

# Letter to Unitholders

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2018 was another successful year for our business. Brookfield Business Partners (“BBU”) invested approximately \$500 million in new acquisitions during the year, generated \$1.5 billion from monetization activities and increased Company EBITDA and Company FFO to over \$800 million and \$700 million, respectively. Our strong growth reflects the contribution of recent acquisitions, as well as improvements to and organic growth of operations. We ended the year with record corporate liquidity of \$2.2 billion.

## Our Mission

Our overall objective remains the same as when we created BBU in 2016; to deliver an attractive long-term risk-adjusted return to unitholders, primarily through capital appreciation. Our goal is to acquire and manage businesses with high barriers to entry, low production costs and the potential to benefit from Brookfield’s global expertise as an owner and operator of real assets. We create value at BBU by buying businesses at reasonable values relative to their cash flow potential, and then work to enhance their operating cash flows.

A key advantage of our business model is that we have the flexibility to invest in any form. This means we can acquire businesses outright, make loans to them or acquire debt and equity securities in businesses when they become mispriced.

A consequence of our strategy is that we may not acquire businesses that generate consistent cash flows, and certain of our businesses may generate weak or even negative earnings at the outset but have the potential to generate substantial gains in the longer term. For this reason, our cash flow and earnings may, sometimes, be volatile but the overall intrinsic value of our business should increase over time.

## Intrinsic Value

Our objective is to acquire businesses at a discount to ‘intrinsic value’, which we define as the present value of cash flows that a business will generate in the future. This is generally possible when we take a contrarian approach to investing, meaning that our view of a business’ future is more favorable than what others may think. We believe that, in certain circumstances, our knowledge base enables us to make such judgements.

From time-to-time publicly traded securities, both equity and debt, trade at discounts to the intrinsic value of their underlying businesses. As capital markets have been robust for some time we have found few such opportunities, but will be prepared to act should they arise. Toward the end of 2018 public company share valuations declined meaningfully, and as a result the Dow Jones Industrial Average and S&P 500 index were down approximately 20% peak-to-trough in 2018. We have not been immune to the recent market volatility and experienced a reduction in our unit price. Our approach to intrinsic value for BBU considers both the current value of our existing businesses, plus the growth in value we are likely to achieve through capital recycling, meaning the reinvestment of proceeds from mature businesses into new opportunities. We believe our recent capital recycling initiatives

have meaningfully increased the intrinsic value of our business, which will be evidenced, in part, by substantial growth in FFO per unit over the coming year.

Towards the end of the year the discount between the trading price of our units and our view of value of the business was so substantial that, notwithstanding the many opportunities available to us, purchasing our units became a compelling opportunity. We have been buying back BBU units which, at recent price levels, presents a very attractive use of capital.

As we look forward, while we are conscious of short-term unit price performance, our focus is on building long term intrinsic value for our unitholders.

## **Capital Structure and Leverage**

Our approach to financial risk management is designed to protect our overall business during challenging circumstances, maximize flexibility across our activities and utilize leverage prudently to enhance the returns we earn on our invested capital.

We do this by (a) maintaining substantial liquidity at the parent company level; (b) ensuring that each of our businesses is financed without recourse to BBU or other businesses, so that we are never forced to support a business that is impaired (although we may choose to); and (c) utilizing debt prudently at the operating company level, at the time a business is acquired and throughout the period we own it.

At the operating company level, we seek to borrow longer dated debt, with maturities at least five years out, and at levels of debt service that the business can readily sustain. Our goal is to have limited or ideally no financial maintenance covenants, so that in the event a business experiences a reduction in earnings we aren't forced to repay its debt. In some cases, it may be appropriate to increase debt if a business is a stable, cash flow generating operation, while other businesses may require a reduction in indebtedness. Our investments provide examples of both scenarios.

We purchased Westinghouse last year and based on the recurring nature of the company's revenue and cash flow were able to get comfortable with what may appear to be a high level of debt: \$3 billion relative to our equity invested of \$920 million. We were comfortable with this based on the anticipated go-forward cash flow generation, considering reasonable assumptions on operational improvements relative to an interest rate of 6.9%, the complete absence of financial maintenance covenants, no guarantees from or recourse back to BBU and approximately seven years to maturity.

In contrast, when we privatized GrafTech, our graphite electrode operation, we paid down debt with additional equity which positioned the company to withstand challenging underlying market conditions. We maintained these lower debt levels while we implemented operational improvements and conservatively increased debt levels only once the business was positioned to generate a stable, predictable cash flow stream.

Most recently we signed an agreement to acquire Johnson Controls' Power Solutions business ("Power Solutions") for approximately \$13.2 billion. The acquisition is to be funded with \$3 billion of equity and \$10.2 billion of long-term debt. We have fully committed financing in place for this acquisition from a group of global banks. Like Westinghouse, this debt has been committed on a basis we consider to be prudent; with long-dated maturities (seven years), no financial maintenance covenants and no guarantees from or recourse back to BBU. The interest cost is very favorable and the business can readily service the debt and still generate substantial free cash flow.

## Overview of Operational Performance

BBU reported Company FFO for 2018 of \$733 million, and net income attributable to unitholders of \$422 million. The acquisitions and monetizations we made over the past year have significantly changed the profile of our business, and we have adjusted our operating segments to reflect our increased activities in infrastructure services and reduced activities in the energy sector.

### Industrials

We reported exceptional results in our industrials segment for 2018 with Company FFO of \$470 million. GrafTech contributed significantly to our results as the company had an outstanding year. The combination of strong demand, a substantial portion of production sold through long-term contracts, cost efficiencies and operational improvements contributed to the exceptional results in 2018. During the year, we partially monetized our investment through the sale of shares in an IPO and secondary offering which, together with distributions from the company, resulted in total cash proceeds generated of \$3.4 billion or \$1.2 billion to BBU. GrafTech continues to find operational improvements focused on debottlenecking capacity at its plants and optimizing remaining sales. We are confident in the business being able to generate continued strong cash flows and returns on BBU's 27% ownership interest.

At BRK Ambiental we continue to progress our operational improvement initiatives including safety performance, completion of our water quality assurance program, expanding our lending relationships, reducing overall borrowing costs and acceleration of capital expenditures to increase the scope of operations. BRK laid 585 km of network pipe in 2018, which enables more customers to connect to our network and pay for our services. In addition, BRK secured a contract extension with the city of Recife, which expands the scope of operations there. Under the amendment, BRK is responsible for a greater share of the wastewater service in the region and will receive tariff increases over the next few years. These improvements have further strengthened the Company's competitiveness and position it well for continued growth.

North American Palladium reported strong results in 2018 and the company is benefiting from continued strength in demand for and price of palladium, together with the positive impact of operational improvements we have made. These include increasing consistency and volumes of production, enhancing commercial strategy, and expanding the company's exploration program. Analyst consensus on palladium pricing continues to be over \$1,000 per ounce based on a sustained global supply deficit and continued strong demand for the metal in automobile catalysts in both gasoline and hybrid vehicles.

### Infrastructure Services

Our Infrastructure Services segment generated Company FFO of \$195 million for 2018. The segment comprises Westinghouse, which provides services to the power generation industry and Teekay Offshore, which provides services to the offshore oil production industry.

Westinghouse has performed very well since our acquisition in August of last year, with strong performance in its nuclear fuel business in the United States and on equipment supply projects in the Middle East and Asia. During 2018, the world's first three power facilities using Westinghouse's AP1000 technology began commercial operations in China, and a fourth facility achieved commercial operation early in 2019. Supported by the generation of strong cash flow during the year and significant liquidity at year end, the company issued a \$315 million distribution (approximately \$140 million to BBU) in December. This returns approximately one third of the capital we invested in the business just six months ago. We continue to work with the management team to implement our business plan to further enhance profitability at Westinghouse by strengthening the supply chain and enhancing focus on customers.

Early in 2018, Teekay Offshore completed the last of its growth projects that were underway when we acquired the business and these new vessels have driven improved financial results. Despite this performance, the public unit market price for Teekay Offshore decreased during the fourth quarter reflective of, in our estimate, negative sentiment toward the oil and gas industry. In contrast to much of the oil and gas industry, Teekay Offshore's recurring cashflows and EBITDA were stable year over year. Teekay Offshore has limited commodity exposure, with medium to long term contracts with premium petroleum companies which provide stability of forward revenues. In 2018 we assisted Teekay Offshore to refinance its near term debt maturities. Teekay Offshore's enhanced capital structure, together with its on-going growth projects, position the company well for the years ahead.

### **Business Services**

Our business services segment generated Company FFO of \$131 million in 2018, including a \$30 million contribution from our construction services operation.

Our construction services business, Multiplex, is performing well in Australia and the U.K. while project challenges at our Middle East operations have weakened overall results. We expect profitability in this region to improve as legacy projects are completed this year. During the fourth quarter Multiplex delivered five projects and performed approximately \$1.2 billion of work. The company's pipeline for new activity is robust and we were recently awarded The Broadway in London, a \$540 million mixed-use development, the \$365 million Karrinyup Shopping Centre redevelopment in Western Australia, and the \$245 million third office tower of the Bay Adelaide Centre in Toronto. Our backlog at the end of 2018 was approximately \$8 billion, 85% of which is in Australia and the UK.

Our facilities management business performed well in 2018 and the company successfully grew its business in the U.S. through the year with several sizeable new contract wins. At our road fuel distribution and marketing business we have continued to focus on our growth strategy while making improvements in key areas of the business. Results were impacted in 2018 by weak margins in Brazil due to changes in regulated fuel pricing, as well as lower diesel purchase margins realized in the UK. We expanded our network of Canadian retail operations with the acquisition of a portfolio of 22 gas stations and adjacent convenience stores as we continue to grow the scale and geographic diversity of our operations.

One Toronto, our gaming services operation performed well in 2018 and the recent interim expansion at our Woodbine site is contributing incremental gaming revenue. Early construction work is now underway on the broader facility developments at our Woodbine and Pickering sites.

### **Update on Strategic Initiatives**

#### **Power Solutions**

In November, together with institutional partners, we reached a definitive agreement to acquire Johnson Controls' Power Solutions business for \$13.2 billion (approximately \$750 million of equity to be funded by BBU). Power Solutions is the leading global producer of advanced batteries for automakers and aftermarket distributors and retailers for use in nearly all types of vehicles, including hybrid and electric models. Headquartered in Milwaukee and with a track record in excess of 100 years, the company has strong fundamentals which have supported its steady growth through business cycles.

Most of Power Solutions' profit is generated in the aftermarket where the non-cyclical nature of aftermarket demand and the company's position as a low-cost producer result in stable cash flow generation and earnings resilience. The company's long-term relationships with global auto and parts manufacturers in more than 150 countries, together with its reputation for safety, product quality and battery performance, provide barriers to entry and support future profitability.

This company has a remarkable track record of increasing market share, margins and cash flows. In fact, in all but one of the last fifteen years the business has consistently increased EBITDA. During the global financial crisis, new auto sales plummeted in 2009 while aftermarket battery sales remained steady, and Power Solutions resumed its EBITDA growth trajectory the following year. While Power Solutions is a high-quality business, we have identified opportunities to further enhance value at the company. Under our sponsorship, Power Solutions will continue to be a leading manufacturer of advanced batteries supplying its global customer base.

### **Healthscope Limited (“Healthscope”)**

On January 31, we entered into a definitive agreement, together with institutional partners, to acquire up to 100% of Healthscope for up to \$4.1 billion (approximately \$250 million of equity to be funded by BBU). The transaction is subject to regulatory and shareholder approvals and is expected to close in the second quarter.

Healthscope is the second largest private hospital operator in Australia with 43 private hospitals across every state and is also the largest pathology services provider in New Zealand. The company has strong fundamentals and represents an opportunity to acquire a high-quality business providing best-in-class essential services to the well-established and growing private healthcare sector in Australia.

The majority of Healthscope’s funding comes from private health insurers (approximately 80%), with the remainder from government bodies and other sources. The operating model is to provide facility and support services to specialist medical practitioners and their patients. At its core, the business is focused on (a) hard and soft facilities management services, (b) general and medical consumables procurement, (c) labor force management (nurses, contractors), and (d) office space and back-office support. The pathology business in New Zealand provides testing services focused on examination of blood, tissue and other biological samples to diagnose disease, with exclusive contracts with the District Health Boards. The private hospital market in Australia is very concentrated with significant advantages of scale and meaningful synergies through procurement, staff management, private health insurer negotiations, and doctor attraction. Healthscope can leverage its scale to create a cost advantage over most competitors.

As a national leader in private healthcare services, Healthscope is well-positioned to benefit from favorable demographic trends, and the growing population and high level of private health insurance uptake is driving demand for private healthcare services in Australia. The company has delivered continued growth in revenue and EBITDA for many years. Today the business has substantial embedded growth from recently completed and ongoing developments, redevelopments and expansions. While Healthscope is a high-quality business with a sustainable competitive advantage, we have also identified potential areas of business improvement. We look forward to working with Healthscope’s management to enhance its position as a leading private healthcare operator.

### **Quadrant Energy (“Quadrant”)**

In November, we closed the sale of our Australian oil and gas company, Quadrant, for net proceeds to BBU of \$130 million. In addition to the sale consideration, the agreement maintains our exposure to the potential upside in select exploration interests. Quadrant has been a very successful investment for us which, when combined with dividends received, returned three times our original investment within three and a half years.

## **Capital Position**

We ended the year with liquidity of \$2.2 billion at the corporate level. This is comprised of cash and marketable securities of approximately \$880 million and undrawn credit facilities of \$1,325 million. Our intention is not to utilize corporate debt except as a bridge for acquisitions or working capital needs, with longer term debt placed at the operating company level. Our portfolio of businesses generated total liquidity of \$1.7 billion for BBU during 2018

through distributions of \$200 million and monetizations of business interests of \$1.5 billion. As we look forward we continue to be confident in our ability to generate liquidity for our overall business.

## Looking Forward

Based on the growth in our business over the past year, the strategic initiatives being implemented in our operations and the new acquisition opportunities available to us globally, we expect 2019 to be another active year. Our primary focus today is on integrating and executing operational plans for our recent acquisitions, including Westinghouse and Schoeller Allibert. We also have a significant effort in place around closing the acquisition of Power Solutions and setting it up as a standalone operation, apart from its current owner, and are planning for the closing of Healthscope.

On behalf of everyone at BBU, thank you for your ongoing interest and support.

Sincerely,



Cyrus Madon

Chief Executive Officer

February, 2019

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION**

*This letter to unitholders 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 Brookfield Business Partners 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 Brookfield Business Partners 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, Brookfield Business Partners 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.*

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION**

*This letter to unitholders contains references to Company FFO. When determining Company FFO, we include our unitholders' proportionate share of Company FFO for equity accounted investments. Company FFO is not a generally accepted accounting measure under IFRS and therefore may differ from definitions of Company FFO or Funds from Operations used by other entities. We believe that this is a useful supplemental measure that may assist investors in assessing the financial performance of Brookfield Business Partners and its subsidiaries. Company FFO should not be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, analysis of our financial statements prepared in accordance with IFRS.*

*References to Brookfield Business Partners are to Brookfield Business Partners L.P. together with its subsidiaries unless the context reflects otherwise. More detailed information on certain references made in this letter to unitholders will be available in our Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 20-F for the year ended December 31, 2018.*