405	\$ 9	\$ 1,396

## 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 PERIODS ENDED JUN. 30 (MILLIONS)	Three Months Ended			Six Months Ended		
	2018	2017	Change	2018	2017	Change
Core office.....	\$ 14	\$ (10)	\$ 24	\$ 68	\$ (349)	\$ 417
Opportunistic and other.....	380	422	(42)	796	738	58
	\$ 394	\$ 412	\$ (18)	\$ 864	\$ 389	\$ 475

We discuss the key valuation inputs of our investment properties on page 53.

### *Core Office*

Appraisal gains in the current quarter totaled \$14 million. Higher valuations on certain properties in the U.K. and Australia, where we benefited from changes in assumptions as the properties neared construction completion, were offset by changes in valuation metrics which led to lower valuations for various U.S. office properties.

Valuation losses of \$10 million in the prior year quarter were primarily attributable to reduced leasing activity in the commodity-based markets of Houston and Calgary, partially offset by improved cash flow projections.

The six-month appraisal gains also include increases in market rents at two office properties in Sydney.

### *Opportunistic and Other*

Appraisal gains totaled \$380 million in the quarter due to:

- higher cash flow projections for our office portfolio in India to reflect the impact of regulatory changes that allow for an increase in leasable area; and
- tightening of discount and terminal capitalization rates across our U.S. industrial properties, particularly in the southern California and U.S. northeast markets, as valuation assumptions were updated to reflect the de-risking of development properties upon meeting construction milestones; partially offset by
- lower cash flow projections at our opportunistic retail properties due to decreases in occupancy levels.

In the prior year quarter, valuation gains of \$422 million pertained to increases in cash flow projections and the impact of recent appraisals in our industrial and multifamily portfolios.

The six-month gain also includes gains on our manufactured housing portfolio for which the original appraisal model was updated during the first quarter.

### ***Transaction Related Gains, Net of Deal Costs***

Transaction related gains of \$443 million in the second quarter of 2018 relate primarily to:

- a \$477 million gain following the extinguishment of outstanding debt relating to a hospitality asset and a \$25 million gain related to the acquisition of a mixed-use entertainment complex in Germany; partially offset by
- deal costs of \$59 million across the company.

The year-to-date gains also include the recognition of previously unrecognized tax assets following the acquisition and restructuring of two businesses.

### ***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 gains of \$176 million in the current quarter relate primarily to the mark-to-market movements on our interest rate swaps, cross-currency swaps and commodity derivatives as well as fair value changes on currency hedges which do not qualify for hedge accounting.

The prior period losses relate to the valuation of our power, interest rate and foreign currency contracts.

## Income Taxes

We recorded an aggregate income tax expense of \$339 million in the second quarter of 2018, compared to \$119 million in the same period of 2017, including current taxes of \$136 million (2017 – \$88 million) and a deferred tax expense of \$203 million (2017 – \$31 million).

The increase in income tax expense relates primarily to a higher level of income earned in the quarter and a higher effective tax rate primarily attributable to differences in tax rates in the jurisdictions in which we operate. The difference will vary from period to period depending on the relative proportion of income in each country.

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

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

FOR THE PERIODS ENDED JUN. 30	Three Months Ended			Six Months Ended		
	2018	2017	Change	2018	2017	Change
Statutory income tax rate.....	26%	26%	—%	26%	26%	—%
Increase (reduction) in rate resulting from:						
Portion of gains subject to different tax rates .....	—	1	(1)	(4)	3	(7)
Change in tax rates and new legislation .....	—	—	—	(5)	—	(5)
International operations subject to different tax rates.....	1	(6)	7	1	(2)	3
Taxable income attributed to non-controlling interests .....	(6)	(7)	1	(5)	(9)	4
Derecognition (recognition) of deferred tax assets.....	(7)	(4)	(3)	(2)	(6)	4
Non-recognition of the benefit of current year's tax losses.....	—	4	(4)	2	5	(3)
Other .....	3	(3)	6	(1)	(3)	2
Effective income tax rate.....	17%	11%	6%	12%	14%	(2)%

As an asset manager, many of our operations are held in partially owned “flow through” entities, such as partnerships, and any tax liability is incurred by the investors as opposed to the entity. As a result, while our consolidated earnings includes income attributable to non-controlling ownership interests in these entities, our consolidated tax provision includes only our proportionate share of associated tax provision of these entities. In other words, we are consolidating all of the net income, but only our share of their tax provision. This gave rise to a 6% and 7% reduction in the effective tax rate relative to the statutory tax rate in 2018 and 2017, respectively.

We operate in countries with different tax rates, most of which vary from our domestic statutory rate and we also benefit from tax incentives introduced in various countries to encourage economic activity. Differences in global tax rates gave rise to a 1% increase in our effective tax rate in the current quarter, compared to a 6% reduction in the prior year quarter. 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 June 30, 2018 and December 31, 2017:

AS AT JUN. 30, 2018 AND DEC. 31, 2017  
(MILLIONS)

	<b>2018</b>	2017	Change
<b>Assets</b>			
Investment properties .....	<b>\$ 58,437</b>	\$ 56,870	\$ 1,567
Property, plant and equipment.....	<b>55,698</b>	53,005	2,693
Equity accounted investments.....	<b>30,025</b>	31,994	(1,969)
Cash and cash equivalents.....	<b>5,913</b>	5,139	774
Accounts receivable and other .....	<b>12,656</b>	11,973	683
Intangible assets .....	<b>13,423</b>	14,242	(819)
Other assets.....	<b>23,016</b>	19,497	3,519
<b>Total Assets</b> .....	<b>\$ 199,168</b>	<b>\$ 192,720</b>	<b>\$ 6,448</b>
<b>Liabilities</b>			
Borrowings and other non-current financial liabilities.....	<b>\$ 95,608</b>	\$ 88,867	\$ 6,741
Other liabilities .....	<b>24,390</b>	23,981	409
<b>Equity</b>			
Preferred equity .....	<b>4,192</b>	4,192	—
Non-controlling interests.....	<b>50,597</b>	51,628	(1,031)
Common equity .....	<b>24,381</b>	24,052	329
<b>Total Equity</b> .....	<b>79,170</b>	<b>79,872</b>	<b>(702)</b>
	<b>\$ 199,168</b>	<b>\$ 192,720</b>	<b>\$ 6,448</b>

### June 30, 2018 vs. December 31, 2017

Consolidated assets at June 30, 2018 were \$199.2 billion, an increase of \$6.4 billion since December 31, 2017. The increases noted in the table above are largely attributable to \$12.6 billion of assets acquired through business combinations, increases in the fair value of our investment properties and additions to our fixed asset portfolios, including ongoing construction of existing assets and asset purchases. Further details on business combinations are provided in Note 4 to the consolidated financial statements.

During the first six months of 2018, we also sold \$3.5 billion of assets, primarily within our Real Estate and Infrastructure segments, while the impact of decreasing foreign exchange rates also partially offset the increases described above.

Investment properties consist primarily of the company's real estate assets. The balance as at June 30, 2018, increased by \$1.6 billion, primarily due to:

- acquisitions of \$3.0 billion, including new investments in our U.K. student housing portfolio, office buildings in New York and Chicago, an office park in Mumbai, and a mixed-use entertainment complex in Germany;
- additions of \$1.0 billion as we enhanced or expanded numerous properties through capital expenditures; and
- appraisal gains recorded in fair value changes of \$864 million, largely within our opportunistic portfolio (refer to pages 16 and 17 for further information); partially offset by
- the \$1.1 billion impact of decreasing foreign exchange rates; and
- sales or reclassifications of \$2.2 billion, including the partial sale of an office property in Toronto and the reclassification of a number of properties to held for sale, including 112 storage properties across the U.S., a terminal building in Toronto and an office tower in Ottawa.

We provide a continuity of investment properties in Note 8 of this interim report.

Property, plant and equipment increased by \$2.7 billion primarily as a result of:

- acquisitions of \$4.9 billion, mainly within our real estate, renewable power and infrastructure businesses including wind and solar assets in Europe, a portfolio of extended-stay hotels across the U.S., hotel properties in Washington and Florida as well as our acquisition of a Colombian natural gas distribution and commercialization business; and

- additions of \$820 million primarily related to growth capital expenditures across our renewable power and infrastructure businesses; partially offset by
- the negative impact of foreign currency translation of \$1.4 billion; and
- sales and depreciation in the period, including the impact of reclassifying \$693 million to assets held for sale as part of the expected sale of certain South African wind and solar assets within our Renewable Power segment.

We provide a continuity of property, plant and equipment in Note 9 of this interim report.

The decrease of \$2.0 billion in equity accounted investments is primarily due to:

- the sale of our \$1.0 billion Chilean electricity transmission operation as well as valuation losses at GGP;
- the reclassification of two entities in our Real Estate and Corporate segments after increasing our ownership, thereby gaining control during the period;
- distributions received and returns of capital of \$831 million; and
- the impact of foreign exchange of \$891 million as the U.S. dollar appreciated against nearly all major currencies in which we operate; partially offset by
- \$540 million of additions, relating primarily to the acquisition of a European student housing portfolio in our real estate business and various additions across our other operating segments; and
- our share of comprehensive income of \$638 million.

Cash and cash equivalents increased by \$774 million as at June 30, 2018 compared to year end primarily due to timing of cash flows. For further information, refer to our Consolidated Statements of Cash Flows and to the Review of Consolidated Statements of Cash Flows within Part 4 – Capitalization and Liquidity.

Other assets are comprised of inventory, goodwill, deferred income tax assets, assets classified as held for sale and other financial assets. The increase of \$3.5 billion is primarily a result of:

- acquisitions completed in the year, adding \$2.8 billion to other assets including \$1.2 billion of goodwill, \$829 million of deferred income tax assets and other financial assets of \$721 million; and
- an increase in assets held for sale of \$838 million, primarily attributable to the aforementioned reclassification of certain South African wind and solar assets in our Renewable Power segment.

Borrowings and other non-current financial liabilities consist of our non-recourse borrowings, corporate borrowings, subsidiary equity obligations, non-current accounts payable and other long-term liabilities that are due after one year. The increase of \$6.7 billion since year end is primarily related to increases in borrowings as a result of:

- \$6.9 billion in additional property-specific borrowings due to acquisitions across our businesses, specifically in our Real Estate and Renewable Power segments, and debt refinancings in various businesses, including our graphite electrodes manufacturing business and our Brazilian regulated gas transmission business, partially offset by the impact of decreasing foreign exchange rates; and
- \$765 million increase in corporate borrowings due to a \$1 billion corporate debt issuance in the first quarter, partially offset by the impact of decreasing foreign exchange rates and the absence of draws on the corporate revolving facility; partially offset by
- a \$902 million decrease in subsidiary borrowings due to the repayment of amounts previously drawn on revolving or term bank facilities, particularly within our infrastructure and real estate businesses, and the impact of decreasing foreign exchange rates.

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

## Equity

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

## Common Equity

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

AS AT AND FOR THE SIX MONTHS ENDED JUN. 30, 2018 (MILLIONS)	<b>Total</b>
Common equity, beginning of period .....	<b>\$ 24,052</b>
Changes in period	
Changes in accounting policies .....	<b>(218)</b>
Net income to shareholders .....	<b>1,537</b>
Common dividends .....	<b>(287)</b>
Preferred dividends .....	<b>(76)</b>
Foreign currency translation .....	<b>(739)</b>
Other comprehensive income .....	<b>235</b>
Share repurchases, net of issuances and vesting .....	<b>(196)</b>
Ownership changes and other .....	<b>73</b>
	<b>329</b>
Common equity, end of period .....	<b>\$ 24,381</b>

Common equity increased by \$329 million to \$24.4 billion during the six-month period ended June 30, 2018. The change includes:

- a reduction in opening common equity of \$218 million to reflect the adjustments required to transition to IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”), and IFRS 9 *Financial Instruments* (“IFRS 9”);
- net income attributable to shareholders of \$1.5 billion during the first six months of 2018;
- other comprehensive losses of \$504 million, mostly attributable to foreign currency translation losses of \$739 million as average foreign currency rates in the jurisdictions where we hold the majority of our non-U.S. dollar investments weakened relative to the U.S. dollar;
- share repurchases, net of issuances and vesting, of \$196 million, which included \$211 million paid to repurchase 5.2 million Class A common shares (“Class A shares”), of which \$160 million was to fund long-term compensation plans; and
- ownership changes and other mostly relating to the partial disposition of our graphite electrode manufacturing business through an initial public offering (“IPO”), which we continue to consolidate following the IPO.

## Non-controlling Interests

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

AS AT JUN. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	<b>2018</b>	2017
Brookfield Property Partners L.P. ....	<b>\$ 20,806</b>	\$ 19,736
Brookfield Renewable Partners L.P. ....	<b>9,926</b>	10,139
Brookfield Infrastructure Partners L.P. ....	<b>10,354</b>	11,376
Brookfield Business Partners L.P. ....	<b>3,049</b>	4,000
Other participating interests .....	<b>6,462</b>	6,377
	<b>\$ 50,597</b>	\$ 51,628

Non-controlling interests decreased by \$1.0 billion to \$50.6 billion as at June 30, 2018, primarily due to:

- \$3.4 billion of distributions to non-controlling interests; partially offset by
- comprehensive income attributable to non-controlling interests which totaled \$550 million; this is inclusive of foreign currency translation losses as average foreign currency rates in the jurisdictions where we hold the majority of our non-U.S. dollar investments weakened relative to the U.S. dollar;
- ownership changes attributable to non-controlling interests of \$408 million; and
- net equity issuances to non-controlling interests totaling \$1.5 billion.

## FOREIGN CURRENCY TRANSLATION

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

AS AT JUN. 30, 2018 AND DEC. 31, 2017 AND FOR THE PERIODS ENDED JUN. 30	Average Rate								
	Period End Rates			Three Months Ended			Six Months Ended		
	2018	2017	Change	2018	2017	Change	2018	2017	Change
Australian dollar .....	<b>0.7404</b>	0.7809	(5)%	<b>0.7566</b>	0.7508	1 %	<b>0.7712</b>	0.7545	2 %
Brazilian real <sup>1</sup> .....	<b>3.8565</b>	3.3080	(14)%	<b>3.6062</b>	3.2175	(11)%	<b>3.4270</b>	3.1807	(7)%
British pound .....	<b>1.3212</b>	1.3521	(2)%	<b>1.3600</b>	1.2800	6 %	<b>1.3760</b>	1.2597	9 %
Canadian dollar .....	<b>0.7613</b>	0.7953	(4)%	<b>0.7749</b>	0.7439	4 %	<b>0.7828</b>	0.7497	4 %

1. U.S. dollar to Brazilian real

As at June 30, 2018, our IFRS net equity of \$24.4 billion was invested in the following currencies: United States dollars – 54%; Brazilian reais – 14%; British pounds – 15%; Australian dollars – 8%; Canadian dollars – 4%; and other currencies – 5%. Currency exchange rates relative to the U.S. dollar at the end of the second quarter of 2018 were lower than December 31, 2017 for all of our significant non-U.S. dollar investments.

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

FOR THE PERIODS ENDED JUN. 30 (MILLIONS)	Three Months Ended		Six Months Ended	
	2018	2017	2018	2017
Australian dollar .....	\$ (216)	\$ 49	\$ (335)	\$ 381
Brazilian real .....	(2,057)	(709)	(2,127)	(525)
British pound .....	(544)	320	(211)	445
Canadian dollar .....	(51)	251	(264)	343
Other .....	(541)	(72)	(78)	279
	<b>(3,409)</b>	(161)	<b>(3,015)</b>	923
Currency hedges <sup>1</sup> .....	722	(569)	632	(1,010)
	<b>\$ (2,687)</b>	\$ (730)	<b>\$ (2,383)</b>	\$ (87)
Attributable to:				
Shareholders .....	\$ (778)	\$ (170)	\$ (739)	\$ 41
Non-controlling interests .....	(1,909)	(560)	(1,644)	(128)
	<b>\$ (2,687)</b>	\$ (730)	<b>\$ (2,383)</b>	\$ (87)

1. Net of deferred income taxes of \$36 million for the three months ended June 30, 2018 and \$41 million for the six months ended June 30, 2018

Lower period end rates for our non-U.S. dollar investments, particularly the Brazilian real which decreased 14% from the beginning of the year, reduced our equity net of currency hedges for the three and six months ended June 30 by \$2.7 billion and \$2.4 billion, respectively. Gains on our hedges against the Australian, British and Canadian currencies, for which financial contracts and foreign currency debt are used to reduce exposures, partially offset the foreign currency translation losses. We typically do not hedge our equity in Brazil and other emerging markets due to the high costs associated with these contracts.

## SUMMARY OF QUARTERLY RESULTS

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

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

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

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 THREE MONTHS ENDED (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues <sup>1</sup> .....	\$ 13,276	\$ 12,631	\$ 13,065	\$ 12,276	\$ 9,444	\$ 6,001	\$ 6,935	\$ 6,285
Net income.....	1,664	1,855	2,083	992	958	518	97	2,021
Net income (loss) to shareholders ....	680	857	1,046	228	225	(37)	173	1,036
Per share								
– diluted .....	\$ 0.62	\$ 0.84	\$ 1.02	\$ 0.20	\$ 0.19	\$ (0.08)	\$ 0.14	\$ 1.03
– basic .....	0.64	0.85	1.05	0.20	0.20	(0.08)	0.15	1.05

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

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

FOR THE THREE MONTHS ENDED (MILLIONS)	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Fair value changes .....	\$ 833	\$ 572	\$ 280	\$ 132	\$ 213	\$ (204)	\$ (488)	\$ (59)
Income taxes .....	(339)	(153)	(110)	(259)	(119)	(125)	(211)	992
Net impact.....	\$ 494	\$ 419	\$ 170	\$ (127)	\$ 94	\$ (329)	\$ (699)	\$ 933

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

- The increase in revenues in the second quarter of 2018 is primarily attributable to recent acquisitions, additional home closings in our North American residential business and improved pricing at our graphite electrodes manufacturing business. Increases in direct costs offset these changes in revenue. While net income also benefited from strong performance at Norbord and appraisal and transaction-related gains in our Real Estate segment, results were more than offset by higher income tax expenses and the absence of a one-time gain recognized on the sale of a business in the first quarter.
- In the first quarter of 2018, revenues decreased due to the seasonality of our residential homebuilding and construction services businesses, partially offset by a full quarter of revenues contributed by recent acquisitions in our Renewable Power segment. Net income benefited from investment property valuation gains and other fair value gains recognized in the current quarter.

- The increase in revenues in the fourth quarter of 2017 is attributable to organic growth in existing operations across our business and acquisitions throughout the year. Net income benefited from gains from the sale of the European logistics company and from a change in basis of accounting for Norbord.
- Revenues in the third quarter of 2017 increased as a result of incremental contributions from acquisitions made partway through the second quarter of 2017, as described below, that have now contributed to a full quarter. Current quarter acquisitions also added to the increase, namely the acquisition of a fuel marketing business in our Private Equity segment. Results were partially offset by higher income tax expenses in the quarter.
- The overall increase in results in the second quarter of 2017 is predominantly attributable to acquisitions completed in the quarter, including the regulated gas transmission operation and the leading water treatment business, both in Brazil, and the U.K. road fuel provider.
- In the first quarter of 2017, we recorded fair value losses, predominantly driven by mark-to-market losses on the GGP warrants, as well as decreases in valuations in our core office portfolio. Revenue declined from the prior quarter due to seasonality in the residential business.
- In the fourth quarter of 2016, the effect of overall increases in revenues across our businesses was offset by an impairment of \$530 million on certain financial assets as a result of lower valuations based on stock market prices in our private equity operations.
- In the third quarter of 2016, we recognized a \$900 million tax recovery which resulted from a reduction in effective tax rates arising from the restructuring of certain of our U.S. real estate operations, of which \$600 million was attributable to shareholders.

## CORPORATE DIVIDENDS

The dividends paid by Brookfield on outstanding securities during the first six months of 2018 and the same period in 2017 and 2016 are summarized in the following table:

	Distribution per Security		
	2018	2017	2016
Class A and B <sup>1</sup> Limited Voting Shares (“Class A and B shares”) .....	\$ 0.30	\$ 0.28	\$ 0.26
Special distribution to Class A and Class B shares <sup>2,3</sup> .....	—	0.11	0.45
Class A Preferred Shares			
Series 2 .....	0.23	0.18	0.18
Series 4 + Series 7 .....	0.23	0.18	0.18
Series 8 .....	0.33	0.25	0.25
Series 9 .....	0.27	0.26	0.36
Series 13 .....	0.23	0.18	0.18
Series 14 <sup>4</sup> .....	—	—	0.11
Series 15 .....	0.19	0.12	0.12
Series 17 .....	0.46	0.45	0.45
Series 18 .....	0.46	0.45	0.45
Series 24 <sup>5</sup> .....	0.29	0.28	0.51
Series 25 <sup>5</sup> .....	0.32	0.26	—
Series 26 <sup>6</sup> .....	0.34	0.37	0.42
Series 28 <sup>7</sup> .....	0.27	0.43	0.43
Series 30 .....	0.46	0.45	0.45
Series 32 .....	0.44	0.42	0.42
Series 34 .....	0.41	0.39	0.40
Series 36 .....	0.47	0.45	0.46
Series 37 .....	0.48	0.46	0.46
Series 38 .....	0.43	0.41	0.41
Series 40 .....	0.44	0.42	0.42
Series 42 .....	0.44	0.42	0.42
Series 44 .....	0.49	0.47	0.47
Series 46 <sup>8</sup> .....	0.47	0.55	—
Series 48 <sup>9</sup> .....	0.46	—	—

1. Class B Limited Voting Shares (“Class B shares”)

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

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

4. Redeemed March 1, 2016

5. 1,533,133 shares were converted from Series 24 to Series 25 on July 1, 2016

6. Dividend rate reset commenced April 1, 2017

7. Dividend rate reset commenced July 1, 2017

8. Issued November 18, 2016

9. Issued September 13, 2017

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

# PART 3 – OPERATING SEGMENT RESULTS

## BASIS OF PRESENTATION

### How We Measure and Report Our Operating Segments

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

Our operating segments are global in scope and are as follows:

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

In assessing results, we separately identify the portion of FFO and common equity within our segments that relate to our primary listed partnerships: BPY, BEP, BIP and BBU. We believe that identifying the FFO and common equity attributable to our listed partnerships enables investors to understand how the results of these public entities are integrated into our financial results and is helpful in analyzing variances in FFO between reporting periods. Additional information with respect to these listed partnerships is available in their public filings. We also separately identify the components of our asset management FFO and realized disposition gains<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 55

## SUMMARY OF RESULTS BY OPERATING SEGMENT

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

AS AT JUN. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)	Revenues <sup>1</sup>			FFO			Common Equity		
	2018	2017	Change	2018	2017	Change	2018	2017	Change
Asset management.....	\$ 380	\$ 353	\$ 27	\$ 241	\$ 231	\$ 10	\$ 334	\$ 312	\$ 22
Real estate.....	1,803	1,757	46	206	661	(455)	17,116	16,725	391
Renewable power.....	901	654	247	66	65	1	4,549	4,944	(395)
Infrastructure.....	1,144	1,042	102	86	84	2	2,592	2,834	(242)
Private equity.....	8,804	5,453	3,351	282	62	220	4,204	4,215	(11)
Residential development.....	686	499	187	14	(30)	44	2,601	2,915	(314)
Corporate activities.....	47	73	(26)	(105)	(47)	(58)	(7,015)	(7,893)	878
Total.....	<b>\$13,765</b>	<b>\$ 9,831</b>	<b>\$ 3,934</b>	<b>\$ 790</b>	<b>\$ 1,026</b>	<b>\$ (236)</b>	<b>\$24,381</b>	<b>\$24,052</b>	<b>\$ 329</b>

1. Revenues include inter-segment revenues which are adjusted to arrive at external revenues for IFRS purposes. Please refer to Note 3(c) of this interim report

Total revenues and FFO were \$13.8 billion and \$790 million in the current quarter compared to \$9.8 billion and \$1.0 billion, in the prior year quarter, respectively. FFO includes realized disposition gains of \$132 million in 2018 compared to \$464 million in the prior year quarter.

Revenues increased by \$3.9 billion to \$13.8 billion in the current period, primarily as a result of:

- recent acquisitions, in particular a road fuel distribution business acquired partway through the second quarter of 2017 in our Private Equity segment; and
- organic growth, including the impact of improved pricing in our graphite electrode manufacturing business and additional home closings in our North American residential business; partially offset by
- the absence of revenues from Norbord which was consolidated up until the fourth quarter of 2017 at which time we sold a partial interest and therefore no longer hold a controlling interest in the business.

FFO excluding disposition gains increased by \$96 million from the prior year quarter primarily due to:

- continued expansion of our asset management activities;
- contributions from recent acquisitions;
- additional home closings and higher margins in our North American residential business;
- same-property leasing growth; and
- improved pricing in our graphite electrode manufacturing business and Norbord.

We recorded realized disposition gains in 2018 in our Private Equity segment, in particular gains of \$89 million relating to the partial disposition of our graphite electrode manufacturing business through an initial public offering. The sale of a New York office property generated \$469 million in the prior year quarter.

Common equity increased by \$329 million to \$24.4 billion due to contributions from earnings across our businesses and increases in cash and financial assets, partially offset by the impact of decreasing foreign exchange rates.

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



## Fee Bearing Capital

The following table summarizes fee bearing capital:

AS AT JUN. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Listed Partnerships	Private Funds	Public Securities	Total 2018	Total 2017
Real estate .....	\$ 19,216	\$ 27,665	\$ —	\$ 46,881	\$ 41,636
Renewable power .....	15,587	7,587	—	23,174	23,930
Infrastructure .....	16,974	16,692	—	33,666	38,751
Private equity .....	4,052	5,091	—	9,143	8,618
Diversified .....	—	—	16,438	16,438	12,655
<b>June 30, 2018</b> .....	<b>\$ 55,829</b>	<b>\$ 57,035</b>	<b>\$ 16,438</b>	<b>\$ 129,302</b>	n/a
December 31, 2017 .....	\$ 60,560	\$ 52,375	\$ 12,655	n/a	\$ 125,590

Fee bearing capital increased by \$2.3 billion during the quarter. The principal changes are set out in the following table:

AS AT AND FOR THE THREE MONTHS ENDED JUN. 30, 2018 (MILLIONS)	Listed Partnerships	Private Funds	Public Securities	Total
Balance, March 31, 2018 .....	\$ 56,195	\$ 55,687	\$ 15,083	\$ 126,965
Inflows .....	655	1,732	1,842	4,229
Outflows .....	—	—	(1,360)	(1,360)
Distributions .....	(704)	(400)	—	(1,104)
Market valuation .....	(447)	52	873	478
Other .....	130	(36)	—	94
Change .....	(366)	1,348	1,355	2,337
<b>Balance, June 30, 2018</b> .....	<b>\$ 55,829</b>	<b>\$ 57,035</b>	<b>\$ 16,438</b>	<b>\$ 129,302</b>

Listed partnership capital increased by \$0.3 billion, excluding quarterly distributions, due to:

- \$650 million of inflows related to equity issued by TERP; and
- an increase in recourse net debt due to drawings on listed partnership credit facilities used to fund transactions; partially offset by
- lower unit prices at BIP and BEP.

Private fund capital increased by \$1.3 billion, primarily due to:

- \$1.7 billion of inflows, including \$0.9 billion of commitments to our third flagship real estate fund and \$0.6 billion to our open-ended real estate funds; partially offset by
- \$0.4 billion of distributions and capital returned during the quarter.

Public securities capital increased by \$1.4 billion, due to:

- \$1.8 billion of inflows, including \$1.0 billion in new managed accounts and subscriptions into our energy and real estate mutual funds, as well as additional inflows from retail and institutional clients; and
- \$0.9 billion increase in market value of investments across our public securities funds; partially offset by
- \$1.4 billion of redemptions, including client reallocations out of infrastructure funds due in part to recent volatility within the infrastructure market.

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

Carry eligible capital increased during the quarter to \$46.9 billion as at June 30, 2018. This represents an increase of \$1.3 billion from commitments to new funds, partially offset by capital that was returned to investors following asset dispositions.

As at June 30, 2018, \$25.8 billion of carry eligible capital has already been deployed (December 31, 2017 – \$24.2 billion). This capital is either currently earning carried interest or will begin earning carried interest once its related funds have reached their preferred return threshold. There is currently an additional \$21.1 billion of uncalled fund commitments that will begin to earn carried interest once the capital is deployed and fund preferred returns are met (December 31, 2017 – \$18.2 billion).

## Operating Results

Asset management revenues include fee related earnings<sup>1</sup> and realized carried interest earned by us in respect of capital managed for investors, including the capital invested by us in the listed partnerships. This is representative of how we manage the business and measures the returns from our asset management activities.

To facilitate analysis, the following table disaggregates our Asset Management segment revenues and FFO into fee related earnings, realized carried interest, net<sup>1</sup>, and unrealized carried interest, net, as these are the measures that we use to analyze the performance of the Asset Management segment. We have provided additional detail, where referenced, to explain significant variances from the prior period.

FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)	Ref	Revenues		FFO / ENI	
		2018	2017	2018	2017
Fee related earnings.....	i	\$ 377	\$ 353	\$ 239	\$ 231
Realized carried interest.....	ii	3	—	2	—
		<u>\$ 380</u>	<u>\$ 353</u>	<u>241</u>	<u>231</u>
Less: Realized carried interest, net.....				(2)	—
Unrealized carried interest, net <sup>1</sup> .....	iii			95	125
Economic net income.....				<u>\$ 334</u>	<u>\$ 356</u>

### i. Fee Related Earnings

FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)	2018	2017
Fee revenues		
Base management fees.....	\$ 284	\$ 268
Incentive distributions.....	50	37
Performance fees.....	41	25
Transaction and advisory fees.....	2	23
	<u>377</u>	<u>353</u>
Direct costs and other.....	(138)	(122)
Fee related earnings.....	<u>\$ 239</u>	<u>\$ 231</u>

Fee related earnings increased by \$8 million from the prior year quarter as a result of increased performance fees and continued growth in base management fees and incentive distributions. The increases were partially offset by the absence of one-time advisory fees in the prior year relating to co-investments.

- Base management fees of \$284 million in the quarter include fees earned from our listed partnerships, private funds and public securities businesses. The increase of \$16 million is due to:
  - \$16 million increase in private funds fees due to \$7.5 billion of funds raised for our third flagship real estate fund that was partially offset by the reclassification of office funds subsequent to the second quarter of 2017; and
  - \$9 million increase in public securities fee revenues of an energy and infrastructure investment advisor acquired in the first quarter of 2018; partially offset by
  - \$9 million decline in listed partnership fees due to lower capitalization at BIP and BPY.

1. See definition in Glossary of Terms beginning on page 55

- Incentive distributions from BIP, BEP and BPY increased by \$13 million to \$50 million, a 35% increase from 2017. The growth represents our share as manager of increases in per unit distributions by BIP, BEP and BPY of 8%, 5% and 7%, respectively, as well as the impact of equity issued by BIP and BEP.
- Performance fees of \$41 million represent fees earned from BBU and are calculated on an escalating threshold as 20% of the quarterly average unit price over the previous threshold. In the second quarter of 2018, BBU's unit price continued to increase and following the fee earned in the quarter, the threshold was revised upwards to \$38.31.
- Direct costs and other consist primarily of employee expenses and professional fees, as well as business related technology costs and other shared services. Direct costs increased by \$16 million year over year as we continue to build out our organization to support current and future growth.

The margin on our fee related earnings, excluding the impact of BBU performance fee and transaction and advisory fees, was 59% in the current year period compared to 60% in the prior year quarter.

## ii. Realized Carried Interest

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

We realized \$2 million of carried interest, net of direct costs during the quarter (2017 – \$nil).

## iii. Unrealized Carried Interest

The amounts of accumulated unrealized carried interest<sup>1</sup> and associated costs are shown in the following table:

AS AT AND FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)	2018			2017		
	Unrealized Carried Interest	Direct Costs	Net	Unrealized Carried Interest	Direct Costs	Net
Accumulated unrealized, beginning of period ...	\$ 2,416	\$ (760)	\$ 1,656	\$ 1,064	\$ (354)	\$ 710
In-period change						
Unrealized in period <sup>1</sup> .....	219	(48)	171	181	(35)	146
Foreign currency revaluation .....	(105)	29	(76)	(26)	5	(21)
	<u>114</u>	<u>(19)</u>	<u>95</u>	<u>155</u>	<u>(30)</u>	<u>125</u>
Less: realized .....	(3)	1	(2)	—	—	—
	<u>111</u>	<u>(18)</u>	<u>93</u>	<u>155</u>	<u>(30)</u>	<u>125</u>
<b>Accumulated unrealized, end of period.....</b>	<b>\$ 2,527</b>	<b>\$ (778)</b>	<b>\$ 1,749</b>	<b>\$ 1,219</b>	<b>\$ (384)</b>	<b>\$ 835</b>

1. Unrealized carried interest generated in period is defined in the Glossary of Terms on page 55 and represents management's estimate of carried interest if funds were wound up at period end. Amounts that will be realized are dependent on future investment performance

Favorable investment performance in our private funds generated \$219 million of unrealized carried interest during the quarter, compared with \$181 million in the prior year quarter. This was partially offset by \$105 million of foreign exchange losses compared with \$26 million in the prior year quarter, which was largely due to the depreciation of South American currencies relating to assets within our real estate and infrastructure funds.

We generated unrealized carried interest across our major funds. Highlights include:

- \$89 million within our flagship real estate funds, reflecting particularly strong performance by our Indian office parks portfolio and our U.S. logistics business;
- \$67 million from our flagship infrastructure funds; and
- \$63 million within our fourth flagship private equity fund, primarily from our graphite electrodes manufacturing business.

Accumulated unrealized carried interest totaled \$2.5 billion at June 30, 2018. We estimate that approximately \$778 million of associated costs will arise on the realization of the amounts accumulated to date, predominantly associated with employee long-term incentive plans and taxes. We expect to recognize \$1.2 billion of this carry within the next three years. Recognition of this carried interest is dependent on future investment performance.



## Summary of Operating Results

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

AS AT JUN. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)		Revenues		FFO		Common Equity							
		Ref	2018	2017	2018	2017	2018	2017					
<b>Brookfield Property Partners</b>													
Equity units <sup>1</sup> .....	i	\$	<b>1,629</b>	\$	1,489	\$	<b>170</b>	\$	173	\$	<b>15,642</b>	\$	15,388
Preferred shares .....			<b>19</b>		19		<b>19</b>		19		<b>1,265</b>		1,265
			<b>1,648</b>		1,508		<b>189</b>		192		<b>16,907</b>		16,653
Other real estate investments.....			<b>155</b>		249		<b>11</b>		5		<b>209</b>		72
Realized disposition gains.....	ii		—		—		<b>6</b>		464		—		—
		\$	<b>1,803</b>	\$	1,757	\$	<b>206</b>	\$	661	\$	<b>17,116</b>	\$	16,725

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

Revenues and FFO, prior to disposition gains, from our real estate operations increased by \$46 million and \$3 million, respectively. These changes are primarily attributable to:

- same-property growth throughout our portfolio; partially offset by
- incremental one-time contributions in the prior year quarter from a settlement gain related to historic legal disputes and ancillary revenue from condominium sales.

Prior year results included higher realized disposition gains relating primarily to the sale of 245 Park Avenue in New York.

### 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 THREE MONTHS ENDED JUN. 30 (MILLIONS)		2018	2017		
Core office.....		\$	<b>149</b>	\$	162
Core retail.....			<b>119</b>		119
Opportunistic.....			<b>99</b>		96
Corporate.....			<b>(121)</b>		(119)
Attributable to unitholders .....			<b>246</b>		258
Non-controlling interests.....			<b>(76)</b>		(81)
Segment reallocation and other <sup>1</sup> .....			—		(4)
Brookfield's interest.....		\$	<b>170</b>	\$	173

1. Reflects fee related earnings and net carried interest reclassified to Asset Management segment as well as current taxes related to disposition gains

BPY's FFO for the second quarter of 2018 was \$246 million, of which our share was \$170 million, compared to \$173 million in the prior year quarter.

1. See definition in Glossary of Terms beginning on page 55

### *Core Office*

FFO decreased by \$13 million to \$149 million as the prior year quarter included a one-time gain of \$40 million from a legal settlement claim. Excluding this claim, FFO increased by \$27 million, primarily due to same-property<sup>1</sup> growth of \$20 million resulting from an increase in occupancy rates from 91.0% in the prior year quarter to 91.9% as a result of new lease commencements.

The average consolidated in-place net rents<sup>1</sup> per square foot (“psf”) for our portfolio decreased slightly to \$28.46 psf from \$30.82 psf in the prior year quarter. Overall, our core office net rents remain below the estimated weighted average market net-rents, indicating a potential for future increases in rates as we sign new leases. We currently have six million square feet of active development projects in our core office portfolio, including properties in New York, London and Dubai. These are 57% pre-leased in aggregate and we estimate an additional \$1.2 billion of costs to complete the construction.

### *Core Retail*

FFO remained consistent with the prior year quarter at \$119 million, reflecting:

- the increase in ownership in GGP from 29% to 34% which increased our share of GGP’s results; and
- higher income in the current period from termination fees; offset by
- the reduction of FFO from condominium sales related to ancillary developments in the prior year quarter which did not recur in the current year.

Initial and average lease spreads on signed leases that commenced since the prior year quarter were 11.8% and 19.5% higher, respectively, compared to expiring leases on a suite-to-suite basis.

### *Opportunistic*

BPY’s share of the FFO from its opportunistic investments increased by 3% to \$99 million from \$96 million in the prior year quarter primarily due to same-property growth.

The FFO contributed by acquisitions made in the last twelve months was offset by the absence of FFO from assets sold, namely our European logistics portfolio in the fourth quarter of 2017. These have been further discussed on page 16.

### *Corporate*

BPY’s corporate expenses include interest expense, management fees and other costs. Corporate expenses of \$121 million were in line with the prior year quarter. The slight increase in interest expense as a result of a higher average balance on the corporate credit facility was partially offset by lower general and administrative expenses.

### ***ii. Realized Disposition Gains***

Realized disposition gains of \$6 million relate primarily to the sale of properties in our opportunistic portfolio. Prior year disposition gains of \$464 million relate primarily to the sale of 245 Park Avenue, an office building in Midtown Manhattan.

### **Common Equity**

Common equity in our Real Estate segment increased to \$17.1 billion as at June 30, 2018 from \$16.7 billion as at December 31, 2017. Positive contributions from FFO and valuation gains on investment properties were partially offset by distributions paid.

1. See definition in Glossary of Terms beginning on page 55



## Summary of Operating Results

The following table disaggregates segment revenues, FFO and common equity into the amounts attributable to our ownership interests in BEP and the operations of BEMI<sup>1</sup>. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT JUN. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)		Revenues		FFO		Common Equity	
	Ref	2018	2017	2018	2017	2018	2017
Brookfield Renewable Partners <sup>1</sup> .....	i	\$ 934	\$ 693	\$ 98	\$ 108	\$ 3,801	\$ 4,143
Brookfield Energy Marketing and other <sup>2</sup> .....	ii	(33)	(39)	(32)	(43)	748	801
		<u>\$ 901</u>	<u>\$ 654</u>	<u>\$ 66</u>	<u>\$ 65</u>	<u>\$ 4,549</u>	<u>\$ 4,944</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 60% of BEP. Segment revenues at BEP include \$188 million (2017 – \$nil) revenue from TERP
2. Revenues in BEMI represent the incremental benefit or deficit on the North American power generated by BEP that is sold through BEMI on a contracted or uncontracted basis<sup>1</sup>

Compared to the prior year quarter, revenues and FFO generated by our renewable power operations increased by \$247 million and \$1 million, respectively. Changes were primarily due to:

- contributions of revenue and FFO from recent acquisitions, primarily TERP and TerraForm Global, and growth capital projects; and
- higher realized pricing from inflation indexation and higher market pricing; offset by
- lower generation across same store assets primarily due to lower hydrology conditions in North America.

### 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 THREE MONTHS ENDED JUN. 30 (GIGAWATT HOURS AND \$ MILLIONS)	Actual Generation (GWh) <sup>1</sup>		Long-Term Average (GWh) <sup>1</sup>		FFO	
	2018	2017	2018	2017	2018	2017
Hydroelectric.....	5,187	6,070	5,644	5,636	\$ 181	\$ 218
Wind energy.....	966	579	1,112	641	34	24
Solar.....	175	—	179	—	16	—
Storage and other.....	127	70	—	—	7	(1)
Corporate.....	—	—	—	—	(66)	(60)
Attributable to unitholders.....	<u>6,455</u>	<u>6,719</u>	<u>6,935</u>	<u>6,277</u>	<u>172</u>	<u>181</u>
Non-controlling interests and other <sup>2</sup> .....					<u>(74)</u>	<u>(73)</u>
Brookfield's interest.....					<u>\$ 98</u>	<u>\$ 108</u>

1. Proportionate to BEP; Refer to definition of *Proportionate basis generation* in Glossary of Terms beginning on page 55
2. Includes incentive distributions paid to Brookfield of \$10 million (2017 – \$7 million) as the general partner of BEP

BEP's FFO for the second quarter of 2018 was \$172 million, of which our share was \$98 million, compared to \$108 million in the prior year quarter. Generation for the quarter totaled 6,455 GWh, 7% below the long term average<sup>1</sup> ("LTA"). This represents a 4% decrease compared to the prior year quarter, or a 13% decrease on a same-store basis excluding the impact of acquisitions.

1. See definition in Glossary of Terms beginning on page 55

### *Hydroelectric*

Hydroelectric FFO decreased by \$37 million to \$181 million due to:

- a \$35 million decrease in North American FFO as generation was 11% below LTA and 18% below the prior year quarter, partially offset by an increase in average revenue per MWh of 3% due to higher capacity prices and cost reduction initiatives; and
- a decline in FFO of \$8 million in our Brazilian business as higher revenues in local currency, driven by inflation indexation on existing contracts and contributions from development projects, were more than offset by the impact of unfavorable foreign exchange; partially offset by
- an increase of \$6 million of FFO in our Colombian business as revenue per MWh increased by 33% attributable to inflation indexation of existing contracts, renegotiation efforts of certain of our power purchase agreements, higher market prices and cost reduction initiatives, slightly offset by lower generation.

### *Wind*

Wind operations FFO increased by \$10 million to \$34 million due to:

- new North American and Brazilian wind assets that were part of the TERP and TerraForm Global businesses acquired in the fourth quarter of 2017; and
- improved realized pricing from re-contracting initiatives as well as higher same store generation at our U.S. wind farms; partially offset by
- a decrease in foreign exchange rates in Brazil and lower generation in Canada and Europe.

### *Solar*

FFO from our solar operations increased by \$16 million over the prior year quarter due to contributions from our acquisitions of TERP and TerraForm Global in the fourth quarter of 2017.

### *Storage and Other*

Storage and other activities contributed \$7 million in FFO this quarter compared to a deficit of \$1 million in the prior year quarter. The increase is due to contributions from improved capacity pricing and generation at our existing pumped storage facility in North America.

### *Corporate*

The corporate FFO deficit increased by \$6 million due to increased preferred share unit distributions as a result of the completed preferred share unit issuance in the first quarter of 2018.

## ***ii. Brookfield Energy Marketing***

Our wholly owned energy marketing group has entered into long-term purchase agreements and price guarantees with BEP as described below. We are entitled to sell the power we purchase from BEP, which we do through either contracted or uncontracted sales. In addition, we are entitled to any ancillary revenues, such as capacity payments, renewable energy credits or revenues generated for the peaking ability of plants under contract.

We purchased 2,040 GWh in the current quarter from BEP at \$68 per MWh, compared to 2,790 GWh at \$68 per MWh in the prior year quarter, which we sold through contracted and uncontracted channels for an average of \$52 per MWh compared to \$53 per MWh in the prior year quarter.

As a result of the negative margins realized on the sale of purchased power, BEMI incurred an FFO deficit of \$32 million during the current quarter, an improvement over the FFO deficit of \$43 million in the prior year quarter. The decrease in BEMI's FFO deficit this quarter was mainly attributable to:

- favorable foreign exchange differences that improved FFO from realized contracted sales from \$83 per MWh to \$85 per MWh;
- higher realized pricing from energy and capacity on uncontracted sales this quarter, particularly in the U.S. Northeast market, increasing uncontracted FFO from \$38 per MWh to \$41 per MWh; and
- decreases in year-over-year generation in markets that generate lower margins; partially offset by
- lower realized pricing on short-term financial contracts.

## **Common Equity**

Common equity in our Renewable Power segment decreased to \$4.5 billion at June 30, 2018, as the impact of FFO was more than offset by depreciation and distributions paid to investors as well as unfavorable foreign exchange, particularly the weakening of the Brazilian real. Our renewable power property, plant and equipment is revalued annually and as such common equity in this segment is typically not affected by revaluation items during the first three quarters of the year.



## Summary of Operating Results

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

		Revenues		FFO		Common Equity	
		2018	2017	2018	2017	2018	2017
AS AT JUN. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)		Ref					
Brookfield Infrastructure Partners <sup>1</sup> ....	i	\$ 1,065	\$ 975	\$ 78	\$ 80	\$ 1,920	\$ 2,098
Sustainable resources .....	ii	79	67	8	4	672	736
		<u>\$ 1,144</u>	<u>\$ 1,042</u>	<u>\$ 86</u>	<u>\$ 84</u>	<u>\$ 2,592</u>	<u>\$ 2,834</u>

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

Revenues generated by our Infrastructure segment increased by \$102 million while FFO increased by \$2 million compared to the prior year quarter, due to:

- our acquisition of a Colombian natural gas distribution and commercialization business during the quarter, which contributed \$83 million to revenue; and
- organic growth of 5% in revenue and 8% in FFO on a constant-currency basis due to increased tariffs and capital improvements; partially offset by
- the absence of FFO from our Chilean electricity transmission operation which was sold in the first quarter of 2018; and
- the unfavorable impact of foreign exchange.

### i. Brookfield Infrastructure Partners

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

FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)		2018	2017
Utilities.....		\$ 139	\$ 168
Transport .....		133	134
Energy .....		54	43
Data infrastructure.....		19	19
Corporate.....		(51)	(69)
Attributable to unitholders .....		294	295
Non-controlling interests and other <sup>1</sup> .....		(216)	(215)
Brookfield's interest.....		<u>\$ 78</u>	<u>\$ 80</u>

1. Includes incentive distributions paid to Brookfield of \$34 million (2017 – \$28 million) as the general partner of BIP

BIP's FFO for the second quarter of 2018 was \$294 million, of which our share was \$78 million, compared to \$80 million in the prior year quarter.

Results from our transport and data infrastructure (formerly known as “communications infrastructure”) business lines were consistent with the prior year quarter. Key variances for the utilities, energy and corporate business lines are described below.

### *Utilities*

FFO of \$139 million was \$29 million lower than the prior year quarter. The decrease is primarily due to:

- the impact of the sale of our Chilean electricity transmission operation;
- issuance of debt by our Brazilian regulated gas transmission business which increased interest expenses; and
- the impact of lower foreign exchange rates; partially offset by
- 6% organic growth on a constant currency basis; and
- initial contributions from our recently acquired Colombian natural gas distribution and commercialization business.

### *Energy*

FFO from our energy operations of \$54 million was \$11 million higher than the prior year quarter due to:

- higher transportation volumes in our North American natural gas transmission business; and
- lower interest expense at our North American natural gas transmission business after deleveraging and refinancing initiatives; partially offset by
- lower natural gas price spreads that reduced margins in our gas storage business.

### *Corporate*

Corporate FFO increased to a deficit of \$51 million compared to a deficit of \$69 million in the prior year quarter due to:

- lower base management fees as capitalization values were lower this quarter;
- lower financing costs as the outstanding balance on the credit facility was paid down; and
- higher investment income earned by investing proceeds received from the sale of our Chilean electricity transmission operation.

## ***ii. Sustainable Resources***

Sustainable resources' FFO in the current period increased to \$8 million from \$4 million. The 2018 harvest was delayed from the first quarter due to poor weather conditions, leading to higher than planned sales in the second quarter and FFO that was higher than the prior year quarter.

## **Common Equity**

Common equity in our Infrastructure segment decreased to \$2.6 billion as at June 30, 2018 (December 31, 2017 – \$2.8 billion) primarily due to the impact of lower foreign exchange rates, as well as distributions to unitholders.

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



# Private Equity

## Summary of Operating Results

The following table disaggregates segment revenues, FFO and common equity into the amounts attributable to our ownership interests in BBU, Norbord and other private equity investments as well as realized disposition gains. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT JUN. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)		Ref	Revenues		FFO		Common Equity	
			2018	2017	2018	2017	2018	2017
Brookfield Business Partners <sup>1</sup> .....	i	\$ 8,792	\$ 4,879	\$ 55	\$ 13	\$ 1,921	\$ 2,064	
Norbord .....	ii	—	536	97	56	1,412	1,364	
Other investments .....	iii	12	38	4	(7)	871	787	
Realized disposition gains .....	iv	—	—	126	—	—	—	
		<b>\$ 8,804</b>	<b>\$ 5,453</b>	<b>\$ 282</b>	<b>\$ 62</b>	<b>\$ 4,204</b>	<b>\$ 4,215</b>	

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

Revenues generated from our private equity operations increased by \$3.4 billion primarily as a result of a full quarter of revenues contributed by our road fuel distribution business which was acquired in May 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. In addition to the above, revenues increased due to improved pricing at our graphite electrode manufacturing business and from the acquisition of our fuel marketing business in the third quarter of 2017.

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

FFO, prior to disposition gains, increased by \$94 million to \$156 million due to:

- strong performance across multiple operations, particularly improved pricing at our graphite electrode manufacturing business and Norbord; in addition to
- contributions from recent acquisitions, most notably our marine energy services business and our gaming operations business in Ontario acquired in the third quarter of 2017 and first quarter of 2018, respectively; partially offset by
- lower realized gas prices and volumes at our Canadian energy operations and higher management fees due to increases in BBU capitalization value since the prior year quarter.

## *i. Brookfield Business Partners*

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

FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)	2018	2017
Construction services .....	\$ 5	\$ 12
Business services .....	61	17
Energy .....	31	11
Industrial operations .....	94	8
Corporate and other .....	(14)	(5)
Attributable to unitholders .....	177	43
Performance fees .....	(41)	(25)
Non-controlling interests .....	(44)	(5)
Segment reallocation and other <sup>1</sup> .....	(37)	—
Brookfield's interest .....	<u>\$ 55</u>	<u>\$ 13</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 \$177 million of FFO, of which our share was \$55 million, compared to \$13 million in the prior year quarter. Contributions from organic growth in a number of businesses and acquisitions completed since the second quarter of 2017 in our business services and energy operations were partially offset by higher management fees and performance fees due to increases in BBU's capitalization value and share price, respectively.

### *Construction Services*

Construction services' FFO decreased by \$7 million to \$5 million due primarily to lower activity in the Middle East. In addition, while construction activity in our Australian operations increased, this was offset by higher current tax expense due to higher taxable income and changes in legislation in the U.K..

The adoption of IFRS 15, the new revenue recognition standard, affected our construction services business as their long-term construction projects give rise to recognition uncertainty and potentially significant contract modifications. While previously recognized margins, partially offset by taxes, will be released to FFO over time, there is no material impact on FFO in the second quarter of 2018.

### *Business Services*

Business services' FFO increased by \$44 million to \$61 million. Excluding the impact of a \$46 million disposition gain on the sale of a joint venture in our residential real estate brokerage operations, FFO decreased by \$2 million due to:

- contributions from acquisitions since the prior year quarter, most notably our gaming operations business in Ontario; more than offset by
- the loss of contributions from our recently-sold real estate brokerage services business.

### *Energy*

FFO from our energy operations increased by \$20 million to \$31 million due to:

- contributions from the marine energy services business we acquired in the third quarter of 2017; partially offset by
- lower realized natural gas prices and a decrease in production at our Canadian energy operations.

### *Industrial Operations*

FFO contributed by our industrial operations increased by \$86 million to \$94 million. Excluding the impact of a \$9 million disposition gain on the sale of an operating division within our infrastructure support manufacturing operations, FFO increased due to strong pricing and operational performance at our graphite electrode manufacturing business.

### *Corporate*

The Corporate FFO deficit increased by \$9 million to \$14 million as increases in BBU's unit price and capitalization value led to increased management fees.

BBU accrued performance fees of \$41 million in the second quarter of 2018 due to the increase in BBU's unit price above the previous threshold. We record these fees as income in our Asset Management segment.

### *ii. Norbord*

Our share of Norbord's FFO increased by \$41 million to \$97 million as North American benchmark average oriented strand board ("OSB") prices increased year over year by 24% to \$401 per thousand square feet ("Msf") due to higher demand as U.S. housing starts, particularly for single family homes, continue to increase.

### *iii. Other Investments*

FFO from other investments increased by \$11 million to \$4 million from a \$7 million deficit primarily due to the direct investment in our marine energy services business which we made in the third quarter of 2017.

### *iv. Realized Disposition Gains*

Realized disposition gains recorded in the current year quarter include the partial sell down of our graphite electrode manufacturing business through an initial public offering, the sale of a business unit in our infrastructure support products manufacturing operation and the sale of a joint venture interest in a real estate brokerage services business.

### **Common Equity**

Common equity in our Private Equity segment decreased by \$11 million from December 31, 2017 to \$4.2 billion as the adjustment to opening equity due to the adoption of IFRS 15 was offset by contributions from operating performance. 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

## 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:

	Revenues		FFO		Common Equity	
	2018	2017	2018	2017	2018	2017
AS AT JUN. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)						
North America.....	\$ 601	\$ 445	\$ 52	\$ 22	\$ 1,677	\$ 1,711
Brazil and other.....	85	54	(38)	(52)	924	1,204
	<b>\$ 686</b>	<b>\$ 499</b>	<b>\$ 14</b>	<b>\$ (30)</b>	<b>\$ 2,601</b>	<b>\$ 2,915</b>

Revenues and FFO from our residential operations increased by \$187 million and \$44 million, respectively, due to additional home closings and higher gross margins in North America as well as a lower loss per unit sold in Brazil.

### North America

FFO from our North American operations of \$52 million was \$30 million higher than the prior year period.

Housing operations contributed \$36 million more FFO than the prior year quarter as:

- U.S. housing operations' gross margin improved by \$30 million, resulting from:
  - an increase in the number of home closings; and
  - favorable changes in our product mix as we closed more homes in the western U.S., where prices and market demand remain strong.
- Canadian housing operations produced \$6 million higher gross margin, due to:
  - an increase in the number of home closings; and
  - favorable product mix with a higher proportion of Ontario home sales, which typically command higher margins.

FFO from our land development operations remained consistent with the prior year quarter.

Increases in FFO from improved sales were partially offset by increases in sales and marketing expenses and higher current taxes.

As at June 30, 2018, we had 89 active housing communities (December 31, 2017 – 81) and 29 active land communities (December 31, 2017 – 28).

### Brazil and Other

FFO from our Brazilian operations improved by \$14 million to a loss of \$38 million in the current year quarter due to:

- improved margins on sales of completed inventory compared to the prior year quarter; and
- the impact of foreign exchange, as the weakening of the Brazilian real against the U.S. dollar reduced the deficit; partially offset by
- a higher level of selling expenses and maintenance costs associated with delivery of completed inventory.

Our Brazilian operations were affected by the adoption of IFRS 15, the new revenue recognition accounting standard (see Note 2 of this interim report). Recognition of revenue is delayed until keys are delivered to the client, whereas previously revenue was recognized when the building was completed. There is no material impact associated with releasing previously recognized margins into FFO during the current quarter.

Our focus over the past two years has been delivering projects and selling remaining inventory of units associated with projects launched prior to the economic downturn. During 2016 and 2017, we completed and delivered 57 projects. We continued to sell down the remaining inventory in the second quarter of 2018, however, overall contributions from these sales were below the level required to cover fixed costs, including marketing expenses in respect of completed development projects.

We began 2018 with 18 projects under construction and as of June 30, 2018, we have 20 projects under construction, of which 18 relate to new projects launched since late 2016 which we believe will command higher margins than older projects.

### **Common Equity**

Common equity was \$2.6 billion at June 30, 2018 (December 31, 2017 – \$2.9 billion) and consists largely of residential development inventory which is carried at historical cost, or the lower of cost and market, notwithstanding the length of time that we may have held these assets and created value through the development process. The lower equity balance as at June 30, 2018 is primarily attributable to the impact of the Brazilian real weakening compared to the U.S. dollar. Equity as at June 30, 2018 is inclusive of a \$15 million adjustment that reduced common equity as at January 1, 2018 due to the adoption of the new revenue recognition standard discussed above.



# Corporate Activities

## 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 JUN. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)	Revenues		FFO		Common Equity	
	2018	2017	2018	2017	2018	2017
Cash and financial assets, net.....	\$ 17	\$ 19	\$ 14	\$ 11	\$ 3,401	\$ 2,255
Corporate borrowings .....	—	—	(80)	(63)	(6,424)	(5,659)
Preferred equity <sup>1</sup> .....	—	—	—	—	(4,192)	(4,192)
Other corporate investments .....	30	54	3	2	32	41
Corporate costs and taxes/net working capital.....	—	—	(42)	3	168	(338)
	<u>\$ 47</u>	<u>\$ 73</u>	<u>\$ (105)</u>	<u>\$ (47)</u>	<u>\$ (7,015)</u>	<u>\$ (7,893)</u>

1. FFO excludes preferred share distributions of \$38 million (2017 – \$35 million)

Our portfolio of cash and financial assets is generally recorded at fair value with changes recognized quarterly through net income, unless the underlying financial investments are classified as 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 June 30, 2018 our financial assets consist of:

- \$3.6 billion of cash and other financial assets (December 31, 2017 – \$2.4 billion); partially offset by
- \$189 million (December 31, 2017 – \$183 million) of deposits and other liabilities.

FFO from our cash and financial assets portfolio of \$14 million was \$3 million higher than the prior year quarter. While we earned interest income from a direct loan that we funded in the second half of 2017, the overall mark-to-market on our financial asset portfolio was relatively flat.

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 \$80 million reported through corporate borrowings reflects the interest expense on those borrowings. This increased from the prior year quarter as a result of \$1.6 billion of corporate debt issued in the last twelve months.

Preferred equity does not revalue under IFRS.

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

Net working capital includes accounts receivable, accounts payable, other assets and other liabilities and was in an asset position of \$168 million as at June 30, 2018 (December 31, 2017 – liability of \$338 million). Included within this balance are net deferred income tax assets of \$1.1 billion (December 31, 2017 – \$590 million) which increased following the acquisition of a business during the first quarter of 2018 with net operating losses that can be used to offset future projected net income. FFO includes corporate costs and cash taxes, which increased due to continued expansion of the business and cash taxes reported during the current quarter as opposed to a recovery in the prior year quarter.

The common equity deficit in our Corporate segment was reduced to \$7.0 billion at June 30, 2018, primarily due to a higher balance of cash and financial assets and the increase in deferred tax assets, partially offset by \$1.0 billion of corporate debt issued in the first quarter of 2018.

# PART 4 – CAPITALIZATION AND LIQUIDITY

## STRATEGY

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

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

- the corporation;
- our principal subsidiaries: BPY, BEP, BIP and BBU; and
- the operating asset level, which includes individual assets, businesses and portfolio investments.

The following are key elements of our capital strategy:

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

## CAPITALIZATION

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

*Consolidated Capitalization*<sup>1</sup> – reflects the full capitalization of wholly owned and partially owned entities that we consolidate in our financial statements. At June 30, 2018, consolidated capitalization increased compared to the prior year largely due to acquisitions, which resulted in additional associated borrowings, working capital balances and non-controlling interests.

*Corporate Capitalization*<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 June 30, 2018, 78% of our corporate capitalization was common and preferred equity, which totaled \$28.6 billion (Dec. 31, 2017 – \$28.2 billion).

*Capitalization at Our Share*<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. Capitalization at our share is a non-IFRS measure. We present a reconciliation of capitalization at our share to consolidated capitalization in the Glossary of Terms.

1. See definition in Glossary of Terms beginning on page 55

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

AS AT JUN. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Ref	Consolidated		Corporate		Our Share	
		2018	2017	2018	2017	2018	2017
Corporate borrowings.....	i	\$ 6,424	\$ 5,659	\$ 6,424	\$ 5,659	\$ 6,424	\$ 5,659
Non-recourse borrowings							
Property-specific borrowings.....	i	70,638	63,721	—	—	31,171	30,210
Subsidiary borrowings.....	i	8,107	9,009	—	—	5,599	5,711
		<b>85,169</b>	<b>78,389</b>	<b>6,424</b>	<b>5,659</b>	<b>43,194</b>	<b>41,580</b>
Accounts payable and other.....		18,330	17,965	1,419	2,140	9,620	10,880
Deferred income tax liabilities.....		11,103	11,409	183	160	4,606	5,204
Subsidiary equity obligations.....		3,894	3,661	—	—	1,659	1,648
Liabilities associated with assets classified as held for sale.....		1,502	1,424	—	—	249	703
Equity							
Non-controlling interests.....		50,597	51,628	—	—	—	—
Preferred equity.....	ii	4,192	4,192	4,192	4,192	4,192	4,192
Common equity.....	iii	24,381	24,052	24,381	24,052	24,381	24,052
		<b>79,170</b>	<b>79,872</b>	<b>28,573</b>	<b>28,244</b>	<b>28,573</b>	<b>28,244</b>
Total capitalization.....		<b>\$ 199,168</b>	<b>\$ 192,720</b>	<b>\$ 36,599</b>	<b>\$ 36,203</b>	<b>\$ 87,901</b>	<b>\$ 88,259</b>

## i. Borrowings

### Corporate Borrowings

AS AT JUN. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Average Rate		Average Term (Years)		Consolidated	
	2018	2017	2018	2017	2018	2017
Term debt.....	4.6%	4.6%	10	10	\$ 6,468	\$ 5,594
Revolving facilities.....	—%	1.6%	5	4	—	103
Deferred financing costs.....	n/a	n/a	n/a	n/a	(44)	(38)
Total.....					<b>\$ 6,424</b>	<b>\$ 5,659</b>

As at June 30, 2018, corporate borrowings included term debt of \$6.5 billion (Dec. 31, 2017 – \$5.6 billion) which had an average term to maturity of 10 years (Dec. 31, 2017 – 10 years). Term debt consists of public bonds, all of which are fixed rate and have maturities ranging from April 2019 until 2047. These financings provide an important source of long-term capital and are appropriately matched to our long-term asset profile.

The increase in term debt compared to the prior year is due to the issuance of \$650 million of 3.9% notes and \$350 million of 4.7% notes with maturities of 2028 and 2047, respectively in the first quarter of 2018. This is partially offset by \$130 million of foreign currency depreciation and repayments of \$103 million on the corporate revolving facility.

We had no commercial paper or bank borrowings outstanding at June 30, 2018 (Dec. 31, 2017 – \$103 million). Commercial paper and bank borrowings are pursuant to, or backed by, \$1.9 billion of committed revolving term credit facilities with terms ranging from one to five years. As at June 30, 2018, \$74 million of the facilities were utilized for letters of credit (Dec. 31, 2017 – \$79 million).

## Property-Specific Borrowings

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

AS AT JUN. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Average Rate		Average Term		Consolidated	
	2018	2017	2018	2017	2018	2017
Real estate .....	4.6%	4.4%	4	4	\$ 39,920	\$ 37,235
Renewable power .....	5.3%	5.9%	9	9	14,773	14,230
Infrastructure .....	5.2%	4.7%	7	8	10,361	9,010
Private equity and other .....	6.2%	6.7%	5	6	5,254	2,898
Residential development .....	9.4%	9.6%	2	2	330	348
Total .....	5.0%	4.9%	6	6	\$ 70,638	\$ 63,721

Property-specific borrowings have increased by \$6.9 billion since December 31, 2017. The additional borrowings in our real estate operations are primarily related to the acquisitions of an extended-stay hospitality business and a U.K. student housing business. The additional borrowings in our infrastructure operations are primarily related to additional financings at our Brazilian regulated gas transmission business. The additional borrowings in our private equity operations are primarily related to additional financings at our graphite electrode business. In addition to acquisitions, the remainder of the increase in consolidated borrowings is driven by drawings on new or existing subscription facilities and additional debt assumed for growth capital expenditures. These increases were partially offset by asset sales across the business.

## 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 JUN. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Average Rate		Average Term		Consolidated	
	2018	2017	2018	2017	2018	2017
Real estate .....	3.9%	3.3%	1	2	\$ 2,868	\$ 3,214
Renewable power .....	4.2%	4.5%	5	6	2,059	1,665
Infrastructure .....	3.4%	3.1%	4	4	1,256	2,102
Private equity .....	3.4%	3.9%	1	2	93	380
Residential development .....	6.1%	6.3%	4	5	1,831	1,648
Total .....	4.4%	4.1%	3	4	\$ 8,107	\$ 9,009

Subsidiary borrowings generally have no recourse to the corporation but are recourse to its principal subsidiaries (primarily BPY, BEP, BIP and BBU). Subsidiary borrowings decreased by \$902 million as our subsidiaries repaid amounts drawn on their credit facilities with proceeds from our capital recycling program.

## Fixed and Floating Interest Rate Exposure

The majority of our borrowings are fixed rate, long-term financings. 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 JUN. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Fixed Rate				Floating Rate			
	2018		2017		2018		2017	
	Average Rate	Consolidated	Average Rate	Consolidated	Average Rate	Consolidated	Average Rate	Consolidated
Corporate borrowings .....	4.6%	\$ 6,424	4.6%	\$ 5,556	—%	\$ —	1.6%	\$ 103
Property-specific borrowings..	4.9%	32,374	5.0%	33,106	5.0%	38,264	4.8%	30,615
Subsidiary borrowings .....	4.9%	4,537	4.8%	4,800	3.8%	3,570	3.2%	4,209
Total .....	4.9%	\$ 43,335	5.0%	\$ 43,462	4.9%	\$ 41,834	4.6%	\$ 34,927

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

From time to time, the businesses enter into interest rate contracts to swap their floating rate debt to fixed rate. As at June 30, 2018, 81% of our share of debt outstanding, reflecting swaps, was fixed rate.

### 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 JUN. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Term	Average Rate			
		2018	2017	2018	2017
Fixed rate-reset .....	Perpetual	4.2%	4.2%	\$ 2,912	\$ 2,912
Fixed rate .....	Perpetual	4.8%	4.8%	749	749
Floating rate .....	Perpetual	2.6%	2.3%	531	531
Total .....		4.1%	4.1%	\$ 4,192	\$ 4,192

Fixed rate-reset preferred shares are issued with an initial fixed rate coupon that is reset after an initial period, typically five years, at a predetermined spread over the Canadian five-year government bond yield. The average reset spread as at June 30, 2018 was 284 basis points.

### iii. Common Equity

#### Issued and Outstanding Shares

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

FOR THE PERIODS ENDED JUN. 30 (MILLIONS)	Three Months Ended		Six Months Ended	
	2018	2017	2018	2017
Outstanding at beginning of period .....	957.0	958.6	958.8	958.2
Issued (repurchased)				
Repurchases .....	—	(0.1)	(5.2)	(2.0)
Long-term share ownership plans <sup>1</sup> .....	0.4	0.2	3.8	2.4
Dividend reinvestment plan and others .....	0.1	—	0.1	0.1
Outstanding at end of period .....	957.5	958.7	957.5	958.7
Unexercised options and other share-based plans <sup>1</sup> .....	46.2	49.3	46.2	49.3
Total diluted shares at end of period .....	1,003.7	1,008.0	1,003.7	1,008.0

1. Includes management share option plan and restricted stock plan

The company holds 34.0 million Class A shares (December 31, 2017 – 30.6 million) purchased by consolidated entities in respect of long-term share ownership programs, which have been deducted from the total amount of shares outstanding at the date acquired. Diluted shares outstanding include 5.4 million (December 31, 2017 – 9.2 million) shares issuable in respect of these plans based on the market value of the Class A shares at June 30, 2018 and December 31, 2017, resulting in a net reduction of 28.6 million (December 31, 2017 – 21.4 million) diluted shares outstanding.

During the second quarter of 2018, 0.8 million options were exercised, all of which were exercised on a net-settled basis, resulting in the cancellation of 0.5 million vested options.

The cash value of unexercised options was \$1.1 billion as at June 30, 2018 (December 31, 2017 – \$994 million) based on the proceeds that would be paid on exercise of the options.

As of August 14, 2018, the corporation had outstanding 957,667,572 Class A shares and 85,120 Class B shares. Refer to Note 11 of this interim report for additional information on equity.

## LIQUIDITY

### Capital Requirements

On a consolidated basis, our two largest normal course capital requirements are the funding of acquisitions and debt maturities. As an asset manager, most of our acquisitions are completed by 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. In the case of listed partnerships, capital requirements are funded through their own resources and access to capital markets, which may be supported by us from time to time through participation in equity offerings or bridge financings.

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

### Core Liquidity<sup>1</sup>

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 at the corporate and listed partnership level.

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

AS AT JUN. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Corporate	Real Estate	Renewable Power	Infrastructure	Private Equity	Total 2018	2017
Cash and financial assets, net .....	\$ 3,401	\$ 214	\$ 273	\$ 475	\$ 927	\$ 5,290	\$ 3,218
Undrawn committed credit facilities ...	1,861	429	558	1,916	825	5,589	4,839
Core liquidity .....	5,262	643	831	2,391	1,752	10,879	8,057
Uncalled private fund commitments....	—	13,351	2,242	5,161	1,251	22,005	18,591
Total liquidity.....	\$ 5,262	\$ 13,994	\$ 3,073	\$ 7,552	\$ 3,003	\$ 32,884	\$ 26,648

We continue to maintain elevated liquidity levels along with client commitments to our private funds, which totaled \$22.0 billion at the end of the period, as we continue to pursue a number of attractive investment opportunities.

1. See definition in Glossary of Terms beginning on page 55

## Corporate Liquidity

As at June 30, 2018, core liquidity at the corporate level was \$5.3 billion, consisting of \$3.4 billion in cash and financial assets, net of deposits and other liabilities, and \$1.9 billion in undrawn credit facilities. Corporate level 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 issuers and private funds, as well as seeding new investment products.

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

During the second quarter of 2018, we earned \$239 million of fee related earnings. We received \$344 million in distributions from our listed subsidiaries in the quarter and have the ability to distribute surplus cash flow of controlled, privately held investments. In addition, income generated by our financial asset portfolio was \$14 million. Interest expense and preferred share distributions totaled \$80 million and \$38 million, respectively, and corporate operating expenses, cash taxes and other investment income totaled \$39 million. We paid \$144 million in cash dividends on our common equity for the three months ended June 30, 2018.

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

FOR THE PERIODS ENDED JUN. 30 (MILLIONS)	Three Months Ended	Six Months Ended
<b>Asset management</b>		
Fee revenues.....	\$ 377	\$ 852
Direct costs.....	(138)	(270)
Fee related earnings .....	239	582
Realized carried interest.....	2	22
Asset management FFO .....	241	604
<b>Invested capital</b>		
Cash distributions received from listed investments <sup>1</sup> .....	344	687
<b>Capitalization, net</b>		
Financial asset earnings .....	14	36
Corporate costs, cash taxes and other corporate investments .....	(39)	(77)
Corporate interest expense .....	(80)	(158)
Corporate FFO .....	(105)	(199)
Preferred share dividends.....	(38)	(76)
	(143)	(275)
Cash available for distribution/reinvestment <sup>1</sup> .....	<u>\$ 442</u>	<u>\$ 1,016</u>

1. See definition in Glossary of Terms beginning on page 55

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 JUN. 30, 2018 (MILLIONS, EXCEPT PER UNIT AMOUNTS)	Ownership %	Brookfield Owned Units	Distributions Per Unit <sup>1</sup>	Quoted Value <sup>2</sup>	Distributions (Current Rate) <sup>3</sup>	Distributions (Actual LTM) <sup>3</sup>
<b>Distributions from listed investments</b>						
Brookfield Property Partners <sup>3</sup> .....	69.4%	488.0	\$ 1.26	\$ 10,547	\$ 691	\$ 672
Brookfield Renewable Partners.....	60.3%	188.4	1.96	5,661	369	363
Brookfield Infrastructure Partners.	29.9%	117.7	1.88	4,519	221	210
Brookfield Business Partners.....	68.0%	87.9	0.25	3,362	22	21
Norbord.....	40.1%	34.8	1.83	1,432	64	69
Acadian.....	44.9%	7.5	0.86	114	6	7
					1,373	1,342
Financial assets and other <sup>4</sup> .....	Various	Various	Various	3,990	210	151
<b>Total</b> .....					<b>\$ 1,583</b>	<b>\$ 1,493</b>

1. Based on the number of units held as at June 30, 2018 multiplied by distributions per unit
2. BPY's quoted value includes \$1.3 billion of preferred shares. Fully diluted ownership is 64.0%, assuming conversion of convertible preferred shares held by a third party
3. Distributions (current rate) are calculated by multiplying units held as at June 30, 2018 by distributions per unit. BPY's distributions include \$76 million of preferred share dividends received by the corporation
4. Includes cash and cash equivalents, financial assets net of deposits and other listed private equity investments

## REVIEW OF CONSOLIDATED STATEMENTS OF CASH FLOWS

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

FOR THE PERIODS ENDED JUN. 30 (MILLIONS)	Three Months Ended		Six Months Ended	
	2018	2017	2018	2017
Operating activities.....	\$ 923	\$ 1,159	\$ 2,195	\$ 1,698
Financing activities.....	2,784	3,756	3,826	6,614
Investing activities.....	(3,677)	(6,894)	(5,075)	(8,219)
Change in cash and cash equivalents.....	\$ 30	\$ (1,979)	\$ 946	\$ 93

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

### Operating Activities

Cash flows from operating activities totaled \$923 million in the second quarter of 2018, a \$236 million decrease from the second quarter of 2017. Operating cash flows prior to non-cash working capital and residential inventory were \$1.4 billion during the second quarter of 2018, \$212 million higher than 2017 due to the benefits of same-store growth from our existing operations and the contributions from assets acquired during the last twelve months.

### Financing Activities

The company generated \$2.8 billion of cash flows from financing activities during the second quarter of 2018, as compared to \$3.8 billion in the second quarter of 2017. Our subsidiaries issued \$9.6 billion (2017 – \$7.5 billion) and repaid \$5.6 billion (2017 – \$4.5 billion) of property-specific and subsidiary borrowings, for a net issuance of \$4.0 billion (2017 – \$3.0 billion) during the quarter. We raised \$1.1 billion of capital from our institutional private fund partners and other investors to fund their portion of acquisitions, raised \$835 million of short-term borrowings backed by private fund commitments, and returned \$2.9 billion to our investors in the form of either distributions or return of capital. Most of the activity related to acquisitions across our various operating segments.

### Investing Activities

During the second quarter of 2018, we invested \$5.1 billion and generated proceeds of \$1.2 billion from dispositions for net cash deployed in investing activities of \$3.9 billion. This compares to net cash deployed of \$6.9 billion during the same period in 2017. We acquired \$2.6 billion of consolidated subsidiaries within our real estate, infrastructure, renewable power and private equity operations, as well as \$220 million of equity accounted investments during the quarter. Refer to our Acquisitions of Consolidated Entities in Note 4 for further details. We continued to acquire financial assets, which represent a net outflow of \$321 million, relating to investments in debt and equity securities as well as contract assets associated with managing currency risk. Investing activities in the prior year quarter included the acquisitions of a Brazilian regulated gas transmission business within our Infrastructure segment and a Brazilian water treatment business in our Private Equity segment.

# 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, as issued by the International Accounting Standards Board (“IASB”).

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

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

In making judgments and estimates, management relies on external information and observable conditions, where possible, supplemented by internal analysis, as required. These estimates have been applied in a manner consistent with the prior year and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in this report. 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, judgments and estimates, see our significant accounting policies contained in Note 2 of this interim report and Note 2 of the December 31, 2017 consolidated financial statements.

### *Adoption of New Accounting Standards*

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

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

IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities and includes new guidance which aligns hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it allows more hedging strategies that are used for risk management purposes to qualify for hedge accounting, introducing greater judgment to assess the effectiveness of a hedging relationship. We adopted the standard on January 1, 2018 using transitional provisions permitting us to not restate prior period comparative information, recording an insignificant adjustment to opening equity.

Refer to Note 2(b) of this interim report for the impact of the adoption and an overview of the new accounting policies.

### *Investment Properties*

We classify the majority of the property assets within our Real Estate segment as investment properties. Valuations, which are prepared at the investment property level, are updated at each balance sheet date with gains or losses recognized in net income. Please refer to Part 5 of Management’s Discussion and Analysis in the December 31, 2017 Annual Report for additional information about our methodologies, processes and controls.

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 following table presents the key valuation metrics of our real estate assets at June 30, 2018 and December 31, 2017:

AS AT JUN. 30, 2018 AND DEC. 31, 2017	Core Office		Opportunistic and Other		Weighted Average	
	2018	2017	2018	2017	2018	2017
Discount rate .....	6.9%	6.9%	7.3%	7.3%	7.2%	7.1%
Terminal capitalization rate.....	5.8%	5.8%	7.0%	7.0%	6.3%	6.2%
Investment horizon (years).....	11	11	8	9	10	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 reflected in this report. Discount rates and capitalization rates are inherently uncertain and may be impacted by, among other things, movements in interest rates in the geographies and markets in which the assets are located. Changes in estimates across different geographies and markets, such as discount rates and terminal capitalization rates, often move independently of one another and not necessarily in the same direction or to the same degree. Furthermore, impacts on our estimated values from changes in discount rates, terminal capitalization rates and cash flows are usually inversely correlated as the circumstances that typically give rise to increased interest rates (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 investment properties as at June 30, 2018 from a 25-basis point change to the relevant unobservable inputs. For properties valued using the discounted cash flow method, the basis point change in valuation metrics relates to a change in discount and terminal capitalization rates. For properties valued using the direct capitalization approach, the basis point change in valuation metrics relates to a change in the overall capitalization rate.

AS AT JUN. 30, 2018 (MILLIONS)	Fair Value	Sensitivity
<b>Core office</b>		
United States .....	\$ 14,868	\$ 830
Canada .....	4,243	215
Australia .....	2,458	150
Europe.....	1,302	—
Brazil .....	291	35
<b>Opportunistic and other</b>		
Opportunistic Office .....	7,006	289
Opportunistic Retail.....	3,352	129
Industrial .....	2,602	91
Multifamily .....	4,141	205
Triple Net Lease .....	4,876	169
Self-storage.....	827	58
Student Housing .....	2,299	59
Manufactured Housing .....	2,320	102
Mixed-Use .....	2,460	121
Other investment properties .....	5,392	260
<b>Total</b> .....	<b>\$ 58,437</b>	<b>\$ 2,713</b>

## **Consolidated Financial Information**

We consolidate a number of entities even though we hold only a minority economic interest. This is the result of our exercising control, as determined under IFRS, over the affairs of these entities due to contractual arrangements and our significant economic interest in these entities. As a result, we include 100% of the revenues and expenses of these entities in our Consolidated Statements of Operations, even though a substantial portion of the net income in these consolidated entities is attributable to non-controlling interests.

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

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

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

## **MANAGEMENT REPRESENTATIONS AND INTERNAL CONTROLS**

### **Internal Control Over Financial Reporting**

No changes were made in our internal control over financial reporting during the quarter ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **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 included in this interim report give a true and fair view of the assets, liabilities, financial position, and profit or loss of the company and the undertakings included in the consolidated financial statements taken as whole; and
- The management report included in this MD&A gives a true and fair review of the information required under the Dutch Act regarding the company and the undertakings included in the consolidated financial statements taken as a whole as of June 30, 2018 and of the development and performance of the business for the six months then ended.

# GLOSSARY OF TERMS

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

## References

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

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

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 open-end funds. We refer to these funds as our **Private Funds**.
- We refer to BPY, BEP, BIP and BBU as our **listed issuers** or **listed partnerships**.
- We refer to our public securities group as **public securities**. This group manages fee bearing capital through numerous funds and separately managed accounts, focused on fixed income and equity securities.

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

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

## Performance Measures

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

**Accumulated unrealized carried interest** is a non-IFRS measure that is determined based on cumulative fund performance to date. At the end of each reporting period, the company calculates the carried interest that would be due to the company for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have actually been realized. We use this measure to provide insight into our potential to realize carried interest in the future. Details of components of our accumulated unrealized carried interest is included in the definition of unrealized carried interest on page 61.

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

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

AS AT JUN. 30 (MILLIONS)	<b>2018</b>	2017
Carry eligible capital .....	<b>\$ 46,860</b>	\$ 40,426
Less:		
Uncalled private fund commitments .....	<b>(21,091)</b>	(17,525)
Co-investments and other .....	<b>(2,290)</b>	(2,150)
Funds not yet at target preferred return .....	<b>(3,116)</b>	(2,008)
Adjusted carry eligible capital .....	<b>\$ 20,363</b>	\$ 18,743

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

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

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

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

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

AS AT JUN. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	<b>2018</b>	2017
Total consolidated capitalization .....	<b>\$ 199,168</b>	\$ 192,720
Add: our share of debt of investments in associates .....	<b>10,958</b>	10,875
Less: non-controlling interests’ share of liabilities		
Non-recourse borrowings .....	<b>(52,933)</b>	(47,684)
Liabilities associated with assets held for sale .....	<b>(1,253)</b>	(606)
Accounts payable and other .....	<b>(8,710)</b>	(7,200)
Deferred tax liabilities .....	<b>(6,497)</b>	(6,205)
Subsidiary equity obligations .....	<b>(2,235)</b>	(2,013)
Non-controlling interests .....	<b>(50,597)</b>	(51,628)
Total capitalization at our share .....	<b>\$ 87,901</b>	\$ 88,259

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

**Carry eligible capital** represents the capital committed, pledged or invested in the private funds that we manage and which entitle us to earn carried interest. Carry eligible capital includes both invested and uninvested (i.e. uncalled) private fund amounts as well as those amounts invested directly by investors (co-investments) 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.

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

FOR THE THREE MONTHS ENDED JUN. 30 (MILLIONS)	2018	2017
Asset management FFO.....	\$ 241	\$ 231
Dividends received from listed issuers.....	344	315
Corporate activities FFO		
Financial assets earnings .....	14	11
Corporate costs, cash taxes and other corporate investments.....	(39)	5
Corporate interest expense.....	(80)	(63)
	<u>(105)</u>	<u>(47)</u>
Preferred share dividends .....	(38)	(35)
Cash available for distribution/reinvestment.....	<u>\$ 442</u>	<u>\$ 464</u>

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

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

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

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

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

FOR THE THREE MONTHS ENDED JUN. 30  
(MILLIONS)

	<b>2018</b>	2017
Fee related earnings .....	\$ 241	\$ 231
Realized carried interest, net .....	2	—
Asset management FFO .....	<b>243</b>	231
Less: Realized carried interest, net .....	(2)	—
Unrealized carried interest generated in the period, net.....	95	125
ENI .....	<b>\$ 336</b>	<b>\$ 356</b>

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

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

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

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

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

	Three Months Ended				Six Months Ended			
	Total		Per Share		Total		Per Share	
	2018	2017	2018	2017	2018	2017	2018	2017
FOR THE PERIODS ENDED JUN. 30 (MILLIONS)								
Net income .....	\$ 1,664	\$ 958	\$ 1.67	\$ 0.94	\$ 3,519	\$ 1,476	\$ 3.53	\$ 1.44
Realized disposition gains recorded as fair value changes or equity .....	95	499	0.10	0.51	515	651	0.53	0.67
Non-controlling interest in FFO .....	(1,294)	(1,103)	(1.34)	(1.13)	(2,756)	(2,032)	(2.82)	(2.08)
Financial statement components not included in FFO								
Equity accounted fair value changes and other non-FFO items .....	283	241	0.29	0.25	616	363	0.63	0.37
Fair value changes .....	(833)	(213)	(0.85)	(0.22)	(1,405)	(9)	(1.44)	(0.01)
Depreciation and amortization .....	672	613	0.69	0.63	1,342	1,112	1.37	1.14
Deferred income taxes .....	203	31	0.21	0.03	129	139	0.13	0.14
Total FFO .....	\$ 790	\$ 1,026	\$ 0.77	\$ 1.01	\$ 1,960	\$ 1,700	\$ 1.93	\$ 1.67

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

We use realized disposition gains and losses within FFO in order to provide additional insight regarding the performance of investments on a cumulative realized basis, including any unrealized fair value adjustments that were recorded in 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** are determined by contractual arrangements and are paid to us by BPY, BEP, BIP and TERP and represent a portion of distributions paid by listed partnerships above a predetermined hurdle. Incentive distributions are accrued on the record date of the associated distributions of the entity.

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

AS AT JUN. 30, 2018	Current Distribution Rate <sup>1</sup>	Distribution Hurdles (per unit)	Incentive Distributions
Brookfield Infrastructure Partners (BIP) .....	\$ 1.88	\$ 0.81 / \$ 0.88	15% / 25%
Brookfield Renewable Partners (BEP) .....	1.96	1.50 / 1.69	15% / 25%
Brookfield Property Partners (BPY) .....	1.26	1.10 / 1.20	15% / 25%
TerraForm Power (TERP) .....	0.76	0.93 / 1.05	15% / 25%

1. Annualized rate based on June 30, 2018 distribution rates

**Invested capital** is the amount of common equity in our operating segments. We measure segment assets based on common equity by segment. We utilize common equity by segment to analyze our deconsolidated balance sheet and to assist in capital allocation decisions.

**Long-term average generation (“LTA”)** 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, long-term generation is calculated from the acquisition or commercial operation date. In Brazil, assured generation levels are used as a proxy for long-term average. We compare long-term average generation to actual generation levels to assess the impact on revenues and FFO of hydrology and wind generation levels, which vary from one period to the next.

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

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

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

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

**Same-store or same-property** represents the earnings contribution from assets or investments held throughout both the current and prior 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.

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

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

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

AS AT JUN. 30 (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>2018</b>				
Real Estate.....	\$ 8,658	1.8x	20%	18%
Infrastructure.....	9,609	1.4x	20%	16%
Private Equity.....	2,096	2.7x	20%	20%
	<u>\$ 20,363</u>			
<b>2017</b>				
Real Estate.....	\$ 8,676	1.8x	20%	10%
Infrastructure.....	8,453	1.4x	20%	15%
Private Equity.....	1,614	1.4x	20%	11%
	<u>\$ 18,743</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:

	Accumulated Unrealized Carried Interest			Accumulated Unrealized Carried Interest		
	Jun. 30, 2018	Mar. 31, 2018	Change	Jun. 30, 2017	Mar. 31, 2017	Change
Real Estate.....	\$ 1,155	\$ 1,097	\$ 58	\$ 666	\$ 575	\$ 91
Infrastructure.....	683	690	(7)	479	427	52
Private Equity.....	689	629	60	74	62	12
Accumulated unrealized carried interest.....	<u>2,527</u>	<u>2,416</u>	<u>111</u>	<u>1,219</u>	<u>1,064</u>	<u>155</u>
Less: associated expenses <sup>1</sup> .....	<u>(778)</u>	<u>(760)</u>	<u>(18)</u>	<u>(384)</u>	<u>(354)</u>	<u>(30)</u>
Accumulated unrealized carry, net.....	<u>\$ 1,749</u>	<u>\$ 1,656</u>	<u>93</u>	<u>\$ 835</u>	<u>\$ 710</u>	<u>125</u>
Add: realized carried interest, net.....			<u>2</u>			<u>—</u>
Unrealized carried interest, net.....			<u>\$ 95</u>			<u>\$ 125</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

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