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THE CARLYLE GROUP

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GLOBAL ALTERNATIVE ASSET MANAGEMENT

deliberately different

At The Carlyle Group (NASDAQ: CG), we see the world differently. We see a world filled with opportunities. From America to Africa to Europe to Asia, we seek opportunities to apply our global resources, deep industry expertise and culture of collaboration to create value for our investors. And we see opportunities to invest responsibly. This innovative approach has made a difference for our investors, companies and communities for 26 years.

## 2012 Results:

Equity Invested

\$7.9B

Carry Fund Appreciation

14%

Funds Raised

\$14.0B

Realized Proceeds

\$18.7B

## Why different matters.

Twenty-six years ago, we embarked on a deliberately different path by founding Carlyle in Washington, DC rather than Wall Street. Our goal then—and since—has been to differentiate our business in ways that generate premium returns for our fund investors. And now that we are a public partnership, we believe our commitment to being different is paying dividends for our unitholders as well.

Global reach. Deep industry expertise. Collaborative culture. These are the differentiators that have led to Carlyle's long-term track record of outperformance.

### Global Reach

Carlyle pioneered the multi-product, multi-geography alternative asset model, touching virtually every corner of the globe. We have the broadest reach of any global alternative asset manager, with 33 offices in 21 countries on six continents, including a presence in nine emerging countries. Our team comprises 1,400+ employees, including 650+ investment professionals.

Through constant innovation, our four business lines—Corporate Private Equity, Global Market Strategies, Real Assets and Solutions—enable us to meet the exacting and evolving needs of our investors. We are particularly pleased with the growth of our Global Market Strategies platform, which now offers a range of products across the credit and risk spectrum. In 2012, we added significant capability to our energy business, forming a partnership with NGP Energy Capital Management, and took major strides in our Solutions business, which creates customized investment products and services.

While continuing our tradition of creating innovative new funds and offering customized investment products, we've institutionalized the business, creating a world-class Investor Services operation that emphasizes timeliness, transparency and fiduciary care.

### Deep Industry Expertise

We invest in sectors we know well and value depth over breadth, bringing to bear the vast resources of our global platform. Our investment professionals—including 180 Managing Directors (excluding recent acquisitions) with an average Carlyle tenure of eight years—supplement their local knowledge



Carlyle's Founders

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

Daniel A. D'Aniello  
Chairman

David M. Rubenstein  
Co-Chief Executive Officer

and relationships with deep sector expertise, ranging from aerospace and consumer & retail to energy & power and healthcare. Complementing their efforts are our 25 Operating Executives, each with an average of 40 years of experience. And informing our investment, operational and exit decisions is a remarkable trove of proprietary data from our 200+ portfolio companies.

This depth of knowledge, experience and data is central to our ability to invest wisely and create value.

**One Carlyle Culture**

As the firm has grown and evolved since our founding in 1987, a constant is our *One Carlyle* culture of collaboration. Early in our history we recognized the benefits that result from colleagues helping colleagues across funds and time zones. When a professional in São Paulo, Sydney or Shanghai needs help on a healthcare deal, for example, the sector experts in New York or elsewhere step up, helping with due diligence and value creation—that's *One Carlyle*. When a high-end Italian sportswear manufacturer seeks to open a flagship store in Beijing, the Carlyle China team opens doors and makes business connections—that's *One Carlyle*. When one phone call to a colleague provides access and insights and better enables us to serve investors—that's *One Carlyle*.

Culture can't be bought or bottled; it's organic, forming and rising from decades of nurturing and people interacting with each other. As a result, *One Carlyle* is woven into the fabric of our firm. It is essential to our success.

**Performance**

As we prepared to go public in early 2012, we affirmed that the interests of our fund investors came first, believing strongly that our new public investors would also benefit. A year later, the results are in. We believe our solid returns are a powerful indication that this approach works for our fund and public investors alike.

Our achievements in 2012 reflect our ability to deliver the steady and attractive strength in the key metrics by which we are judged—and, most important, the metrics we most focus on internally—distributions to our fund investors and distributable earnings for our public investors.

In 2012 the Carlyle engine performed well. Our carry funds raised \$14.0 billion in new capital; invested

\$7.9 billion; generated 14% in carry fund appreciation; and realized proceeds of \$18.7 billion for our fund investors, for a two-year total of \$36.3 billion.

For the eight months that we were a public company, we distributed \$1.12 per unit to our common unitholders, a 7% annualized yield for investors who bought units in the IPO.

Overall, 2012 was an outstanding year for Carlyle, but not all went as planned. Some of our real estate investments struggled, particularly in Europe. And in the United States, LifeCare filed for bankruptcy and Carlyle has written off its equity investment in Synagro. Nonetheless, we believe our deliberately different approach to structuring our firm, developing and harnessing knowledge, and creating a collaborative culture forms a foundation for us to do even better in 2013 and beyond.

We are grateful for the support and confidence of our investors. It is an honor and privilege to help you achieve your investment goals.

# different in scope

We are one of the world's largest and most diversified alternative asset managers. Our passion for innovation drives us to extend our global reach into new regions and offer an expanding array of investment products and solutions. More than 650 investment professionals on six continents—working together seamlessly and selflessly—form a powerful global network, seizing opportunities to create value.

## widest range of diversified funds

We manage 113 funds and 67 fund of funds vehicles that invest across four business segments.

## major emerging markets presence

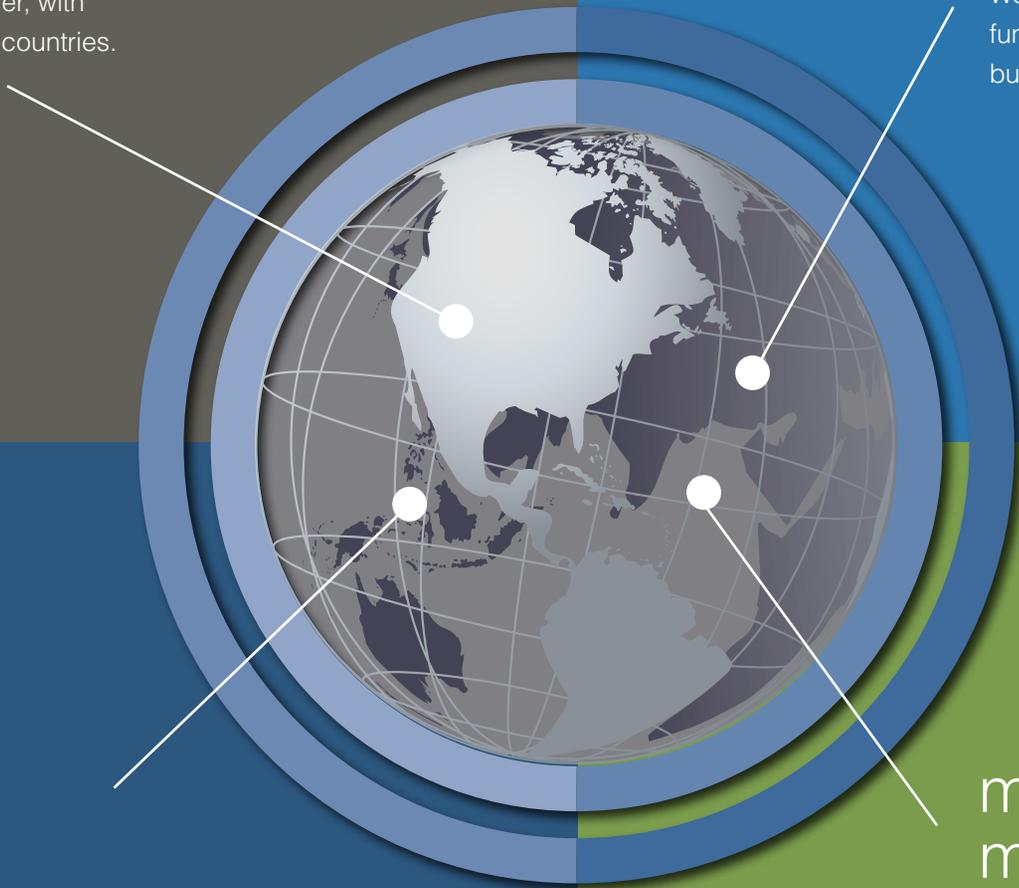
With offices in nine emerging countries, we have one of the largest emerging markets presence of any alternative asset manager.

## broadest reach

We have the broadest global reach of any alternative asset manager, with operations in 29 cities in 21 countries.

## scalable investment platform

Our multi-fund, multi-asset, multi-region platform provides strength and flexibility to expand into new products and high-growth markets.



Our global size, scale and brand enable us to access opportunities in virtually every market, asset class and part of the capital structure around the world.

113

active funds

67

fund of funds vehicles

Ri Happy, Brazil's largest specialty toy retailer, expands to meet increasing demand from a growing middle class in a country that's experiencing positive economic development. In 2012, Ri Happy grew its footprint by more than 50% with the acquisition of PBKids, Brazil's second-largest toy retailer.



Our investment in Genesee & Wyoming enabled the company to acquire RailAmerica for \$2 billion, combining the two largest short-line and regional rail operators in North America.

### U.S. Fund Families

- U.S. Buyout
- Global Financial Services Buyout
- U.S. Small Buyout/Growth
- U.S. Real Estate
- Realty Credit Partners
- Global Infrastructure
- Global Energy
- Renewable Energy
- Structured Credit
- Corporate Mezzanine
- Distressed & Corporate Opportunities
- Energy Mezzanine
- Long/Short Credit Hedge Funds
- Emerging Markets Hedge Funds
- Commodities
- Fund of Private Equity Funds
- Secondaries



\$4.5B

deployed in the United States in 2012

During Carlyle's period of ownership, Detroit's Diversified Machine emerged from bankruptcy and transformed into a high-performing, international auto parts supplier.

### Latin America Fund Families

- South America Buyout
- Peru Buyout
- Emerging Markets Hedge Funds
- Fund of Private Equity Funds
- Secondaries

# 200+

active portfolio companies  
accessing Carlyle's global  
resources to innovate  
and grow.

B&B Hotels, a European budget hotel chain, expands and delivers double-digit growth since our acquisition. In Italy, a recent investment in Light Force SpA can help the company seize opportunities in the international fashion markets.



## Europe Fund Families

- Europe Buyout
- Europe Growth/Technology
- Europe Real Estate
- Distressed & Corporate Opportunities
- Structured Credit
- Long/Short Credit Hedge Funds
- Emerging Markets Hedge Funds
- Commodities
- Fund of Private Equity Funds
- Secondaries
- Cardinal Ireland Fund

## Sub-Saharan Africa Fund Families

- Sub-Saharan Africa Buyout
- Emerging Markets Hedge Funds



Medical Park, Turkey's second-largest healthcare services company, continues to extend its reach, expanding to 13 hospitals and other healthcare facilities with 8,000 employees.



Our investment in Diversey Japan, a major institutional cleaning, sanitation and hygiene products company, can help improve its competitive position and high-growth potential.

## Asia Fund Families

- Asia Buyout
- Beijing RMB Partners
- Japan Buyout
- Asia Growth
- Asia Real Estate
- Long/Short Credit Hedge Funds
- Emerging Markets Hedge Funds
- Commodities
- Fund of Private Equity Funds
- Secondaries



Meinian Onehealth Healthcare, China's largest private provider of preventive healthcare services, takes advantage of strong demand for quality medical care.

Carlyle is among the top five U.S.-based investors in China.

## MENA Fund Families

- MENA Buyout
- Emerging Markets Hedge Funds
- Fund of Private Equity Funds
- Secondaries

# different in depth

Our depth of resources enables us to uncover and take advantage of investment opportunities in virtually any economic environment. Our deep bench of leadership and industry expertise enhances our ability to deliver superior investment performance and generate strong returns for our loyal base of high-quality fund investors.

## industry expertise

We have deep expertise in 11 core industries and a team of Operating Executives who provide wisdom and insight from decades of working as CEOs, CFOs, COOs, and in other senior executive positions.



## deep bench of leaders

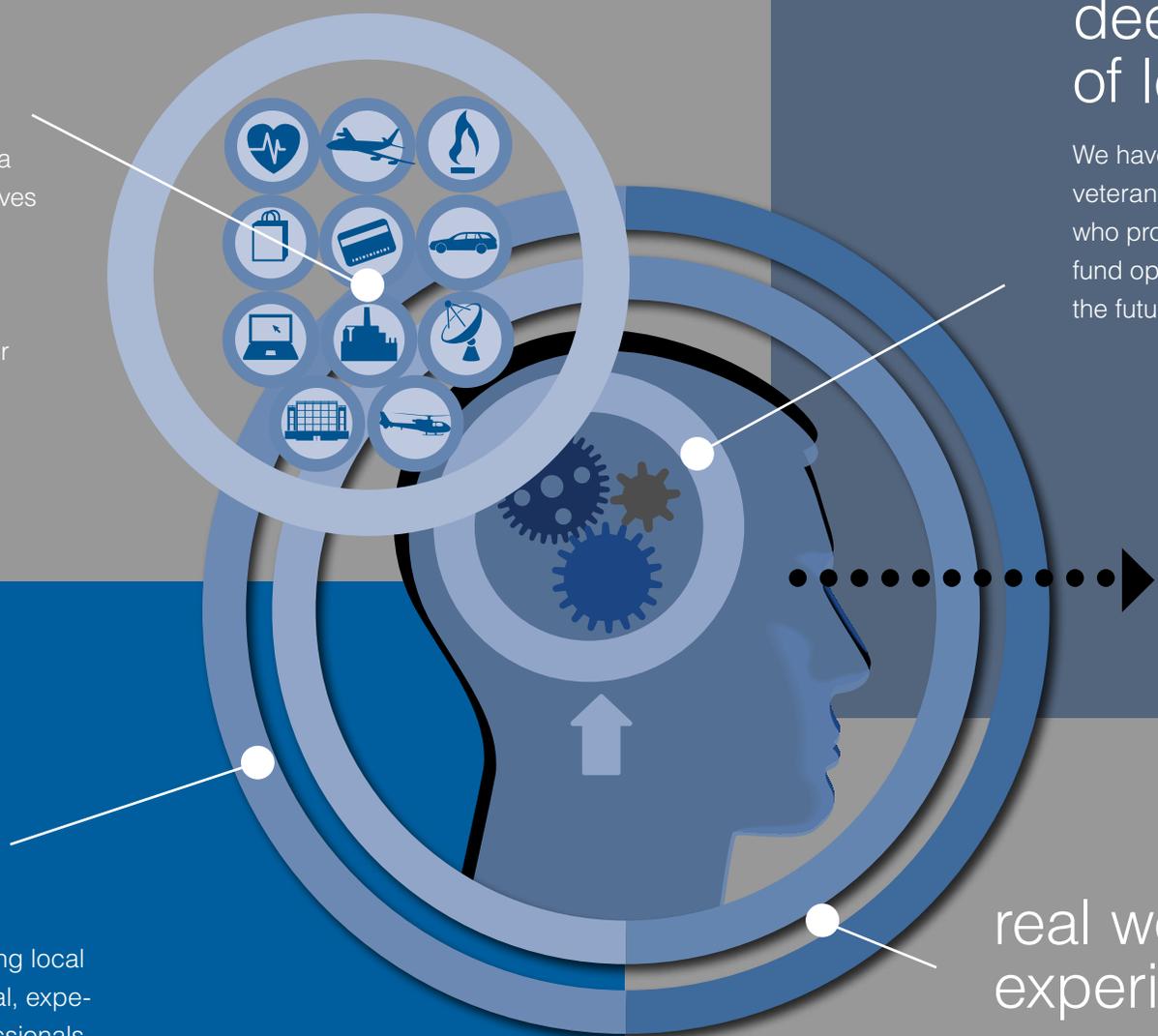
We have a strong, diverse team of veteran investment professionals who provide leadership for our fund operations today and into the future.

## local know-how

Our strategy of establishing local operations staffed by local, experienced investment professionals puts us in a strong position to identify opportunities and create value for our investors.

## real world experience

We combine experience and knowledge with innovation and ingenuity to broaden and advance our leadership position in alternative asset management across the globe.



# Ultimately, it's all about experienced investment leadership.

At Carlyle, our investment leadership and experience run deep. Most of our funds are led by a group of experienced executives who have been successful investors at Carlyle for a decade or more.

## Carlyle Fund Heads



Allan M. Holt  
Managing Director  
and Co-Head of the  
U.S. Buyout Team

21 years

Peter J. Clare  
Managing Director  
and Co-Head of the  
U.S. Buyout Team

21 years

Raymond A. Whiteman  
Managing Director and  
Co-Head of the Global  
Distressed and Corporate  
Opportunities Team

17 years

Linda Pace  
Managing Director  
and Head of U.S.  
Structured Credit

14 years

Tamotsu Adachi  
Managing Director  
and Co-Head of the  
Japan Buyout Team

10 years

# 180

Managing Directors\* bring an average of more than eight years of Carlyle experience to every transaction.

\*Excluding recent acquisitions.

aerospace, defense & government services

consumer & retail

energy & power

financial services

healthcare

industrial

infrastructure

real estate

technology & business services

telecommunications & media

transportation

# 11

Valuing depth over breadth, we focus on 11 core industries, which sets us apart in the industry and enables us to create value.

Our panel of Operating Executives brings C-level experience that enables us to forge strong relationships with portfolio company management, offer operational and strategic know-how, and facilitate business alliances that help connect companies with new avenues for growth.

Brooke B. Coburn  
Managing Director and  
Head of U.S. Growth  
and Co-Head of  
Equity Opportunities

17 years

Gregor P. Böhm  
Managing Director  
and Co-Head of  
the Europe  
Buyout Team

15 years

Robert G. Stuckey  
Managing Director and  
Head of the U.S. Real  
Estate Team

15 years

Xiang-Dong (X.D.) Yang  
Managing Director and  
Co-Head of the Asia  
Buyout Team

12 years

# 25

Operating Executives,  
each with an average  
professional tenure of  
more than 40 years.

**Carlyle Operating Executive  
Mary Petrovich**

Mary Petrovich is focused on U.S. buyout opportunities in the automotive and transportation sector.

24 years  
industry experience



# different culturally

Around the globe, our professionals work together seamlessly and selflessly across funds, industries and geographies to invest wisely and create value. We call this collaborative approach *One Carlyle*. It's the foundation of our culture that differentiates us in the market. It defines our brand and enhances our performance.

## more skin in the game

Together with our partners and other professionals, we invest alongside our investors—further aligning our interests—committing approximately \$6 billion of our own after-tax dollars to our funds and more out-of-pocket co-investment than any other firm.

## collaborative

*One Carlyle* is built on the principle of selfless sharing of knowledge, expertise and resources.

## do good

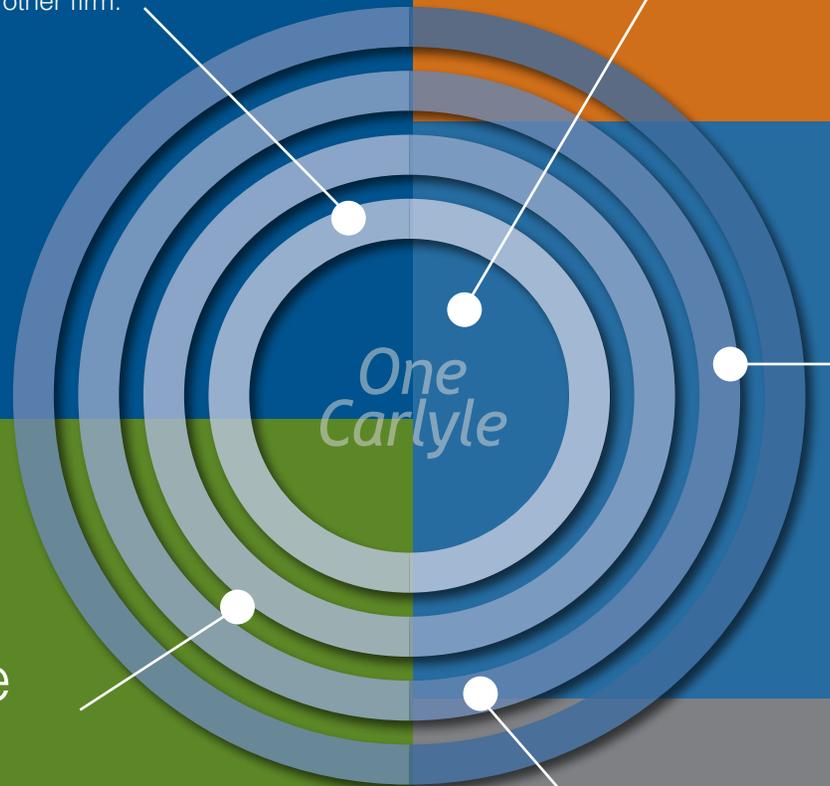
We embrace our responsibility to consider the impact of our investment decisions on people, communities and the environment.

## large but nimble

Our boutique sectoral, regional and asset-specific funds allow us to combine the benefits of a global firm with the specialization of a small firm.

## we always remember

That we work for our investors. Serving the needs of our fund investors has been our principal mission for more than 25 years, and that mission remains at the heart of everything we do.



# One Carlyle: A collaborative approach to investing.



## Case Study:

### How Talaris benefited from the *One Carlyle* network.

Through the sharing of knowledge, expertise and resources, Carlyle professionals across the globe worked together to add value to Talaris. Our professionals introduced Talaris to Carlyle portfolio companies and investment partners around the globe, facilitating access to manufacturing expertise and opportunities to expand into existing markets and new geographies.

# 650+

investment professionals on six continents work together as *One Carlyle*, connecting local knowledge and relationships to improve investment performance.

## Entering New Markets

Leveraging the *One Carlyle* network, Talaris entered the Latin American market with the help of Juan Carlos Felix, Managing Director and Co-Head of the South America Buyout team. Mr. Felix, who is based in São Paulo, facilitated a new relationship with Banco do Brasil, now one of Talaris' largest customers. Talaris also expanded into Africa, China and India.





“Talaris delivers strong growth through innovation and excellence in execution. Our *One Carlyle* collaborative culture contributed to a successful exit and ensured the business maximized its full global potential.”

**Andrew Burgess**  
Managing Director

## Adding Value to a New Global Brand

- Increased EBITDA by 40% during Carlyle's period of ownership.
- Rebranded the company under the Talaris name.
- Consolidated and expanded manufacturing operations, resulting in improvements to component quality, manufacturing timescales and quality processes.
- Delivered on significant efficiency initiatives.
- Invested substantially in new product research and development and executed a complementary bolt-on acquisition.

## Strengthening Management

With Carlyle's support, Talaris strengthened its bench of leadership talent and built a management team with deep expertise to support the business. Three new hires to top management included the Chairman, CEO and COO.



## Improving Efficiency

Carlyle helped transform Talaris into an independent, standalone company with a heightened focus on innovation and efficiency. Talaris enhanced its product and service offerings and transferred manufacturing to China and Mexico, resulting in significant cost benefits.

## About the Transaction

Acquired: September 2008 for £360 million

Exited: July 2012

Carlyle acquired Talaris, a U.K.-headquartered global provider of end-to-end cash management solutions, in September 2008 and exited the investment through a sale to Japan-based Glory LTD in July 2012. Focusing primarily on the banking sector, Talaris has a 40-year heritage of innovation in cash management. Its comprehensive range of technology platforms includes cash dispensers, cash recyclers, and note and coin counters. The company delivers cash handling solutions on every continent and employs approximately 1,900 personnel around the world.

# Carlyle at a glance

Our difference is clear. Over the last 26 years, we've expanded our scope across the globe, deepened our industry expertise and fostered a collaborative culture to create one of the largest alternative asset management platforms in the world.

1,400+  
employees

113  
active funds

67  
fund of funds vehicles

1,500  
carry fund investors

Serving the needs of our fund investors is at the heart of everything we do. For 26 years, we have worked to inspire their confidence and loyalty. By investing wisely and creating value, we have increased the number of carry fund investors from four—all from the United States—to nearly 1,500 from 75 countries.

4  
business segments

Corporate  
Private  
Equity

Global  
Market  
Strategies

Real  
Assets

Solutions

**\$86 billion**  
total investments in carry funds since inception

Our expertise across a diversified range of industries and geographies has produced a strong history of performance.

**\$12 billion**  
carry fund AUM in emerging markets

With 115 investment professionals in 13 offices located in emerging markets, we believe we are well positioned to capture opportunities in some of the world's fastest-growing regions.

**AUM by Geography**

- Americas **67%**
- Europe, Middle East and Africa **24%**
- Asia Pacific **9%**



**\$72 billion**  
portfolio with near-term realization potential

With more than \$12 billion in hedge fund capital and \$60 billion in carry fund capital currently at work, we have an expansive portfolio of investments with near-term realization potential.

**\$12 billion**  
total hedge fund AUM

Our three hedge fund strategies focus on a range of markets, including commodities, emerging markets equities and long-short credit in the global high grade and high yield markets.

**\$17 billion**  
total structured credit AUM

We have grown to become the world's second-largest CLO manager through organic growth and acquisitions.



**AUM by Segment**

- Corporate Private Equity **31%**
- Global Market Strategies **19%**
- Real Assets **24%**
- Solutions **26%**

**\$44 billion**  
capital ready to deploy

Our investment pipeline is robust and our investment teams are motivated and committed to seize opportunities to drive long-term performance.

**\$170 billion**  
total AUM

We relentlessly pursue investment excellence with a focus on innovation, enabling us to consistently grow and diversify our global platform.

**AUM (\$ in Billions)**

- Solutions
- Real Assets
- Global Market Strategies
- Corporate Private Equity



**\$123 billion**  
fee-earning AUM

Our fee-earning portfolio provides a strong foundation for long-term firm performance.

# Corporate Private Equity

**We have one of the industry's broadest and most diverse Corporate Private Equity businesses.** Our multi-fund, multi-industry and multi-region strategy has resulted in strong, consistent investment performance across economic cycles for 26 years. This approach enables us to deploy more targeted and specialized investment expertise while offering our fund investors the ability to tailor their investment choices. At the same time, our broad, diversified platform provides a stable, scalable foundation for continued growth and innovation and enhances our resilience.

At the end of 2012, Corporate Private Equity had \$53 billion in assets under management across 31 active funds on six continents. Our Corporate Private Equity funds are advised by separate teams of local professionals who live and work in the markets where they invest.

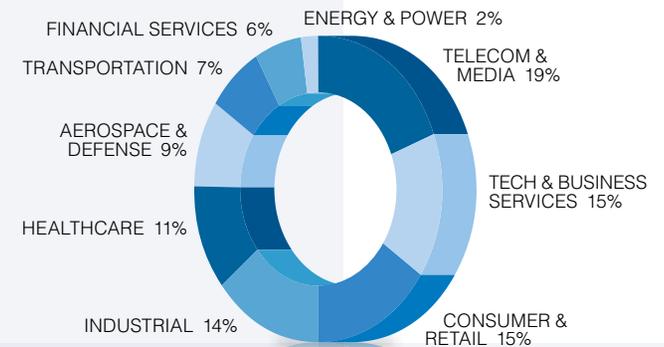
## Corporate Private Equity has two primary areas of focus:

### Buyout Funds

Our buyout teams advise a diverse group of 21 active funds that invest in transactions that focus either on a particular geography (Asia, Europe, Japan, the Middle East and North Africa, South America, Sub-Saharan Africa or the United States) or a specific industry, such as financial services.

### Growth Capital Funds

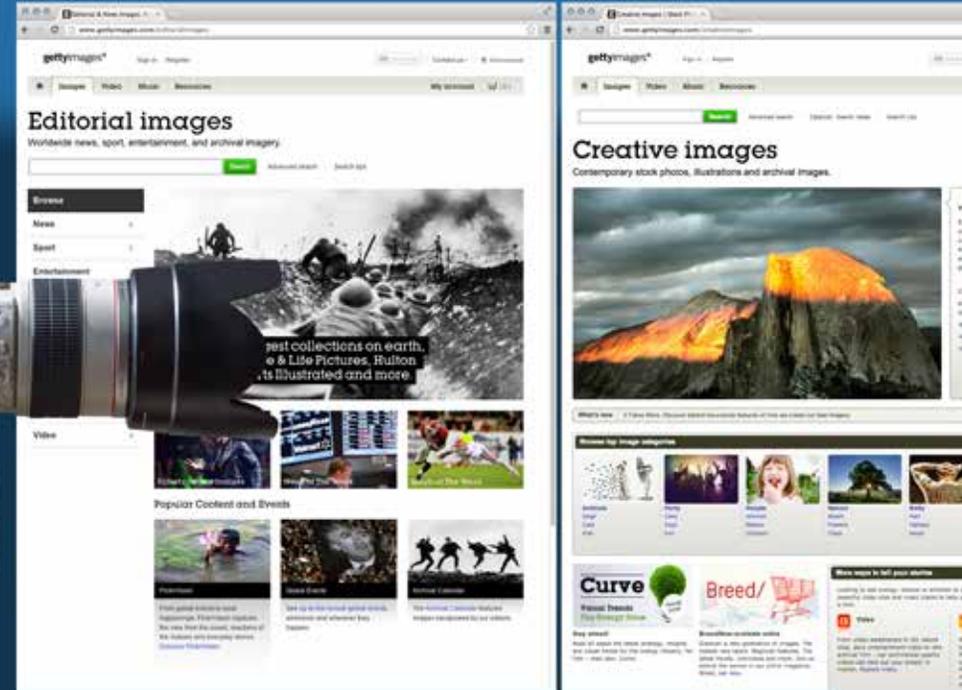
Our 10 active growth capital funds are advised by teams in Asia, Europe and the United States. Each team focuses primarily on middle market and growth companies consistent with specific regional investment considerations.



**Corporate Private Equity  
Equity Invested by Industry**

## Expanding a growing company's global presence

In 2012, Carlyle Partners V, L.P. acquired a majority interest in Getty Images, one of the world's largest creators and distributors of still imagery, video and multimedia products, for \$3.3 billion. The growing company, which already serves business customers in more than 100 countries, is looking to our global resources and network to help Getty Images move forward into the next phase of development and growth. Carlyle Managing Director Eliot Merrill said, "We look forward to partnering with Getty Images' experienced and talented management team in expanding the company's global footprint."



## Helping make good design accessible across Brazil

When Brazilians are furnishing their homes, they probably visit Tok&Stok, the country's largest specialty furniture retailer. Tok&Stok, which sells a wide range of furniture and home décor products, generated approximately R\$1 billion in sales through 35 stores in 12 states across the country in 2011 and employed approximately 3,300 people.

In September, Carlyle's South America Buyout team acquired a majority stake in Tok&Stok. The company is looking to Carlyle to help it accelerate its growth in sales, strengthen its customer service and improve relationships with its partners, including suppliers and employees—all to help Tok&Stok deliver on its mission of making good design accessible.

## The first global alternative asset manager to enter fast-growing Sub-Saharan Africa

Our distinct approach to investing means using our global reach to search the world for untapped opportunities. That's why we established an investment team in Sub-Saharan Africa, the third-fastest growing region in the world between 2000 and 2009, behind only China and India. Our team comprises African nationals with deep market knowledge, broad networks across the continent and extensive experience in private equity transactions.

In conjunction with the African Development Bank, Carlyle developed an environmental and social management system and a development outcomes tracking system that will monitor job creation, tax revenues and capital flows to portfolio companies.

Last year, the Carlyle Sub-Saharan Africa Fund made its first investment: a strategic minority investment in Export Trading Group (ETG). Founded in 1967, ETG owns and manages a vertically integrated agriculture supply chain with operations in procurement, processing, warehousing, transportation, distribution and merchandising.

ETG has more than 7,000 employees across 30 African countries and operates 26 processing plants and 600 warehouses. It performs the vital job of connecting African smallholder farmers to consumers around the world by procuring, processing and distributing agricultural commodities, including maize, wheat, rice, cashew nuts, soya, fertilizer, sugar, coffee and tea.

The Sub-Saharan Africa Investment team, which won *Catalyst Magazine's* Private Equity Deal of the Year award for 2012 for the ETG transaction, from left: Genevieve Sangudi, Managing Director  
Marlon Chigwende, Managing Director and Fund Co-Head





## Turning the power of scale into a powerful opportunity

Eighty percent of ETG's Africa-originated stock is procured from smallholder farmers. Individually, these farmers have no opportunity to integrate into the global economy. ETG consolidates products from hundreds of thousands of farmers into a supply chain and creates the scale and efficiency necessary to be globally competitive. ETG is committed to the economic and social development of smallholder farmers and the regions where they live.



## Taking performance to the next level

Founded in 2003, Nantong Rainbow Heavy Industries is a Chinese R&D-driven heavy equipment manufacturer. Located in one of the most important shipbuilding hubs in China, Nantong Rainbow is the world's largest maker of ship hatch covers. It is also a major producer of marine crane equipment in China, and supplies port machinery through a joint venture with Finland-based Cargotec, marine engineering equipment and mining machinery, all under its own brands.

In 2009, Carlyle Asia Growth Partners IV, L.P. made an investment of \$20.1 million in Nantong Rainbow, and helped take the company public the following year, raising approximately \$210 million. With Carlyle's support, the company has increased revenues every year since our initial investment. In 2012, we sold 49% of our interest in Nantong Rainbow to its strategic partner Cargotec.





“Nantong Rainbow is now the largest maker of ship hatch covers in the world and a major producer of marine crane equipment in China.”

**Wayne Wen-Tsui Tsou**  
Managing Director

## Providing investment leadership in China

We established our first investment team in China more than 15 years ago. Today, we're one of the largest and most committed firms in the country. We have 69 investment professionals in six offices dedicated to making investments in a diverse range of companies and assets across China. According to the 2012 U.S. Department of State Investment Climate report, we're one of the top five U.S.-based investors in China.

In 2012, we continued to invest actively in China, deploying more than \$700 million in capital in companies and real estate. In January 2013, Carlyle Asia Partners I, L.P. exited its remaining stake in China Pacific Insurance Group in one of the most successful transactions in private equity history.

After slowing in mid-2012, the Chinese economy roared back in the fourth quarter with an annual growth rate of more than 8%. By the end of 2012, China's economy had grown to \$8.25 trillion. Despite some fluctuations in macro-GDP, consumer spending by China's growing middle class continues to expand. Consumer sales are likely to average more than \$500 billion per year for the next five years. With significant resources dedicated to China, we remain well positioned to capitalize on investment opportunities in the region.

Carlyle Asia Growth Partners,  
from left:  
Sam Wu, Director  
Wayne Wen-Tsui Tsou,  
Managing Director  
and Fund Head

## A public-private partnership invests in the U.S. energy revolution

The United States is projected to become the largest global oil producer by 2020, according to a report by the International Energy Agency. Philadelphia Energy Solutions (PES), the Carlyle-Sunoco joint venture operating the oldest and largest continually running oil refinery on the East Coast, is well positioned as U.S. oil and gas production gains momentum. In particular, the refinery's exceptional location and infrastructure will enable PES to create new business opportunities related to the Marcellus Shale natural gas fields.

In 2013, PES will invest in capital improvements critical to the long-term economic viability of the facility. The improvements will also help the environment by reducing waste and emissions while lowering reliance on foreign oil supplies. The Commonwealth of Pennsylvania will provide grants to upgrade the refinery and help build a high-speed train unloading facility to provide access to greater quantities of crude oil from North America.

"Everyone came together to come up with a solution and save jobs. We are proud to work with Carlyle, with whom we have worked well in the past, to reinvent this new facility and be a part of the energy renaissance in America."

**Thomas M. Conway**  
International Vice President  
United Steelworkers Union

From left:

David W. Albert, Managing Director  
and Co-Head of the Mezzanine  
Opportunities Team

Rodney S. Cohen, Managing Director  
and Co-Head of the Equity  
Opportunities Team

David M. Marchick, Managing Director and  
Global Head of External Affairs





## Rescuing and reimagining a critical energy hub

The Philadelphia refinery, which dates back to 1866, was scheduled to be shut down in August 2012. But it's still operating today, thanks to a joint venture between Carlyle and Sunoco.

The refinery processes 330,000 barrels of oil per day—about 30% of the refined products on the Eastern Seaboard of the United States. In 2011, Sunoco decided to close the plant as part of its plan to exit the refining business.

But Carlyle thought differently. We saw opportunity, thanks partly to the changing energy landscape and new U.S. sources of crude oil. In 2013, PES plans to invest more than \$200 million in capital expenditures, strengthening the refinery's capacity and creating jobs.

The joint venture is expected to save 850 jobs, secure the region's fuel supply by continuing the daily flow of 10 million gallons of various fuels and create 100 to 200 new permanent jobs—in addition to thousands of construction jobs.

This transaction is an excellent example of the benefits of our *One Carlyle* collaborative approach. Our Government Affairs team worked intensively to generate support from the White House, the EPA, Pennsylvania Governor Tom Corbett and Congressman Robert Brady, Philadelphia Mayor Michael Nutter and United Steelworkers' President Leo Gerard. And our Energy Mezzanine Opportunities team provided valuable insights on the market.

The foresight of all the parties who came together enabled PES to keep the refinery up and running. In the wake of Hurricane Sandy, which hit the East Coast in October 2012, PES supplied approximately 50% of all the fuel refined in the region.



Governor Tom Corbett of Pennsylvania, in a public statement, said the PES agreement "... is testament to what can be accomplished when the public and private sectors work together toward a common goal—creating job opportunities for current and future generations."

# Global Market Strategies

**We have been at the forefront of many trends within our industry, including the diversification of investment products and asset classes.** We established our credit business segment in 1999 with our first high yield fund, laying a foundation for growth into liquid and illiquid markets globally. In 2010, we reoriented the business and named it Global Market Strategies, doubling assets under management, to \$33 billion, in less than three years.

We continued to innovate in 2012, significantly expanding the scale and diversity of our Global Market Strategies business. Today, more than 200 investment professionals manage 57 funds, pursuing opportunities globally across various types of credit, equities and alternative instruments.

Global Market Strategies manages three groups of funds:

**Carry Funds.** Our six carry funds, with \$3.8 billion in aggregate assets under management, focus on three different strategies: distressed and corporate opportunities, corporate mezzanine and energy mezzanine opportunities.

**Hedge Funds.** Our three hedge fund strategies have approximately \$12.1 billion in aggregate assets under management. One focuses on long-short credit strategies, another focuses on emerging markets equities and macroeconomic strategies, and a third focuses on commodities trading.

**Structured Credit Funds.** Our 39 structured credit funds, with \$16.6 billion in aggregate assets under management, invest primarily in performing senior secured bank loans through structured vehicles and other investment products.

## Claren Road Asset Management

Carlyle acquired a 55% stake in Claren Road, a long-short credit manager focusing on the global high grade and high yield markets, in 2010. Claren Road advises private pooled investment vehicles, or funds, that are offered to investors on a private placement basis.



Michael J. Petrick  
Managing Director and Head  
of Global Market Strategies

## Structured Credit

A leader in structured credit for more than a decade, Carlyle is the second-largest CLO manager in the world. Our U.S. and European Structured Credit teams invest in corporate loans and bonds through structured vehicles and managed accounts.

## Corporate Mezzanine

The Corporate Mezzanine team invests in privately negotiated junior debt and equity securities of middle market and large cap leveraged buyouts, recapitalizations and growth financings.

## Global Distressed and Corporate Opportunities

This team specializes in making alpha-driven debt and equity investments in companies that are operationally sound, yet experiencing financial duress. To maximize returns and value, the team seeks to exert influence or obtain control in its investments whenever possible.

## Emerging Sovereign Group

Carlyle acquired a 55% stake in Emerging Sovereign Group (ESG), a global emerging markets equities and macroeconomic hedge fund manager, in 2011. ESG builds on Carlyle's leadership position in emerging markets and enhances the ability to capture opportunities in high-growth regions.

## Energy Mezzanine

This team invests primarily in mezzanine debt in energy and power projects and companies in the United States and Canada. The team provides insights and forms strategic relationships based on sector and product industry expertise, as well as knowledge of specialized credit structures.

## Vermillion Asset Management

Carlyle acquired a 55% stake in Vermillion, a New York-based commodities investment manager, in 2012. Vermillion invests across a spectrum of interests, including physical commodities, exchange-listed futures and options, and commodity-related equities.



## Building renewable power in Connecticut

In 2012, the Carlyle Energy Mezzanine Opportunities team partnered with Science Applications International Corporation to provide financing for construction of the \$225 million Plainfield Renewable Energy biomass project in Plainfield, Connecticut. Fully certified as a renewable power source in the state of Connecticut, the project will consume excess wood debris readily available from such sources as construction and demolition sites, land-clearing materials and recycled wood pallets.

The project will generate 37.5 megawatts of clean energy to power the equivalent of 37,000 homes. Connecticut Light & Power will purchase power from the plant as part of a 15-year off-take agreement. The project will also create 400 jobs: 300 during the two years of construction and 100 direct and indirect permanent positions. It is expected to be completed by 2014.

## The turnaround experts

For 26 years, we have created value by applying our deep industry expertise to transform companies into operations that perform at their highest levels. That, in turn, has enabled us to generate strong returns for our loyal base of fund investors.

Our Global Distressed and Corporate Opportunities team, established in 2004, has a successful history of investing in and leading turnarounds of companies facing financial and operational challenges. The team, which advises three funds with approximately \$2 billion of total assets under management, seeks to obtain influential or controlling interests in investments to enhance the ability to drive returns and value.

The team draws upon the Carlyle global network to support and recruit portfolio company management staff who understand industry-specific challenges. Carlyle's industry focus also enables the team to appoint board members who have extensive sector experience and can provide critical insights into the issues shaping a portfolio company's future.

“Metaldyne has been a highly successful investment for our fund investors. We exceeded our investment goals for Metaldyne, and we are gratified that the company is well positioned for the future.”

**Michael D. Stewart**  
Managing Director

Carlyle's Global Distressed and Corporate Opportunities Team, from left:

Raymond A. Whiteman,  
Managing Director and Fund Co-Head

Shary Moalemzadeh, Managing Director

Michael D. Stewart, Managing Director  
and Fund Co-Head





# metaldyne

## Seeing opportunity where others saw obstacles

In 2009, at the height of the Great Recession and the North American automotive industry crisis, Carlyle Strategic Partners II, L.P. led a group of creditors in the purchase of Metaldyne, a global manufacturer of highly engineered metal-based components for light vehicle engine, transmission and driveline systems.

Seeing a strong company hamstrung by a weak balance sheet, we believed we had the knowledge and industry expertise to grow the company—and led the infusion of cash to stabilize Metaldyne's financial situation. Three years later, revenues were up by approximately 70% and employment increased by approximately 30%.

In 2012, we successfully exited Metaldyne with a deep management team and a committed workforce of more than 4,000 employees. The new Metaldyne generates approximately \$1 billion in annual revenue and is positioned for continued growth and success as a global manufacturing supplier to customers that include major automakers, such as General Motors, Ford, Chrysler and BMW.

# Real Assets

## **We began expanding and diversifying our investment platform into the Real Assets segment in 1997.**

Since then, our Real Assets business has grown to encompass 17 global carry funds and eight NGP management fee funds with more than \$40 billion of aggregate assets under management, focused on real estate, infrastructure, and energy, power and natural resources. Deploying local market knowledge and deep industry expertise, more than 130 investment professionals in our Real Assets segment pursue investments in a variety of tangible assets. These investments range from office buildings, apartments, hotels, retail properties and senior-living facilities to oil and gas pipelines, refineries and wind farms to airports and roads.

### Real Estate

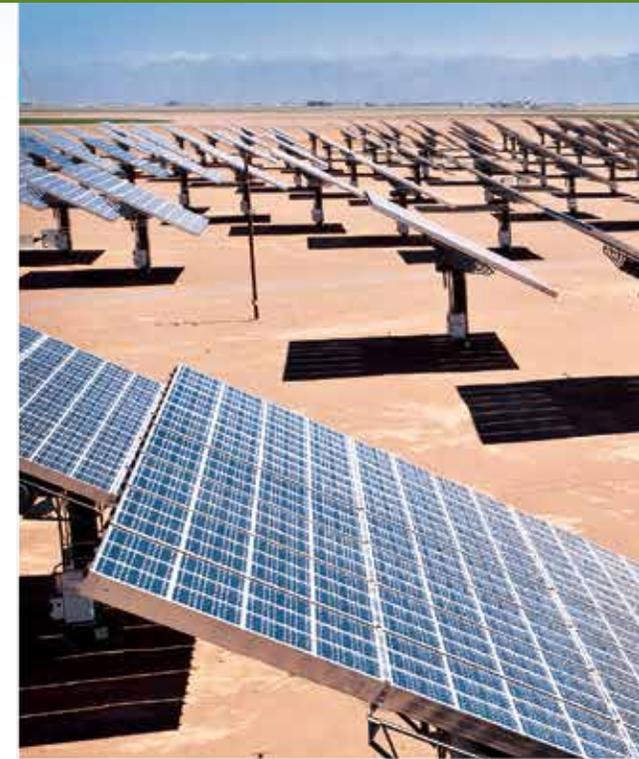
Our 10 real estate funds, with approximately \$12.6 billion in assets under management, pursue investment opportunities across Asia, Europe and the United States.

### Infrastructure

Our infrastructure fund has approximately \$1.0 billion in assets under management and focuses on infrastructure projects and assets, primarily in the United States and Canada.

### Energy, Power and Natural Resources

With the addition of NGP Energy Capital Management in 2012, our energy and natural resources platform has grown to include six carry funds and eight NGP management fee funds with approximately \$26.5 billion in total assets under management that target investments globally in the energy, power, renewable and natural resources sectors.





RICHGATE RETAIL, SHANGHAI, CHINA

## High demand for high-end retail

Prime retail properties in Shanghai are experiencing strong rental and capital value growth as retailers are faced with limited supply. The trends were one of the driving forces behind the Asia Real Estate team's acquisition of a 97% leased retail property, comprising 121,911 square feet and located in one of the most popular shopping and entertainment areas in the heart of Shanghai.

Completed in 2006, the property is surrounded by international Grade A office buildings, high-end residential properties, and luxury hotels and retail shops. After completing the acquisition, we renegotiated expiring leases, sought tenants, such as bank branches that offer stability, and restructured the basement lease to improve rental income.



## Adding a key resource drives our energy and power investment strategy

In 2012, we strengthened our capacity to invest in infrastructure—particularly power projects—through our Infrastructure team's investment in Cogentrix, a developer, operator and manager of power assets, including fossil, natural gas and solar plants. The company's power generation assets include five fossil and solar power projects in California, Colorado, Florida and Virginia, as well as a development pipeline of gas and renewable power projects.

The transaction included the acquisition of the Charlotte, North Carolina-based Cogentrix team, who brings considerable power asset management, operating and development expertise, enabling the Carlyle Infrastructure team to pursue an active program of acquiring and developing conventional and renewable power projects across North America.



## Global real estate investing with local market knowledge

Carlyle investment professionals have been investing in properties in New York for decades. They have a depth of experience that sets them apart in the market and enabled them to identify an outstanding opportunity at 666 Fifth Avenue. They recognized early that Fifth Avenue was changing from mostly luxury retail to mass-market retailers that were experiencing unprecedented sales volumes. These new retailers were able and willing to pay significantly higher rents than the legacy retailers, providing the potential to create value. In addition, there was almost no vacant retail space in the prime Fifth Avenue strip between Rockefeller Center and Central Park. The retail property at 666 Fifth Avenue offered the best physical space, location and foot traffic along Fifth Avenue for attracting new, major retailers.

“Successful real estate investing means having boots on the ground and a solid understanding of the market. We put that combination to good use at 666 Fifth Avenue.”

**Robert G. Stuckey**  
Managing Director

U.S. Real Estate Team,  
from left:

Mark J. Schoenfeld,  
Managing Director

Robert G. Stuckey,  
Managing Director  
and Head of the U.S.  
Real Estate Team

Tom R. Levy,  
Principal



666 FIFTH AVENUE, NEW YORK CITY

## Manhattan's first \$1 billion retail property sale

Our U.S. Real Estate group produced more than \$1 billion in sale proceeds from the landmark disposition of the retail component of 666 Fifth Avenue, making it the most valuable retail real estate asset in New York City. Carlyle purchased the property for \$525 million in 2008.

Upon acquisition, we believed that we could enhance the property's value through strategic repositioning to command higher rents. We re-tenanted the property with high-credit, high-sales volume tenants. This resulted in a nearly fivefold increase in net operating income during our four-year holding period.

Setting records in value creation:

- Highest rent per square foot: The first tenant Carlyle signed paid \$2,600 per square foot, the highest rental rate at the time.
- Highest aggregate rent: Carlyle signed another tenant to pay more than \$300 million during the course of its 15-year lease.
- Largest retail sale: The \$1 billion sale price makes 666 Fifth Avenue the first and only billion-dollar sale of a retail property in New York City.



## Carlyle's global energy platform

An energy revolution is sweeping the United States. New technology has enabled huge domestic increases in oil and gas production. The International Energy Agency projects that the United States will become the largest global oil producer by 2020. In addition to investing in companies and assets that will benefit from this massive shift in energy production and distribution, we are strengthening our internal capacity to invest directly in energy assets, creating new opportunities for our fund investors.

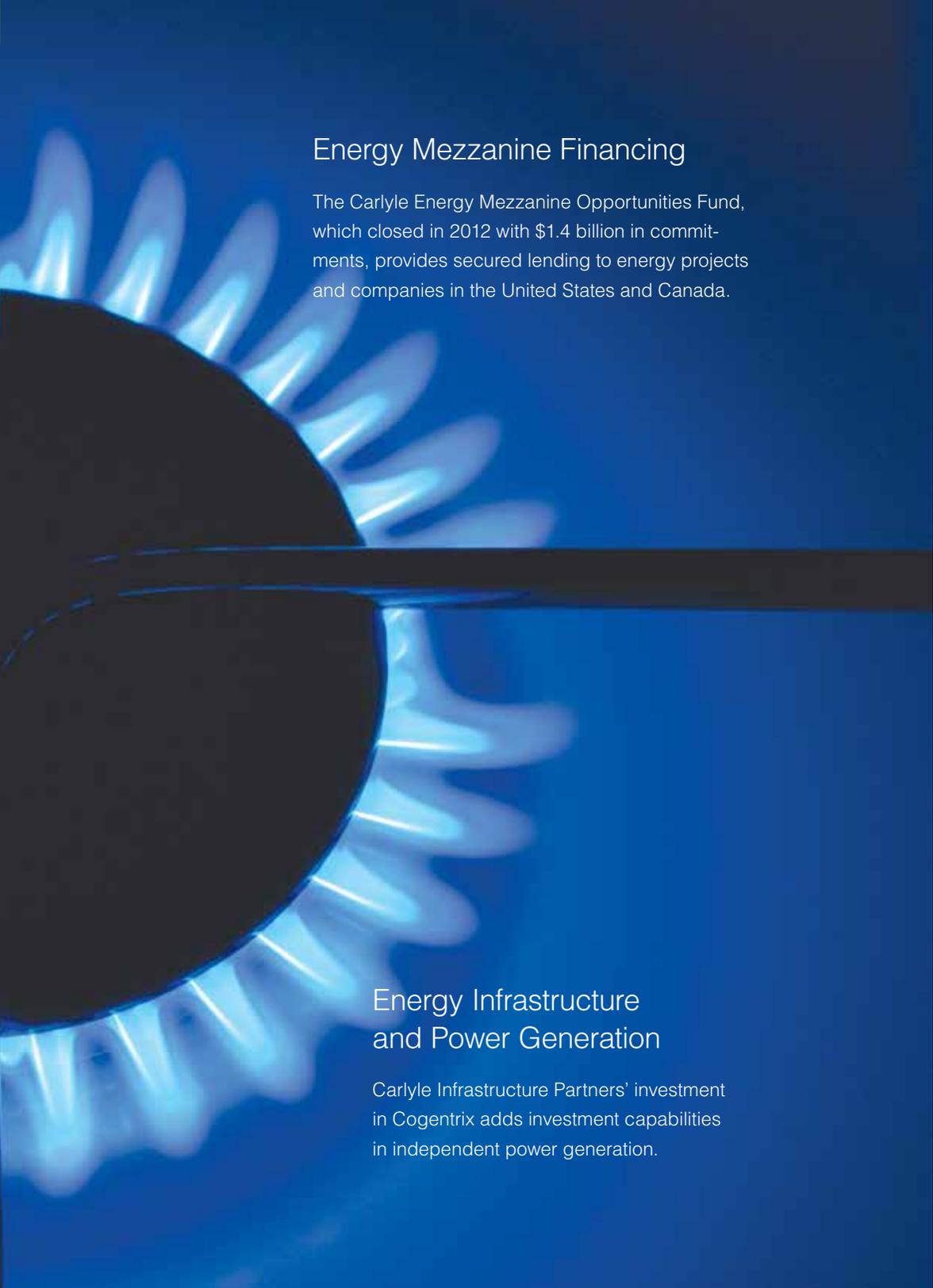
For example, we recently acquired a substantial interest in NGP Energy Capital Management, a Texas-based energy investor with \$12.1 billion in assets under management. NGP is the cornerstone of what is now an extensive natural resources investment platform. NGP's investing excellence in the U.S. oil and gas, midstream and oilfield services sector—coupled with our established capabilities in commodities, power generation, mezzanine financing and, most recently, refineries—allows us to take full advantage of the U.S. energy revolution.

## NGP Energy Capital Management

The cornerstone of our global natural resources platform, NGP is an industry leader in energy investing in North America with \$12.1 billion in assets under management.

## Energy Commodities

Our investment in Vermillion Asset Management, a New York-based commodities investment manager, adds energy commodities to our investment platform.



## Energy Mezzanine Financing

The Carlyle Energy Mezzanine Opportunities Fund, which closed in 2012 with \$1.4 billion in commitments, provides secured lending to energy projects and companies in the United States and Canada.

## Energy Infrastructure and Power Generation

Carlyle Infrastructure Partners' investment in Cogentrix adds investment capabilities in independent power generation.

## Innovation in energy

Our focus on innovation allows us to identify and capitalize on new opportunities in high-growth geographies and sectors. Energy is one such sector. The investments we made in NGP and Vermillion in 2012 complement the energy capabilities in our existing funds, demonstrated by our acquisition of the historic Philadelphia refinery through the Carlyle Equity Opportunities Fund and the Carlyle Energy Mezzanine Opportunities Fund. Our global investment platform provides stability and flexibility, enabling us to expand and deepen our capabilities in the energy, power and natural resources industries and provide a wider array of investment options for our fund investors.

# Solutions

**We continue to differentiate ourselves with the formation of our Solutions segment,** which resulted from our 2011 acquisition of AlInvest Partners, one of the world's largest investors in private equity. Solutions has approximately \$44 billion of assets under management and 68 investment professionals.

Partnering with sophisticated global investors is one more way Carlyle provides the diverse range of products and services our investors seek.

AlInvest has three primary fund of funds investment programs:

**Fund Investments.** Makes investment commitments directly to buyout, growth capital, venture and other alternative asset funds managed by other general partners.

**Co-investments.** Invests in specific deals alongside other private equity and mezzanine funds in which it has a fund investment throughout Asia, Europe and North America.

**Secondary Investments.** Includes funds that acquire interests in portfolio funds in secondary market transactions.



## Providing greater investment diversity and flexibility

Our acquisition of AlInvest significantly expanded our global asset management business and provides our fund investors with access to a global private equity fund of funds program and related co-investment and secondary activities. Through customized managed accounts, AlInvest also constructs unique portfolios based on investors' specific needs.

AlInvest enables our fund investors to tactically position their private equity portfolio via diversified fund commitments, secondary purchases and selected co-investments. One example: our partnership with MERS of Michigan, an independent, statewide public retirement system with more than \$6.5 billion in assets under management. Through the partnership, MERS will work with AlInvest and Carlyle to strategically rebalance and grow its private equity portfolio.

In 2011, Carlyle became the first global alternative asset management firm to publish a report dedicated to corporate citizenship. We published our second report in 2012. This year, at the recommendation of many of our investors and NGOs, who collectively believe that integrated reporting is more efficient and comprehensive, we have incorporated our corporate citizenship reporting into our broader annual review. Our new approach also demonstrates that responsible investing and environmental stewardship have become integral elements of how we invest and conduct our business.

# corporate citizenship

# sustainably different

We believe that creating lasting value means investing wisely and responsibly wherever we do business throughout the world. It means being a good corporate citizen and promoting practices that encourage social and environmental sustainability and strong corporate governance. Across six continents, we're working to create not just stronger companies, but also better communities.

# Responsible Investing

We follow responsible investment guidelines that help us identify and reduce risks related to environmental, social and corporate governance (ESG) issues during the investment process.



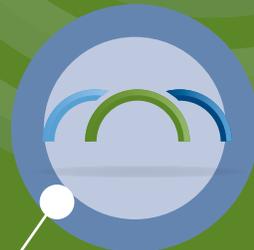
# One World

We value the opportunity and perspective we gain from an inclusive culture that fosters and nurtures a workplace of diversity.



# One Planet

Environmental sustainability continues to be an important part of the value creation process at Carlyle. We continually seek opportunities to expand our approach across companies and funds.



# One Community

We get involved where we live and work with a flexible, locally focused initiative that encourages employees to volunteer through Carlyle's partnership organizations or by selecting a project that has significance in their local community.

# One Resource

We support Carlyle employees with a wealth sharing program that provides matching funds for their charitable giving to educational and humanitarian organizations.

## Responsible Investing

Responsible investing remains an integral part of Carlyle's value creation process. Our goals are to assess the ESG risks associated with our corporate investments, enhance the environmental performance of our portfolio companies through improved operational efficiencies and mitigate potential negative effects of low-probability, high-impact ESG risks.

In 2010, we developed our own set of responsible investment guidelines in consultation with an ESG expert, drawing on a variety of existing internationally recognized norms, including the U.N.-backed Principles for Responsible Investment and the U.N. Global Compact. Carlyle's guidelines helped shape the corporate social responsibility guidelines later adopted by the members of the Private Equity Growth Capital Council (PEGCC). Since then, we have worked to integrate the PEGCC guidelines into our investment decision-making process for controlling, corporate buyouts through a top-down and systematic process that reaches across our investment teams.

In 2011, we took the important step of sharing our responsible investment guidelines with our controlled portfolio companies and encouraged them to review the guidelines at board meetings at least once a year. During the past year, more than 70 companies—representing more than 90% of Carlyle controlled companies—reviewed their operations in accordance with the guidelines.

We're pleased with the progress being made by our portfolio companies. You'll find highlights throughout this section of the report.

## ESG initiatives progress report



### Bringing sustainability to the sea

*Carlyle Asia Partners III, L.P.*

China Fishery Group is committed to maintaining sustainable fishing practices. The company created a Corporate Social Responsibility Committee to guide its sustainability initiatives and works continually to secure access to underutilized and abundant ocean resources. China Fishery uses the latest catch and processing solutions to harvest, process onboard and deliver high-quality fish from some of the world's most important fishing grounds to consumers throughout the world.



### Focusing on continuous improvement

*Carlyle Asia Partners III, L.P.*

Guangdong Yashili Group, one of China's largest infant formula companies, established the Yashili Food Quality and Safety Advisory Committee in 2010, the first of its kind in the Chinese dairy industry. Yashili, whose broad product lines include milk and rice powder, cereal, and soy milk, is committed to combining product quality with sustainable growth. Its efforts to improve its capabilities in quality control and research and development have enabled it to achieve industry-wide quality standards, such as ISO9001 and HACCP.

INITIATIVE	STATUS/OUTCOME
<p>Publish an inaugural sustainability report.</p> <p>Establish criteria for reviewing the environmental and social risk profiles for fisheries.</p> <p>Conduct sustainability audits for major fisheries, based on internally developed criteria.</p> <p>Support international declarations regarding sustainable fisheries management.</p> <p>Support FAO (Food and Agriculture Organization of the United Nations) compliant sustainability certification processes in relevant fisheries.</p> <p>Support scientific research to improve fisheries management.</p> <p>Encourage management support and participation in APEC initiatives on food security.</p>	<p>COMPLETED: Report published in August 2012 in collaboration with the parent company to cover the entire supply chain.</p> <p>COMPLETED: Criteria established for major fisheries in which the company operates.</p> <p>COMPLETED: Audits completed for fisheries in the Faroe Islands and Mauritania.</p> <p>COMPLETED: Became a signatory to the Prince of Wales' International Sustainability Unit's joint declaration on action for wild marine fisheries.</p> <p>IN PROGRESS: Set a target to increase the sourcing of sustainably certified product ranges and continue to engage with certification bodies and stakeholders.</p> <p>IN PROGRESS: Supporting a three-year study for finding common ground on the scientific knowledge regarding trawling best practices.</p> <p>IN PROGRESS: Became one of three private sector representatives in Hong Kong nominated to sit on APEC's newly formed Policy Partnership on Food Security for an initial period of three years.</p>
<p>Conduct a baseline audit to assess the food safety/quality system.</p> <p>Assess overall safety and quality of products as compared to U.S., New Zealand/Australian, and Hong Kong standards.</p> <p>Implement new training programs for all Yashili laboratory personnel.</p> <p>Work with the Stakeholder Panel on Infant Formula and Adult Nutritionals, Association of Official Analytical Chemists.</p> <p>Participate in the Asian Pacific Economic Cooperation, Food Safety Cooperation Forum, Partnership Training Initiative Network.</p>	<p>COMPLETED: Audit performed by an internationally recognized auditing company in late 2011.</p> <p>COMPLETED: Results indicated that all product samples were in compliance with comparison country requirements.</p> <p>COMPLETED: Post-training review confirmed that laboratory practices were adopted.</p> <p>IN PROGRESS: Developing standard methodologies for testing nutritional components.</p> <p>IN PROGRESS: Yashili is the first Chinese infant formula company to participate in the training program.</p>



## Helping to create a more sustainable food supply in China

In China, Carlyle is differentiated by our length of experience in the country and by our team composed of many native Chinese investment professionals. This combination enables us to spot trends that can create opportunities. For example, we saw that China's rapidly growing middle class is creating rising demand for higher quality food and a greater selection of protein products. As a result, we invested in companies that have the potential to help meet this demand while modernizing China's food industry and creating a more efficient, increasingly sustainable food supply.

## One Planet: Environmental Stewardship

Environmental sustainability continues to be an essential part of the value creation process at Carlyle, and we seek opportunities to expand our approach across companies and funds. Currently, more than a dozen of our active portfolio companies have ongoing sustainability programs. These programs have saved, or are planning to save, over \$7 million while reducing greenhouse gas emissions by over 31,000 metric tons.

### EcoValuScreen

EcoValuScreen enables us to take a different approach to investing by going beyond the traditional focus of risk mitigation during the due diligence process. This tool, which we developed with Environmental Defense Fund (EDF), identifies opportunities for operational enhancements that will lead to better environmental and financial performance during the early stages of the investment process.

We use 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 some of our controlled portfolio companies.

We are seeking to apply EcoValuScreen to new controlling, corporate investments in the United States and are currently applying it to other buyout investment opportunities where appropriate, including in the United Kingdom. We are also expanding the environmental sustainability principles underlying EcoValuScreen to our U.S. real estate investments.



*Carlyle Partners V, L.P. & Carlyle Europe Partners III, L.P.*

CommScope is a global provider of communications infrastructure solutions, such as cables and antennas, for wireless, corporate and residential broadband networks.

**INITIATIVE**

Initiate an energy audit of the company's flagship facility in Catawba, North Carolina, and collect energy data from facilities.

Shift to wireless programmable thermostats and unit heaters.

Reduce high-pressure sodium lighting in seven manufacturing facilities.

**STATUS/OUTCOME**

COMPLETED: Audit completed and energy data collected from the company's 19 facilities across the globe.

IN PROGRESS: 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 expected annual costs savings in excess of \$119,000.

PLANNED: Potentially reduce global energy consumption within the large manufacturing facilities by about 2.5%—a decrease of 5.2 million kilowatt hours and over \$650,000 in annual costs.



*Carlyle Partners V, L.P. & Carlyle Europe Partners III, L.P.*

NBTY, Inc. is a global manufacturer and marketer of vitamins and nutritional supplements.

Implement over 50 projects aimed at reducing environmental impacts.

Replace over 600 lighting fixtures with newer technology at major North American facilities and install occupancy sensors in select locations.

Conduct compressed air audits to repair leaks and replace air motors with electric motors.

Switch from gelatin raw material in cardboard drums to bags.

COMPLETED: Estimated annual savings of \$1.5 million while reducing greenhouse gas emissions by over 4,700 metric tons—equivalent to removing 920 cars off the road.

COMPLETED: Annual savings of \$112,000 and reduced greenhouse gas emissions by 493 tons.

COMPLETED: Expected annual savings of \$270,000 and environmental impact reduced by over 1,000 tons.

COMPLETED: Annual savings of \$258,000 and carbon footprint reduced by 680 tons of greenhouse gas emissions.



*Carlyle Infrastructure Partners, L.P.*

Park Water Company owns and operates two regulated water distribution utilities in California and one in Montana.

Replace pumps and motors at four wells.

Replace over 46,000 feet of water main.

Reduce leaks and install more accurate multi-jet meters to measure water usage.

Develop a water energy sustainability tool to measure the full life-cycle impact of water-related infrastructure components.

COMPLETED: Estimated two-year payback based on electrical savings.

COMPLETED: Reduced friction in the pipes and increased pipe diameters, cutting energy lost in moving the water.

COMPLETED: Reduced water loss by 50%.

IN PROGRESS: The tool measures energy consumption, greenhouse gas emissions and other environmental impacts.



Carlyle Europe Partners III, L.P.

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

“Through the EcoValuScreen program, RAC has worked with Carlyle and Environmental Defense Fund to sharpen its focus on environmental sustainability. We believe this process is improving how we do business and is generating real savings across several key parts of our operations, including fuel usage and office operations.”

**Chris Woodhouse**  
Chief Executive Officer, RAC

**INITIATIVE**

**STATUS/OUTCOME**

Engage sustainability consulting firm Environmental Resources Management, in conjunction with RAC, Carlyle and EDF, to perform an in-depth study of energy usage and emissions across the RAC estate.

COMPLETED: The preliminary study identified potential savings of up to 1.8 million kilowatt hours p.a., equivalent to over £100,000 p.a.

Enshrine “quick wins” from the study in a new facilities management outsourcing contract and introduce monthly tracking of emissions and usage.

COMPLETED: New contract signed with a third-party contractor and the quick wins executed. RAC will see the benefits during 2013. Monthly emissions tracker has been introduced.

Improve building emissions by introducing a new building management system—this is key to addressing the issues highlighted in the study.

IN PROGRESS: Introduction of a new building management system is underway and should be completed in the first half of 2013.

Improve fuel efficiency of the RAC patrol force by reducing fuel consumption and emissions.

IN PROGRESS: Delivered fuel savings of around 5% (£600,000) through implementation of operational best practice in 2012. Other projects, such as upgrading the fleet to Euro 5 emissions reduction technology, will drive further improvements in 2013.

Introduce telematics into the RAC patrol force. This is an effective monitoring tool and should help reduce miles driven and emissions.

IN PROGRESS: Telematics technology was successfully tested for RAC patrols in 2012 and is set to help yield further fuel savings in 2013.



Carlyle Partners V, L.P.

Syniverse is a provider of technology and business solutions for the global telecommunications industry.

Publish an inaugural Carbon Disclosure Report.  
Participate in EDF’s 2012 Climate Corps Fellow program.

COMPLETED  
COMPLETED

Initiate an employee Sustainability Implementation Contest.

COMPLETED: Plans submitted to reduce electricity consumption and launch employee engagement and carpool programs.

Reduce energy consumption by 20% by 2015.

IN PROGRESS: Reduced emissions associated with energy usage by 8.4%, accounting for 33% of the 20% reduction goal.

Reduce emissions associated with travel.

IN PROGRESS: Reduce emissions by 15% to meet Syniverse’s 2015 goal.

Undertake efficiency initiatives identified by the EDF Fellow at the company’s 200,000-square-foot Tampa office and data center.

RECOMMENDED: Estimated savings of up to 1.5 million kilowatt hours and \$187,000 in energy costs annually.

# Taking a different approach to real estate investing

## U.S. Real Estate

Last year, we committed to expand our environmental sustainability program to our U.S. real estate portfolio. To help Carlyle develop a tailored approach for real estate, we hosted a Climate Corps Fellow from EDF who worked closely with the U.S. Real Estate team to develop a framework and implementation guide. Climate Corps is EDF's summer fellowship program focused on placing MBA and MPA students in companies to help develop and implement energy efficiency initiatives.

Working with Carlyle's investment professionals, the Fellow made three recommendations:

1. **Incorporate an energy analysis into the acquisition process.** During the due diligence process, investment teams should benchmark the asset's historical energy usage to identify properties with the best opportunity for improvement and incorporate energy efficiency into the business plans.
2. **Conduct a review of existing portfolio investments.** Carlyle can leverage the growing offering of sustainability software to evaluate whether certain existing properties are candidates for additional capital investment to capture energy savings.
3. **Raise sustainability awareness among all Carlyle real estate professionals.** Investment teams can develop energy performance goals and apply best practices by asset class across the investment portfolio.

Carlyle has begun incorporating best practices identified by the EDF Climate Corps Fellow last summer. For example, during the recent acquisition of Houston Galleria Plaza, a mixed-use property in Texas constructed in 1976, Carlyle assessed the building's energy performance and conducted a detailed online energy assessment to determine savings opportunities.

"During 2012, Carlyle became the first alternative asset manager to engage an EDF Climate Corps Fellow to support its commercial real estate investments. As a result, Carlyle is well positioned to implement energy and environmental initiatives across the firm's real estate portfolio. We're excited to see Carlyle expand this effort and continue to demonstrate that sustainability can create value across multiple asset classes."

**Tom Murray**  
**Vice President, Corporate Partnerships**  
**EDF**

## Carlyle Europe Real Estate Partners

Our real estate team in Europe has also heightened its awareness of sustainability issues. In October 2007, Carlyle Europe Real Estate Partners III, L.P. acquired Blanche, an old industrial building in the center of Paris, with plans to convert it into a premium Class A office building. In January 2012, after three years of intensive renovation, Carlyle had converted the former warehouse into a modern energy-efficient building.

During the development period, Carlyle applied for a special environmental certification under the control of CERTIVEA, a French organization overseeing sustainability efforts in the real estate sector. Carlyle focused on increasing the recycling of construction materials, reducing water consumption and improving the use of green construction materials. As a result, the building was awarded an energy certification recognizing that it is 20% below French legal requirements.

## Global Real Estate Sustainability Benchmark Survey

In 2012, Carlyle's U.S., Europe and Asia real estate teams participated in the Global Real Estate Sustainability Benchmark survey. This globally recognized survey, which is sponsored by several large limited partners, is focused on promoting sustainability improvements among real estate assets. The survey will serve as a benchmark and will help us monitor our real estate-related sustainability initiatives.



## Carlyle Asia Real Estate Partners: Saving energy, saving money

In 2010, Carlyle Real Estate Partners acquired Aurora Place on behalf of National Pension Service of Korea. Aurora Place is a landmark premium-grade office building with a prime location in the financial center of Sydney. Each year, the property receives a rating, an appraisal review and recommendations for improvements from the National Australian Built Environment Rating System. Improvements made following these ratings have enabled the building to achieve energy savings of 30%.

# Making a positive difference on the environment

Carlyle encourages portfolio companies to explore ways to improve energy efficiency. One approach is to work with sustainability experts to identify opportunities to enhance environmental efficiencies. In the past year, our companies have taken a number of steps, including participating in EDF's Climate Corps program.

## Environmental efficiencies progress report

	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, tactical military vehicles and hybrid-propulsion systems for transit buses.</p>	<p>Update facility infrastructure and implement process improvements.</p> <p>Retrofit lighting with energy-efficient fixtures and smart panels with occupancy sensors and timers.</p> <p>Measure energy savings using a proprietary greenhouse gas management tool.</p>	<p>COMPLETED: Saved \$361,000 through environmental and efficiency initiatives in 2012. Reduced water usage by 15 million gallons. Met recycling waste streams and segregation targets, achieving a 10% increase in recycling.</p> <p>IN PROGRESS: Decreasing over 800 metric tons of greenhouse gas emissions and reducing nearly 1.2 million kilowatt hours.</p> <p>IN PROGRESS</p>
<p><b>Booz   Allen   Hamilton</b></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>	<p>Engage a 2012 EDF Climate Corps Fellow.</p> <p>Initiate a green office certification program.</p> <p>Pursue a campaign to reduce water bottles.</p> <p>Leverage the company's employee network to improve energy efficiency.</p>	<p>COMPLETED</p> <p>IN PROGRESS: Nineteen offices participating in the program.</p> <p>IN PROGRESS: Renegotiating agreements with suppliers and companies that source for Booz Allen events.</p> <p>IN PROGRESS</p>
 <p><i>Carlyle Partners V, L.P.</i></p> <p>HD Supply Facilities Maintenance is a leading supplier of maintenance, repair and operations products to owners and managers of multifamily, hospitality, educational and commercial properties; healthcare providers; and municipal and government facilities.</p>	<p>Conduct the second annual comprehensive greenhouse gas inventory.</p> <p>Retrofit lighting at seven distribution centers.</p> <p>Enhance the routing software.</p> <p>Begin a box reuse program at distribution centers in Austin, Phoenix and San Antonio.</p>	<p>COMPLETED: Showed an 8% decrease in emissions per delivery and a 6% decrease in emissions per dollar of revenue.</p> <p>COMPLETED: Reduced total greenhouse gas emissions by approximately 1,546 metric tons per year.</p> <p>COMPLETED: Decreased delivery truck emissions by approximately 1,525 metric tons per year.</p> <p>IN PROGRESS: Reused more than 7,000 corrugated cardboard boxes.</p>

## Creating products that improve air quality

PQ is a global leader in creating products that reduce the energy consumed by customers and improve the overall quality of emissions from vehicles. PQ produces zeolite, a chemical used in catalytic converters as a less costly and more effective option for removing nitrogen oxide, a pollutant in vehicle exhausts that causes acid rain and smog. Based on the amount of zeolites sold in 2012, PQ estimates its products contributed to a reduction in total nitrogen oxide of over 550,000 tons and a decrease of over 1.4 million tons of carbon dioxide into the atmosphere, equivalent to taking 286,000 cars off the road.

PQ zeolites in catalytic converters



protect the environment by improving vehicle emissions.



*Carlyle Partners IV, L.P.*

PQ Corporation is a worldwide producer of specialty inorganic performance chemicals and catalysts that are used in refinery, petro-chemical and chemical markets.

### INITIATIVE

- Implement energy efficiency measures.
- Rebuild furnaces using higher efficiency heat recovery materials and insulation packages.
- Measure combustion gasses and reduce energy consumption and costs associated with silicate furnaces.

### STATUS/OUTCOME

- COMPLETED: Reduced energy consumption by 7% over the last four years and by 2% in 2012 alone, eliminated more than 8,000 tons of carbon dioxide emissions and saved the company more than \$1 million annually in gas.
- IN PROGRESS
- IN PROGRESS



*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.

- Analyze historical energy data and water usage trends at the Carson City, Nevada, manufacturing facility.
- Initiate a water balance project to ensure that the company is using the appropriate amount of water.
- Implement a metering project to more accurately measure and reduce energy usage.

- COMPLETED
- IN PROGRESS
- PLANNED



*Carlyle Partners IV, L.P.*

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

- Conduct an energy and sustainability review of manufacturing facility in St. Marys, Ohio.
- Replace two boilers and move to a more efficient steam production process, replace 442 steam traps, and insulate a new state-of-the-art central steam plant and over 13,000 feet of bare condensate piping.

- COMPLETED
- IN PROGRESS: Expected savings of over \$3.2 million annually, an estimated reduction in utility expenses by 75%, and a decrease in annual carbon dioxide equivalent emissions of over 14,000 tons—representing a total reduction of 47%.

## Sustainability Roundtable

In June 2012, Carlyle hosted our first Sustainability Roundtable for portfolio companies. Representatives from 17 different portfolio companies across three different Carlyle funds met in Washington, DC to discuss energy efficiency and sustainability. This roundtable is part of our strategy to share best practices with our companies and to encourage them to review their own operations and develop a program tailored to their businesses and needs.

The roundtable covered a range of topics, including integrating sustainability into business operations, identifying environmental projects and stakeholders, developing internal consensus for initiatives and reporting results. David Rubenstein, Carlyle Co-founder and Co-Chief Executive Officer, and Allan Holt, Managing Director and Co-Head of the U.S. Buyout team, addressed the attendees and discussed the importance of sustainability to Carlyle's value creation process. The participants also spent time with Andrew Winston, a globally recognized expert on green business, as well as experts from EDF, PricewaterhouseCoopers, CB Richard Ellis and VOX Global Communications.



“Carlyle’s Sustainability Roundtable was a great opportunity for Syniverse to network with environmental experts and to learn about best practices at other Carlyle portfolio companies. As we expand our sustainability efforts, we will continue to turn to Carlyle for insights, introductions to experts and access to key resources.”

**Jeffrey S. Gordon**  
President and Chief Executive Officer  
Syniverse

## Stakeholder Engagement

Carlyle is also focused on engaging with key stakeholders on ESG issues. During the past 12 months, Carlyle hosted ESG-focused events for fund investors in London, Amsterdam and Stockholm. These events provided an opportunity for us to describe Carlyle’s corporate citizenship program and to receive feedback and recommendations from investors. We intend to host more of these smaller, focused discussions during 2013. In addition, we continued to expand our ESG expertise through consultations with APG and PGGM, two of the largest pension fund asset managers in the Netherlands and authorities on responsible investment. As a result of Carlyle’s investment in AlpiInvest, we agreed to share ideas and practices with APG and PGGM regarding how we could better integrate ESG considerations into our investment decision making throughout our portfolio.



David Rubenstein, Carlyle Co-founder and Co-Chief Executive Officer, spoke at the Wall Street Journal’s ECO:nomics conference in 2012—the first time a Carlyle Co-founder has publicly addressed the importance of ESG issues to the firm’s value creation process.

# One Community



One Community is a flexible, locally focused initiative that encourages Carlyle employees to take two days per calendar year to volunteer at a charitable organization in their community. Carlyle professionals can select organizations that are national or global in scope, such as Junior Achievement, Habitat for Humanity and KaBOOM!, or select a project that has significance in their local community. Employees are encouraged to volunteer in groups to foster team building and to interact with colleagues they do not work with on a regular basis.

Book drives, tree planting, Habitat for Humanity and Junior Achievement started the year off right and set the tone for a year of giving. In one month alone, employees from our Tokyo office collected garbage at Mount Takao, worked in a homeless shelter, sold goods for the Kids Earth Fund and planted trees at Temple Zenko.

## Global Volunteer Month

In September 2012, Carlyle kicked off our first-ever Global Volunteer Month with 12 events in six locations. Employees helped clean up national monuments, feed the homeless and mentor children from underprivileged or homeless families.

- **Washington, DC and Rosslyn, Virginia.** Volunteers from both DC-area offices participated in events to help with conservation efforts, promote animal welfare and child welfare, and aid the homeless and the USO. Carlyle volunteers could be seen on the National Mall, serving food at a local shelter, assisting in classrooms and helping build a playground with KaBOOM! at the Capital City Public Charter School.
- **New York.** Employees prepared food, moved furniture and volunteered at a book drive for the local Ronald McDonald House and Part of the Solution, an emergency food provider and agency offering hot meals, a food pantry, legal assistance and other social services.
- **London.** Twenty percent of Carlyle's London office volunteered during Global Volunteer Month. On behalf of Streetlytes, a local homeless shelter, employees cleaned the facility, served meals, and completed a food, toiletries and winter clothes drive. Employees also raised nearly £600 on behalf of Macmillan Cancer Charity.



Carlyle employees from our Beijing and Hong Kong offices pick up litter at the Great Wall of China.

- **Beijing and Hong Kong.** Twenty volunteers from our Beijing and Hong Kong offices picked up litter at the Great Wall of China. Beijing employees also planted trees in early April in Huairou District on the outskirts of Beijing, and Hong Kong employees visited with seniors at the Lok Sin Tong Elderly Home for the Mid-Autumn Festival.

## Season of Giving

Our colleagues kept the spirit going with a Season of Giving in November and December. Carlyle's London office donated more than 50 gifts and raised funds for CLIC Sargent, a UK charity for children with cancer. The New York office collected 74 coats and gifts for 90 children through the Dear Santa Project. Employees in Washington, DC contributed gifts to the Salvation Army Angel Tree program and donated nearly 400 boxes filled with toiletries, clothes and toys to the So Others Might Eat (SOME) shoebox holiday gift drive.

## Hurricane Sandy

Carlyle employees came together in the aftermath of Hurricane Sandy to contribute \$185,525 to the American Red Cross. Carlyle professionals also worked with All In Together We Rebuild and Recover to serve and deliver more than 500 hot meals, assist with demolition and clean up, and raise money for supplies and recovery efforts.

Carlyle employees help build a playground with KaBOOM! at the Capital City Public Charter School in Washington, DC.





### Information Technology Conservation Efforts

To reduce our environmental footprint, consolidate our infrastructure and ease our server maintenance and management needs, we began virtualizing Carlyle's IT infrastructure. Last year we virtualized about 55% of our infrastructure, resulting in a decrease of 80 physical servers as of October 1, the elimination of a server room in Washington, DC and a 33% decrease in our data-center needs in our Sterling, Virginia, data center. As a result, supplemental cooling and electricity needs decreased in our DC and Sterling offices. In Sterling alone, monthly costs have fallen by about 15%. We will continue this effort by eliminating an additional 21 servers tied to our messaging infrastructure.



### A Commitment to Sharing Wealth

Our wealth sharing programs support 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. These programs allow the firm to magnify employees' efforts to give back to the communities in which we live, work and invest across the globe. In 2012, Carlyle matched more than \$190,000 in employee gifts.



### Diversity in the Workplace

Carlyle values the opportunity and perspective we gain from an inclusive culture that fosters and nurtures a workplace of diversity. With 26 women at the Managing Director level or higher—13% of executives—Carlyle has the highest proportion of female executives of any alternative asset management firm.

"We have always sought to bring in the best people regardless of race or gender," said David M. Rubenstein, Carlyle's Co-founder and Co-Chief Executive Officer. "It's good business and it's helped the firm, and will always be a priority for us."

Among the firm's female Managing Directors are Janine Feng and Sandra Horbach. Ms. Feng is the Hong Kong-based deal maker who, with Xiang-Dong Yang, co-led Carlyle's investment in China Pacific Insurance Group, the most profitable transaction in our 26-year history. Ms. Horbach, Head of the Global Consumer and Retail Buyout group, is a leader in Carlyle's efforts to recruit female executives, particularly among investment professionals.

## TOIGO.

ROBERT TOIGO FOUNDATION

### Fostering the Development of Minority Professionals

In 2009, Carlyle and the Robert Toigo Foundation launched the Toigo Private Equity MBA Graduate Fellowship, an industry initiative to attract minority MBA graduates to the sector. Fellows spend six months at Carlyle, three months at a company owned by the firm and three months with a fund investor, also known as a limited partner.

We are pleased that our U.S. Buyout operation offered Ryan Ashley, Carlyle's 2011 Toigo Fellow, a full-time

position as a Senior Associate. Ryan serves as an investment professional focusing on the healthcare, telecommunications & media, and consumer & retail sectors.

Carlyle's 2012 Toigo Fellow, Meghan Pasricha, completed her six-month assignment in our Global Financial Services group and is working for three months at Bank of Butterfield Group, a Carlyle portfolio company. Meghan will conclude her Toigo rotation by spending her last three months at Pictet & Cie, a Carlyle limited partner. The rotation will provide Meghan with a 360-degree view on how the alternative asset industry works.

In addition, Managing Director David Marchick became Toigo's Chairman this year. "One of the reasons Carlyle formed the relationship with Toigo was to encourage other private equity firms to do the same," said Mr. Marchick.

The Toigo program continues to gain recognition within our industry, and the competition for the fellowship has increased significantly since the program began. Carlyle looks forward to recruiting its 2014 Toigo Fellow, who will be placed with the Equity Opportunities team.

## CharterBoardPartners

### Transforming Public Education

Three Carlyle professionals established Charter Board Partners (CBP), a Washington, DC-based nonprofit that helps public charter schools build strategic, engaged boards that support improved academic achievement. Ultimately, CBP's goal is to help ensure that every child has the chance to attend an excellent school. Believing that great boards are an essential component of great schools, CBP's mission is to promote and support strong charter school governance.

The CBP model of placing experienced business professionals on the boards of charter schools borrows directly from Carlyle's model of helping companies drive performance growth and operational improvements. CBP has trained and matched more than 70 professionals with charter school boards.

# Firm Leadership

■ BOARD OF DIRECTORS

● MANAGEMENT COMMITTEE

▲ OPERATING COMMITTEE



■ Jay S. Fishman  
Chairman and Chief Executive Officer  
The Travelers Companies



■ Lawton W. Fitt  
Retired Partner  
Goldman Sachs



■ James H. Hance, Jr.  
Operating Executive  
The Carlyle Group



■ Janet Hill  
Principal  
Hill Family Advisors



■ Edward J. Mathias  
Managing Director  
The Carlyle Group



■ Dr. Thomas S. Robertson  
Dean, Wharton School  
University of Pennsylvania



■ William J. Shaw  
Retired Vice Chairman  
Marriott International

▲ Bruce E. Rosenblum  
Managing Director

● ▲ David M. Marchick  
Managing Director

● ▲ Michael J. Petrick  
Managing Director

● ▲ Glenn A. Youngkin  
Chief Operating Officer  
and Managing Director

● ▲ Michael W. Arpey  
Managing Director

▲ Lori R. Sabet  
Managing Director

▲ Gregory L. Summe  
Managing Director

● ▲ Adena T. Friedman  
Chief Financial Officer  
and Managing Director

● ▲ Jeffrey W. Ferguson  
Managing Director



● ▲ David M. Rubenstein  
Co-Chief Executive Officer  
and Co-founder  
The Carlyle Group

● Daniel A. D'Aniello  
Chairman and Co-founder  
The Carlyle Group

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

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# THE CARLYLE GROUP

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GLOBAL ALTERNATIVE ASSET MANAGEMENT



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[www.carlyle.com](http://www.carlyle.com)



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