



Environmental management and innovation can be competitive advantages for Carlyle and our portfolio companies. That's why we are teaming up with experts to create industry-leading approaches to improve environmental performance across the investment life cycle from due diligence to portfolio company stewardship.





A focus on environmental stewardship

“This is a first for the private equity sector ... This new due diligence screen expands the significant role that environmental management can have in creating value in private equity and across the many industries and companies it touches.”

Gwen Ruta
Vice President, Corporate Partnerships
Environmental Defense Fund

Environmental concerns—ranging from climate change to industrial pollution to natural resource scarcity—are increasingly affecting the capacity of businesses to create value for customers, investors and other stakeholders. Whether through our investment practices or the operations of our portfolio companies, environmental considerations play a significant—and growing—role in our thinking and strategy.

A NEW WAY TO PERFORM ENVIRONMENTAL DUE DILIGENCE

In March 2010, Carlyle and EDF announced the creation of EcoValuScreen, a new environmental due diligence framework that unlocks opportunities for operational improvement and value creation through enhanced environmental management at targeted portfolio companies. Developed in partnership with The Payne Firm, an international environmental consultancy, this powerful analytic tool builds on our responsible investment guidelines, our established due diligence practices and EDF’s expertise.

EcoValuScreen goes beyond the traditional focus of risk mitigation during the due diligence process by identifying opportunities for operational enhancements that will lead to better environmental and financial performance during the early stages of the investment process. We’re using this approach to more effectively evaluate the operations of a target company, identify the most promising environmental management opportunities, and incorporate this information into the post-investment management, governance and reporting plans of our controlled portfolio companies.

To develop the screen, we worked with Payne and EDF to examine more than 320 current and former Carlyle portfolio companies. Our goal is to identify opportunities to improve efficiency, reduce costs and minimize environmental impacts across five key areas: forest products, greenhouse gas emissions, priority chemicals, waste management and water use.

The analysis revealed the link between common business practices across our portfolio companies and their impact on the environment. It also identified specific initiatives to enhance the environmental performance of these activities while driving financial savings. Additional information about EcoValuScreen is available at <http://edf.org/duediligence>.

ECOVALUSCREEN IN ACTION

We are applying EcoValuScreen to new controlling, corporate investments in the United States and will soon apply it to other buyout investment opportunities, where appropriate. While we are focusing on applying the screen to our own investments, we are also broadly sharing the framework with environmental consulting firms and other interested parties. Our goal is to establish the EcoValuScreen approach as a best practice that is widely integrated into due diligence across the private equity industry.

NBTY: IMPROVING OPERATIONAL AND ENVIRONMENTAL PERFORMANCE

In October 2010, Carlyle acquired NBTY, Inc., a global manufacturer and marketer of nutritional supplements. The company manufactures and sells more than 25,000 products under a number of brands, including Nature's Bounty, Holland & Barrett, Vitamin World and Puritan's Pride. As part of the investment process, the Carlyle investment team coordinated with EDF and Payne to apply EcoValuScreen to the transaction.

Payne began by conducting a baseline assessment of NBTY's current operations and distribution network. Working closely with A.T. Kearney—a global management and operations consulting firm retained by Carlyle's investment team—Payne reviewed public data and corporate operating reports, conducted interviews with NBTY's leadership and visited several of the company's facilities. Through this assessment, EDF and Payne were able to evaluate the scale and complexity of NBTY's manufacturing and distribution processes and identify energy, packaging and solid waste as the company's key environmental performance areas.

With the information gathered during the assessment stage, Carlyle, EDF and Payne identified several initiatives that the company could implement to enhance its operations while improving its environmental performance. These opportunities include: developing strategies to increase the efficiency of NBTY's manufacturing and distribution network; enhancing site operations through the creation of new metrics to monitor plant productivity; and focusing on strategic sourcing programs to reduce packaging, raw material usage and solid waste. Carlyle and NBTY's management team are evaluating the potential initiatives and intend to develop an implementation plan.

Each of these initiatives could result in a direct improvement to NBTY's operations and generate corresponding environmental benefits through reductions in energy, greenhouse gas emissions and waste. Carlyle, EDF and Payne intend to work with NBTY's management



team to create a baseline for tracking future energy and waste reductions and to develop relevant metrics to measure performance. Carlyle will continue to monitor the implementation process and report the results to EDF, our investors and other stakeholders.

PARK WATER COMPANY: CONSERVING PRECIOUS RESOURCES

In December 2010, Carlyle Infrastructure Partners, L.P. agreed to acquire the Park Water Company, an owner and operator of two regulated water distribution utilities in California and one in Montana. Based in Downey, California, Park Water and its subsidiaries collect, store, distribute and sell water to some 250,000 customers.

As population and demand for water continue to grow, sound management of water resources and infrastructure is increasingly important to our society and economy. In addition, water-related energy use represents a significant percentage of California's electricity consumption, making successful water conservation efforts a critical part of reducing energy use and greenhouse gas emissions. While the transaction is pending regulatory approvals, Carlyle has started discussions with Park Water's management to apply EcoValuScreen to assess the company's water supply management and energy usage, and to identify potential operational enhancements to help the company further its environmental management and conservation initiatives.

Based on a pre-closing, preliminary analysis, Carlyle, EDF and Payne have identified three opportunities to build on efforts already underway at the company. First, expanding the use of water meters at Park Water's Montana affiliate will enhance the company's ability to measure and manage water flow and promote water conservation. Second, investing capital in replacing and repairing aging pipes will increase efficiency and reduce water loss. Third, scaling water conservation initiatives across all three utilities will help consumers improve efficiency and reduce demand.

We believe the opportunities identified through the EcoValuScreen process build on Park Water's current environmental achievements by consolidating existing programs, providing a platform for new initiatives, and integrating energy and water efficiency metrics into the company's management plan. These activities are intended to enhance operations, reduce environmental impacts and improve financial performance. Carlyle will be prepared to work with Park Water's management team on these initiatives if and when regulatory approval has been achieved.



PORTFOLIO COMPANIES AND THE ENVIRONMENT

We know that some companies capitalize on challenges and opportunities better and more consistently than their competitors. We also acknowledge that environmental issues are increasingly a part of both business challenges and opportunities for many of our portfolio companies. That's why we have begun efforts to support environmental initiatives at a number of our portfolio companies, and why we plan to do more in the future to ensure that our companies have the information and resources they need to identify opportunities to enhance environmental efficiencies.

ALLISON TRANSMISSION: ECOMAGINATION TREASURE HUNT

As part of our effort to support environmental leadership activities across our portfolio, we introduced EDF to Allison Transmission, a Carlyle Partners IV, L.P. portfolio company. Allison is a global designer, manufacturer and supplier of automatic transmissions for medium- and heavy-duty commercial and specialty military vehicles. The company manufactures hybrid transmissions for trucks and buses. Allison and EDF are working together to measure, manage and reduce energy and greenhouse gas emissions from the company's operations.

In November 2010, Allison worked with EDF and GE Capital to host an "ecomagination Treasure Hunt." This process, developed by GE, promotes energy efficiency awareness and action by working with volunteer employees from across a company to assess its operations and identify innovative ways to improve energy efficiency.

During the treasure hunt, a team of more than 20 Allison employees, GE experts, EDF representatives and outside specialists spent three days observing Allison's primary manufacturing facility during all phases of operations—from shutdown mode over a weekend to normal operations during day shifts. The participants were divided into three teams focused on reducing energy use from lighting, motors and compressed air throughout the facilities. The goal was to identify, quantify and recommend projects that would improve energy efficiency and cut costs.

As a result of the treasure hunt, Allison identified more than 20 different initiatives that could save the company up to \$1.2 million annually and reduce CO₂ emissions by approximately 15,000 metric tons per year—equivalent to taking 2,800 cars off the road. Allison is reviewing the full results of the treasure hunt, prioritizing projects for implementation and incorporating these initiatives in the company's ISO 14001 environmental management process for 2011.



"The Treasure Hunt provided Allison Transmission an opportunity to benchmark with General Electric's energy audit strategy and validate internal energy improvement priorities."

Lawrence E. Dewey
Chief Executive Officer
Allison Transmission



HERTZ CORPORATION: ELECTRIC VEHICLE MOBILITY PROGRAM

In September 2010 at the Clinton Global Initiative Annual Meeting, Hertz Corporation, a Carlyle Partners IV, L.P. portfolio company and a premier global car rental company, committed to bring the next generation of electric vehicles to the general public through its car rental and car sharing operations. Hertz officially launched the program in New York City in December 2010, with full-scale deployment in the United States and other countries beginning in 2011.

As one of the world's largest general-use airport car rental brands, Hertz is uniquely positioned to introduce multiple groups of consumers—urban drivers, college students, travelers and corporations—to all-electric and plug-in hybrid vehicles. We believe Hertz's leadership in this initiative will catalyze other partners and cities to provide additional infrastructure for mass scaling of electric mobility across the general public.

Hertz's Electric Vehicle Mobility Program is the first of its kind to provide a range of all-electric and plug-in hybrid vehicles on a rental basis on a global scale. The program will leverage the company's rental and car sharing locations as bases for vehicles and charging stations and tap into its technology—including sophisticated fleet management tools and the NeverLost GPS system—to help form an electric vehicle grid.

To implement the program, Hertz is forming strategic partnerships with manufacturers, charging station providers, municipalities, nongovernmental organizations, corporations and other stakeholders. Based on an introduction from Carlyle, Hertz now plans to work with EDF to develop guidelines and metrics to ensure that electric vehicles and the associated charging infrastructure are developed in a way that results in real, measurable benefits for the environment and consumers.



Photo via CGI 2010

Treehugger.com named Hertz's Electric Vehicle Mobility Program to its list of the seven Best Green Initiatives at the 2010 Clinton Global Initiative Annual Meeting.

“Done right, electric vehicles can help the environment and represent a leap forward in transportation. We look forward to working with Hertz and its partners to ensure that this leap drives measurable benefits for both consumers and the planet.”

Fred Krupp
President
Environmental Defense Fund



“Carlyle's introduction to EDF helped Hertz connect with a key stakeholder and build support for our electric vehicle program.”

Richard Broome
Senior Vice President
Corporate Affairs and Communications
Hertz



“One of the qualities Carlyle and its partners brought to our public-private partnership with them was the commitment to incorporate strong environmental principles into the project.”

Jeffrey A. Parker
Commissioner
Connecticut Department of Transportation



Project Service has identified a number of environmental initiatives that it will undertake:

RENEWABLE ENERGY. Photovoltaic solar technology will be installed throughout all 23 locations along Interstates 95 and 395 and Route 15. In every case, a significant portion of the electricity required to run each facility will be generated by sunlight through ground-, rooftop- or fuel canopy-mounted systems. These systems are anticipated to produce a total 238,464-kilowatt hours of power and will be monitored individually and collectively at both central and on-site locations.

TRUCK IDLE-REDUCTION TECHNOLOGY. Eighty-five idle-reduction systems will be installed along Interstate 95. Once in place, trucks will be required to plug in to these systems immediately after parking, enabling them to shut off their engines and obtain power, heat and air-conditioning from these external sources without idling their motors. This is expected to significantly reduce truck noise and improve air quality while providing additional revenue and reducing fuel consumption.

SILVER LEED-EQUIVALENT CONSTRUCTION. All 23 service plazas will have sufficient Leadership in Energy and Environmental Design (LEED) elements in the planning, design and construction of the facilities that could lead to silver LEED-equivalent certifications under LEED Version 2.2. To achieve this level of quality, virtually every aspect of construction will be modified to meet certain environmental specifications, including heating, ventilation and air-conditioning; roof materials; siding; flooring; plumbing fixtures; paint; and storm water management.

PROTECTION OF ENVIRONMENTAL RESOURCES. Every site will be designed to protect inland-wetland and water courses, minimize site disturbance and remediate storm water prior to discharge. The primary goal is to prevent each site from contributing to any new direct inland-wetland impacts and to implement a series of “best management practices” as prescribed by the State of Connecticut Department of Environmental Protection. These include surface and underground storm water detention, bio-filtration, deep sumps at catch basins, and mechanical grease and grit separators, all designed to remove pollutants and solids from storm water after it travels over large paved areas.

RECYCLING. A comprehensive recycling program will be established at each location to minimize solid waste and to promote eco-friendly operations.

PROJECT SERVICE LLC: A PUBLIC-PRIVATE PARTNERSHIP

In November 2009, Carlyle Infrastructure Partners, L.P. entered into a joint venture to form a 35-year public-private partnership with the State of Connecticut to redevelop, operate and maintain Connecticut's 23 highway service areas across the state. Other parties in the joint venture, which is called Project Service LLC, are Doctor's Associates Inc.—the parent company of SUBWAY Restaurants—and Subcon Inc.

Project Service and its tenants expect to invest approximately \$178 million in improvements and upgrades to the service areas. Altogether, the state is expected to receive nearly \$500 million in economic benefit from the redevelopment effort. Project Service is also expected to create approximately 375 new jobs, including custodial positions represented by the Service Employees International Union.

As part of the redevelopment effort, Project Service is committed to redeveloping and operating the service plazas in an environmentally friendly and sustainable manner.

B&B HOTELS: INNOVATION IN HOSPITALITY

B&B Hotels, which was recently acquired by Carlyle Europe Partners III, L.P., won the Hospitality Award 2010 for Best Sustainability Initiative by collaborating with a manufacturer in southwest France to develop a unique process to recycle pillows. Since the process was adopted, the company has recycled 20.5 tons of foam-filled cushions, 1.5 tons of upholstery fibers and 3.3 tons of cloth. If all of the hotel chains in France adopted this approach, more than 172 tons of foam, 12 tons of fiber and 27 tons of cloth would be recycled each year instead of going to landfill sites.

Further demonstrating its commitment to environmental sustainability, B&B Hotels also participates in the Green Key Eco-Rating Program. The Green Key program is a graduated rating system designed to recognize hotels that are committed to improving their environmental and fiscal performance. Hoteliers are awarded a Green Key rating based on the results of a comprehensive assessment of such areas as housekeeping, waste management, and energy and water conservation. Currently, 147 of B&B's 184 hotels have Green Key status. The company's goal is for all of its hotels to achieve this classification.

B&B's ESG initiatives were an important factor for Carlyle when considering an investment in the company. The investment team was impressed by B&B's commitment to meet and exceed ESG standards set by industry regulatory bodies. Since the acquisition, we have given our full support to the company as it focuses on ESG issues.



B&B's ESG commitment was one of the factors that Carlyle considered when making the investment. We fully intend to support the company as it continues current initiatives and evaluates new environmental opportunities.

"The Hospitality Award is a true honor for us. In accordance with the ideas endorsed by the Green Key classification scheme, protecting the environment should not be merely a theory, but a long-term commitment on a daily basis."

Georges Sampeur
Chief Executive Officer
B&B Hotels

An aerial photograph of a city, likely London, showing a dense urban landscape with numerous buildings and streets. The image is overlaid with a blue gradient that transitions from a lighter blue at the top to a darker blue at the bottom, covering the right half of the page.

REDUCING CARBON IN THE UNITED KINGDOM

Carlyle is actively complying with the requirements under the U.K. Carbon Reduction Commitment Energy Efficiency Scheme (CRC), the country's first mandatory carbon trading scheme, which became effective in April 2010. The U.K. government has committed to reducing CO₂ emissions by 60% by 2050, and the CRC aims to encourage large "low energy-intensive" organizations not covered by existing E.U. legislation to reduce their CO₂ by 1.2 million tons per year by 2020.

All organizations that have had at least one half hourly electricity meter operating in the United Kingdom since 2008 must measure and report their carbon emissions annually to the Environment Agency. This includes companies whose headquarters are located outside the United Kingdom. Starting in 2012, companies whose annual electricity usage exceeds 6,000-megawatt hours will be required to buy allowances from the government each year to cover their emissions. Under the plan, the cost to those companies that reduce emissions will fall annually. A performance league table will publicize how organizations are performing relative to other participants, with the aim of enhancing the reputation of good performers and exposing consistent poor performance.

A portfolio company that qualifies under the CRC is grouped together with its owner fund, along with other portfolio companies held by that fund, as one "CRC organization." Carlyle has registered eight such CRC organizations, four of which will need to buy allowances in 2012 and four of which have information disclosure obligations only. Each registering CRC organization has appointed a special-purpose entity to act as its primary member for compliance purposes and, where appropriate, to register and ensure compliance with the requirements. Registrations were submitted by September 30, 2010, and each CRC organization is in continuing dialogue with the Environment Agency and Carlyle's advisors about the requirements for ongoing CRC compliance.

GOING GREEN AT OUR OFFICES WORLDWIDE

As part of a firmwide initiative, we are implementing a number of Go Green programs that support environmental sustainability at our 27 offices around the world. Our goal: to reduce our carbon footprint and improve the use of office resources, including the sourcing of goods and services.

On the local level, each Carlyle office participates in green or sustainable practices in a variety of ways, including recycling, reducing plastic and paper use, using compostable or biodegradable office products, and saving energy.

Our Washington, DC office, which is managed by Hines Interests on behalf of Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), won the Hines GREEN OFFICE award in recognition of its implementation of innovative and effective green initiatives. The Hines GREEN OFFICE program offers tenants ways to enhance the management of their own space. It measures and rewards sustainable practices, encouraging tenants to identify and implement no-cost or low-cost alternatives to operating in a standard office environment. Tenants earn “leaf credits” as improvements are made in such areas as energy efficiency, recycling and cleaning. When an office achieves 70 leaf credits, it is designated as a GREEN OFFICE.

Our Luxembourg office signed an agreement with a division of the Luxembourg Ministry of Environment and is working to meet all of the requirements to earn a Green Label as part of the SuperDrecksKëscht (SDK) program. Requirements include the implementation of waste prevention initiatives and environmentally sound recycling of waste. Businesses advised by SDK recycle 70% of all the waste they produce.

Our Seoul office has also implemented many green initiatives. These include providing recycling bins for toner cartridges and other waste, reducing the use of bottled water, providing plates and silverware to minimize single-use products, using double-sided printing to reduce paper consumption, and keeping office equipment in an energy-saving mode.



“Carlyle is implementing a number of Go Green initiatives at our 27 offices around the world that support environmental sustainability as we are seriously committed to reducing our carbon footprint.”

**Janet Andre
Managing Director and
Head of Global Administration**