

# Letter to Unitholders

We are pleased to report that Brookfield Business Partners recorded strong results in the third quarter. These strong results reflect the increased scale and diversification of our business which benefited from the contribution of new operations acquired over the past year, as well as organic growth and improvements in our operations.

We continue to execute on our strategy to recycle capital from the sale of mature operations into acquisitions of businesses that meet our return criteria. In the third quarter we announced our agreement to sell our Australian energy assets, Quadrant Energy (“Quadrant”), and closed the acquisition of Westinghouse Electric Company (“Westinghouse”), marking our entrance as a service provider in the infrastructure sector. With this acquisition we have created a new business segment called Infrastructure Services.

## Overview of Operational Performance

For the third quarter, Brookfield Business Partners generated Company Funds from Operations<sup>1</sup> (“Company FFO”) of \$170 million, or \$1.31 per unit, and net income attributable to unitholders<sup>2</sup> of \$93 million or \$nil per unit.

### Industrials

Our industrials segment reported Company FFO of \$76 million in the third quarter with very strong results at GrafTech, which continues to benefit from the take-or-pay sales agreements put in place for much of the company’s graphite electrode production. In August, we completed a secondary offering for part of our shares and a concurrent share buyback at GrafTech which increased the total cash proceeds received by Brookfield Business Partners from the company, to date, to approximately \$1.1 billion. Brookfield Business Partners continues to own 27% of GrafTech, valued in the market at \$1.4 billion<sup>3</sup>.

At our water services company, BRK Ambiental, we were recently awarded a small concession for a municipality of approximately 70,000 inhabitants which is a positive sign for further growth in this platform. While our operational plan continues on track, during the quarter we faced some headwinds from currency depreciation. We expect the cash flow generated from this business to grow as we grow the scale of our current concessions, as well as acquire new concessions.

This is the first full quarter of contribution from Schoeller Allibert. The company manufactures handheld and large bulk containers to service a wide variety of end markets including retail, logistics, food and beverage and

<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. Income (loss) attributed to limited partnership unit on a fully diluted basis is reduced by incentive distributions declared to special limited partnership unitholders during the three months ended September 30, 2018.

<sup>3</sup> As at market close on October 31, 2018.

automotives. During the quarter we focused our efforts on integrating the business and developing its strategic plan, focusing on increasing revenue, reducing costs and improving capital allocation particularly regarding new machines and factories. We believe we have an opportunity to materially improve operational efficiencies in the company and we plan to grow the business into new markets.

### **Infrastructure Services**

For the third quarter our new Infrastructure Services segment, which is comprised of Westinghouse following our acquisition of the company on August 1<sup>st</sup>, generated Company FFO of \$49 million. Our results this quarter were positively impacted by a one-time recovery on a project, which was partially offset by higher costs associated with our acquisition. We anticipate a further impact on costs next quarter as the current high cost inventory flows through production but then our cost will normalize. Going forward this business will have variability in its quarterly results due to seasonality and the timing of outage cycles at customer plants.

Brookfield Business Partners funded \$405 million of the total \$920 million equity purchase price for a 44% ownership interest. Westinghouse is one of the world's leading suppliers of infrastructure services to the power generation industry with significant barriers to entry and generates a significant majority of its earnings from regularly recurring refueling and maintenance, primarily under long-term contracts. With the acquisition now closed, we are thrilled to be working with the management team to further enhance profitability at Westinghouse. At our investor day on September 26<sup>th</sup>, we laid out our operational plan to drive further value from the business and some of our key initiatives include:

- Establishing an accountability-based operating framework that encompasses the board and senior management team, and includes an executive oversight committee focused on executing all aspects of a holistic plan to align costs and drive further profitability,
- Enhancing the global supply chain to optimize cost and delivery capabilities while maintaining leading product quality,
- Aligning sales resources and improving the commercial process to drive profits through new business opportunities,
- Implementing rigorous processes to assess risk/return across products and services including new business development initiatives and assessment of bolt-on acquisition opportunities.

We believe that as a leaner and more focused organization, Westinghouse will be well positioned to create additional value and over the medium term, we are targeting EBITDA growth of over 25% relative to the \$440 million generated last year.

### **Business Services**

Our business services segment generated Company FFO of \$26 million in the third quarter.

Our facilities management operation performed in-line with expectations with core operations in Canada and Australia continuing to leverage their regional leadership positions and high-quality customer base with long-term contracts. Over the last few years we have been focused on expanding the business in the U.S. both organically and through bolt-on acquisitions. We now have an established base in the U.S. and are growing operations through new contract wins. During the quarter, the company operationalized two contracts to provide facilities management services to over 150 customer sites in the U.S. This was an important milestone in continuing our U.S. growth strategy.

Our road fuel distribution and marketing business had softer results but continues to make improvements in key areas of the business. Margins were impacted by lower volumes in our Brazil operations due to recent changes to regulated fuel pricing, as well as lower diesel purchase margins realized in the UK. In addition, competitive

pressure impacted margins in our Canadian retail operations. After quarter-end we signed an agreement to acquire a portfolio of 22 gas stations with adjacent convenience stores which will expand our Canadian gas station footprint. We expect to close this acquisition by the end of the year and plan to continue to pursue opportunities to increase the operational scale and diversity of our offering as we build out this platform.

One Toronto, our gaming services operation generated strong results for the quarter. We continued to make considerable progress on our development plans, particularly at the largest location, Woodbine, where we successfully completed an interim expansion, launching table games at the facility in August.

Our construction services business is performing well in Australia and the UK and generated strong results this quarter. Overall results were negatively impacted by weak performance in the Middle East where we are completing projects and refocusing our business strategy. We expect the Middle East operations to stabilize as these projects are completed over the next 12 to 18 months. During the quarter we delivered eight projects and performed approximately \$1.1 billion of work. We continue to see strong activity in Australia and were awarded a \$270 million residential development, 405 Bourke Street, in Melbourne. Our backlog at the end of the quarter is approximately \$8 billion with approximately 86% of this backlog in Australia and the UK.

## **Energy**

Our energy segment operations generated Company FFO of \$35 million in the third quarter. Results benefited from incremental contributions from Teekay Offshore, our marine energy services company acquired last year. Ember Resources, our Western Canadian natural gas operation, continues to operate in a very challenging environment and there has been no improvement in near term forward prices in the quarter.

Teekay Offshore secured new charter contract extensions which provide additional forward fixed revenues with no incremental investment. In addition, the company ordered two state-of-the-art shuttle tankers which, together with the four tankers currently under construction, are expected to further strengthen its position as the leading provider of shuttle tanker services in the North Sea. In July, we exercised an option to take control of the general partner of Teekay Offshore and supported a bond offering which improved Teekay Offshore's debt maturity profile.

## **Update on Strategic Initiatives**

### **Quadrant Energy**

In August we signed an agreement to sell Quadrant, our Australian oil and gas company for \$2.15 billion. We acquired the business, together with institutional partners, from a global E&P operator in 2015. Quadrant has reported strong performance since acquisition with minimal commodity exposure as, at the time of acquisition, the business entered into a contract to substantially sell all of its gas reserves under a long term take-or-pay contract and entered into financial hedges for most of its oil production.

Concurrently, we worked with management to implement operational improvements particularly in the areas of corporate finance, technology and human resources. Taking advantage of low drilling rig rates, Quadrant successfully embarked on a targeted exploration program which helped to achieve more than 100% reserve replacement and in addition, during the third quarter, the company announced a series of significant oil discoveries. The resulting robust cash flows enabled Quadrant to reduce debt and pay dividends, returning almost all of the original capital we invested in the business within three years of our acquisition.

Quadrant has been a very successful investment for us and given the company's performance and recovering commodity price environment, this was an opportune time to monetize our investment. Net sale proceeds to Brookfield Business Partners for our 9% ownership interest on closing will generate ~\$125 million, which when combined with dividends received, equates to three times our original investment and an after-tax profit of ~\$80

million. In addition to the sale consideration, the agreement maintains our exposure to the upside in Quadrant's exploration interests. Subject to regulatory approvals, we expect to close this sale during the fourth quarter.

## Imagine

In October, together with institutional partners, we acquired a 50.1% controlling interest in Imagine Communications Group ("Imagine"), a provider of high speed fixed wireless broadband in rural Ireland. Brookfield Business Partners will own 30% of the business. Imagine is the only fixed wireless broadband provider in the country to have acquired spectrum, a finite regulated resource, in the recent 3.6GHz auction. Our investment will fund additional capital as Imagine completes its roll out to customers. Rural Ireland is characterized by relatively low penetration compared to other European countries and we believe this demand, together with Imagine's experience in Ireland, positions it well for future growth.

Imagine provides us an initial entry point into technology services. This is an area of potential future growth for Brookfield Business Partners, given the enormous scale of opportunity and the increasing number of opportunities we are seeing that meet our investment criteria.

## Looking Forward

Our business is currently performing well. Our balance sheet is strong, and we have ample liquidity of approximately \$2 billion, which positions us to take advantage of opportunities to build and further diversify our operations. In September, we held our annual Investor Day where we provided some insight into potential future growth areas we are looking at for our business. We also provided a deeper perspective into how we are actively working with the management teams of our companies to position them for success and, in particular, what we plan to do at Westinghouse. If you missed it, the webcast is available on our website at <https://bbu.brookfield.com/en/events-and-presentations>.

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

Sincerely,



Cyrus Madon  
Chief Executive Officer

November 2, 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 the Use of Non-IFRS Measures**

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 September 30, 2018.