

# Letter to Unitholders

We reported strong earnings in the second quarter with solid performance in each of our operating segments, and exceptional performance in our industrials segment. We also continue to make progress on many of our strategic initiatives. During the quarter we closed the acquisition of our returnable plastic packaging business, Schoeller Allibert, which further broadens our footprint in Europe, and we partially monetized our interest in GrafTech International (“GrafTech”). Subsequent to the quarter we closed our acquisition of Westinghouse Electric Company (“Westinghouse”), which diversifies our operations into infrastructure services.

## Overview of Operational Performance

For the second quarter, Brookfield Business Partners generated Company Funds from Operations<sup>1</sup> (“Company FFO”) of \$177 million, or \$1.37 per unit, and net income attributable to unitholders<sup>2</sup> of \$119 million or \$0.92 per unit.

## Industrials

Our industrials segment reported Company FFO of \$94 million in the second quarter. All of our operations in this segment performed well with GrafTech generating exceptionally strong results. These results are supported by take-or-pay agreements for most of its production, and strong spot pricing for the remaining production at market records.

In April we successfully executed an initial public offering (“IPO”) of GrafTech on the New York Stock Exchange under the ticker symbol “EAF”. Approximately 13% of GrafTech was sold to the public at \$15 per share and we are pleased that the share price has increased by 40 percent since the IPO. In June GrafTech repaid our \$750 million promissory note (\$259 million to Brookfield Business Partners) through the issuance of additional term debt.

To date, at Brookfield Business Partners we have received total cash proceeds from GrafTech of approximately \$885 million. This includes cash generated from the IPO, promissory note repayment and dividends. Brookfield Business Partners continues to own 30%, or 91 million shares, of GrafTech with a current market value of approximately \$1.8 billion. At this valuation, including our realized proceeds to date, our original investment of \$295 million three years ago is now worth approximately \$2.7 billion.

North American Palladium (“NAP”), our Canadian palladium producer, also reported strong results this quarter as the company continues to realize increased production volumes and benefits from strong market pricing for

<sup>1</sup> Company FFO is presented as a net amount attributable to unitholders, is a non-IFRS measure and is calculated as net income excluding the impact of depreciation and amortization, deferred income taxes, breakage and transaction costs, non-cash gains or losses and other items. When determining Company FFO, we include our proportionate share of Company FFO for equity accounted investments.

<sup>2</sup> Attributable to limited partnership unitholders, general partnership unitholders, redemption-exchange unitholders and special limited partnership unitholders.

palladium. Palladium prices have been resilient reflecting a fundamental market deficit driven by increasing demand from the automotive sector and constrained supply. Since we acquired NAP three years ago we have enhanced the consistency of, and increased, production by over 25% to approximately 218,000 ounces per year. We have also focused on exploration and expanded the company's proved and probable reserves by 90% to 39 million tonnes of ore.

### **Business Services**

Our business services segment generated Company FFO of \$61 million in the second quarter. This included an after-tax net gain for unitholders of approximately \$46 million on the sale of our U.S. residential real estate services joint venture to the co-owner.

Results at our road fuel distribution and marketing business were weakened primarily due to lower contributions from our Brazil operations as a result of a truckers' strike over fuel price increases, which significantly disrupted the supply chain. To resolve the crisis, the government announced that it would subsidize the cost of diesel and compensate Petrobras and other regulated companies, like Greenergy, for losses. This business is continuing to execute on its overall growth strategy and over the last few months has successfully integrated the acquisitions of two smaller businesses, one in Ireland and the other in Canada.

This is the first full quarter with contributions from our gaming services operation, One Toronto, which operates the three facilities in the Greater Toronto Area. Results were strong during the quarter with increased gross gaming revenue at all three facilities. We made considerable progress during the quarter on our development plans and have received all major municipal and provincial approvals required for the redevelopment of the three sites into modern, multi-use facilities. First stage renovation work has already started at Woodbine, which is our largest site and is adjacent to the Toronto International Airport, as part of a two-stage redevelopment. We remain very optimistic on the longer-term prospects for this business.

### **Construction Services**

Our construction services business generated \$5 million of Company FFO in the second quarter. Our Australian and UK operations reported strong and stable performance, as we continue to return to more normalized operations in those regions after select project difficulties last year. We expect our refocused business in the Middle East to be more profitable over the long term.

During the quarter we performed approximately \$1.1 billion of work and delivered ten projects across our regions of operation. New business activity was particularly strong in Australia and our backlog at the end of the quarter is \$8.5 billion. Major new projects secured during the quarter include: (i) One Denison Street, a commercial tower in Sydney, for A\$330 million; (ii) Queen's Place Tower 1, a residential tower in Melbourne, for A\$350 million; and (iii) 300 George Street, a residential tower in Brisbane, for A\$290 million, where we are already developing a hotel and office tower.

### **Energy**

Our energy segment operations generated Company FFO of \$31 million in the second quarter, with incremental contributions from Teekay Offshore, our marine oilfield services company acquired last year, partially offset by weak results from Ember Resources ("Ember"), our Western Canadian natural gas operation. Ember is operating in a very challenging pricing environment with near term natural gas forwards trading in the range of \$2 per mcf.

Teekay Offshore contributed positively to our results during the quarter as we benefited from the recent completion of growth projects which were underway when we acquired the company last year. In July we supported Teekay to complete a \$500 million bond offering which enabled the company to substantially extend its debt maturities.

Brookfield Business Partners subscribed for \$226 million of this bond which yields 8.5% and comes due in 2023. We view this as an attractive investment and given we are earning a very low return on the record levels of cash we are holding, the incremental return is substantial. Concurrently, we converted a \$200 million promissory note (\$84 million at Brookfield Business Partner's share) due to us from Teekay into the same series of bonds. This note was bought by us for \$140 million when we recapitalized Teekay. All of these bonds are marketable public securities which means we can sell them as and when we have longer term uses for this capital. The completion of this offering allowed us to exercise an option to take a controlling ownership of Teekay in July.

## Update on Strategic Initiatives

### Schoeller Allibert

In May we closed the acquisition of Schoeller Allibert, one of Europe's largest manufacturers of returnable plastic packaging systems. We like the business as it has a strong competitive position given the company's extensive scale, diversified base of long-term customers serving multiple industries and its strong reputation for product innovation. The business operates in a growing segment of the packaging space that has favorable long-term trends driven by an increased focus on sustainability and logistics. In addition, we view Schoeller Allibert as a company with the opportunity to become larger, both organically by entering new markets and developing new products, and through acquisitions.

### Westinghouse Electric Company

We closed our acquisition of Westinghouse this week for a purchase price of approximately \$4 billion. The transaction was funded with approximately \$920 million of equity, of which Brookfield Business Partners funded \$405 million for a 44% ownership and the balance of equity from institutional partners. The rest of the purchase price was funded with approximately \$3 billion of long-term debt financing.

Westinghouse is one of the world's leading suppliers of infrastructure services to the power generation industry including mission critical maintenance and repair services, and the provision of highly engineered fuel, spare parts and equipment. In 2017 Westinghouse was forced to seek bankruptcy protection following the failure of its non-core construction operations. This gave us the opportunity to acquire a world class business, that would normally not be available for sale, by sponsoring an exit from the bankruptcy process.

Westinghouse, having shed the construction operations during the bankruptcy, is now positioned to move forward with its core business of providing first class infrastructure services. We believe that this infrastructure services business has a bright future because it embodies many of the characteristics that we look for in our operations including:

- **Market leader with high barriers to entry** – Westinghouse is the global technology leader with approximately half of the world's nuclear reactors running on its technology. This large installed base positions Westinghouse as the preferred service provider. These barriers to entry, including a highly skilled workforce, intellectual property and significant regulatory requirements have enabled Westinghouse to maintain a high market share, holding either the number one or two position in most markets in which it operates.
- **Stable and predictable revenue** – Over 80% of Westinghouse's revenue is driven by highly contracted and recurring services, primarily under long-term contracts. Westinghouse's services are largely non-discretionary and are required to sustain customers' operations. Westinghouse's contracts exhibit high retention rates supported by strong relationships with blue chip customers.
- **Opportunity to improve profitability** – Westinghouse embarked on a large cost reduction program when it entered bankruptcy that is improving profitability and focusing Westinghouse on its core infrastructure services business. After adjusting for irregular costs of the bankruptcy, construction business and restructuring items, Westinghouse generated approximately \$440 million of EBITDA in its fiscal year

ended March 2018. We have identified additional operational improvement opportunities which we intend to pursue in partnership with the management team. These operational improvements have the potential to meaningfully increase EBITDA.

We believe we have approached this investment in a conservative manner, with the working assumption that over the next 50 years most of Westinghouse's customers' nuclear plants will be decommissioned with our technical support, and no new plants will be built. Even in that scenario, given the strong cash flow generation of the business, we believe we will earn an attractive risk-adjusted return.

More exciting is that we have plenty of upside which, as a leaner, more focused organization, the company is well positioned for growth within the nuclear sector through additional cross-selling and service offerings, and expansion into new and underserved markets. Global electricity demand continues to increase driven by population and economic growth. To support this growth and the world's need for safe, clean and reliable baseload energy, nations worldwide are relying on nuclear energy as a part of their generation mix. Nuclear is a clean and critical source of power generation globally and a growing form of energy along with renewables.

### Capital Position

We increased our revolving unsecured credit facilities with a consortium of global banking relationships to an aggregate of \$825 million, which we believe to be a more appropriate level for a company of our size. This brought our liquidity at quarter end to approximately \$2.2 billion with all of our corporate credit facilities undrawn.

In closing, our business has performed well during the first half of the year, and we continue to build and diversify our operations. Our focus through the second half of the year will be on onboarding Westinghouse, progressing capital recycling initiatives and surfacing new investment opportunities.

On behalf of everyone at Brookfield Business Partners, thank you for your ongoing interest and support.

Sincerely,



Cyrus Madon  
Chief Executive Officer

August 3, 2018

### 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 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 for the quarter ended June 30, 2018.*