
THE CARLYLE GROUP

GLOBAL ALTERNATIVE ASSET MANAGEMENT

Performance with an **EDGE**

REACH
DATA
EXPERTISE
IMPACT

Annual Review and Corporate Citizenship Report 2014

Performance with an Edge

A letter from the founders

For 27 years we have focused on one goal: performing for our investors. The Carlyle Edge sets us apart. It's a powerful advantage that combines our global reach, deep industry expertise, a wealth of investment portfolio data and the impact of our seasoned Operating Executives. It positions us to invest wisely and create value.

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The Carlyle Edge continued to make a difference in our performance last year, strengthened by our collaborative culture and tradition of innovation. In 2013, our Corporate Private Equity carry fund valuations appreciated 30%; our Global Market Strategies carry fund valuations appreciated 28%; and our Solutions business also performed well. We invested more than \$1 billion in real estate assets in the United States and Asia and closed a number of attractive energy investments across our platform. We produced \$17.4 billion in carry fund realized proceeds during 2013 and more than \$53 billion over the past three years.

We also continued to innovate and add important capabilities to our Real Assets and Solutions business lines, broadening and deepening our global platform to offer fund investors a wider selection of investment choices.

We work to find investments that meet our standards, and we are open to new approaches when we believe we can create

value. For example, we acquired a strategic minority interest in Beats Electronics, a strongly branded, growing manufacturer of headphones, speakers and other audio components. We made a substantial investment in 2012 in Genesee & Wyoming, which was a private investment in a public entity, or PIPE, that helped G&W acquire RailAmerica. We worked with G&W management to create value and exited the investment in one year.

That said, we remain focused on the more traditional path of acquiring corporate carve-outs—businesses within larger companies where we can help unlock value through our proven approaches. We acquired two such notable corporate businesses in 2013: Axalta, the former DuPont Performance Coatings business; and TCW, a global asset management firm, from Société Générale.

We also made a number of profitable exits in 2013, including ARINC, a transport communications and systems engineering



Carlyle's Founders

David M. Rubenstein
Co-Chief Executive Officer

Daniel A. D'Aniello
Chairman

William E. Conway, Jr.
Co-Chief Executive Officer

2013 Results:

\$8.2b

carry fund
equity invested

20%

carry fund
appreciation

\$22.0b

funds raised

company; and Personal & Informatik, a European-based software company; and concluded a multi-year exit of our ownership in Hertz. We completed a number of other block sales of existing holdings in companies, including Nielsen, Allison Transmission and Booz Allen; and sold shares in Japanese restaurant chain Chimney Corp. via a tender offer. Fifteen portfolio companies completed IPOs during the year. In addition, our U.S. real estate funds completed a \$1 billion-plus exit for the second year in a row as a result of the sale of the office and retail tower at 650 Madison Avenue in Manhattan.

Evolving and innovating

To continue investing wisely and creating value over the *next* 27 years, we must keep moving.

Our investors' needs are evolving as they face changing risk/return dynamics. In 2013, we took a number of important steps to meet our investors' changing needs. We added new investment strategies, deepened our talent pool and strengthened our global portfolio. We're making important strides in building the firm for the future—for the long term.

As part of this, we have had the opportunity to add talented, experienced individuals to support our efforts. Michael J. Cavanagh and Glenn A. Youngkin will become Co-Presidents and Co-Chief Operating Officers this summer. Mr. Cavanagh, 48, was most recently Co-Chief Executive Officer of the Corporate & Investment Bank at JPMorgan Chase & Co.; Mr. Youngkin, 47, is a 19-year Carlyle veteran and currently Chief Operating Officer and will add the role of Co-President. In these roles, Mike and Glenn will help develop and implement Carlyle's strategic growth initiatives and manage the firm's global operations on a day-to-day basis. We also named Daniel F. Akerson, former General Motors Chairman and CEO, as Vice Chairman and Special Advisor to the Board of Directors.

In our **Real Assets** segment, we named Adam Metz Head of International Real Estate, a new position, where the former CEO of General Growth Properties will work to expand the depth and breadth of Carlyle's international real estate footprint. We named Ken Hersh, CEO of our strategic partner NGP Energy Capital Management, Head of Natural Resources Private Equity. We also acquired the 823-megawatt Red Oak power generation facility in Sayreville, New Jersey and five power plants in California. The acquisitions were executed in conjunction with our power affiliate Cogentrix, acquired in late 2012, bringing the total enterprise value of power asset transactions by Carlyle since then to more than \$1.2 billion.

In our **Solutions** segment, we hired Jacques Chappuis to run the business. We also named Lauren Dillard, who is a 12-year Carlyle veteran, Chief Operating Officer of the Solutions business. We acquired Metropolitan Real Estate, adding a global real estate investment solutions provider, and in early 2014 acquired Diversified Global Asset Management, adding a global hedge fund solutions provider. AlInvest, our global private equity manager with primary, co-investment and secondary programs, added \$3.7 billion in assets under management, including AlInvest Secondaries Fund V closing at its hard cap of \$750 million. The dedicated AlInvest Secondaries Program has acquired positions in existing private equity funds and interests in privately held companies since 2012.

And we continue to build our **Global Market Strategies** business, closing on six collateralized loan obligations (CLOs) in the United States and Europe totaling approximately \$3 billion. We also introduced new hedge fund strategies and launched two yield-focused business development companies to invest in middle-market loans.

\$17.4b

carry fund
realized proceeds

Within our most established business, **Corporate Private Equity**, we closed our latest U.S. buyout fund, Carlyle Partners VI, L.P., at \$13 billion, 30% above target, and are moving forward with new buyout funds in Europe, Japan and Asia. We also named Kewsong Lee, who has spent more than two decades in senior private equity industry roles, Deputy Chief Investment Officer and Chris Finn, an 18-year veteran of Carlyle, Chief Operating Officer within Corporate Private Equity.

We are evolving and innovating to serve a shifting investor landscape. For example, individual investors continue to play an important role in our fundraising process, with \$2 billion in capital commitments in 2013 coming from individual investors through our feeder fund partners. In March 2014, we hired Jeff Holland as Head of the Private Client Group to oversee the development of relationships with individual investors and the intermediaries through which individual investors gain access to Carlyle's array of alternative asset products. In the first half of 2013, Central Park Group launched a Carlyle Private Equity Fund vehicle for individual investors. In late 2013, Carlyle submitted filings to the SEC to register two mutual funds managed by our Global Market Strategies business, which we intend to launch later this year, pending regulatory approval. The individual investor segment is a key growth area for us, and we will continue to develop new ways to increase our access to this important investor base.

Global opportunities

While finding good investments is challenging in today's competitive environment, we believe that the Carlyle Edge positions us well to continue to find opportunities to create value.

In 2013, the Carlyle Edge positioned us well to create value across the globe. In the United States, we continued to find creative ways to deploy capital, including acquiring financial advisor Duff & Phelps and asset manager TCW Group.



In Europe, investments included the London-based private hire minicab firm Addison Lee, German healthcare operator Alloheim and Italian industrial generator manufacturer Marelli Motori.



In Asia, where consumer spending continues to drive economic growth, we invested in Chinese hotel chain 7 Days Group and funeral service provider Fu Shou Yuan International Group.



We generated significant distributions, including return of capital, to our fund investors last year through a variety of mechanisms, such as the IPOs launched by 15 portfolio companies. The IPOs helped increase the value of our public portfolio to more than \$18 billion in our carry funds as of year-end.



Changes in our economic environment play a role in the investment environment—but the two are not the same. By utilizing the Carlyle Edge, including proprietary indicators drawn from our portfolio of more than 200 companies, we continue to identify opportunities for investment.

With so many shifting themes, 2013 put those abilities to the test, particularly in the United States. Positive factors included robust debt financing markets; the energy revolution that's reducing costs for process industries and leading to a resurgence in U.S. manufacturing; a healthier U.S. consumer; and the continuing recovery in the housing and auto industries, two pillars of the economy. We invested \$4.7 billion in the United States in 2013 and have committed more than \$2 billion in early 2014.

In Europe, company valuations have been roughly 15% below U.S. valuations, a discount we believe creates opportunity. We closed on 11 new investments in Europe in 2013, including Germany-based building materials company Klenk Holz and UK-based pharmaceutical and consumer packaging products supplier Chesapeake. Our fund investors realized value on a number of investments, including Moncler, an Italian high-end fashion company, and Personal & Informatik, a human resources software company headquartered in Germany.

In Asia, we believe the consumer continues to drive economic growth, and we are well positioned to capitalize on opportunities in the region. We have been on the ground in Asia for 16 years and now have more than 130 professionals in China alone. During 2013, we invested more than \$1 billion, the most we have ever invested in China in a single year. Notable recent investments in Asia include Chinese hotel chain 7 Days Group and audiovisual advertising company Focus Media. We are also focused on investment opportunities in other Asian geographies outside of China. On the exit front, investment exits included Japanese pharmaceuticals company Qualicaps Group and Indian dairy producer Tirumala Milk Products.

We work for our investors

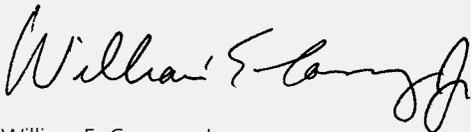
When the three of us started Carlyle in 1987, we could not have imagined achieving \$189 billion in assets under management and such a broad mix of businesses and asset classes. But today,

investors expect this kind of global platform that offers this diverse exposure, and the largest alternative asset management firms with the strongest brands are gaining market share. Investors also seek fewer relationships, not more. We believe this contributed to our ability to raise \$22 billion in 2013, our highest total since 2007.

We are humbled by the trust our investors have placed in us and, in general, have delivered for them over the long term. We have now been a public company for almost two years. Our primary goal remains providing our fund investors with a long-term investment perspective. As the past two years have shown, when we do well by those fund investors, our public unitholders benefit.

Invest wisely, create value

Building the Carlyle Edge and a global platform with depth and scale has taken many years. Holding to a simple guiding principle—invest wisely, create value—has provided a clear path for us to follow during our quarter-century journey. As we look ahead, our task is clear: continue to perform for investors. We appreciate your trust in us and will continue to work hard to keep that trust every day.



William E. Conway, Jr.
Co-Chief Executive Officer



Daniel A. D'Aniello
Chairman



David M. Rubenstein
Co-Chief Executive Officer

In today's rapidly changing, fiercely competitive world, you don't simply find opportunities. You must create them.

At Carlyle, creating opportunities fuels performance. That's the power of the Carlyle Edge.

REACH

EXPERTISE

DATA

IMPACT

1 REACH

Having broad global reach—one of the largest of any alternative asset manager—helps us identify opportunities, and our *One Carlyle* global network helps us take advantage of them. *One Carlyle* fosters collaboration, with professionals working together and sharing their local knowledge and relationships across funds, industries and geographies. This global breadth and depth of resources give Carlyle investors a powerful ally to maximize the value of their investments.

1,500+

employees worldwide

300+

active real estate investments

200+

current portfolio companies

Our global reach is the first pillar of the Carlyle Edge. Our reach extends across six continents, where we work to create opportunities for investors by forging relationships in new markets and building global synergies.

700+

investment professionals

21/6

countries / continents

THE CARLYLE EDGE

2 EXPERT

Energy
Commodities
Financial Services
Transportation
Real Estate
Technology & Business Services

Our investment professionals—including approximately 200 Managing Directors with an average Carlyle tenure of eight years, as well as 19 AlInvest Managing Directors—supplement their local knowledge and relationships with deep expertise in 11 core industries. We invest in sectors we know, and value depth over breadth.

Nagendra Jayanty, CFA, is a Research Analyst with Claren Road Asset Management, our long/short credit manager and hedge fund affiliate. With nine years of investing experience, Mr. Jayanty focuses on deploying capital in the real estate industries, including housing-related strategies. He also specializes in distressed/special situation investments and structured products.



Consumer & Retail

ISE

The deep expertise and knowledge of our investment professionals enable us to seize opportunities others don't see.

Telecom & Media

Healthcare

Aerospace, Defense
& Government Services

Industrial

Karen H. Bechtel is Managing Director and Head of the Global Healthcare group, based in New York. Ms. Bechtel is a 37-year veteran of the private equity industry. Since 2005, Ms. Bechtel's team has invested approximately \$3.4 billion of equity in healthcare companies around the world.

Marcel van Poecke is Managing Director and Head of Carlyle International Energy Partners, which invests in energy opportunities internationally, excluding North America. Mr. van Poecke is a 25-year energy industry veteran, and he and his team have experience investing across the energy value chain. In 2013, the team made investments in Varo Energy and Discover Exploration, companies with operations in northwestern Europe and offshore New Zealand and the Comoros.



THE CARLYLE EDGE

3 DATA

Our global portfolio of more than 200 companies and 300 active real estate investments generates real time, actionable data, such as orders, shipments and occupancy rates. We incorporate a proprietary analysis of this data into our investment, operational and exit decisions.

In the autumn of 2013, The Carlyle Group filled the gap left by the government shutdown by releasing select proprietary U.S. economic indicators derived from data gathered from our global portfolio of more than 200 companies. We believed this data served as a reliable proxy for U.S. official data that was not being reported due to the shutdown. The data we reported included retail sales, consumer price index, new residential construction and durable goods orders for September. *Private Equity International* applauded our release of this data, highlighting Carlyle as an “organization that’s making a genuine effort to engage with the wider world.”



Our investment decisions are informed by proprietary economic data derived from our diversified portfolio of companies and real estate investments around the world.

“Our economic indicators identify trends and inflection points to help us make better-informed investment decisions.”

Jason Thomas is Carlyle’s Chief Economist and Director of Research, focusing on economic and statistical analysis of the Carlyle portfolio, asset prices and broader trends in the global economy. He brings 16 years of experience to the firm.

4 IMPACT

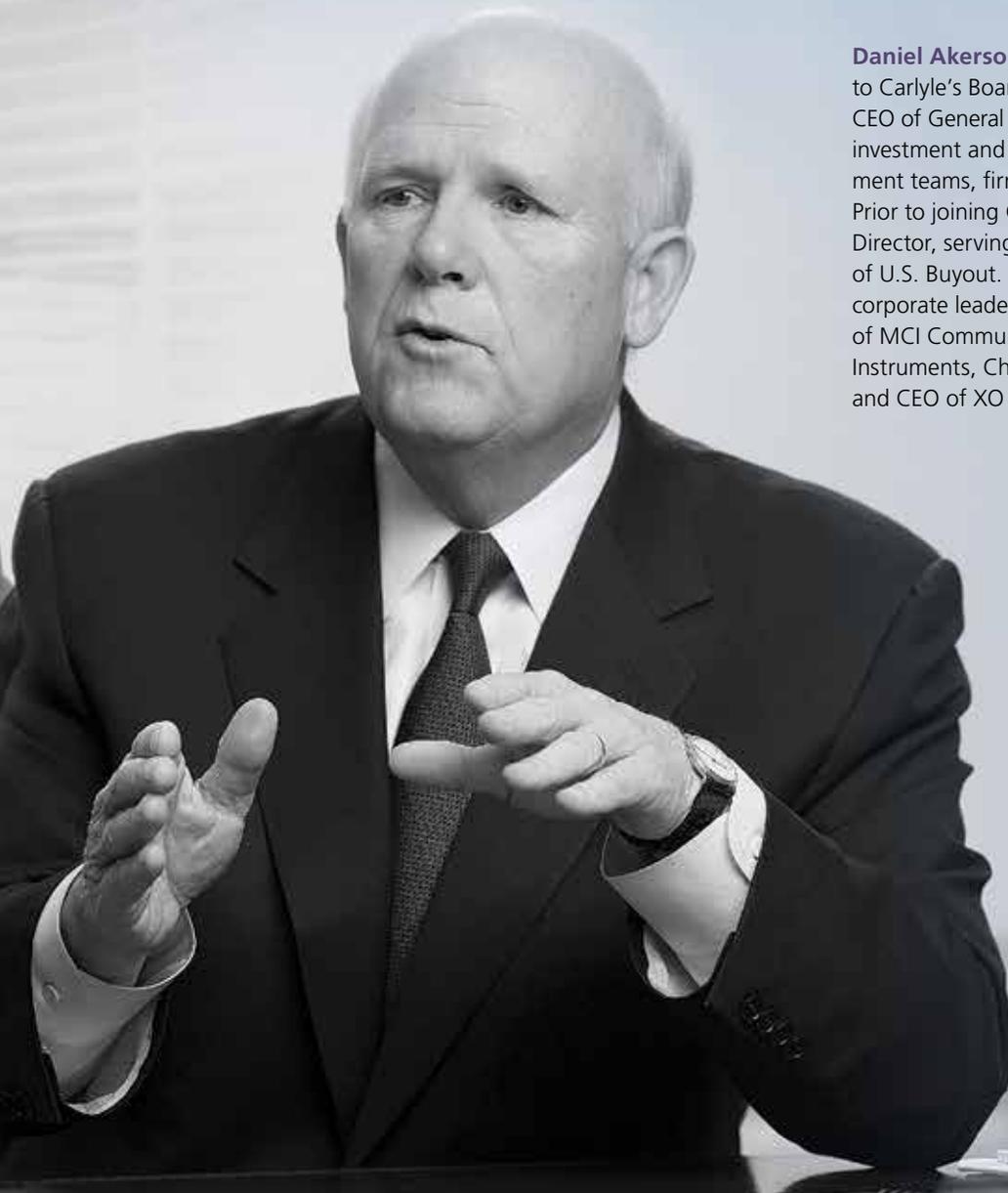
Our Executive Operations Group is a 24-member team of Operating Executives with an average of more than 40 years of experience. These C-Level executives and sector specialists advise Carlyle professionals through the investment process, from sourcing deals and conducting diligence to managing companies and exiting transactions.



Yukio Kubota is an Operating Executive focused on Japan buyout opportunities, working to add value to Carlyle portfolio companies. Prior to joining Carlyle, Mr. Kubota was Director of Vodafone Japan, CEO of Willcom, President of Sony Ericsson Japan and Corporate Executive of Sony Corporation. He has more than 35 years of experience in the communications and consumer products industries.

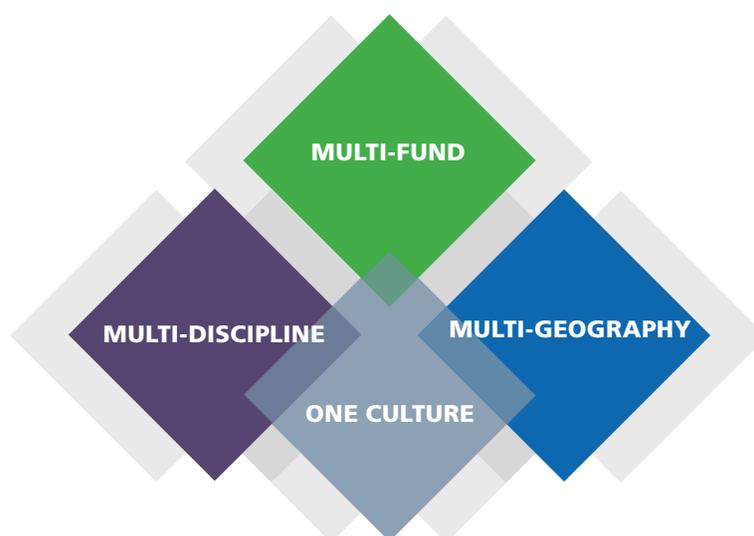
The Carlyle Edge also drives value through our Operating Executives. They apply their talents, insights and experience to make an impact on our performance.

Mary Petrovich is an Operating Executive focused on U.S. buyout opportunities in the industrial and transportation sectors. Prior to joining Carlyle, she was the CEO of AxleTech International, a former Carlyle portfolio company, which culminated in the December 2008 sale of the company to General Dynamics, where she continued to lead the business for two more years. Ms. Petrovich has more than 25 years of experience in the automotive and transportation industry.



Daniel Akerson is Vice Chairman and Special Advisor to Carlyle's Board of Directors. The former Chairman and CEO of General Motors, Mr. Akerson provides operational, investment and management guidance to Carlyle's investment teams, firm management and Board of Directors. Prior to joining GM, Mr. Akerson was a Carlyle Managing Director, serving as Head of Global Buyout and Co-Head of U.S. Buyout. Mr. Akerson has served in many senior corporate leadership roles, including President and COO of MCI Communications, Chairman and CEO of General Instruments, Chairman and CEO of Nextel, and Chairman and CEO of XO Communications.

THE CARLYLE GROUP A SNAPSHOT



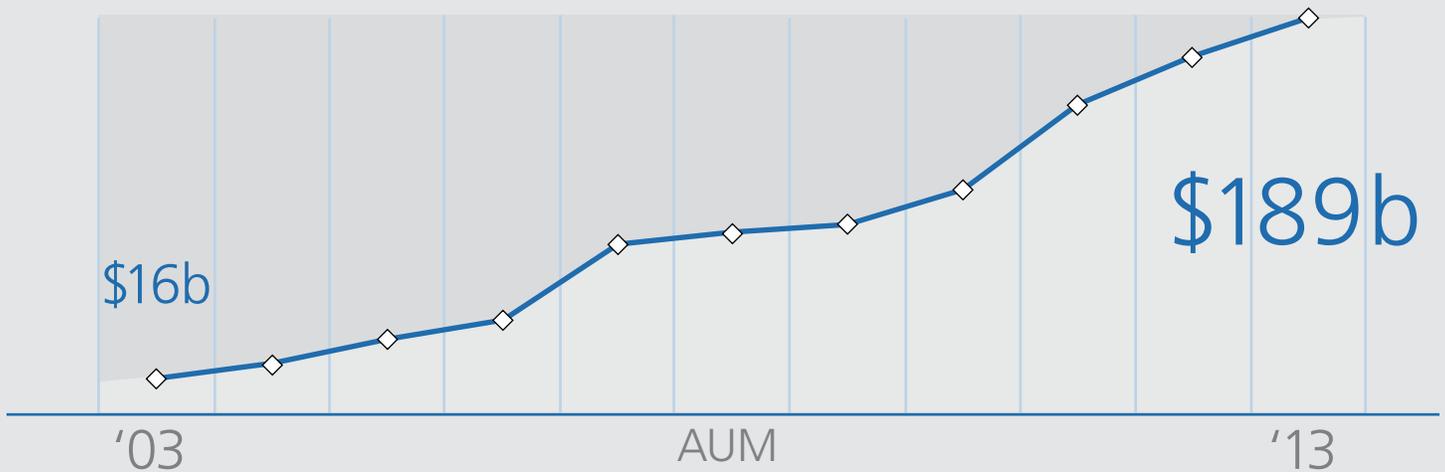
Carlyle is a global alternative asset manager.

Four business segments offering a diversified range of investment options:

| CORPORATE PRIVATE EQUITY | GLOBAL MARKET STRATEGIES | REAL ASSETS | SOLUTIONS |
|---|--|--|--|
| <p>One of the world's largest, most diverse and consistent private equity platforms:</p> <ul style="list-style-type: none"> • \$65 billion AUM • Buyout and growth capital funds that are diversified and highly specialized • 31 active carry funds in 14 fund families • 150+ portfolio companies • 262 investment professionals on 6 continents • 11 offices in emerging markets | <p>A global, multi-product, markets-focused investment platform:</p> <ul style="list-style-type: none"> • \$35 billion AUM • Credit, public equities and alternative investments • 39 structured credit funds with \$16 billion AUM • 3 hedge fund strategies with \$14 billion AUM • 9 carry and financing funds specializing in 3 strategies with \$6 billion AUM • 207 investment professionals | <p>A global real estate and natural resources platform:</p> <ul style="list-style-type: none"> • \$39 billion AUM • Real estate, infrastructure, and North American and international power and energy strategies • 26 active funds • 300+ active real estate investments in 9 funds focused on Asia, Europe and the United States • 138 investment professionals | <p>Builds customized portfolios and allocates to a diverse set of alternative investment strategies:</p> <ul style="list-style-type: none"> • \$50 billion AUM • AlInvest Partners—a global private equity manager with primary, co-investment and secondary programs • Metropolitan Real Estate—a real estate investment solutions provider • Diversified Global Asset Management—a global hedge fund solutions provider acquired in February 2014 • 90 investment professionals |

As of December 31, 2013

Consistent growth



\$140b

fee-earning AUM

\$52b

capital ready
to deploy

118

active funds

106

active fund
of funds vehicles

Strong track record

\$95b

total investments
in carry funds
since inception

\$103b

total distributions
from carry funds
since inception

\$63b

remaining fair
value in
carry funds

470+

Corporate Private
Equity transactions
since inception,
producing a 30%
realized and partially
realized gross internal
rate of return

650+

Real Assets
transactions since
inception, producing
25% realized and
partially realized
gross internal rate
of return

Global scale

34/21

34 offices in
21 countries

1,500+

employees

700+

investment
professionals

200+

current
portfolio
companies

300+

active real
estate
investments

Corporate Private Equity

Our Corporate Private Equity business remains strong, active and growing. At the end of 2013, the segment had \$65 billion in assets under management across 31 active buyout and growth capital funds on six continents. Since inception, Corporate Private Equity has invested \$58 billion in equity in 471 transactions and has generated \$54 billion in realized and unrealized gains.

Corporate Private Equity's multi-fund, multi-discipline, multi-geography platform provides a powerful means to generate strong, consistent performance. It provides a stable, scalable foundation for continued growth and innovation—offering fund investors a diversified range of choices in which to allocate their investments. Aiding us in this endeavor is our collaborative edge that creates opportunities to enhance the value of our investments by encouraging the sharing of knowledge, expertise and resources.

↑ 30%

Corporate Private Equity carry fund valuations increased 30% in 2013

THE EDGE: History of partnering with talented management teams to help great brands expand globally.

Capitalizing on the growing premium audio accessory market

In 2006, legendary artist and producer Dr. Dre and Interscope Geffen A&M Chairman Jimmy Iovine set out to solve the problem of poor sound quality caused by the digital revolution combined with the proliferation of cheap earbuds. Their solution was Beats Electronics. In 2013, Carlyle Partners V, L.P. made a \$500 million minority investment in Beats Electronics, which has annual revenues of more than \$1.1 billion and the number one market share in North America in the overall and premium headphone categories. We believe Beats will continue to drive innovation and growth in the premium audio accessory market, particularly as the explosion of smart phones and tablets stimulates increased consumption of digital media. Leveraging our consumer and retail expertise, we are working with Beats' founders and management team to continue expanding the brand both domestically and internationally.



As one of the largest and most diverse Corporate Private Equity platforms, we are well positioned to create opportunities that deliver strong, consistent performance.



Applying sector expertise to improve performance

Personal & Informatik (P&I) is a premium developer and vendor of human resources software solutions and related consulting services for enterprises across Europe. Approximately 3,900 direct customers use P&I's payroll accounting software to process more than 4.5 million pay slips each year. Carlyle Europe Technology Partners (CETP) acquired a stake in P&I in 2009 and, through the investment, grew the company significantly and strengthened its global customer base.

With CETP's support, P&I accelerated new product development, pursued selective acquisitions and transformed to a Software as a Service (SaaS) and Cloud offering. The result: P&I's revenues and EBITDA increased by 49% and 102%, respectively, during Carlyle's ownership. In 2013, Carlyle successfully exited its investment in P&I—generating a total return of 6.5 times our original investment.

Carving out value through insight and experience

We often discover attractive corporate carve-outs—businesses within larger companies—where our focused efforts can help unlock value. One example: the acquisition of DuPont Performance Coatings, involving the U.S. and Europe Buyout teams. Renamed Axalta Coating Systems, the company serves customers in the automotive, commercial transportation, general industrial, and architectural and decorative segments. Among Axalta's innovative products is Cromax Pro waterborne refinish coating, which can reduce volatile organic compound emissions in the body shop by 93% and target hazardous air pollutants by 100%. At the same time, Cromax Pro can lower energy costs, paint wastes and process times—reducing customers' overall environmental footprint and contributing to productivity. Carlyle is helping Axalta build on its strong market presence and accelerate growth in emerging markets, particularly in China and Brazil. In early 2014, Axalta began constructing a new \$50 million eco-responsible facility in Shanghai to manufacture more sustainable waterborne coatings. The company plans to produce its first corporate social responsibility report in 2014.



ARINC

THE EDGE: International presence and expertise in the aerospace and communications sectors.

VALUE CREATION HIGHLIGHTS

\$835m

purchase price in October 2007

\$1.4b

sale price in December 2013

4.5x

gross return on fund-only
invested capital

Leveraging expertise and impact to fuel growth

Carlyle's teams of industry experts and C-Level Operating Executives have the wisdom, insight and experience to help transform companies. In 2007, seeing a technology-rich organization with a history of innovation, Carlyle Partners IV, L.P. and Carlyle Mezzanine Partners II, L.P. acquired ARINC from shareholders, including several prominent commercial airlines.

ARINC is a global provider of transportation communications and systems engineering services with a track record of double-digit growth. Leveraging our deep knowledge of the aerospace industry, the Carlyle team helped ARINC implement a number of operational improvements to fuel continued growth. With Carlyle's support, ARINC strengthened its management team and established an executive committee chaired by Carlyle Operating Executive Thomas Rabaut. ARINC also implemented cost savings initiatives, reduced business complexity and divested a business unit, significantly expanding the pool of potential buyers.

As a result of the Carlyle team's efforts, ARINC transformed into a focused, profitable and well-managed company. In 2013, Carlyle sold ARINC to Rockwell Collins at an attractive multiple.

“Together, we helped ARINC transform into a stronger and more profitable company committed to innovation and superb customer service. Partnering with the company since 2007 has served our fund investors well.”



Thomas Rabaut is an Operating Executive and former Chairman of ARINC's Board of Directors. He has 30 years of experience in the aerospace and defense industries. Prior to joining Carlyle in 2007, he served as President and CEO of United Defense, another Carlyle portfolio company.

Ian Fujiyama is a Managing Director with the U.S. Buyout team, focusing on investments in the aerospace, defense and government services sectors. He is a 17-year Carlyle veteran and was a founding member of the Asia Buyout team.

Global Market Strategies

Our Global Market Strategies segment continues to expand the scale and diversity of its global, multi-product, markets-focused investment platform. In less than four years, the business more than doubled assets under management, to \$35 billion. More than 200 investment professionals manage 61 active funds that seek to provide investors with an edge in pursuing opportunities to create value across various types of credit, equities and alternative instruments.

In 2013, we closed a total of \$3 billion across four U.S. and two European new issue CLOs. We also closed on more than \$950 million of equity for our two newly formed business development companies. In addition, we acquired OKLO Financial, a quantitative strategies manager whose intellectual property will provide Carlyle investors with access to products that offer efficient, risk-based allocation of capital across asset classes and alpha-driven strategies that capitalize on inefficiencies in financial markets.

\$35b

Global Market
Strategies AUM

STRUCTURED CREDIT \$16b AUM

- Second-largest global CLO manager, with a 14-year track record
- Closed a total of \$3 billion across four U.S. and two European new issue CLOs in 2013

HEDGE FUNDS \$14b AUM

- Claren Road Asset Management—a long/short credit manager acquired in 2010
- Emerging Sovereign Group—a global emerging market equities and macroeconomic hedge fund manager acquired in 2011
- Vermillion Asset Management—a commodities-focused hedge fund manager acquired in 2012

CARRY & FINANCING FUNDS \$6b AUM

- Middle-Market Finance—two business development companies, a middle-market CLO and corporate mezzanine funds that invest in middle-market companies
- Energy Mezzanine—invests in mezzanine debt in energy and power projects in the U.S. and Canada
- Global Distressed and Corporate Opportunities—makes debt and equity investments in financially distressed companies

As of December 31, 2013

Our Global Market Strategies business enables Carlyle’s investors to take advantage of new and diverse investment opportunities in a range of asset classes.

Investing in secular trends with an edge

Global Market Strategies provides investors with a range of investment options to take advantage of opportunities resulting from market trends and dislocations. For example, our energy mezzanine fund and its affiliates have \$880 million in total commitments to date supporting energy projects in the United States at a time when large European banks have withdrawn from the market. Our business development companies provide capital to middle-market companies that have seen reduced access to credit.

| INVESTMENT TRENDS | CARLYLE TEAM |
|--|--|
| Current Yield | U.S. and European Structured Credit |
| Global Long/Short Credit | Claren Road Asset Management |
| Middle-Market Financing Gap | GMS Finance |
| Growing Pan-European Distressed Opportunity | Global Distressed and Corporate Opportunities Team |
| Growth of Emerging Markets Consumer | Emerging Sovereign Group |
| Declining Asset Correlations and Bank Asset Divestitures | Vermillion Asset Management |

“We see continued opportunity in the new issue market. CLOs have been proven performers over the long term.”

Glori Holzman Graziano is a Managing Director and High Yield Portfolio Manager. She is a 13-year Carlyle veteran and has more than 30 years of credit and research experience specializing in the U.S. oil and gas industry.





KLENK HOLZ AG

THE EDGE: Track record of leading turnarounds of distressed companies.

Leading the turnaround of a company with strong roots

Founded in 1904 by the Klenk family and headquartered in Oberrot, Germany, Klenk Holz is one of Europe's largest sawmilling and woodworking companies. It employs more than 1,200 people and operates three plants and its own timber harvesting company.

The recent economic downturn hurt Klenk's profitability, and in 2012, the company launched a search for investors to ensure its survival. In 2013, Carlyle Strategic Partners III, L.P. acquired Klenk from a trust of German banks. Carlyle Strategic Partners manages approximately \$1.4 billion in assets across three funds, as of December 31, 2013. Established in 2004, Carlyle Strategic Partners has a strong track record of investing in and leading turnarounds of companies facing financial and operational challenges, with an increasing focus on Europe.

Klenk has a firm footprint in the European building materials market and a wide distribution network. It exports 40% of its products and has a yearly log input of more than two million cubic meters. We believe Klenk's solid market position, combined with its strong management expertise and well-located manufacturing, enhances its ability to transform, grow and create value for our fund investors.



“Klenk Holz is well placed to benefit from the growth in a number of European and international economies, and we look forward to working with management to capitalize on that growth to create value.”

Ian B. Jackson is Managing Director and Co-Head of Carlyle Strategic Partners. Based in London, he joined Carlyle in 2009 to grow the firm’s distressed investment activities in Europe. Mr. Jackson has 13 years of experience in the industry.

COMPANY HIGHLIGHTS

1,200
employees

2m
cubic meters yearly log input

40%
of products are exported

Real Assets

Over the last 16 years, Carlyle's Real Assets business has invested approximately \$33 billion in a total of 658 transactions around the world. The segment includes 17 active carry funds, eight NGP Energy Capital Management fee funds and one NGP carry fund, with a total of \$39 billion of assets under management.

More than 135 specialized professionals invest in real estate; infrastructure; and energy, power and natural resources. Our Real Assets investments include office buildings, apartments, hotels, retail properties, senior-living facilities, oil and gas pipelines, refineries, solar power plants, airports and roads.

\$39b

Real Assets AUM



650 MADISON AVENUE



Our Real Assets business invests in a wide range of tangible assets, from office buildings to power plants to airports.

THE EDGE: The Carlyle Power team's expertise in designing, engineering, developing, constructing and operating power plants.



Harnessing the power of the U.S. energy revolution to create value

Our 2012 addition of Cogentrix has broadened our energy investment platform at a time when upgrading and expanding the electric generation and distribution system will require nearly \$1 trillion of investment in North America by 2020 and nearly \$17 trillion worldwide by 2035, according to the IEA's *World Energy Outlook 2012*. At the same time, natural gas-powered generation is displacing plants fueled by coal at an accelerating rate—within a decade, natural gas will be the dominant fuel powering the United States. Cogentrix, which had been a captive operating arm of a power business, has a long history of designing, engineering, constructing and operating power plants of all types, including fossil, natural gas and solar. In 2013, the Carlyle Power team expanded its portfolio of natural gas-fired power generation with the acquisition of six plants in New Jersey and California.

Last year, Matthew O'Connor joined Robert Mancini to co-head the power investing team. Mr. O'Connor comes to Carlyle from GE, where he held a variety of positions in its power and energy business over a 14-year period, including the last seven in leadership roles. Mr. Mancini joined Carlyle from Goldman Sachs shortly after Carlyle's acquisition of Cogentrix, where he had most recently led the power asset investment business as a Managing Director of Goldman and CEO of Cogentrix. The Cogentrix team of industry experts, led by Mr. Mancini and Mr. O'Connor, brings extensive power sector experience to Carlyle's growing natural resource platform.

650 Madison Avenue, New York, New York: A \$1 billion-plus sale for the second year in a row

Believing that both its office and retail components were undervalued, Carlyle acquired 650 Madison Avenue in Manhattan's coveted Plaza District in 2008, just as the Great Recession was taking hold. Our U.S. Real Estate team quickly took action to create value, including repositioning the building through an extensive renovation and marketing program and re-leasing a significant portion of the building's tenant base at higher rates, including the headquarters of Polo Ralph Lauren. In 2013, Carlyle sold 650 Madison for \$1.3 billion, one of the largest sale prices in Manhattan for a single building. The sale marked the second year in a row that our U.S. Real Estate team completed a \$1 billion-plus exit.

THE EDGE: Decades of experience investing in the New York real estate market.

THE CARLYLE EDGE IN ACTION

VALUE CREATION HIGHLIGHTS

170

transactions in U.S. housing
over the last five years

\$3.1b

equity invested in U.S. housing
over the last five years

THE EDGE: More than 16 years of experience investing in real estate through a wide range of market cycles.

Drawing on experience to identify opportunities

Real estate has two types of demand drivers: needs-based demand and job-growth-driven demand. Needs-based demand grows with demographics, such as increases in population within certain age ranges and household formation. Senior living is an example of a needs-based sector. Job-growth-driven demand is more closely tied to general economic conditions and the corresponding demand in commercial sectors, such as office and retail. Since we launched our first U.S. real estate fund in 1997, we have worked to identify demand trends early in order to capitalize on them.

Our analysis of the U.S. housing recovery led us to believe that there would be an ensuing shortage of housing units. As a result, we invested in a spectrum of needs-based sectors with residential characteristics, including rental apartments, senior-living facilities and for-sale homes—from distressed situations to higher-end products. We invested in select apartment developments early in the recovery to respond to the lack of new construction in the sector—the level of which reached a 70-year low in 2011. The new properties have been highly sought-after by tenants and, when we have moved to sell them, institutional core investors.

Over the last five years, we invested a total of about \$3.1 billion of equity in single-family housing (in the form of residential mortgage-backed securities) and miscellaneous residential properties (apartments, senior living and student housing). As the housing recovery accelerates, we believe the fundamentals supporting these investments remain strong and support our original investment thesis.

“We forecasted the housing recovery before it became commonly accepted. This insight gave us a tremendous advantage, because it enabled us to benefit from the low entry prices that preceded the recovery.”

Managing Director **Robert G. Stuckey** has led the U.S. Real Estate team since joining Carlyle in 1998.

“We offer investors a robust energy and natural resources platform with funds that target investments globally in the energy, power, renewable and natural resources sectors.”

Ken Hersh is Co-founder and CEO of NGP Energy Capital Management (NGP). Established in 1988, NGP has successfully completed over 255 transactions with a total enterprise value of over \$40 billion. In 2013, Mr. Hersh was named Head of Natural Resources Private Equity at Carlyle.

Global natural resources investing platform

We have made substantial progress in broadening our natural resources investing capability. We now offer a wide range of global energy investment opportunities, with \$28 billion under active management within Carlyle and through our strategic partner NGP and our legacy relationship with Riverstone Holdings.

Last year, we completed nine new energy investments across our platform (excluding Riverstone Holdings), and NGP completed 21 investments. We added Carlyle International Energy Partners, a six-person team that focuses on investing in energy assets across the globe, excluding North America. In response to strong fund investor demand for energy investments, our natural resources investment platform now includes power, international energy, energy mezzanine and commodities, as well as our cornerstone partnership with NGP, a leader in energy investing in North America.

We have built a broad-based platform that, when combined with our *One Carlyle* collaborative approach to investing, enables us to embrace opportunities wherever they emerge, including those arising from the shale revolution and other shifts across the global natural resources landscape.

NGP ENERGY CAPITAL MANAGEMENT
CARLYLE INTERNATIONAL ENERGY
CARLYLE POWER
CARLYLE ENERGY MEZZANINE OPPORTUNITIES
VERMILLION ASSET MANAGEMENT
RIVERSTONE HOLDINGS

GLOBAL OPPORTUNITIES

33%

projected increase in global energy demand by 2035, according to the IEA's *World Energy Outlook 2012*

\$28b

AUM in Carlyle's global natural resources platform

Solutions

We continue to build our Solutions segment in response to the increasingly complex investment decisions facing investors today. Our Solutions business, which originated with our 2011 acquisition of AlInvest Partners, one of the world's largest investors in private equity, helps investors allocate and access the full spectrum of alternatives. Solutions has \$50 billion of assets under management and 90 investment professionals.

To further augment our Solutions platform, we added two more investment options with the acquisitions of Metropolitan Real Estate in late 2013 and Diversified Global Asset Management Corporation in early 2014. Combined with the strong foundation of AlInvest, the acquisitions expand our Solutions platform to offer investors the ability to build highly customized portfolios and allocate capital efficiently across hedge funds, private equity and real estate strategies.

\$50b

Solutions AUM



THE EDGE: A range of allocation choices across alternatives in hedge funds, private equity and real estate.

Partnering with sophisticated global investors to provide diverse options

Our partnership with AlInvest has significantly expanded our global asset management business and provides our fund investors with access to our global private equity program and related co-investment and secondary activities. The firm's investments span the full spectrum of private equity: buyouts, venture capital, growth capital, mezzanine and distressed investments. In 2013, AlInvest achieved a 17% portfolio appreciation, ending the year with \$48 billion of assets under management.

Through customized managed accounts, AlInvest constructs unique portfolios based on an investor's specific needs. For example, AlInvest assumed management last year of two private equity programs that focus on life sciences companies in Indiana. Also last year, the Indiana Public Retirement System selected AlInvest to manage an existing fund and a new fund that will invest in a diversified, high-quality portfolio of Indiana-based investments. The Carlyle-AlInvest partnership provides a powerful platform that we believe will serve Indiana's public pensioners well, while nurturing Indiana entrepreneurs and businesses.

“We manage investment complexity through custom portfolio solutions.”

Jacques Chappuis is Managing Director and Head of the Solutions business. Mr. Chappuis joined Carlyle in 2013, bringing a wealth of experience in the development and delivery of products and services to meet and anticipate investor needs.

Lauren Dillard is Managing Director and Chief Operating Officer of the Solutions business. A 12-year Carlyle veteran, Ms. Dillard previously managed Carlyle’s global equity programs and oversaw the team responsible for global tax matters.



An attractive new real estate investment option

Established in 2002 and based in New York City, Metropolitan Real Estate is one of the largest managers of indirect investments in global real estate. Metropolitan has raised more than \$2.6 billion across its investment programs in more than 80 managers. Its more than 180 real estate fund investments include new partnerships, secondary interests and co-investments in the United States, Europe, Asia and Latin America. In 2013, Carlyle acquired Metropolitan, whose addition to our Solutions platform strengthens our ability to meet our investors’ complex and evolving needs.



Adding a global hedge fund platform

Toronto-based Diversified Global Asset Management Corporation (DGAM) was founded in 2004 and currently manages and advises on \$6.7 billion of hedge fund assets. DGAM’s strong investment and operational risk management has contributed to its consistent performance since inception. The firm invests on behalf of an institutional client base that includes some of the world’s largest public and private pension funds, endowments and sovereign wealth funds. Acquired in early 2014, DGAM is Solutions’ hedge fund platform.



RESPONSIBLE INVESTING



ENVIRONMENTAL STEWARDSHIP



SOCIAL RESPONSIBILITY



GOVERNANCE



ONE COMMUNITY

Corporate Citizenship 2014

As our global reach grows, so does our responsibility to manage the environmental, social and governance aspects of our business. The Carlyle Edge is at work creating not just stronger companies but also better communities.



At Carlyle, sustainability means doing business in a way that meets today's needs while preserving the ability of future generations to do the same.

Managing environmental, social and corporate governance (ESG) issues has become integral to how we invest and conduct business. In 2013, Carlyle worked to increase our active management of ESG issues by:

- Establishing deep expertise in-house, giving portfolio companies new resources and ensuring timely input to our investment professionals at every stage of the investment process.
- Ensuring that 99% of our Carlyle-controlled companies reviewed their operations in accordance with our responsible investment guidelines.
- Launching a sustainability framework for U.S. real estate.
- Continuing using tools, such as EcoValuScreen, to identify cost-effective sustainability opportunities.

Whether we create new ESG programs or help strengthen programs already in place, we believe our ESG efforts create value for investors and buyers of our companies alike. The following pages describe some of the notable impacts of our efforts.

Introducing Jackie Roberts, Chief Sustainability Officer

As our ESG activities have grown, so has our need to make the most of these activities as we work to create value for our investors. In early 2014, we welcomed Jackie Roberts to Carlyle as our Chief Sustainability Officer, a newly created position. She will lead Carlyle's global ESG efforts and work closely with our portfolio companies to drive understanding and adoption of ESG principles.

A Yale-educated chemical engineer and MBA, Ms. Roberts comes to us from the Environmental Defense Fund (EDF), where she was a 17-year veteran. At EDF, she launched the Corporate Partnerships Program, working with Fortune 500 companies such as McDonald's and FedEx to marry business innovation with environmental strategy. She is a former Senior Faculty Fellow at Harvard Business School, where she focused on corporate sustainability issues. Ms. Roberts also consulted on corporate environmental strategies and worked as an engineer for the U.S. Environmental Protection Agency.

"We welcome the appointment of a high-caliber Chief Sustainability Officer by Carlyle. This is a move APG encouraged in the past and we are pleased with the outcome. We expect that Jackie will help drive Carlyle to even greater focus on sustainability topics."

Marta Jankovic
Head of ESG Integration Alternatives
APG Asset Management

"Carlyle has long demonstrated its leadership as a socially responsible organization. Hiring a veteran ESG expert shows that they are serious about creating sustainable solutions."

Réal Desrochers
Senior Investment Officer
California Public Employees' Retirement System (CalPERS)

"Bringing someone of Jackie's caliber to Carlyle deepens our commitment—a commitment that is critical to our LPs, employees and the communities in which we invest."

William E. Conway, Jr.
Co-founder and Co-Chief Executive Officer
The Carlyle Group





Responsible investment guidelines are the foundation of our approach.

In 2009, we worked with an outside advisor to create our responsible investment guidelines. The guidelines were developed by taking into account, among other inputs, the UN Principles for Responsible Investment and the UN Global Compact. These guidelines were subsequently adopted by our private equity trade association, the Private Equity Growth Capital Council.

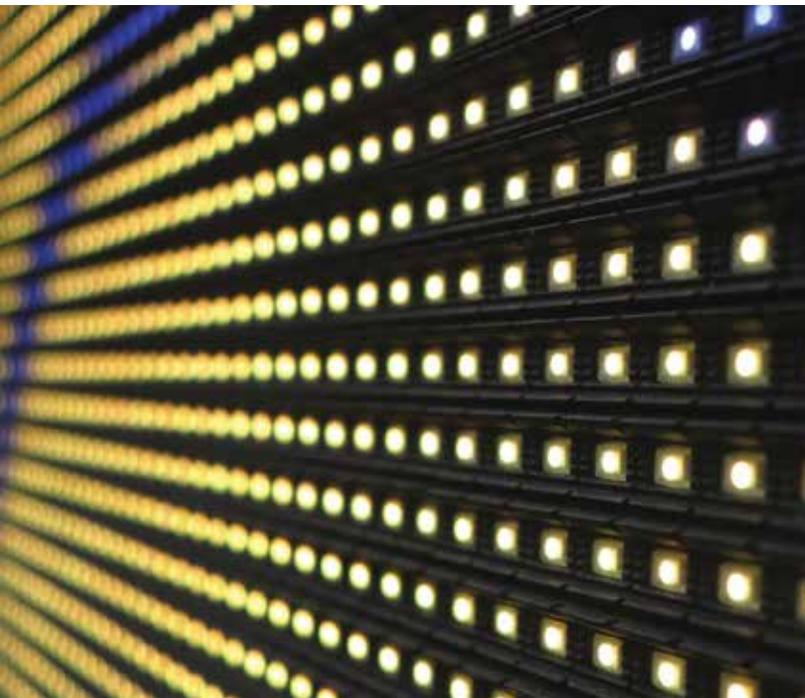
We integrate these guidelines into our investment decision-making process for controlling, corporate buyouts. Each investment team is expected to include an analysis of the guidelines in its final investment committee memorandum seeking approval for an investment. In investments where Carlyle does not acquire a controlling position, we apply the guidelines during the investment analysis in those transactions in which ESG issues play a significant role.

Once we own a particular business, we work with controlled portfolio companies to help them evaluate ESG issues related to their businesses. We also share our responsible investment guidelines with these companies and encourage them to review the guidelines at board meetings at least once a year. Over the last year, 99% of Carlyle-controlled companies reviewed their operations in accordance with the guidelines, a 10% increase over the previous year.

Our responsible investment guidelines can be found on our website.

Chesapeake is committed to preserving the world's resources

Chesapeake, a UK-based global packaging products supplier, is deeply devoted to environmental awareness and responsibility. Carlyle Europe Partners III, L.P. acquired Chesapeake in 2013. The company's environmental commitment is at the heart of its business operations. The commitment is exemplified by the Chesapeake 100 project, a company-wide initiative that has generated more than 100 sustainability projects annually designed to reduce the environmental impact of Chesapeake's global operations. All of Chesapeake's European sites have received Chain of Custody certifications from the Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC), allowing the company to offer paper-based products that originate from certified well-managed forests.



Redwood Systems develops a bright approach to reducing energy use

Lighting accounts for 35% of the energy used by a typical office building. Redwood Systems has developed a smart building platform using LED lighting technology that improves energy efficiency. CommScope, a Carlyle Partners V, L.P. and Carlyle Europe Partners III, L.P. portfolio company, acquired Redwood in 2013. Redwood's platform provides energy savings that typically average a 75% improvement over traditional fluorescent lighting systems for office buildings and a 90% improvement for data centers. Redwood was acknowledged by the Chartered Institution of Building Services Engineers with a 2013 Building Performance Award. Its selection as the top solution in the energy-using product category underscores Redwood's innovative approach to delivering improved building performance and reducing energy consumption through lighting.

Apple Valley/Park Water works to keep the desert air clean

Apple Valley Ranchos Water Company earned California's highest clean air stewardship honor in 2013 for reducing air pollution emissions in the high desert. Apple Valley Ranchos is a subsidiary of Park Water Company, a Carlyle Infrastructure Partners portfolio company. In recent years, Apple Valley has implemented new technologies to reduce vehicle emissions. They include remote monitoring equipment at its 39 production sites that eliminates two system operator trips per week to each well, reservoir and booster station, cutting annual company vehicle use—and associated emissions—by more than 8,500 miles. The company also promotes a robust water conservation program and educational outreach.





Our responsible investment guidelines help us assess the ESG risks associated with our corporate investments. We then work with our portfolio companies to enhance environmental performance through improved operational efficiencies.

EcoValuScreen in action

We developed the EcoValuScreen tool in partnership with Environmental Defense Fund (EDF) to identify opportunities for operational enhancements that will lead to better environmental and financial performance during the early stages of the investment process.

Through the EcoValuScreen program, Chromalloy and Sullair identified a number of cost-effective sustainability opportunities.

| | INITIATIVE | STATUS/OUTCOME |
|---|---|--|
| <p>CHROMALLOY</p> <p><i>Carlyle Partners V, L.P.</i></p> <p>Chromalloy, a global provider of advanced coatings, repairs and replacement parts for gas turbine engines, is the largest business unit of Sequa Corporation, a Carlyle portfolio company.</p> | <p>Reconfigure compressed air systems to eliminate waste and improve maintenance.</p> <p>Replace obsolete cooling tower systems to save 5%–15% on cooling tower energy use.</p> <p>Convert to LED lighting to save approximately \$32,000 per year.</p> | <p>IN PROGRESS: Conducted a gas leak detection survey. Repairing the compressed air line network would generate projected energy savings of \$31,000 per year. Other gases were tested and additional savings proposed.</p> <p>IN PROGRESS: Refurbishing and consolidating cooling tower systems to eliminate a motor system at each tower location.</p> <p>IN PROGRESS: Installing energy-efficient lighting and collaborating with New York State Energy Research Development Authority on a lighting and energy savings program with rebates expected.</p> |
| <p> SULLAIR</p> <p><i>Carlyle Partners V, L.P.</i></p> <p>Sullair, a subsidiary of portfolio company Accudyne Industries, is a global manufacturer of rotary screw air compressors used in industrial manufacturing and in the energy, mining and chemicals industries.</p> | <p>Identify opportunities to reduce energy consumption.</p> <p>Enhance the use of the current building energy management system.</p> <p>Implement the ISO 50001 energy management system.</p> <p>Assess improvements to the building envelope—the physical separators between the conditioned and unconditioned environments of a building.</p> <p>Replace test stand motor starters and evaluate replacing motors with energy-efficient units.</p> | <p>IN PROGRESS: Identified initiatives that could provide total savings in excess of \$100,000 per year and reduce greenhouse gas (GHG) emissions by up to 250 tons per year.</p> <p>IN PROGRESS: Reinstall and recalibrate the system to monitor more equipment. Potential savings of 5%–10% per unit added and pay back in less than a year.</p> <p>IN PROGRESS: Explore upgrading to ISO 50001 to set targets for energy measurement improvements.</p> <p>PLANNED: Perform an analysis of the building envelope (walls, roof, foundation) with thermal imaging. Potential costs savings of 2%–4% per year.</p> <p>PLANNED: Implementing the improvements would generate potential savings up to 12% on each motor.</p> |

Environmental efficiencies progress report

We are pleased with the progress being made by our portfolio companies to explore ways to improve environmental efficiency. Over the last year, our companies have taken a number of steps, including acting on past EcoValuScreen recommendations, participating in EDF's Climate Corps program, increasing recycling efforts and installing energy-efficient lighting.

| | INITIATIVE | STATUS/OUTCOME |
|--|--|--|
|  <p><i>Carlyle Partners IV, L.P.</i></p> <p>Allison Transmission is a global designer, manufacturer and supplier of automatic transmissions for medium- and heavy-duty commercial vehicles and specialty military vehicles.</p> | Update facility infrastructure and implement process improvements. | IN PROGRESS: Saved \$1.1 million in 2013 by reducing energy use, equivalent to 15.8 million kilowatt hours of energy, enough for 1,403 average-sized homes for a year. |
| | Measure energy savings using a proprietary GHG management tool. | COMPLETED |
| | Improve waste stream efficiency. | IN PROGRESS: Reduced the amount of waste-to-energy recovery by 18%, or 160 tons, with increased recycling. |
| | Implement electronic monitoring and improved operational controls of coolants and lubricants. | IN PROGRESS: Saved \$550,000, over 10 tanker loads of coolants and lubricants. |
| | Reduce the need for compressed air use. | IN PROGRESS: Reduced compressed air usage by 15%. |
| | Retrofit lighting with energy-efficient fixtures and use solar and wind-powered exterior lighting. | IN PROGRESS |
| <p>Booz Allen Hamilton</p> <p>delivering results that endure</p> <p><i>Carlyle Partners V, L.P.</i></p> <p>Booz Allen Hamilton is a provider of management and technology consulting services to the U.S. government in the defense, intelligence and civil markets and to major corporations, institutions and not-for-profit organizations.</p> | Engage a 2012 EDF Climate Corps Fellow. | COMPLETED: Launched a firmwide awareness campaign as a result of the Fellow's research and recommendations. |
| | Initiate a green office certification program. | IN PROGRESS: Increased participation, with 24 offices taking part in the program. |
| | Leverage the firm's employee network to improve energy efficiency. | IN PROGRESS |
| | Expand efforts to ensure supply chain sustainability. | IN PROGRESS: Upcycled 3.1 million coffee packets via a waste-to-energy program, diverting 72.4 tons of waste from landfills, generating 28,138 kilowatt hours of energy and resulting in a 46,440 net ton reduction in carbon dioxide equivalent (CO ₂ e). |

Axalta demonstrates the value of lower impact products and operations

Axalta Coating Systems is the world's fifth-largest industrial paint and protective coatings company with a 145-year legacy of industry-leading innovation. Acquired last year as DuPont Performance Coatings in a transaction involving Carlyle's U.S. and Europe Buyout teams, the company was renamed Axalta to underscore its status as an independent company. Axalta's Cromax® Pro waterborne refinish coating is designed to reduce volatile organic compound emissions in the auto body shop by 93% and targeted hazardous air pollutants by 100%. At the same time, Cromax Pro can lower energy costs, paint waste and process times—reducing customers' overall environmental footprint and contributing to productivity.



In January 2014, Axalta broke ground on a \$50 million eco-responsible facility in Shanghai to manufacture more sustainable waterborne coatings for China's rapidly growing automobile manufacturing industry. Once operations begin in the first half of 2015, the facility is expected to manufacture and supply up to 25,000 metric tons of its acclaimed waterborne products annually for Axalta's largest-growing customer base in Asia.

"We are very pleased to see that Axalta has continuously invested in expanding its production of technologically superior products tailored specifically to our local demands," said Wang Zhongcheng, Vice President of FAW-VW Chengdu, at the groundbreaking ceremony. "As one of China's leading automobile manufacturers, FAW-VW is moving to a sustainable model for development, and the waterborne products produced at this facility will help us achieve our business objectives in the region."

Environmental efficiencies progress report *(continued)*

| | INITIATIVE | STATUS/OUTCOME |
|--|---|--|
| <p>COMMSCOPE®</p> <p><i>Carlyle Partners V, L.P. and Carlyle Europe Partners III, L.P.</i></p> <p>CommScope is a global provider of communications infrastructure solutions, such as cables and antennas, for wireless, corporate and residential broadband networks.</p> | <p>Shift to wireless programmable thermostats and unit heaters.</p> <p>Reduce high-pressure sodium lighting in seven manufacturing facilities.</p> <p>Reduce GHG emissions from large manufacturing facilities by 25% by the end of 2020.</p> | <p>IN PROGRESS: Using wireless devices can reduce energy consumption by an estimated 66,400 therms, a little over 5,000 kilowatt hours on an annual basis, and generate annual costs savings in excess of \$119,000.</p> <p>IN PROGRESS: Installed LED lighting in one facility in 2013 and expect installations in two more facilities to be completed in 2014, generating estimated total savings of 3,217 megawatt hours of energy and cost savings of \$262,000.</p> <p>IN PROGRESS: Reduced emissions by 19% from 2008 baseline to 2012.</p> |
|  <p><i>Carlyle Infrastructure Partners, L.P.</i></p> <p>Park Water Company owns and operates two regulated water distribution utilities in California and one in Montana.</p> | <p>Replace almost 38,000 feet—approximately seven miles—of water main.</p> <p>Reduce leaks.</p> <p>Explore new pipe installation practices.</p> <p>Undertake energy-efficiency studies.</p> <p>Implement a paper reduction initiative.</p> <p>Initiate conservation activities.</p> | <p>COMPLETED: Reduced friction in the pipes and increased pipe diameters, cutting energy lost in moving the water.</p> <p>IN PROGRESS: Reducing leaks through the pipeline replacement program has had a significant impact. In 2013, the Central Basin Division was the first Park Water company to meet the optimized leak ratio standard of fewer than 15 leaks per 100 miles of pipe per year.</p> <p>IN PROGRESS: Piloted a pipe-bursting technology project, reducing GHG emissions by an estimated 50%, and decreasing disturbance to the community.</p> <p>IN PROGRESS: Initiated two studies to help plan and prioritize future well and motor replacements.</p> <p>IN PROGRESS: Reduced copy paper usage by more than 50% and migrating to paperless reporting.</p> <p>IN PROGRESS: Offer high-efficiency appliance rebates, implement a cash-for-grass program, install drought-tolerant landscaping at facilities and develop a conservation demonstration garden.</p> |
|  <p><i>Carlyle Partners IV, L.P.</i></p> <p>PQ Corporation is a worldwide producer of specialty inorganic performance chemicals and catalysts that are used in refinery, petro-chemical and chemical markets.</p> | <p>PQ produces products that reduce energy consumption and improve the quality of emissions from automobiles, heavy-duty diesel trucks and other emission sources. The company produces zeolite, a chemical used in catalytic converters as a less costly and more effective option for reducing nitrogen oxides and CO₂ emissions.</p> <p>Implement energy-efficiency measures.</p> <p>Rebuild furnaces using higher efficiency heat recovery materials and insulation packages.</p> <p>Measure combustion gases and reduce energy consumption and costs associated with silicate furnaces.</p> | <p>IN PROGRESS: Based on the amount of zeolites sold in 2013, PQ's products contributed to reducing more than 730,000 tons of total nitrogen oxides and over 1.95 million tons of CO₂—equivalent to taking more than 390,000 cars off the road per year.</p> <p>COMPLETED: Continuing to focus on decreasing the energy needed in daily operations and reducing GHG emissions.</p> <p>COMPLETED</p> <p>COMPLETED</p> |



Carlyle Europe Partners III, L.P.

RAC is the second-largest roadside assistance provider in the United Kingdom with more than seven million members.

INITIATIVE

Improve fuel efficiency of patrol force.

Introduce telematics.

Reduce energy consumption as a result of opportunities identified in the EcoValuScreen program.

Reduce paper use.

STATUS/OUTCOME

IN PROGRESS: Reduced fuel usage per job by 5% in 2013 and over 10% since Carlyle acquired RAC in 2011 by replacing older vehicles with new, more fuel-efficient ones and improving training and monitoring.

IN PROGRESS: Deploying an improved, second-generation product across the fleet in 2014.

IN PROGRESS: Reduced gas and electricity consumption by 12%. Initiatives include installing a reporting system to ensure PCs are shut off overnight, switching to LED lighting, implementing a strict temperature control policy, and improving water pumps and drainage.

IN PROGRESS: Reduced printing volumes by 50% in 2013 by introducing automatic double-sided, black-and-white printing and controlling printer usage via security tags.



Carlyle Partners V, L.P.

Sequa Corporation is a diversified aerospace and industrial company that, among other products, manufactures highly engineered aeroengine components and coatings for commercial and military aerospace companies.

Ensure that the company is using the appropriate amount of water.
Measure energy usage more accurately.

IN PROGRESS: Initiating a water balance project.
IN PROGRESS: Implementing a metering project.



Carlyle Partners V, L.P.

Syniverse provides technology and business solutions to the global telecommunications industry.

Consolidate customer support personnel to one floor during evening and weekend shifts.
Engage a 2013 EDF Climate Corps Fellow.
Raise the temperature set-point for the corporate data center.
Introduce a carpooling website.
Survey employees to gauge interest in electric vehicle charging stations.
Reduce paper use.
Apply for Earth Charter U.S. Sustainable Business Award.
Reduce emissions associated with supply chains.

COMPLETED: Generated annual savings of 290 tons of GHG emissions and 445,000 kilowatt hours of energy, and eliminated 4,576 hours of cooling and lighting.
COMPLETED
COMPLETED: Eliminated up to four computer room air conditioning units.
COMPLETED: Reduced 13,005 miles driven and 11,426 pounds of CO₂ at headquarters.
COMPLETED: Obtained charging station estimates for future implementation based on employee need.
COMPLETED: Realized quarterly savings of 43,295 sheets of paper.
COMPLETED: Won award for large business category.
IN PROGRESS: Reduce supply chain emissions by 10% for 2015 goal.



Carlyle Partners IV, L.P.

Veyance Technologies manufactures engineered rubber products, such as conveyor belts, industrial hoses and rubber vehicle track.

Replace two boilers and move to a more efficient steam production process.

COMPLETED: Generated savings of more than \$3.4 million annually, reducing utility expenses by an estimated 75%, and decreasing annual CO₂e emissions by 14,000 tons—representing a total reduction of 47%.



Environmental management and innovation offer competitive advantages for Carlyle and our portfolio companies while creating value for our investors.

The greening of Carlyle

Large savings in energy use and GHG emissions often come from making a number of smaller steps. For example, renovations at our Washington, DC office included installing light sensors and energy-efficient lighting, and achieving 80% effective recycling and trash sorting during construction. New water coolers have eliminated 3,100 plastic bottles and 1,250 aluminum cans per year, generating annual reductions of 0.3 tons in CO₂ emissions and \$75,000 in costs. In addition, approximately 40% of the office's printers use remanufactured toner cartridges and 100% of copier toner is recycled.

IT Conservation Efforts In 2013, we set out to virtualize the IT infrastructure to reduce our overall environmental footprint, consolidate our infrastructure, and ease our server maintenance and management needs. During the first quarter, we decommissioned 39 servers—each with two 500-watt power supplies—in one of our data centers. We will soon retire two more core switches that each use four 1,000-watt power supplies. The department's ongoing virtualization effort will further reduce the number of physical servers in our environment. In addition, our voice over Internet protocol (VoIP) and network refresh projects are replacing all Carlyle desk phones and wireless equipment with Power over Ethernet devices that consume less power than previous generations.



Connecticut plugs in to a cleaner way to travel

Tesla supercharging stations are part of improvements being made to Connecticut's 23 highway service plazas relating to Carlyle Infrastructure Partners' 35-year public-private partnership with the state. The project involves redeveloping, operating and maintaining the service areas. At right is a Tesla charging station at the newly renovated I-95 Darien Southbound plaza, which reopened in August 2013.





A new U.S. real estate sustainability framework to enhance returns and environmental efficiencies

We believe that real estate investments offer a number of opportunities for sustainable investing. That's why we developed a new real estate sustainability framework for our investments in the United States. The framework, introduced in 2013, establishes sustainability goals for both real estate acquisitions and ongoing asset management. The objective is to enhance investment returns by increasing environmental efficiencies and reducing waste.

Acquisitions For new developments, Carlyle will strive to implement energy-efficient and/or sustainable systems and development standards, working with local governments and/or other regulatory agencies.

For existing real estate, Carlyle will strive to identify physical improvements needed for energy efficiency during investment underwriting using energy audits and/or property condition reports.

Some of the ways we are implementing these ideas include educating and training Carlyle professionals and joint venture partners on standards and best practices, and developing web-based sustainability training for Carlyle professionals.

Asset Management Carlyle will strive to operate investments in an environmentally sustainable manner.

We are implementing this objective by creating a baseline of energy efficiencies; utilizing WegoWise (an online tool for benchmarking a building's energy and water use) or Retroficiency (an energy audit software for commercial buildings) for operating assets; considering utility audits on select investments; and integrating sustainability practices and thinking into relationships and practices.

In addition, we are:

- Establishing a U.S. Real Estate Sustainability Committee that meets regularly to identify new practices and ideas.
- Developing a questionnaire for our operating partners to better understand their sustainability practices.
- Identifying vendors that align with our sustainability goals.
- Quantifying and cataloging success cases for internal and external communications.



Our investments in more than 200 portfolio companies have a meaningful impact on over 600,000 employees and on the communities in which we invest.

Yashili strengthens product quality and corporate integrity

Guangdong Yashili Group, which Carlyle Asia Partners III, L.P. exited in 2013, is one of China's largest infant formula companies. Carlyle professionals worked closely with Yashili's management team on a number of key strategic initiatives to help the company fulfill its commitment to product quality and corporate integrity for sustainable growth. As part of these efforts, Carlyle helped Yashili establish the Food Quality and Safety Advisory Committee, the first of its kind in the Chinese dairy industry. Carlyle also worked with Yashili to strengthen its management team by recruiting experienced talent to lead the company toward further growth and success, including a Chief Quality Advisor to oversee implementation of product quality control protocols.



An EDF Climate Corps Fellow helps Syniverse develop global sustainability strategies

Building on continuing efforts to improve environmental sustainability, Syniverse, a Carlyle Partners V, L.P. portfolio company, participated in EDF's Climate Corps 2013 program, along with more than 100 top companies, cities and universities. This was the second consecutive year that Syniverse took part in the summer fellowship program, which places specially trained master's degree students with select organizations to identify energy-saving opportunities. For 10 weeks, Syniverse hosted Mona Benisi, a graduate student at Columbia University studying sustainability management. She identified and analyzed energy-efficiency strategies the company can use to implement more eco-friendly business practices at its offices and data centers worldwide.

RAC works to lower the carbon footprint of drivers across the UK

With more than seven million members, RAC is the second-largest roadside assistance provider in the United Kingdom. RAC, a Carlyle Europe Partners III, L.P. portfolio company, is constantly looking for ways to encourage greener driving. The company has participated in the EcoValuScreen program, rolled out speed limiters across its fleet and uses satellite navigation and intelligent deployment systems to reduce fuel consumption. RAC is also a sponsor of the annual GreenFleet awards, which recognize companies excelling in the field of environmental fleet management and green transport. In 2013, RAC sponsored the Leasing Company of the Year award, which was presented to the leasing company that has made the biggest strides toward environmental considerations in its leasing policies.



Fostering positive union relations

Carlyle invests in many sectors of the U.S. economy, some of which include workers who are organized, including the communications, auto, industrial, chemicals and aerospace industries. Carlyle's current U.S. buyout portfolio companies employ thousands who are represented by more than 16 international unions, including the SEIU, UAW, USW and Teamsters.

We have enjoyed positive relations with unions for our 27-year history and were honored in 2013 when Jim Savage, President of the Philadelphia USW Local 10-1, gave the Solidarity and Appreciation award to David Marchick, Carlyle Managing Director and Global Head of External Affairs; Leo Gerard, International President of the USW; and Philip Rinaldi, CEO of Philadelphia Energy Solutions (PES), in appreciation of the work they and Rodney Cohen, Managing Director and Co-Head of Carlyle's U.S. Equity Opportunities team, did to save the Philadelphia refinery. A Carlyle-Sunoco joint venture that began in 2012, PES is investing more than \$300 million in capital expenditures, strengthening the refinery's capacity and creating jobs. The refinery processes 330,000 barrels of crude oil a day and employs more than 1,000 workers.



Leo Gerard (left), International President of the USW; Philip Rinaldi (middle), CEO of Philadelphia Energy Solutions; and David Marchick (right), Carlyle Managing Director, receive the Solidarity and Appreciation award from Philadelphia USW Local 10-1. Mr. Gerard praised the Carlyle-Sunoco joint venture for helping to rescue the struggling Philadelphia refinery.



We work with portfolio companies to help strengthen corporate governance consistent with international best practices.



Sub-Saharan Africa team shares ESG practices across the continent

When Carlyle made its first investment in Sub-Saharan Africa in 2012, we also developed an environmental and social (E&S) management system specific to the region in partnership with the African Development Bank. In 2013, Carlyle made its second investment in Sub-Saharan Africa under this framework, investing in J&J Africa, a pan-African logistics company specializing in the road transportation of general cargo along the Beira corridor, one of Southern Africa's key trade routes. The Sub-Saharan Africa team anticipates incorporating many of the same programs that were implemented in Carlyle's first investment in the region in Export Trading Group. These programs include adding E&S professionals to the company, encouraging the development of a human resources manual that is responsive to both national labor law and international standards, and implementing an anti-corruption and whistle-blower policy that governs agreements with vendors, employees and acquisition targets.

"In dealing with Carlyle, we have met a truly socially responsible organization, well aware of its ability to shape the future of companies around the globe as well as the well-being of hundreds of employees, households and consumers."

Tim Turner, Director
Private Sector Operations
African Development Bank



Carlyle's Global Senior Leadership Conferences focus on ESG best practices

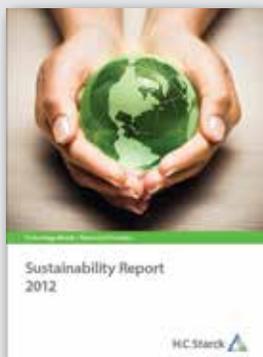
In 2014, Jackie Roberts, Carlyle's new Chief Sustainability Officer, led a presentation for almost 400 of Carlyle's senior professionals. The session focused on building portfolio value with a strong ESG focus—highlighting best, and worst, ESG practices. She also detailed Carlyle's progression from a risk-based approach to a value-creation approach.

During the previous year's conference, Peter J. Clare, Managing Director and Co-Head of U.S. Buyout, and Thomas Rabaut, Carlyle Operating Executive, conducted a session on governance best practices for building boards of directors. The session focused on supporting management teams, recruiting talented and complementary directors, establishing the appropriate board committee structure and integrating the expertise of Carlyle's Operating Executives into board decision making.

David Rubenstein wins Private Equity International Award



Carlyle Co-founder and Co-Chief Executive Officer David Rubenstein was named Leader of the Year in the 2013 Private Equity International Awards. The award was given based on Mr. Rubenstein's philanthropic contributions and his place at the forefront of an organization that is trying hard to better engage with the wider world as evidenced during the government shut-down, when Carlyle released its own GDP forecasts in the absence of any official figures.



Reporting on corporate social responsibility efforts

More and more Carlyle portfolio companies see the value of corporate social responsibility reports. One of those companies is H.C. Starck, a German manufacturer of technology metals and advanced ceramics, which published its inaugural report in 2013. H.C. Starck is a Carlyle Europe Partners II, L.P. portfolio company that has defined five key areas for its sustainability activities: raw materials procurement; product quality and innovation; recycling and environmental protection; employee development and occupational safety; and social and community engagement. H.C. Starck's report highlights the company's responsible supply chain management and reiterates its commitment to maintaining conflict-free supply chains, as defined by the U.S. Securities and Exchange Commission.

Carlyle honored with BVCA Responsible Investment Award



In 2013, Carlyle's corporate citizenship efforts were recognized with a BVCA Responsible Investment Award. The BVCA awards are Europe's only awards that recognize and celebrate outstanding ESG practices within the private equity and venture capital community. The award noted Carlyle's active ESG engagement with portfolio companies and how our established processes—such as EcoValuScreen—contribute to engagement.

Addison Lee receives GreenFleet Award

Addison Lee, a Carlyle Europe Partners III, L.P. portfolio company, won the 2013 GreenFleet Award in the private hire/taxi category. Addison Lee is a transportation and private hire services company based in London. Judges noted that the company's commitment to the environment from the top down is exceptional. It gets involved in green projects that have no obvious commercial gain and takes every opportunity to seek out efficiencies within its taxi fleet. For example, the company's car share initiatives and traffic avoidance systems keep CO₂, nitrogen oxides and particulate emissions to a minimum.





We believe it is our fundamental corporate responsibility to support our employees and invest in our communities.

By leveraging our collaborative approach, global reach, industry expertise and access to capital, we are working every day to improve the communities where we live and invest.

This year, Carlyle emphasized employee involvement in local communities. For example, at Junior Achievement's "JA in a Day," nearly 40 employees taught kindergarten through fifth grade classes at Houston Elementary School in Washington, DC. The curriculum, provided by Junior Achievement, focused on financial literacy and entrepreneurship.

Washington, DC and Rosslyn, Virginia volunteers prepare and distribute food for Martha's Table Thanksgiving Pantry Day.



Global volunteer month

In June, nearly 200 Carlyle employees celebrated the second annual Global Volunteer Month with 12 events in seven locations. Employees cleaned up national monuments, fed the homeless and mentored children from underprivileged or homeless families.

Washington, DC and Rosslyn, Virginia. Volunteers from both DC-area offices planted and spruced up the grounds around the monuments on the National Mall. Other employees volunteered at the Smithsonian National Zoo, building wooden bridges for the gibbons and cleaning the Great Bird House. Employees also served meals and cleaned facilities at So Others Might Eat (SOME), a community-based organization that offers comprehensive care for the homeless in the District.

London. Carlyle employees kicked off the volunteer season by mentoring a group of teens in the ThinkForward Program, which provides in-school "super coaches" to struggling students from age 14 to 19. The office participated in a clothing and food drive and spent evenings preparing food for Streetlytes, a local homeless shelter. The London office also sent 20 runners to the JP Morgan Corporate Challenge Race to raise money for Wateraid, a charity focused on the water, sanitation and hygiene crisis.

Tokyo. Volunteers worked with mentally disabled individuals, providing encouragement while nurturing grape vines at the Coco Farm & Winery; teamed up with Second Harvest Japan to prepare food for soup kitchens, orphanages, emergency shelters and the homeless; volunteered with the Special Olympics; and spent a day cleaning the Shichirigahama beach area.

Seoul. Carlyle colleagues volunteered with Babfor to serve free meals to the homeless and elderly. Volunteers made donations for meal expenses, prepared and served the food, and helped with cleanup at the end of the day.

Mumbai. Fifteen employees volunteered with the Smile Foundation, spending an entire day with underprivileged children playing games, doing arts and crafts, and serving lunch.

Shanghai. Carlyle volunteers participated in the World Expo Green Map Activity, which encourages people to think about their own way of life and how they can live healthier and in a more eco-friendly way.

Season of giving

During the Season of Giving in November and December, Carlyle offices around the world undertook gift and clothing drives, participated in conservation activities and served the homeless.

London. The office donated 81 gifts to the Giving Tree program benefiting Noah's Ark, a children's hospice service, along with stockings, gifts and donations to Help For Heroes.

Luxembourg. Carlyle employees organized a Christmas party for children living in a center for patients to receive treatment in a non-hospital setting.

New York. Employees collected nearly 150 toys for kids for the Dear Santa Campaign and donated 65 coats for NY Cares. The team also volunteered at Part of the Solution, a local soup kitchen.

Tokyo. The office participated in a number of events, including preparing for the Kids Earth Fund 25th anniversary party; cleaning up Akiya beach and the Tokyo Port Wild Bird Park; planting flowers in the Komazawa Park; and serving those in need at Second Harvest Japan.

Washington, DC. Employees volunteered with Habitat for Humanity; served the homeless at the Capital Area Food Bank and Martha's Table; donated more than 100 bags of gifts to patients at Children's National Medical Center; provided supplies and food to the Washington Humane Society; cooked and cleaned at the Northern Virginia Ronald McDonald House; and planned a holiday party with Community of Hope.

A commitment to sharing wealth

Our Wealth Sharing Program supports Carlyle employees in their charitable giving by matching on a dollar-for-dollar basis up to \$2,000 per year for contributions made to educational and humanitarian organizations. This program allows us to work together with employees to give back to the communities in which we live, work and invest across the globe. In 2013, Carlyle matched more than \$200,000 in employee gifts. Charities Trust, a similar matching program in the United Kingdom that matches up to £1,300 per employee per year, raised \$17,500 in 2013—double the amount in 2012. This program enables employees to make one-time or recurring donations as deductions from their earnings to charities of their choice.

Robert Toigo Foundation: Fostering development of minority professionals

In 2009, Carlyle and the Robert Toigo Foundation launched the Toigo Private Equity MBA Graduate Fellowship, an industry initiative aimed at attracting minority MBA graduates to the sector. Carlyle's very first Toigo fellow, Tanaka Maswoswe, was promoted to Vice President this year. Carlyle's David Marchick serves as Chairman of the Board of the Robert Toigo Foundation.

Diversity in the workplace

"Carlyle values the opportunity and perspective we gain from an inclusive culture that fosters and nurtures a workplace of diversity," said David Rubenstein, Carlyle's Co-founder and Co-Chief Executive Officer. With 31 women at the Managing Director level or higher—14% of executives—Carlyle has one of the highest proportions of female executives of any global private equity firm. This year, more than half of our Partner promotions were women and minorities and 31% of our Managing Director promotions were women. Our new internal resource, the Diversity & Inclusion Council, sets our strategy and encourages grassroots initiatives. The 13-member steering committee provides an opportunity for leaders from different business areas to develop a strategic diversity plan.

The Carlyle Brazil Institute: Working to improve education

The Carlyle Brazil Institute is a social initiative of Carlyle employees and collaborators in South America that supports and helps improve education in Brazil. Its mission is to transform education-focused NGOs to enhance the social impact of their efforts. The Institute's distinguishing approach is applying private equity practices to foster social development. The Institute leverages Carlyle's expertise in raising funds, deploying capital and creating value to contribute to the development of select NGOs. For example, through a due diligence process, the Institute selected CEAP PEDREIRA, an NGO that offers courses to students ages 10 to 18 in the district of Pedreira, on the outskirts of São Paulo. Since its inception, CEAP has already benefited approximately 4,500 students.

Hong Kong employees help kids with arts and crafts at the local Ronald McDonald House.



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Please see Carlyle’s public filings for the definition of “carry funds” and “Assets under Management” or “AUM.” Please note that certain energy funds described herein are jointly advised with Riverstone Holdings LLC and its affiliates. Carlyle does not serve as an advisor to any of the NGP Energy Capital Management investment funds and, currently, is only entitled to a revenue interest in NGP. None of the employee metrics included herein include the employees of Riverstone or NGP. For purposes of the non-financial operating and statistical data included herein, foreign currencies have been converted to U.S. dollars at the spot rate as of the last trading day of the reporting period when presenting period end balances, and the average rate for the period has been utilized when presenting activity during such period.

THE CARLYLE GROUP

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