

Carlyle Group L.P.  
Form 10-Q  
August 07, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**  
**FOR THE TRANSITION PERIOD FROM** **TO**

**Commission File Number: 001-35538**

**The Carlyle Group L.P.**  
**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**45-2832612**  
**(I.R.S. Employer**  
**Identification No.)**

**1001 Pennsylvania Avenue, NW**

**Washington, D.C., 20004-2505**

**(Address of principal executive offices) (Zip Code)**

**(202) 729-5626**

**(Registrant's telephone number, including area code)**

**Not Applicable**

**(Former name or former address, if changed since last report)**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of the Registrant's common units representing limited partner interests outstanding as of July 30, 2014 was 66,923,224.



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### **Forward-Looking Statements**

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believe, expect, potential, continue, may, will, should, seek, approximately, plan, estimate, anticipate or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (the SEC), which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

### **Website and Social Media Disclosure**

We use our website ([www.carlyle.com](http://www.carlyle.com)), our corporate Facebook page (<http://www.facebook.com/pages/The-Carlyle-Group/103519702981?rf=110614118958798>) and our corporate Twitter account (@OneCarlyle) as channels of distribution of material company information. For example, financial and other material information regarding our company is routinely posted on and accessible at [www.carlyle.com](http://www.carlyle.com). Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive email alerts and other information about Carlyle when you enroll your email address by visiting the Email Alert Subscription section at <http://ir.carlyle.com/alerts.cfm?>. The contents of our website and social media channels are not, however, a part of this Quarterly Report on Form 10-Q and are not incorporated by reference herein.

Prior to the reorganization on May 2, 2012 in connection with our initial public offering, our business was owned by four holding entities: TC Group, L.L.C.; TC Group Cayman, L.P.; TC Group Investment Holdings, L.P. and TC Group Cayman Investment Holdings, L.P. We refer to these four holding entities collectively as the Parent Entities. The Parent Entities were under the common ownership and control of our senior Carlyle professionals and two strategic investors that owned minority interests in our business entities affiliated with Mubadala Development Company, an Abu-Dhabi based strategic development and investment company (Mubadala), and California Public Employees Retirement System (CalPERS). Unless the context suggests otherwise, references in this report to Carlyle, the Company, we, us and our refer (1) prior to the consummation of our reorganization into a holding partnership structure to Carlyle Group, which was comprised of the Parent Entities and their consolidated subsidiaries and (2) after our reorganization into a holding partnership structure, to The Carlyle Group L.P. and its consolidated subsidiaries.

When we refer to the partners of The Carlyle Group L.P., we are referring specifically to the common unitholders and our general partner and any others who may from time to time be partners of that specific Delaware limited partnership. When we refer to our senior Carlyle professionals, we are referring to the partner-level personnel of our firm. Senior Carlyle professionals, together with CalPERS and Mubadala, were the owners of our Parent Entities prior to the reorganization. References in this report to the ownership of the senior Carlyle professionals include the

ownership of personal planning vehicles of these individuals.

Carlyle funds, our funds and our investment funds refer to the investment funds and vehicles advised by Carlyle. Our carry funds refer to those investment funds that we advise, including the buyout funds, growth capital funds, real estate funds, infrastructure funds, certain energy funds and distressed debt and mezzanine funds (but excluding our structured credit funds, hedge funds, fund of funds vehicles and the NGP funds), where we receive a special residual allocation of income, which we refer to as a carried interest, in the event that specified investment returns are achieved by the fund. The NGP management fee funds refer to those funds advised by NGP Energy Capital Management (together with its affiliates and subsidiaries, NGP ) from which we only receive management fees. The NGP carry funds refers to the funds advised by NGP from which we are entitled to receive a carried interest. Our fund of funds vehicles refers to those funds, accounts and vehicles advised by AlpInvest Partners B.V. ( AlpInvest ), Metropolitan Real Estate Equity Management, LLC ( Metropolitan ), and Diversified Global Asset Management ( DGAM ).

Fee-earning assets under management or Fee-earning AUM refer to the assets we manage or advise from which we derive recurring fund management fees. Our Fee-earning AUM generally equals the sum of:

- (a) for carry funds and certain co-investment vehicles where the investment period has not expired and for Metropolitan fund of funds vehicles during the weighted-average investment period of the underlying funds, the amount of limited partner capital commitments, for AlpInvest fund of funds vehicles, the amount of external investor capital commitments during the commitment fee period, and for the NGP management fee funds and NGP carry funds, the amount of investor capital commitments before the first investment realization;
- (b) for substantially all carry funds and certain co-investment vehicles where the investment period has expired and for Metropolitan fund of funds vehicles after the expiration of the weighted-average investment period of the underlying funds, the remaining amount of limited partner invested capital, and for the NGP management fee funds and NGP carry funds where the first investment has been realized, the amount of partner commitments less realized and written-off investments;
- (c) the amount of aggregate Fee-earning collateral balance at par of our collateralized loan obligations ( CLOs ), as defined in the fund indentures (typically exclusive of equities and defaulted positions) as of the quarterly cut-off date for each CLO and the aggregate principal amount of the notes of our other structured products;
- (d) the external investor portion of the net asset value (pre-redemptions and subscriptions) of our long/short credit funds, emerging markets, multi-product macroeconomic, fund of hedge funds vehicles and other hedge funds;
- (e) the gross assets (including assets acquired with leverage), excluding cash and cash equivalents of our business development companies and certain carry funds; and
- (f) for AlpInvest fund of funds vehicles where the commitment fee period has expired, and certain carry funds where the investment period has expired, the lower of cost or fair value of invested capital.

Assets under management or AUM refers to the assets we manage or advise. Our AUM equals the sum of the following:

- (a) the fair value of the capital invested in our carry funds, co-investment vehicles, fund of funds vehicles and the NGP management fee funds and NGP carry funds plus the capital that we are entitled to call from investors in those funds and vehicles (including our commitments to those funds and vehicles and those of senior Carlyle professionals and employees) pursuant to the terms of their capital commitments to those funds and vehicles;
- (b) the amount of aggregate collateral balance and principal cash at par or aggregate principal amount of the notes of our CLOs and other structured products (inclusive of all positions); and

- (c) the net asset value (pre-redemptions and subscriptions) of our long/short credit, emerging markets, multi-product macroeconomic, fund of hedge funds vehicles and other hedge funds; and

- (d) the gross assets (including assets acquired with leverage) of our business development companies.

We include in our calculation of AUM and Fee-earning AUM certain energy and renewable resources funds that we jointly advise with Riverstone Holdings L.L.C. ( Riverstone ) and certain NGP management fee funds and the NGP carry funds. In addition, our Solutions segment includes certain assets under consulting relationships. Fee-earning AUM and AUM only include those assets which earn a material fee.



For our carry funds, co-investment vehicles, fund of funds vehicles, NGP management fee funds and NGP carry funds, total AUM includes the fair value of the capital invested, whereas Fee-earning AUM includes the amount of capital commitments or the remaining amount of invested capital, depending on whether the investment period for the fund has expired. As such, Fee-earning AUM may be greater than total AUM when the aggregate fair value of the remaining investments is less than the cost of those investments.

Our calculations of AUM and Fee-earning AUM may differ from the calculations of other alternative asset managers. As a result, these measures may not be comparable to similar measures presented by other alternative asset managers. In addition, our calculation of AUM (but not Fee-earning AUM) includes uncalled commitments to, and the fair value of invested capital in, our investment funds from Carlyle and our personnel, regardless of whether such commitments or invested capital are subject to management or performance fees. Our calculations of AUM or Fee-earning AUM are not based on any definition of AUM or Fee-earning AUM that is set forth in the agreements governing the investment funds that we manage or advise.

**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****The Carlyle Group L.P.****Condensed Consolidated Balance Sheets****(Dollars in millions)**

	<b>June 30, 2014 (Unaudited)</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,278.8	\$ 966.6
Cash and cash equivalents held at Consolidated Funds	2,258.5	1,402.7
Restricted cash	62.6	129.9
Restricted cash and securities of Consolidated Funds	24.4	25.7
Accrued performance fees	3,838.0	3,653.6
Investments	771.6	765.3
Investments of Consolidated Funds	27,557.9	26,886.4
Due from affiliates and other receivables, net	181.4	175.9
Due from affiliates and other receivables of Consolidated Funds, net	480.9	626.2
Receivables and inventory of a consolidated real estate VIE	183.2	180.4
Fixed assets, net	66.7	68.8
Deposits and other	58.5	38.5
Other assets of a consolidated real estate VIE	71.2	60.1
Intangible assets, net	544.7	582.8
Deferred tax assets	134.5	59.4
<b>Total assets</b>	<b>\$ 37,512.9</b>	<b>\$ 35,622.3</b>
<b>Liabilities and partners' capital</b>		
Loans payable	\$ 42.2	\$ 42.4
3.875% senior notes due 2023	499.9	499.8
5.625% senior notes due 2043	606.9	398.4
Loans payable of Consolidated Funds	16,136.4	15,220.7
Loans payable of a consolidated real estate VIE at fair value (principal amount of \$295.4 and \$305.3 as of June 30, 2014 and December 31, 2013, respectively)	147.7	122.1
Accounts payable, accrued expenses and other liabilities	245.3	265.1
Accrued compensation and benefits	2,449.3	2,253.0
Due to affiliates	278.2	403.7
Deferred revenue	104.5	64.1
Deferred tax liabilities	147.4	103.6
Other liabilities of Consolidated Funds	1,700.6	1,382.7
Other liabilities of a consolidated real estate VIE	91.6	97.7
Accrued giveback obligations	32.3	39.6

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Total liabilities	<b>22,482.3</b>	20,892.9
Commitments and contingencies		
Redeemable non-controlling interests in consolidated entities	<b>4,993.1</b>	4,352.0
Partners' capital (common units, 66,923,224 and 49,353,406 issued and outstanding as of June 30, 2014 and December 31, 2013, respectively)	<b>509.6</b>	357.1
Accumulated other comprehensive loss	<b>(11.9)</b>	(11.2)
Partners' capital appropriated for Consolidated Funds	<b>285.0</b>	463.6
Non-controlling interests in consolidated entities	<b>7,399.1</b>	7,696.6
Non-controlling interests in Carlyle Holdings	<b>1,855.7</b>	1,871.3
Total partners' capital	<b>10,037.5</b>	10,377.4
Total liabilities and partners' capital	<b>\$ 37,512.9</b>	<b>\$ 35,622.3</b>

See accompanying notes.

**The Carlyle Group L.P.**

**Condensed Consolidated Statements of Operations**

**(Unaudited)**

**(Dollars in millions, except unit and per unit data)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>				
Fund management fees	\$ 317.3	\$ 242.2	\$ 577.6	\$ 473.6
Performance fees				
Realized	415.6	203.2	667.0	456.0
Unrealized	126.8	55.9	495.9	445.5
Total performance fees	542.4	259.1	1,162.9	901.5
Investment income (loss)				
Realized	29.9	12.7	29.9	8.5
Unrealized	(6.2)	(1.7)	(0.1)	2.9
Total investment income (loss)	23.7	11.0	29.8	11.4
Interest and other income	3.7	4.1	7.5	6.5
Interest and other income of Consolidated Funds	243.7	252.9	494.4	521.3
Revenue of a consolidated real estate VIE	8.0		14.0	
Total revenues	1,138.8	769.3	2,286.2	1,914.3
<b>Expenses</b>				
Compensation and benefits				
Base compensation	220.5	173.6	425.1	352.1
Equity-based compensation	109.0	126.0	183.2	178.3
Performance fee related				
Realized	181.2	78.1	289.9	186.8
Unrealized	109.0	66.0	330.6	261.0
Total compensation and benefits	619.7	443.7	1,228.8	978.2
General, administrative and other expenses	118.7	120.3	253.0	231.7
Interest	14.5	11.6	26.7	22.1
Interest and other expenses of Consolidated Funds	252.3	201.7	516.3	451.8
Interest and other expenses of a consolidated real estate VIE	42.0		91.2	
Other non-operating (income) expenses	(4.6)	(3.3)	25.6	(5.7)

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Total expenses	<b>1,042.6</b>	774.0	<b>2,141.6</b>	1,678.1
<b>Other income</b>				
Net investment gains of Consolidated Funds	<b>445.0</b>	290.6	<b>869.0</b>	502.1
Income before provision for income taxes	<b>541.2</b>	285.9	<b>1,013.6</b>	738.3
Provision for income taxes	<b>53.8</b>	16.6	<b>69.8</b>	41.5
Net income	<b>487.4</b>	269.3	<b>943.8</b>	696.8
Net income attributable to non-controlling interests in consolidated entities	<b>369.7</b>	300.0	<b>694.2</b>	468.0
Net income (loss) attributable to Carlyle Holdings	<b>117.7</b>	(30.7)	<b>249.6</b>	228.8
Net income (loss) attributable to non-controlling interests in Carlyle Holdings	<b>98.2</b>	(27.4)	<b>205.5</b>	198.3
Net income (loss) attributable to The Carlyle Group L.P.	\$ <b>19.5</b>	\$ (3.3)	\$ <b>44.1</b>	\$ 30.5
Net income (loss) attributable to The Carlyle Group L.P. per common unit (see Note 15)				
Basic	\$ <b>0.30</b>	\$ (0.07)	\$ <b>0.74</b>	\$ 0.69
Diluted	\$ <b>0.27</b>	\$ (0.07)	\$ <b>0.66</b>	\$ 0.61
Weighted-average common units				
Basic	<b>65,138,793</b>	45,145,793	<b>58,855,013</b>	44,249,510
Diluted	<b>70,677,702</b>	45,145,793	<b>65,170,359</b>	49,881,397
Distributions declared per common unit	\$ <b>0.16</b>	\$ 0.16	\$ <b>1.56</b>	\$ 1.01

Substantially all revenue is earned from affiliates of the Partnership. See accompanying notes.

**The Carlyle Group L.P.****Condensed Consolidated Statements of Comprehensive Income****(Unaudited)****(Dollars in millions)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income	<b>\$ 487.4</b>	<b>\$ 269.3</b>	<b>\$ 943.8</b>	<b>\$ 696.8</b>
Other comprehensive income (loss)				
Foreign currency translation adjustments	<b>0.6</b>	<b>(141.7)</b>	<b>88.4</b>	<b>(81.9)</b>
Cash flow hedges				
Net gains for the period				<b>0.2</b>
Less: reclassification adjustment for loss included in interest expense	<b>0.5</b>	<b>0.9</b>	<b>1.1</b>	<b>2.4</b>
Defined benefit plans				
Net gains (losses) for the period	<b>1.5</b>	<b>(0.4)</b>	<b>2.3</b>	<b>0.6</b>
Less: reclassification adjustment for unrecognized loss during the period, net, included in base compensation expense	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.4</b>
Other comprehensive income (loss)	<b>2.7</b>	<b>(141.0)</b>	<b>92.0</b>	<b>(78.3)</b>
Comprehensive income	<b>490.1</b>	<b>128.3</b>	<b>1,035.8</b>	<b>618.5</b>
Less: Comprehensive (income) loss attributable to partners capital appropriated for Consolidated Funds	<b>96.1</b>	<b>127.6</b>	<b>178.6</b>	<b>400.4</b>
Less: Comprehensive (income) loss attributable to non-controlling interests in consolidated entities	<b>(454.4)</b>	<b>(258.6)</b>	<b>(885.7)</b>	<b>(588.7)</b>
Less: Comprehensive (income) loss attributable to redeemable non-controlling interests in consolidated entities	<b>0.6</b>	<b>(31.9)</b>	<b>(66.4)</b>	<b>(209.1)</b>
Comprehensive income (loss) attributable to Carlyle Holdings	<b>132.4</b>	<b>(34.6)</b>	<b>262.3</b>	<b>221.1</b>
Less: Comprehensive (income) loss attributable to non-controlling interests in Carlyle Holdings	<b>(109.3)</b>	<b>30.8</b>	<b>(215.1)</b>	<b>(191.6)</b>
Comprehensive income (loss) attributable to The Carlyle Group L.P.	<b>\$ 23.1</b>	<b>\$ (3.8)</b>	<b>\$ 47.2</b>	<b>\$ 29.5</b>

See accompanying notes.

**The Carlyle Group L.P.****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(Dollars in millions)**

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 943.8	\$ 696.8
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	88.6	76.4
Equity-based compensation	183.2	178.3
Excess tax benefits related to equity-based compensation	(1.4)	(1.7)
Non-cash performance fees	(515.3)	(513.8)
Other non-cash amounts	57.4	2.5
Consolidated Funds related:		
Realized/unrealized (gain) loss on investments of Consolidated Funds	(956.8)	(1,112.0)
Realized/unrealized loss from loans payable of Consolidated Funds	114.9	643.0
Purchases of investments by Consolidated Funds	(5,174.2)	(6,404.2)
Proceeds from sale and settlements of investments by Consolidated Funds	5,477.2	6,211.8
Non-cash interest income, net	(16.6)	(43.1)
Change in cash and cash equivalents held at Consolidated Funds	989.1	1,174.9
Change in other receivables held at Consolidated Funds	154.0	(62.6)
Change in other liabilities held at Consolidated Funds	315.7	176.7
Investment income	(17.4)	(1.1)
Purchases of investments and trading securities	(88.5)	(122.4)
Proceeds from the sale of investments and trading securities	449.9	198.4
Payments of contingent consideration	(43.9)	
Changes in deferred taxes, net	34.6	23.6
Change in due from affiliates and other receivables	(20.0)	(21.7)
Change in receivables and inventory of a consolidated real estate VIE	(5.3)	
Change in deposits and other	(15.8)	4.2
Change in other assets of a consolidated real estate VIE	(9.0)	
Change in accounts payable, accrued expenses and other liabilities	(13.4)	15.4
Change in accrued compensation and benefits	199.0	248.4
Change in due to affiliates	(86.4)	9.3
Change in other liabilities of a consolidated real estate VIE	(5.9)	
Change in deferred revenue	40.3	(0.6)
Net cash provided by operating activities	2,077.8	1,376.5
<b>Cash flows from investing activities</b>		
Change in restricted cash	67.5	(6.9)
Purchases of fixed assets, net	(8.4)	(12.3)
Acquisitions, net of cash acquired	(3.1)	

Net cash provided by (used in) investing activities	56.0	(19.2)
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**The Carlyle Group L.P.****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(Dollars in millions)**

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from financing activities</b>		
Repayments under credit facility		(386.3)
Issuance of 3.875% senior notes due 2023, net of financing costs		495.3
Issuance of 5.625% senior notes due 2043, net of financing costs	210.8	394.1
Payments on loans payable		(475.0)
Net payments on loans payable of a consolidated real estate VIE	(5.2)	
Net payment on loans payable of Consolidated Funds	(1,007.8)	(926.6)
Payments of contingent consideration	(29.8)	(10.9)
Excess tax benefits related to equity-based compensation	1.4	1.7
Distributions to common unitholders	(81.1)	(44.1)
Distributions to non-controlling interest holders in Carlyle Holdings	(406.7)	(289.2)
Net proceeds from issuance of common units, net of offering costs	449.5	
Acquisition of non-controlling interests in Carlyle Holdings	(303.4)	
Contributions from non-controlling interest holders	1,295.7	1,354.5
Distributions to non-controlling interest holders	(1,906.9)	(1,599.6)
Change in due to/from affiliates financing activities	1.8	12.0
Change in due to/from affiliates and other receivables of Consolidated Funds	(52.6)	143.0
Net cash used in financing activities	(1,834.3)	(1,331.1)
Effect of foreign exchange rate changes	12.7	(20.4)
Increase in cash and cash equivalents	312.2	5.8
Cash and cash equivalents, beginning of period	966.6	567.1
Cash and cash equivalents, end of period	\$ 1,278.8	\$ 572.9
<b>Supplemental non-cash disclosures</b>		
Increase in partners' capital related to reallocation of ownership interest in Carlyle Holdings	\$ 39.5	\$ 10.4
Non-cash contributions from non-controlling interest holders	\$ 2.7	\$ 5.4
<b>Tax effect from acquisition of Carlyle Holdings partnership units:</b>		
Deferred tax asset	\$ 73.5	\$
Tax receivable agreement liability	\$ 63.1	\$

Total partners' capital	\$	10.4	\$
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See accompanying notes.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**1. Organization and Basis of Presentation**

The Carlyle Group L.P., together with its consolidated subsidiaries (the Partnership or Carlyle ), is one of the world's largest global alternative asset management firms that originates, structures and acts as lead equity investor in management-led buyouts, strategic minority equity investments, equity private placements, consolidations and buildups, growth capital financings, real estate opportunities, bank loans, high-yield debt, distressed assets, mezzanine debt and other investment opportunities. The Partnership is a Delaware limited partnership formed on July 18, 2011. The Partnership is managed and operated by its general partner, Carlyle Group Management L.L.C., which is in turn wholly-owned and controlled by Carlyle's founders and other senior Carlyle professionals.

Carlyle provides investment management services to, and has transactions with, various private equity funds, real estate funds, collateralized loan obligations ( CLOs ), hedge funds and other investment products sponsored by the Partnership for the investment of client assets in the normal course of business. Carlyle typically serves as the general partner, investment manager or collateral manager, making day-to-day investment decisions concerning the assets of these products. Carlyle operates its business through four reportable segments: Corporate Private Equity, Global Market Strategies, Real Assets and Solutions (see Note 18).

**Basis of Presentation**

The accompanying financial statements include the accounts of the Partnership and its consolidated subsidiaries. In addition, certain Carlyle-affiliated funds, related co-investment entities, certain CLOs managed by the Partnership (collectively the Consolidated Funds ) and a real estate development company (see Note 17) have been consolidated in the accompanying financial statements pursuant to accounting principles generally accepted in the United States ( U.S. GAAP ), as described in Note 2. The consolidation of the Consolidated Funds generally has a gross-up effect on assets, liabilities and cash flows, and has no effect on the net income attributable to the Partnership. The majority economic ownership interests of the investors in the Consolidated Funds are reflected as non-controlling interests in consolidated entities, partners' capital appropriated for Consolidated Funds and redeemable non-controlling interests in consolidated entities in the accompanying condensed consolidated financial statements.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. These statements, including notes, have not been audited, exclude some of the disclosures required for annual financial statements, and should be read in conjunction with the audited consolidated financial statements included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are necessary for the fair presentation of the financial condition and results of operations for the interim periods presented.

**March 2014 Public Offering of Partnership Common Units**

## Edgar Filing: Carlyle Group L.P. - Form 10-Q

On March 10, 2014, the Partnership completed a public offering of 13,800,000 common units priced at \$33.50 per common unit. The Partnership received net proceeds of approximately \$449.5 million, after deduction of the underwriting discount and offering expenses. The Partnership's wholly-owned subsidiaries used \$146.1 million of the net proceeds to acquire 4,500,000 newly issued Carlyle Holdings partnership units from Carlyle Holdings. These proceeds will be used by Carlyle Holdings for general corporate purposes, including investments in Carlyle's funds as well as investment capital for acquisitions of new fund platforms and strategies or other growth initiatives, to drive innovation across the broader Carlyle platform. The Partnership's wholly-owned subsidiaries used the remaining net proceeds of \$303.4 million to acquire 9,300,000 Carlyle Holding partnership units from the other limited partners of Carlyle Holdings, including certain of the Partnership's directors and executive officers.

## The Carlyle Group L.P.

### Notes to the Condensed Consolidated Financial Statements

(Unaudited)

As the sole general partner of Carlyle Holdings, the Partnership consolidates the financial position and results of operations of Carlyle Holdings into its financial statements, and the other ownership interests in Carlyle Holdings are reflected as non-controlling interests in the Partnership's consolidated financial statements. As it relates to the 4,500,000 newly issued Carlyle Holdings partnership units that the Partnership acquired, because the Partnership acquired these partnership units at a valuation in excess of the proportion of the book value of the net assets acquired, the Partnership incurred an immediate dilution of approximately \$116.8 million. This dilution was reflected within partners' capital as a reallocation from partners' capital to non-controlling interests in Carlyle Holdings.

As it relates to the 9,300,000 Carlyle Holdings partnership units that the Partnership acquired from the other limited partners of Carlyle Holdings, the Partnership accounted for this transaction as an acquisition of ownership interests in a subsidiary while retaining a controlling interest in the subsidiary. Accordingly, the carrying value of the non-controlling interest was adjusted to reflect the change in the ownership interests in Carlyle Holdings. The excess of the fair value of the consideration issued by the Partnership over the carrying amount of the non-controlling interest acquired was recognized directly as a reduction to partners' capital. The adjustment to partners' capital was derived as follows (Dollars in millions):

Acquisition-date fair value of consideration transferred:	
Cash	\$ 303.4
Carrying value of non-controlling interest acquired	(66.4)
Excess of fair value of consideration transferred over carrying value of non-controlling interest acquired	\$ 237.0

The following summarizes the adjustments within partners' capital related to the March 2014 public offering (Dollars in millions):

	Partners' Capital	Non-controlling interests in Carlyle Holdings	Total Partners Capital
Proceeds from The Carlyle Group L.P. common units issued	\$ 449.5	\$	\$ 449.5
Dilution associated with the acquisition of 4,500,000 Carlyle Holdings partnership units	(116.8)	116.8	
Acquisition of non-controlling interest in Carlyle Holdings	(237.0)	(66.4)	(303.4)
Total increase	\$ 95.7	\$ 50.4	\$ 146.1

Additionally, the acquisition by the Partnership of the 9,300,000 Carlyle Holdings partnership units from the other limited partners of Carlyle Holdings is subject to the terms of the tax receivable agreement. Accordingly, the Partnership recorded a deferred tax asset of \$70.0 million, an increase to the liability owed under the tax receivable agreement of \$60.1 million, and an increase in partners' capital of \$9.9 million based on estimated tax information available at the time. The Partnership recorded subsequent adjustments for this exchange due to updated relevant tax calculations, which increased the deferred tax asset by \$3.5 million, increased the liability to the limited partners by \$3.0 million and increased partners' capital by \$0.5 million. The liability is expected to be paid as the deferred tax asset is realized as a reduction in taxes payable.

Following the issuance of common units from the March 2014 public offering, the issuance of common units for the acquisition of Diversified Global Asset Management Corporation ( "DGAM" , see Note 3) and the vesting of deferred restricted common units, the total number of Partnership common units outstanding as of June 30, 2014 was 66,923,224 common units.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**2. Summary of Significant Accounting Policies**

**Principles of Consolidation**

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise. In addition, the accompanying condensed consolidated financial statements consolidate: (1) Carlyle-affiliated funds and co-investment entities, for which the Partnership is the sole general partner and the presumption of control by the general partner has not been overcome and (2) variable interest entities ( VIE s), including certain CLOs and a real estate development company, for which the Partnership is deemed to be the primary beneficiary; consolidation of these entities is a requirement under U.S. GAAP. All significant inter-entity transactions and balances have been eliminated.

For entities that are determined to be VIEs, the Partnership consolidates those entities where it is deemed to be the primary beneficiary. An entity is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity's business and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The revised consolidation rules require an analysis to (a) determine whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would give it a controlling financial interest. In evaluating whether the Partnership is the primary beneficiary, the Partnership evaluates its economic interests in the entity held either directly or indirectly by the Partnership. The consolidation analysis is generally performed qualitatively. This analysis, which requires judgment, is performed at each reporting date.

In February 2010, Accounting Standards Update ( ASU ) No. 2010-10, *Amendments for Certain Investment Funds*, was issued. This ASU defers the application of the revised consolidation rules for a reporting enterprise's interest in an entity if certain conditions are met, including if the entity has the attributes of an investment company and is not a securitization or asset-backed financing entity. An entity that qualifies for the deferral will continue to be assessed for consolidation under the overall guidance on VIEs, before its amendment, and other applicable consolidation guidance.

As of June 30, 2014, assets and liabilities of consolidated VIEs reflected in the condensed consolidated balance sheets were \$25.6 billion and \$18.0 billion, respectively. Except to the extent of the assets of the VIEs which are consolidated, the holders of the consolidated VIEs' liabilities generally do not have recourse to the Partnership. The assets and liabilities of the consolidated VIEs that are Consolidated Funds are comprised primarily of investments and loans payable, respectively.

The loans payable issued by the CLOs are backed by diversified collateral asset portfolios consisting primarily of loans or structured debt. In exchange for managing the collateral for the CLOs, the Partnership earns investment management fees, including in some cases subordinated management fees and contingent incentive fees. In cases where the Partnership consolidates the CLOs, those management fees have been eliminated as intercompany transactions. As of June 30, 2014, the Partnership held \$107.5 million of investments in these CLOs which represent its maximum risk of loss. The Partnership's investments in these CLOs are generally subordinated to other interests in

the entities and entitle the Partnership to receive a pro rata portion of the residual cash flows, if any, from the entities. Investors in the CLOs have no recourse against the Partnership for any losses sustained in the CLO structure.

For all Carlyle-affiliated funds and co-investment entities (collectively the Funds ) that are not determined to be VIEs, the Partnership consolidates those funds where, as the sole general partner, it has not overcome the presumption of control pursuant to U.S. GAAP. Most Carlyle funds provide a dissolution right upon a simple majority vote of the non-Carlyle affiliated limited partners such that the presumption of control by Carlyle is overcome. Accordingly, these funds are not consolidated in the Partnership's condensed consolidated financial statements.



## The Carlyle Group L.P.

### Notes to the Condensed Consolidated Financial Statements

(Unaudited)

#### Investments in Unconsolidated Variable Interest Entities

The Partnership holds variable interests in certain VIEs that are not consolidated because the Partnership is not the primary beneficiary. The Partnership's involvement with such entities is in the form of direct equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by the Partnership relating to these unconsolidated entities. The assets recognized in the Partnership's condensed consolidated balance sheets related to the Partnership's interests in these non-consolidated VIEs and the Partnership's maximum exposure to loss relating to non-consolidated VIEs were as follows:

	<b>As of</b>	
	<b>June 30,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Investments	<b>\$ 372.4</b>	\$ 364.8
Receivables	<b>54.6</b>	132.4
Maximum Exposure to Loss	<b>\$ 427.0</b>	\$ 497.2

#### Basis of Accounting

The accompanying financial statements are prepared in accordance with U.S. GAAP. Management has determined that the Partnership's Funds are investment companies under U.S. GAAP for the purposes of financial reporting. U.S. GAAP for an investment company requires investments to be recorded at estimated fair value and the unrealized gains and/or losses in an investment's fair value are recognized on a current basis in the statements of operations. Additionally, the Funds do not consolidate their majority-owned and controlled investments (the Portfolio Companies). In the preparation of these condensed consolidated financial statements, the Partnership has retained the specialized accounting for the Funds.

All of the investments held and notes issued by the Consolidated Funds are presented at their estimated fair values in the Partnership's condensed consolidated balance sheets. Interest and other income of the Consolidated Funds as well as interest expense and other expenses of the Consolidated Funds are included in the Partnership's condensed consolidated statements of operations. The excess of the CLO assets over the CLO liabilities upon consolidation is reflected in the Partnership's condensed consolidated balance sheets as partners' capital appropriated for Consolidated Funds. Net income attributable to the investors in the CLOs is included in net income (loss) attributable to non-controlling interests in consolidated entities in the condensed consolidated statements of operations and partners' capital appropriated for Consolidated Funds in the condensed consolidated balance sheets.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates are based on historical experiences and other factors, including expectations of future events that management believes to be reasonable under the circumstances. It also requires management to exercise judgment in the process of applying the Partnership's accounting policies. Assumptions and estimates regarding the valuation of investments and their resulting impact on performance fees involve a higher degree of judgment and complexity and these assumptions and estimates may be significant to the consolidated financial statements and the resulting impact on performance fees. Actual results could differ from these estimates and such differences could be material.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**Business Combinations**

The Partnership accounts for business combinations using the acquisition method of accounting, under which the purchase price of the acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. Contingent consideration obligations that are elements of consideration transferred are recognized as of the acquisition date as part of the fair value transferred in exchange for the acquired business. Acquisition-related costs incurred in connection with a business combination are expensed.

**Revenue Recognition**

***Fund Management Fees***

The Partnership provides management services to funds in which it holds a general partner interest or has a management agreement. For corporate private equity, certain global market strategies funds and real assets funds, management fees are calculated based on (a) limited partners' capital commitments to the funds, (b) limited partners' remaining capital invested in the funds at cost or at the lower of cost or aggregate remaining fair value, (c) gross assets, excluding cash and cash equivalents or (d) the net asset value ( NAV ) of certain of the funds, less offsets for the non-affiliated limited partners' share of transaction advisory and portfolio fees earned, as defined in the respective partnership agreements.

Management fees for corporate private equity, closed-end carry funds in the global market strategies segment and real assets funds generally range from 1% to 2% of commitments during the investment period of the relevant fund. Following the expiration or termination of the investment period of such funds, the management fees generally step-down to between 0.6% and 2.0% of contributions for unrealized investments. The Partnership will receive management fees for corporate private equity and real assets funds during a specified period of time, which is generally ten years from the initial closing date, or, in some instances, from the final closing date, but such termination date may be earlier in certain limited circumstances or later if extended for successive one-year periods, typically up to a maximum of two years. Depending upon the contracted terms of investment advisory or investment management and related agreements, these fees are generally called semi-annually in advance and are recognized as earned over the subsequent six month period.

For certain global market strategies funds, management fees are calculated based on assets under management of the funds with generally lower fee rates. Hedge funds typically pay management fees quarterly that generally range from 1.5% to 2.0% of NAV per year. Management fees for the Partnership's business development companies are due quarterly in arrears at annual rates that range from 0.25% to 1.0% of gross assets, excluding cash and cash equivalents. Management fees for the CLOs and other structured products typically range from 0.15% to 1.00% on the total par amount of assets or the aggregate principal amount of the notes in the fund and are due quarterly or semi-annually based on the terms and recognized over the respective period. Management fees for the CLOs/structured products and credit opportunities are governed by indentures and collateral management agreements. The Partnership will receive management fees for the CLOs until redemption of the securities issued by the CLOs, which is generally five to ten years after issuance. Open-ended funds typically do not have stated termination dates.

Management fees for our private equity and real estate fund of funds vehicles generally range from 0.3% to 1.0% on the vehicle's capital commitments during the commitment fee period of the relevant fund or the weighted-average investment period of the underlying funds. Following the expiration of the commitment fee period or weighted-average investment period of such funds, the management fees generally range from 0.3% to 1.0% on the lower of cost or fair value of the capital invested, the net asset value for unrealized investments, or the contributions for unrealized investments. The management fees for our fund of hedge fund vehicles generally range from 0.2% to 1.5% of net asset value. Management fees for our Solutions segment are generally due quarterly and recognized over the related quarter.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

The Partnership also provides transaction advisory and portfolio advisory services to the Portfolio Companies, and where covered by separate contractual agreements, recognizes fees for these services when the service has been provided and collection is reasonably assured. Fund management fees includes transaction and portfolio advisory fees of \$33.2 million and \$12.5 million for the three months ended June 30, 2014 and 2013, respectively, and \$40.2 million and \$27.5 million for the six months ended June 30, 2014 and 2013, respectively, net of any offsets as defined in the respective partnership agreements.

***Performance Fees***

Performance fees consist principally of the allocation of profits from certain of the funds to which the Partnership is entitled (commonly known as carried interest). The Partnership is generally entitled to a 20% allocation (or 10% to 20% on external coinvestment vehicles, with some earning no carried interest, or approximately 2% to 10% in the case of most of the Partnership's fund of funds vehicles) of the net realized income or gain as a carried interest after returning the invested capital, the allocation of preferred returns and return of certain fund costs (generally subject to catch-up provisions) from its corporate private equity and real assets funds and closed-end carry funds in the global market strategies segment. Carried interest is recognized upon appreciation of the funds' investment values above certain return hurdles set forth in each respective partnership agreement. The Partnership recognizes revenues attributable to performance fees based upon the amount that would be due pursuant to the fund partnership agreement at each period end as if the funds were terminated at that date. Accordingly, the amount recognized as total performance fees reflects the Partnership's share of the gains and losses of the associated funds' underlying investments measured at their then-current fair values. Because of the inherent uncertainty, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and it is reasonably possible that the difference could be material.

Carried interest is ultimately realized when: (i) an underlying investment is profitably disposed of, (ii) certain costs borne by the limited partner investors have been reimbursed, (iii) the fund's cumulative returns are in excess of the preferred return and (iv) the Partnership has decided to collect carry rather than return additional capital to limited partner investors. Realized carried interest may be required to be returned by the Partnership in future periods if the funds' investment values decline below certain levels. When the fair value of a fund's investments remains constant or falls below certain return hurdles, previously recognized performance fees are reversed. In all cases, each fund is considered separately in this regard, and for a given fund, performance fees can never be negative over the life of a fund. If upon a hypothetical liquidation of a fund's investments at their then current fair values, previously recognized and distributed carried interest would be required to be returned, a liability is established for the potential giveback obligation. As of June 30, 2014 and December 31, 2013, the Partnership has recognized \$32.3 million and \$39.6 million, respectively, for giveback obligations.

In addition to its performance fees from its corporate private equity and real assets funds and closed-end carry funds in the global market strategies segment, the Partnership is also entitled to receive performance fees from certain of its global market strategies funds and fund of funds vehicles when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fees are recognized when the performance benchmark has been achieved, and are included in performance fees in the accompanying condensed consolidated statements of operations.

***Investment Income (Loss)***

Investment income (loss) represents the unrealized and realized gains and losses resulting from the Partnership's equity method investments and other principal investments. Equity method investment income (loss) includes the related amortization of the basis difference between the Partnership's carrying value of its investment and the Partnership's share of underlying net assets of the investee, as well as the compensation expense associated with compensatory arrangements provided by the Partnership to employees of its equity method investee. Investment income (loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives or is due cash income, such as dividends or distributions. Unrealized investment income (loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

***Interest Income***

Interest income is recognized when earned. Interest income earned by the Partnership was \$0.4 million and \$0.6 million for the three months ended June 30, 2014 and 2013, respectively, and \$0.7 million and \$1.1 million for the six months ended June 30, 2014 and 2013, respectively, and is included in interest and other income in the accompanying condensed consolidated statements of operations. Interest income of the Consolidated Funds was \$214.8 million and \$221.7 million for the three months ended June 30, 2014 and 2013, respectively, and \$436.0 million and \$452.3 million for the six months ended June 30, 2014 and 2013, respectively, and is included in interest and other income of Consolidated Funds in the accompanying condensed consolidated statements of operations.

**Compensation and Benefits**

***Base Compensation*** Base compensation includes salaries, bonuses (discretionary awards and guaranteed amounts), performance payment arrangements and benefits paid and payable to Carlyle employees. Bonuses are accrued over the service period to which they relate.

***Equity-Based Compensation*** Compensation expense relating to the issuance of equity-based awards to Carlyle employees is measured at fair value on the grant date. The compensation expense for awards that vest over a future service period is recognized over the relevant service period on a straight-line basis, adjusted for estimated forfeitures of awards not expected to vest. The compensation expense for awards that do not require future service is recognized immediately. Upon the end of the service period, compensation expense is adjusted to account for the actual forfeiture rate. Cash settled equity-based awards are classified as liabilities and are re-measured at the end of each reporting period. The compensation expense for awards that contain performance conditions is recognized when it is probable that the performance conditions will be achieved; in certain instances, such compensation expense may be recognized prior to the grant date of the award.

Equity-based awards issued to non-employees are recognized as general, administrative and other expenses. The grant-date fair value of equity-based awards granted to Carlyle's non-employee directors is expensed on a straight-line basis over the vesting period. The cost of services received in exchange for an equity-based award issued to consultants is measured at each vesting date, and is not measured based on the grant-date fair value of the award unless the award is vested at the grant date. Equity-based awards that require the satisfaction of future service criteria are recognized over the relevant service period, adjusted for estimated forfeitures of awards not expected to vest, based on the fair value of the award on each reporting date and adjusted for the actual fair value of the award at each vesting date. Accordingly, the measured value of the award will not be finalized until the vesting date.

***Performance Fee Related Compensation*** A portion of the performance fees earned is due to employees and advisors of the Partnership. These amounts are accounted for as compensation expense in conjunction with the recognition of the related performance fee revenue and, until paid, are recognized as a component of the accrued compensation and benefits liability. Accordingly, upon any reversal of performance fee revenue, the related compensation expense is also reversed. As of June 30, 2014 and December 31, 2013, the Partnership had recorded a liability of \$1.8 billion and \$1.7 billion, respectively, in accrued compensation related to the portion of accrued performance fees due to employees and advisors, which was included in accrued compensation and benefits in the accompanying condensed

consolidated financial statements.

### **Income Taxes**

Certain of the wholly-owned subsidiaries of the Partnership and the Carlyle Holdings partnerships are subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income is reflected in the condensed consolidated financial statements. Based on applicable foreign, state and local tax laws, the Partnership records a provision for income taxes for certain entities. AlpInvest Partners B.V. ( AlpInvest ), a subsidiary of the Partnership, is subject to entity level income taxes in the Netherlands. Tax positions taken by the Partnership are subject to periodic audit by U.S. federal, state, local and foreign taxing authorities.



**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

The Partnership accounts for income taxes under the provisions of Accounting Standards Codification ( ASC ) 740, *Income Taxes* ( ASC 740 ), using the liability method. ASC 740 requires the recognition of deferred tax liabilities and assets for the expected future consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement reporting and the tax basis of assets and liabilities using enacted tax rates in effect for the period in which the difference is expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period of the change in the provision for income taxes. Further, deferred tax assets are recognized for the expected realization of available net operating loss and tax credit carry forwards. A valuation allowance is recorded on the Partnership's gross deferred tax assets when it is more likely than not that such asset will not be realized. When evaluating the realizability of the Partnership's deferred tax assets, all evidence, both positive and negative, is evaluated. Items considered in this analysis include the ability to carry back losses, the reversal of temporary differences, tax planning strategies, and expectations of future earnings.

Under U.S. GAAP for income taxes, the amount of tax benefit to be recognized is the amount of benefit that is more likely than not to be sustained upon examination. The Partnership analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. If, based on this analysis, the Partnership determines that uncertainties in tax positions exist, a liability is established, which is included in accounts payable, accrued expenses and other liabilities in the condensed consolidated financial statements. The Partnership recognizes accrued interest and penalties related to unrecognized tax positions in the provision for income taxes. If recognized, the entire amount of unrecognized tax positions would be recorded as a reduction in the provision for income taxes.

**Tax Receivable Agreement**

Exchanges of Carlyle Holdings partnership units for the Partnership's common units that are executed by the limited partners of the Carlyle Holdings partnerships result in transfers of and increases in the tax basis of the tangible and intangible assets of Carlyle Holdings, primarily attributable to a portion of the goodwill inherent in the business. These transfers and increases in tax basis will increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that certain of the Partnership's subsidiaries, including Carlyle Holdings I GP Inc., which are referred to as the corporate taxpayers, would otherwise be required to pay in the future. This increase in tax basis may also decrease gain (or increase loss) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets. The Partnership has entered into a tax receivable agreement with the limited partners of the Carlyle Holdings partnerships whereby the corporate taxpayers have agreed to pay to the limited partners of the Carlyle Holdings partnerships involved in any exchange transaction 85% of the amount of cash tax savings, if any, in U.S. federal, state and local income tax or foreign or franchise tax that the corporate taxpayers realize as a result of these increases in tax basis and, in limited cases, transfers or prior increases in tax basis. The corporate taxpayers expect to benefit from the remaining 15% of cash tax savings, if any, in income tax they realize. Payments under the tax receivable agreement will be based on the tax reporting positions that the Partnership will determine. The corporate taxpayers will not be reimbursed for any payments previously made under the tax receivable agreement if a tax basis increase is successfully challenged by the Internal Revenue Service.

The Partnership records an increase in deferred tax assets for the estimated income tax effects of the increases in tax basis based on enacted federal and state tax rates at the date of the exchange. To the extent that the Partnership estimates that the corporate taxpayers will not realize the full benefit represented by the deferred tax asset, based on an analysis that will consider, among other things, its expectation of future earnings, the Partnership will reduce the deferred tax asset with a valuation allowance and will assess the probability that the related liability owed under the tax receivable agreement will be paid. The Partnership records 85% of the estimated realizable tax benefit (which is the recorded deferred tax asset less any recorded valuation allowance) as an increase to the liability due under the tax receivable agreement, which is included in due to affiliates in the accompanying condensed consolidated financial statements. The remaining 15% of the estimated realizable tax benefit is initially recorded as an increase to the Partnership's partners' capital.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

All of the effects to the deferred tax asset of changes in any of the Partnership's estimates after the tax year of the exchange will be reflected in the provision for income taxes. Similarly, the effect of subsequent changes in the enacted tax rates will be reflected in the provision for income taxes.

**Non-controlling Interests**

Non-controlling interests in consolidated entities represent the component of equity in consolidated entities held by third-party investors. These interests are adjusted for general partner allocations and by subscriptions and redemptions in hedge funds which occur during the reporting period. Any change in ownership of a subsidiary while the controlling financial interest is retained is accounted for as an equity transaction between the controlling and non-controlling interests. Transaction costs incurred in connection with such changes in ownership of a subsidiary are recorded as a direct charge to partners' capital.

Non-controlling interests related to hedge funds are subject to quarterly or monthly redemption by investors in these funds following the expiration of a specified period of time, or may be withdrawn subject to a redemption fee during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third-party interests in such consolidated funds are presented as redeemable non-controlling interests in consolidated entities within the condensed consolidated balance sheets. When redeemable amounts become contractually payable to investors, they are classified as a liability and included in other liabilities of Consolidated Funds in the condensed consolidated balance sheets.

Non-controlling interests in Carlyle Holdings relate to the ownership interests of the other limited partners of the Carlyle Holdings partnerships. The Partnership, through wholly-owned subsidiaries, is the sole general partner of Carlyle Holdings. Accordingly, the Partnership consolidates Carlyle Holdings into its consolidated financial statements, and the other ownership interests in Carlyle Holdings are reflected as non-controlling interests in the Partnership's condensed consolidated financial statements. Any change to the Partnership's ownership interest in Carlyle Holdings while it retains the controlling financial interest in Carlyle Holdings is accounted for as a transaction within partners' capital as a reallocation of ownership interests in Carlyle Holdings.

**Earnings Per Common Unit**

The Partnership computes earnings per common unit in accordance with ASC 260, *Earnings Per Share* (ASC 260). Basic earnings per common unit is calculated by dividing net income (loss) attributable to the common units of the Partnership by the weighted-average number of common units outstanding for the period. Diluted earnings per common unit reflects the assumed conversion of all dilutive securities. Net income (loss) attributable to the common units excludes net income (loss) and dividends attributable to any participating securities under the two-class method of ASC 260.

**Investments**

Investments include (i) the Partnership's ownership interests (typically general partner interests) in the Funds, (ii) the investments held by the Consolidated Funds (all of which are presented at fair value in the Partnership's condensed

consolidated financial statements), (iii) strategic investments made by the Partnership and (iv) certain credit-oriented investments. The valuation procedures utilized for investments of the Funds vary depending on the nature of the investment. The fair value of investments in publicly-traded securities is based on the closing price of the security with adjustments to reflect appropriate discounts if the securities are subject to restrictions. Upon the sale of a security, the realized net gain or loss is computed on a weighted average cost basis, with the exception of the CLOs, which compute the realized net gain or loss on a first in, first out basis. Securities transactions are recorded on a trade date basis.

The fair value of non-equity securities, which may include instruments that are not listed on an exchange, considers, among other factors, external pricing sources, such as dealer quotes or independent pricing services, recent trading activity or other information that, in the opinion of the Partnership, may not have been reflected in pricing obtained from external sources.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

When valuing private securities or assets without readily determinable market prices, the Partnership gives consideration to operating results, financial condition, economic and/or market events, recent sales prices and other pertinent information. These valuation procedures may vary by investment but include such techniques as comparable public market valuation, comparable acquisition valuation and discounted cash flow analysis. Because of the inherent uncertainty, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and it is reasonably possible that the difference could be material. Furthermore, there is no assurance that, upon liquidation, the Partnership will realize the values presented herein.

**Equity-Method Investments**

The Partnership accounts for all investments in which it has or is otherwise presumed to have significant influence, including investments in the unconsolidated Funds and strategic investments, using the equity method of accounting. The carrying value of equity-method investments is determined based on amounts invested by the Partnership, adjusted for the equity in earnings or losses of the investee allocated based on the respective partnership agreement, less distributions received. The Partnership evaluates its equity-method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash held at banks and cash held for distributions, including temporary investments with original maturities of less than three months when purchased. Included in cash and cash equivalents is cash withheld from carried interest distributions for potential giveback obligations of \$24.8 million and \$55.2 million at June 30, 2014 and December 31, 2013, respectively.

**Cash and Cash Equivalents Held at Consolidated Funds**

Cash and cash equivalents held at Consolidated Funds consists of cash and cash equivalents held by the Consolidated Funds, which, although not legally restricted, is not available to fund the general liquidity needs of the Partnership.

**Restricted Cash**

In addition to the unrestricted cash held for potential giveback obligations discussed above, the Partnership is required to withhold a certain portion of the carried interest proceeds from one of its Corporate Private Equity funds to provide a reserve for potential giveback obligations. In connection with this agreement, cash and cash equivalents of \$13.2 million is included in restricted cash at June 30, 2014 and December 31, 2013. Restricted cash at June 30, 2014 also includes \$8.9 million of cash received on behalf of certain non-consolidated Carlyle funds that was paid out in July 2014. Also included in restricted cash at June 30, 2014 and December 31, 2013 is 4.4 million (\$6.0 million and \$6.1 million as of June 30, 2014 and December 31, 2013, respectively) in escrow related to a tax contingency at one of the Partnership's real estate funds (see Note 11). The remaining balance in restricted cash at June 30, 2014 and December 31, 2013 primarily represents cash held by the Partnership's foreign subsidiaries due to certain government regulatory capital requirements.



**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**Restricted Cash and Securities of Consolidated Funds**

Certain CLOs receive cash from various counterparties to satisfy collateral requirements on derivative transactions. Cash received to satisfy these collateral requirements of \$12.2 million and \$13.4 million is included in restricted cash and securities of Consolidated Funds at June 30, 2014 and December 31, 2013, respectively.

Certain CLOs hold U.S. Treasury notes and corporate bonds as collateral for specific classes of loans payable in the CLOs. As of June 30, 2014 and December 31, 2013, securities of \$12.2 million and \$12.3 million, respectively, are included in restricted cash and securities of Consolidated Funds.

**Derivative Instruments**

Derivative instruments are recognized at fair value in the condensed consolidated balance sheets with changes in fair value recognized in the condensed consolidated statements of operations for all derivatives not designated as hedging instruments. For all derivatives where hedge accounting is applied, effectiveness testing and other procedures to assess the ongoing validity of the hedges are performed at least quarterly. For instruments designated as cash flow hedges, the Partnership records changes in the estimated fair value of the derivative, to the extent that the hedging relationship is effective, in other comprehensive income (loss). If the hedging relationship for a derivative is determined to be ineffective, due to changes in the hedging instrument or the hedged items, the fair value of the portion of the hedging relationship determined to be ineffective will be recognized as a gain or loss in the condensed consolidated statements of operations.

**Fixed Assets**

Fixed assets consist of furniture, fixtures and equipment, leasehold improvements, and computer hardware and software and are stated at cost, less accumulated depreciation and amortization. Depreciation is recognized on a straight-line method over the assets' estimated useful lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, and three to seven years for other fixed assets. Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Intangible Assets and Goodwill**

The Partnership's intangible assets consist of acquired contractual rights to earn future fee income, including management and advisory fees, customer relationships, and acquired trademarks. Finite-lived intangible assets are amortized over their estimated useful lives, which range from three to ten years, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Goodwill represents the excess of cost over the identifiable net assets of businesses acquired and is recorded in the functional currency of the acquired entity. Goodwill is recognized as an asset and is reviewed for impairment annually as of October 1st and between annual tests when events and circumstances indicate that impairment may have occurred.

**Deferred Revenue**

Deferred revenue represents management fees and other revenue received prior to the balance sheet date, which has not yet been earned.



**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****Comprehensive Income (Loss)**

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). The Partnership's other comprehensive income is comprised of unrealized gains and losses on cash flow hedges, foreign currency translation adjustments and gains / losses on defined benefit plans sponsored by AlpInvest. The components of accumulated other comprehensive income (loss) as of June 30, 2014 and December 31, 2013 were as follows:

	<b>June 30, 2014</b>	<b>As of December 31, 2013</b>
	<b>(Dollars in millions)</b>	
Unrealized losses on cash flow hedge instruments	\$ (1.1)	\$ (1.0)
Currency translation adjustments	(9.0)	(8.5)
Unrealized losses on defined benefit plans	(1.8)	(1.7)
Total	\$ (11.9)	\$ (11.2)

**Foreign Currency Translation**

Non-U.S. dollar denominated assets and liabilities are translated at period-end rates of exchange, and the condensed consolidated statements of operations are translated at rates of exchange in effect throughout the period. Foreign currency losses resulting from transactions outside of the functional currency of an entity of \$3.9 million and \$0.2 million for the three months ended June 30, 2014 and 2013, respectively, and \$4.5 million and \$1.1 million for the six months ended June 30, 2014 and 2013, respectively, are included in general, administrative and other expenses in the condensed consolidated statements of operations.

**Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 provides comprehensive guidance for recognizing revenue from contracts with customers. Entities will be able to recognize revenue when the entity transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The guidance includes a five-step framework that requires an entity to: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when the entity satisfies a performance obligation. The guidance in ASU 2014-09 is effective for the Partnership beginning on January 1, 2017. The Partnership is still assessing the potential impact of this guidance on its balance sheet and results of operations.

In June 2013, the FASB issued ASU 2013-08, *Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*. ASU 2013-08 provides additional guidance on the

characteristics necessary to qualify as an investment company. The Partnership currently consolidates entities that are investment companies and the Partnership retains the specialized accounting for those investment companies in its consolidated financial statements. The Partnership adopted this guidance as of January 1, 2014 and the adoption did not have a material impact on the Partnership's condensed consolidated financial statements.

## The Carlyle Group L.P.

### Notes to the Condensed Consolidated Financial Statements

(Unaudited)

### 3. Acquisitions

#### Acquisition of Diversified Global Asset Management Corporation

On February 3, 2014, the Partnership acquired 100% of the equity interests in DGAM, a Toronto, Canada-based alternative investment manager with \$2.9 billion in fee-earning assets under management. DGAM also advises on \$3.6 billion in assets, for which it earns a nominal advisory fee. The purchase price consisted of approximately \$8.0 million in cash and 662,134 newly issued common units (approximately \$23.1 million). The transaction also included contingent compensation of up to \$23.7 million in cash and \$47.3 million in common units, which are issuable through 2021 upon the achievement of certain performance and service-based requirements. The Partnership consolidated the financial position and results of operations of DGAM effective February 3, 2014 and accounted for this transaction as a business combination. DGAM is the Partnership's fund of hedge funds platform and is included in the Partnership's Solutions business segment. In connection with this transaction, the Partnership incurred approximately \$1.3 million of acquisition costs that were recorded as expenses.

The acquisition-date fair value of the consideration transferred for the DGAM acquisition, and the estimated fair values of the assets acquired and liabilities assumed at the acquisition date are as follows (Dollars in millions):

Acquisition-date fair value of consideration transferred	
Cash	\$ 8.0
The Carlyle Group L.P. common units	23.1
<b>Total</b>	<b>\$ 31.1</b>
Estimated fair value of assets acquired and liabilities assumed	
Cash	\$ 4.9
Other assets	3.9
Finite-lived intangible assets - contractual rights	29.0
Goodwill	8.6
Deferred tax liabilities	(7.7)
Other liabilities	(7.6)
<b>Total</b>	<b>\$ 31.1</b>

The finite-lived intangible assets are amortized over a seven-year period.

The Partnership recognized a dilution in partners' capital associated with the issuance of Carlyle common units and the portion of this transaction allocable to the non-controlling interests in Carlyle Holdings. The effect of the dilution was an increase to non-controlling interests in Carlyle Holdings of approximately \$19.4 million and a corresponding decrease to partners' capital.

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The amount of revenue and earnings of DGAM since the acquisition date and the pro forma impact to the Partnership's condensed consolidated financial results for the six months ended June 30, 2014 and 2013, as if the acquisition had been consummated as of January 1, 2013, was not significant.

The fair value of The Carlyle Group L.P. common units was based on the quoted price of the Partnership's common units on the NASDAQ exchange. This fair value measurement was based on inputs that are directly observable and thus represented a Level I measurement as defined in the accounting guidance for fair value measurement.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**Acquisition of Metropolitan Real Estate Equity Management**

On November 1, 2013, the Partnership acquired 100% of the equity interests in Metropolitan Real Estate Equity Management, LLC (Metropolitan), a global manager of real estate fund of funds with more than \$2.6 billion in capital commitments at the acquisition date. The purchase price consisted of approximately \$12.8 million in cash and 67,338 newly issued common units (approximately \$2.1 million). The transaction also included contingent consideration that is payable through 2018 upon the achievement of performance conditions of up to \$5.0 million in cash and common units equivalent to \$10.0 million at the time of vesting. Additionally, the transaction included compensation of 52,889 newly issued Carlyle Holdings partnership units (approximately \$1.6 million) that vest ratably over a period of five years, up to \$10.4 million of cash payable through 2018 based on the achievement of performance conditions, and \$10.6 million and \$10.0 million of Carlyle Holdings partnership units and common units, respectively, that are issuable through 2023 based on the achievement of performance conditions and time vesting. The Partnership consolidated the financial position and results of operations of Metropolitan effective November 1, 2013 and accounted for this transaction as a business combination. Metropolitan is included in the Partnership's Solutions business segment.

See Note 3 to the consolidated financial statements included in the Partnership's 2013 Annual Report on Form 10-K for additional information on the Metropolitan acquisition.

**Acquisition of Remaining 40% Equity Interest in AlpInvest**

On August 1, 2013, Carlyle Holdings, a controlled subsidiary of the Partnership, acquired the remaining 40% equity interest in AlpInvest for an aggregate of 2,887,970 newly issued common units of the Partnership (approximately \$80.8 million) and approximately 4.5 million in cash (approximately \$6.0 million). Of the 2,887,970 common units issued in this transaction, 914,087 common units (approximately \$25.5 million) were issued to AlpInvest sellers who are employees of the Partnership and are subject to vesting over a period up to five years (see Note 16). The remaining 1,973,883 common units issued in the transaction (approximately \$55.3 million) were not subject to any vesting conditions. The Partnership accounted for this transaction as an acquisition of ownership interests in a subsidiary while retaining a controlling interest in the subsidiary. Accordingly, the carrying value of the non-controlling interest was adjusted to reflect the change in the ownership interests in AlpInvest. The excess of the fair value of the consideration paid by the Partnership (excluding any elements of the transaction deemed to be compensatory) over the carrying amount of the non-controlling interest acquired was recognized directly as a reduction to partners' capital.

See Note 3 to the consolidated financial statements included in the Partnership's 2013 Annual Report on Form 10-K for additional information on the acquisition of remaining 40% equity interest in AlpInvest.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**4. Fair Value Measurement**

The fair value measurement accounting guidance establishes a hierarchal disclosure framework which ranks the observability of market price inputs used in measuring financial instruments at fair value. The observability of inputs is impacted by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices, or for which fair value can be measured from quoted prices in active markets, will generally have a higher degree of market price observability and a lesser degree of judgment applied in determining fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

*Level I* inputs to the valuation methodology are quoted prices available in active markets for identical instruments as of the reporting date. The type of financial instruments included in Level I include unrestricted securities, including equities and derivatives, listed in active markets. The Partnership does not adjust the quoted price for these instruments, even in situations where the Partnership holds a large position and a sale could reasonably impact the quoted price.

*Level II* inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. The type of financial instruments in this category includes less liquid and restricted securities listed in active markets, securities traded in other than active markets, government and agency securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Investments in hedge funds are classified in this category when their net asset value is redeemable without significant restriction.

*Level III* inputs to the valuation methodology are unobservable and significant to overall fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category include investments in privately-held entities, non-investment grade residual interests in securitizations, collateralized loan obligations, and certain over-the-counter derivatives where the fair value is based on unobservable inputs. Investments in fund of funds are generally included in this category.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

In certain cases, debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices, market transactions in comparable investments and various relationships between investments.



**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

The following table summarizes the Partnership's assets and liabilities measured at fair value on a recurring basis by the above fair value hierarchy levels as of June 30, 2014:

<b>(Dollars in millions)</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
<b>Assets</b>				
Investments of Consolidated Funds:				
Equity securities	\$ 483.0	\$ 29.3	\$ 2,582.4	\$ 3,094.7
Bonds			1,345.8	1,345.8
Loans			14,344.7	14,344.7
Partnership and LLC interests <sup>(1)</sup>			3,761.8	3,761.8
Hedge funds		5,009.4		5,009.4
Other			1.5	1.5
	483.0	5,038.7	22,036.2	27,557.9
Trading securities			4.7	4.7
Restricted securities of Consolidated Funds	3.8		8.4	12.2
Total	\$ 486.8	\$ 5,038.7	\$ 22,049.3	\$ 27,574.8
<b>Liabilities</b>				
Loans payable of Consolidated Funds	\$	\$	\$ 16,136.4	\$ 16,136.4
Loans payable of a consolidated real estate VIE			147.7	147.7
Interest rate swaps		4.8		4.8
Derivative instruments of the CLOs			15.2	15.2
Contingent consideration <sup>(2)</sup>		26.2	132.3	158.5
Total	\$	\$ 31.0	\$ 16,431.6	\$ 16,462.6

(1) Balance represents Fund Investments that the Partnership consolidates one fiscal quarter in arrears.

(2) Related to contingent cash and equity consideration associated with the acquisitions of Claren Road, AlpInvest, ESG, Vermillion, and Metropolitan, excluding employment-based contingent consideration (see Note 9).

The following table summarizes the Partnership's assets and liabilities measured at fair value on a recurring basis by the above fair value hierarchy levels as of December 31, 2013:



(Dollars in millions)	Level I	Level II	Level III	Total
<b>Assets</b>				
Investments of Consolidated Funds:				
Equity securities	\$ 610.5	\$ 24.0	\$ 2,714.1	\$ 3,348.6
Bonds			1,249.5	1,249.5
Loans			14,067.8	14,067.8
Partnership and LLC interests <sup>(1)</sup>			3,815.2	3,815.2
Hedge funds		4,403.3		4,403.3
Other			2.0	2.0
	610.5	4,427.3	21,848.6	26,886.4
Trading securities			6.9	6.9
Restricted securities of Consolidated Funds	3.7		8.6	12.3
Total	\$ 614.2	\$ 4,427.3	\$ 21,864.1	\$ 26,905.6
<b>Liabilities</b>				
Loans payable of Consolidated Funds	\$	\$	\$ 15,220.7	\$ 15,220.7
Loans payable of a consolidated real estate VIE			122.1	122.1
Interest rate swaps		6.3		6.3
Derivative instruments of the CLOs			13.1	13.1
Contingent consideration <sup>(2)</sup>		15.7	185.9	201.6
Total	\$	\$ 22.0	\$ 15,541.8	\$ 15,563.8

(1) Balance represents Fund Investments that the Partnership consolidates one fiscal quarter in arrears.

(2) Related to contingent cash and equity consideration associated with the acquisitions of Claren Road, AlpInvest, ESG, Vermillion, and Metropolitan, excluding employment-based contingent consideration (see Note 9).

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

Investment professionals with responsibility for the underlying investments are responsible for preparing the investment valuations pursuant to the policies, methodologies and templates prepared by the Partnership's valuation group, which is a team made up of individuals with previous valuation experience reporting to the Partnership's chief financial officer. The valuation group is responsible for maintaining the Partnership's valuation policy and related guidance, templates and systems that are designed to be consistent with the guidance found in ASC 820, *Fair Value Measurement*. These valuations, inputs and preliminary conclusions are reviewed by the fund accounting teams. The valuations are then reviewed and approved by the respective fund valuation sub-committees, which are comprised of the respective fund head, segment head, chief financial and chief accounting officers, as well as members from the valuation group. The valuation group compiles the aggregate results and significant matters and presents them for review and approval by the global valuation committee, which is comprised of the Partnership's co-chief executive officers, chief operating officer, chief risk officer, chief financial officer, chief accounting officer, deputy chief investment officer, the business segment heads, and observed by the chief compliance officer and director of internal audit. Additionally, each quarter a sample of valuations are reviewed by external valuation firms.

In the absence of observable market prices, the Partnership values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist. Management's determination of fair value is then based on the best information available in the circumstances and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies and real estate properties, and certain debt positions. The valuation technique for each of these investments is described below:

*Private Equity and Real Estate Investments* The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization (EBITDA), the discounted cash flow method, public market or private transactions, valuations for comparable companies or sales of comparable assets, and other measures which, in many cases, are unaudited at the time received. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rate (cap rate) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (e.g., applying a key performance metric of the investment such as EBITDA or net operating income to a relevant valuation multiple or cap rate observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar models. Adjustments to observable valuation measures are frequently made upon the initial investment to calibrate the initial investment valuation to industry observable inputs. Such adjustments are made to align the investment to observable industry changes for differences in size, profitability, projected growth rates, geography and capital structure, if applicable. The adjustments are reviewed with each subsequent valuation to assess how the investment has evolved relative to the observable inputs. Additionally, the investment may be subject to certain specific risks and/or development milestones which are also taken into account in the valuation assessment. Option pricing models and similar tools do not currently drive a significant portion of private equity or real estate valuations and are used primarily to value warrants, derivatives, certain restrictions and other atypical investment instruments.

*Credit-Oriented Investments* The fair values of credit-oriented investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices, market transactions in comparable investments and various relationships between investments. Specifically, for investments in distressed debt and corporate loans and bonds, the fair values are generally determined by valuations of comparable investments. In some instances, the Partnership may utilize other valuation techniques, including the discounted cash flow method.

## The Carlyle Group L.P.

### Notes to the Condensed Consolidated Financial Statements

(Unaudited)

**CLO Investments and CLO Loans Payable** The Partnership has elected the fair value option to measure the loans payable of the CLOs at fair value, as the Partnership has determined that measurement of the loans payable issued by the CLOs at fair value better correlates with the value of the assets held by the CLOs, which are held to provide the cash flows for the note obligations. The investments of the CLOs are also carried at fair value.

The fair values of the CLO loan and bond assets are primarily based on quotations from reputable dealers or relevant pricing services. In situations where valuation quotations are unavailable, the assets are valued based on similar securities, market index changes, and other factors. The Partnership corroborates quotations from pricing services either with other available pricing data or with its own models. Generally, the loan and bond assets of the CLOs are not actively traded and are classified as Level III.

The fair values of the CLO loans payable and the CLO structured asset positions are determined based on both discounted cash flow analyses and third-party quotes. Those analyses consider the position size, liquidity, current financial condition of the CLOs, the third-party financing environment, reinvestment rates, recovery lags, discount rates and default forecasts and are compared to broker quotations from market makers and third party dealers.

**Loans Payable of a Consolidated Real Estate VIE** The Partnership has elected the fair value option to measure the loans payable of a consolidated real estate VIE at fair value. The fair values of the loans are primarily based on discounted cash flows analyses, which consider the liquidity and current financial condition of the consolidated real estate VIE. These loans are classified as Level III.

**Fund Investments** The Partnership's investments in funds are valued based on its proportionate share of the net assets provided by the third party general partners of the underlying fund partnerships based on the most recent available information which typically has a lag of up to 90 days. The terms of the investments generally preclude the ability to redeem the investment. Distributions from these investments will be received as the underlying assets in the funds are liquidated, the timing of which cannot be readily determined.

The changes in financial instruments measured at fair value for which the Partnership has used Level III inputs to determine fair value are as follows (Dollars in millions):

Financial Assets								
Three Months Ended June 30, 2014								
	Investments of Consolidated Funds				Restricted securities			
	Equity securities	Bonds	Loans	Partnership and LLC interests	Trading securities	Other	Consolidated Funds	Total
Balance, beginning of period	\$ 2,485.0	\$ 1,223.9	\$ 14,324.6	\$ 3,723.6	\$ 1.4	\$ 5.2	\$ 8.3	\$ 21,772.0
Purchases	12.0	291.0	1,972.4	39.2				2,314.6
Sales	(186.2)	(166.9)	(825.6)	(228.4)				(1,407.1)

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Settlements	(1,053.7)								(1,053.7)
Realized and unrealized gains (losses), net	271.6	(2.2)	(73.0)	227.4	0.1	(0.5)	0.1	423.5	
Balance, end of period	\$ 2,582.4	\$ 1,345.8	\$ 14,344.7	\$ 3,761.8	\$ 1.5	\$ 4.7	\$ 8.4	\$ 22,049.3	
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$ 127.7	\$ 1.5	\$ (45.1)	\$ 91.9	\$ 0.1	\$ (0.5)	\$ 0.1	\$ 175.7	

## The Carlyle Group L.P.

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

## Financial Assets

Six Months Ended June 30, 2014

## Investments of Consolidated Funds

Restricted  
securitiesTrading of  
consolidated  
securities

	Equity securities	Bonds	Loans	Partnership and LLC interests	Other	other	Funds	Total
Balance, beginning of period	\$ 2,714.1	\$ 1,249.5	\$ 14,067.8	\$ 3,815.2	\$ 2.0	\$ 6.9	\$ 8.6	\$ 21,864.1
Transfers in <sup>(1)</sup>	4.5							4.5
Transfers out <sup>(1)</sup>	(87.5)							(87.5)
Purchases	26.4	390.0	3,759.4	173.0				4,348.8
Sales	(426.5)	(305.7)	(1,198.1)	(679.3)		(3.6)		(2,613.2)
Settlements			(2,231.5)					(2,231.5)
Realized and unrealized gains (losses), net	351.4	12.0	(52.9)	452.9	(0.5)	1.4	(0.2)	764.1
Balance, end of period	\$ 2,582.4	\$ 1,345.8	\$ 14,344.7	\$ 3,761.8	\$ 1.5	\$ 4.7	\$ 8.4	\$ 22,049.3
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$ 38.8	\$ 14.8	\$ 25.5	\$ (13.1)	\$ (0.4)	\$ 1.4	\$ (0.2)	\$ 66.8

## Financial Assets

Three Months Ended June 30, 2013

## Investments of Consolidated Funds

Trading  
securities and  
other

	Equity securities	Bonds	Loans	Partnership and LLC interests	Other	other	Total
Balance, beginning of period	\$ 2,573.1	\$ 909.2	\$ 13,507.4	\$ 4,002.2	\$ 8.8	\$ 22.0	\$ 21,022.7
Initial consolidation of funds					10.4		10.4
Purchases	39.2	239.9	2,414.6	44.7			2,738.4
Sales	(59.0)	(117.1)	(740.3)	(259.3)	(9.0)	(13.6)	(1,198.3)
Settlements			(1,559.4)				(1,559.4)
Realized and unrealized gains, net	64.3	26.9	148.9	53.0	1.3	1.6	296.0
Balance, end of period	\$ 2,617.6	\$ 1,058.9	\$ 13,771.2	\$ 3,840.6	\$ 11.5	\$ 10.0	\$ 21,309.8
	\$ 34.2	\$ 17.0	\$ 92.7	\$ 43.9	\$ (2.3)	\$ 1.1	\$ 186.6

Changes in unrealized gains  
(losses) included in earnings  
related to financial assets  
still held at the reporting  
date

<b>Financial Assets</b> <b>Six Months Ended June 30, 2013</b> <b>Investments of Consolidated Funds</b>							
	<b>Equity securities</b>	<b>Bonds</b>	<b>Loans</b>	<b>Partnership and LLC interests</b>	<b>Other</b>	<b>Trading securities and other</b>	<b>Total</b>
Balance, beginning of period	\$ 2,475.1	\$ 934.2	\$ 13,290.1	\$ 4,315.5	\$ 7.3	\$ 20.0	\$ 21,042.2
Initial consolidation of funds					10.4		10.4
Transfers out <sup>(1)</sup>	(4.3)						(4.3)
Purchases	107.3	415.1	4,670.1	133.1			5,325.6
Sales	(128.7)	(326.5)	(1,360.6)	(838.6)	(9.0)	(13.6)	(2,677.0)
Settlements			(2,977.8)				(2,977.8)
Realized and unrealized gains, net	168.2	36.1	149.4	230.6	2.8	3.6	590.7
Balance, end of period	\$ 2,617.6	\$ 1,058.9	\$ 13,771.2	\$ 3,840.6	\$ 11.5	\$ 10.0	\$ 21,309.8
Changes in unrealized gains (losses) included in earnings related to financial assets still held at the reporting date	\$ 152.7	\$ 38.0	\$ 169.0	\$ (225.5)	\$ (2.4)	\$ 1.1	\$ 132.9

(1) Transfers into and out of Level III financial assets were due to changes in the observability of market inputs used in the valuation of such assets. Transfers are measured as of the beginning of the period in which the transfer occurs.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

<b>Financial Liabilities</b>					
<b>Three Months Ended June 30, 2014</b>					
	<b>Loans Payable of Consolidated Funds</b>	<b>Derivative Instruments of Consolidated Funds</b>	<b>Contingent Consideration</b>	<b>Loans Payable of a consolidated real estate VIE</b>	<b>Total</b>
Balance, beginning of period	\$ 15,678.7	\$ 14.7	\$ 135.4	\$ 125.3	\$ 15,954.1
Borrowings	1,129.3			27.1	1,156.4
Paydowns	(685.9)		(1.0)	(22.8)	(709.7)
Sales		(2.4)			(2.4)
Realized and unrealized (gains) losses, net	14.3	2.9	(2.1)	18.1	33.2
Balance, end of period	\$ 16,136.4	\$ 15.2	\$ 132.3	\$ 147.7	\$ 16,431.6
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$ 27.8	\$ (3.1)	\$ (2.1)	\$ 18.1	\$ 40.7

<b>Financial Liabilities</b>					
<b>Six Months Ended June 30, 2014</b>					
	<b>Loans Payable of Consolidated Funds</b>	<b>Derivative Instruments of Consolidated Funds</b>	<b>Contingent Consideration</b>	<b>Loans Payable of a consolidated real estate VIE</b>	<b>Total</b>
Balance, beginning of period	\$ 15,220.7	\$ 13.1	\$ 185.9	\$ 122.1	\$ 15,541.8
Borrowings	2,474.3			36.7	2,511.0
Paydowns	(1,635.1)		(73.7)	(41.9)	(1,750.7)
Sales		(3.3)			(3.3)
Realized and unrealized losses, net	76.5	5.4	20.1	30.8	132.8
Balance, end of period	\$ 16,136.4	\$ 15.2	\$ 132.3	\$ 147.7	\$ 16,431.6
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$ 4.0	\$ (4.3)	\$ 20.1	\$ 30.8	\$ 50.6

**Financial Liabilities**



**Three Months Ended June 30, 2013**

	<b>Loans Payable of Consolidated Funds</b>	<b>Derivative Instruments of Consolidated Funds</b>	<b>Contingent Consideration</b>	<b>Total</b>
Balance, beginning of period	\$ 14,312.7	\$ 10.3	\$ 166.8	\$ 14,489.8
Borrowings	966.1			966.1
Paydowns	(588.0)		(0.9)	(588.9)
Sales		(0.9)		(0.9)
Realized and unrealized (gains) losses, net	329.0	(0.5)	6.3	334.8
Balance, end of period	\$ 15,019.8	\$ 8.9	\$ 172.2	\$ 15,200.9
Changes in unrealized losses included in earnings related to financial liabilities still held at the reporting date	\$ 243.5	\$ 2.7	\$ 6.3	\$ 252.5

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

	<b>Financial Liabilities</b>			
	<b>Six Months Ended June 30, 2013</b>			
	<b>Loans Payable</b>	<b>Derivative</b>		
	<b>of Consolidated</b>	<b>Instruments of</b>	<b>Contingent</b>	<b>Total</b>
	<b>Funds</b>	<b>Funds</b>	<b>Consideration</b>	
Balance, beginning of period	\$ 13,656.7	\$ 15.8	\$ 186.7	\$ 13,859.2
Borrowings	2,202.5			2,202.5
Paydowns	(1,408.7)		(10.9)	(1,419.6)
Sales		(0.8)		(0.8)
Realized and unrealized (gains) losses, net	569.3	(6.1)	(3.6)	559.6
Balance, end of period	\$ 15,019.8	\$ 8.9	\$ 172.2	\$ 15,200.9
Changes in unrealized (gains) losses included in earnings related to financial liabilities still held at the reporting date	\$ 607.2	\$ (4.5)	\$ (3.6)	\$ 599.1

Total realized and unrealized gains and losses included in earnings for Level III investments for trading securities are included in investment income (loss), and such gains and losses for investments of Consolidated Funds and loans payable and derivative instruments of the CLOs are included in net investment gains (losses) of Consolidated Funds in the condensed consolidated statements of operations.

# The Carlyle Group L.P.

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

The following table summarizes quantitative information about the Partnership's Level III inputs as of June 30, 2014:

<i>(Dollars in millions)</i>	<b>Fair Value at June 30, 2014</b>	<b>Valuation Technique(s)</b>	<b>Unobservable Input(s)</b>	<b>Range (Weighted Average)</b>
<b>Assets</b>				
Investments of Consolidated Funds:				
Equity securities			LTM EBITDA	
	\$ 2,346.7	Comparable Multiple	Multiple	4.8x - 16.2x (11.3x)
	169.7	Comparable Multiple	Price Earnings Multiple	10.1x - 10.1x (10.1x)
	6.8	Comparable Multiple	Book Value Multiple	0.6x - 0.6x (0.6x)
	37.3	Consensus Pricing	Indicative Quotes (\$ per share)	\$0 - \$278 (\$2)
	21.9	Discounted Cash Flow	Discount Rate	16% - 16% (16%)
			Exit Cap Rate	12% - 12% (12%)
Bonds	1,345.8	Consensus Pricing	Indicative Quotes (% of Par)	0 - 132 (101)
Loans	14,127.2	Consensus Pricing	Indicative Quotes (% of Par)	0 - 178 (97)
	217.5	Market Yield Analysis	Market Yield	5% - 16% (11%)
Partnership and LLC interests	3,761.8	NAV of Underlying Fund <sup>(1)</sup>	N/A	N/A
Other	1.5	Counterparty Pricing	Indicative Quotes (% of Notional Amount)	0 - 3 (1)
	22,036.2			
Trading securities and other	4.2	Comparable Multiple	LTM EBITDA Multiple	5.7x - 5.7x (5.7x)
	0.5	Discounted Cash Flow	Discount Rate	15% - 15% (15%)
Restricted securities of Consolidated Funds	8.4	Consensus Pricing	Indicative Quotes (% of Par)	84 - 84 (84)
Total	\$ 22,049.3			
<b>Liabilities</b>				
Loans payable of Consolidated Funds:				
Senior secured notes	\$ 14,775.1	Discounted Cash Flow with Consensus Pricing	Discount Rates	1% - 10% (3%)
			Default Rates	1% - 4% (3%)
			Recovery Rates	60% - 75% (67%)

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			Indicative Quotes (% of Par)	32 - 101 (97)
Subordinated notes and preferred shares	1,345.1	Discounted Cash Flow with Consensus Pricing	Discount Rates	8% - 25% (16%)
			Default Rates	1% - 4% (2%)
			Recovery Rates	60% - 75% (67%)
			Indicative Quotes (% of Par)	0 - 138 (67)
Combination notes	16.2	Consensus Pricing	Indicative Quotes (% of Par)	97 - 101 (99)
Loans payable of a consolidated real estate VIE	147.7	Discounted Cash Flow	Discount to Expected Payment	0% - 100% (40%)
			Discount Rate	21% - 31% (24%)
Derivative instruments of Consolidated Funds	15.2	Counterparty Pricing	Indicative Quotes (% of Notional Amount)	1 - 21 (8)
Contingent cash consideration <sup>(2)</sup>	132.3	Discounted Cash Flow	Assumed % of Total Potential Contingent Payments	0% - 100% (73%)
			Discount Rate	1% - 32% (10%)
Total	\$ 16,431.6			

(1) Represents the Partnership's investments in funds that are valued using the NAV of the underlying fund.

(2) Related to contingent cash consideration associated with the acquisitions of Claren Road, AlpInvest, ESG, Vermillion, and Metropolitan (see Note 9).

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

The following table summarizes quantitative information about the Partnership's Level III inputs as of December 31, 2013:

<i>(Dollars in millions)</i>	<b>Fair Value at December 31, 2013</b>	<b>Valuation Technique(s)</b>	<b>Unobservable Input(s)</b>	<b>Range (Weighted Average)</b>
<b>Assets</b>				
Investments of Consolidated Funds:				
Equity securities	\$ 2,479.6	Comparable Multiple	LTM EBITDA Multiple	5.6x- 15.5x (10.8x)
	169.7	Comparable Multiple	Price Earnings Multiple	17.0x-17.0x (17.0x)
	10.2	Comparable Multiple	Book Value Multiple	1.0x -1.0x (1.0x)
	24.1	Consensus Pricing	Indicative Quotes (\$ per share)	\$0 - \$250 (\$0)
	30.5	Discounted Cash Flow	Discount Rate	5% - 12% (11%)
			Exit Cap Rate	11%-11% (11%)
Bonds	1,249.5	Consensus Pricing	Indicative Quotes (% of Par)	0 - 130 (100)
Loans	13,858.6	Consensus Pricing	Indicative Quotes (% of Par)	0 - 158 (98)
	209.2	Market Yield Analysis	Market Yield	5% - 17% (10%)
Partnership and LLC interests	3,815.2	NAV of Underlying Fund <sup>(1)</sup>	N/A	N/A
Other	2.0	Various	N/A	N/A
	21,848.6			
Trading securities and other	5.0	Comparable Multiple	LTM EBITDA Multiple	5.9x - 5.9x (5.9x)
	1.9	Discounted Cash Flow	Discount Rate	7% - 7% (7%)
Restricted securities of Consolidated Funds	8.6	Consensus Pricing	Indicative Quotes (% of Par)	86 - 86 (86)
Total	\$ 21,864.1			

**Liabilities**Loans payable of  
Consolidated Funds:

		Discounted Cash Flow with Consensus		
Senior secured notes	\$ 13,910.4	Pricing	Discount Rates	2% - 10% (3%)
			Default Rates	1% - 6% (3%)
			Recovery Rates	50% - 75% (63%)
			Indicative Quotes (% of Par)	40 - 101 (98)
		Discounted Cash Flow with Consensus		
Subordinated notes and preferred shares	1,294.0	Pricing	Discount Rates	9% - 25% (16%)
			Default Rates	1% - 6% (2%)
			Recovery Rates	50% - 75% (62%)
			Indicative Quotes (% of Par)	0 - 102 (60)
Combination notes	16.3	Consensus Pricing	Indicative Quotes (% of Par)	93 - 100 (98)
		Discounted Cash Flow		
Loans payable of a consolidated real estate VIE	122.1		Discount to Expected Payment	0% - 100% (45%)
			Discount Rate	20% - 30% (23%)
		Indicative Quotes (% of Notional Amount)		
Derivative instruments of Consolidated Funds	13.1	Counterparty Pricing		1 - 31 (6)
		Assumed % of Total Potential Contingent		
Contingent cash consideration <sup>(2)</sup>	185.9	Discounted Cash Flow	Payments	0% - 100% (81%)
			Discount Rate	1% - 32% (17%)
Total	\$ 15,541.8			

(1) Represents the Partnership's investments in funds that are valued using the NAV of the underlying fund.

(2) Related to contingent cash consideration associated with the acquisitions of Claren Road, AlpInvest, ESG, Vermillion and Metropolitan (see Note 9).

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

The significant unobservable inputs used in the fair value measurement of the Partnership's investments in equity securities include EBITDA, price-earnings and book value multiples, indicative quotes, discount rates and exit cap rates. Significant decreases in EBITDA multiples, price-earnings multiples, book value multiples or indicative quotes in isolation would result in a significantly lower fair value measurement. Significant increases in discount rates or exit cap rates in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's investments in bonds and loans are market yields and indicative quotes. Significant increases in market yields in isolation would result in a significantly lower fair value measurement. Significant decreases in indicative quotes in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's trading securities and other investments include EBITDA multiples and discount rates. Significant decreases in EBITDA multiples in isolation would result in a significantly lower fair value measurement. Significant increases in discount rates in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's restricted securities of Consolidated Funds include indicative quotes. Significant decreases in indicative quotes in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's loans payable of Consolidated Funds are discount rates, default rates, recovery rates and indicative quotes. Significant increases in discount rates or default rates in isolation would result in a significantly lower fair value measurement, while a significant increase in recovery rates and indicative quotes in isolation would result in a significantly higher fair value.

The significant unobservable inputs used in the fair value measurement of the Partnership's loans payable of a consolidated real estate VIE are discounts to expected payment and discount rate. A significant increase in either of these inputs in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's derivative instruments of Consolidated Funds include indicative quotes. Significant decreases in indicative quotes in isolation would result in a significantly lower fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Partnership's contingent consideration are assumed percentage of total potential contingent payments and discount rates. A significant decrease in the assumed percentage of total potential contingent payments or increase in discount rates in isolation would result in a significantly lower fair value measurement.

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****5. Accrued Performance Fees**

The components of accrued performance fees are as follows:

	<b>June 30, 2014</b>	<b>As of December 31, 2013</b>
	<b>(Dollars in millions)</b>	
Corporate Private Equity	<b>\$ 2,776.1</b>	<b>\$ 2,830.4</b>
Global Market Strategies	<b>162.4</b>	<b>167.2</b>
Real Assets	<b>332.6</b>	<b>277.2</b>
Solutions	<b>566.9</b>	<b>378.8</b>
<b>Total</b>	<b>\$ 3,838.0</b>	<b>\$ 3,653.6</b>

Approximately 52% of accrued performance fees at June 30, 2014 are related to Carlyle Partners V, L.P. and Carlyle Europe Partners III, L.P., two of the Partnership's Corporate Private Equity funds.

Approximately 62% of accrued performance fees at December 31, 2013 are related to Carlyle Partners IV, L.P., Carlyle Partners V, L.P. and Carlyle Europe Partners III, L.P., three of the Partnership's Corporate Private Equity funds.

Accrued performance fees are shown gross of the Partnership's accrued giveback obligations, which are separately presented in the condensed consolidated balance sheets. The components of the accrued giveback obligations are as follows:

	<b>June 30, 2014</b>	<b>As of December 31, 2013</b>
	<b>(Dollars in millions)</b>	
Corporate Private Equity	<b>\$ (14.1)</b>	<b>\$ (10.4)</b>
Global Market Strategies	<b>(2.1)</b>	<b>(2.1)</b>
Real Assets	<b>(16.1)</b>	<b>(27.1)</b>
<b>Total</b>	<b>\$ (32.3)</b>	<b>\$ (39.6)</b>

**Performance Fees**



The performance fees included in revenues are derived from the following segments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Corporate Private Equity	\$ 311.5	\$ 186.2	\$ 764.7	\$ 620.9
Global Market Strategies	44.9	48.7	111.0	157.2
Real Assets	60.1	(13.9)	76.9	49.1
Solutions	125.9	38.1	210.3	74.3
Total	\$ 542.4	\$ 259.1	\$ 1,162.9	\$ 901.5

## The Carlyle Group L.P.

### Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Approximately 54% (\$295.2 million) of performance fees for the three months ended June 30, 2014 are related to Carlyle Partners V, L.P., Carlyle Europe Partners III, L.P., and Carlyle Asia Partners II, L.P., three of the Partnership's Corporate Private Equity funds, as well as AlpInvest's Main Fund III Secondary Investments (2006) and Main Fund III Co-Investments (2006). Total revenues (losses) recognized from Carlyle Partners V, L.P., Carlyle Europe Partners III, L.P., and Carlyle Asia Partners II, L.P., were \$109.3 million, \$200.4 million, and (\$53.2) million, respectively, for the three months ended June 30, 2014. AlpInvest's Main Fund III Secondary Investments (2006) and Main Fund III Co-Investments (2006) collectively were \$83.4 million of the Partnership's total revenues for the three months ended June 30, 2014.

Approximately 59% (\$682.4 million) of performance fees for the six months ended June 30, 2014 are related to Carlyle Partners V, L.P. and Carlyle Europe Partners III, L.P., two of the Partnership's Corporate Private Equity funds. Total revenues recognized from Carlyle Partners V, L.P. and Carlyle Europe Partners III, L.P. were \$379.9 million and \$385.0 million, respectively, for the six months ended June 30, 2014.

Approximately 82% and 61% (\$213.5 million and \$552.0 million, respectively) of performance fees for the three and six months ended June 30, 2013, respectively, were related to Carlyle Partners IV, L.P. and Carlyle Partners V, L.P., two of the Partnership's Corporate Private Equity funds. Total revenues recognized from Carlyle Partners IV, L.P. and Carlyle Partners V, L.P. were \$34.7 million and \$225.6 million, respectively, for the three months ended June 30, 2013, and were \$223.0 million and \$435.4 million, respectively, for the six months ended June 30, 2013.

## 6. Investments

Investments consist of the following:

	June 30, 2014	As of December 31, 2013
	(Dollars in millions)	
Equity method investments, excluding accrued performance fees	\$ 757.8	\$ 751.1
Trading securities and other investments	13.8	14.2
<b>Total investments</b>	<b>\$ 771.6</b>	<b>\$ 765.3</b>

## Strategic Investment in NGP

On December 20, 2012, the Partnership entered into separate purchase agreements with ECM Capital, L.P. and Barclays Natural Resource Investments, a division of Barclays Bank PLC (BNRI), pursuant to which the Partnership agreed to invest in NGP Management Company, L.L.C. (NGP Management) and, together with its affiliates, NGP. NGP is an Irving, Texas-based energy investor.

The Partnership's equity interests in NGP Management entitle the Partnership to an allocation of income equal to 47.5% of the management fee-related revenues of the NGP entities that serve as the advisors to certain private equity funds, and future interests in the general partners of certain future carry funds advised by NGP that entitle the Partnership to an allocation of income equal to 7.5% of the carried interest received by such fund general partners. In addition, following the termination of the investment period of the NGP Natural Resources X, L.P. fund ( "NGP X"), the Partnership will pay \$7.5 million to acquire an additional 7.5% equity interest in NGP Management that, together with the initial interests described above, will entitle the Partnership to an allocation of income equal to 55% of the management fee-related revenues of the NGP entities that serve as the advisors to certain private equity funds.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

The sellers also granted the Partnership options to purchase additional interests in NGP. Specifically, the Partnership acquired (1) an option, exercisable by the Partnership between July 1, 2014 and July 1, 2015, to purchase from BNRI, for a purchase price in cash that is estimated to be between \$61.0 million to \$70.1 million plus the net capital amount that has been contributed by BNRI, interests in the general partner of NGP X entitling the Partnership to an allocation of income equal to 40% of the carried interest received by such fund's general partner; (2) an option, exercisable by the Partnership from December 20, 2012 until January 1, 2015, to purchase from BNRI, for a purchase price in cash that is estimated to be between \$34.0 million to \$38.0 million, additional interests in the general partners of all future carry funds advised by NGP entitling the Partnership to an additional equity allocation equal to 40% of the carried interest received by such fund general partners; and (3) an option, exercisable by the Partnership in approximately 13 years, to purchase from ECM Capital, L.P. and its affiliates, for a formulaic purchase price in cash based upon a measure of the earnings of NGP, the remaining equity interests in NGP Management.

In consideration for these interests and options, the Partnership paid an aggregate of \$384.0 million in cash to ECM Capital, L.P. and BNRI, and issued 996,572 Carlyle Holdings partnership units to ECM Capital, L.P. that vest ratably over a period of five years. The Partnership will also pay consideration of \$7.5 million upon the termination of the investment period of the NGP X fund. The transaction also includes contingent consideration payable to ECM Capital, L.P. of up to \$45.0 million in cash, 597,944 Carlyle Holdings partnership units that were issued at closing but vest upon the achievement of performance conditions, and contingently issuable Carlyle Holdings partnership units up to \$15.0 million that will be issued if the performance conditions are met. Additionally, the transaction includes contingent consideration payable to BNRI of up to \$183.0 million, which will be payable partly in cash and partly by a promissory note issued by the Partnership, if the performance conditions are met. The contingent consideration is payable from 2015 through 2018, depending on NGP's achievement of certain business performance goals.

The Partnership also entered into a senior advisor consulting agreement with the chief executive officer of NGP and granted deferred restricted common units to a group of NGP personnel who are providing the Partnership with consulting services.

The Partnership accounts for its investment in NGP Management under the equity method of accounting. The Partnership recorded its investment in NGP Management initially at cost, excluding any elements in the transaction that were deemed to be compensatory arrangements to NGP personnel. The Carlyle Holdings partnership units issued in the transaction, the contingently issuable Carlyle Holdings partnership units, and the deferred restricted common units were deemed to be compensatory arrangements; these elements are recognized as an expense under applicable U.S. GAAP.

The Partnership records realized investment income for its equity income allocation from NGP, and also records, as a reduction of realized investment income, its share of any allocated expenses from NGP Management, expenses associated with the compensatory elements of the transaction, and the amortization of the basis differences related to the definitive-lived identifiable intangible assets of NGP Management. The realized net investment earnings (loss) recognized in the Partnership's condensed consolidated statements of operations for the three and six months ended June 30, 2014 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Investment earnings	\$ 15.2	\$ 15.6	\$ 29.6	\$ 31.8
Expenses and amortization of basis differences	19.6	19.3	38.3	36.5
Realized net investment loss	\$ (4.4)	\$ (3.7)	\$ (8.7)	\$ (4.7)

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

The difference between the Partnership's carrying value of its investment and its share of the underlying net assets of the investee was \$170.6 million and \$199.6 million as of June 30, 2014 and December 31, 2013, respectively; these differences are amortized over a period of ten years from the initial investment date.

In May 2014, the Partnership exercised the option to acquire additional interests in the general partners of all future carry funds advised by NGP, which entitles the Partnership to an additional equity allocation equal to 40% of the carried interest received by such fund general partners. The exercise price for this option was approximately \$35.2 million and is included in the carrying value of the Partnership's equity-method investment in NGP.

In July 2014, the Partnership exercised its option to acquire additional interests in the general partner of NGP X, which entitles the Partnership to an allocation of income equal to 40% of the carried interest received by the fund's general partner. The exercise price for this option was approximately \$61.3 million. The Partnership additionally acquired certain general partner investments in the NGP X fund, for which it paid \$16.6 million.

**Equity-Method Investments**

The Partnership's equity method investments include its fund investments in Corporate Private Equity, Global Market Strategies and Real Assets, typically as general partner interests, and its investment in NGP Management (included within Real Assets), which are not consolidated. Investments are related to the following segments:

	<b>As of</b>	
	<b>June 30, 2014</b>	<b>December 31, 2013</b>
	<b>(Dollars in millions)</b>	
Corporate Private Equity	<b>\$ 233.4</b>	<b>\$ 206.5</b>
Global Market Strategies	<b>28.1</b>	<b>25.1</b>
Real Assets	<b>496.3</b>	<b>519.5</b>
Total	<b>\$ 757.8</b>	<b>\$ 751.1</b>

The Partnership evaluates each of its equity method investments to determine if disclosure of summarized income statement information is required under Article 10 of Regulation S-X. As of June 30, 2014 and for the six months then ended, no individual equity method investment held by the Partnership was significant based on the disclosure criteria.

**Investment Income (Loss)**

The components of investment income (loss) are as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Income from equity investments	\$ 24.0	\$ 7.7	\$ 28.0	\$ 4.9
Income (loss) from trading securities	(0.5)	3.2	1.4	6.5
Other investment income	0.2	0.1	0.4	
Total	\$ 23.7	\$ 11.0	\$ 29.8	\$ 11.4

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

Carlyle's income (loss) from its equity-method investments is included in investment income (loss) in the condensed consolidated statements of operations and consists of:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>			
Corporate Private Equity	<b>\$ 11.0</b>	\$ 10.3	<b>\$ 28.0</b>	\$ 23.2
Global Market Strategies	<b>1.7</b>	0.7	<b>1.7</b>	1.8
Real Assets	<b>11.3</b>	(3.3)	<b>(1.7)</b>	(20.1)
Total	<b>\$ 24.0</b>	\$ 7.7	<b>\$ 28.0</b>	\$ 4.9

**Trading Securities and Other Investments**

Trading securities and other investments as of June 30, 2014 and December 31, 2013 primarily consisted of \$13.8 million and \$14.2 million, respectively, of investments in corporate mezzanine securities and bonds, as well as other cost method investments.

**Investments of Consolidated Funds**

During the six months ended June 30, 2014, the Partnership formed four new CLOs. The Partnership has concluded that these CLOs are VIEs and the Partnership is the primary beneficiary. As a result, the Partnership consolidated the financial positions and results of operations of the CLOs into its condensed consolidated financial statements beginning on their respective closing dates. As of June 30, 2014, the total assets of these CLOs included in the Partnership's condensed consolidated financial statements were approximately \$3.4 billion.

There were no individual investments with a fair value greater than five percent of the Partnership's total assets for any period presented.

**Interest and Other Income of Consolidated Funds**

The components of interest and other income of Consolidated Funds are as follows:

	<b>Three Months Ended</b>	<b>Six Months</b>
	<b>June 30,</b>	<b>Ended</b>
		<b>June 30,</b>



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	2014	2013	2014	2013
	(Dollars in millions)			
Interest income from investments	\$ 214.8	\$ 221.7	\$ 436.0	\$ 452.3
Other income	28.9	31.2	58.4	69.0
Total	\$ 243.7	\$ 252.9	\$ 494.4	\$ 521.3

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****Net Investment Gains (Losses) of Consolidated Funds**

Net investment gains (losses) of Consolidated Funds include net realized gains (losses) from sales of investments and unrealized gains (losses) resulting from changes in fair value of the Consolidated Funds' investments. The components of net investment gains (losses) of Consolidated Funds are as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>			
Gains from investments of Consolidated Funds	<b>\$ 493.0</b>	\$ 543.3	<b>\$ 981.9</b>	\$ 1,142.7
Losses from liabilities of CLOs	<b>(48.0)</b>	(253.5)	<b>(113.1)</b>	(640.4)
Gains (losses) on other assets of CLOs		0.8	<b>0.2</b>	(0.2)
Total	<b>\$ 445.0</b>	\$ 290.6	<b>\$ 869.0</b>	\$ 502.1

The following table presents realized and unrealized gains (losses) earned from investments of the Consolidated Funds:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>			
Realized gains	<b>\$ 213.9</b>	\$ 216.6	<b>\$ 946.2</b>	\$ 694.5
Net change in unrealized gains	<b>279.1</b>	326.7	<b>35.7</b>	448.2
Total	<b>\$ 493.0</b>	\$ 543.3	<b>\$ 981.9</b>	\$ 1,142.7

**7. Intangible Assets and Goodwill**

The following table summarizes the carrying amount of intangible assets as of June 30, 2014 and December 31, 2013:

	<b>As of</b>
<b>June 30, 2014</b>	<b>December 31, 2013</b>

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	<b>(Dollars in millions)</b>	
Acquired contractual rights	<b>\$ 857.1</b>	\$ 826.1
Acquired trademarks	<b>6.9</b>	6.9
Accumulated amortization	<b>(368.6)</b>	(290.5)
Finite-lived intangible assets, net	<b>495.4</b>	542.5
Goodwill	<b>49.3</b>	40.3
Intangible assets, net	<b>\$ 544.7</b>	\$ 582.8

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

The following table summarizes the changes in the carrying amount of goodwill by segment as of June 30, 2014. There was no goodwill associated with the Partnership's Corporate Private Equity and Real Assets segments.

	<b>Global Market Strategies</b>	<b>Solutions</b>	<b>Total</b>
	<b>(Dollars in millions)</b>		
Balance as of December 31, 2013	\$ 28.0	\$ 12.3	\$ 40.3
Goodwill acquired during the period		8.6	8.6
Foreign currency translation		0.4	0.4
Balance as of June 30, 2014	\$ 28.0	\$ 21.3	\$ 49.3

As part of the accounting for the acquisition of DGAM, the Partnership recorded \$8.6 million of goodwill in the first quarter of 2014. See Note 3 for more information on this acquisition.

During the six months ended June 30, 2014, the Partnership evaluated for impairment certain intangible assets associated with acquired contractual rights for fee income based on revisions to the related expected future cash flow. The intangible assets are included in the Global Market Strategies segment. The Partnership recorded an impairment loss of \$24.6 million during the three months ended March 31, 2014 to reduce the carrying value of the intangible assets to their estimated fair value. Fair value was based on a probability-weighted discounted cash flow model. This fair value measurement was based on significant inputs not observable in the market and thus represented a Level III measurement as defined in the accounting guidance for fair value measurements. The impairment loss was included in general, administrative and other expenses in the accompanying condensed consolidated financial statements for the six months ended June 30, 2014.

Intangible asset amortization expense, excluding impairment losses, was \$25.4 million and \$26.4 million for the three months ended June 30, 2014 and 2013, respectively, and \$52.9 million and \$63.4 million for the six months ended June 30, 2014 and 2013, respectively, and is included in general, administrative, and other expenses in the condensed consolidated statements of operations.

The following table summarizes the estimated amortization expense for 2014 through 2018 and thereafter (Dollars in millions):

2014	\$ 102.5
2015	96.6
2016	84.5
2017	78.7

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2018	71.6
Thereafter	113.0
	\$ 546.9

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****8. Borrowings**

The Partnership borrows and enters into credit agreements for its general operating and investment purposes. The Partnership's borrowings consist of the following (Dollars in millions):

	<b>As of June 30, 2014</b>		<b>As of December 31, 2013</b>	
	<b>Borrowing Outstanding</b>	<b>Carrying Value</b>	<b>Borrowing Outstanding</b>	<b>Carrying Value</b>
Term Loan Due 8/09/2018	\$ 25.0	\$ 25.0	\$ 25.0	\$ 25.0
Term Loan <sup>(1)</sup>	17.2	17.2	17.4	17.4
3.875% Senior Notes Due 2/01/2023	500.0	499.9	500.0	499.8
5.625% Senior Notes Due 3/30/2043	600.0	606.9	400.0	398.4
	<b>\$ 1,142.2</b>	<b>\$ 1,149.0</b>	<b>\$ 942.4</b>	<b>\$ 940.6</b>

(1) Due the earlier of September 28, 2018 or the date that the CLO is dissolved.

**Senior Credit Facility**

The senior credit facility includes \$500.0 million in a term loan and \$750.0 million in a revolving credit facility. The term loan and revolving credit facility mature on August 9, 2018. Principal amounts outstanding under the term loan and revolving credit facility accrue interest, at the option of the borrowers, either (a) at an alternate base rate plus an applicable margin not to exceed 0.75%, or (b) at LIBOR plus an applicable margin not to exceed 1.75% (at June 30, 2014, the interest rate was 1.41%). During the first quarter of 2013, the Partnership prepaid \$475.0 million of term loan principal that would have been due beginning in September 2014 and expensed \$1.9 million of deferred financing costs in interest expense. The remaining outstanding principal amount under the term loan is payable on August 9, 2018. Total interest expense under the senior credit facility was \$0.9 million and \$1.0 million for the three months ended June 30, 2014 and 2013, respectively, and \$1.8 million and \$5.2 million for the six months ended June 30, 2014 and 2013, respectively. The fair value of the outstanding balances of the term loan and revolving credit facility at June 30, 2014 and December 31, 2013 approximated par value based on current market rates for similar debt instruments and are classified as Level III within the fair value hierarchy.

**Other Borrowings**

On October 3, 2013, the Partnership borrowed 12.6 million (\$17.2 million at June 30, 2014) under a new term loan and security agreement with a financial institution. Proceeds from the borrowing were used to fund the Partnership's investment in a CLO. Interest on the term loan accrues at EURIBOR plus 1.75% (1.96% at June 30, 2014). The Partnership may prepay the facility in whole or in part at any time without penalty. The facility is scheduled to mature on the earlier of five years after closing or the date that the CLO is dissolved. The facility is secured by the

Partnership's investment in the CLO. Interest expense on the term loan was not significant for the three and six months ended June 30, 2014. The fair value of the outstanding balance of the term loan at June 30, 2014 and December 31, 2013 approximated par value based on current market rates for similar debt instruments and are classified as Level III within the fair value hierarchy.

### **3.875% Senior Notes**

In January 2013, an indirect finance subsidiary of the Partnership issued \$500.0 million in aggregate principal amount of 3.875% senior notes due February 1, 2023 at 99.966% of par. Interest is payable semi-annually on February 1 and August 1, beginning August 1, 2013. This subsidiary may redeem the senior notes in whole at any time or in part from time to time at a price equal to the greater of 100% of the principal amount of the notes being redeemed and the sum of the present values of the remaining scheduled payments of principal and interest on any notes being redeemed discounted to the redemption date on a semi-annual basis at the Treasury rate plus 30 basis points plus accrued and unpaid interest on the principal amounts being redeemed to the redemption date.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

Interest expense on the notes was \$4.9 million and \$5.0 million for the three months ended June 30, 2014 and 2013, respectively, and \$9.9 million and \$9.0 million for the six months ended June 30, 2014 and 2013, respectively. At June 30, 2014 and December 31, 2013, the fair value of the notes was approximately \$511.1 million and \$479.6 million, respectively, based on indicative quotes and are classified as Level II within the fair value hierarchy.

**5.625% Senior Notes**

In March 2013, an indirect finance subsidiary of the Partnership issued \$400.0 million in aggregate principal amount of 5.625% senior notes due March 30, 2043 at 99.583% of par. Interest is payable semi-annually on March 30 and September 30, beginning September 30, 2013. This subsidiary may redeem the senior notes in whole at any time or in part from time to time at a price equal to the greater of 100% of the principal amount of the notes being redeemed and the sum of the present values of the remaining scheduled payments of principal and interest on any notes being redeemed discounted to the redemption date on a semi-annual basis at the Treasury rate plus 40 basis points plus accrued and unpaid interest on the principal amounts being redeemed to the redemption date.

In March 2014, an indirect finance subsidiary of the Partnership issued \$200.0 million of 5.625% Senior Notes due March 30, 2043 at 104.315% of par. The net proceeds from the issuance of these notes will be used for general corporate purposes, including investments in Carlyle's funds as well as investment capital for acquisitions of new fund platforms and strategies or other growth initiatives, to drive innovation across the broader Carlyle platform. These notes were issued as additional 5.625% Senior Notes and will be treated as a single class with the already outstanding \$400.0 million aggregate principal amount of these senior notes.

Interest expense on the notes was \$8.4 million and \$5.7 million for the three months ended June 30, 2014 and 2013, respectively, and \$14.7 million and \$5.9 million for the six months ended June 30, 2014 and 2013, respectively. At June 30, 2014 and December 31, 2013, the fair value of the notes was approximately \$667.5 million and \$398.1 million, respectively, based on indicative quotes and are classified as Level II within the fair value hierarchy.

**Interest Rate Swaps**

The Partnership is subject to interest rate risk associated with its variable rate debt financing. To manage this risk, the Partnership has an outstanding interest rate swap to fix the base LIBOR interest rate on its term loan borrowings with a notional amount of \$500.0 million at June 30, 2014 that amortizes through September 30, 2016.

In the first quarter of 2013, \$475.0 million of term loan principal was prepaid. As a result of these term loan prepayments, the interest rate swap is no longer accounted for as a cash flow hedge; the interest rate swap is accounted for as a freestanding derivative instrument recorded at fair value each period with changes in fair value recorded through earnings. The pre-existing hedge losses included in accumulated other comprehensive loss for this interest rate swap of \$8.8 million is being reclassified into earnings as the original forecasted transactions affect earnings.

In March 2013, the Partnership entered into a second interest rate swap with a notional amount of \$475.0 million at June 30, 2014 that amortizes through September 30, 2016. This interest rate swap is accounted for as a freestanding derivative instrument recorded at fair value each period with changes in fair value recorded through earnings.



## **Debt Covenants**

The Partnership is subject to various financial covenants under its loan agreements including, among other items, maintenance of a minimum amount of management fee-earning assets. The Partnership is also subject to various non-financial covenants under its loan agreements and the indentures governing its senior notes. The Partnership was in compliance with all financial and non-financial covenants under its various loan agreements as of June 30, 2014.

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### Notes to the Condensed Consolidated Financial Statements

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The consolidated real estate VIE was not in compliance with the debt covenants related to substantially all of its loans payable as of June 30, 2014 (see Note 17); such violations do not cause a default or event of default under the Partnership's senior credit facility, 2013 term loan, senior notes, or the loans payable of Consolidated Funds.

#### Loans Payable of Consolidated Funds

Loans payable of Consolidated Funds represent amounts due to holders of debt securities issued by the CLOs. Several of the CLOs issued preferred shares representing the most subordinated interest, however these tranches are mandatorily redeemable upon the maturity dates of the senior secured loans payable, and as a result have been classified as liabilities and are included in loans payable of Consolidated Funds in the condensed consolidated balance sheets.

As of June 30, 2014 and December 31, 2013, the following borrowings were outstanding, which includes preferred shares classified as liabilities (Dollars in millions):

As of June 30, 2014				
	Borrowing Outstanding	Fair Value	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior secured notes	\$ 15,123.5	\$ 14,775.1	1.53%	9.10
Subordinated notes and preferred shares	1,371.3	1,345.1	N/A(a)	8.08
Combination notes	15.0	16.2	N/A(b)	7.64
Total	\$ 16,509.8	\$ 16,136.4		

As of December 31, 2013				
	Borrowing Outstanding	Fair Value	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior secured notes	\$ 14,319.8	\$ 13,910.4	1.41%	8.97
Subordinated notes and preferred shares	1,399.3	1,294.0	N/A(a)	8.18
Combination notes	15.2	16.3	N/A(b)	8.13
Total	\$ 15,734.3	\$ 15,220.7		

- (a) The subordinated notes and preferred shares do not have contractual interest rates, but instead receive distributions from the excess cash flows of the CLOs.
- (b) The combination notes do not have contractual interest rates and have recourse only to the securities specifically held to collateralize such combination notes.

Loans payable of the CLOs are collateralized by the assets held by the CLOs and the assets of one CLO may not be used to satisfy the liabilities of another. This collateral consisted of cash and cash equivalents, corporate loans, corporate bonds and other securities. As of June 30, 2014 and December 31, 2013, the fair value of the CLO assets was \$18.0 billion and \$16.9 billion, respectively.

# The Carlyle Group L.P.

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

### 9. Contingent Consideration

The Partnership has contingent consideration obligations related to its business acquisitions and strategic investments. The changes in the contingent consideration liabilities are as follows:

Rollforward For The Three Months Ended June 30, 2014					
Amounts payable to the sellers who are Carlyle professionals					
	Performance-based contingent cash consideration	Performance-based contingent equity consideration	Employment-based contingent cash consideration	Contingent cash and other consideration payable to non- Carlyle personnel	Total
(Dollars in millions)					
Balance, beginning of period	\$ 101.2	\$ 26.3	\$ 161.8	\$ 34.2	\$ 323.5
Change in carrying value	(0.7)	(0.1)	22.5	(1.4)	20.3
Payments				(1.0)	(1.0)
Balance, end of period	\$ 100.5	\$ 26.2	\$ 184.3	\$ 31.8	\$ 342.8

Rollforward For The Six Months Ended June 30, 2014					
Amounts payable to the sellers who are Carlyle professionals					
	Performance-based contingent cash consideration	Performance-based contingent equity consideration	Employment-based contingent cash consideration	Contingent cash and other consideration payable to non- Carlyle personnel	Total
(Dollars in millions)					
Balance, beginning of period	\$ 152.2	\$ 15.7	\$ 148.7	\$ 33.7	\$ 350.3
Change in carrying value	18.8	10.5	35.6	1.3	66.2
Payments	(70.5)			(3.2)	(73.7)
Balance, end of period	\$ 100.5	\$ 26.2	\$ 184.3	\$ 31.8	\$ 342.8

Rollforward For The Three Months Ended June 30, 2013  
Amounts payable to the sellers who are senior Carlyle professionals

Total

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	Performance-based contingent cash consideration	Performance-based contingent equity consideration	Employment-based contingent cash consideration	cash and other consideration payable to non- Carlyle personnel	
					(Dollars in millions)
Balance, beginning of period	\$ 137.6	\$ 65.7	\$ 106.9	\$ 29.2	\$ 339.4
Change in carrying value	4.2	(8.8)	11.1	2.1	8.6
Payments				(0.9)	(0.9)
Balance, end of period	\$ 141.8	\$ 56.9	\$ 118.0	\$ 30.4	\$ 347.1

Rollforward For The Six Months Ended June 30, 2013					
Amounts payable to the sellers who are senior Carlyle professionals					
	Performance-based contingent cash consideration	Performance-based contingent equity consideration	Employment-based contingent cash consideration	cash and other consideration payable to non- Carlyle personnel	Total
					(Dollars in millions)
Balance, beginning of period	\$ 158.6	\$ 57.6	\$ 96.2	\$ 28.1	\$ 340.5
Change in carrying value	(7.5)	(0.7)	21.8	3.9	17.5
Payments	(9.3)			(1.6)	(10.9)
Balance, end of period	\$ 141.8	\$ 56.9	\$ 118.0	\$ 30.4	\$ 347.1

The fair value of the performance-based contingent cash and equity consideration payable to the sellers who are Carlyle professionals has been recorded in due to affiliates in the accompanying condensed consolidated balance sheets. These payments are not contingent upon the Carlyle professional being employed by Carlyle at the time that the performance conditions are met. Changes in the fair value of these amounts are recorded in other non-operating (income) expenses in the condensed consolidated statements of operations. The portion of the contingent

## The Carlyle Group L.P.

### Notes to the Condensed Consolidated Financial Statements

(Unaudited)

consideration payment attributable to the initial amount included as part of the consideration transferred is classified as cash flows from financing activities. The portion of the contingent consideration payment that is attributable to the subsequent changes in the fair value of the contingent consideration is classified as cash flows from operating activities in the condensed consolidated statements of cash flows.

The amount of employment-based contingent cash consideration payable to the sellers who are Carlyle professionals has been recorded as accrued compensation and benefits in the accompanying condensed consolidated balance sheets. Changes in the value of these amounts are recorded as compensation expense in the condensed consolidated statements of operations.

The fair value of contingent consideration payable to non-Carlyle personnel is included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. Changes in the fair value of this contingent consideration are recorded in other non-operating (income) expenses in the condensed consolidated statements of operations.

The fair values of the performance-based contingent cash consideration were based on probability-weighted discounted cash flow models. These fair value measurements are based on significant inputs not observable in the market and thus represent Level III measurements as defined in the accounting guidance for fair value measurement. As of June 30, 2014 and December 31, 2013, the fair value of the contingently issuable Carlyle Holdings partnership units was based principally by reference to the quoted price of the Partnership's common units. This fair value measurement was based on inputs that are not directly observable but are corroborated by observable market data and thus represents a Level II measurement as defined in the accounting guidance for fair value measurement. Refer to Note 4 for additional disclosures related to the fair value of these instruments as of June 30, 2014 and December 31, 2013.

The following table represents the maximum amounts that could be paid from contingent cash obligations associated with the business acquisitions and the strategic investment in NGP Management and an estimated amount payable for the options related to NGP:

As of June 30, 2014				Liability Recognized on Financial Statements (1)
	Business Acquisitions	NGP Investment	Total	
	(Dollars in millions)			
Performance-based contingent cash consideration	\$ 288.6	\$ 183.0	\$ 471.6	\$ 132.3
Employment-based contingent cash consideration	446.9	45.0	491.9	184.3
Option to acquire additional investments in NGP(2)		61.3	61.3	

Total maximum cash obligations	\$ 735.5	\$ 289.3	\$ 1,024.8	\$ 316.6
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(1) On the condensed consolidated balance sheet, the liability for performance-based contingent cash consideration is included in due to affiliates (for amounts owed to Carlyle professionals) and accounts payable, accrued expenses, and other liabilities (for amounts owed to other sellers), and the liability for employment-based contingent cash consideration is included in accrued compensation and benefits. Also, the amounts shown here exclude liabilities that have been recognized on the consolidated financial statements for performance-based contingent equity consideration.

(2) The Partnership exercised this option in July 2014. Refer to Note 6 for more information.

Some of the employment-based contingent cash consideration agreements do not contain provisions limiting the amount that could be paid by the Partnership. For purposes of the table above, the Partnership has used its current estimate of the amount to be paid upon the determination dates for such payments. In the consolidated financial statements, the Partnership records the performance-based contingent cash consideration from business acquisitions at fair value at each reporting period. For the employment-based contingent cash consideration, the Partnership accrues the compensation liability over the implied service period.

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****10. Accrued Compensation and Benefits**

Accrued compensation and benefits consist of the following:

	As of	
	June 30, 2014	December 31, 2013
	(Dollars in millions)	
Accrued performance fee-related compensation	\$ 1,839.5	\$ 1,661.8
Accrued bonuses	247.6	238.0
Employment-based contingent cash consideration	184.3	148.7
Other	177.9	204.5
<b>Total</b>	<b>\$ 2,449.3</b>	<b>\$ 2,253.0</b>

**11. Commitments and Contingencies****Capital Commitments**

The Partnership and its unconsolidated affiliates have unfunded commitments to entities within the following segments as of June 30, 2014 (Dollars in millions):

	Unfunded Commitments
Corporate Private Equity	\$ 2,025.9
Global Market Strategies	204.8
Real Assets	843.1
Solutions	32.2
	<b>\$ 3,106.0</b>

Of the \$3.1 billion of unfunded commitments, approximately \$2.8 billion is subscribed individually by senior Carlyle professionals, operating executives and other professionals, with the balance funded directly by the Partnership. In addition to these unfunded commitments, the Partnership may from time to time exercise its right to purchase additional interests in its investment funds that become available in the ordinary course of their operations.

**Guaranteed Loans**



On August 4, 2001, the Partnership entered into an agreement with a financial institution pursuant to which the Partnership is the guarantor on a credit facility for eligible employees investing in Carlyle sponsored funds. This credit facility renews on an annual basis, allowing for annual incremental borrowings up to an aggregate of \$16.4 million, and accrues interest at the lower of the prime rate, as defined, or three-month LIBOR plus 2%, reset quarterly (3.23% weighted-average rate at June 30, 2014). As of June 30, 2014 and December 31, 2013, approximately \$8.4 million and \$9.0 million, respectively, were outstanding under the credit facility and payable by the employees. The amount funded by the Partnership under this guarantee as of June 30, 2014 was not material. The Partnership believes the likelihood of any material funding under this guarantee to be remote. The fair value of this guarantee is not significant to the consolidated financial statements.

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**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**Other Guarantees**

The Partnership has guaranteed payment of giveback obligations, if any, related to one of its Corporate Private Equity funds to the extent the amount of funds reserved for potential giveback obligations is not sufficient to fulfill such obligations. At June 30, 2014 and December 31, 2013, \$13.2 million were held in an escrow account and the Partnership believes the likelihood of any material fundings under this guarantee to be remote.

**Contingent Obligations (Giveback)**

A liability for potential repayment of previously received performance fees of \$32.3 million at June 30, 2014, is shown as accrued giveback obligations in the condensed consolidated balance sheets, representing the giveback obligation that would need to be paid if the funds were liquidated at their current fair values at June 30, 2014. However, the ultimate giveback obligation, if any, does not become realized until the end of a fund's life (see Note 2). The Partnership has recorded \$12.2 million and \$17.6 million of unbilled receivables from former and current employees and senior Carlyle professionals as of June 30, 2014 and December 31, 2013, respectively, related to giveback obligations, which are included in due from affiliates and other receivables, net in the accompanying condensed consolidated balance sheets. Current and former senior Carlyle professionals and employees are personally responsible for their giveback obligations. The receivables are collateralized by investments made by individual senior Carlyle professionals and employees in Carlyle-sponsored funds. In addition, \$366.8 million and \$345.1 million have been withheld from distributions of carried interest to senior Carlyle professionals and employees for potential giveback obligations as of June 30, 2014 and December 31, 2013, respectively. Such amounts are held by an entity not included in the accompanying condensed consolidated balance sheets.

During the first quarter of 2013, the Partnership repaid \$14.0 million of giveback obligations to certain funds. These amounts were funded primarily through collection of employee receivables related to giveback obligations and from contributions from non-controlling interests for their portion of the obligation. The Partnership had previously recognized these liabilities as unrealized performance fee losses. As a result of the giveback repayments, the Partnership reclassified these amounts to realized performance fee losses for the six months ended June 30, 2013.

If, at June 30, 2014, all of the investments held by the Partnership's Funds were deemed worthless, a possibility that management views as remote, the amount of realized and distributed carried interest subject to potential giveback would be \$1.1 billion, on an after-tax basis where applicable.

**Leases**

The Partnership leases office space in various countries around the world and maintains its headquarters in Washington, D.C., where it leases its primary office space under a non-cancelable lease agreement expiring on July 31, 2026. Office leases in other locations expire in various years from 2014 through 2031. These leases are accounted for as operating leases. Rent expense was approximately \$13.8 million and \$12.4 million for the three months ended June 30, 2014 and 2013, respectively, and \$26.7 million and \$24.6 million for the six months ended June 30, 2014 and 2013, respectively, and is included in general, administrative and other expenses in the condensed consolidated statements of operations.



**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

The future minimum commitments for the leases are as follows (Dollars in millions):

2014	\$ 27.5
2015	52.3
2016	46.8
2017	43.0
2018	38.2
Thereafter	295.7
	\$ 503.5

Total minimum rentals to be received in the future under non-cancelable subleases as of June 30, 2014 were \$9.6 million.

The Partnership records contractual escalating minimum lease payments on a straight-line basis over the term of the lease. Deferred rent payable under the leases was \$35.1 million and \$34.8 million as of June 30, 2014 and December 31, 2013, respectively, and is included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets.

**Legal Matters**

In the ordinary course of business, the Partnership is a party to litigation, investigations, disputes and other potential claims. Certain of these matters are described below. The Partnership is not currently able to estimate for any such matters the reasonably possible amount of loss or range of loss. The Partnership does not believe it is probable that the outcome of any existing litigation, investigations, disputes or other potential claims will materially affect the Partnership or these financial statements. The Partnership believes that the matters described below are without merit and intends to vigorously contest all such allegations.

On February 14, 2008, a private class-action lawsuit challenging club bids and other alleged anti-competitive business practices was filed in the U.S. District Court for the District of Massachusetts (*Police and Fire Retirement System of the City of Detroit v. Apollo Global Management, LLC*). The complaint alleges, among other things, that certain global alternative asset firms, including the Partnership, violated Section 1 of the Sherman Act by forming multi-sponsor consortiums for the purpose of bidding collectively in company buyout transactions in certain going private transactions, which the plaintiffs allege constitutes a conspiracy in restraint of trade. Count One of the complaint alleges an overarching conspiracy relating to certain large buyout transactions. Count Two of the complaint alleges a conspiracy with regard to the buyout of Healthcare Corporation of America. The plaintiffs seek damages as provided for in Section 4 of the Clayton Act and an injunction against such conduct in restraint of trade in the future. The defendants moved for summary judgment on both counts. On March 13, 2013, the U.S. District Court for the District of Massachusetts ruled that plaintiffs could proceed on Count One solely on the basis of an alleged conspiracy to refrain from jumping announced proprietary (i.e., non-auction) deals. The Court stated that it would entertain

further summary judgment motions by individual defendants as to their participation in the more narrowly defined alleged conspiracy. The Court also denied summary judgment as to Count Two. On April 16, 2013, Carlyle filed a consolidated motion, renewing its motion for summary judgment on Count One, and moving for reconsideration on Count Two. On April 22, 2013, Carlyle joined a motion seeking reconsideration on Count Two filed on behalf of all Count Two defendants. On June 20, 2013, the Court denied the motion for reconsideration on Count Two filed by the Count Two defendants. On July 18, 2013, the Court denied Carlyle's individual summary judgment motion regarding its participation in the conspiracy alleged in Count One. The plaintiffs moved to certify the class on October 21, 2013. We understand that all of Carlyle's co-defendants have entered into settlement agreements with plaintiffs since the filing of the class certification. The Court has scheduled oral arguments on class certification for

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

September 4, 2014. The case management order calls for a jury trial to commence in November 2014, but this could be delayed in the event an appeal to the U.S. Court of Appeals for the First Circuit on the class certification issue should become necessary. Carlyle believes that reasonable litigation and settlement costs that are not covered by applicable insurance are indemnifiable by one or more of Carlyle's investment funds.

Along with many other companies and individuals in the financial sector, Carlyle and Carlyle Mezzanine Partners, L.P. ( CMP ) are named as defendants in *Foy v. Austin Capital*, a case filed in June 2009, pending in the State of New Mexico's First Judicial District Court, County of Santa Fe, which purports to be a *qui tam* suit on behalf of the State of New Mexico. The suit alleges that investment decisions by New Mexico public investment funds were improperly influenced by campaign contributions and payments to politically connected placement agents. The plaintiffs seek, among other things, actual damages, actual damages for lost income, rescission of the investment transactions described in the complaint and disgorgement of all fees received. In May 2011, the Attorney General of New Mexico moved to dismiss certain defendants including Carlyle and CMP on the grounds that separate civil litigation by the Attorney General is a more effective means to seek recovery for the State from these defendants. The Attorney General has brought two civil actions against certain of those defendants, not including the Carlyle defendants. The Attorney General has stated that its investigation is continuing and it may bring additional civil actions.

Carlyle Capital Corporation Limited ( CCC ) was a fund sponsored by Carlyle that invested in AAA-rated residential mortgage backed securities on a highly leveraged basis. In March of 2008, amidst turmoil throughout the mortgage markets and money markets, CCC filed for insolvency protection in Guernsey. Several different lawsuits, described below, developed from the CCC insolvency.

First, on July 13, 2009, a former shareholder of CCC, claiming to have lost \$20.0 million, filed a claim against CCC, Carlyle and certain affiliates and one of the Partnership's officers (*Huffington v. TC Group L.L.C., et al.*) alleging violations of Massachusetts' blue sky law provisions relating to material misrepresentations and omissions allegedly made during and after the marketing of CCC. The plaintiff sought treble damages, interest, expenses, attorney's fees and to have the subscription agreement deemed null and void and to receive a full refund of the investment. The plaintiff has since dismissed his claim without any monetary compensation, in exchange for Carlyle's dismissal of its counterclaim against him for violation of the forum selection clause.

Second, in November 2009, another CCC investor, National Industries Group (Holding) ( National Industries ) instituted legal proceedings on similar grounds in Kuwait's Court of First Instance (*National Industries Group v. Carlyle Group*) seeking to recover losses incurred in connection with an investment in CCC. In July 2011, the Delaware Court of Chancery issued a decision restraining National Industries from proceeding in Kuwait on any CCC-related claims based on the forum selection clause in National Industries' subscription agreement, which provided for exclusive jurisdiction in the Delaware courts. In September 2011, National Industries reissued its complaint in Kuwait naming CCC only, and reissued its complaint in January 2012 joining Carlyle Investment Management, L.L.C. as a defendant. In April 2013, the court in Kuwait dismissed National Industries' claim without prejudice for failure to serve process. Hearings in the case and related to the case have nevertheless taken place on several occasions since that time, most recently in September 2013. Meanwhile, in August 2012, National Industries had filed a motion to vacate the Delaware Court of Chancery's decision. The Partnership successfully opposed that motion and the Court's injunction remained in effect. In November 2012, National Industries appealed that decision to

the Delaware Supreme Court. On May 29, 2013, the Delaware Supreme Court affirmed the Chancery Court's decision and upheld the 2011 injunction barring National Industries from filing or prosecuting any CCC-related action in any forum other than the courts of Delaware.

Third, the Guernsey liquidators who took control of CCC in March 2008 filed four suits on July 7, 2010 against Carlyle, certain of its affiliates and the former directors of CCC in the Delaware Chancery Court, the Royal Court of Guernsey, the Superior Court of the District of Columbia and the Supreme Court of New York, New York County (*Carlyle Capital Corporation Limited v. Conway et al.*) seeking \$1.0 billion in damages. They allege that Carlyle and the CCC board of directors were negligent, grossly negligent or willfully mismanaged the CCC investment program and breached certain fiduciary duties allegedly owed to CCC and its shareholders. The liquidators further allege (among other things) that the directors and Carlyle put the interests of Carlyle ahead of the interests of CCC and its shareholders and gave priority to preserving and enhancing Carlyle's reputation and its

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brand over the best interests of CCC. In July 2011, the Royal Court of Guernsey held that the case should be litigated in Delaware pursuant to the exclusive jurisdiction clause in the investment management agreement. That ruling was appealed by the liquidators, and in February 2012 was reversed by the Guernsey Court of Appeal, which held that the case should proceed in Guernsey. Defendants' attempts to appeal to the Privy Council were unsuccessful and the plaintiffs' case is proceeding in Guernsey. Two claims in that case, which sought the return of certain documents and other property purportedly belonging to CCC, were resolved by agreement of the parties and order of the Royal Court of Guernsey in December 2012. Carlyle has now completed its document production pursuant to that order. On July 24, 2013, plaintiffs filed an amended complaint, which contained further detail in support of the existing claims but no new defendants or claims. On December 20, 2013, defendants filed a defense to the amended complaint and on June 30, 2014 plaintiffs filed their reply. In addition, the liquidators' lawsuits in New York and the District of Columbia were dismissed in December 2011 without prejudice.

Fourth, on June 21, 2011, August 24, 2011 and September 1, 2011, respectively, three putative shareholder class actions were filed against Carlyle, certain of its affiliates and former directors of CCC alleging that the fund offering materials and various public disclosures were materially misleading or omitted material information. Two of the shareholder class actions (*Phelps v. Stomber, et al.* and *Glaubach v. Carlyle Capital Corporation Limited, et al.*) were filed in the United States District Court for the District of Columbia. *Phelps v. Stomber, et al.* was also filed in the Supreme Court of New York, New York County and was subsequently removed to the United States District Court for the Southern District of New York. The two original D.C. cases were consolidated into one case under the caption of *Phelps v. Stomber* and the *Phelps* named plaintiffs were designated lead plaintiffs by the Court. The New York case was transferred to the D.C. federal court and the plaintiffs requested that it be consolidated with the other two D.C. actions. The plaintiffs were seeking compensatory damages sustained as a result of the alleged misrepresentations, costs and expenses, as well as reasonable attorney's fees. On August 13, 2012, the United States District Court for the District of Columbia dismissed both the D.C. and New York shareholder class actions. The plaintiffs moved for leave to amend their complaint and/or for amendment of the Court's decision, but the trial court denied that motion on June 4, 2013. The plaintiffs' previously filed notice of appeal to the Court of Appeals for the District of Columbia Circuit was then automatically reinstated and oral arguments on this appeal were held on February 19, 2014. On May 20, 2014, the Court of Appeals issued its decision affirming the District Court's rulings in full, dismissing plaintiffs' complaints and denying plaintiffs an opportunity to amend.

It is not possible to predict the ultimate outcome of all pending investigations and legal proceedings, and some of the matters discussed above seek potentially large and/or indeterminate amounts. As of such date, based on information known by management, management has not concluded that the final resolutions of the matters above will have a material effect upon the Partnership's condensed consolidated financial statements. However, given the potentially large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of investigations and litigations, it is possible that an adverse outcome in certain matters could, from time to time, have a material effect on our financial results in any particular period.

**Other Contingencies**

From 2007 to 2009, a Luxembourg subsidiary of Carlyle Europe Real Estate Partners, L.P. (CEREP I), a real estate fund, received proceeds from the sale of real estate located in Paris, France. The relevant French tax authorities have



asserted that CEREP I was ineligible to claim certain exemptions from French tax under the Luxembourg-French tax treaty, and have issued a tax assessment seeking to collect approximately 97.0 million, consisting of taxes, interest and penalties. Additionally, the French Ministry of Justice has commenced an investigation regarding the legality under French law of claiming the exemptions under the tax treaty.

CEREP I and its subsidiaries are contesting the French tax assessment. In July 2012, the Partnership provided a guarantee to the French tax authorities as credit support for the 45.7 million tax assessment and in October 2012, placed an additional 4.4 million in escrow, in each case, related to CEREP I. The Partnership expects to incur costs on behalf of CEREP I and its related entities. The Partnership will attempt to recover any amounts advanced or paid from proceeds of subsequent portfolio dispositions by CEREP I. Commencing with the issuance of the credit support on behalf of CEREP I in July 2012, the Partnership consolidated the fund into its consolidated financial statements. As of June 30, 2014, CEREP I had accrued 75.0 million (\$102.7 million as of June 30, 2014) related to this contingency, which is included in other liabilities of Consolidated Funds in the condensed consolidated financial statements.

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**Notes to the Condensed Consolidated Financial Statements**

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**Indemnifications**

In the normal course of business, the Partnership and its subsidiaries enter into contracts that contain a variety of representations and warranties and provide general indemnifications. The Partnership's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Partnership that have not yet occurred. However, based on experience, the Partnership believes the risk of material loss to be remote.

**Risks and Uncertainties**

Carlyle's funds seek investment opportunities that offer the possibility of attaining substantial capital appreciation. Certain events particular to each industry in which the underlying investees conduct their operations, as well as general economic conditions, may have a significant negative impact on the Partnership's investments and profitability. Such events are beyond the Partnership's control, and the likelihood that they may occur and the effect on the Partnership cannot be predicted.

Furthermore, certain of the funds' investments are made in private companies and there are generally no public markets for the underlying securities at the current time. The funds' ability to liquidate their publicly-traded investments are often subject to limitations, including discounts that may be required to be taken on quoted prices due to the number of shares being sold. The funds' ability to liquidate their investments and realize value is subject to significant limitations and uncertainties, including among others currency fluctuations and natural disasters.

The funds make investments outside of the United States. Investments outside the U.S. may be subject to less developed bankruptcy, corporate, partnership and other laws (which may have the effect of disregarding or otherwise circumventing the limited liability structures potentially causing the actions or liabilities of one fund or a portfolio company to adversely impact the Partnership or an unrelated fund or portfolio company). Non-U.S. investments are subject to the same risks associated with the Partnership's U.S. investments as well as additional risks, such as fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, heightened risk of political and economic instability, difficulties in managing non-U.S. investments, potentially adverse tax consequences and the burden of complying with a wide variety of foreign laws.

Furthermore, Carlyle is exposed to economic risk concentrations related to certain large investments as well as concentrations of investments in certain industries and geographies.

Additionally, the Partnership encounters credit risk. Credit risk is the risk of default by a counterparty in the Partnership's investments in debt securities, loans, leases and derivatives that result from a borrower's, lessee's or derivative counterparty's inability or unwillingness to make required or expected payments.

The Partnership considers cash, cash equivalents, securities, receivables, equity-method investments, accounts payable, accrued expenses, other liabilities, loans payable, senior notes, assets and liabilities of Consolidated Funds and contingent and other consideration for acquisitions to be its financial instruments. The carrying amounts reported in the condensed consolidated balance sheets for these financial instruments equal or closely approximate their fair values.



**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****Termination Costs**

Employee and office lease termination costs are included in accrued compensation and benefits and accounts payable, accrued expenses and other liabilities in the condensed consolidated balance sheets as well as general, administrative and other expenses in the condensed consolidated statements of operations. As of June 30, 2014 and December 31, 2013, the accrual for termination costs primarily represents (1) lease obligations associated with closed offices, and (2) severance costs related to terminated employees, which represents management's estimate of the total amount expected to be incurred. The changes in the accrual for termination costs for the three and six months ended June 30, 2014 and 2013 are as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>			
Balance, beginning of period	<b>\$ 9.2</b>	<b>\$ 11.9</b>	<b>\$ 10.6</b>	<b>\$ 13.6</b>
Compensation expense	<b>1.6</b>	<b>3.1</b>	<b>2.2</b>	<b>3.7</b>
Contract termination costs		<b>0.4</b>	<b>0.1</b>	<b>0.3</b>
Costs paid or settled	<b>(1.6)</b>	<b>(1.4)</b>	<b>(3.7)</b>	<b>(3.6)</b>
Balance, end of period	<b>\$ 9.2</b>	<b>\$ 14.0</b>	<b>\$ 9.2</b>	<b>\$ 14.0</b>

**12. Related Party Transactions****Due from Affiliates and Other Receivables, Net**

The Partnership had the following due from affiliates and other receivables at June 30, 2014 and December 31, 2013:

	<b>As of</b>	
	<b>June 30,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Unbilled receivable for giveback obligations from current and former employees	<b>\$ 12.2</b>	<b>\$ 17.6</b>
Notes receivable and accrued interest from affiliates	<b>8.3</b>	<b>15.4</b>
Other receivables from unconsolidated funds and affiliates, net	<b>160.9</b>	<b>142.9</b>
Total	<b>\$ 181.4</b>	<b>\$ 175.9</b>

Notes receivable represent loans that the Partnership has provided to certain unconsolidated funds to meet short-term obligations to purchase investments. Other receivables from certain of the unconsolidated funds and portfolio companies relate to management fees receivable from limited partners, advisory fees receivable and expenses paid on behalf of these entities. These costs represent costs related to the pursuit of actual or proposed investments, professional fees and expenses associated with the acquisition, holding and disposition of the investments. The affiliates are obligated at the discretion of the Partnership to reimburse the expenses. Based on management's determination, the Partnership accrues and charges interest on amounts due from affiliate accounts at interest rates ranging up to 7.21% as of June 30, 2014. The accrued and charged interest to the affiliates was not significant for any period presented.

These receivables are assessed regularly for collectability and amounts determined to be uncollectible are charged directly to general, administrative and other expenses in the condensed consolidated statements of operations. A corresponding allowance for doubtful accounts is recorded and such amounts were not significant for any period presented.

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****Due to Affiliates**

The Partnership had the following due to affiliates balances at June 30, 2014 and December 31, 2013:

	<b>June 30,</b>	<b>As of December 31,</b>
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Due to affiliates of Consolidated Funds	<b>\$ 0.4</b>	<b>\$ 51.8</b>
Due to non-consolidated affiliates	<b>33.4</b>	<b>130.2</b>
Performance-based contingent cash and equity consideration related to acquisitions	<b>126.7</b>	<b>167.9</b>
Amounts owed under the tax receivable agreement	<b>99.0</b>	<b>33.1</b>
Other	<b>18.7</b>	<b>20.7</b>
<b>Total</b>	<b>\$ 278.2</b>	<b>\$ 403.7</b>

The Partnership has recorded obligations for amounts due to certain of its affiliates. The Partnership periodically offsets expenses it has paid on behalf of its affiliates against these obligations. The amount owed under the tax receivable agreement is related primarily to the acquisition by the Partnership of 9,300,000 Carlyle Holdings partnership units in March 2014 (see Note 1), as well as the exchange in May 2012 by CalPERS of its Carlyle Holdings partnership units for Partnership common units.

**Other Related Party Transactions**

In the normal course of business, the Partnership has made use of aircraft owned by entities controlled by senior Carlyle professionals. The senior Carlyle professionals paid for their purchases of the aircraft and bear all operating, personnel and maintenance costs associated with their operation for personal use. Payment by the Partnership for the business use of these aircraft by senior Carlyle professionals and other employees is made at market rates, which totaled \$1.4 million and \$3.1 million for the three months ended June 30, 2014 and 2013, respectively, and \$2.9 million and \$5.8 million for the six months ended June 30, 2014 and 2013, respectively. These fees are included in general, administrative, and other expenses in the condensed consolidated statements of operations.

Senior Carlyle professionals and employees are permitted to participate in co-investment entities that invest in Carlyle funds or alongside Carlyle funds. In many cases, participation is limited by law to individuals who qualify under applicable legal requirements. These co-investment entities generally do not require senior Carlyle professionals and employees to pay management or performance fees, however, Carlyle professionals and employees are required to pay their portion of partnership expenses.

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Carried interest income from the funds can be distributed to senior Carlyle professionals and employees on a current basis, but is subject to repayment by the subsidiary of the Partnership that acts as general partner of the fund in the event that certain specified return thresholds are not ultimately achieved. The senior Carlyle professionals and certain other investment professionals have personally guaranteed, subject to certain limitations, the obligation of these subsidiaries in respect of this general partner obligation. Such guarantees are several and not joint and are limited to a particular individual's distributions received.

The Partnership does business with some of its portfolio companies; all such arrangements are on a negotiated basis.

Substantially all revenue is earned from affiliates of Carlyle.

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****13. Income Taxes**

The Partnership is organized as a series of pass through entities pursuant to the United States Internal Revenue Code. As such, the Partnership is not responsible for the tax liability due on certain income earned during the year. Such income is taxed at the unitholder and non-controlling interest holder level, and any income tax is the responsibility of the unitholders and is paid at that level. The Partnership's income tax expense was \$53.8 million and \$16.6 million for the three months ended June 30, 2014 and 2013, respectively, and \$69.8 million and \$41.5 million for the six months ended June 30, 2014 and 2013, respectively.

In the normal course of business, the Partnership is subject to examination by federal and certain state, local and foreign tax regulators. As of June 30, 2014, the Partnership's U.S. federal income tax returns for the years 2010 through 2012 are open under the normal three-year statute of limitations and therefore subject to examination. State and local tax returns are generally subject to audit from 2009 to 2013. Foreign tax returns are generally subject to audit from 2007 to 2013. Certain of the Partnership's foreign subsidiaries are currently under audit by foreign tax authorities.

The Partnership does not believe that the outcome of these audits will require it to record reserves for uncertain tax positions or that the outcome will have a material impact on the consolidated financial statements. The Partnership does not believe that it has any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

**14. Non-controlling Interests in Consolidated Entities**

The components of the Partnership's non-controlling interests in consolidated entities are as follows:

	<b>As of</b>	
	<b>June 30, 2014</b>	<b>December 31, 2013</b>
	<b>(Dollars in millions)</b>	
Non-Carlyle interests in Consolidated Funds	<b>\$ 7,066.6</b>	<b>\$ 7,354.0</b>
Non-Carlyle interests in majority-owned subsidiaries	<b>274.0</b>	<b>279.6</b>
Non-controlling interest in carried interest and cash held for carried interest distributions	<b>58.5</b>	<b>63.0</b>
Non-controlling interests in consolidated entities	<b>\$ 7,399.1</b>	<b>\$ 7,696.6</b>

The components of the Partnership's non-controlling interests in income (loss) of consolidated entities are as follows:



	Three Months Ended June 30, 2014      2013 (Dollars in millions)		Six Months Ended June 30, 2014      2013 (Dollars in millions)	
Non-Carlyle interests in Consolidated Funds	<b>\$ 475.9</b>	\$ 390.5	<b>\$ 828.8</b>	\$ 617.6
Non-Carlyle interests in majority-owned subsidiaries	<b>(16.4)</b>	6.9	<b>(37.7)</b>	10.4
Non-controlling interest in carried interest and cash held for carried interest distributions	<b>4.3</b>	2.6	<b>12.3</b>	19.9
Net income attributable to other non-controlling interests in consolidated entities	<b>463.8</b>	400.0	<b>803.4</b>	647.9
Net loss attributable to partners' capital appropriated for CLOs	<b>(93.5)</b>	(131.9)	<b>(175.6)</b>	(389.0)
Net income (loss) attributable to redeemable non-controlling interests in consolidated entities	<b>(0.6)</b>	31.9	<b>66.4</b>	209.1
Non-controlling interests in income of consolidated entities	<b>\$ 369.7</b>	\$ 300.0	<b>\$ 694.2</b>	\$ 468.0

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

There have been no significant changes in the Partnership's ownership interests in its consolidated entities for the periods presented other than the Partnership's acquisition of 13,800,000 Carlyle Holdings partnership units in March 2014 (see Note 1).

**15. Earnings Per Common Unit**

The weighted-average common units outstanding, basic and diluted, are calculated as follows:

	<b>Three Months Ended June 30, 2014</b>		<b>Six Months Ended June 30, 2014</b>	
	<b>Basic</b>	<b>Diluted</b>	<b>Basic</b>	<b>Diluted</b>
The Carlyle Group L.P. weighted-average common units outstanding	65,138,793	65,138,793	58,855,013	58,855,013
Unvested deferred restricted common units		4,963,176		5,739,613
Contingently issuable Carlyle Holdings Partnership units		575,733		575,733
Weighted-average common units outstanding	65,138,793	70,677,702	58,855,013	65,170,359

  

	<b>Three Months Ended June 30, 2013</b>		<b>Six Months Ended June 30, 2013</b>	
	<b>Basic</b>	<b>Diluted</b>	<b>Basic</b>	<b>Diluted</b>
The Carlyle Group L.P. weighted-average common units outstanding	45,145,793	45,145,793	44,249,510	44,249,510
Unvested deferred restricted common units				4,700,069
Contingently issuable Carlyle Holdings Partnership units				931,818
Weighted-average common units outstanding	45,145,793	45,145,793	44,249,510	49,881,397

The weighted-average common units outstanding of The Carlyle Group L.P. includes vested deferred restricted common units and other common units associated with acquisitions that have been earned for which issuance of the related common units is deferred until future periods.

On August 1, 2013, as part of acquiring the remaining 40% equity interests in AlpInvest, the Partnership issued 914,087 common units that are subject to vesting conditions. As of June 30, 2014, 809,797 common units remain unvested. The common units participate immediately in any Partnership distributions. Under ASC 260, these common units are considered participating securities and are required to be included in the computation of earnings per common unit pursuant to the two-class method.

The Partnership applies the treasury stock method to determine the dilutive weighted-average common units represented by the unvested deferred restricted common units. Also included in the determination of dilutive weighted-average common units are contingently issuable Carlyle Holdings partnership units and common units associated with the Claren Road, Vermillion, Metropolitan, and DGAM acquisitions. For purposes of determining the dilutive weighted-average common units, it is assumed that June 30, 2014 and 2013 represent the end of the contingency period, the if-converted method is applied to any Carlyle Holdings partnership units issuable therefrom, and the treasury stock method is applied.

The Partnership applies the if-converted method to the vested Carlyle Holdings partnership units to determine the dilutive weighted-average common units outstanding. The Partnership applies the treasury stock method to the unvested Carlyle Holdings partnership units and the if-converted method on the resulting number of additional Carlyle Holdings partnership units to determine the dilutive weighted-average common units represented by the unvested Carlyle Holdings partnership units.

In computing the dilutive effect that the exchange of Carlyle Holdings partnership units would have on earnings per common unit, the Partnership considered that net income available to holders of common units would increase due to the elimination of non-controlling interests in Carlyle Holdings (including any tax impact). Based on these calculations, the incremental 226,857,400 and 227,463,788 of vested and unvested Carlyle Holdings partnership units for the three months ended June 30, 2014 and 2013, respectively, were antidilutive, and therefore have been excluded. For the six months ended June 30, 2014 and 2013, respectively, the incremental 230,752,823 and 227,013,906 of vested and unvested Carlyle Holdings partnership units were antidilutive, and therefore have been excluded.

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

Basic and diluted net income per common unit are calculated as follows:

	<b>Three Months Ended June 30, 2014</b>		<b>Six Months Ended June 30, 2014</b>	
	<b>Basic</b>	<b>Diluted</b>	<b>Basic</b>	<b>Diluted</b>
Net income attributable to The Carlyle Group L.P.	\$ 19,500,000	\$ 19,500,000	\$ 44,100,000	\$ 44,100,000
Dilution of earnings due to participating securities with distribution rights	(242,700)	(234,200)	(764,900)	(816,000)
Net income per common unit	\$ 19,257,300	\$ 19,265,800	\$ 43,335,100	\$ 43,284,000
Weighted-average common units outstanding	65,138,793	70,677,702	58,855,013	65,170,359
Net income (loss) per common unit	\$ 0.30	\$ 0.27	\$ 0.74	\$ 0.66

	<b>Three Months Ended June 30, 2013</b>		<b>Six Months Ended June 30, 2013</b>	
	<b>Basic</b>	<b>Diluted</b>	<b>Basic</b>	<b>Diluted</b>
Net income (loss) attributable to The Carlyle Group L.P.	\$ (3,300,000)	\$ (3,300,000)	\$ 30,500,000	\$ 30,500,000
Weighted-average common units outstanding	45,145,793	45,145,793	44,249,510	49,881,397
Net income (loss) per common unit	\$ (0.07)	\$ (0.07)	\$ 0.69	\$ 0.61

**16. Equity-Based Compensation**

In May 2012, Carlyle Group Management L.L.C., the general partner of the Partnership, adopted The Carlyle Group L.P. 2012 Equity Incentive Plan (the "Equity Incentive Plan"). The Equity Incentive Plan is a source of new equity-based awards permitting the Partnership to grant to Carlyle employees, directors of the Partnership's general partner and consultants non-qualified options, unit appreciation rights, common units, restricted common units, deferred restricted common units, phantom restricted common units and other awards based on the Partnership's common units and Carlyle Holdings partnership units. The total number of the Partnership's common units and Carlyle Holdings partnership units which were initially available for grant under the Equity Incentive Plan was 30,450,000. The Equity Incentive Plan contains a provision which automatically increases the number of the Partnership's common units and Carlyle Holdings partnership units available for grant based on a pre-determined formula; this increase

occurs annually on January 1. As of January 1, 2014, pursuant to the formula, the total number of the Partnership's common units and Carlyle Holdings partnership units available for grant under the Equity Incentive Plan was 31,151,826.

### **Unvested Partnership Common Units**

On August 1, 2013, the Partnership acquired the remaining 40% equity interest in AlpInvest (see Note 3). As part of the transaction, the Partnership issued 914,087 common units to AlpInvest sellers who are employees of the Partnership that are subject to vesting conditions.

These newly issued common units were unvested at grant and vest over a period of up to five years. The unvested common units are accounted for as equity-based compensation in accordance with ASC Topic 718, *Compensation Stock Compensation* (ASC 718). The grant-date fair value of the unvested common units is charged to equity-based compensation on a straight-line basis over the required service period. Additionally, the calculation of the expense assumes a forfeiture rate of up to 5%. For the three months and six months ended June 30, 2014, the Partnership recorded \$2.4 million and \$4.5 million in equity-based compensation expense associated with these awards, respectively. As of June 30, 2014, the total unrecognized equity-based compensation expense related to unvested common units, considering estimated forfeitures, is \$14.0 million, which is expected to be recognized over a weighted-average term of 1.7 years.

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**(Unaudited)**

**Unvested Carlyle Holdings Partnership Units**

The unvested Carlyle Holdings partnership units are held by senior Carlyle professionals and other individuals engaged in Carlyle's business and generally vest ratably over a six-year period. The unvested Carlyle Holdings partnership units are accounted for as equity-based compensation in accordance with ASC 718. The grant-date fair value of the unvested Carlyle Holdings partnership units are charged to equity-based compensation expense on a straight-line basis over the required service period. Additionally, the calculation of the expense assumes a forfeiture rate of up to 2.5%. During the second quarter of 2013, the Partnership revised its estimated forfeiture rate to 2.5% from 7.5%. As a result, the Partnership recognized \$5.0 million of equity-based compensation expense during the three months ended June 30, 2013 for the cumulative effect of the change in this estimate. Additionally, the Partnership recognized \$47.9 million of equity-based compensation expense during the three months ended June 30, 2013 related to the difference between the estimated forfeitures and actual forfeitures on Carlyle Holdings partnership units that vested in May 2013. The Partnership recorded equity-based compensation expense associated with these awards of \$60.7 million and \$92.5 million for the three months ended June 30, 2014 and 2013, respectively, and \$105.5 million and \$131.5 million for the six months ended June 30, 2014 and 2013, respectively. No tax benefits have been recorded related to the unvested Carlyle Holdings partnership units, as the vesting of these units does not result in a tax deduction to the corporate taxpayers.

In connection with the Partnership's investment in NGP Management in December 2012, the Partnership issued 996,572 Carlyle Holdings partnership units to ECM Capital, L.P. which vest ratably over a period of five years. The Partnership also issued 597,944 Carlyle Holdings partnership units to ECM Capital, L.P. that were issued at closing but vest upon the achievement of performance conditions. The fair value of these units will be recognized as a reduction to the Partnership's investment income in NGP Management over the relevant service or performance period, based on the fair value of the units on each reporting date and adjusted for the actual fair value of the units at each vesting date. For the Carlyle Holdings partnership units that vest based on the achievement of performance conditions, the Partnership uses the minimum number of partnership units within the range of potential values for measurement and recognition purposes.

As of June 30, 2014, the total unrecognized equity-based compensation expense related to unvested Carlyle Holdings partnership units, considering estimated forfeitures, is \$706.0 million, which is expected to be recognized over a weighted-average term of 3.8 years.

**Deferred Restricted Common Units**

The deferred restricted common units are unvested when granted and vest ratably over a service period, which ranges up to six years. The grant-date fair value of the deferred restricted common units granted to Carlyle's employees is charged to equity-based compensation expense on a straight-line basis over the required service period. Additionally, the calculation of the expense assumes a forfeiture rate that generally ranges from 5.0% to 15.0% and a per unit discount that generally ranges from 7.5% to 25.0%, as these unvested awards do not participate in any Partnership distributions. The Partnership recorded compensation expense of \$44.5 million and \$32.3 million for the three months ended June 30, 2014 and 2013, respectively, with \$5.2 million and \$2.5 million of corresponding deferred tax benefits, respectively. The Partnership recorded compensation expense of \$71.4 million and \$44.6 million for the six months

ended June 30, 2014 and 2013, respectively, with \$8.2 million and \$3.8 million of corresponding deferred tax benefits, respectively. As of June 30, 2014, the total unrecognized equity-based compensation expense related to unvested deferred restricted common units, considering estimated forfeitures, is \$403.2 million, which is expected to be recognized over a weighted-average term of 3.7 years.

Equity-based awards issued to non-employees are recognized as general, administrative and other expenses. The expense associated with the deferred restricted common units granted to NGP personnel by the Partnership are recognized as a reduction of the Partnership's investment income in NGP Management. The grant-date fair value of deferred restricted common units granted to Carlyle's non-employee directors is charged to expense on a straight-line basis over the vesting period. The cost of services received in exchange for an equity-based award issued to consultants is measured at each vesting date. Equity-based awards that require the satisfaction of future service criteria are recognized over the relevant service period, adjusted for estimated forfeitures of awards

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not expected to vest, based on the fair value of the award on each reporting date and adjusted for the actual fair value of the award at each vesting date. The expense for equity-based awards issued to non-employees was not significant for the three and six months ended June 30, 2014 and 2013.

The vesting of deferred restricted common units creates taxable income for the Partnership's employees in certain jurisdictions. Accordingly, the employees may elect to engage the Partnership's equity plan service provider to sell sufficient common units and generate proceeds to cover their minimum tax obligations.

In February 2014, the Partnership granted approximately 5.6 million deferred restricted common units across a significant number of the Partnership's employees. The total estimated grant-date fair value of these awards was approximately \$172 million. The awards vest over a period of up to 6 years.

**Phantom Deferred Restricted Common Units**

The phantom deferred restricted common units are unvested when granted and vest ratably over a service period of three years. Upon vesting, the units will be settled in cash. As the phantom deferred restricted common units will be settled in cash, they are accounted for as liability awards. The fair value of the units is re-measured at each reporting period until settlement and charged to equity-based compensation expense over the vesting period. Additionally, the calculation of the expense assumes a forfeiture rate of 15.0%. For the three months ended June 30, 2014 and 2013, the Partnership recorded \$1.4 million and \$1.2 million in equity-based compensation expense associated with these awards, respectively, which is included in base compensation expense in the accompanying condensed consolidated financial statements. The Partnership recorded \$1.8 million and \$2.2 million in equity-based compensation expense associated with these awards for the six months ended June 30, 2014 and 2013, respectively. The tax benefits recognized from these awards was not material during these periods. As of June 30, 2014, the total unrecognized equity-based compensation expense related to unvested phantom deferred restricted common units, considering estimated forfeitures, is \$2.8 million, which is expected to be recognized over a weighted-average term of 1.0 year.

A summary of the status of the Partnership's non-vested equity-based awards as of June 30, 2014 and a summary of changes for the six months ended June 30, 2014, are presented below:

	Carlyle Holdings			The Carlyle Group, L.P.			
				Equity Settled Awards			Cash Settled Awards
		Weighted-Average Grant Date	Deferred Restricted	Weighted-Average Grant Date	Unvested Common	Weighted-Average Grant Date	
Unvested Units	Partnership Units	Fair Value	Common Units	Fair Value	Common Units	Fair Value	Phantom Units
Balance, December 31, 2013	47,202,803	\$ 22.13	16,250,174	\$ 23.91	872,060	\$ 26.78	208,511
							\$ 22.12



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Granted		\$	6,579,983	\$ 30.24		\$	12,204	\$ 35.46
Vested	9,024,293	\$ 22.00	3,098,280	\$ 23.45	62,263	\$ 21.42	101,839	\$ 22.07
Forfeited	2,096,789	\$ 22.00	642,214	\$ 25.53		\$	6,302	\$ 23.51
Balance, June 30, 2014	36,081,721	\$ 22.36	19,089,663	\$ 26.12	809,797	\$ 27.19	112,574	\$ 23.50

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**17. Consolidation of a Real Estate Development Company**

The Partnership, indirectly through certain Carlyle real estate investment funds, has an investment in Urbplan Desenvolvimento Urbano S.A. (Urbplan, formerly Scopel Desenvolvimento Urbano S.A.), a Brazilian residential subdivision and land development company. Historically, funding for Urbplan's business plan was provided primarily by borrowings incurred directly by Urbplan and from capital provided by certain Carlyle real estate investment funds, which in turn were funded primarily by external limited partners and by the Partnership through its ownership of the general partner of such funds.

In late 2012, it was determined that Urbplan was facing serious liquidity problems and would require additional capital infusions to continue operations. The Partnership and certain of its senior Carlyle professionals provided capital to Urbplan through one of the Carlyle investment funds in the second quarter of 2013. During the third quarter of 2013, it became evident that Urbplan's efforts to raise additional capital from unaffiliated sources would likely not meet its requirements. The Partnership and certain senior Carlyle professionals elected to make additional investments into Urbplan. The external limited partners of the Carlyle real estate investment funds have not participated in the 2013 or 2014 capital funding.

During the second quarter of 2013, the Partnership concluded that the Carlyle investment vehicle through which it funded capital into Urbplan was a VIE and that the Partnership was the primary beneficiary of the VIE; accordingly, the Partnership consolidated the investment vehicle in the second quarter of 2013. During the third quarter of 2013, the Partnership concluded that the decision to provide additional capital to Urbplan constituted a reconsideration event under ASC 810, *Consolidation* (ASC 810). The Partnership concluded that Urbplan was a VIE as of September 30, 2013 because Urbplan's equity investment at risk was not sufficient to permit it to finance its activities without additional financial support. The Partnership also concluded that it was the primary beneficiary of Urbplan since the Partnership has the power to direct the activities of Urbplan that most significantly impact its economic performance and the Partnership's investments in Urbplan will absorb losses incurred by Urbplan. As such, the Partnership began consolidating Urbplan into its consolidated financial statements as of September 30, 2013.

Pursuant to ASC 810, the Partnership applied the accounting guidance applicable to business combinations under ASC 805, *Business Combinations*, to record the initial consolidation of Urbplan on September 30, 2013. The Partnership recorded the assets, liabilities and non-controlling interests of Urbplan at their estimated fair value. Due to the timing and availability of financial information from Urbplan, the Partnership consolidates the financial position and results of operations of Urbplan on a financial reporting lag of 90 days. The Partnership will disclose the effect of intervening events at Urbplan that materially affect the financial position or results of operations of the Partnership, if any.

The assets and liabilities of Urbplan are held in legal entities separate from the Partnership; the Partnership has not guaranteed or assumed any obligation for repayment of Urbplan's liabilities nor are the assets of Urbplan available to meet the liquidity requirements of the Partnership. However, if Urbplan fails to complete its construction projects, customers, partners, government agencies or municipalities or other creditors in certain circumstances might seek to assert claims against the Partnership and its assets unrelated to Urbplan under certain consumer protection or other laws.

Urbplan is currently a party to various litigation, government investigations and proceedings, disputes and other potential claims. The Partnership does not believe it is probable that the outcome of any existing Urbplan litigation, disputes or other potential claims will materially affect the Partnership or these consolidated financial statements.

From April 2013 (the time of the first additional investment into Urbplan) through June 30, 2014, \$152.8 million has been funded to Urbplan by the Partnership and its senior Carlyle professionals (net of gains from related foreign currency forward contracts). The Partnership has funded \$35.7 million of the \$152.8 million and the remaining \$117.1 million has been funded by senior Carlyle professionals indirectly through the Partnership.

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At this time, Urbplan is expected to require additional funding of approximately \$100 million to \$150 million to enable it to continue operations; however, the actual amount of additional funding necessary may exceed this estimate. While no contractual or other obligations exist to provide additional financial support to Urbplan, the Partnership and its senior Carlyle professionals expect to provide additional capital funding to Urbplan in the future and Urbplan will continue to seek capital funding from unaffiliated parties. The Partnership and its senior Carlyle professionals will evaluate the possibility of further capital infusions based on the circumstances at the time (including levels of third-party funding participation). It is anticipated that the Partnership would fund 25% and its senior Carlyle professionals would fund 75% indirectly through the Partnership of any additional investments made by the Partnership and its senior Carlyle professionals.

The assets and liabilities recognized in the Partnership's condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013 related to Urbplan were as follows:

	As of June 30, 2014	December 31, 2013
	(Dollars in millions)	
Receivables and inventory of a consolidated real estate VIE:		
Customer and other receivables	\$ 113.5	\$ 110.3
Inventory costs in excess of billings and advances	69.7	70.1
	\$ 183.2	\$ 180.4
Other assets of a consolidated real estate VIE:		
Restricted investments	\$ 11.5	\$ 7.0
Fixed assets, net	2.3	2.2
Deferred tax assets	15.2	12.8
Other assets	42.2	38.1
	\$ 71.2	\$ 60.1
Loans payable of a consolidated real estate VIE, at fair value (principal amount of \$295.4 and \$305.3 as of June 30, 2014 and December 31, 2013, respectively)	\$ 147.7	\$ 122.1
Other liabilities of a consolidated real estate VIE:		
Accounts payable	\$ 25.5	\$ 25.4
Other liabilities	66.1	72.3

\$ 91.6	\$ 97.7
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The revenues and expenses recognized in the Partnership's condensed consolidated statements of operations for the three and six months ended June 30, 2014 related to Urbplan were as follows:

	<b>Three Months Ended June 30, 2014</b>	<b>Six Months Ended June 30, 2014</b>
	<b>(Dollars in millions)</b>	
Revenue of a consolidated real estate VIE		
Land development services	\$ 5.2	\$ 9.8
Investment income	2.8	4.2
	\$ 8.0	\$ 14.0
Interest and other expenses of a consolidated real estate VIE:		
Costs of products sold and services rendered	\$ 2.8	\$ 16.5
Interest expense	10.5	21.7
Change in fair value of loans payable	16.1	26.3
Compensation and benefits	3.1	5.5
G&A and other expenses	9.5	21.2
	\$ 42.0	\$ 91.2

The following is a summary of the significant classifications of assets and liabilities of Urbplan:

*Customer and other receivables* This balance consists primarily of amounts owed for land development services using the completed contract method. Customer receivables accrue interest at rates ranging from 9% to 12% per year and are secured by the underlying real estate. Substantially all receivables are pledged as collateral for Urbplan's borrowings. The carrying value of the receivables includes an appropriate allowance for estimated uncollectible accounts to reflect any loss anticipated on the balances. Urbplan calculates this allowance based on its history of write-offs, the level of past-due accounts based on the contractual terms of the receivables, and its relationships with, and the economic status of, Urbplan's customers.

*Inventory costs in excess of billings and advances* This balance consists primarily of capitalized land development cost, net of approximately \$214.2 million and \$176.1 million of customer advances received as of June 30, 2014 and December 31, 2013, respectively. Urbplan records valuation adjustments on inventory when events and circumstances indicate that the inventory may be impaired and when the cash flows estimated to be generated by the real estate project are less than its carrying amount. Real estate projects that demonstrate potential impairment indicators are tested for impairment by Urbplan by comparing the expected undiscounted cash flows for the real estate project to its

carrying value. For those real estate projects whose carrying values exceed the expected undiscounted cash flows, Urbplan estimates the fair value of the real estate projects. Impairment charges are recorded if the fair value of the inventory is less than its carrying value. The estimates used in the determination of the estimated fair value of the real estate projects were based on factors known to Urbplan at the time such estimates were made and the expectations of future operations and economic conditions. Should the estimates or expectations used in determining estimated fair value deteriorate in the future, Urbplan may be required to recognize additional impairment charges and write-offs related to real estate projects.

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*Loans payable of a consolidated real estate VIE* This balance consists of Urbplan's borrowings for its real estate development activities. The estimated fair value approximates 50% of the outstanding principal amounts of the loans. The fair value of the loans was based on discounted cash flow analyses which considered the liquidity and current financial condition of Urbplan and applicable discount rates. The Partnership has elected to re-measure the loans at fair value at each reporting period through the term of the loans. The principal amounts of the loans accrue interest at a variable rate based on an index plus an applicable margin. Interest rates are based on: (i) CDI plus a margin ranging from 4.0% to 7.4% (14.8% to 18.2% as of June 30, 2014); (ii) IGP-M plus a margin of 12.0% (18.3% as of June 30, 2014); or (iii) IPCA plus a margin ranging from 10.0% to 13.5% (16.5% to 20.0% as of June 30, 2014). Outstanding principal amounts on the loans based on current contractual terms are payable as follows (Dollars in millions):

2014	\$ 29.4
2015	34.8
2016	32.5
2017	26.8
2018	23.1
Thereafter	148.8
	\$ 295.4

Substantially all of Urbplan's customer and other receivables and investments have been pledged as collateral for the loans. As of June 30, 2014, substantially all of Urbplan's loans payable are not in compliance with their related debt covenants or are otherwise in technical default. These violations do not cause a default or event of default under the Partnership's senior credit facility or senior notes. Urbplan management is in discussions with the lenders to cure or re-negotiate the loans in default. Currently there are no outstanding notices of acceleration of payment on the loans in default.

All of the loans payable of Urbplan are contractually non-recourse to the Partnership.

*Other liabilities* This balance consists of amounts owed to landowners, commissions payable to brokers, real estate taxes, social charges and other liabilities.

*Revenue of a consolidated real estate VIE* This balance consists primarily of amounts earned for land development services using the completed contract method and investment income earned on Urbplan's investments. Under the completed contract method of accounting, revenue is not recorded until the period in which the land development services contract is completed.

*Interest and other expenses of a consolidated real estate VIE* This balance consists primarily of interest expense on Urbplan's borrowings, general and administrative expenses, compensation and benefits, and costs associated with land development services. Also included in this caption is the change in the Partnership's estimate of the fair value of Urbplan's loans payable during the period. Interest expense is recorded on Urbplan's borrowings at variable rates as



defined. Costs related to Urbplan's land development services activities are capitalized until the services are complete. Costs associated with advertising, marketing and other selling activities are expensed when incurred.

*Impairment* Urbplan evaluates its assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable, but not less than annually.

As of June 30, 2014, Urbplan had outstanding commitments for land development services with an estimated \$156.2 million of future costs to be incurred.

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**18. Segment Reporting**

Carlyle conducts its operations through four reportable segments:

*Corporate Private Equity* The Corporate Private Equity segment is comprised of the Partnership's operations that advise a diverse group of funds that invest in buyout and growth capital transactions that focus on either a particular geography or a particular industry.

*Global Market Strategies* The Global Market Strategies segment advises a group of funds that pursue investment opportunities across various types of credit, equities and alternative instruments, and (as regards certain macroeconomic strategies) currencies, commodities, sovereign debt, and interest rate products and their derivatives.

*Real Assets* The Real Assets segment is comprised of the Partnership's operations that advise U.S. and international funds focused on real estate, infrastructure, energy and renewable energy transactions.

*Solutions* Through August 1, 2013, the Solutions segment represented the Partnership's 60% equity interest in AlpInvest, which advises a global private equity fund of funds program and related co-investment and secondary activities. On August 1, 2013, the Partnership acquired the remaining 40% equity interest in AlpInvest. The Solutions segment also includes Metropolitan, a global manager of real estate fund of funds, and DGAM, the Partnership's fund of hedge funds platform. The Partnership acquired 100% of the equity interests in Metropolitan and DGAM on November 1, 2013 and February 3, 2014, respectively.

The Partnership's reportable business segments are differentiated by their various investment focuses and strategies. Overhead costs were allocated based on direct base compensation expense for the funds comprising each segment. The Partnership includes adjustments to reflect the Partnership's economic interests in Claren Road, ESG, Vermillion, and, for periods prior to August 1, 2013, AlpInvest. Subsequent to August 1, 2013, the Partnership owns 100% of the economic interests in AlpInvest. The Partnership's earnings from its investment in NGP Management are presented in the respective operating captions within the Real Assets segment. The net income or loss from the consolidation of Urbplan allocable to the Partnership (after consideration of amounts allocable to non-controlling interests) is presented within investment income in the Real Assets segment.

Economic Net Income ( ENI ) and its components are key performance measures used by management to make operating decisions and assess the performance of the Partnership's reportable segments. ENI differs from income (loss) before provision for income taxes computed in accordance with U.S. GAAP in that it does not include net income (loss) attributable to non-Carlyle interests in Consolidated Funds or charges (credits) related to Carlyle corporate actions and non-recurring items. Charges (credits) related to Carlyle corporate actions and non-recurring items include: charges associated with equity-based compensation that was issued in the initial public offering in May 2012 or is issued in acquisitions or strategic investments, amortization associated with acquired intangible assets, transaction costs associated with acquisitions, charges associated with earnouts and contingent consideration including gains and losses associated with the mark to market on contingent consideration issued in conjunction with acquisitions or strategic investments, gains and losses from the retirement of debt, charges associated with lease terminations and employee severance and settlements of legal claims.

Distributable earnings ( DE ) is a component of ENI and is used to assess performance and amounts potentially available for distribution. Distributable earnings differs from income (loss) before provision for income taxes computed in accordance with U.S. GAAP in that it adjusts for the items included in the calculation of ENI and also adjusts ENI for unrealized performance fees, unrealized investment income, the corresponding unrealized performance fee compensation expense and equity-based compensation.

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Fee-related earnings ( FRE ) is a component of DE and is used to assess the ability of the business to cover direct base compensation and operating expenses from total fee revenues. FRE differs from income (loss) before provision for income taxes computed in accordance with U.S. GAAP in that it adjusts for the items included in the calculation of DE and also adjusts DE to exclude realized performance fees, realized investment income from investments in Carlyle funds, and realized performance fee related compensation.

ENI and its components are used by management primarily in making resource deployment and compensation decisions across the Partnership's four reportable segments. Management makes operating decisions and assesses the performance of each of the Partnership's business segments based on financial and operating metrics and data that is presented without the consolidation of any of the Consolidated Funds. Consequently, ENI and all segment data exclude the assets, liabilities and operating results related to the Consolidated Funds.

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The following tables present the financial data for the Partnership's four reportable segments for the three months ended June 30, 2014 and as of and for the six months ended June 30, 2014:

	<b>Three Months Ended June 30, 2014</b>				
	<b>Corporate Private Equity</b>	<b>Global Market Strategies</b>	<b>Real Assets</b>	<b>Solutions</b>	<b>Total</b>
<b>(Dollars in millions)</b>					
<b>Segment Revenues</b>					
Fund level fee revenues					
Fund management fees	\$ 147.2	\$ 64.1	\$ 59.6	\$ 46.9	\$ 317.8
Portfolio advisory fees, net	3.3	0.1	0.3		3.7
Transaction fees, net	29.4		0.1		29.5
Total fee revenues	179.9	64.2	60.0	46.9	351.0
<b>Performance fees</b>					
Realized	387.7	6.7	9.4	7.0	410.8
Unrealized	(76.2)	45.6	46.4	122.5	138.3
Total performance fees	311.5	52.3	55.8	129.5	549.1
<b>Investment income (loss)</b>					
Realized	2.0	1.4	8.1		11.5
Unrealized	4.0	1.2	(21.6)	0.2	(16.2)
Total investment income (loss)	6.0	2.6	(13.5)	0.2	(4.7)
Interest and other income	1.8	1.5	1.2	0.2	4.7
Total revenues	499.2	120.6	103.5	176.8	900.1
<b>Segment Expenses</b>					
<b>Compensation and benefits</b>					
Direct base compensation	62.9	26.3	21.3	20.7	131.2
Indirect base compensation	25.5	6.0	11.7	4.0	47.2
Equity-based compensation	10.1	3.2	5.1	1.1	19.5
<b>Performance fee related</b>					
Realized	172.4	2.5	0.5	3.5	178.9
Unrealized	(27.8)	21.6	22.8	91.9	108.5
Total compensation and benefits	243.1	59.6	61.4	121.2	485.3
General, administrative, and other indirect expenses	37.7	13.0	15.7	10.6	77.0

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Depreciation and amortization expense	2.7	1.0	0.9	1.0	5.6
Interest expense	8.0	2.6	2.5	1.4	14.5
Total expenses	291.5	76.2	80.5	134.2	582.4
<b>Economic Net Income</b>	<b>\$ 207.7</b>	<b>\$ 44.4</b>	<b>\$ 23.0</b>	<b>\$ 42.6</b>	<b>\$ 317.7</b>
(-) Net Performance Fees	166.9	28.2	32.5	34.1	261.7
(-) Investment Income (Loss)	6.0	2.6	(13.5)	0.2	(4.7)
(+) Equity-based Compensation	10.1	3.2	5.1	1.1	19.5
<b>(=) Fee Related Earnings</b>	<b>\$ 44.9</b>	<b>\$ 16.8</b>	<b>\$ 9.1</b>	<b>\$ 9.4</b>	<b>\$ 80.2</b>
(+) Realized Net Performance Fees	215.3	4.2	8.9	3.5	231.9
(+) Realized Investment Income	2.0	1.4	8.1		11.5
<b>(=) Distributable Earnings</b>	<b>\$ 262.2</b>	<b>\$ 22.4</b>	<b>\$ 26.1</b>	<b>\$ 12.9</b>	<b>\$ 323.6</b>

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	June 30, 2014 and the Six Months Then Ended				
	Corporate Private Equity	Global Market Strategies	Real Assets	Solutions	Total
	(Dollars in millions)				
Segment Revenues					
Fund level fee revenues					
Fund management fees	\$ 277.0	\$ 127.3	\$ 109.9	\$ 91.4	\$ 605.6
Portfolio advisory fees, net	6.8	0.2	0.5		7.5
Transaction fees, net	32.6		0.1		32.7
Total fund level fee revenues	316.4	127.5	110.5	91.4	645.8
Performance fees					
Realized	622.4	15.0	9.9	12.9	660.2
Unrealized	136.7	95.1	60.4	201.8	494.0
Total performance fees	759.1	110.1	70.3	214.7	1,154.2
Investment income (loss)					
Realized	3.9	2.7	10.2		16.8
Unrealized	9.4	3.1	(42.2)	0.3	(29.4)
Total investment income (loss)	13.3	5.8	(32.0)	0.3	(12.6)
Interest and other income	4.0	2.8	1.9	0.5	9.2
Total revenues	1,092.8	246.2	150.7	306.9	1,796.6
Segment Expenses					
Compensation and benefits					
Direct base compensation	122.4	53.8	40.0	41.7	257.9
Indirect base compensation	47.5	12.0	26.0	7.8	93.3
Equity-based compensation	17.2	5.9	8.6	1.8	33.5
Performance fee related					
Realized	273.7	6.3	0.7	6.8	287.5
Unrealized	72.7	36.4	31.2	158.1	298.4
Total compensation and benefits	533.5	114.4	106.5	216.2	970.6
General, administrative, and other indirect expenses	73.1	24.6	31.2	19.8	148.7
Depreciation and amortization expense	5.4	1.9	1.8	1.9	11.0
Interest expense	14.7	4.7	4.7	2.6	26.7
Total expenses	626.7	145.6	144.2	240.5	1,157.0
Economic Net Income	\$ 466.1	\$ 100.6	\$ 6.5	\$ 66.4	\$ 639.6

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(-) Net Performance Fees	412.7	67.4	38.4	49.8	568.3
(-) Investment Income (Loss)	13.3	5.8	(32.0)	0.3	(12.6)
(+) Equity-based Compensation	17.2	5.9	8.6	1.8	33.5
<b>(=) Fee Related Earnings</b>	<b>\$ 57.3</b>	<b>\$ 33.3</b>	<b>\$ 8.7</b>	<b>\$ 18.1</b>	<b>\$ 117.4</b>
(+) Realized Net Performance Fees	348.7	8.7	9.2	6.1	372.7
(+) Realized Investment Income	3.9	2.7	10.2		16.8
<b>(=) Distributable Earnings</b>	<b>\$ 409.9</b>	<b>\$ 44.7</b>	<b>\$ 28.1</b>	<b>\$ 24.2</b>	<b>\$ 506.9</b>
Segment assets as of June 30, 2014	\$ 4,051.5	\$ 1,067.7	\$ 1,348.4	\$ 937.3	\$ 7,404.9



**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

The following tables present the financial data for the Partnership's four reportable segments for the three and six months ended June 30, 2013:

	<b>Three Months Ended June 30, 2013</b>				
	<b>Corporate Private Equity</b>	<b>Global Market Strategies</b>	<b>Real Assets</b>	<b>Solutions</b>	<b>Total</b>
<b>(Dollars in millions)</b>					
<b>Segment Revenues</b>					
Fund level fee revenues					
Fund management fees	\$ 108.8	\$ 73.8	\$ 46.4	\$ 20.9	\$ 249.9
Portfolio advisory fees, net	4.9	0.5	0.3		5.7
Transaction fees, net	4.0	0.1	2.7		6.8
Total fee revenues	117.7	74.4	49.4	20.9	262.4
<b>Performance fees</b>					
Realized	151.4	17.9	20.6	2.7	192.6
Unrealized	31.2	23.0	(33.4)	21.3	42.1
Total performance fees	182.6	40.9	(12.8)	24.0	234.7
<b>Investment income (loss)</b>					
Realized	1.7	12.2	0.7		14.6
Unrealized	2.4	(11.9)	1.7	0.1	(7.7)
Total investment income (loss)	4.1	0.3	2.4	0.1	6.9
Interest and other income	1.7	1.5	0.6	0.2	4.0
Total revenues	306.1	117.1	39.6	45.2	508.0
<b>Segment Expenses</b>					
<b>Compensation and benefits</b>					
Direct base compensation	50.0	24.9	18.2	7.9	101.0
Indirect base compensation	21.8	5.5	6.4	1.3	35.0
Equity-based compensation	2.3	0.6	1.2	0.1	4.2
<b>Performance fee related</b>					
Realized	65.1	6.7	1.6	1.4	74.8
Unrealized	8.8	9.6	2.9	16.1	37.4
Total compensation and benefits	148.0	47.3	30.3	26.8	252.4
General, administrative, and other indirect expenses	41.6	19.5	16.5	4.4	82.0

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Depreciation and amortization expense	3.4	1.1	1.2	0.5	6.2
Interest expense	6.7	2.1	2.2	0.6	11.6
Total expenses	199.7	70.0	50.2	32.3	352.2
<b>Economic Net Income (Loss)</b>	<b>\$ 106.4</b>	<b>\$ 47.1</b>	<b>\$ (10.6)</b>	<b>\$ 12.9</b>	<b>\$ 155.8</b>
(-) Net Performance Fees	108.7	24.6	(17.3)	6.5	122.5
(-) Investment Income	4.1	0.3	2.4	0.1	6.9
(+) Equity-based Compensation	2.3	0.6	1.2	0.1	4.2
<b>(=) Fee Related Earnings</b>	<b>\$ (4.1)</b>	<b>\$ 22.8</b>	<b>\$ 5.5</b>	<b>\$ 6.4</b>	<b>\$ 30.6</b>
(+) Realized Net Performance Fees	86.3	11.2	19.0	1.3	117.8
(+) Realized Investment Income	1.7	12.2	0.7		14.6
<b>(=) Distributable Earnings</b>	<b>\$ 83.9</b>	<b>\$ 46.2</b>	<b>\$ 25.2</b>	<b>\$ 7.7</b>	<b>\$ 163.0</b>

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

	<b>Six Months Ended June 30, 2013</b>				
	<b>Corporate Private Equity</b>	<b>Global Market Strategies</b>	<b>Real Assets</b>	<b>Solutions</b>	<b>Total</b>
	<b>(Dollars in millions)</b>				
<b>Segment Revenues</b>					
Fund level fee revenues					
Fund management fees	\$ 217.1	\$ 140.1	\$ 93.4	\$ 39.4	\$ 490.0
Portfolio advisory fees, net	9.0	0.7	0.6		10.3
Transaction fees, net	14.4	0.1	2.7		17.2
Total fund level fee revenues	240.5	140.9	96.7	39.4	517.5
<b>Performance fees</b>					
Realized	363.7	42.0	31.6	4.2	441.5
Unrealized	238.8	87.3	16.1	42.6	384.8
Total performance fees	602.5	129.3	47.7	46.8	826.3
<b>Investment income (loss)</b>					
Realized	3.5	14.1	(12.3)		5.3
Unrealized	5.2	(6.8)	6.2		4.6
Total investment income (loss)	8.7	7.3	(6.1)		9.9
Interest and other income	2.7	2.6	0.9	0.2	6.4
Total revenues	854.4	280.1	139.2	86.4	1,360.1
<b>Segment Expenses</b>					
Compensation and benefits					
Direct base compensation	105.0	50.6	36.1	17.3	209.0
Indirect base compensation	41.8	10.3	13.9	2.6	68.6
Equity-based compensation	3.8	1.0	1.8	0.2	6.8
Performance fee related					
Realized	166.7	16.4	(3.3)	2.4	182.2
Unrealized	92.4	15.8	26.5	32.2	166.9
Total compensation and benefits	409.7	94.1	75.0	54.7	633.5
General, administrative, and other indirect expenses	80.6	29.0	26.9	7.8	144.3
Depreciation and amortization expense	6.9	2.3	2.3	1.0	12.5
Interest expense	11.6	3.6	3.8	1.1	20.1
Total expenses	508.8	129.0	108.0	64.6	810.4
<b>Economic Net Income</b>	<b>\$ 345.6</b>	<b>\$ 151.1</b>	<b>\$ 31.2</b>	<b>\$ 21.8</b>	<b>\$ 549.7</b>

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(-) Net Performance Fees	343.4	97.1	24.5	12.2	477.2
(-) Investment Income (Loss)	8.7	7.3	(6.1)		9.9
(+) Equity-based Compensation	3.8	1.0	1.8	0.2	6.8
<b>(=) Fee Related Earnings</b>	<b>\$ (2.7)</b>	<b>\$ 47.7</b>	<b>\$ 14.6</b>	<b>\$ 9.8</b>	<b>\$ 69.4</b>
(+) Realized Net Performance Fees	197.0	25.6	34.9	1.8	259.3
(+) Realized Investment Income (Loss)	3.5	14.1	(12.3)		5.3
<b>(=) Distributable Earnings</b>	<b>\$ 197.8</b>	<b>\$ 87.4</b>	<b>\$ 37.2</b>	<b>\$ 11.6</b>	<b>\$ 334.0</b>

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

The following table reconciles the Total Segments to the Partnership's Income Before Provision for Taxes for the three months ended June 30, 2014 and 2013:

<b>Three Months Ended June 30, 2014</b>				
	<b>Total Reportable Segments</b>	<b>Consolidated Funds</b>	<b>Reconciling Items</b>	<b>Carlyle Consolidated</b>
	<b>(Dollars in millions)</b>			
Revenues	\$ 900.1	\$ 243.7	\$ (5.0)(a)	\$ 1,138.8
Expenses	\$ 582.4	\$ 316.3	\$ 143.9(b)	\$ 1,042.6
Other income	\$	\$ 442.6	\$ 2.4(c)	\$ 445.0
Economic net income	\$ 317.7	\$ 370.0	\$ (146.5)(d)	\$ 541.2

<b>Three Months Ended June 30, 2013</b>				
	<b>Total Reportable Segments</b>	<b>Consolidated Funds</b>	<b>Reconciling Items</b>	<b>Carlyle Consolidated</b>
	<b>(Dollars in millions)</b>			
Revenues	\$ 508.0	\$ 252.9	\$ 8.4(a)	\$ 769.3
Expenses	\$ 352.2	\$ 268.3	\$ 153.5(b)	\$ 774.0
Other income	\$	\$ 296.2	\$ (5.6)(c)	\$ 290.6
Economic net income	\$ 155.8	\$ 280.8	\$ (150.7)(d)	\$ 285.9

The following table reconciles the Total Segments to the Partnership's Income Before Provision for Taxes for the six months ended June 30, 2014 and 2013, and Total Assets as of June 30, 2014:

<b>June 30, 2014 and the Six Months Then Ended</b>				
	<b>Total Reportable Segments</b>	<b>Consolidated Funds</b>	<b>Reconciling Items</b>	<b>Carlyle Consolidated</b>
	<b>(Dollars in millions)</b>			
Revenues	\$ 1,796.6	\$ 494.4	\$ (4.8)(a)	\$ 2,286.2
Expenses	\$ 1,157.0	\$ 656.1	\$ 328.5(b)	\$ 2,141.6
Other income	\$	\$ 869.5	\$ (0.5)(c)	\$ 869.0
Economic net income	\$ 639.6	\$ 707.8	\$ (333.8)(d)	\$ 1,013.6
Total assets	\$ 7,404.9	\$ 30,317.6	\$ (209.6)(e)	\$ 37,512.9

<b>Six Months Ended June 30, 2013</b>			
	<b>Total Reportable Segments</b>	<b>Consolidated Funds</b>	<b>Reconciling Items</b>
	<b>Carlyle Consolidated</b>		

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	<b>(Dollars in millions)</b>			
Revenues	\$ 1,360.1	\$ 521.3	\$ 32.9(a)	\$ 1,914.3
Expenses	\$ 810.4	\$ 601.5	\$ 266.2(b)	\$ 1,678.1
Other income	\$	\$ 508.8	\$ (6.7)(c)	\$ 502.1
Economic net income	\$ 549.7	\$ 428.6	\$ (240.0)(d)	\$ 738.3

- (a) The Revenues adjustment principally represents fund management and performance fees earned from the Consolidated Funds which were eliminated in consolidation to arrive at the Partnership's total revenues, adjustments for amounts attributable to non-controlling interests in consolidated entities, adjustments related to expenses associated with the investment in NGP Management that are included in operating captions or are excluded from the segment results, adjustments to reflect the Partnership's share of Urbplan's net losses as a

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

component of investment income, and adjustments to reflect the Partnership's ownership interests in Claren Road, ESG, Vermillion and, for periods prior to August 1, 2013, AlpInvest which were included in Revenues in the Partnership's segment reporting.

- (b) The Expenses adjustment represents the elimination of intercompany expenses of the Consolidated Funds payable to the Partnership, adjustments for partner compensation, adjustments related to expenses associated with the investment in NGP Management that are included in operating captions, adjustments to reflect the Partnership's share of Urbplan's net losses as a component of investment income, charges and credits associated with Carlyle corporate actions and non-recurring items and adjustments to reflect the Partnership's economic interests in Claren Road, ESG, Vermillion and, for periods prior to August 1, 2013, AlpInvest, as detailed below (Dollars in millions):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Equity-based compensation issued in conjunction with the initial public offering, acquisitions and strategic investments	\$ <b>91.0</b>	\$ 123.1	\$ <b>153.4</b>	\$ 175.2
Acquisition related charges and amortization of intangibles	<b>62.0</b>	52.5	<b>142.1</b>	115.0
Other non-operating (income) expenses	<b>(4.6)</b>	(3.3)	<b>25.6</b>	(5.7)
Non-Carlyle economic interests in acquired business	<b>59.1</b>	44.5	<b>144.6</b>	123.4
Other adjustments	<b>(1.4)</b>	3.3	<b>0.9</b>	6.6
Elimination of expenses of Consolidated Funds	<b>(62.2)</b>	(66.6)	<b>(138.1)</b>	(148.3)
	<b>\$ 143.9</b>	\$ 153.5	<b>\$ 328.5</b>	\$ 266.2

- (c) The Other Income (Loss) adjustment results from the Consolidated Funds which were eliminated in consolidation to arrive at the Partnership's total Other Income (Loss).
- (d) The following table is a reconciliation of Income Before Provision for Income Taxes to Economic Net Income, to Fee Related Earnings, and to Distributable Earnings (Dollars in millions):

<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>

<b>Income before provision for income taxes</b>	<b>\$ 541.2</b>	<b>\$ 285.9</b>	<b>\$ 1,013.6</b>	<b>\$ 738.3</b>
Adjustments:				
Equity-based compensation issued in conjunction with the initial public offering, acquisitions and strategic investments	<b>91.0</b>	123.1	<b>153.4</b>	175.2
Acquisition related charges and amortization of intangibles	<b>62.0</b>	52.5	<b>142.1</b>	115.0
Other non-operating (income) expenses	<b>(4.6)</b>	(3.3)	<b>25.6</b>	(5.7)
Net income attributable to non-controlling interests in Consolidated entities	<b>(369.7)</b>	(300.0)	<b>(694.2)</b>	(468.0)
Other adjustments <sup>(1)</sup>	<b>(2.2)</b>	(2.4)	<b>(0.9)</b>	(5.1)
<b>Economic Net Income</b>	<b>\$ 317.7</b>	<b>\$ 155.8</b>	<b>\$ 639.6</b>	<b>\$ 549.7</b>
Net performance fees <sup>(2)</sup>	<b>261.7</b>	122.5	<b>568.3</b>	477.2
Investment income (loss) <sup>(2)</sup>	<b>(4.7)</b>	6.9	<b>(12.6)</b>	9.9
Equity-based compensation	<b>19.5</b>	4.2	<b>33.5</b>	6.8
<b>Fee Related Earnings</b>	<b>\$ 80.2</b>	<b>\$ 30.6</b>	<b>\$ 117.4</b>	<b>\$ 69.4</b>
Realized performance fees, net of related compensation	<b>231.9</b>	117.8	<b>372.7</b>	259.3
Realized investment income	<b>11.5</b>	14.6	<b>16.8</b>	5.3
<b>Distributable Earnings</b>	<b>\$ 323.6</b>	<b>\$ 163.0</b>	<b>\$ 506.9</b>	<b>\$ 334.0</b>



**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

(1) Other adjustments were comprised of the following (Dollars in millions):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Losses associated with debt refinancing activities	\$	\$	\$	\$ 1.9
Severance and lease terminations	<b>1.6</b>	3.5	<b>2.3</b>	4.0
Provision for income taxes attributable to non-controlling interests in consolidated entities	<b>(0.8)</b>	(5.7)	<b>(1.8)</b>	(11.7)
Other adjustments	<b>(3.0)</b>	(0.2)	<b>(1.4)</b>	0.7
	<b>\$ (2.2)</b>	\$ (2.4)	<b>\$ (0.9)</b>	\$ (5.1)

(2) See reconciliation to most directly comparable U.S. GAAP measure below:

	<b>Three Months Ended June 30, 2014</b>		
	<b>Carlyle Consolidated</b>	<b>Adjustments <sup>(3)</sup></b>	<b>Total Reportable Segments</b>
	<b>(Dollars in millions)</b>		
Performance fees			
Realized	<b>\$ 415.6</b>	\$ (4.8)	<b>\$ 410.8</b>
Unrealized	<b>126.8</b>	<b>11.5</b>	<b>138.3</b>
Total performance fees	<b>542.4</b>	<b>6.7</b>	<b>549.1</b>
Performance fee related compensation expense			
Realized	<b>181.2</b>	(2.3)	<b>178.9</b>
Unrealized	<b>109.0</b>	<b>(0.5)</b>	<b>108.5</b>
Total performance fee related compensation expense	<b>290.2</b>	<b>(2.8)</b>	<b>287.4</b>
Net performance fees			
Realized	<b>234.4</b>	(2.5)	<b>231.9</b>
Unrealized	<b>17.8</b>	<b>12.0</b>	<b>29.8</b>
Total net performance fees	<b>\$ 252.2</b>	\$ 9.5	<b>\$ 261.7</b>

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Investment income (loss)			
Realized	\$ 29.9	\$ (18.4)	\$ 11.5
Unrealized	(6.2)	(10.0)	(16.2)
Investment income (loss)	\$ 23.7	\$ (28.4)	\$ (4.7)

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

<b>Three Months Ended June 30, 2013</b>			
	<b>Carlyle Consolidated</b>	<b>Adjustments <sup>(3)</sup></b>	<b>Total Reportable Segments</b>
	<b>(Dollars in millions)</b>		
Performance fees			
Realized	\$ 203.2	\$ (10.6)	\$ 192.6
Unrealized	55.9	(13.8)	42.1
Total performance fees	259.1	(24.4)	234.7
Performance fee related compensation expense			
Realized	78.1	(3.3)	74.8
Unrealized	66.0	(28.6)	37.4
Total performance fee related compensation expense	144.1	(31.9)	112.2
Net performance fees			
Realized	125.1	(7.3)	117.8
Unrealized	(10.1)	14.8	4.7
Total net performance fees	\$ 115.0	\$ 7.5	\$ 122.5
Investment income (loss)			
Realized	\$ 12.7	\$ 1.9	\$ 14.6
Unrealized	(1.7)	(6.0)	(7.7)
Total investment income (loss)	\$ 11.0	\$ (4.1)	\$ 6.9

<b>Six Months Ended June 30, 2014</b>			
	<b>Carlyle Consolidated</b>	<b>Adjustments <sup>(3)</sup></b>	<b>Total Reportable Segments</b>
	<b>(Dollars in millions)</b>		
Performance fees			
Realized	\$ 667.0	\$ (6.8)	\$ 660.2
Unrealized	495.9	(1.9)	494.0
Total performance fees	1,162.9	(8.7)	1,154.2
Performance fee related compensation expense			

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Realized	<b>289.9</b>	<b>(2.4)</b>	<b>287.5</b>
Unrealized	<b>330.6</b>	<b>(32.2)</b>	<b>298.4</b>
Total performance fee related compensation expense	<b>620.5</b>	<b>(34.6)</b>	<b>585.9</b>
Net performance fees			
Realized	<b>377.1</b>	<b>(4.4)</b>	<b>372.7</b>
Unrealized	<b>165.3</b>	<b>30.3</b>	<b>195.6</b>
Total net performance fees	<b>\$ 542.4</b>	<b>\$ 25.9</b>	<b>\$ 568.3</b>
Investment income (loss)			
Realized	<b>\$ 29.9</b>	<b>\$ (13.1)</b>	<b>\$ 16.8</b>
Unrealized	<b>(0.1)</b>	<b>(29.3)</b>	<b>(29.4)</b>
Total investment income (loss)	<b>\$ 29.8</b>	<b>\$ (42.4)</b>	<b>\$ (12.6)</b>

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

	<b>Six Months Ended June 30, 2013</b>		
	<b>Carlyle Consolidated</b>	<b>Adjustments <sup>(3)</sup> (Dollars in millions)</b>	<b>Total Reportable Segments</b>
Performance fees			
Realized	\$ 456.0	\$ (14.5)	\$ 441.5
Unrealized	445.5	(60.7)	384.8
Total performance fees	901.5	(75.2)	826.3
Performance fee related compensation expense			
Realized	186.8	(4.6)	182.2
Unrealized	261.0	(94.1)	166.9
Total performance fee related compensation expense	447.8	(98.7)	349.1
Net performance fees			
Realized	269.2	(9.9)	259.3
Unrealized	184.5	33.4	217.9
Total net performance fees	\$ 453.7	\$ 23.5	\$ 477.2
Investment income			
Realized	\$ 8.5	\$ (3.2)	\$ 5.3
Unrealized	2.9	1.7	4.6
Investment income	\$ 11.4	\$ (1.5)	\$ 9.9

- (3) Adjustments to performance fees and investment income (loss) relate to amounts earned from the Consolidated Funds, which were eliminated in the U.S. GAAP consolidation but were included in the segment results, and amounts attributable to non-controlling interests in consolidated entities, which were excluded from the segment results. Adjustments to investment income (loss) also include the reclassification of earnings for the investment in NGP Management to the appropriate operating captions for the segment results, the exclusion of charges associated with the investment in NGP Management that are excluded from the segment results, and adjustments to reflect the Partnership's share of Urbplan's net losses as investment losses for the segment results. Adjustments are also included in these financial statement captions to reflect the Partnership's 55% economic interest in Claren Road, ESG and Vermillion and, prior to August 1, 2013, the Partnership's 60% interest in AlpInvest in the segment results.

- (e) The Total Assets adjustment represents the addition of the assets of the Consolidated Funds that were eliminated in consolidation to arrive at the Partnership's total assets.

**19. Subsequent Events**

In July 2014, the Board of Directors of the general partner of the Partnership declared a quarterly distribution of \$0.16 per common unit to common unit holders of record at the close of business on August 11, 2014, payable on August 22, 2014.

**The Carlyle Group L.P.**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

**20. Supplemental Financial Information**

The following supplemental financial information illustrates the consolidating effects of the Consolidated Funds on the Partnership's financial position as of June 30, 2014 and December 31, 2013 and results of operations for the three months and six months ended June 30, 2014 and 2013. The supplemental statement of cash flows is presented without effects of the Consolidated Funds.

	As of June 30, 2014			
	Consolidated Operating Entities	Consolidated Funds	Eliminations	Consolidated
	(Dollars in millions)			
Assets				
Cash and cash equivalents	\$ 1,278.8	\$	\$	\$ 1,278.8
Cash and cash equivalents held at Consolidated Funds		2,258.5		2,258.5
Restricted cash	62.6			62.6
Restricted cash and securities of Consolidated Funds		24.4		24.4
Accrued performance fees	3,872.0		(34.0)	3,838.0
Investments	940.5		(168.9)	771.6
Investments of Consolidated Funds		27,550.8	7.1	27,557.9
Due from affiliates and other receivables, net	195.2		(13.8)	181.4
Due from affiliates and other receivables of Consolidated Funds, net		480.9		480.9
Receivables and inventory of a consolidated real estate VIE	183.2			183.2
Fixed assets, net	66.7			66.7
Deposits and other	55.5	3.0		58.5
Other assets of a consolidated real estate VIE	71.2			71.2
Intangible assets, net	544.7			544.7
Deferred tax assets	134.5			134.5
Total assets	\$ 7,404.9	\$ 30,317.6	\$ (209.6)	\$ 37,512.9
Liabilities and partners' capital				
Loans payable	\$ 42.2	\$	\$	\$ 42.2
3.875% senior notes due 2023	499.9			499.9
5.625% senior notes due 2043	606.9			606.9
Loans payable of Consolidated Funds		16,287.3	(150.9)	16,136.4

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Loans payable of a consolidated real estate VIE at fair value (principal amount of \$295.4)	147.7			147.7
Accounts payable, accrued expenses and other liabilities	302.1		(56.8)	245.3
Accrued compensation and benefits	2,449.3			2,449.3
Due to affiliates	277.8	0.6	(0.2)	278.2
Deferred revenue	103.2	1.3		104.5
Deferred tax liabilities	147.4			147.4
Other liabilities of Consolidated Funds		1,756.1	(55.5)	1,700.6
Other liabilities of a consolidated real estate VIE	91.6			91.6
Accrued giveback obligations	42.5		(10.2)	32.3
Total liabilities	4,710.6	18,045.3	(273.6)	22,482.3
Redeemable non-controlling interests in consolidated entities	9.3	4,983.8		4,993.1
Partners' capital	509.6	(68.4)	68.4	509.6
Accumulated other comprehensive loss	(12.8)		0.9	(11.9)
Partners' capital appropriated for Consolidated Funds		290.3	(5.3)	285.0
Non-controlling interests in consolidated entities	332.5	7,066.6		7,399.1
Non-controlling interests in Carlyle Holdings	1,855.7			1,855.7
Total partners' capital	2,685.0	7,288.5	64.0	10,037.5
Total liabilities and partners' capital	\$ 7,404.9	\$ 30,317.6	\$ (209.6)	\$ 37,512.9



## The Carlyle Group L.P.

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

	As of December 31, 2013			
	Consolidated Operating Entities	Consolidated Funds	Eliminations	Consolidated
	(Dollars in millions)			
<b>Assets</b>				
Cash and cash equivalents	\$ 966.6	\$	\$	\$ 966.6
Cash and cash equivalents held at Consolidated Funds		1,402.7		1,402.7
Restricted cash	129.9			129.9
Restricted cash and securities of Consolidated Funds		25.7		25.7
Accrued performance fees	3,724.7		(71.1)	3,653.6
Investments	867.1		(101.8)	765.3
Investments of Consolidated Funds		26,846.8	39.6	26,886.4
Due from affiliates and other receivables, net	188.8		(12.9)	175.9
Due from affiliates and other receivables of Consolidated Funds, net		626.2		626.2
Receivables and inventory of a consolidated real estate VIE	180.4			180.4
Fixed assets, net	68.8			68.8
Deposits and other	35.6	2.9		38.5
Other assets of a consolidated real estate VIE	60.1			60.1
Intangible assets, net	582.8			582.8
Deferred tax assets	59.4			59.4
Total assets	\$ 6,864.2	\$ 28,904.3	\$ (146.2)	\$ 35,622.3
<b>Liabilities and partners capital</b>				
Loans payable	\$ 42.4	\$	\$	\$ 42.4
3.875% senior notes due 2023	499.8			499.8
5.625% senior notes due 2043	398.4			398.4
Loans payable of Consolidated Funds		15,321.4	(100.7)	15,220.7
Loans payable of a consolidated real estate VIE at fair value (principal amount of \$305.3)	122.1			122.1
Accounts payable, accrued expenses and other liabilities	310.9		(45.8)	265.1
Accrued compensation and benefits	2,253.0			2,253.0
Due to affiliates	352.4	51.8	(0.5)	403.7

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Deferred revenue	62.8	1.3		64.1
Deferred tax liabilities	103.6			103.6
Other liabilities of Consolidated Funds		1,445.4	(62.7)	1,382.7
Other liabilities of a consolidated real estate VIE	97.7			97.7
Accrued giveback obligations	49.9		(10.3)	39.6
Total liabilities	4,293.0	16,819.9	(220.0)	20,892.9
Redeemable non-controlling interests in consolidated entities	11.4	4,340.6		4,352.0
Partners' capital	357.1	(76.6)	76.6	357.1
Accumulated other comprehensive income (loss)	(11.2)	(0.5)	0.5	(11.2)
Partners' capital appropriated for Consolidated Funds		466.9	(3.3)	463.6
Non-controlling interests in consolidated entities	342.6	7,354.0		7,696.6
Non-controlling interests in Carlyle Holdings	1,871.3			1,871.3
Total partners' capital	2,559.8	7,743.8	73.8	10,377.4
Total liabilities and partners' capital	\$ 6,864.2	\$ 28,904.3	\$ (146.2)	\$ 35,622.3

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****Three Months Ended June 30, 2014**

	Consolidated Operating Entities	Consolidated Funds	Eliminations	Consolidated
(Dollars in millions)				
Revenues				
Fund management fees	\$ 363.0	\$	\$ (45.7)	\$ 317.3
Performance fees				
Realized	422.8		(7.2)	415.6
Unrealized	133.6		(6.8)	126.8
Total performance fees	556.4		(14.0)	542.4
Investment income (loss)				
Realized	31.1		(1.2)	29.9
Unrealized	(14.0)		7.8	(6.2)
Investment income (loss)	17.1		6.6	23.7
Interest and other income	4.6		(0.9)	3.7
Interest and other income of Consolidated Funds		243.7		243.7
Revenue of a consolidated real estate VIE	8.0			8.0
Total revenues	949.1	243.7	(54.0)	1,138.8
Expenses				
Compensation and benefits				
Base compensation	220.5			220.5
Equity-based compensation	109.0			109.0
Performance fee related				
Realized	181.2			181.2
Unrealized	109.0			109.0
Total compensation and benefits	619.7			619.7
General, administrative and other expenses	116.9		1.8	118.7
Interest	14.5			14.5
Interest and other expenses of Consolidated Funds		316.3	(64.0)	252.3
Interest and other expenses of a consolidated real estate VIE	42.0			42.0
Other non-operating income	(4.6)			(4.6)
Total expenses	788.5	316.3	(62.2)	1,042.6

**Other income**

Net investment gains of Consolidated Funds		442.6	2.4	445.0
Income before provision for income taxes	160.6	370.0	10.6	541.2
Provision for income taxes	53.8			53.8
Net income	106.8	370.0	10.6	487.4
Net income (loss) attributable to non-controlling interests in consolidated entities	(10.9)		380.6	369.7
Net income attributable to Carlyle Holdings	117.7	370.0	(370.0)	117.7
Net income attributable to non-controlling interests in Carlyle Holdings	98.2			98.2
Net income attributable to The Carlyle Group L.P.	\$ 19.5	\$ 370.0	\$ (370.0)	\$ 19.5

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****Six Months Ended June 30, 2014**

	<b>Consolidated Operating Entities</b>	<b>Consolidated Funds</b>	<b>Eliminations (Dollars in millions)</b>	<b>Consolidated</b>
<b>Revenues</b>				
Fund management fees	\$ 668.7	\$	\$ (91.1)	\$ 577.6
Performance fees				
Realized	680.2		(13.2)	667.0
Unrealized	520.2		(24.3)	495.9
Total performance fees	1,200.4		(37.5)	1,162.9
Investment income (loss)				
Realized	33.2		(3.3)	29.9
Unrealized	(6.2)		6.1	(0.1)
Investment income (loss)	27.0		2.8	29.8
Interest and other income	9.1		(1.6)	7.5
Interest and other income of Consolidated Funds		494.4		494.4
Revenue of a consolidated real estate VIE	14.0			14.0
Total revenues	1,919.2	494.4	(127.4)	2,286.2
<b>Expenses</b>				
Compensation and benefits				
Base compensation	425.1			425.1
Equity-based compensation	183.2			183.2
Performance fee related				
Realized	289.9			289.9
Unrealized	330.6			330.6
Total compensation and benefits	1,228.8			1,228.8
General, administrative and other expenses	251.3		1.7	253.0
Interest	26.7			26.7
Interest and other expenses of Consolidated Funds		656.1	(139.8)	516.3
Interest and other expenses of a consolidated real estate VIE	91.2			91.2
Other non-operating expenses	25.6			25.6

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Total expenses	1,623.6	656.1	(138.1)	2,141.6
<b>Other income</b>				
Net investment gains of Consolidated Funds		869.5	(0.5)	869.0
Income before provision for income taxes	295.6	707.8	10.2	1,013.6
Provision for income taxes	69.8			69.8
Net income	225.8	707.8	10.2	943.8
Net income (loss) attributable to non-controlling interests in consolidated entities	(23.8)		718.0	694.2
Net income attributable to Carlyle Holdings	249.6	707.8	(707.8)	249.6
Net income attributable to non-controlling interests in Carlyle Holdings	205.5			205.5
Net income attributable to The Carlyle Group L.P.	\$ 44.1	\$ 707.8	\$ (707.8)	\$ 44.1

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****Three Months Ended June 30, 2013**

**Consolidated  
Operating Entities      Consolidated  
Funds      Eliminations      Consolidated**  
**(Dollars in millions)**

<b>Revenues</b>				
Fund management fees	\$ 285.8	\$	\$ (43.6)	\$ 242.2
Performance fees				
Realized	205.3		(2.1)	203.2
Unrealized	66.9		(11.0)	55.9
Total performance fees	272.2		(13.1)	259.1
Investment income (loss)				
Realized	15.0		(2.3)	12.7
Unrealized	(8.9)		7.2	(1.7)
Total investment income (loss)	6.1		4.9	11.0
Interest and other income	4.1			4.1
Interest and other income of Consolidated Funds		252.9		252.9
Total revenues	568.2	252.9	(51.8)	769.3
<b>Expenses</b>				
Compensation and benefits				
Base compensation	173.6			173.6
Equity-based compensation	126.0			126.0
Performance fee related				
Realized	78.1			78.1
Unrealized	66.0			66.0
Total compensation and benefits	443.7			443.7
General, administrative and other expenses	120.3			120.3
Interest	11.6			11.6
Interest and other expenses of Consolidated Funds		268.3	(66.6)	201.7
Other non-operating income	(3.3)			(3.3)
Total expenses	572.3	268.3	(66.6)	774.0
<b>Other income</b>				
Net investment gains of Consolidated Funds		296.2	(5.6)	290.6
Income (loss) before provision for income taxes	(4.1)	280.8	9.2	285.9

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Provision for income taxes	16.6			16.6
Net income (loss)	(20.7)	280.8	9.2	269.3
Net income attributable to non-controlling interests in consolidated entities	10.0		290.0	300.0
Net income (loss) attributable to Carlyle Holdings	(30.7)	280.8	(280.8)	(30.7)
Net income (loss) attributable to non-controlling interests in Carlyle Holdings	(27.4)			(27.4)
Net income (loss) attributable to The Carlyle Group L.P.	\$ (3.3)	\$ 280.8	\$ (280.8)	\$ (3.3)



**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****Six Months Ended June 30, 2013**

	Consolidated Operating Entities	Consolidated Funds	Eliminations	Consolidated
(Dollars in millions)				
Revenues				
Fund management fees	\$ 560.0	\$	\$ (86.4)	\$ 473.6
Performance fees				
Realized	459.6		(3.6)	456.0
Unrealized	491.7		(46.2)	445.5
Total performance fees	951.3		(49.8)	901.5
Investment income (loss)				
Realized	12.6		(4.1)	8.5
Unrealized	(3.2)		6.1	2.9
Total investment income (loss)	9.4		2.0	11.4
Interest and other income	6.5			6.5
Interest and other income of Consolidated Funds		521.3		521.3
Total revenues	1,527.2	521.3	(134.2)	1,914.3
Expenses				
Compensation and benefits				
Base compensation	352.1			352.1
Equity-based compensation	178.3			178.3
Performance fee related				
Realized	186.8			186.8
Unrealized	261.0			261.0
Total compensation and benefits	978.2			978.2
General, administrative and other expenses	230.3		1.4	231.7
Interest	22.1			22.1
Interest and other expenses of Consolidated Funds		601.5	(149.7)	451.8
Other non-operating income	(5.7)			(5.7)
Total expenses	1,224.9	601.5	(148.3)	1,678.1
Other income				
Net investment gains of Consolidated Funds		508.8	(6.7)	502.1
Income before provision for income taxes	302.3	428.6	7.4	738.3
Provision for income taxes	41.5			41.5

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Net income	260.8	428.6	7.4	696.8
Net income attributable to non-controlling interests in consolidated entities	32.0		436.0	468.0
Net income attributable to Carlyle Holdings	228.8	428.6	(428.6)	228.8
Net income attributable to non-controlling interests in Carlyle Holdings	198.3			198.3
Net income attributable to The Carlyle Group L.P.	\$ 30.5	\$ 428.6	\$ (428.6)	\$ 30.5

**The Carlyle Group L.P.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

	<b>Six Months Ended June 30, 2014      2013 (Dollars in millions)</b>	
<b>Cash flows from operating activities</b>		
Net income	\$ 225.8	\$ 260.8
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	88.6	76.4
Equity-based compensation	183.2	178.3
Excess tax benefits related to equity-based compensation	(1.4)	(1.7)
Non-cash performance fees	(540.1)	(560.0)
Other non-cash amounts	57.4	2.5
Investment income	(3.0)	12.0
Purchases of investments and trading securities	(161.5)	(122.4)
Proceeds from the sale of investments and trading securities	471.3	207.8
Payments of contingent consideration	(43.9)	
Change in deferred taxes, net	34.6	23.6
Change in due from affiliates and other receivables	(20.0)	(21.7)
Change in receivables and inventory of a consolidated real estate VIE	(5.3)	
Change in deposits and other	(15.8)	4.2
Change in other assets of a consolidated real estate VIE	(9.0)	
Change in accounts payable, accrued expenses and other liabilities	(13.4)	15.4
Change in accrued compensation and benefits	199.0	248.4
Change in due to affiliates	(86.4)	9.3
Change in other liabilities of a consolidated real estate VIE	(5.9)	
Change in deferred revenue	40.3	(0.6)
Net cash provided by operating activities	394.5	332.3
<b>Cash flows from investing activities</b>		
Change in restricted cash	67.5	(6.9)
Purchases of fixed assets, net	(8.4)	(12.3)
Acquisitions, net of cash acquired	(3.1)	
Net cash provided by (used in) investing activities	56.0	(19.2)
<b>Cash flows from financing activities</b>		
Repayments under credit facility		(386.3)
Issuance of 3.875% senior notes due 2023, net of financing costs		495.3
Issuance of 5.625% senior notes due 2043, net of financing costs	210.8	394.1
Payments on loans payable		(475.0)
Net payments on loans payable of a consolidated real estate VIE	(5.2)	
Payments of contingent consideration	(29.8)	(10.9)

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Excess tax benefits related to equity-based compensation	1.4	1.7
Distributions to common unitholders	(81.1)	(44.1)
Distributions to non-controlling interest holders in Carlyle Holdings	(406.7)	(289.2)
Contributions from non-controlling interest holders	80.6	53.5
Distributions to non-controlling interest holders	(69.8)	(52.3)
Net proceeds from issuance of common units, net of offering costs	449.5	
Acquisition of non-controlling interests in Carlyle Holdings	(303.4)	
Change in due to/from affiliates financing activities	1.8	12.0
Net cash used in financing activities	(151.9)	(301.2)
Effect of foreign exchange rate changes	13.6	(6.1)
Increase in cash and cash equivalents	312.2	5.8
Cash and cash equivalents, beginning of period	966.6	567.1
Cash and cash equivalents, end of period	\$ 1,278.8	\$ 572.9

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion analyzes the financial condition and results of operations of The Carlyle Group L.P. (the Partnership). Such analysis should be read in conjunction with the consolidated financial statements and the related notes included in this Quarterly Report on Form 10-Q and the Annual Report on Form 10-K for the year ended December 31, 2013.*

### Overview

We conduct our operations through four reportable segments: Corporate Private Equity, Global Market Strategies, Real Assets and Solutions.

**Corporate Private Equity** Our Corporate Private Equity segment advises our 23 buyout and 9 growth capital funds, which seek a wide variety of investments of different sizes and growth potentials. As of June 30, 2014, our Corporate Private Equity segment had approximately \$65 billion in AUM and approximately \$43 billion in Fee-earning AUM.

**Global Market Strategies** Our Global Market Strategies segment advises a group of 65 funds that pursue investment opportunities across structured credit, distressed debt, corporate and energy mezzanine debt, middle-market and senior debt, as well as credit, emerging markets and commodities-focused hedge funds. As of June 30, 2014, our Global Market Strategies segment had approximately \$38 billion in AUM and approximately \$35 billion in Fee-earning AUM.

**Real Assets** Our Real Assets segment advises our 10 U.S. and internationally focused real estate funds, our infrastructure fund, our two power funds, our international energy fund, as well as our five Legacy Energy funds (funds that we jointly advise with Riverstone). The segment also includes eight NGP management fee funds and two NGP carry funds advised by NGP. As of June 30, 2014, our Real Assets segment had approximately \$43 billion in AUM and approximately \$28 billion in Fee-earning AUM.

**Solutions** Our Solutions segment advises a global private equity fund of funds program and related co-investment and secondary activities across 99 fund of funds vehicles. On July 1, 2011, we acquired a 60% interest in AlpInvest; on August 1, 2013 we acquired the remaining 40% equity interest in AlpInvest. On November 1, 2013, we acquired Metropolitan Real Estate Equity Management, LLC (Metropolitan), one of the largest managers of indirect investments in global real estate, which manages 26 fund of funds vehicles. Additionally, on February 3, 2014, we acquired Diversified Global Asset Management Corporation (DGAM), a global manager of fund of hedge funds vehicles, which manages 14 fund of funds vehicles. As of June 30, 2014, our Solutions segment had approximately \$57 billion in AUM and approximately \$39 billion in Fee-earning AUM.

We earn management fees pursuant to contractual arrangements with the investment funds that we manage and fees for transaction advisory and oversight services provided to portfolio companies of these funds. We also typically receive a performance fee from an investment fund, which may be either an incentive fee or a special residual allocation of income, which we refer to as a carried interest, in the event that specified investment returns are achieved by the fund. Under U.S. generally accepted accounting principles (U.S. GAAP), we are required to consolidate some of the investment funds that we advise. However, for segment reporting purposes, we present revenues and expenses on a basis that deconsolidates these investment funds. Accordingly, our segment revenues primarily consist of fund management and related advisory fees, performance fees (consisting of incentive fees and carried interest allocations),

investment income, including realized and unrealized gains on our investments in our funds and other trading securities, as well as interest and other income. Our segment expenses primarily consist of compensation and benefits expenses, including salaries, bonuses, performance payment arrangements, and equity-based compensation excluding awards granted in our initial public offering or in connection with acquisitions and strategic investments, and general and administrative expenses. Refer to Note 18 to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information on the differences between our financial results reported pursuant to U.S. GAAP and our financial results for segment reporting purposes.

## **Our Family of Funds**

The following chart presents the name (acronym), total capital commitments (in the case of our carry funds, structured credit funds, certain fund of funds vehicles, NGP management fee funds, and the NGP carry funds), assets under management (in the case of our hedge funds, fund of hedge funds vehicles and other structured products), gross assets (in the case of our business development companies), and vintage year of the active funds in each of our segments, as of June 30, 2014. We present total capital commitments (as opposed to assets under management) for our closed-end investment funds because we believe this metric provides the most useful information regarding the relative size and scale of such funds. In the case of our hedge funds and fund of hedge funds vehicles, which are open-ended and accordingly do not have permanent committed capital, we believe the most useful metric regarding relative size and scale is assets under management.

Note: All funds are closed-end and amounts shown represent total capital commitments as of June 30, 2014, unless otherwise noted. Certain of our recent vintage funds are currently in fundraising and total capital commitments are subject to change.

- (1) Open-ended hedge funds and other pooled vehicles. Amounts represent AUM across all products as of June 30, 2014.
- (2) Amounts represent gross assets as of June 30, 2014.
- (3) Includes NGPC, NGP ETP I, NGP M&R, NGP ETP II, NGP VII, NGP VIII and NGP IX.



## Trends Affecting our Business

Risk asset prices again strengthened during the second quarter of 2014, bringing valuation ratios above historic averages. Between March 31, 2014 and mid-July 2014, the S&P 500 rose 5.7% to set a new record high. During the same period, stock markets in other advanced economies rose by 4.1%, on average, as measured by the MSCI World Index. During the second quarter, emerging markets also continued their rebound from the first quarter of 2014, with the MSCI World up 6.9% and credit spreads on emerging market corporate debt falling to 5.5% by mid-July 2014. Domestic financing conditions remained robust in the second quarter, with average spreads on speculative grade corporate credit remaining close to cyclical lows. The Federal Reserve Open Market Committee ( FOMC ) continued to taper asset purchases during the second quarter and announced that it would reduce the pace of monthly purchases to \$35 billion per month starting in July 2014. FOMC also signaled in its June 2014 meeting minutes, which it released in July 2014, that it anticipates phasing out asset purchases entirely in October 2014 and signaled in Congressional testimony in July 2014 that the first increase in the federal funds interest rate is likely to occur in the second quarter of 2015 or earlier if the labor market improves at a faster rate than expected. Despite the signaling of the anticipated further tapering of asset purchases and potential increase in policy rates, the 10 year Treasury yield declined by 20 basis points to end the second quarter at 2.5%, which reflects a decrease of 50 basis points from the beginning of January 2014.

Strong financial market performance occurred during the quarter despite the release of worse-than-expected U.S. economic data. In June 2014, the U.S. Commerce Department announced that it estimated that the U.S. economy contracted at a 2.9% annual rate in the first quarter of 2014, which was substantially worse than the original estimate of 0.1% growth. This news was mitigated by strong growth in U.S. industrial production and payroll employment during the second quarter, as well as survey data from Bloomberg announced in June 2014, which suggested that professional forecasters expected U.S. GDP to accelerate in the second half of 2014. However, the large decline in first quarter U.S. GDP growth caused the International Monetary Fund, in July 2014, to cut its estimate for global growth in 2014 to 3.6%, which is down from the 3.7% forecasted for 2014 in January 2014 and the 4.1% forecasted for 2014 in January 2013.

Despite certain unfavorable U.S. economic data that was announced during the second quarter, the continuing strong performance in the financial markets during the second quarter fostered the appreciation of our carry fund portfolio by 5% overall, with a 5% increase in our Corporate Private Equity segment, a 12% increase in our Global Market Strategies segment and a 3% increase in our Real Assets segment. Our public portfolio, which accounted for approximately 26% of our overall carry fund portfolio fair value at June 30, 2014, appreciated by 5% in the second quarter. Given the signals from the FOMC, during the second quarter we continued to take advantage of low rates to finance new investments and refinance existing investments in advance of a potential rate increase. The increase in asset prices, relatively low volatility, and abundant financing continued to create a challenging environment in which to find attractive new investments during the quarter. Despite these challenges, the generally favorable economic environment and the continuing efforts of our investment professionals resulted in increased investment activity during the quarter as we invested \$3.4 billion in new and existing investments in our carry funds that met our investment criteria and strategic objectives. We also capitalized on continuing high asset values during the quarter and, as an opportunistic seller, realized proceeds of \$6.5 billion in 142 investments and 36 funds during the quarter. While there can be no assurance that these exit and investment trends will continue, we remain focused on maximizing the value of our portfolio for our fund investors and our business.

## Recent Transactions

In July 2014, we exercised our option to acquire additional interests in the general partner of the NGP Natural Resources X, L.P. fund ( NGP X ), which entitles us to an allocation of income equal to 40% of the carried interest received by the fund's general partner. The exercise price for this option was approximately \$61.3 million. We additionally acquired certain general partner investments in this fund, for which we paid \$16.6 million.

In July 2014, the Board of Directors of our general partner declared a quarterly distribution of \$0.16 per common unit to common unit holders of record at the close of business on August 11, 2014, payable on August 22, 2014.

## **Consolidation of Certain Carlyle Funds and Variable Interest Entities**

Pursuant to U.S. GAAP, we consolidate certain Carlyle sponsored funds, related co-investment entities and CLOs that we advise, which we refer to collectively as the Consolidated Funds, in our consolidated financial statements. These funds represent approximately 16% of our AUM as of June 30, 2014; 13% and 14% of our fund management fees for the three months and six months ended June 30, 2014, respectively; and approximately 3% of our performance fees for the three months and six months ended June 30, 2014.

We are not required under U.S. GAAP to consolidate in our financial statements most of the investment funds we advise because such funds provide their limited partners with the right to dissolve the fund without cause by a simple majority vote of the non-Carlyle affiliated limited partners, which overcomes the presumption of control by Carlyle. However, we consolidate certain CLOs that we advise as a result of the application of the accounting standards governing consolidations. As of June 30, 2014, our consolidated CLOs held approximately \$18 billion of total assets and comprised 59% of the assets of the Consolidated Funds and 100% of the loans payable of the Consolidated Funds. As of June 30, 2014, our consolidated AlpInvest fund of funds vehicles had approximately \$7 billion of total assets and comprised 23% of the assets of the Consolidated Funds. The remainder of the assets of the Consolidated Funds as of June 30, 2014 relate to our consolidated hedge funds and other consolidated funds. The assets and liabilities of the Consolidated Funds are generally held within separate legal entities and, as a result, the liabilities of the Consolidated Funds are non-recourse to us. For further information on consolidation of certain funds, see Note 2 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Generally, the consolidation of the Consolidated Funds has a gross-up effect on our assets, liabilities and cash flows but has no net effect on the net income attributable to the Partnership and partners' capital. The majority of the net economic ownership interests of the Consolidated Funds are reflected as non-controlling interests in consolidated entities, redeemable non-controlling interests in consolidated entities, and partners' capital appropriated for Consolidated Funds in the consolidated financial statements. For further information, see Note 2 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Because only a small portion of our funds are consolidated, the performance of the Consolidated Funds is not necessarily consistent with or representative of the combined performance trends of all of our funds.

In addition, as described in Note 17 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, as of September 30, 2013, we began consolidating Urbplan, a Brazilian real estate portfolio company held by certain of our real estate investment funds. Due to the timing and availability of financial information of Urbplan, we consolidate the financial position and results of operations of Urbplan on a financial reporting lag of 90 days. As of June 30, 2014, our unaudited condensed consolidated financial statements included approximately \$254 million of assets related to Urbplan, representing less than 1% of our consolidated total assets.

## **Key Financial Measures**

Our key financial measures are discussed in the following pages.

### ***Revenues***

Revenues primarily consist of fund management fees, performance fees, investment income, including realized and unrealized gains of our investments in our funds and other trading securities, as well as interest and other income. See Note 2 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding the manner in which management fees and performance fees are generated.

*Fund Management Fees.* Fund management fees include (i) management fees and (ii) transaction and portfolio advisory fees. Management fees are fees we earn for advisory services we provide to funds in which we hold a general partner interest or with which we have an investment advisory or investment management agreement. Management fees are based on (a) third parties' capital commitments to our investment funds, (b) third parties

remaining capital invested in our investment funds at cost or at the lower of cost or aggregate remaining fair value, (c) gross assets, excluding cash and cash equivalents, (d) for the private equity and real estate fund of funds vehicles following the expiration of the commitment period or weighted-average investment period of such vehicles, the lower of cost or fair value of the capital invested, the net asset value for unrealized investments, or the contributions for unrealized investments, (e) the total par amount of assets for our CLOs and other structured products, or (f) the net asset value ( NAV ) of certain of our investment funds, as described in our unaudited condensed consolidated financial statements. Additionally, management fees include catch-up management fees , which are episodic in nature and represent management fees charged to fund investors in subsequent closings of a fund which apply to the time period between the fee initiation date and the subsequent closing date.

Management fees for funds in our corporate private equity funds, closed-end carry funds in the global market strategies segment and real assets funds generally range from 1% to 2% of commitments during the investment period of the relevant fund. Large funds tend to have lower effective management fee rates, while smaller funds tend to have effective management fee rates approaching 2.0%. Following the expiration or termination of the investment period of such funds, the management fees generally step-down to between 0.6% and 2.0% of contributions for unrealized investments. Depending upon the contracted terms of investment advisory or investment management and related agreements, these fees are called semiannually in advance and are recognized as earned over the subsequent six month period. As a result, cash on hand and deferred revenue will generally be higher at or around January and July, which are the semiannual due dates for management fees. The management fees for our private equity and real estate fund of funds vehicles generally range from 0.3% to 1.0% on the vehicle 's capital commitments during the commitment fee period of the relevant fund or the weighted-average investment period of the underlying funds. Following the expiration of the commitment fee period or weighted-average investment period of such funds, the management fees generally range from 0.3% to 1.0% on the lower of cost or fair value of the capital invested, the net asset value for unrealized investments, or the contributions for unrealized investments. The management fees for our fund of hedge funds vehicles generally range 0.2% to 1.5% of NAV. Management fees for our Solutions segment are generally due quarterly and recognized over the related quarter. Our hedge funds generally pay management fees quarterly that range from 1.5% to 2.0% of NAV per year. Management fees for our business development companies are due quarterly in arrears at annual rates that range from 0.25% to 1.0% of gross assets, excluding cash and cash equivalents. Management fees for our CLOs and other structured products typically range from 0.15% to 1.00% on the total par amount of assets or the aggregate principal amount of the notes in the fund and are due quarterly or semiannually based on the terms and recognized over the relevant period. Our management fees for our CLOs/structured products and credit opportunities funds are governed by indentures and collateral management agreements. With respect to Claren Road, ESG, and Vermillion, we retain a specified percentage of the management fees of the businesses based on our economic ownership in the management companies of 55%. Through the second quarter of 2013, we retained 60% of the management fees of AlpInvest based on our 60% equity interest in AlpInvest. During the third quarter of 2013, we acquired the remaining 40% equity interest in AlpInvest, and therefore we are entitled to 100% of the management fees of AlpInvest subsequent to that acquisition. Management fees are not subject to repayment but may be offset to the extent that other fees are earned as described below under Transaction and Portfolio Advisory Fee.

Management fees attributable to Carlyle Partners VI, L.P. ( CP VI ), our sixth U.S. buyout fund with approximately \$12.0 billion of Fee-earning AUM as of June 30, 2014, were approximately 13% and 14% of total management fees recognized during the three months and six months ended June 30, 2014, respectively. Management fees attributable to Carlyle Partners V, L.P. ( CP V ), our fifth U.S. buyout fund with approximately \$9.2 billion of Fee-earning AUM as of June 30, 2014, were approximately 13% and 16% of total management fees recognized during the three months and six months ended June 30, 2013, respectively. No other fund generated over 10% of total management fees in the periods presented.

*Transaction and Portfolio Advisory Fees.* Transaction and portfolio advisory fees are fees we receive for the transaction and portfolio advisory services we provide to our portfolio companies. When covered by separate contractual agreements, we recognize transaction and portfolio advisory fees for these services when the service has

been provided and collection is reasonably assured. We are required to offset our fund management fees earned by a percentage of the transaction and advisory fees earned, which we refer to as the rebate offsets. Such rebate offset percentages generally approximate 80% of the transaction and advisory fees earned. The recognition of portfolio advisory fees and transactions fees can be volatile as they are primarily generated by investment activity within our funds, and therefore are impacted by our investment pace. We have received and expect to continue to receive

requests from a variety of investors and groups representing investors to increase the percentage of transaction and advisory fees we share with our investors in future funds; to the extent that we accommodate such requests on future funds, the rebate offset percentages would increase relative to historical levels.

*Performance Fees.* Performance fees consist principally of the special residual allocation of profits to which we are entitled, commonly referred to as carried interest, from certain of our investment funds, which we refer to as the carry funds. We are generally entitled to a 20% allocation (or 10% to 20% on external coinvestment vehicles, with some earning no carried interest, or approximately 2% to 10% in the case of most of our fund of funds vehicles) of the net realized income or gain as a carried interest after returning the invested capital, the allocation of preferred returns of generally 8% to 9% and the return of certain fund costs (subject to catch-up provisions as set forth in the fund limited partnership agreement). Carried interest revenue, which is a component of performance fees in our consolidated financial statements, is recognized by Carlyle upon appreciation of the valuation of our funds' investments above certain return hurdles as set forth in each respective partnership agreement and is based on the amount that would be due to us pursuant to the fund partnership agreement at each period end as if the funds were liquidated at such date. Accordingly, the amount of carried interest recognized as performance fees reflects our share of the fair value gains and losses of the associated funds' underlying investments measured at their then-current fair values. As a result, the performance fees earned in an applicable reporting period are not indicative of any future period. Carried interest is ultimately realized and distributed when: (i) an underlying investment is profitably disposed of, (ii) certain costs borne by the limited partner investors have been reimbursed, (iii) the investment fund's cumulative returns are in excess of the preferred return and (iv) we have decided to collect carry rather than return additional capital to limited partner investors. Our decision to realize carry considers such factors as the level of embedded valuation gains, the portion of the fund invested, the portion of the fund returned to limited partner investors, and the length of time the fund has been in carry, as well as other qualitative measures. The portion of performance fees that are realized and unrealized in each period are separately reported in our statement of operations.

Under our arrangements with the historical owners and management team of AlpInvest, we generally do not retain any carried interest in respect of the historical investments and commitments to our fund of funds vehicles that existed as of July 1, 2011 (including any options to increase any such commitments exercised after such date). We are entitled to 15% of the carried interest in respect of commitments from the historical owners of AlpInvest for the period between 2011 and 2020 and 40% of the carried interest in respect of all other commitments (including all future commitments from third parties). In certain instances, carried interest associated with the fund of funds vehicles is subject to entity level income taxes in the Netherlands.

Our performance fees are generated by a diverse set of funds with different vintages, geographic concentration, investment strategies and industry specialties. For an explanation of the fund acronyms used throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations section, refer to Our Family of Funds.

Performance fees from Carlyle Europe Partners III, L.P. ( CEP III ), our third Europe buyout fund, CP V, and Carlyle Asia Partners II, L.P., our second Asia buyout fund, (with total AUM of approximately \$7.5 billion, \$15.8 billion, and \$1.3 billion, respectively, as of June 30, 2014) were \$179.0 million, \$90.3 million, and \$(57.5) million, respectively, for the three months ended June 30, 2014. Additionally, performance fees from AlpInvest's Main Fund III-Coinvestments (2006) and Main Fund III-Secondary Investments (2006) fund of funds vehicles (with total AUM of approximately \$3.7 billion as of June 30, 2014) together represented \$83.4 million of performance fees for the three months ended June 30, 2014. Performance fees from CEP III and CP V were \$343.0 million and \$339.4 million, respectively, for the six months ended June 30, 2014. No other fund generated over 10% of performance fees during those periods.

Performance fees from CP V and Carlyle Partners IV, L.P. ( CP IV ), our fourth U.S. buyout fund, were \$186.3 million and \$27.2 million, respectively, for the three months ended June 30, 2013. Performance fees from CP V and CP IV

were \$345.9 million and \$206.1 million, respectively, for the six months ended June 30, 2013. No other fund generated over 10% of performance fees during those periods.

Realized carried interest may be clawed-back or given back to the fund if the fund's investment values decline below certain return hurdles, which vary from fund to fund. When the fair value of a fund's investments



remains constant or falls below certain return hurdles, previously recognized performance fees are reversed. In all cases, each investment fund is considered separately in evaluating carried interest and potential giveback obligations. For any given period, carried interest income could thus be negative; however, cumulative performance fees can never be negative over the life of a fund. In addition, we are not obligated to pay guaranteed returns or hurdles. If upon a hypothetical liquidation of a fund's investments at the then-current fair values, previously recognized and distributed carried interest would be required to be returned, a liability is established in our financial statements for the potential giveback obligation. As discussed below, each individual recipient of realized carried interest typically signs a guarantee agreement or partnership agreement that personally obligates such person to return his/her pro rata share of any amounts of realized carried interest previously distributed that are later clawed back. Accordingly, carried interest as performance fee compensation is subject to return to the Partnership in the event a giveback obligation is funded. Generally, the actual giveback liability, if any, does not become due until the end of a fund's life.

In addition to the carried interest from our carry funds, we are also entitled to receive incentive fees or allocations from certain of our Global Market Strategies funds when the return on AUM exceeds previous calendar-year ending or date-of-investment high-water marks. Our hedge funds generally pay annual incentive fees or allocations equal to 20% of the fund's profits for the year, subject to a high-water mark. The high-water mark is the highest historical NAV attributable to a fund investor's account on which incentive fees were paid and means that we will not earn incentive fees with respect to such fund investor for a year if the NAV of such investor's account at the end of the year is lower that year than any prior year-end NAV or the NAV at the date of such fund investor's investment, generally excluding any contributions and redemptions for purposes of calculating NAV. In these arrangements, incentive fees are recognized when the performance benchmark has been achieved based on the hedge funds' then-current fair value and are included in performance fees in our consolidated statements of operations. These incentive fees are a component of performance fees in our consolidated financial statements and are treated as accrued until paid to us.

For any given period, performance fee revenue on our statement of operations may include reversals of previously recognized performance fees due to a decrease in the value of a particular fund that results in a decrease of cumulative performance fees earned to date. Since fund return hurdles are cumulative, previously recognized performance fees also may be reversed in a period of appreciation that is lower than the particular fund's hurdle rate. For the three months ended June 30, 2014 and 2013, the reversals of performance fees were \$77.9 million and \$74.3 million, respectively. For the six months ended June 30, 2014 and 2013, the reversals of performance fees were \$123.4 million and \$18.4 million, respectively.

As of June 30, 2014, accrued performance fees and accrued giveback obligations were approximately \$3.8 billion and \$32.3 million, respectively, after amounts eliminated related to the Consolidated Funds. Each balance assumes a hypothetical liquidation of the funds' investments at June 30, 2014 at their then current fair values. These assets and liabilities will continue to fluctuate in accordance with the fair values of the fund investments until they are realized.

In addition, realized performance fees may be reversed in future periods to the extent that such amounts become subject to a giveback obligation. If at June 30, 2014, all investments held by our carry funds were deemed worthless, the amount of realized and previously distributed performance fees subject to potential giveback would be \$1.1 billion. See the related discussion of Contingent Obligations (Giveback) within Liquidity and Capital Resources.

As described above, each investment fund is considered separately in evaluating carried interest and potential giveback obligations. As a result, performance fees within funds will continue to fluctuate primarily due to certain investments within each fund constituting a material portion of the carry in that fund. Additionally, the fair value of investments in our funds may have substantial fluctuations from period to period.

In addition, we use the term net performance fees to refer to the performance fees from our funds net of the portion allocated to our investment professionals which is reflected as performance fee related compensation expense. We use the term realized net performance fees to refer to realized performance fees from our funds, net of the portion

allocated to our investment professionals which is reflected as realized performance fee related compensation expense. See **Non-GAAP Financial Measures** for the amount of realized and unrealized performance fees recognized each period. See **Segment Analysis** for the realized and unrealized performance fees by segment and related discussion for each period.

*Fair Value Measurement.* U.S. GAAP establishes a hierarchical disclosure framework which ranks the observability of market price inputs used in measuring financial instruments at fair value. The observability of inputs is impacted by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices, or for which fair value can be measured from quoted prices in active markets, will generally have a higher degree of market price observability and a lesser degree of judgment applied in determining fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

*Level I* inputs to the valuation methodology are quoted prices available in active markets for identical instruments as of the reporting date. The type of financial instruments included in Level I include unrestricted securities, including equities and derivatives, listed in active markets. The Partnership does not adjust the quoted price for these instruments, even in situations where the Partnership holds a large position and a sale could reasonably impact the quoted price.

*Level II* inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. The type of financial instruments in this category includes less liquid and restricted securities listed in active markets, securities traded in other than active markets, government and agency securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Investments in hedge funds are classified in this category when their net asset value is redeemable without significant restriction.

*Level III* inputs to the valuation methodology are unobservable and significant to overall fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category include investments in privately-held entities, non-investment grade residual interests in securitizations, collateralized loan obligations, and certain over-the-counter derivatives where the fair value is based on unobservable inputs. Investments in fund of funds are generally included in this category.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

The table below summarizes the valuation of investments and other financial instruments included within our AUM, by segment and fair value hierarchy levels, as of June 30, 2014 (amounts in millions):

	As of June 30, 2014				
	Corporate Private Equity	Global Market Strategies	Real Assets	Solutions	Total
<b>Consolidated Results</b>					
Level I	\$ 10,613	\$ 8,199	\$ 6,772	\$ 527	\$ 26,111
Level II	615	3,130	1,081	1,180	6,006
Level III	29,383	21,498	23,995	35,621	110,497
Total Fair Value	40,611	32,827	31,848	37,328	142,614
Other Net Asset Value	587	3,994	(862)	98	3,817
Total AUM, Excluding Available Capital Commitments	41,198	36,821	30,986	37,426	146,431
Available Capital Commitments	23,284	1,418	12,310	19,302	56,314
<b>Total AUM</b>	<b>\$ 64,482</b>	<b>\$ 38,239</b>	<b>\$ 43,296</b>	<b>\$ 56,728</b>	<b>\$ 202,745</b>

In certain cases, debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices, market transactions in comparable investments and various relationships between investments.

Investment professionals with responsibility for the underlying investments are responsible for preparing the investment valuations pursuant to the policies, methodologies and templates prepared by our valuation group, which is a team made up of individuals with previous valuation experience reporting to our chief financial officer. The valuation group is responsible for maintaining our valuation policy and related guidance, templates and systems that are designed to be consistent with the guidance found in U.S. GAAP. These valuations, inputs and preliminary conclusions are reviewed by the fund accounting teams. The valuations are then reviewed and approved by the respective fund valuation sub-committees which are comprised of the respective fund head, segment head, chief financial and chief accounting officers, as well as members from the valuation group. The valuation group compiles the aggregate results and significant matters and presents them for review and approval by the global valuation committee, which is comprised of our co-chief executive officers, chief operating officer, chief risk officer, chief financial officer, chief accounting officer, deputy chief investment officer, the business segment heads, and is observed by the chief compliance officer and director of internal audit. Additionally, each quarter a sample of valuations is reviewed by external valuation firms.

In the absence of observable market prices, we value our investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist. Management's determination of fair value is then based on the best information available in the circumstances and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies and real estate properties,

and certain debt positions. The valuation technique for each of these investments is described in Note 4 of our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

*Investment Income and Interest and Other Income.* Investment income and interest and other income represent the unrealized and realized gains and losses on our principal investments, including our investments in Carlyle funds that are not consolidated, our equity method investments and other principal investments, as well as any interest and other income. Investment income (loss) also includes the related amortization of the basis difference between the carrying value of our investment and our share of the underlying net assets of the investee, as well as the compensation expense associated with compensatory arrangements provided by us to employees of our equity

method investee. Realized investment income (loss) is recorded when we redeem all or a portion of our investment or when we receive or are due cash income, such as dividends or distributions. A realized investment loss is also recorded when an investment is deemed to be worthless. Unrealized investment income (loss) results from changes in the fair value of the underlying investment, as well as the reversal of previously recognized unrealized gains (losses) at the time an investment is realized.

*Interest and Other Income of Consolidated Funds.* Interest and other income of Consolidated Funds primarily represents the interest earned on CLO assets. However, the Consolidated Funds are not the same entities in all periods presented and may change in future periods due to changes in U.S. GAAP, changes in fund terms and terminations of funds.

*Revenue of a Consolidated Real Estate VIE.* Revenue of a consolidated real estate VIE consists of revenue generated by Urbplan, which primarily is revenue earned for land development services using the completed contract method and investment income earned on Urbplan's investments. Under the completed contract method of revenue recognition, revenue is not recognized until the period in which the land development services contract is completed.

*Net Investment Gains (Losses) of Consolidated Funds.* Net investment gains (losses) of Consolidated Funds measures the change in the difference in fair value between the assets and the liabilities of the Consolidated Funds. A gain (loss) indicates that the fair value of the assets of the Consolidated Funds appreciated more (less), or depreciated less (more), than the fair value of the liabilities of the Consolidated Funds. A gain or loss is not necessarily indicative of the investment performance of the Consolidated Funds and does not impact the management or incentive fees received by Carlyle for its management of the Consolidated Funds. The portion of the net investment gains (losses) of Consolidated Funds attributable to the limited partner investors is allocated to non-controlling interests. Therefore a gain or loss is not expected to have a material impact on the revenues or profitability of the Partnership. Moreover, although the assets of the Consolidated Funds are consolidated onto our balance sheet pursuant to U.S. GAAP, ultimately we do not have recourse to such assets and such liabilities are generally non-recourse to us. Therefore, a gain or loss from the Consolidated Funds generally does not impact the assets available to our equity holders.

## ***Expenses***

*Compensation and Benefits.* Compensation includes salaries, bonuses, equity-based compensation, and performance payment arrangements. Bonuses are accrued over the service period to which they relate.

We recognize as compensation expense the portion of performance fees that are due to our employees, senior Carlyle professionals, and operating executives in a manner consistent with how we recognize the performance fee revenue. These amounts are accounted for as compensation expense in conjunction with the related performance fee revenue and, until paid, are recognized as a component of the accrued compensation and benefits liability. Compensation in respect of performance fees is paid when the related performance fees are realized, and not when such performance fees are accrued. The funds do not have a uniform allocation of performance fees to our employees, senior Carlyle professionals and operating executives. Therefore, for any given period, the ratio of performance fee compensation to performance fee revenue may vary based on the funds generating the performance fee revenue for that period and their particular allocation percentages.

In addition, we have implemented various equity-based compensation arrangements that require senior Carlyle professionals and other employees to vest ownership of a portion of their equity interests over a service period of up to six years, which under U.S. GAAP will result in compensation charges over current and future periods. Further, in order to recruit and retain existing and future senior Carlyle professionals and other employees, we have implemented additional equity-based compensation programs that have resulted in increases to our equity-based compensation expenses, which is a trend that is expected to continue in the future as we increase the use of deferred restricted common units. For example, in February 2014, we granted approximately 5.6 million deferred restricted common

units across a significant number of our employees for a total estimated grant-date fair value of approximately \$172 million; these awards vest over a period up to six years. Compensation charges associated with the equity-based compensation grants issued in our initial public offering in May 2012 or grants issued in acquisitions or strategic investments are excluded from our calculation of Economic Net Income. Compensation charges associated with all equity-based compensation grants are excluded from Fee Related Earnings and Distributable Earnings.

We expect that we will hire additional individuals and that overall compensation levels will correspondingly increase, which will result in an increase in compensation and benefits expense. As a result of recent acquisitions, we have charges associated with contingent consideration taking the form of earn-outs and profit participation, some of which are reflected as compensation expense. Our fundraising has increased in recent periods and, as a result, our compensation expense increased in periods in which we closed on increased levels of new capital commitments. Amounts due to employees related to such fundraising will be expensed when earned even though the benefit of the new capital and related fees will be reflected in operations over the life of the related fund.

*General, Administrative and Other Expenses.* General, administrative, and other expenses include occupancy and equipment expenses and other expenses, which consist principally of professional fees, external costs of fundraising, travel and related expenses, communications and information services, depreciation and amortization and foreign currency transactions.

We expect that general, administrative and other expenses will vary due to infrequently occurring or unusual items. Also, our utilization of third parties to assist in fundraising will cause general, administrative and other expenses to increase in periods of significant fundraising. We also expect to incur greater expenses in the future related to our recent acquisitions including amortization of acquired intangibles, earn-outs to equity holders and fair value adjustments on contingent consideration issued. Additionally, we anticipate that general, administrative and other expenses will fluctuate from period to period due to the impact of foreign exchange transactions.

*Interest and Other Expenses of Consolidated Funds.* The interest and other expenses of Consolidated Funds consist primarily of interest expenses related primarily to our CLO loans, professional fees and other third-party expenses.

*Interest and Other Expenses of a Consolidated Real Estate VIE.* Interest and other expenses of a consolidated real estate VIE reflect expenses incurred by Urbplan, consisting primarily of interest expense, general and administrative expenses, compensation and benefits, and costs associated with land development services. Also included in this caption is the change in our estimate of the fair value of Urbplan's loans payable during the period.

*Income Taxes.* The Carlyle Holdings partnerships and their subsidiaries operate as pass-through entities for U.S. income tax purposes and record a provision for state and local income taxes for certain entities based on applicable laws and a provision for foreign income taxes for certain foreign entities. In addition, Carlyle Holdings I GP Inc. is subject to additional entity-level taxes that are reflected in our consolidated financial statements.

Prior to our initial public offering in May 2012, we operated as a group of pass-through entities for U.S. income tax purposes and our profits and losses were allocated to the individual senior Carlyle professionals, who were individually responsible for reporting such amounts. We recorded a provision for state and local income taxes for certain entities based on applicable laws and a provision for foreign income taxes for certain foreign entities.

Income taxes for foreign entities are accounted for using the liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

In the normal course of business, we are subject to examination by federal and certain state, local and foreign tax regulators. As of June 30, 2014, our U.S. federal income tax returns for the years 2010 through 2012 are open under the normal three-year statute of limitations and therefore subject to examination. State and local tax returns are generally subject to audit from 2009 to 2013. Foreign tax returns are generally subject to audit from 2007 to 2013. Certain of our foreign subsidiaries are currently under audit by foreign tax authorities.





**Non-controlling Interests in Consolidated Entities.** Non-controlling interests in consolidated entities represent the component of equity in consolidated entities not held by us. These interests are adjusted for general partner allocations and by subscriptions and redemptions in hedge funds which occur during the reporting period. Non-controlling interests related to hedge funds are subject to quarterly or monthly redemption by investors in these funds following the expiration of a specified period of time or may be withdrawn subject to a redemption fee in the hedge funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third-party interests in such consolidated funds are presented as redeemable non-controlling interests in consolidated entities within the consolidated balance sheets. When redeemable amounts become legally payable to investors, they are classified as a liability and included in other liabilities of Consolidated Funds in the consolidated balance sheets.

We record significant non-controlling interests in Carlyle Holdings relating to the ownership interests of the limited partners of the Carlyle Holdings partnerships. The Partnership, through wholly owned subsidiaries, is the sole general partner of Carlyle Holdings. Accordingly, the Partnership consolidates the financial position and results of operations of Carlyle Holdings into its financial statements, and the other ownership interests in Carlyle Holdings are reflected as a non-controlling interest in the Partnership's financial statements.

### ***Non-GAAP Financial Measures***

**Economic Net Income.** Economic net income or ENI, is a key performance benchmark used in our industry. ENI represents segment net income which excludes the impact of income taxes, acquisition-related items including amortization of acquired intangibles and contingent consideration taking the form of earn-outs, charges associated with equity-based compensation grants issued in May 2012 upon completion of the initial public offering or grants issued in acquisitions or strategic investments, corporate actions and infrequently occurring or unusual events. We believe the exclusion of these items provides investors with a meaningful indication of our core operating performance. For segment reporting purposes, revenues and expenses, and, accordingly, segment net income, are presented on a basis that deconsolidates the Consolidated Funds. Total Segment ENI equals the aggregate of ENI for all segments. ENI is evaluated regularly by management in making resource deployment decisions and in assessing performance of our four segments and for compensation. We believe that reporting ENI is helpful to understanding our business and that investors should review the same supplemental financial measure that management uses to analyze our segment performance. This measure supplements and should be considered in addition to, and not in lieu of, the results of operations discussed further under Consolidated Results of Operations prepared in accordance with U.S. GAAP.

**Distributable Earnings.** Distributable Earnings is derived from our segment reported results and is an additional measure to assess performance and amounts potentially available for distribution from Carlyle Holdings to its equity holders. Distributable Earnings, which is a non-GAAP measure, is intended to show the amount of net realized earnings without the effects of consolidation of the Consolidated Funds. Distributable Earnings is total ENI less net performance fees and investment income plus realized net performance fees, realized investment income, and equity-based compensation expense.

**Fee Related Earnings.** Fee Related Earnings is a component of Distributable Earnings and is used to measure our operating profitability exclusive of performance fees, investment income from investments in our funds, performance fee-related compensation, and equity-based compensation expense. Accordingly, Fee Related Earnings reflect the ability of the business to cover direct base compensation and operating expenses from fee revenues other than performance fees. Fee Related Earnings are reported as part of our segment results. We use Fee Related Earnings from operations to measure our profitability from fund management fees.



## Operating Metrics

We monitor certain operating metrics that are common to the alternative asset management industry.

### Fee-earning Assets under Management

Fee-earning assets under management or Fee-earning AUM refers to the assets we manage or advise from which we derive recurring fund management fees. Our Fee-earning AUM generally equals the sum of:

- (a) for carry funds and certain co-investment vehicles where the investment period has not expired and for Metropolitan fund of funds vehicles during the weighted-average investment period of the underlying funds, the amount of limited partner capital commitments, for AlpInvest fund of funds vehicles, the amount of external investor capital commitments during the commitment fee period, and for the NGP management fee funds and NGP carry funds, the amount of investor capital commitments before the first investment realization (see Fee-earning AUM based on capital commitments in the table below for the amount of this component at each period);
- (b) for substantially all carry funds and certain co-investment vehicles where the investment period has expired and for Metropolitan fund of funds vehicles after the expiration of the weighted-average investment period of the underlying funds, the remaining amount of limited partner invested capital, and for the NGP management fee funds and NGP carry funds where the first investment has been realized, the amount of partner commitments less realized and written-off investments (see Fee-earning AUM based on invested capital in the table below for the amount of this component at each period);
- (c) the amount of aggregate Fee-earning collateral balance at par of our CLOs, as defined in the fund indentures (typically exclusive of equities and defaulted positions) as of the quarterly cut-off date for each CLO and the aggregate principal amount of the notes of our other structured products (see Fee-earning AUM based on collateral balances, at par in the table below for the amount of this component at each period);
- (d) the external investor portion of the net asset value (pre-redemptions and subscriptions) of our long/short credit funds, emerging markets, multi-product macroeconomic fund of hedge funds vehicles and other hedge funds (see Fee-earning AUM based on net asset value in the table below for the amount of this component at each period);
- (e) the gross assets (including assets acquired with leverage), excluding cash and cash equivalents of our business development companies and certain carry funds; and
- (f) for AlpInvest fund of funds vehicles where the commitment fee period has expired, and certain carry funds where the investment period has expired, the lower of cost or fair value of invested capital (see Fee-earning AUM based on lower of cost or fair value and other in the table below for the amount of this component at each period).

The table below details Fee-earning AUM by its respective components at each period.

<b>Consolidated Results</b>	<b>As of June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Components of Fee-earning AUM</b>	<b>(Dollars in millions)</b>	
Fee-earning AUM based on capital commitments (1)	\$ 42,075	\$ 34,834

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Fee-earning AUM based on invested capital (2)	42,957	44,531
Fee-earning AUM based on collateral balances, at par (3)	17,789	16,858
Fee-earning AUM based on net asset value (4)	17,278	13,063
Fee-earning AUM based on lower of cost or fair value and other (5)	25,550	22,738
<b>Balance, End of Period</b>	<b>\$ 145,649</b>	<b>\$ 132,024</b>

- (1) Reflects limited partner capital commitments where the investment period, weighted-average investment period, or commitment fee period has not expired.

- (2) Reflects limited partner invested capital and includes amounts committed to or reserved for investments for certain Real Assets and Solutions funds.
- (3) Represents the amount of aggregate Fee-earning collateral balances and principal balances, at par, for our CLOs/structured products.
- (4) Reflects the net asset value (pre-redemptions and subscriptions) of our hedge funds and fund of hedge funds vehicles.
- (5) Includes funds with fees based on gross asset value.

The table below provides the period to period rollforward of Fee-earning AUM.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)		(Dollars in millions)	
<b>Consolidated Results</b>				
<b>Fee-earning AUM Rollforward</b>				
Balance, Beginning of Period	\$ 142,088	\$ 122,904	\$ 139,949	\$ 123,121
Acquisitions			2,894	
Inflows, including Commitments (1)	7,843	14,883	9,784	16,877
Outflows, including Distributions (2)	(5,234)	(7,233)	(8,972)	(9,032)
Subscriptions, net of Redemptions (3)	325	812	400	756
Changes in CLO collateral balances (4)	614	508	1,333	804
Market Appreciation/(Depreciation) (5)	249	225	500	970
Foreign Exchange and other (6)	(236)	(75)	(239)	(1,472)
<b>Balance, End of Period</b>	<b>\$ 145,649</b>	<b>\$ 132,024</b>	<b>\$ 145,649</b>	<b>\$ 132,024</b>

- (1) Inflows represent limited partner capital raised and capital invested by our carry funds, NGP management fee funds, NGP carry funds and fund of funds vehicles outside the investment period, weighted-average investment period, or commitment fee period and capital invested in our business development companies.
- (2) Outflows represent limited partner distributions from our carry funds, NGP management fee funds, NGP carry funds and fund of funds vehicles and changes in basis for our carry funds and fund of funds vehicles where the investment period, weighted-average investment period, or commitment fee period has expired and distributions from our business development companies.
- (3) Represents the net result of subscriptions to and redemptions from our hedge funds and fund of hedge funds vehicles.
- (4) Represents the change in the aggregate Fee-earning collateral balances and principal balances at par of our CLOs/structured products, as of the quarterly cut-off dates.
- (5) Market Appreciation/ (Depreciation) represents changes in the net asset value of our hedge funds and fund of hedge funds vehicles, and realized and unrealized gains (losses) on portfolio investments in our carry funds and fund of funds vehicles based on the lower of cost or fair value.
- (6) Includes onboarding of fully committed existing funds from another manager and represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end. Refer to Segment Analysis for a detailed discussion by segment of the activity affecting Fee-earning AUM for each of the periods presented by segment.

#### *Assets under Management*

Assets under management or AUM refers to the assets we manage or advise. Our AUM equals the sum of the following:

- (a) the fair value of the capital invested in our carry funds, co-investment vehicles, NGP management fee funds, the NGP carry funds, and fund of funds vehicles plus the capital that we are entitled to call from investors in those funds and vehicles (including our commitments to those funds and vehicles and those of senior Carlyle professionals and employees) pursuant to the terms of their capital commitments to those funds and vehicles;
- (b) the amount of aggregate collateral balance and principal cash at par or aggregate principal amount of the notes of our CLOs and other structured products (inclusive of all positions);
- (c) the net asset value (pre-redemptions and subscriptions), of our long/short credit emerging markets, multi-product macroeconomic fund of hedge funds vehicles and other hedge funds; and

(d) the gross assets (including assets acquired with leverage) of our business development companies. Our carry funds are closed-ended funds and investors are generally not able to redeem their interests under the fund partnership agreements.

We include in our calculation of AUM and Fee-earning AUM certain energy and renewable resources funds that we jointly advise with Riverstone Holdings L.L.C. ( Riverstone ) and certain NGP management fee funds and the NGP carry funds. In addition, our Solutions segment includes certain assets under consulting relationships. Fee-earning AUM and AUM only include those assets which earn a material fee.

For our carry funds, co-investment vehicles, fund of funds vehicles, NGP management fee funds and NGP carry funds, total AUM includes the fair value of the capital invested, whereas Fee-earning AUM includes the amount of capital commitments or the remaining amount of invested capital, depending on whether the investment period for the fund has expired. As such, Fee-earning AUM may be greater than total AUM when the aggregate fair value of the remaining investments is less than the cost of those investments.

Our calculations of Fee-earning AUM and AUM may differ from the calculations of other alternative asset managers and, as a result, this measure may not be comparable to similar measures presented by others. In addition, our calculation of AUM includes uncalled commitments to, and the fair value of invested capital in, our funds from Carlyle and our personnel, regardless of whether such commitments or invested capital are subject to management or performance fees. Our calculations of Fee-earning AUM or AUM are not based on any definition of Fee-earning AUM or AUM that is set forth in the agreements governing the investment funds that we manage or advise.

We generally use Fee-earning AUM as a metric to measure changes in the assets from which we earn management fees. Total AUM tends to be a better measure of our investment and fundraising performance as it reflects assets at fair value plus available uncalled capital.

### ***Available Capital***

Available capital, commonly known as dry powder, for our carry funds, fund of funds vehicles, NGP management fee funds, and NGP carry funds refer to the amount of capital commitments available to be called for investments. Amounts previously called may be added back to available capital following certain distributions. Expired Available Capital occurs when a fund has passed the investment and follow-on periods and can no longer invest capital into new or existing deals. Any remaining Available Capital, typically a result of either recycled distributions or specific reserves established for the follow-on period that are not drawn, can only be called for fees and expenses and is therefore removed from the Total AUM calculation.



The table below provides the period to period rollforward of Available Capital and Fair Value of Capital, and the resulting rollforward of Total AUM.

	Three Months Ended June 30, 2014 Fair Value			Six Months Ended June 30, 2014 Fair Value		
	Available Capital	of Capital	Total AUM	Available Capital	of Capital	Total AUM
	(Dollars in millions)			(Dollars in millions)		
Consolidated Results						
Balance, Beginning of Period	\$ 56,276	\$ 142,669	\$ 198,945	\$ 52,018	\$ 136,792	\$ 188,810
Acquisitions					2,993	2,993
Commitments (1)	5,366		5,366	11,479		11,479
Capital Called, net (2)	(6,174)	6,190	16	(8,523)	8,711	188
Distributions (3)	932	(11,107)	(10,175)	1,400	(18,183)	(16,783)
Subscriptions, net of Redemptions (4)		318	318		463	463
Changes in CLO collateral balances (5)		914	914		1,458	1,458
Market Appreciation/(Depreciation) (6)		7,467	7,467		14,142	14,142
Foreign Exchange and other (7)	(86)	(20)	(106)	(60)	55	(5)
Balance, End of Period	\$ 56,314	\$ 146,431	\$ 202,745	\$ 56,314	\$ 146,431	\$ 202,745

- (1) Represents capital raised by our carry funds, NGP management fee funds, NGP carry funds, and fund of funds vehicles, net of expired available capital.
- (2) Represents capital called by our carry funds, NGP management fee funds, NGP carry funds, and fund of funds vehicles, net of fund fees and expenses and investments in our business development companies. Equity invested amounts may vary from capital called due to timing differences between acquisition and capital call dates.
- (3) Represents distributions from our carry funds. NGP management fee funds, NGP carry funds, and fund of funds vehicles, net of amounts recycled and distributions from our business development companies. Distributions are based on when proceeds are actually distributed to investors, which may differ from when they are realized.
- (4) Represents the net result of subscriptions to and redemptions from our hedge funds and fund of hedge funds vehicles
- (5) Represents the change in the aggregate collateral balance and principal cash and principal notes at par of the CLOs/structured products.
- (6) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments and changes in the net asset value of our hedge funds and fund of hedge funds vehicles.
- (7) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.
- Please refer to Segment Analysis for a detailed discussion by segment of the activity affecting Total AUM for each of the periods presented.

### **Consolidated Results of Operations**

The following table and discussion sets forth information regarding our unaudited condensed consolidated results of operations for the three months and six months ended June 30, 2014 and June 30, 2013. The unaudited condensed consolidated financial statements have been prepared on substantially the same basis for all historical periods presented; however, the consolidated funds are not the same entities in all periods shown due to changes in U.S. GAAP, changes in fund terms and the creation and termination of funds. We formed six new CLOs throughout 2013 and four new CLOs in the first six months of 2014 and have consolidated those CLOs beginning on their respective closing dates. As further described below, the consolidation of these funds primarily had the impact of increasing interest and other income of Consolidated Funds, interest and other expenses of Consolidated Funds, and net investment gains (losses) of Consolidated Funds in the year that the fund is initially consolidated. The consolidation of these funds had no effect on net income attributable to the Partnership for the periods presented. In addition, as described in Note 17 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, as of September 30, 2013, we began consolidating Urbplan, a Brazilian real estate portfolio company of certain of our real estate investment funds.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions, except unit and per unit data)			
Revenues				
Fund management fees	\$ 317.3	\$ 242.2	\$ 577.6	\$ 473.6
Performance fees				
Realized	415.6	203.2	667.0	456.0
Unrealized	126.8	55.9	495.9	445.5
Total performance fees	542.4	259.1	1,162.9	901.5
Investment income (loss)				
Realized	29.9	12.7	29.9	8.5
Unrealized	(6.2)	(1.7)	(0.1)	2.9
Total investment income (loss)	23.7	11.0	29.8	11.4
Interest and other income	3.7	4.1	7.5	6.5
Interest and other income of Consolidated Funds	243.7	252.9	494.4	521.3
Revenue of a consolidated real estate VIE	8.0		14.0	
Total revenues	1,138.8	769.3	2,286.2	1,914.3
Expenses				
Compensation and benefits				
Base compensation	220.5	173.6	425.1	352.1
Equity-based compensation	109.0	126.0	183.2	178.3
Performance fee related				
Realized	181.2	78.1	289.9	186.8
Unrealized	109.0	66.0	330.6	261.0
Total compensation and benefits	619.7	443.7	1,228.8	978.2
General, administrative and other expenses	118.7	120.3	253.0	231.7
Interest	14.5	11.6	26.7	22.1
Interest and other expenses of Consolidated Funds	252.3	201.7	516.3	451.8
Interest and other expenses of a consolidated real estate VIE	42.0		91.2	
Other non-operating (income) expenses	(4.6)	(3.3)	25.6	(5.7)
Total expenses	1,042.6	774.0	2,141.6	1,678.1
Other income				
Net investment gains of Consolidated Funds	445.0	290.6	869.0	502.1
Income before provision for income taxes	541.2	285.9	1,013.6	738.3
Provision for income taxes	53.8	16.6	69.8	41.5
Net income	487.4	269.3	943.8	696.8
Net income attributable to non-controlling interests in consolidated entities	369.7	300.0	694.2	468.0

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Net income (loss) attributable to Carlyle Holdings	117.7	(30.7)	249.6	228.8
Net income (loss) attributable to non-controlling interests in Carlyle Holdings	98.2	(27.4)	205.5	198.3
Net income (loss) attributable to The Carlyle Group L.P.	\$ 19.5	\$ (3.3)	\$ 44.1	\$ 30.5
Net income (loss) attributable to The Carlyle Group L.P. per common unit				
Basic	\$ 0.30	\$ (0.07)	\$ 0.74	\$ 0.69
Diluted	\$ 0.27	\$ (0.07)	\$ 0.66	\$ 0.61
Weighted-average common units				
Basic	65,138,793	45,145,793	58,855,013	44,249,510
Diluted	70,677,702	45,145,793	65,170,359	49,881,397

### ***Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013***

#### ***Revenues***

Total revenues were \$1,138.8 million for the three months ended June 30, 2014, an increase of 48% over total revenues for the three months ended June 30, 2013 of \$769.3 million. The increase in revenues was primarily attributable to an increase in performance fees of \$283.3 million and an increase in fund management fees of \$75.1 million for the three months ended June 30, 2014 as compared to 2013.

***Fund Management Fees.*** Fund management fees increased \$75.1 million, or 31%, to \$317.3 million for the three months ended June 30, 2014 as compared to 2013. In addition, fund management fees from consolidated funds increased \$2.1 million for the three months ended June 30, 2014 as compared to 2013. These fees are eliminated upon consolidation of these funds.

The overall increase, inclusive of management fees eliminated from consolidated funds, was primarily due to approximately \$73.0 million of incremental management fees from the commencement of the investment period during 2013 and 2014 for certain newly raised funds and catch-up management fees from subsequent closes of funds that are in the fundraising period, approximately \$11.3 million of increased management fees from greater assets under management in ESG, Claren Road, and AlpInvest, and approximately \$9.8 million of additional management fees related to the acquisitions of Metropolitan and DGAM in November 2013 and February 2014, respectively. Offsetting those increases were decreases in management fees of approximately \$35.1 million resulting from the change in the basis for earning management fees from commitments to invested capital for certain funds and from distributions from funds whose management fees are based on invested capital, and approximately \$4.6 million in decreased management fees from lower assets under management in Vermillion.

Fund management fees include transaction and portfolio advisory fees, net of rebate offsets, of \$33.2 million and \$12.5 million for the three months ended June 30, 2014 and 2013, respectively. The \$20.7 million increase in transaction and portfolio advisory fees resulted primarily from greater investment activity, primarily in our buyout funds, in 2014 as compared to 2013.

***Performance Fees.*** Performance fees for the three months ended June 30, 2014 were \$542.4 million compared to \$259.1 million for the three months ended June 30, 2013. In addition, performance fees from consolidated funds increased \$0.9 million for the three months ended June 30, 2014 as compared to 2013. These fees eliminate upon consolidation. The performance fees recorded in the three months ended June 30, 2014 and 2013 were due principally to increases in the fair value of the underlying carry funds, which increased approximately 5% and 3% in total remaining value during the three months ended June 30, 2014 and 2013, respectively. The increase in the fair value of the investments was driven primarily by asset performance and operating projections as well as increases in market comparables. Additionally, the investments in the AlpInvest fund of funds vehicles appreciated by 7% during the three months ended June 30, 2014. In comparison, the MSCI All Country World Index increased 4.1% during the three months ended June 30, 2014. Risk asset prices again strengthened during the second quarter of 2014, bringing valuation ratios above historic averages. Between March 31, 2014 and mid-July 2014, the S&P 500 rose 5.7% to set a new record high. Strong financial market performance occurred during the quarter despite the release of worse-than-expected U.S. economic data. The U.S. Commerce Department estimates that the U.S. economy contracted at a 2.9% annual rate in the first quarter of 2014, substantially worse than the original estimate of 0.1% growth. Despite certain unfavorable U.S. economic data, the continuing strong performance in the financial markets fostered the appreciation of our carry fund portfolio.

Approximately \$311.5 million and \$186.2 million of performance fees for the three months ended June 30, 2014 and 2013, respectively, were generated by our Corporate Private Equity segment. Performance fees for the three months ended June 30, 2014 and 2013 were \$44.9 million and \$48.7 million for the Global Market Strategies segment, \$60.1

million and \$(13.9) million for the Real Assets segment, and \$125.9 million and \$38.1 million for the Solutions segment, respectively. Further, approximately \$269.3 million of our performance fees for the three months ended June 30, 2014 were related to CP V and CEP III, while \$213.5 million of our performance fees for the three months ended June 30, 2013 were related to CP V and CP IV. See [Key Financial Measures](#) [Revenues](#) [Performance Fees](#) for information on the allocation of performance fees derived from the AlpInvest fund of funds vehicles between the Partnership and the historical owners and management team of AlpInvest.

*Investment Income.* Investment income of \$23.7 million for the three months ended June 30, 2014 increased \$12.7 million over investment income of \$11.0 million for the three months ended June 30, 2013. The increase relates primarily to an investment gain of \$22.5 million associated with the sale of a European real estate investment during the three months ended June 30, 2014, partially offset by increases to investment losses on other European real estate investments of \$8.5 million. In addition, investment losses from Consolidated Funds increased \$1.7 million for the three months ended June 30, 2014 as compared to 2013. This income is eliminated upon consolidation.

*Interest and Other Income.* Interest and other income decreased \$0.4 million to \$3.7 million for the three months ended June 30, 2014, as compared to \$4.1 million for 2013.

*Interest and Other Income of Consolidated Funds.* Interest and other income of Consolidated Funds was \$243.7 million for the three months ended June 30, 2014, a decrease of \$9.2 million from \$252.9 million for the three months ended June 30, 2013. Our CLOs generate interest income primarily from investments in bonds and loans inclusive of amortization of discounts and generate other income from consent and amendment fees. Also included in this balance is interest income and dividend income recognized by the consolidated fund of funds vehicles and consolidated hedge funds. The decrease during these periods is due primarily to lower interest and dividend income recognized by the consolidated fund of funds vehicles in 2014 as compared to 2013. Substantially all interest and other income of the CLOs and other consolidated funds together with interest expense of our CLOs and net investment gains (losses) of Consolidated Funds is attributable to the related funds' limited partners or CLO investors and therefore is allocated to non-controlling interests. Accordingly, such amounts have no material impact on net income attributable to the Partnership.

*Revenue of a Consolidated Real Estate VIE.* Revenue of a consolidated real estate VIE was \$8.0 million for the three months ended June 30, 2014. This balance reflects revenue earned for land development services of approximately \$5.2 million and investment income earned on Urbplan's investments of approximately \$2.8 million. The Partnership began consolidating Urbplan on September 30, 2013.

#### *Expenses*

Expenses were \$1,042.6 million for the three months ended June 30, 2014, an increase of \$268.6 million from \$774.0 million for the three months ended June 30, 2013. The increase primarily is due to increases in total compensation and benefits, interest and other expenses of consolidated funds, and interest and other expenses of a consolidated real estate VIE, which increased \$176.0 million, \$50.6 million, and \$42.0 million, respectively.

Total compensation and benefits for the three months ended June 30, 2014 increased \$176.0 million, or 40%, from \$443.7 million for the three months ended June 30, 2013 to \$619.7 million for the three months ended June 30, 2014. The increase in total compensation and benefits reflects an increase in performance fee related compensation expense of \$146.1 million and an increase in base compensation expense of \$46.9 million, partially offset by a decrease in equity-based compensation expense of \$17.0 million.

*Compensation and Benefits.* Base compensation and benefits increased \$46.9 million, or 27%, for the three months ended June 30, 2014 as compared to 2013, which primarily relates to increased headcount, promotions, and estimated bonuses, as well as \$11.4 million of increased expense associated with employment-related contingent consideration arrangements from acquisitions. Also contributing to the increase was incremental compensation from the addition of professionals associated with the Partnership's acquisitions of Metropolitan and DGAM in November 2013 and February 2014, respectively.

Equity-based compensation decreased \$17.0 million for the three months ended June 30, 2014 as compared to 2013. The decrease in equity-based compensation is due primarily to lower expense in 2014 as compared to 2013 related to the expense recognized on vesting for the difference between the estimated forfeitures and actual forfeitures on

Carlyle Holdings partnership units that vested during the period. During the second quarter of 2013, the estimated forfeiture rate was revised to 2.5% from 7.5%, and the lower estimated forfeiture rate was applied prospectively from that period. This decrease was partially offset by the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014.



Performance fee related compensation expense increased \$146.1 million for the three months ended June 30, 2014 as compared to 2013. Performance fee related compensation as a percentage of performance fees was 54% and 56% for the three months ended June 30, 2014 and 2013, respectively.

*General, Administrative and Other Expenses.* General, administrative and other expenses decreased \$1.6 million for the three months ended June 30, 2014 as compared to 2013. This decrease was driven primarily by a \$7.6 million decrease in expense associated with external fundraising costs, partially offset by negative variances related to foreign currency adjustments.

*Interest.* Interest expense for the three months ended June 30, 2014 was \$14.5 million, an increase of \$2.9 million from 2013. The increase was due primarily to the interest on \$200 million of 5.625% senior notes due 2043 issued in March 2014.

*Interest and Other Expenses of Consolidated Funds.* Interest and other expenses of Consolidated Funds increased \$50.6 million for the three months ended June 30, 2014 as compared to 2013. This increase relates primarily to the six new CLOs formed throughout 2013 and the four new CLOs formed in 2014. The CLOs incur interest expense on their loans payable and incur other expenses consisting of trustee fees, rating agency fees and professional fees. Substantially all interest and other income of the CLOs and other consolidated funds together with interest expense of our CLOs and net investment gains (losses) of Consolidated Funds is attributable to the related funds' limited partners or CLO investors and therefore is allocated to non-controlling interests. Accordingly, such amounts have no material impact on net income attributable to the Partnership.

*Interest and Other Expenses of a Consolidated Real Estate VIE.* Interest and other expenses of a consolidated real estate VIE were \$42.0 million for the three months ended June 30, 2014. This balance reflects expenses incurred by Urbplan, consisting primarily of interest expense inclusive of the fair value adjustment on Urbplan loans (\$26.6 million), costs associated with land development services (\$2.8 million), general and administrative expenses (\$9.5 million), and compensation and benefits (\$3.1 million). The Partnership began consolidating Urbplan on September 30, 2013.

*Other Non-operating (Income) Expense.* Other non-operating income of \$4.6 million for the three months ended June 30, 2014 compares to other non-operating income of \$3.3 million for the three months ended June 30, 2013. Included in this caption is the change in the fair value of contingent consideration associated with the Partnership's acquisitions. During the three months ended June 30, 2014, the overall estimated fair value of the contingent consideration associated with the Partnership's acquisitions decreased; the overall decrease was due primarily to updated assumptions in the probability-weighted discounted cash flow models used to estimate the fair value.

Generally, the contingent consideration associated with the Partnership's acquisitions is payable at future dates over a period of years. Because the estimated fair value of these obligations relies upon estimates of cash flows in those future periods, there will be inherent volatility in the fair value of the Partnership's liability (and as a result, the periodic expense recognized) until such time as the future cash flow projections become more definitive. However, if the financial performance of the acquisitions is consistent with, or exceeds, the Partnership's original financial forecast at acquisition, the Partnership expects that the fair value of the contingent consideration liabilities will increase over time (with a corresponding expense) as the actual performance measurement date for the payment approaches.

*Net Investment Gains of Consolidated Funds*

For the three months ended June 30, 2014, net investment gains of Consolidated Funds were \$445.0 million, as compared to gains of \$290.6 million for the three months ended June 30, 2013. This balance is predominantly driven by our consolidated AlpInvest fund of funds vehicles, CLOs, and hedge funds. For the consolidated CLOs, the amount reflects the net gain or loss on the fair value adjustment of both assets and liabilities. The components of net investment gains (losses) of consolidated funds for the respective periods are:

	<b>Three Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Realized gains	\$ 213.9	\$ 216.6
Net change in unrealized gains	279.1	326.7
<b>Total gains</b>	<b>493.0</b>	<b>543.3</b>
Losses on liabilities of CLOs	(48.0)	(253.5)
Gains (losses) on other assets of CLOs		0.8
<b>Total</b>	<b>\$ 445.0</b>	<b>\$ 290.6</b>

The realized and unrealized investment gains/losses primarily include the appreciation/depreciation of the equity investments within the consolidated AlpInvest fund of funds vehicles, the appreciation/depreciation of CLO investments in loans and bonds, as well as the appreciation/depreciation of investments made by our consolidated hedge funds and other consolidated funds. The losses on the liabilities of the CLOs reflect the fair value adjustment on the debt of the CLOs. The net investment gains for the three months ended June 30, 2014 and 2013 were due primarily to net investment gains attributable to the consolidated AlpInvest fund of funds vehicles of \$499.2 million and \$396.2 million, respectively, net investment gains attributable to the consolidated hedge funds and other consolidated funds of \$20.5 million and \$49.3 million, respectively, and the net depreciation of CLOs of \$74.7 million and \$154.9 million, respectively.

*Net Income Attributable to Non-controlling Interests in Consolidated Entities*

Net income attributable to non-controlling interests in consolidated entities was \$369.7 million for the three months ended June 30, 2014 compared to \$300.0 million for the three months ended June 30, 2013. These amounts are primarily attributable to the net earnings or losses of the Consolidated Funds for each period, which are substantially all allocated to the related funds' limited partners or CLO investors.

For the three months ended June 30, 2014, the net income of our Consolidated Funds was approximately \$370.0 million. This income was substantially due to the consolidated AlpInvest fund of funds vehicles and the consolidated CLOs. The net income from the consolidated AlpInvest fund of funds vehicles was approximately \$469.5 million for the three months ended June 30, 2014. The net income was partially offset by net losses from the consolidated CLOs of \$93.4 million for the three months ended June 30, 2014. The CLOs' investments depreciated in value and the fair value of the CLOs' liabilities appreciated, thereby creating a net loss for this period.

The net income of our Consolidated Funds was approximately \$280.8 million for the three months ended June 30, 2013. This income was substantially due to the income from the consolidated AlpInvest fund of funds vehicles, our

consolidated hedge funds, and the consolidated CLOs. The net income from the consolidated AlpInvest fund of funds vehicles and the consolidated hedge funds was approximately \$390.7 million and \$31.4 million, respectively, for the three months ended June 30, 2013. The net income was partially offset by net losses from the consolidated CLOs of \$133.8 million for the three months ended June 30, 2013.

*Net Income Attributable to The Carlyle Group L.P.*

The net income attributable to the Partnership was \$19.5 million for the three months ended June 30, 2014 as compared to the net loss attributable to the Partnership of \$3.3 million for the three months ended June 30, 2013.

The Partnership is allocated a portion of the net income (loss) attributable to Carlyle Holdings based on the Partnership's ownership in Carlyle Holdings (which was approximately 21% and 15% as of June 30, 2014 and 2013, respectively). For the three months ended June 30, 2014 and 2013, the net income (loss) attributable to Carlyle Holdings was \$117.7 million and \$(30.7) million, respectively. Additionally, the Partnership is allocated 100% of the net income or loss attributable to the Partnership's wholly-owned taxable subsidiaries, which was \$(7.1) million and \$1.3 million for the three months ended June 30, 2014 and 2013, respectively.

### ***Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013***

#### ***Revenues***

Total revenues were \$2,286.2 million for the six months ended June 30, 2014, an increase of 19% over total revenues for the six months ended June 30, 2013 of \$1,914.3 million. The increase in revenues was primarily attributable to an increase in performance fees of \$261.4 million and fund management fees of \$104.0 million for the six months ended June 30, 2014 as compared to 2013.

***Fund Management Fees.*** Fund management fees increased \$104.0 million, or 22%, to \$577.6 million for the six months ended June 30, 2014 as compared to 2013. In addition, fund management fees from consolidated funds increased \$4.7 million for the six months ended June 30, 2014 as compared to 2013. These fees are eliminated upon consolidation of these funds.

The overall increase, inclusive of management fees eliminated from consolidated funds, was primarily due to approximately \$142.6 million of incremental management fees from the commencement of the investment period during 2013 and 2014 for certain newly raised funds and catch-up management fees from subsequent closes of funds that are in the fundraising period, approximately \$28.8 million of increased management fees from greater assets under management in ESG, Claren Road, and AlpInvest, and approximately \$18.1 million of additional management fees related to the acquisitions of Metropolitan and DGAM in November 2013 and February 2014, respectively. Offsetting those increases were decreases in management fees of approximately \$78.6 million resulting from the change in the basis for earning management fees from commitments to invested capital for certain funds and from distributions from funds whose management fees are based on invested capital, approximately \$11.1 million in decreased management fees from lower assets under management in Vermillion, and approximately \$7.4 million in decreased management fees resulting from the liquidation of certain CLOs during 2013.

Fund management fees include transaction and portfolio advisory fees, net of rebate offsets, of \$40.2 million and \$27.5 million for the six months ended June 30, 2014 and 2013, respectively. The \$12.7 million decrease in transaction and portfolio advisory fees resulted from greater investment activity, primarily in our buyout funds, in 2014 as compared to 2013.

***Performance Fees.*** Performance fees for the six months ended June 30, 2014 were \$1,162.9 million compared to \$901.5 million for the six months ended June 30, 2013. In addition, performance fees from consolidated funds decreased \$12.3 million for the six months ended June 30, 2014 as compared to 2013. The performance fees from consolidated funds eliminate upon consolidation. The increased performance fees recorded in the six months ended June 30, 2014 and 2013 were due principally to increases in the fair value of the underlying carry funds, which increased approximately 11% and 9% in total remaining value during the six months ended June 30, 2014 and 2013, respectively. The increase in the fair value of the investments was driven primarily by asset performance and operating projections as well as increases in market comparables. Additionally, the investments in the AlpInvest fund of funds vehicles appreciated by 14% during the six months ended June 30, 2014. In comparison, the MSCI All Country World Index increased 4% during the three months ended June 30, 2014. Risk asset prices again strengthened during the second quarter of 2014, bringing valuation ratios above historic averages. Between March 31, 2014 and mid-July 2014, the S&P 500 rose 5.7% to set a new record high. Strong financial market performance occurred during

the quarter despite the release of worse-than-expected U.S. economic data. The U.S. Commerce Department estimates that the U.S. economy contracted at a 2.9% annual rate in the first quarter of 2014, substantially worse than the original estimate of 0.1% growth. Despite certain unfavorable U.S. economic data, the continuing strong performance in the financial markets fostered the appreciation of our carry fund portfolio.

Approximately \$764.7 million and \$620.9 million of performance fees for the six months ended June 30, 2014 and 2013, respectively, were generated by our Corporate Private Equity segment. Performance fees for the six months ended June 30, 2014 and 2013 were \$111.0 million and \$157.2 million for the Global Market Strategies segment, \$76.9 million and \$49.1 million for the Real Assets segment, and \$210.3 million and \$74.3 million for the Solutions segment, respectively. Further, approximately \$682.4 million of our performance fees for the six months ended June 30, 2014 were related to CP V and CEP III, while \$552.0 million of our performance fees for the six months ended June 30, 2013 were related to CP V and CP IV. See [Key Financial Measures Revenues Performance Fees](#) for information on the allocation of performance fees derived from the AlpInvest fund of funds vehicles between the Partnership and the historical owners and management team of AlpInvest.

*Investment Income.* Investment income of \$29.8 million for the six months ended June 30, 2014 increased \$18.4 million over investment income of \$11.4 million for the six months ended June 30, 2013. The increase relates primarily to an investment gain of \$22.5 million associated with the sale of a European real estate investment during the six months ended June 30, 2014 and \$7.2 million of increased investment gains on investments in certain Europe buyout funds, partially offset by increases to investment losses on certain other European real estate investments of \$12.9 million. In addition, investment losses from Consolidated Funds increased \$0.8 million for the six months ended June 30, 2014 as compared to 2013. This income is eliminated upon consolidation.

*Interest and Other Income.* Interest and other income increased \$1.0 million to \$7.5 million for the six months ended June 30, 2014, as compared to \$6.5 million for 2013.

*Interest and Other Income of Consolidated Funds.* Interest and other income of Consolidated Funds was \$494.4 million for the six months ended June 30, 2014, a decrease of \$26.9 million from \$521.3 million for the six months ended June 30, 2013. Our CLOs generate interest income primarily from investments in bonds and loans inclusive of amortization of discounts and generate other income from consent and amendment fees. Also included in this balance is interest income and dividend income recognized by the consolidated fund of funds vehicles and consolidated hedge funds. The decrease during these periods is due primarily to lower interest income recognized by the consolidated fund of funds vehicles in 2014 as compared to 2013. Substantially all interest and other income of the CLOs and other consolidated funds together with interest expense of our CLOs and net investment gains (losses) of Consolidated Funds is attributable to the related funds' limited partners or CLO investors and therefore is allocated to non-controlling interests. Accordingly, such amounts have no material impact on net income attributable to the Partnership.

*Revenue of a Consolidated Real Estate VIE.* Revenue of a consolidated real estate VIE was \$14.0 million for the six months ended June 30, 2014. This balance reflects revenue earned for land development services of approximately \$9.8 million and investment income earned on Urbplan's investments of approximately \$4.2 million. The Partnership began consolidating Urbplan on September 30, 2013.

### *Expenses*

Expenses were \$2,141.6 million for the six months ended June 30, 2014, an increase of \$463.5 million from \$1,678.1 million for the six months ended June 30, 2013. The increase primarily is due to increases in total compensation and benefits, interest and other expenses of a consolidated real estate VIE, and interest and other expenses of consolidated funds, which increased \$250.6 million, \$91.2 million, and \$64.5 million, respectively.

Total compensation and benefits for the six months ended June 30, 2014 increased \$250.6 million, or 26%, from \$978.2 million for the six months ended June 30, 2013 to \$1,228.8 million for the six months ended June 30, 2014. The increase in total compensation and benefits reflects an increase in performance fee related compensation expense of \$172.7 million, an increase in base compensation expense of \$73.0 million, and an increase in equity-based compensation expense of \$4.9 million.

*Compensation and Benefits.* Base compensation and benefits increased \$73.0 million, or 21%, for the six months ended June 30, 2014 as compared to 2013, which primarily relates to increased headcount, promotions, and estimated bonuses, as well as \$13.8 million of increased expense associated with employment-related contingent consideration arrangements entered into in connection with acquisitions. Also, compensation associated with fundraising efforts increased from 2013 to 2014 due to on-going fundraising for several of our buyout and growth funds, our latest U.S. real estate fund, our international energy fund, and our business development companies. Additionally, the increase was due to incremental compensation from the addition of professionals associated with the Partnership's acquisitions of Metropolitan and DGAM in November 2013 and February 2014, respectively.

Equity-based compensation increased \$4.9 million for the six months ended June 30, 2014 as compared to 2013. The increase in equity-based compensation is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014. The increase was partially offset by lower expense in 2014 as compared to 2013 related to the expense recognized on vesting for the difference between the estimated forfeitures and actual forfeitures on Carlyle Holdings partnership units that vested during the period.

Performance fee related compensation expense increased \$172.7 million for the six months ended June 30, 2014 as compared to 2013. Performance fee related compensation as a percentage of performance fees was 53% and 50% for the six months ended June 30, 2014 and 2013, respectively. The increase in the percentage of performance fee related compensation expense from 2013 to 2014 was due primarily to increases in performance fees generated by our private equity fund of funds vehicles in 2014 as compared to 2013 (which have a higher percentage of performance fee related compensation as compared to other carry funds).

*General, Administrative and Other Expenses.* General, administrative and other expenses increased \$21.3 million for the six months ended June 30, 2014 as compared to 2013. This increase was driven primarily by an impairment loss during 2014 of \$24.6 million to reduce the carrying value of certain intangible assets to their estimated fair value, and negative variances related to foreign currency adjustments. These increases were partially offset by a \$7.0 million decrease in expense associated with external fundraising costs.

*Interest.* Interest expense for the six months ended June 30, 2014 was \$26.7 million, an increase of \$4.6 million from 2013. The increase was due primarily to the interest on \$400 million and \$200 million of 5.625% senior notes due 2043 issued in March 2013 and March 2014, respectively. The increase in interest expense from 2013 to 2014 was partially offset by \$1.9 million of expense recorded in 2013 related to deferred financing costs expensed upon the early extinguishment of debt.

*Interest and Other Expenses of Consolidated Funds.* Interest and other expenses of Consolidated Funds increased \$64.5 million for the six months ended June 30, 2014 as compared to 2013. This increase relates primarily to the six new CLOs formed throughout 2013 and the four new CLOs formed in 2014. The CLOs incur interest expense on their loans payable and incur other expenses consisting of trustee fees, rating agency fees and professional fees. Substantially all interest and other income of the CLOs and other consolidated funds together with interest expense of our CLOs and net investment gains (losses) of Consolidated Funds is attributable to the related funds' limited partners or CLO investors and therefore is allocated to non-controlling interests. Accordingly, such amounts have no material impact on net income attributable to the Partnership.

*Interest and Other Expenses of a Consolidated Real Estate VIE.* Interest and other expenses of a consolidated real estate VIE were \$91.2 million for the six months ended June 30, 2014. This balance reflects expenses incurred by Urbplan, consisting primarily of interest expense inclusive of the fair value adjustment on Urbplan loans (\$48.0 million), costs associated with land development services (\$16.5 million), general and administrative expenses (\$21.2 million), and compensation and benefits (\$5.5 million). The Partnership began consolidating Urbplan on September 30, 2013.

*Other Non-operating (Income) Expense.* Other non-operating expense of \$25.6 million for the six months ended June 30, 2014 compares to other non-operating income of \$5.7 million for the six months ended June 30, 2013. Included in this caption is the change in the fair value of contingent consideration associated with the Partnership's acquisitions. During the six months ended June 30, 2014, the overall estimated fair value of the contingent consideration associated with the Partnership's acquisitions increased; the overall increase was due primarily to updated assumptions in the probability-weighted discounted cash flow models used to estimate the fair value.

Generally, the contingent consideration associated with the Partnership's acquisitions is payable at future dates over a period of years. Because the estimated fair value of these obligations relies upon estimates of cash flows in those



future periods, there will be inherent volatility in the fair value of the Partnership's liability (and as a result, the periodic expense recognized) until such time as the future cash flow projections become more definitive.

However, if the financial performance of the acquisitions is consistent with, or exceeds, the Partnership's original financial forecast at acquisition, the Partnership expects that the fair value of the contingent consideration liabilities will increase over time (with a corresponding expense) as the actual performance measurement date for the payment approaches.

During 2013, one of the Partnership's acquisitions experienced deterioration in performance from its legacy investment strategies, which resulted in a decrease to the estimated fair value of the contingent consideration liability associated with that acquisition (resulting in other non-operating income to the Partnership in the six months ended June 30, 2013). This acquisition has subsequently developed new investment strategies which are expected to generate positive financial results and offset the performance of its legacy investment strategies. Accordingly, in 2014, the estimated fair value of the contingent consideration liability associated with that acquisition has increased (resulting in other non-operating expense to the Partnership in the six months ended June 30, 2014).

#### *Net Investment Gains of Consolidated Funds*

For the six months ended June 30, 2014, net investment gains of Consolidated Funds were \$869.0 million, as compared to gains of \$502.1 million for the six months ended June 30, 2013. This balance is predominantly driven by our consolidated AlpInvest fund of funds vehicles, CLOs, and hedge funds. For the consolidated CLOs, the amount reflects the net gain or loss on the fair value adjustment of both assets and liabilities. The components of net investment gains (losses) of consolidated funds for the respective periods are:

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Realized gains	\$ 946.2	\$ 694.5
Net change in unrealized gains	35.7	448.2
<b>Total gains</b>	<b>981.9</b>	<b>1,142.7</b>
Losses on liabilities of CLOs	(113.1)	(640.4)
Gains (losses) on other assets of CLOs	0.2	(0.2)
<b>Total</b>	<b>\$ 869.0</b>	<b>\$ 502.1</b>

The realized and unrealized investment gains/losses primarily include the appreciation/depreciation of the equity investments within the consolidated AlpInvest fund of funds vehicles, the appreciation/depreciation of CLO investments in loans and bonds, as well as the appreciation/depreciation of investments made by our consolidated hedge funds and other consolidated funds. The losses on the liabilities of the CLOs reflect the fair value adjustment on the debt of the CLOs. The net investment gains for the six months ended June 30, 2014 and 2013 were due primarily to net investment gains attributable to the consolidated AlpInvest fund of funds vehicles of \$877.7 million and \$661.9 million, respectively, net investment gains attributable to the consolidated hedge funds and other consolidated funds of \$122.4 million and \$271.0 million, respectively, and the net depreciation of CLOs of \$131.1 million and \$430.8 million, respectively.

#### *Net Income Attributable to Non-controlling Interests in Consolidated Entities*

Net income attributable to non-controlling interests in consolidated entities was \$694.2 million for the six months ended June 30, 2014 compared to \$468.0 million for the six months ended June 30, 2013. These amounts are primarily

attributable to the net earnings or losses of the Consolidated Funds for each period, which are substantially all allocated to the related funds' limited partners or CLO investors.

For the six months ended June 30, 2014, the net income of our Consolidated Funds was approximately \$707.8 million. This income was substantially due to the consolidated AlpInvest fund of funds vehicles, the consolidated hedge funds and the consolidated CLOs. The net income from the consolidated AlpInvest fund of funds vehicles and the consolidated hedge funds was approximately \$825.8 million and \$64.8 million, respectively, for the six months ended June 30, 2014. The net income was partially offset by net losses from the consolidated CLOs of \$174.8 million for the six months ended June 30, 2014. The CLOs' investments depreciated in value and the fair value of the CLOs' liabilities appreciated, thereby creating a net loss for this period.

The net income of our Consolidated Funds was approximately \$428.6 million for the six months ended June 30, 2013. This income was substantially due to the income from the consolidated AlpInvest fund of funds vehicles, our hedge funds, and the CLOs. The net income from the consolidated AlpInvest fund of funds vehicles and the hedge funds was approximately \$620.4 million and \$207.5 million, respectively, for the six months ended June 30, 2013. The net income was partially offset by net losses from the consolidated CLOs of \$391.6 million for the six months ended June 30, 2013.

*Net Income Attributable to The Carlyle Group L.P.*

The net income attributable to the Partnership was \$44.1 million and \$30.5 million for the six months ended June 30, 2014 and 2013, respectively. The Partnership is allocated a portion of the net income attributable to Carlyle Holdings based on the Partnership's ownership in Carlyle Holdings (which was approximately 21% and 15% as of June 30, 2014 and 2013, respectively). For the six months ended June 30, 2014 and 2013, the net income attributable to Carlyle Holdings was \$249.6 million and \$228.8 million, respectively. Additionally, the Partnership is allocated 100% of the net income or loss attributable to the Partnership's wholly-owned taxable subsidiaries, which was \$(3.3) million and \$(3.5) million for the six months ended June 30, 2014 and 2013, respectively.

**Non-GAAP Financial Measures**

The following table sets forth information in the format used by management when making resource deployment decisions and in assessing performance of our segments. These non-GAAP financial measures are presented for the three months and six months ended June 30, 2014 and 2013. The table below shows our total segment Economic Net Income which is the sum of Fee Related Earnings, Net Performance Fees, Investment Income and Equity-based compensation expense (excluding equity-based compensation grants issued in May 2012 upon the completion of the initial public offering or grants issued in acquisitions or strategic investments). This analysis excludes the effects of consolidated funds, acquisition-related items including amortization of acquired intangible assets and contingent consideration taking the form of earn-outs, charges associated with equity-based compensation grants issued in May 2012 upon completion of the initial public offering or grant issued in acquisitions or strategic investments, corporate actions and infrequently occurring or unusual events.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Segment Revenues				
Fund level fee revenues				
Fund management fees	\$ 317.8	\$ 249.9	\$ 605.6	\$ 490.0
Portfolio advisory fees, net	3.7	5.7	7.5	10.3
Transaction fees, net	29.5	6.8	32.7	17.2
Total fund level fee revenues	351.0	262.4	645.8	517.5
Performance fees				
Realized	410.8	192.6	660.2	441.5
Unrealized	138.3	42.1	494.0	384.8
Total performance fees	549.1	234.7	1,154.2	826.3
Investment income (loss)				
Realized	11.5	14.6	16.8	5.3
Unrealized	(16.2)	(7.7)	(29.4)	4.6
Total investment income (loss)	(4.7)	6.9	(12.6)	9.9
Interest and other income	4.7	4.0	9.2	6.4
Total revenues	900.1	508.0	1,796.6	1,360.1
Segment Expenses				
Compensation and benefits				
Direct base compensation	131.2	101.0	257.9	209.0
Indirect base compensation	47.2	35.0	93.3	68.6
Equity-based compensation	19.5	4.2	33.5	6.8
Performance fee related				
Realized	178.9	74.8	287.5	182.2
Unrealized	108.5	37.4	298.4	166.9
Total compensation and benefits	485.3	252.4	970.6	633.5
General, administrative, and other indirect expenses	77.0	82.0	148.7	144.3
Depreciation and amortization expense	5.6	6.2	11.0	12.5
Interest expense	14.5	11.6	26.7	20.1
Total expenses	582.4	352.2	1,157.0	810.4
Economic Net Income	\$ 317.7	\$ 155.8	\$ 639.6	\$ 549.7
(-) Net Performance Fees	261.7	122.5	568.3	477.2
(-) Investment Income (Loss)	(4.7)	6.9	(12.6)	9.9
(+) Equity-based Compensation	19.5	4.2	33.5	6.8
(=) Fee Related Earnings	\$ 80.2	\$ 30.6	\$ 117.4	\$ 69.4
(+) Realized Net Performance Fees	231.9	117.8	372.7	259.3

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(+) Realized Investment Income	11.5	14.6	16.8	5.3
<b>(=) Distributable Earnings</b>	<b>\$ 323.6</b>	<b>\$ 163.0</b>	<b>\$ 506.9</b>	<b>\$ 334.0</b>

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Income before provision for income taxes is the GAAP financial measure most comparable to economic net income, fee related earnings, and distributable earnings. The following table is a reconciliation of income before provision for income taxes to economic net income, to fee related earnings, and to distributable earnings.

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	2014	2013	2014	2013
(Dollars in millions)				
<b>Income before provision for income taxes</b>	\$ 541.2	\$ 285.9	\$ 1,013.6	\$ 738.3
Adjustments:				
Equity-based compensation issued in conjunction with the initial public offering, acquisitions, and strategic investments	91.0	123.1	153.4	175.2
Acquisition related charges and amortization of intangibles	62.0	52.5	142.1	115.0
Other non-operating expenses (income)	(4.6)	(3.3)	25.6	(5.7)
Net income attributable to non-controlling interests in consolidated entities	(369.7)	(300.0)	(694.2)	(468.0)
Other adjustments <sup>(1)</sup>	(2.2)	(2.4)	(0.9)	(5.1)
<b>Economic Net Income</b>	\$ 317.7	\$ 155.8	\$ 639.6	\$ 549.7
Net performance fees <sup>(2)</sup>	261.7	122.5	568.3	477.2
Investment income (loss) <sup>(2)</sup>	(4.7)	6.9	(12.6)	9.9
Equity-based compensation	19.5	4.2	33.5	6.8
<b>Fee Related Earnings</b>	\$ 80.2	\$ 30.6	\$ 117.4	\$ 69.4
Realized performance fees, net of related compensation	231.9	117.8	372.7	259.3
Investment income realized	11.5	14.6	16.8	5.3
<b>Distributable Earnings</b>	\$ 323.6	\$ 163.0	\$ 506.9	\$ 334.0

(1) Other adjustments were comprised of the following:

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	2014	2013	2014	2013
(Dollars in millions)				
Losses associated with debt refinancing activities	\$	\$	\$	\$ 1.9
Severance and lease terminations	1.6	3.5	2.3	4.0
Provision for income taxes attributable to non-controlling interests in consolidated entities	(0.8)	(5.7)	(1.8)	(11.7)
Other adjustments	(3.0)	(0.2)	(1.4)	0.7

\$ (2.2)	\$ (2.4)	\$ (0.9)	\$ (5.1)
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(2) See reconciliation to most directly comparable U.S. GAAP measure below:

<b>Three Months Ended June 30, 2014</b>			
	<b>Carlyle Consolidated</b>	<b>Adjustments(3)</b>	<b>Total Reportable Segments</b>
	<b>(Dollars in millions)</b>		
Performance fees			
Realized	\$ 415.6	\$ (4.8)	\$ 410.8
Unrealized	126.8	11.5	138.3
Total performance fees	542.4	6.7	549.1
Performance fee related compensation expense			
Realized	181.2	(2.3)	178.9
Unrealized	109.0	(0.5)	108.5
Total performance fee related compensation expense	290.2	(2.8)	287.4
Net performance fees			
Realized	234.4	(2.5)	231.9
Unrealized	17.8	12.0	29.8
Total net performance fees	\$ 252.2	\$ 9.5	\$ 261.7
Investment income (loss)			
Realized	\$ 29.9	\$ (18.4)	\$ 11.5
Unrealized	(6.2)	(10.0)	(16.2)
Total investment income (loss)	\$ 23.7	\$ (28.4)	\$ (4.7)

<b>Three Months Ended June 30, 2013</b>			
	<b>Carlyle Consolidated</b>	<b>Adjustments(3)</b>	<b>Total Reportable Segments</b>
	<b>(Dollars in millions)</b>		
Performance fees			
Realized	\$ 203.2	\$ (10.6)	\$ 192.6
Unrealized	55.9	(13.8)	42.1
Total performance fees	259.1	(24.4)	234.7
Performance fee related compensation expense			
Realized	78.1	(3.3)	74.8
Unrealized	66.0	(28.6)	37.4
	144.1	(31.9)	112.2

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Total performance fee related compensation  
expense

Net performance fees			
Realized	125.1	(7.3)	117.8
Unrealized	(10.1)	14.8	4.7

Total net performance fees	\$ 115.0	\$ 7.5	\$ 122.5
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Investment income (loss)

Realized	\$ 12.7	\$ 1.9	\$ 14.6
Unrealized	(1.7)	(6.0)	(7.7)

Total investment income (loss)	\$ 11.0	\$ (4.1)	\$ 6.9
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Six Months Ended June 30, 2014			
	Carlyle Consolidated	Adjustments(3)	Total Reportable Segments
	(Dollars in millions)		
Performance fees			
Realized	\$ 667.0	\$ (6.8)	\$ 660.2
Unrealized	495.9	(1.9)	494.0
Total performance fees	1,162.9	(8.7)	1,154.2
Performance fee related compensation expense			
Realized	289.9	(2.4)	287.5
Unrealized	330.6	(32.2)	298.4
Total performance fee related compensation expense	620.5	(34.6)	585.9
Net performance fees			
Realized	377.1	(4.4)	372.7
Unrealized	165.3	30.3	195.6
Total net performance fees	\$ 542.4	\$ 25.9	\$ 568.3
Investment income (loss)			
Realized	\$ 29.9	\$ (13.1)	\$ 16.8
Unrealized	(0.1)	(29.3)	(29.4)
Total investment income (loss)	\$ 29.8	\$ (42.4)	\$ (12.6)

Six Months Ended June 30, 2013			
	Carlyle Consolidated	Adjustments(3)	Total Reportable Segments
	(Dollars in millions)		
Performance fees			
Realized	\$ 456.0	\$ (14.5)	\$ 441.5
Unrealized	445.5	(60.7)	384.8
Total performance fees	901.5	(75.2)	826.3
Performance fee related compensation expense			
Realized	186.8	(4.6)	182.2
Unrealized	261.0	(94.1)	166.9
Total performance fee related compensation expense	447.8	(98.7)	349.1
Net performance fees			
Realized	269.2	(9.9)	259.3

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Unrealized	184.5		33.4	217.9
Total net performance fees	\$ 453.7	\$	23.5	\$ 477.2
Investment income (loss)				
Realized	\$ 8.5	\$	(3.2)	\$ 5.3
Unrealized	2.9		1.7	4.6
Total investment income (loss)	\$ 11.4	\$	(1.5)	\$ 9.9

- (3) Adjustments to performance fees and investment income relate to amounts earned from the Consolidated Funds, which were eliminated in the U.S. GAAP consolidation but were included in the Non-GAAP results, and amounts attributable to non-controlling interests in consolidated entities, which were excluded from the Non-GAAP results. Adjustments to investment income (loss) also include the reclassification of earnings for the investment in NGP Management to the appropriate operating captions for the Non-GAAP results, the exclusion of charges associated with the investment in NGP Management that are excluded from the Non-GAAP results and adjustments to reflect the Partnership's share of Urbplan net losses as investment losses for the Non-GAAP results. Adjustments are also included in these financial statement captions to reflect Carlyle's 55% economic interest in Claren Road, ESG and Vermillion and Carlyle's 60% economic interest in AlpInvest (for periods prior to August 1, 2013), in the Non-GAAP results.

Economic Net Income and Distributable Earnings for our reportable segments are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
<b>Economic Net Income (Loss)</b>				
Corporate Private Equity	\$ 207.7	\$ 106.4	\$ 466.1	\$ 345.6
Global Market Strategies	44.4	47.1	100.6	151.1
Real Assets	23.0	(10.6)	6.5	31.2
Solutions	42.6	12.9	66.4	21.8
<b>Economic Net Income (Loss)</b>	<b>\$ 317.7</b>	<b>\$ 155.8</b>	<b>\$ 639.6</b>	<b>\$ 549.7</b>
<b>Distributable Earnings</b>				
Corporate Private Equity	\$ 262.2	\$ 83.9	\$ 409.9	\$ 197.8
Global Market Strategies	22.4	46.2	44.7	87.4
Real Assets	26.1	25.2	28.1	37.2
Solutions	12.9	7.7	24.2	11.6
<b>Distributable Earnings</b>	<b>\$ 323.6</b>	<b>\$ 163.0</b>	<b>\$ 506.9</b>	<b>\$ 334.0</b>

### Segment Analysis

Discussed below is our ENI for our segments for the periods presented. Our segment information is reflected in the manner used by our senior management to make operating decisions, assess performance and allocate resources.

For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates our Consolidated Funds. As a result, segment revenues from management fees, performance fees and investment income are different than those presented on a consolidated U.S. GAAP basis because fund management fees recognized in certain segments are received from Consolidated Funds and are eliminated in consolidation when presented on a consolidated U.S. GAAP basis. Furthermore, segment expenses are different than related amounts presented on a consolidated U.S. GAAP basis due to the exclusion of fund expenses that are paid by the Consolidated Funds. Segment revenue and expenses are also different than those presented on a consolidated U.S. GAAP basis because we present our segment revenues and expenses related to Claren Road, ESG, and Vermillion based on our 55% economic interest in those entities. For periods prior to August 1, 2013 (the date we acquired the remaining 40% equity interest in AlpInvest), we present our segment revenues and expenses based on our historical ownership interest in AlpInvest of 60%. Also, ENI excludes expenses associated with equity-based compensation that was issued in our initial public offering or is issued in acquisitions and strategic investments.

**Corporate Private Equity**

The following table presents our results of operations for our Corporate Private Equity segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Segment Revenues				
Fund level fee revenues				
Fund management fees	\$ 147.2	\$ 108.8	\$ 277.0	\$ 217.1
Portfolio advisory fees, net	3.3	4.9	6.8	9.0
Transaction fees, net	29.4	4.0	32.6	14.4
Total fund level fee revenues	179.9	117.7	316.4	240.5
Performance fees				
Realized	387.7	151.4	622.4	363.7
Unrealized	(76.2)	31.2	136.7	238.8
Total performance fees	311.5	182.6	759.1	602.5
Investment income				
Realized	2.0	1.7	3.9	3.5
Unrealized	4.0	2.4	9.4	5.2
Total investment income	6.0	4.1	13.3	8.7
Interest and other income	1.8	1.7	4.0	2.7
Total revenues	499.2	306.1	1,092.8	854.4
Segment Expenses				
Compensation and benefits				
Direct base compensation	62.9	50.0	122.4	105.0
Indirect base compensation	25.5	21.8	47.5	41.8
Equity-based compensation	10.1	2.3	17.2	3.8
Performance fee related				
Realized	172.4	65.1	273.7	166.7
Unrealized	(27.8)	8.8	72.7	92.4
Total compensation and benefits	243.1	148.0	533.5	409.7
General, administrative, and other indirect expenses	37.7	41.6	73.1	80.6
Depreciation and amortization expense	2.7	3.4	5.4	6.9
Interest expense	8.0	6.7	14.7	11.6
Total expenses	291.5	199.7	626.7	508.8
Economic Net Income	\$ 207.7	\$ 106.4	\$ 466.1	\$ 345.6
(-) Net Performance Fees	166.9	108.7	412.7	343.4

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(-) Investment Income	6.0	4.1	13.3	8.7
(+) Equity-based Compensation	10.1	2.3	17.2	3.8
<b>(=) Fee Related Earnings</b>	<b>\$ 44.9</b>	<b>\$ (4.1)</b>	<b>\$ 57.3</b>	<b>\$ (2.7)</b>
(+) Realized Net Performance Fees	215.3	86.3	348.7	197.0
(+) Realized Investment Income	2.0	1.7	3.9	3.5
<b>(=) Distributable Earnings</b>	<b>\$ 262.2</b>	<b>\$ 83.9</b>	<b>\$ 409.9</b>	<b>\$ 197.8</b>

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***Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013***

Total fee revenues were \$179.9 million for the three months ended June 30, 2014, representing an increase of \$62.2 million, or 53%, from the three months ended June 30, 2013. This increase reflects a \$38.4 million increase in fund management fees and a \$25.4 million increase in net transaction fees. These increases were partially offset by a decrease in net portfolio advisory fees of \$1.6 million. The increase in fund management fees is partially due to \$17.9 million of catch-up management fees earned in the second quarter of 2014, primarily from subsequent closings of our fourth Asia buyout fund ( CAP IV ) and our second financial services buyout fund ( CGFSP II ). The weighted-average management fee rate on funds in the investment period decreased to 1.42% at June 30, 2014 from 1.44% at June 30, 2013. However, the total weighted-average management fee rate increased from 1.11% at June 30, 2013 to 1.18% at June 30, 2014. The increase in the total weighted-average management fee rate reflects new funds being raised with higher management fee rates. Fee-earning AUM as of June 30, 2014 increased by approximately 12% compared to June 30, 2013, primarily related to limited partner commitments raised by CP VI, CAP IV, our fourth Europe buyout fund ( CEP IV ), and CGFSP II. The increase in net transaction fees was primarily due to higher investment activity, primarily in our buyout funds, in 2014 as compared to 2013.

Interest and other income was \$1.8 million for the three months ended June 30, 2014, an increase from \$1.7 million for the three months ended June 30, 2013.

Total compensation and benefits was \$243.1 million and \$148.0 million for the three months ended June 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$144.6 million and \$73.9 million, or 46% and 40% of performance fees, for the three months ended June 30, 2014 and 2013, respectively.

Direct and indirect base compensation expense increased \$16.6 million for the three months ended June 30, 2014, or 23% more than the three months ended June 30, 2013. The increase is primarily due to incremental compensation costs related to increased headcount, promotions, and estimated bonuses.

Equity-based compensation was \$10.1 million for the three months ended June 30, 2014, an increase from \$2.3 million for the three months ended June 30, 2013. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014 and, to a lesser extent, a decrease in the estimated forfeiture rates during the second quarter of 2013.

General, administrative and other indirect expenses decreased \$3.9 million for the three months ended June 30, 2014 as compared to 2013. The decrease is primarily due to lower professional fees of approximately \$3.1 million and lower external costs associated with fundraising activities in the second quarter of 2014 as compared to 2013.

Depreciation and amortization expense was \$2.7 million for the three months ended June 30, 2014, a decrease from \$3.4 million in 2013.

Interest expense increased \$1.3 million, or 19%, for the three months ended June 30, 2014 as compared to 2013. The increase was due primarily to the interest on \$200 million of 5.625% senior notes due 2043 issued in March 2014.

*Economic Net Income.* ENI was \$207.7 million for the three months ended June 30, 2014, reflecting a 95% increase as compared to ENI of \$106.4 million for the three months ended June 30, 2013. The increase in ENI in the second quarter of 2014 was due to an increase in net performance fees of \$58.2 million, a \$49.0 million increase in fee related earnings, and an increase in investment income of \$1.9 million. These increases were partially offset by an increase in equity-based compensation of \$7.8 million.

*Fee Related Earnings.* Fee related earnings were \$44.9 million for the three months ended June 30, 2014, as compared to \$(4.1) million for the three months ended June 30, 2013, representing an increase of \$49.0 million. The increase in



fee related earnings is primarily attributable to an increase in fee revenues of \$62.2 million and a decrease in general, administrative and other indirect expenses of \$3.9 million. These increases in fee related earnings were partially offset by an increase in direct and indirect base compensation of \$16.6 million.

**Performance Fees.** Performance fees increased \$128.9 million for the three months ended June 30, 2014 as compared to 2013. Performance fees of \$311.5 million and \$182.6 million are inclusive of performance fees reversed of approximately \$59.3 million and \$37.3 million during the three months ended June 30, 2014 and 2013, respectively. Performance fees for this segment by type of fund are as follows:

	<b>Three Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Buyout funds	\$ 257.1	\$ 184.2
Growth Capital funds	54.4	(1.6)
Performance fees	\$ 311.5	\$ 182.6

The \$311.5 million in performance fees for the three months ended June 30, 2014 was driven primarily by performance fees for CEP III, CP V, and our second Asia buyout fund ( CAP II ) of \$176.8 million, \$90.2 million and \$(49.5) million, respectively. The second quarter 2014 and 2013 appreciation in the remaining value of assets for funds in this segment was approximately 5% for each period. Comparatively, the \$182.6 million in performance fees for the three months ended June 30, 2013 was driven primarily by performance fees for CP V, CP IV, and CAP II, of \$182.8 million, \$26.1 million and \$(17.0) million, respectively.

During the three months ended June 30, 2014, net performance fees were \$166.9 million or 54% of performance fees and \$58.2 million more than the net performance fees in the second quarter of 2013.

**Investment Income.** Investment income for the three months ended June 30, 2014 was \$6.0 million compared to \$4.1 million in the second quarter of 2013. The increase in investment income from 2013 to 2014 relates primarily to increased investment gains on investments in certain U.S. growth capital and Europe buyout funds.

**Distributable Earnings.** Distributable earnings increased \$178.3 million for the three months ended June 30, 2014 to \$262.2 million from \$83.9 million for the same period in 2013. This increase primarily reflects an increase in realized net performance fees of \$129.0 million and an increase in fee related earnings of \$49.0 million.

#### ***Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013***

Total fee revenues were \$316.4 million for the six months ended June 30, 2014, representing an increase of \$75.9 million, or 32%, from the six months ended June 30, 2013. This increase reflects a \$59.9 million increase in fund management fees and a \$18.2 million increase in net transaction fees. These increases were partially offset by a decrease in net portfolio advisory fees of \$2.2 million. The increase in fund management fees is partially due to \$23.5 million of catch-up management fees earned in 2014, primarily from subsequent closings of CAP IV and CGFSP II. The weighted-average management fee rate on funds in the investment period decreased to 1.42% at June 30, 2014 from 1.44% at June 30, 2013. However, the total weighted-average management fee rate increased from 1.11% at June 30, 2013 to 1.18% at June 30, 2014. The increase in the total weighted-average management fee rate reflects new funds being raised with higher management fee rates. Fee-earning AUM as of June 30, 2014 increased by approximately 12% compared to June 30, 2013, primarily related to limited partner commitments raised by CP VI, CAP IV, CEP IV, and CGFSP II. The increase in net transaction fees was primarily due to higher investment activity, primarily in our buyout funds, in 2014 as compared to 2013.

Interest and other income was \$4.0 million for the six months ended June 30, 2014, an increase from \$2.7 million for the six months ended June 30, 2013.

Total compensation and benefits was \$533.5 million and \$409.7 million for the six months ended June 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$346.4 million and \$259.1 million, or 46% and 43% of performance fees, for the six months ended June 30, 2014 and 2013, respectively.

Direct and indirect base compensation expense increased \$23.1 million for the six months ended June 30, 2014, or 16% more than the six months ended June 30, 2013. The increase is primarily due to incremental compensation costs related to increased headcount, promotions, estimated bonuses, and increased compensation associated with fundraising efforts for several of our buyout and growth funds.

Equity-based compensation was \$17.2 million for the six months ended June 30, 2014, an increase from \$3.8 million for the six months ended June 30, 2013. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014 and, to a lesser extent, a decrease in the estimated forfeiture rates during the second quarter of 2013.

General, administrative and other indirect expenses decreased \$7.5 million for the six months ended June 30, 2014 as compared to 2013. The decrease is primarily due to lower professional fees of approximately \$3.8 million and lower external costs associated with fundraising activities in 2014 as compared to 2013.

Depreciation and amortization expense was \$5.4 million for the six months ended June 30, 2014, a decrease from \$6.9 million in 2013.

Interest expense increased \$3.1 million, or 27%, for the six months ended June 30, 2014 as compared to 2013. The increase was due primarily to the interest on \$400 million and \$200 million of 5.625% senior notes due 2043 issued in March 2013 and March 2014, respectively.

*Economic Net Income.* ENI was \$466.1 million for the six months ended June 30, 2014, reflecting a 35% increase as compared to ENI of \$345.6 million for the six months ended June 30, 2013. The increase in ENI for the six months ended June 30, 2014 was due to an increase in net performance fees of \$69.3 million, a \$60.0 million increase in fee related earnings, and an increase in investment income of \$4.6 million. These increases were partially offset by an increase in equity-based compensation of \$13.4 million.

*Fee Related Earnings.* Fee related earnings were \$57.3 million for the six months ended June 30, 2014, as compared to \$(2.7) million for the six months ended June 30, 2013, representing an increase of \$60.0 million. The increase in fee related earnings is primarily attributable to an increase in fee revenues of \$75.9 million and a decrease in general, administrative and other indirect expenses of \$7.5 million. These increases in fee related earnings were partially offset by an increase in direct and indirect base compensation of \$23.1 million.

*Performance Fees.* Performance fees increased \$156.6 million for the six months ended June 30, 2014 as compared to 2013. Performance fees of \$759.1 million and \$602.5 million are inclusive of performance fees reversed of approximately \$103.4 million and \$4.4 million during the six months ended June 30, 2014 and 2013, respectively. Performance fees for this segment by type of fund are as follows:

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Buyout funds	\$ 708.4	\$ 598.0
Growth Capital funds	50.7	4.5
Performance fees	\$ 759.1	\$ 602.5

The \$759.1 million in performance fees for the six months ended June 30, 2014 was driven primarily by performance fees for CEP III, CP V, CP IV, and CAP II of \$339.3 million, \$336.8 million, \$52.8 million, and \$(80.7) million,

respectively. The total year-to-date 2014 and 2013 appreciation in the remaining value of assets for funds in this segment was approximately 13% and 14%, respectively. Comparatively, the \$602.5 million in performance fees for the six months ended June 30, 2013 was driven primarily by performance fees for CP V, CP IV, and CAP II of \$340.5 million, \$197.7 million and \$13.0 million, respectively.

During the six months ended June 30, 2014, net performance fees were \$412.7 million or 54% of performance fees and \$69.3 million more than the net performance fees in the six months ended June 30, 2013.

**Investment Income.** Investment income for the six months ended June 30, 2014 was \$13.3 million compared to \$8.7 million in the six months ended June 30, 2013. The increase in investment income from 2013 to 2014 relates primarily to increased investment gains on investments in certain U.S. and Europe buyout funds.

**Distributable Earnings.** Distributable earnings increased \$212.1 million for the six months ended June 30, 2014 to \$409.9 million from \$197.8 million for the same period in 2013. This increase primarily reflects an increase in realized net performance fees of \$151.7 million and an increase in fee related earnings of \$60.0 million.

***Fee-earning AUM as of and for the Three and Six Months Ended June 30, 2014 and 2013***

Fee-earning AUM is presented below for each period together with the components of change during each respective period.

The table below breaks out Fee-earning AUM by its respective components at each period.

	As of June 30,	
	2014	2013
Corporate Private Equity	(Dollars in millions)	
Components of Fee-earning AUM (1)		
Fee-earning AUM based on capital commitments	\$ 20,785	\$ 13,682
Fee-earning AUM based on invested capital	20,778	24,825
Fee-earning AUM based on lower of cost or fair value	1,478	
Total Fee-earning AUM	\$ 43,041	\$ 38,507
Weighted Average Management Fee Rates (2)		
All Funds	1.18%	1.11%
Funds in Investment Period	1.42%	1.44%

(1) For additional information concerning the components of Fee-earning AUM, see Fee-earning Assets under Management.

(2) Represents the aggregate effective management fee rate of each fund in the segment, weighted by each fund's Fee-earning AUM, as of the end of each period presented.

The table below provides the period to period rollforward of Fee-earning AUM.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Corporate Private Equity	(Dollars in millions)		(Dollars in millions)	
Fee-earning AUM Rollforward				
Balance, Beginning of Period	\$ 42,858	\$ 33,195	\$ 43,033	\$ 33,840
Inflows, including Commitments (1)	2,157	10,170	2,854	10,623
Outflows, including Distributions (2)	(2,009)	(4,255)	(2,895)	(5,052)
Market Appreciation/(Depreciation) (3)	44		44	

Foreign Exchange and other (4)	(9)	(603)	5	(904)
<b>Balance, End of Period</b>	<b>\$ 43,041</b>	<b>\$ 38,507</b>	<b>\$ 43,041</b>	<b>\$ 38,507</b>

- (1) Inflows represent limited partner capital raised and capital invested by carry funds outside the investment period.
- (2) Outflows represent distributions from funds outside the investment period and changes in basis for our carry funds where the investment period has expired.
- (3) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments in our carry funds based on the lower of cost or fair value.
- (4) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of period end.

Fee-earning AUM was \$43.0 billion at June 30, 2014, an increase of \$0.1 billion, or less than 1%, compared to \$42.9 billion at March 31, 2014. Inflows of \$2.2 billion were primarily a result of limited partner commitments raised by CAP IV, CEP IV, and CGFSP II. This was offset by outflows of \$2.0 billion, which includes

the corresponding change in basis for our latest Asia growth fund ( CAGP IV ), in addition to the impact of distributions in several funds outside of the investment period. Investment and distribution activity by funds still in the investment period does not impact Fee-earning AUM as these funds are based on commitments. Changes in fair value have no material impact on Fee-earning AUM for Corporate Private Equity as substantially all of the funds generate management fees based on either commitments or invested capital at cost, neither of which is impacted by fair value movements.

Fee-earning AUM was \$43.0 billion at both June 30, 2014 and December 31, 2013. Inflows of \$2.9 billion were primarily a result of limited partner commitments raised by CEP IV, CAP IV and CGFSP II. This was offset by outflows of \$2.9 billion, which includes the corresponding change in basis for CAGP IV, in addition to distributions in funds outside the investment period.

Fee-earning AUM was \$43.0 billion at June 30, 2014, an increase of \$4.5 billion, or approximately 12%, compared to \$38.5 billion at June 30, 2013. This increase reflects \$9.5 billion in new limited partner commitments raised by CP VI, CEP IV, CAP IV and CGFSP II and investments in funds outside of their original investment period. This increase is offset by \$5.3 billion of distributions in various funds outside of their original investment period, in addition to the expiration of the investment periods for CAGP IV and our Middle-East buyout fund ( MENA ).

Fee-earning AUM was \$38.5 billion at June 30, 2013, an increase of \$5.3 billion, or 16%, compared to \$33.2 billion at March 31, 2013. Inflows of \$10.2 billion were primarily a result of limited partner commitments raised by CP VI, CAP IV, and CGFSP II. This was offset by outflows of \$4.3 billion, which includes the corresponding change in basis for CP V, our third Asia buyout fund ( CAP III ) and our first financial services buyout fund ( CGFSP I ), in addition to the impact of distributions in funds outside of the investment period, and a \$0.6 billion foreign exchange loss.

Fee-earning AUM was \$38.5 billion at June 30, 2013, an increase of \$4.7 billion, or approximately 14%, compared to \$33.8 billion at December 31, 2012. Inflows of \$10.6 billion were primarily a result of limited partner commitments raised by CP VI, CAP IV and CGFSP II. This was offset by outflows of \$5.1 billion, which includes the corresponding change in basis for CP V, CAP III and CGFSP I, in addition to distributions in funds outside the investment period and a \$0.9 billion foreign exchange loss.

***Total AUM as of and for the Three and Six Months Ended June 30, 2014***

The table below provides the period to period rollforwards of Available Capital and Fair Value of Capital, and the resulting rollforward of Total AUM.

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	Fair Value			Fair Value		
	Available Capital	of Capital	Total AUM	Available Capital	of Capital	Total AUM
	(Dollars in millions)			(Dollars in millions)		
<b>Corporate Private Equity</b>						
Balance, Beginning of Period	\$ 23,909	\$ 40,551	\$ 64,460	\$ 24,743	\$ 40,122	\$ 64,865
Commitments (1)	2,732		2,732	2,646		2,646
Capital Called, net (2)	(3,501)	3,312	(189)	(4,387)	4,065	(322)
Distributions (3)	193	(4,944)	(4,751)	323	(8,141)	(7,818)
Market Appreciation/(Depreciation) (4)		2,260	2,260		5,104	5,104
Foreign Exchange and other (5)	(49)	19	(30)	(41)	48	7



<b>Balance, End of Period</b>	<b>\$ 23,284</b>	<b>\$ 41,198</b>	<b>\$ 64,482</b>	<b>\$ 23,284</b>	<b>\$ 41,198</b>	<b>\$ 64,482</b>
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- (1) Represents capital raised by our carry funds, net of expired available capital.
- (2) Represents capital called by our carry funds, net of fund fees and expenses. Equity invested amounts may vary from capital called due to timing differences between acquisition and capital call dates.
- (3) Represents distributions from our carry funds, net of amounts recycled. Distributions are based on when proceeds are actually distributed to investors, which may differ from when they are realized.
- (4) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments.
- (5) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Total AUM was \$64.5 billion at June 30, 2014, which was not materially different than total AUM as of March 31, 2014. This was primarily driven by \$2.7 billion in new commitments for several funds and co-investment vehicles, including CEP IV, CAP IV, and the first close of our third Europe technology fund ( CETP III ), and market appreciation of \$2.3 billion. Our portfolio experienced a 5% increase in value over the period, due to a 5% increase across our buyout funds, and a 13% increase across our growth capital funds. The 5% increase in our buyout funds was primarily driven by appreciation in CEP III and our second Europe buyout fund ( CEP II ). These increases were offset by net distributions of \$4.8 billion.

Total AUM was \$64.5 billion at June 30, 2014, a decrease of \$0.4 billion, or less than 1%, compared to \$64.9 at December 31, 2013. This decrease was primarily driven by distributions of \$8.1 billion, of which \$0.3 billion was recycled back into available commitments. This decrease was offset by new commitments of \$2.6 billion for several funds and co-investment vehicles, including CP VI and CAP IV, as well as \$5.1 billion of market appreciation across our portfolio, which experienced a 13% increase in value over the period, due to a 13% increase across our buyout funds, and a 14% increase across our growth capital funds. The 13% increase in our buyout funds was primarily driven by appreciation in CEP III, CEP II, and CP V.

### ***Fund Performance Metrics***

Fund performance information for our investment funds that have at least \$1.0 billion in capital commitments, cumulative equity invested or total value as of June 30, 2014, which we refer to as our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund return information reflected in this discussion and analysis is not indicative of the performance of The Carlyle Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Carlyle Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following tables reflect the performance of our significant funds in our Corporate Private Equity business. Please see Our Family of Funds for a legend of the fund acronyms listed below.

								REALIZED/PARTIALLY REALIZED INVESTMENTS(5) as of June 30, 2014		
TOTAL INVESTMENTS as of June 30, 2014										
Fund Inception Date(1)	Committed Capital  (Reported in Local Currency, in Millions)	Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)	Gross IRR(7)	Net IRR(8)	Cumulative Invested Capital(2)  (Reported in Local Currency, in Millions)	Total Fair Value(3)	MOIC(4)	
Corporate Private Equity Invested Funds(6)										
	10/1994	\$ 1,331.1	\$ 1,362.4	\$ 4,072.2	3.0x	34%	25%	\$ 1,362.4	\$ 4,072.2	3.0x
	2/2000	\$ 3,912.7	\$ 4,031.6	\$ 10,146.9	2.5x	27%	21%	\$ 4,031.6	\$ 10,146.9	2.5x
	12/2004	\$ 7,850.0	\$ 7,612.6	\$ 17,721.9	2.3x	16%	13%	\$ 6,079.0	\$ 16,297.2	2.7x
	5/2007	\$ 13,719.7	\$ 12,738.9	\$ 22,780.7	1.8x	19%	14%	\$ 4,440.9	\$ 10,796.8	2.4x
	12/1997	1,003.6	981.6	2,126.5	2.2x	18%	11%	981.6	2,126.5	2.2x
	9/2003	1,805.4	2,048.6	4,008.5	2.0x	37%	21%	1,329.1	3,350.6	2.5x
	12/2006	5,294.9	4,984.6	8,665.4	1.7x	17%	12%	1,862.5	4,635.3	2.5x
	12/1998	\$ 750.0	\$ 627.7	\$ 2,491.8	4.0x	25%	18%	\$ 627.7	\$ 2,491.8	4.0x
	2/2006	\$ 1,810.0	\$ 1,631.9	\$ 2,790.2	1.7x	11%	8%	\$ 720.0	\$ 2,133.1	3.0x
	5/2008	\$ 2,551.6	\$ 2,406.1	\$ 3,581.0	1.5x	17%	10%	\$ 765.4	\$ 1,554.0	2.0x
	10/2001	¥ 50,000.0	¥ 47,291.4	¥ 136,106.5	2.9x	61%	37%	¥ 39,756.6	¥ 131,454.6	3.3x
	7/2006	¥ 165,600.0	¥ 141,866.7	¥ 162,277.6	1.1x	3%	(1%)	¥ 31,806.1	¥ 57,552.8	1.8x
II	9/2008	\$ 1,100.2	\$ 1,038.0	\$ 1,665.3	1.6x	18%	11%	\$ 218.1	\$ 529.8	2.4x
I	2/2007	521.6	431.5	865.8	2.0x	25%	15%	91.1	354.2	3.9x
er Funds(9)	Various		\$ 3,834.2	\$ 5,918.6	1.5x	17%	7%	\$ 2,784.0	\$ 4,716.8	1.7x
Investments and (10)	Various		\$ 8,061.7	\$ 19,706.0	2.4x	36%	33%	\$ 5,211.3	\$ 15,780.8	3.0x
Fully Invested Funds			\$ 56,775.0	\$ 115,266.5	2.0x	26%	19%	\$ 32,784.3	\$ 84,713.6	2.6x
Funds in the Investment Period(6)										
(12)	5/2012	\$ 13,000.0	\$ 2,459.7	\$ 2,369.1	1.0x	n/m	n/m			
(12)	11/2012	\$ 2,130.5	\$ 284.0	\$ 272.3	1.0x	n/m	n/m			
V	6/2008	\$ 1,041.4	\$ 771.6	\$ 1,092.4	1.4x	16%	8%			
	5/2011	\$ 1,119.1	\$ 601.2	\$ 813.8	1.4x	28%	16%			
II (12)	4/2013	\$ 1,000.0	\$ 80.4	\$ 92.0	1.1x	n/m	n/m			
er Funds(11)	Various		\$ 590.6	\$ 591.7	1.0x	(4%)	(17%)			
Funds in the Investment Period			\$ 4,787.5	\$ 5,231.2	1.1x	10%	(5%)	\$ 196.4	\$ 490.0	2.5x
CORPORATE PRIVATE										
Funds(13)			\$ 61,562.5	\$ 120,497.8	2.0x	26%	19%	\$ 32,980.7	\$ 85,203.6	2.6x

(1)

The data presented herein that provides inception to date performance results of our segments relates to the period following the formation of the first fund within each segment. For our Corporate Private Equity segment our first fund was formed in 1990.

- (2) Represents the original cost of all capital called for investments since inception of the fund.
- (3) Represents all realized proceeds combined with remaining fair value, before management fees, expenses and carried interest.
- (4) Multiple of invested capital ( MOIC ) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.
- (5) An investment is considered realized when the investment fund has completely exited, and ceases to own an interest in, the investment. An investment is considered partially realized when the total amount of proceeds received in respect of such investment, including dividends, interest or other distributions and/or return of capital, represents at least 85% of invested capital and such investment is not yet fully realized. Because part of our value creation strategy involves pursuing best exit alternatives, we believe information regarding Realized/Partially Realized MOIC and Gross IRR, when considered together with the other investment performance metrics presented, provides investors with meaningful information regarding our investment performance by removing the impact of investments where significant realization activity has not yet occurred. Realized/Partially Realized MOIC and Gross IRR have limitations as measures of investment performance, and should not be considered in isolation. Such limitations include the fact that these measures do not include the performance of earlier stage and other investments that do not satisfy the criteria provided above. The exclusion of such investments will have a positive impact on Realized/Partially Realized MOIC and Gross IRR in instances when the MOIC and Gross IRR in respect of such investments are less than the aggregate MOIC and Gross IRR. Our measurements of Realized/Partially Realized MOIC and Gross IRR may not be comparable to those of other companies that use similarly titled measures. We do not present Realized/Partially Realized performance information separately for funds that are still in the investment period because of the relatively insignificant level of realizations for funds of this type. However, to the extent such funds have had realizations, they are included in the Realized/Partially Realized performance information presented for Total Corporate Private Equity.
- (6) Fully Invested funds are past the expiration date of the investment period as defined in the respective limited partnership agreement. In instances where a successor fund has had its first capital call, the predecessor fund is categorized as fully invested.
- (7) Gross Internal Rate of Return ( Gross IRR ) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.
- (8) Net Internal Rate of Return ( Net IRR ) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.
- (9) Aggregate includes the following funds: CP I, CMG, CVP I, CVP II, CUSGF III, CEVP, CETP I, CAVP I, CAVP II, CAGP III, Mexico, and MENA.
- (10) Includes co-investments and certain other stand-alone investments arranged by us.
- (11) Aggregate includes the following funds: CJP III, CSABF, CSSAF, CBPF, CPF I, and CCI.
- (12) Returns are not considered meaningful, as the investment period commenced in May 2012 for CP VI, November 2012 for CAP IV, and April 2013 for CGFSP II.
- (13) For purposes of aggregation, funds that report in foreign currency have been converted to U.S. dollars at the reporting period spot rate.

	Remaining Fair Value (1)	Unrealized MOIC (2)	Total MOIC (3)	% Invested (4)	In Accrued Carry/ (Clawback) (5)	LTM Realized Carry (6)	Catch up Rate (6)	Fee Initiation Date (7)	Quarters Since Investment Fee Initiation Date	Original Investment Period End Date
As of June 30, 2014										
<b>Corporate</b>										
<b>Private</b>										
<b>Equity</b>										
(Reported in Local Currency, in Millions)										
CP V	\$ 13,846.4	1.8x	1.8x	93%	Ö	Ö	100%	Nov-07	27	May-13
CEP III	4,832.9	1.7x	1.7x	94%	Ö	Ö	100%	Dec-07	27	Dec-12
CP IV	\$ 2,526.5	1.4x	2.3x	97%	Ö	Ö	80%	Dec-05	35	Dec-10
CP VI	\$ 2,466.3	1.0x	1.0x	19%			100%	Oct-13	3	May-18
CAP III	\$ 2,184.0	1.3x	1.5x	94%	Ö		100%	Dec-08	23	May-14
CAP II	\$ 1,101.0	1.1x	1.7x	90%	(Ö)		80%	Dec-06	31	Feb-12
CJP II	¥98,020.2	0.9x	1.1x	86%			80%	Oct-06	31	Jul-12
CGFSP I	\$ 963.2	1.3x	1.6x	94%	Ö	Ö	100%	Oct-08	23	Sep-14
CEP II	679.9	1.0x	2.0x	113%	Ö		80%	Sep-03	44	Sep-08
CEOF I	\$ 886.1	1.4x	1.4x	54%	Ö		80%	Dec-11	11	May-17
CAGP IV	\$ 802.3	1.2x	1.4x	74%			100%	Dec-08	23	Jun-14
CETP II	501.8	1.5x	2.0x	83%	Ö	Ö	100%	Jan-08	26	Jul-13
CAP IV	\$ 302.7	1.0x	1.0x	9%			100%	Dec-13	3	Nov-18
CGFSP II	\$ 104.8	1.2x	1.1x	8%			100%	Dec-13	3	Dec-17
<b>All Other</b>										
Funds (8)	\$ 2,234.8	1.2x	2.2x		n/m	n/m				
<b>Coinvestment</b>										
and Other (9)	\$ 4,564.3	1.7x	2.4x		n/m	n/m				
<b>Total</b>										
<b>Corporate</b>										
<b>Private</b>										
<b>Equity (10)</b>	<b>\$ 41,183.7</b>	<b>1.5x</b>	<b>2.0x</b>							

- (1) Net asset value of our carry funds. Reflects significant funds with remaining fair value of greater than \$100 million.
- (2) Unrealized multiple of invested capital ( MOIC ) represents remaining fair market value, before management fees, expenses and carried interest, divided by investment cost.
- (3) Total MOIC represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital
- (4) Represents cumulative equity invested as of the reporting period divided by total commitments. Amount can be greater than 100% due to the re-investment of recallable distributions to fund investors.
- (5) Fund has accrued carry/(clawback) as of the reporting period.
- (6) Fund has realized carry in the last twelve months.
- (7) Represents the date of the first capital contribution for management fees.
- (8) Aggregate includes the following funds: CMG, CP I, CP II, CP III, CEP I, CAP I, CAP IV, CBPF, CJP I, CJP III, CEVP, CETP I, CCI, CAVP I, CAVP II, CAGP III, Mexico, MENA, CSABF, CSSAF, CPF, CVP I, CVP II, and CUSGF III. In Accrued Carry/(Clawback) and LTM Realized Carry not indicated because the indicator does not apply to each fund within the aggregate.
- (9)

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Includes co-investments, prefund investments and certain other stand-alone investments arranged by us. In Accrued Carry/(Clawback) and LTM Realized Carry not indicated because the indicator does not apply to each fund within the aggregate.

- (10) For purposes of aggregation, funds that report in foreign currency have been converted to U.S. dollars at the reporting period spot rate.

**Global Market Strategies**

For purposes of presenting our results of operations for this segment, we include only our 55% economic interest in the results of operations of Claren Road, ESG and Vermillion. The following table presents our results of operations for our Global Market Strategies segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Segment Revenues				
Fund level fee revenues				
Fund management fees	\$ 64.1	\$ 73.8	\$ 127.3	\$ 140.1
Portfolio advisory fees, net	0.1	0.5	0.2	0.7
Transaction fees, net		0.1		0.1
Total fund level fee revenues	64.2	74.4	127.5	140.9
Performance fees				
Realized	6.7	17.9	15.0	42.0
Unrealized	45.6	23.0	95.1	87.3
Total performance fees	52.3	40.9	110.1	129.3
Investment income (loss)				
Realized	1.4	12.2	2.7	14.1
Unrealized	1.2	(11.9)	3.1	(6.8)
Total investment income (loss)	2.6	0.3	5.8	7.3
Interest and other income	1.5	1.5	2.8	2.6
Total revenues	120.6	117.1	246.2	280.1
Segment Expenses				
Compensation and benefits				
Direct base compensation	26.3	24.9	53.8	50.6
Indirect base compensation	6.0	5.5	12.0	10.3
Equity-based compensation	3.2	0.6	5.9	1.0
Performance fee related				
Realized	2.5	6.7	6.3	16.4
Unrealized	21.6	9.6	36.4	15.8
Total compensation and benefits	59.6	47.3	114.4	94.1
General, administrative, and other indirect expenses	13.0	19.5	24.6	29.0
Depreciation and amortization expense	1.0	1.1	1.9	2.3
Interest expense	2.6	2.1	4.7	3.6
Total expenses	76.2	70.0	145.6	129.0

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<b>Economic Net Income</b>	<b>\$ 44.4</b>	<b>\$ 47.1</b>	<b>\$ 100.6</b>	<b>\$ 151.1</b>
(-) Net Performance Fees	28.2	24.6	67.4	97.1
(-) Investment Income	2.6	0.3	5.8	7.3
(+) Equity-based Compensation	3.2	0.6	5.9	1.0
<b>(=) Fee Related Earnings</b>	<b>\$ 16.8</b>	<b>\$ 22.8</b>	<b>\$ 33.3</b>	<b>\$ 47.7</b>
(+) Realized Net Performance Fees	4.2	11.2	8.7	25.6
(+) Realized Investment Income	1.4	12.2	2.7	14.1
<b>(=) Distributable Earnings</b>	<b>\$ 22.4</b>	<b>\$ 46.2</b>	<b>\$ 44.7</b>	<b>\$ 87.4</b>



***Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013***

Total fee revenues were \$64.2 million for the three months ended June 30, 2014, a decrease of \$10.2 million from 2013. The decrease was due primarily to the absence in 2014 of approximately \$8.8 million of catch-up management fees earned from a subsequent closing of our latest distressed and corporate opportunities fund ( CSP III ) during the three months ended June 30, 2013. The weighted average management fee rate on our hedge funds decreased from 1.83% to 1.74% compared to the prior year period due to higher assets under management in the ESG hedge funds, which charge a lower rate, and decreases in AUM in the Vermillion hedge funds. The weighted average management fee rate on our carry funds decreased from 1.52% to 1.46% due to a step down in fee basis from commitments to invested capital on our second corporate mezzanine fund ( CMP II ).

Interest and other income was \$1.5 million for each of the three months ended June 30, 2014 and June 30, 2013.

Total compensation and benefits was \$59.6 million and \$47.3 million for the three months ended June 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$24.1 million and \$16.3 million for the three months ended June 30, 2014 and 2013, respectively. With respect to Claren Road, ESG and Vermillion, where we only include our 55% economic interest in our Non-GAAP results, performance fee related compensation expense can vary as a percentage of performance fees based upon a variety of factors, including absolute and relative performance to comparable peers. As a result, the percentage of performance fee related compensation expense to performance fees is generally not a comparable measurement for Global Market Strategies from period to period.

Direct and indirect base compensation increased \$1.9 million for the three months ended June 30, 2014 as compared to 2013, which primarily relates to incremental compensation costs related to increased headcount, promotions, and estimated bonuses.

Equity-based compensation was \$3.2 million for the three months ended June 30, 2014, an increase of \$2.6 million from \$0.6 million for the three months ended June 30, 2013. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014 and, to a lesser extent, a decrease in the estimated forfeiture rates during the second quarter of 2013.

General, administrative and other indirect expenses decreased \$6.5 million to \$13.0 million for the three months ended June 30, 2014 as compared to 2013. The decrease is primarily due to lower external costs associated with fundraising activities for the second quarter of 2014 as compared to 2013.

Depreciation and amortization expense was \$1.0 million for the three months ended June 30, 2014, a decrease from \$1.1 million in 2013.

Interest expense increased \$0.5 million, or 24%, for the three months ended June 30, 2014 as compared to 2013. The increase was due primarily to the interest on \$200 million of 5.625% senior notes due 2043 issued in March 2014.

*Economic Net Income.* ENI was \$44.4 million for the three months ended June 30, 2014, a decrease of \$2.7 million from \$47.1 million for the three months ended June 30, 2013. The decrease in ENI for the three months ended June 30, 2014 as compared to 2013 was primarily driven by a decrease in fee related earnings of \$6.0 million and an increase in equity-based compensation of \$2.6 million. These decreases were partially offset by increases in net performance fees of \$3.6 million and investment income of \$2.3 million.

*Fee Related Earnings.* Fee related earnings decreased \$6.0 million to \$16.8 million for the three months ended June 30, 2014 as compared to 2013. The decrease was primarily due to decreases in fee revenues of \$10.2 million and an increase in base compensation of \$1.9 million. These decreases were partially offset by a decrease in general, administrative and other indirect expenses of \$6.5 million.



**Performance Fees.** Performance fees of \$52.3 million and \$40.9 million for the three months ended June 30, 2014 and 2013, respectively, are inclusive of performance fees reversed of approximately \$5.4 million and \$0.2 million, respectively. Performance fees for this segment by type of fund are as follows:

	<b>Three Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Carry funds	\$ 43.6	\$ 14.8
Hedge funds	2.9	25.2
Structured credit funds	5.8	0.9
Performance fees	\$ 52.3	\$ 40.9

Performance fees for the three months ended June 30, 2014 were generated primarily by the carry funds, including \$17.5 million from CSP III and \$15.8 million from our first energy mezzanine opportunities fund ( CEMOF ). Performance fees for the three months ended June 30, 2013 were generated primarily by the hedge funds, including \$15.3 million from the Claren Road Master Fund and from the carry funds, including \$13.8 million of performance fees from our second distressed and corporate opportunities fund ( CSP II ).

Net performance fees increased \$3.6 million to \$28.2 million for the three months ended June 30, 2014 as compared to \$24.6 million for the same period in 2013.

**Investment Income.** Investment income was \$2.6 million for the three months ended June 30, 2014 as compared to \$0.3 million for the same period in 2013. During the three months ended June 30, 2014, realized investment income was \$1.4 million as compared to \$12.2 million for the three months ended June 30, 2013. The decrease in realized investment income was due primarily to a realization of a debt investment in 2013 that resulted in a gain of approximately \$10.0 million. Unrealized investment income was \$1.2 million for the three months ended June 30, 2014 as compared to an unrealized investment loss of \$11.9 million for the three months ended June 30, 2013. The unrealized loss that was incurred in 2013 was due primarily to the reclassification of the unrealized gain on the debt investment to a realized gain.

**Distributable Earnings.** Distributable earnings decreased \$23.8 million to \$22.4 million for the three months ended June 30, 2014 from \$46.2 million for the three months ended June 30, 2013. The decrease related to a decrease in realized investment income of \$10.8 million, a decrease in realized net performance fees of \$7.0 million and a decrease in fee related earnings of \$6.0 million for the three months ended June 30, 2014 as compared to 2013.

#### ***Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013***

Total fee revenues were \$127.5 million for the six months ended June 30, 2014, a decrease of \$13.4 million from 2013. The decrease was due primarily to approximately \$7.4 million in subordinated management fees recognized in 2013 from two CLOs that were liquidated in 2013, the absence in 2014 of approximately \$8.8 million of catch-up management fees earned from a subsequent closing of CSP III during 2013. The weighted average management fee rate on our hedge funds decreased from 1.83% to 1.74% compared to the prior year period due to higher assets under management in the ESG hedge funds, which charge a lower rate, and decreases in AUM in the Vermillion hedge funds. The weighted average management fee rate on our carry funds decreased from 1.52% to 1.46% due to a step down in fee basis from commitments to invested capital on CMP II.

Interest and other income was \$2.8 million for the six months ended June 30, 2014 as compared to \$2.6 million for the same period in 2013.

Total compensation and benefits was \$114.4 million and \$94.1 million for the six months ended June 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$42.7 million and \$32.2 million for the six months ended June 30, 2014 and 2013, respectively. With respect to Claren Road, ESG and Vermillion, where we only include our 55% economic interest in our Non-GAAP results, performance fee related compensation expense can vary as a percentage of performance fees based upon a variety of factors, including absolute and

relative performance to comparable peers. As a result, the percentage of performance fee related compensation expense to performance fees is generally not a comparable measurement for Global Market Strategies from period to period.

Direct and indirect base compensation increased \$4.9 million for the six months ended June 30, 2014 as compared to 2013, which primarily relates to incremental compensation costs related to increased headcount, promotions, and estimated bonuses and increased compensation associated with fundraising efforts for our business development companies.

Equity-based compensation was \$5.9 million for the six months ended June 30, 2014, an increase of \$4.9 million from \$1.0 million for the six months ended June 30, 2013. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014 and, to a lesser extent, a decrease in the estimated forfeiture rates during the second quarter of 2013.

General, administrative and other indirect expenses decreased \$4.4 million to \$24.6 million for the six months ended June 30, 2014 as compared to 2013. The decrease is primarily due to lower external costs associated with fundraising activities for 2014 as compared to 2013.

Depreciation and amortization expense was \$1.9 million for the six months ended June 30, 2014, a decrease from \$2.3 million in 2013.

Interest expense increased \$1.1 million, or 31%, for the six months ended June 30, 2014 as compared to 2013. The increase was due primarily to the interest on \$400 million and \$200 million of 5.625% senior notes due 2043 issued in March 2013 and March 2014, respectively.

*Economic Net Income.* ENI was \$100.6 million for the six months ended June 30, 2014, a decrease of \$50.5 million from \$151.1 million for the six months ended June 30, 2013. The decrease in ENI for the six months ended June 30, 2014 as compared to 2013 was primarily driven by a decrease in net performance fees of \$29.7 million, a decrease in fee related earnings of \$14.4 million, an increase in equity-based compensation of \$4.9 million, and a decrease in investment income of \$1.5 million.

*Fee Related Earnings.* Fee related earnings decreased \$14.4 million to \$33.3 million for the six months ended June 30, 2014 as compared to 2013. The decrease was primarily due to decreases in fee revenues of \$13.4 million and an increase in base compensation of \$4.9 million. These decreases were partially offset by a decrease in general, administrative and other indirect expenses of \$4.4 million.

*Performance Fees.* Performance fees of \$110.1 million and \$129.3 million for the six months ended June 30, 2014 and 2013, respectively, are inclusive of performance fees reversed of \$0.0 million and approximately \$0.3 million, respectively. Performance fees for this segment by type of fund are as follows:

	Six Months Ended June 30, 2014      2013 (Dollars in millions)	
Carry funds	\$ 57.3	\$ 35.0
Hedge funds	41.1	91.8

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Structured credit funds	11.7	2.5
Performance fees	\$ 110.1	\$ 129.3

Performance fees for the six months ended June 30, 2014 were generated primarily by our carry funds and the hedge funds, including \$23.8 million from CSP III, \$20.9 million from CEMOF, \$16.7 million from the Claren Road Master Fund and \$14.4 million from the Claren Road Opportunities Fund. Performance fees for the six months ended June 30, 2013 were generated primarily by the hedge funds, including \$47.4 million from the Claren Road Master Fund, \$21.4 million from the Claren Road Opportunities Fund, and \$18.4 million from the ESG Cross Border Equity Fund, as well as the carry funds, including \$32.1 million of performance fees from CSP II.

Net performance fees decreased \$29.7 million to \$67.4 million for the six months ended June 30, 2014 as compared to \$97.1 million for the same period in 2013.

**Investment Income.** Investment income was \$5.8 million for the six months ended June 30, 2014 as compared to \$7.3 million for the same period in 2013. During the six months ended June 30, 2014, realized investment income was \$2.7 million as compared to \$14.1 million for the six months ended June 30, 2013. The decrease in realized investment income was due primarily to a realization of a debt investment in 2013 that resulted in a gain of approximately \$10.0 million. Unrealized investment income was \$3.1 million for the six months ended June 30, 2014 as compared to an unrealized investment loss of \$(6.8) million for the six months ended June 30, 2013. The unrealized loss that was incurred in 2013 was due primarily to the reclassification of the unrealized gain on the debt investment to a realized gain.

**Distributable Earnings.** Distributable earnings decreased \$42.7 million to \$44.7 million for the six months ended June 30, 2014 from \$87.4 million for the six months ended June 30, 2013. The decrease related to a decrease in realized net performance fees of \$16.9 million, a decrease in fee related earnings of \$14.4 million, and a decrease in realized investment income of \$11.4 million for the six months ended June 30, 2014 as compared to 2013.

### ***Fee-earning AUM as of and for the Three and Six Months Ended June 30, 2014 and 2013***

Fee-earning AUM is presented below for each period together with the components of change during each respective period.

The table below breaks out Fee-earning AUM by its respective components at each period.

	As of June 30,	
	2014	2013
Global Market Strategies	(Dollars in millions)	
Components of Fee-earning AUM (1)		
Fee-earning AUM based on capital commitments	\$ 1,916	\$ 2,392
Fee-earning AUM based on invested capital	774	699
Fee-earning AUM based on collateral balances, at par	17,789	16,858
Fee-earning AUM based on net asset value	14,372	13,063
Fee-earning AUM based on other (2)	528	45
<b>Total Fee-earning AUM</b>	<b>\$ 35,379</b>	<b>\$ 33,057</b>
Weighted Average Management Fee Rates (3)		
All Funds, excluding CLOs	1.70%	1.77%

- (1) For additional information concerning the components of Fee-earning AUM, see Fee-earning Assets under Management.
- (2) Includes funds with fees based on gross asset value.
- (3) Represents the aggregate effective management fee rate for carry funds and hedge funds, weighted by each fund's Fee-earning AUM, as of the end of each period presented. Management fees for CLOs are based on the total par amount of the assets (collateral) and principal balance of the notes in the fund and are not calculated as a percentage of equity and are therefore not included.





The table below provides the period to period rollforward of Fee-earning AUM.

	Three Months Ended June 30, 20142013 (Dollars in millions)		Six Months Ended June 30, 20142013 (Dollars in millions)	
Global Market Strategies				
Fee-earning AUM Rollforward				
Balance, Beginning of Period	\$ 34,346	\$ 31,436	\$ 33,411	\$ 31,034
Inflows, including Commitments (1)	177	281	313	335
Outflows, including Distributions (2)	(120)	(155)	(421)	(367)
Subscriptions, net of Redemptions (3)	431	812	534	756
Changes in CLO collateral balances (4)	614	508	1,333	804
Market Appreciation/(Depreciation) (5)	(31)	94	251	583
Foreign Exchange and other (6)	(38)	81	(42)	(88)
Balance, End of Period	\$ 35,379	\$ 33,057	\$ 35,379	\$ 33,057

- (1) Inflows represent limited partner capital raised and capital invested by our carry funds outside the investment period and investments in our business development companies.
- (2) Outflows represent limited partner distributions from our carry funds and changes in basis for our carry funds where the investment period has expired and distributions from our business development companies.
- (3) Represents subscriptions and redemptions in our hedge funds.
- (4) Represents the change in the aggregate Fee-earning collateral balances and principal balances at par of our CLOs/structured products, as of the quarterly cut-off dates.
- (5) Market Appreciation/ (Depreciation) represents changes in the net asset value of our hedge funds.
- (6) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Fee-earning AUM was \$35.4 billion at June 30, 2014, an increase of \$1.1 billion, or approximately 3%, compared to \$34.3 billion at March 31, 2014. This increase was primarily a result of increases in the aggregate par value of our CLO/structured product collateral balances of \$0.6 billion, including the launch of three new structured products, net subscriptions to our hedge funds of \$0.4 billion, and inflows of \$0.2 billion in our business development companies. Offsetting this increase were outflows of \$0.1 billion in our business development companies and carry funds outside the investment period. Distributions from carry funds still in the investment period do not impact Fee-earning AUM as these funds are based on commitments and not invested capital.

Fee-earning AUM was \$35.4 billion at June 30, 2014, an increase of \$2.0 billion, or approximately 6%, compared to \$33.4 billion at December 31, 2013. This increase was primarily a result of increases in the aggregate par value of our CLO/structured product collateral balances of \$1.3 billion, including the launch of five new structured products, net subscriptions to our hedge funds of \$0.5 billion, and inflows of \$0.3 billion. Outflows of \$0.4 billion were primarily driven by distributions from funds outside the investment period.

Fee-earning AUM was \$35.4 billion at June 30, 2014, an increase of \$2.3 billion, or approximately 7%, compared to \$33.1 billion at June 30, 2013. This increase was driven by net subscriptions to our hedge funds of \$0.7 billion, inflows of \$0.6 billion in our carry funds and business development companies, increases in the aggregate par value of our CLO/structured product collateral balances of \$0.6 billion, and market appreciation of \$0.5 billion.

Fee-earning AUM was \$33.1 billion at June 30, 2013, an increase of \$1.7 billion, or over 5%, compared to \$31.4 billion at March 31, 2013. This increase was primarily a result of net subscriptions to our hedge funds of \$0.8 billion, increases in the aggregate par value of our CLO collateral balances of \$0.5 billion and inflows of \$0.3 billion from limited partner commitments to CSP III. This increase was offset by outflows of \$0.2 billion, which were primarily driven by distributions from carry funds outside the investment period.

Fee-earning AUM was \$33.1 billion at June 30, 2013, an increase of \$2.1 billion, or over 6%, compared to \$31.0 billion at December 31, 2012. This increase was primarily a result of net subscriptions to our hedge funds of \$0.8 billion, increases in the aggregate par value of our CLO collateral balances of \$0.8 billion and market appreciation of \$0.6 billion. Outflows of \$0.4 billion were primarily driven by distributions from funds outside the investment period.

**Total AUM as of and for the Three and Six Months Ended June 30, 2014.**

The table below provides the period to period rollforwards of Available Capital and Fair Value of Capital, and the resulting rollforward of Total AUM.

	<b>Three Months Ended June 30, 2014 Fair Value</b>			<b>Six Months Ended June 30, 2014 Fair Value</b>		
	<b>Available Capital</b>	<b>of Capital</b>	<b>Total AUM</b>	<b>Available Capital</b>	<b>of Capital</b>	<b>Total AUM</b>
	<b>(Dollars in millions)</b>			<b>(Dollars in millions)</b>		
<b>Global Market Strategies</b>						
Balance, Beginning of Period	\$ 1,497	\$ 35,040	\$ 36,537	\$ 1,458	\$ 34,019	\$ 35,477
Commitments (1)	64		64	64		64
Capital Called, net (2)	(169)	318	149	(201)	463	262
Distributions (3)	26	(115)	(89)	97	(305)	(208)
Subscriptions, net of Redemptions (4)		489	489		662	662
Changes in CLO collateral balances (5)		914	914		1,458	1,458
Market Appreciation/(Depreciation) (6)		213	213		567	567
Foreign Exchange and other (7)		(38)	(38)		(43)	(43)
<b>Balance, End of Period (8)</b>	<b>\$ 1,418</b>	<b>\$ 36,821</b>	<b>\$ 38,239</b>	<b>\$ 1,418</b>	<b>\$ 36,821</b>	<b>\$ 38,239</b>

- (1) Represents capital raised by our carry funds, net of expired available capital.
- (2) Represents capital called by our carry funds and business development companies, net of fund fees and expenses. Equity invested amounts may vary from capital called due to timing differences between acquisition and capital call dates.
- (3) Represents distributions from our carry funds and business development companies, net of amounts recycled. Distributions are based on when proceeds are actually distributed to investors, which may differ from when they are realized.
- (4) Represents the net result of subscriptions to and redemptions from our hedge funds.
- (5) Represents the change in the aggregate collateral balance and principal cash and principal notes at par of the CLOs/structured products.
- (6) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments and changes in the net asset value of our hedge funds.
- (7) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.
- (8) Ending balance is comprised of approximately \$18.6 billion from our structured credit /other structured product funds, \$15.0 billion in our hedge funds, \$4.0 billion (including \$1.4 billion of Available Capital) in our carry funds, and \$0.6 billion from our business development companies.

Total AUM was \$38.2 billion at June 30, 2014, an increase of \$1.7 billion, or approximately 5%, compared to \$36.5 billion at March 31, 2014. This increase was primarily a result of increases in the aggregate par value of our CLO/structured product collateral balances of \$0.9 billion, including the launch of three new structured products, net subscriptions to our hedge funds of \$0.5 billion, and market appreciation of \$0.2 billion. These increases were partially offset by distributions of \$0.1 billion from our carry funds and business development companies.

Total AUM was \$38.2 billion at June 30, 2014, an increase of \$2.7 billion, or approximately 8%, compared to \$35.5 billion at December 31, 2013. This increase was primarily a result of increases in the aggregate par value of our CLO/structured product collateral balances of \$1.5 billion, including the launch of five new structured products, net subscriptions to our hedge funds of \$0.7 billion, and market appreciation of \$0.6 billion. These increases were partially offset by distributions of \$0.3 billion from our carry funds and business development companies.

***Fund Performance Metrics***

Fund performance information for certain of our Global Market Strategies Funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund return information reflected in this discussion and analysis is not indicative of the performance of The Carlyle Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Carlyle Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table reflects the performance of certain carry funds in our Global Market Strategies business. These tables separately present carry funds that, as of June 30, 2014, had at least \$1.0 billion in capital commitments, cumulative equity invested or total equity value. Please see Our Family of Funds for a legend of the fund acronyms listed below.

Fund	TOTAL INVESTMENTS						
	as of June 30, 2014			Inception to June 30, 2014			
	Inception Date(1)	Committed Capital(2)	Cumulative Invested Capital(3)	Total Fair Value(3)	MOIC(4)	Gross IRR(5)	Net IRR(6)
(Reported in Local Currency, in Millions)							
Global Market Strategies							
CSP II	6/2007	\$ 1,352.3	\$ 1,352.3	\$ 2,470.8	1.8x	18%	13%
CEMOF I	12/2010	\$ 1,382.5	\$ 938.1	\$ 1,200.5	1.3x	32%	17%

- (1) The data presented herein that provides inception to date performance results of our segments relates to the period following the formation of the first fund within each segment. For our Global Market Strategies segment, CSP II was formed in 2007 and CEMOF I was formed in 2010.
- (2) Represents the original cost of investments net of investment level recallable proceeds which is adjusted to reflect recyclability of invested capital for the purpose of calculating the fund MOIC.
- (3) Represents all realized proceeds combined with remaining fair value, before management fees, expenses and carried interest.
- (4) Multiple of invested capital ( MOIC ) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.
- (5) Gross Internal Rate of Return ( Gross IRR ) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.
- (6) Net Internal Rate of Return ( Net IRR ) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.

										Original Investment Period
	Remaining Fair Value (1)	Unrealized MOIC (2)	Total MOIC (3)	% Invested (4)	In Accrued Carry/ (Clawback) (5)	LTM Realized Carry (6)	Catch up Rate (7)	Fee Initiation Date (8)	Quarters Since Fee Initiation (9)	End Date
As of June 30, 2014										
Global Market Strategies	(Reported in Local Currency, in Millions)									
CEMOF I	\$ 864.2	1.2x	1.3x	68%	Ö		100%	Dec-10	15	Dec-15
CSP II	\$ 519.5	1.0x	1.8x	100%	Ö	Ö	80%	Dec-07	27	Jun-11
All Other Funds (8)	\$ 954.8	1.3x	1.5x		n/m	n/m				
Coinvestment and Other (9)	\$ 270.0	1.1x	1.2x		n/m	n/m				
Total Global Market Strategies	\$ 2,608.5	1.2x	1.5x							

- (1) Net asset value of our carry funds. Reflects significant funds with remaining fair value of greater than \$100 million.
- (2) Unrealized multiple of invested capital ( MOIC ) represents remaining fair market value, before management fees, expenses and carried interest, divided by investment cost.
- (3) Total MOIC represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital. For certain funds, represents the original cost of investments net of investment level recallable proceeds, which is adjusted to reflect recyclability of invested capital for the purpose of calculating the fund MOIC.
- (4) Represents cumulative equity invested as of the reporting period divided by total commitments. Amount can be greater than 100% due to the re-investment of recallable distributions to fund investors.
- (5) Fund has accrued carry/(clawback) as of the reporting period.
- (6) Fund has realized carry in the last twelve months.
- (7) Represents the date of the first capital contribution for management fees.
- (8) Aggregate includes the following funds: CMP I, CMP II, CSP I, and CSP III. In Accrued Carry/(Clawback) and LTM Realized Carry not indicated because the indicator does not apply to each fund within the aggregate.
- (9) Includes co-investments, prefund investments and certain other stand-alone investments arranged by us. In Accrued Carry/(Clawback) and LTM Realized Carry not indicated because the indicator does not apply to each fund within the aggregate.

The following table reflects the performance of the Claren Road Master Fund and the Claren Road Opportunities Fund, which had AUM of approximately \$5.7 billion and \$2.7 billion, respectively, as of June 30, 2014:

	1 Year (2)	3-Year (2)	5-Year (2)	Inception (3)
<b>Net Annualized Return (1)</b>				
Claren Road Master Fund	5%	5%	8%	9%
Claren Road Opportunities Fund	9%	8%	14%	14%
Barclays Aggregate Bond Index	(2%)	3%	4%	5%
<b>Volatility (4)</b>				
Claren Road Master Fund Standard Deviation (Annualized)	5%	4%	5%	4%
Claren Road Opportunities Fund Standard Deviation (Annualized)	7%	6%	8%	7%
Barclays Aggregate Bond Index Standard Deviation (Annualized)	3%	3%	3%	3%
<b>Sharpe Ratio (1M LIBOR) (5)</b>				
Claren Road Master Fund	1.05	1.10	1.73	1.76
Claren Road Opportunities Fund	1.24	1.41	1.78	1.69
Barclays Aggregate Bond Index	(0.69)	1.11	1.45	1.02

- (1) For the Claren Road funds, net annualized return is presented for fee-paying investors only on a total return basis, net of all fees and expenses. The Barclays Aggregate Bond Index is a market-value weighted, intermediate-term bond index of over 8,400 intermediate-term government bonds, investment grade corporate debt securities and mortgage-backed securities. This index is an unmanaged statistical composite and its returns do not include payment of any sales charge or fees an investor would pay to purchase the securities the index represents, which would lower performance if taken into account. The index results are shown for illustrative purposes only.
- (2) As of December 31, 2013.
- (3) The Claren Road Master Fund was established in January 2006. The Claren Road Opportunities Fund was established in April 2008. Performance is from inception through June 30, 2014.
- (4) Volatility is the annualized standard deviation of monthly net investment returns.
- (5) The Sharpe Ratio compares the historical excess return on an investment over the risk free rate of return with its historical annualized volatility.

The following table reflects the performance of the ESG Cross Border Equity Master Fund Ltd., which had AUM of approximately \$3.8 billion as of June 30, 2014:

	1 Year (2)	3-Year (2)	5-Year (2)	Inception (3)
<b>Net Annualized Return (1)</b>				
CBE	14%	10%	10%	6%
MSCI EM index	(2%)	(2%)	15%	5%
<b>Volatility (4)</b>				
CBE Standard Deviation (Annualized)	4%	5%	5%	8%
MSCI EM index Standard Deviation (Annualized)	12%	19%	23%	25%
<b>Sharpe Ratio (1M LIBOR) (5)</b>				
CBE	3.44	1.87	1.89	0.74
MSCI EM index	(0.21)	(0.09)	0.67	0.15

- (1) For the CBE fund, net annualized return is presented on a total return basis, net of all fees and expenses. The MSCI EM Index comprises large and mid-cap securities across 21 emerging markets countries. This index is an unmanaged statistical composite and its returns do not include payment of any sales charges or fees an investor would pay to purchase the securities the index represents, which would lower performance if taken into account. The index results are shown for illustrative purposes only.
- (2) As of December 31, 2013.
- (3) The CBE Fund was established in January 2007. Performance is from inception through June 30, 2014.
- (4) Volatility is the annualized standard deviation of monthly net investment returns.
- (5) The Sharpe Ratio compares the historical excess return on an investment over the risk free rate of return with its historical annualized volatility.



**Real Assets**

For purposes of presenting results of operations for this segment, our earnings from our investment in NGP Management are presented in the respective operating captions and, for the period beginning after September 30, 2013, the net income or loss from the consolidation of Urbplan allocable to the Partnership (after consideration of amounts allocable to non-controlling interests) is presented within investment income. The following table presents our results of operations for our Real Assets segment:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>			
<b>Segment Revenues</b>				
Fund level fee revenues				
Fund management fees	\$ 59.6	\$ 46.4	\$ 109.9	\$ 93.4
Portfolio advisory fees, net	0.3	0.3	0.5	0.6
Transaction fees, net	0.1	2.7	0.1	2.7
Total fund level fee revenues	60.0	49.4	110.5	96.7
Performance fees				
Realized	9.4	20.6	9.9	31.6
Unrealized	46.4	(33.4)	60.4	16.1
Total performance fees	55.8	(12.8)	70.3	47.7
Investment income (loss)				
Realized	8.1	0.7	10.2	(12.3)
Unrealized	(21.6)	1.7	(42.2)	6.2
Total investment income (loss)	(13.5)	2.4	(32.0)	(6.1)
Interest and other income	1.2	0.6	1.9	0.9
Total revenues	103.5	39.6	150.7	139.2
<b>Segment Expenses</b>				
Compensation and benefits				
Direct base compensation	21.3	18.2	40.0	36.1
Indirect base compensation	11.7	6.4	26.0	13.9
Equity-based compensation	5.1	1.2	8.6	1.8
Performance fee related				
Realized	0.5	1.6	0.7	(3.3)
Unrealized	22.8	2.9	31.2	26.5
Total compensation and benefits	61.4	30.3	106.5	75.0
General, administrative, and other indirect expenses	15.7	16.5	31.2	26.9
Depreciation and amortization expense	0.9	1.2	1.8	2.3
Interest expense	2.5	2.2	4.7	3.8
Total expenses	80.5	50.2	144.2	108.0

<b>Economic Net Income</b>	<b>\$ 23.0</b>	<b>\$ (10.6)</b>	<b>\$ 6.5</b>	<b>\$ 31.2</b>
(-) Net Performance Fees	32.5	(17.3)	38.4	24.5
(-) Investment Income (Loss)	(13.5)	2.4	(32.0)	(6.1)
(+) Equity-based Compensation	5.1	1.2	8.6	1.8
<b>(=) Fee Related Earnings</b>	<b>\$ 9.1</b>	<b>\$ 5.5</b>	<b>\$ 8.7</b>	<b>\$ 14.6</b>
(+) Realized Net Performance Fees	8.9	19.0	9.2	34.9
(+) Realized Investment Income (Loss)	8.1	0.7	10.2	(12.3)
<b>(=) Distributable Earnings</b>	<b>\$ 26.1</b>	<b>\$ 25.2</b>	<b>\$ 28.1</b>	<b>\$ 37.2</b>

***Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013***

Total fee revenues were \$60.0 million for the three months ended June 30, 2014, an increase of \$10.6 million from June 30, 2013. The increase in fund management fees primarily reflects \$13.7 million of management fees earned in the second quarter of 2014 from our first international energy fund ( CIEP I ), which commenced its investment period in September 2013, including catch-up management fees earned in the second quarter of 2014 from subsequent closings of that fund of approximately \$6.8 million. Also contributing to the increase was the commencement of management fees earned on our seventh U.S. real estate fund ( CRP VII ) in the second quarter of 2014. These increases were partially offset by declines in fund management fees from distributions from other U.S. real estate funds and NGP management fee funds outside of their investment periods. The total weighted average management fee increased to 1.25% at June 30, 2014 when compared to 1.19% at June 30, 2013 primarily due to commitments to CIEP I. Despite the step down from commitments to invested capital in one of our Legacy Energy funds ( Renew II ), from which we are entitled a 10% allocation of management fee related revenues, the weighted average management fee rate for funds in the investment period increased from 1.22% at June 30, 2013 to 1.46% at June 30, 2014 due to fundraising in CIEP I and CRP VII, from which we are entitled to 100% of management fee related revenues.

Interest and other income was \$1.2 million for the three months ended June 30, 2014, an increase from \$0.6 million for the same period in 2013.

Total compensation and benefits was \$61.4 million and \$30.3 million for the three months ended June 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$23.3 million and \$4.5 million for the three months ended June 30, 2014 and 2013, respectively. Performance fees earned from the Legacy Energy funds are allocated solely to Carlyle and are not otherwise shared or allocated with our investment professionals. To date, performance related compensation expense in Real Assets reflects amounts earned primarily by our real estate investment professionals as we generally incur no compensation expense for the Legacy Energy funds and we have not yet generated any significant performance fees or related compensation from our infrastructure fund or other energy funds. Accordingly, performance fee compensation as a percentage of performance fees is generally not a comparable measurement for Real Assets from period to period.

Direct and indirect base compensation was \$33.0 million for the three months ended June 30, 2014, an increase from the \$24.6 million of expense for the same period in 2013. The increase was due primarily to increased compensation associated with fundraising efforts for CRP VII and CIEP I, as well as incremental compensation costs related to increased headcount, promotions, and estimated bonuses.

Equity-based compensation was \$5.1 million for the three months ended June 30, 2014, an increase of \$3.9 million from \$1.2 million for the three months ended June 30, 2013. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014 and, to a lesser extent, a decrease in the estimated forfeiture rates during the second quarter of 2013.

General, administrative and other indirect expenses declined \$0.8 million to \$15.7 million for the three months ended June 30, 2014 as compared to 2013. The decline primarily relates to a decline in professional fees related to Urbplan in 2014 as compared to 2013, partially offset by an increase in external costs associated with fundraising activities for CRP VII.

Depreciation and amortization expense was \$0.9 million for the three months ended June 30, 2014, a decline from \$1.2 million in 2013.

Interest expense increased \$0.3 million, or 14%, for the three months ended June 30, 2014 as compared to 2013. The increase was due primarily to the interest on \$200 million of 5.625% senior notes due 2043 issued in March 2014.

*Economic Net Income.* ENI was \$23.0 million for the three months ended June 30, 2014, an increase of \$33.6 million from \$(10.6) million for the same period in 2013. The increase in ENI for the three months ended June 30, 2014 as compared to 2013 was primarily driven by an increase in net performance fees of \$49.8 million and an increase in fee related earnings of \$3.6 million. These increases were partially offset by a decline in investment income of \$15.9 million and an increase in equity-based compensation of \$3.9 million.

**Fee Related Earnings.** Fee related earnings increased \$3.6 million for the three months ended June 30, 2014 as compared to 2013 to \$9.1 million. The increase in fee related earnings is primarily attributable to an increase in fee revenues of \$10.6 million and a decline in general, administrative, and other indirect expenses of \$0.8 million. These increases were partially offset by increases in base compensation of \$8.4 million.

**Performance Fees.** Performance fees of \$55.8 million and \$(12.8) million for the three months ended June 30, 2014 and 2013, respectively, are inclusive of performance fees reversed of approximately \$0.8 million and \$32.9 million, respectively. Performance fees for this segment by type of fund are as follows:

	<b>Three Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Energy funds	\$ 12.8	\$ (24.5)
Real Estate funds	43.0	11.7
Performance fees	\$ 55.8	\$ (12.8)

Performance fees for the three months ended June 30, 2014 were primarily driven by performance fees related to our sixth U.S. real estate fund ( CRP VI ) of \$31.4 million. Investments in our Real Assets portfolio increased 3% during the three months ended June 30, 2014 with energy investments appreciating 2% and real estate investments appreciating 4%. Performance fees for the three months ended June 30, 2013 were primarily driven by performance fees related to Renew II of \$(17.6) million and CRP VI of \$16.4 million. Investments in our Real Assets portfolio declined 2% during the three months ended June 30, 2013 with energy investments declining 3% and real estate investments remaining flat.

Net performance fees for the three months ended June 30, 2014 were \$32.5 million, representing an increase of \$49.8 million from \$(17.3) million in net performance fees for the three months ended June 30, 2013.

**Investment Income (Loss).** Investment loss was \$13.5 million for the three months ended June 30, 2014 compared to investment income of \$2.4 million for the same period in 2013. The decline in investment income from 2013 to 2014 was due primarily to net investment losses on certain European real estate investments of \$6.0 million and investment losses related to Urbplan of \$8.7 million.

**Distributable Earnings.** Distributable earnings increased \$0.9 million to \$26.1 million for the three months ended June 30, 2014 from \$25.2 million for the same period in 2013. The increase was due to a \$7.4 million increase in realized investment income, an increase in fee related earnings of \$3.6 million, partially offset by a decline in realized net performance fees of \$10.1 million for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013.

#### ***Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013***

Total fee revenues were \$110.5 million for the six months ended June 30, 2014, an increase of \$13.8 million from June 30, 2013. The increase in fund management fees primarily reflects \$19.4 million of management fees earned in 2014 from CIEP I, which commenced its investment period in September 2013, including catch-up management fees earned in 2014 from subsequent closings of that fund of approximately \$8.8 million. Also contributing to the increase was the commencement of management fees earned on CRP VII in the second quarter of 2014. This increase was partially offset by declines in fund management fees from distributions from certain U.S. real estate funds and NGP management fee funds outside of their investment periods. The total weighted average management fee increased to

1.25% at June 30, 2014 when compared to 1.19% at June 30, 2013 primarily due to commitments to CIEP I. Despite the step down from commitments to invested capital in Renew II, from which we are entitled a 10% allocation of management fee related revenues, the weighted average management fee rate for funds in the investment period increased from 1.22% at June 30, 2013 to 1.46% at June 30, 2014 due to fundraising in CIEP I and CRP VII, from which we are entitled to 100% of management fee related revenues.

Interest and other income was \$1.9 million for the six months ended June 30, 2014, an increase from \$0.9 million for the same period in 2013.

Total compensation and benefits was \$106.5 million and \$75.0 million for the six months ended June 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$31.9 million and \$23.2 million for the six months ended June 30, 2014 and 2013, respectively. Performance fees earned from the Legacy Energy funds are allocated solely to Carlyle and are not otherwise shared or allocated with our investment professionals. To date, performance related compensation expense in Real Assets reflects amounts earned primarily by our real estate investment professionals as we generally incur no compensation expense for the Legacy Energy funds and we have not yet generated any significant performance fees or related compensation from our infrastructure fund or other energy funds. Accordingly, performance fee compensation as a percentage of performance fees is generally not a comparable measurement for Real Assets from period to period.

Direct and indirect base compensation was \$66.0 million for the six months ended June 30, 2014, an increase from the \$50.0 million of expense for the same period in 2013. The increase was due primarily to increased compensation associated with fundraising efforts for CRP VII and CIEP I, as well as incremental compensation costs related to increased headcount, promotions, and estimated bonuses.

Equity-based compensation was \$8.6 million for the six months ended June 30, 2014, an increase of \$6.8 million from \$1.8 million for the six months ended June 30, 2013. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014 and, to a lesser extent, a decrease in the estimated forfeiture rates during the second quarter of 2013.

General, administrative and other indirect expenses increased \$4.3 million to \$31.2 million for the six months ended June 30, 2014 as compared to 2013. The increase primarily relates to an increase in external costs associated with fundraising activities for CRP VII and an increase in professional fees related to CIEP I.

Depreciation and amortization expense was \$1.8 million for the six months ended June 30, 2014, a decline from \$2.3 million in 2013.

Interest expense increased \$0.9 million, or 24%, for the six months ended June 30, 2014 as compared to 2013. The increase was due primarily to the interest on \$400 million and \$200 million of 5.625% senior notes due 2043 issued in March 2013 and March 2014, respectively.

*Economic Net Income.* ENI was \$6.5 million for the six months ended June 30, 2014, a decline of \$24.7 million from \$31.2 million for the same period in 2013. The decline in ENI for the six months ended June 30, 2014 as compared to 2013 was primarily driven by an increase in investment loss of \$25.9 million, an increase in equity-based compensation of \$6.8 million, and a decline in fee related earnings of \$5.9 million. These declines were partially offset by an increase in net performance fees of \$13.9 million.

*Fee Related Earnings.* Fee related earnings declined \$5.9 million for the six months ended June 30, 2014 as compared to 2013 to \$8.7 million. The decline in fee related earnings is primarily attributable to an increase in base compensation of \$16.0 million and an increase in general, administrative, and other indirect expenses of \$4.3 million, partially offset by an increase in fee revenues of \$13.8 million.

**Performance Fees.** Performance fees of \$70.3 million and \$47.7 million for the six months ended June 30, 2014 and 2013, respectively, are inclusive of performance fees reversed of approximately \$9.4 million and \$13.7 million, respectively. Performance fees for this segment by type of fund are as follows:

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Energy funds	\$ 11.2	\$ (3.7)
Real Estate funds	59.1	51.4
Performance fees	\$ 70.3	\$ 47.7

Performance fees for the six months ended June 30, 2014 were primarily driven by performance fees related to CRP VI of \$45.2 million. Investments in our Real Assets portfolio increased 5% during the six months ended June 30, 2014 with energy investments appreciating 4% and real estate investments appreciating 6%. Performance fees for the six months ended June 30, 2013 were primarily driven by performance fees related to CRP VI of \$36.3 million and Renew II of \$(12.1) million. Investments in our Real Assets portfolio appreciated 1% during the six months ended June 30, 2013 with energy investments appreciating 1% and real estate investments appreciating 1%.

Net performance fees for the six months ended June 30, 2014 were \$38.4 million, representing an increase of \$13.9 million from \$24.5 million in net performance fees for the six months ended June 30, 2013.

**Investment Income (Loss).** Investment loss was \$32.0 million for the six months ended June 30, 2014 compared to \$6.1 million for the same period in 2013. The increase in investment loss from 2013 to 2014 was due primarily to net investment losses on certain European real estate investments of \$18.4 million in 2014 versus \$9.9 million in 2013, as well as investment losses related to Urbplan in 2014 of \$18.3 million.

**Distributable Earnings.** Distributable earnings declined \$9.1 million to \$28.1 million for the six months ended June 30, 2014 from \$37.2 million for the same period in 2013. The decline was due to a \$25.7 million decline in realized net performance fees and a \$5.9 million decline in fee related earnings, partially offset by an increase in realized investment income of \$22.5 million for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013.

#### ***Fee-earning AUM as of and for the Three and Six Months Ended June 30, 2014 and 2013***

Fee-earning AUM is presented below for each period together with the components of change during each respective period.

The table below breaks out Fee-earning AUM by its respective components at each period.

	<b>As of June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
<b>Real Assets</b>		
<b>Components of Fee-earning AUM (1)</b>		
Fee-earning AUM based on capital commitments	\$ 6,723	\$ 9,170
Fee-earning AUM based on invested capital (2)	20,419	19,007



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Fee-earning AUM based on lower of cost or fair value and other (3)	729	508
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<b>Total Fee-earning AUM (4)</b>	<b>\$ 27,871</b>	<b>\$ 28,685</b>
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**Weighted Average Management Fee Rates (5)**

All Funds	1.25%	1.19%
Funds in Investment Period	1.46%	1.22%

- (1) For additional information concerning the components of Fee-earning AUM, See Fee-earning Assets under Management.
- (2) Includes amounts committed to or reserved for investments for certain real estate funds.
- (3) Includes certain funds that are calculated on gross asset value.
- (4) Energy I, Energy II, Energy III, Energy IV, Renew I, and Renew II (collectively, the Legacy Energy Funds ), are managed with Riverstone Holdings LLC and its affiliates. Affiliates of both Carlyle and Riverstone act as investment advisers to each of the Legacy Energy Funds. With the exception of Energy IV and Renew II, where Carlyle has a minority representation on the funds' management committees, management of each of the Legacy Energy Funds is vested in committees with equal representation by Carlyle and Riverstone, and the consent of representatives of both Carlyle and Riverstone are required for investment decisions. As of June 30, 2014, the Legacy Energy Funds had, in the aggregate, approximately \$11.9 billion in AUM and \$7.5 billion in Fee-earning AUM. NGP VII, NGP VIII, NGP IX, NGP X, or in the case of NGP M&R, NGP ETP I, NGP ETP II, and NGPC, certain affiliated entities (collectively, the NGP management fee funds ) and NGP Agribusiness and NGP XI (together, the NGP carry funds ), are managed by NGP Energy Capital Management. As of June 30, 2014, the NGP funds had, in the aggregate, approximately \$14.5 billion in AUM and \$8.9 billion in Fee-earning AUM.
- (5) Represents the aggregate effective management fee rate of each fund in the segment, weighted by each fund's Fee-earning AUM, as of the end of each period presented. Calculation reflects Carlyle's 10% and 47.5% interest in management fees earned by the Legacy Energy funds, NGP management fee funds, and NGP carry funds, respectively. Accounts based on gross asset base generally have an effective management fee rate of 0.5% or less.
- The table below provides the period to period rollforward of Fee-earning AUM.

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
	2014	2013	2014	2013
Real Assets	(Dollars in millions)		(Dollars in millions)	
<b>Fee-earning AUM Rollforward</b>				
Balance, Beginning of Period	\$ 27,416	\$ 29,419	\$ 28,438	\$ 29,305
Inflows, including Commitments (1)	2,660	755	3,068	998
Outflows, including Distributions (2)	(2,185)	(1,432)	(3,639)	(1,483)
Market Appreciation/(Depreciation) (3)	(15)		(12)	
Foreign Exchange and other (4)	(5)	(57)	16	(135)
<b>Balance, End of Period</b>	<b>\$ 27,871</b>	<b>\$ 28,685</b>	<b>\$ 27,871</b>	<b>\$ 28,685</b>

- (1) Inflows represent limited partner capital raised and capital invested by funds outside the investment period.
- (2) Outflows represent distributions from funds outside the investment period and changes in basis for our carry funds where the investment period has expired.
- (3) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments in our carry fund based on the lower of cost or fair value.
- (4) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Fee-earning AUM was \$27.9 billion at June 30, 2014, an increase of \$0.5 billion, or approximately 2%, compared to \$27.4 billion at March 31, 2014. This increase was driven by inflows of \$2.7 billion, primarily related to new commitments to CRP VII, CIEP I, and our second power fund ( CPP II ). The increase was offset by outflows of \$2.2 billion, primarily due to distribution activity in our funds outside the original investment period and the step-down of fees from commitments to invested equity in CRP VI. Investment and distribution activity by funds still in the

investment period do not impact Fee-earning AUM as these funds are based on commitments and not invested capital. Changes in fair value have no impact on Fee-earning AUM for Real Assets as substantially all of the funds generate management fees based on either commitments or invested capital at cost, neither of which is impacted by fair value movements.

Fee-earning AUM was \$27.9 billion at June 30, 2014, a decrease of \$0.5 billion or approximately 2% compared to \$28.4 billion at December 31, 2013. Outflows of \$3.6 billion were primarily related to distributions from our fully invested real estate funds, Legacy and NGP Energy funds and related co-investments, in addition to the step down in fees from commitments to invested equity in Renew II and CRP VI. Offsetting this decrease were inflows of \$3.1 billion, principally a result of commitments to CRP VII, CIEP I, and CPP II.

Fee-earning AUM was \$27.9 billion at June 30, 2014, a decrease of \$0.8 billion, or approximately 3%, compared to \$28.7 billion at June 30, 2013. This increase was primarily related to the outflows in our NGP management fee funds, Legacy Energy funds, and real estate funds, offset by new commitments to our real estate, energy and power platforms.

Fee-earning AUM was \$28.7 billion at June 30, 2013, a decrease of \$0.7 billion, or approximately 2%, compared to \$29.4 billion at March 31, 2013. This decrease was driven by outflows of \$1.4 billion, primarily a result of distributions from our fully invested real estate funds, Legacy and NGP Energy funds and related co-investments, as well as foreign exchange losses of \$0.1 billion. This decrease is offset by inflows of \$0.8 billion, primarily related to investment activity in our real estate funds outside of the investment period.

Fee-earning AUM was \$28.7 billion at June 30, 2013, a decrease of \$0.6 billion compared to \$29.3 billion at December 31, 2012. Outflows of \$1.5 billion were primarily related to distributions from our fully invested real estate funds, Legacy and NGP Energy funds and related co-investments. Offsetting this decrease were inflows of \$1.0 billion, principally a result of investment activity in our real estate funds outside of the investment period.

***Total AUM as of and for the Three and Six Months Ended June 30, 2014***

The table below provides the period to period rollforwards of Available Capital and Fair Value of Capital, and the resulting rollforward of Total AUM.

	Three Months Ended June 30, 2014 Fair Value			Six Months Ended June 30, 2014 Fair Value		
	Available Capital (Dollars in millions)	of Capital (Dollars in millions)	Total AUM	Available Capital (Dollars in millions)	of Capital (Dollars in millions)	Total AUM
Real Assets						
Balance, Beginning of Period	\$ 10,115	\$ 30,588	\$ 40,703	\$ 8,754	\$ 29,910	\$ 38,664
Commitments (1)	2,677		2,677	4,342		4,342
Capital Called, net (2)	(1,082)	1,231	149	(1,594)	1,996	402
Distributions (3)	602	(3,825)	(3,223)	811	(5,177)	(4,366)
Market Appreciation/(Depreciation) (4)		2,987	2,987		4,225	4,225
Foreign Exchange and other (5)	(2)	5	3	(3)	32	29
Balance, End of Period	\$ 12,310	\$ 30,986	\$ 43,296	\$ 12,310	\$ 30,986	\$ 43,296

- (1) Represents capital raised by our carry funds, NGP management fee funds, and NGP carry funds, net of expired available capital.
- (2) Represents capital called by our carry funds, NGP management fee funds, and NGP carry funds, net of fund fees and expenses. Equity invested amounts may vary from capital called due to timing differences between acquisition and capital call dates.
- (3) Represents distributions from our carry funds, NGP management fee funds, and NGP carry funds, net of amounts recycled. Distributions are based on when proceeds are actually distributed to fund investors, which may differ from when they are realized.
- (4) Market Appreciation/(Depreciation) represents realized and unrealized gains (losses) on portfolio investments.
- (5) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.
- (6) Amounts related to the NGP management fee funds and NGP carry funds are based on the latest available information (in certain cases as of March 31, 2014).

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Total AUM was \$43.3 billion at June 30, 2014, an increase of \$2.6 billion, or over 6%, compared to \$40.7 billion at March 31, 2014. This increase was driven by \$3.0 billion in market appreciation, primarily in our NGP management fee funds, and commitments raised of \$2.7 billion in the eleventh NGP fund ( NGP XI ), CRP VII, CIEP I, and CPP II. The increase was offset by distributions of \$3.2 billion, primarily in the NGP Energy and Legacy Energy funds.

Total AUM was \$43.3 billion at June 30, 2014, an increase of \$4.6 billion, or approximately 12%, compared to \$38.7 billion at December 31, 2013. This increase was driven by commitments raised of \$4.3 billion in NGP XI, CRP VII, CIEP I, and CPP II and \$4.2 billion of market appreciation. The increase was offset by distributions of \$4.4 billion, primarily in the NGP Energy and Legacy Energy funds.

### ***Fund Performance Metrics***

Fund performance information for our carry funds that have at least \$1.0 billion in capital commitments, cumulative equity invested or total value as of June 30, 2014, which we refer to as our significant funds, is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the

periods presented. The fund return information reflected in this discussion and analysis is not indicative of the performance of The Carlyle Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Carlyle Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns. The following tables reflect the performance of our significant funds in our Real Assets business. Please see Our Family of Funds for a legend of the fund acronyms listed below.

TOTAL INVESTMENTS as of June 30, 2014								REALIZED/PARTIALLY REALIZED INVESTMENTS(5) as of June 30, 2014			
Fund Inception Date(1)	Committed Capital	Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)	Gross IRR(7)	Net IRR(8)	Cumulative Invested Capital(2)	Total Fair Value(3)	MOIC(4)	Gross IRR(7)	
(Reported in Local Currency, in Millions)								(Reported in Local Currency, in Millions)			
Real Assets											
Fully Invested Funds(6)											
CRP III	11/2000	\$ 564.1	\$ 522.5	\$ 1,397.9	2.7x	44%	30%	\$ 522.5	\$ 1,397.9	2.7x	44%
CRP IV	12/2004	\$ 950.0	\$ 1,198.6	\$ 1,340.3	1.1x	3%	(1%)	\$ 449.9	\$ 479.0	1.1x	9%
CRP V	11/2006	\$ 3,000.0	\$ 3,282.7	\$ 4,679.7	1.4x	11%	7%	\$ 2,616.2	\$ 3,798.6	1.5x	12%
CRP VI	9/2010	\$ 2,340.0	\$ 1,613.4	\$ 2,366.9	1.5x	34%	21%	\$ 311.5	\$ 592.5	1.9x	45%
CEREP I	3/2002	426.6	517.0	691.6	1.3x	12%	7%	503.2	665.4	1.3x	13%
CEREP II	4/2005	762.7	833.8	128.1	0.2x	n/a	n/a	483.2	131.6	0.3x	n/a
CEREP III	5/2007	2,229.5	1,957.4	1,886.1	1.0x	(1%)	(5%)	483.8	581.2	1.2x	5%
CIP	9/2006	\$ 1,143.7	\$ 1,011.7	\$ 1,165.0	1.2x	4%	0%	\$ 180.7	\$	0.0x	n/a
Energy II	7/2002	\$ 1,100.0	\$ 1,334.8	\$ 3,452.8	2.6x	81%	55%	\$ 827.4	\$ 3,263.3	3.9x	105%
Energy III	10/2005	\$ 3,800.0	\$ 3,559.9	\$ 6,389.9	1.8x	13%	10%	\$ 1,545.4	\$ 4,250.4	2.8x	27%
Energy IV	12/2007	\$ 5,979.1	\$ 5,323.3	\$ 8,763.7	1.6x	19%	13%	\$ 2,338.8	\$ 4,791.6	2.0x	30%
Renew II	3/2008	\$ 3,417.5	\$ 2,796.7	\$ 3,869.7	1.4x	11%	7%	\$ 633.2	\$ 840.8	1.3x	13%
All Other Funds(9)	Various		\$ 2,498.0	\$ 2,616.1	1.0x	2%	(3%)	\$ 1,842.6	\$ 2,166.5	1.2x	8%
Coinvestments and Other	Various		\$ 5,299.3	\$ 8,474.1	1.6x	18%	14%	\$ 2,112.6	\$ 4,523.4	2.1x	28%
Total Fully Invested Funds			\$ 32,969.7	\$ 48,220.1	1.5x	14%	8%	\$ 15,393.4	\$ 27,990.8	1.8x	24%
Funds in the Investment Period(6)											
CRP VII (12)	3/2014	\$ 1,488.1	n/a	n/a	n/a	n/m	n/m				
CIEP I (12)	9/2013	\$ 1,782.9	\$ 108.6	\$ 98.3	0.9x	n/m	n/m				
All Other Funds(11)	Various		\$ 226.8	\$ 281.0	1.2x	n/a	n/a				
Total Funds in the Investment Period			\$ 335.4	\$ 379.3	1.1x	19%	0%	\$	\$	n/a	n/a
TOTAL Real Assets(13)			\$ 33,305.1	\$ 48,599.3	1.5x	14%	8%	\$ 15,393.4	\$ 27,990.8	1.8x	24%

- (1) The data presented herein that provides inception to date performance results of our segments relates to the period following the formation of the first fund within each segment. For our Real Assets segment our first fund was formed in 1997.
- (2) Represents the original cost of all capital called for investments since inception of the fund.
- (3) Represents all realized proceeds combined with remaining fair value, before management fees, expenses and carried interest.
- (4) Multiple of invested capital ( MOIC ) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.
- (5) An investment is considered realized when the investment fund has completely exited, and ceases to own an interest in, the investment. An investment is considered partially realized when the total amount of proceeds received in respect of such investment, including dividends, interest or other distributions and/or return of capital, represents at least 85% of invested capital and such investment is not yet fully realized. Because part of our value creation strategy involves pursuing best exit alternatives, we believe information regarding Realized/Partially Realized MOIC and Gross IRR, when considered together with the other investment performance metrics presented, provides investors with meaningful information regarding our investment performance by removing the impact of investments where significant realization activity has not yet occurred. Realized/Partially Realized MOIC and Gross IRR have limitations as measures of investment performance, and should not be considered in isolation. Such limitations include the fact that these measures do not include the performance of earlier stage and other investments that do not satisfy the criteria provided above. The exclusion of such investments will have a positive impact on Realized/Partially Realized MOIC and Gross IRR in instances when the MOIC and Gross IRR in respect of such investments are less than the aggregate MOIC and Gross IRR. Our measurements of Realized/Partially Realized MOIC and Gross IRR may not be comparable to those of other companies that use similarly titled measures. We do not present Realized/Partially Realized performance information separately for funds that are still in the investment period because of the relatively insignificant level of realizations for funds of this type. However, to the extent such funds have had realizations, they are included in the Realized/Partially Realized performance information presented for Total Real Assets.
- (6) Fully Invested funds are past the expiration date of the investment period as defined in the respective limited partnership agreement. In instances where a successor fund has had its first capital call, the predecessor fund is categorized as fully invested.
- (7) Gross Internal Rate of Return ( Gross IRR ) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.
- (8) Net Internal Rate of Return ( Net IRR ) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.

- (9) Aggregate includes the following funds: CRP I, CRP II, CAREP I, CAREP II, CRCP I, Energy I and Renew I.  
 (10) Includes co-investments, prefund investments and certain other stand-alone investments arranged by us.  
 (11) Aggregate includes the following fund: CPOCP.  
 (12) Returns are not considered meaningful, as the investment period commenced in September 2013 for CIEP I and March 2014 for CRP VII.  
 (13) For purposes of aggregation, funds that report in foreign currency have been converted to U.S. dollars at the reporting period spot rate.

	Remaining	Unrealized	Total	%	In Accrued	LTM	Fee	Quarterly	Investment
	Fair	Realized	Invested		Carry/	Realized	Initiation	Since	Period
	Value	MOIC	MOIC	(4)	(Clawback)	Carry	Rate	Initiation	End
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
As of June 30, 2014									
(Reported in Local Currency, in Millions)									
<b>Real Assets</b>									
Energy IV	\$ 4,383.3	1.3x	1.6x	89%	Ö	Ö	80%	Feb-08	Dec-13
Renew II	\$ 2,342.8	1.3x	1.4x	82%	(Ö)		80%	Nov-08	May-14
Energy III	\$ 2,043.5	1.0x	1.8x	94%	Ö		80%	Nov-05	Oct-11
CEREP III	1,413.4	0.9x	1.0x	88%			67%	Oct-07	May-11
CRP VI	\$ 1,756.7	1.3x	1.5x	69%	Ö		50%	Dec-11	Mar-16
CRP V	\$ 1,037.9	1.4x	1.4x	109%			50%	Nov-06	Nov-11
CIP	\$ 929.4	1.4x	1.2x	88%			80%	Oct-06	Sep-12
CRP IV	\$ 835.9	1.1x	1.1x	126%	(Ö)		50%	Dec-05	Dec-09
Energy II	\$ 332.5	0.6x	2.6x	121%	(Ö)		80%	Jan-03	Jul-08
CRP III	\$ 252.7	40.9x	2.7x	93%	(Ö)	Ö	50%	Dec-01	May-05
All Other Funds (8)	\$ 575.7	0.6x	0.9x		n/m	n/m			
Coinvestment and Other (9)	\$ 3,482.8	1.0x	1.6x		n/m	n/m			
<b>Total Real Assets (10)</b>	<b>\$ 19,908.1</b>	<b>1.1x</b>	<b>1.5x</b>						

- (1) Net asset value of our carry funds. Reflects significant funds with remaining fair value of greater than \$100 million.  
 (2) Unrealized multiple of invested capital ( MOIC ) represents remaining fair market value, before management fees, expenses and carried interest, divided by investment cost.  
 (3) Total MOIC represents total fair value before management fees, expenses, and carried interest, divided by cumulative invested capital.  
 (4) Represents cumulative equity invested as of the reporting period divided by total commitments. Amount can be greater than 100% due to the re-investment of recallable distributions to fund investors.  
 (5) Fund has accrued carry/(clawback) as of the reporting period.  
 (6) Fund has realized carry in the last twelve months.  
 (7) Represents the date of the first capital contribution for management fees.  
 (8) Aggregate includes the following funds: CRP I, CRP II, CRP VII, CRCP I, CEREP I, CEREP II, CAREP I, CAREP II, CIEP I, CPOCP, Energy I and Renew I. In Accrued Carry/(Clawback) and LTM Realized Carry not indicated because the indicator does not apply to each fund within the aggregate.  
 (9) Includes co-investments, prefund investments and certain other stand-alone investments arranged by us. In Accrued Carry/(Clawback) and LTM Realized Carry not indicated because the indicator does not apply to each



fund within the aggregate.

- (10) For purposes of aggregation, funds that report in foreign currency have been converted to U.S. dollars at the reporting period spot rate.

**Solutions**

Through August 1, 2013, our Solutions segment results reflected our 60% ownership interest in AlpInvest's operations, while our consolidated financial statements reflected 100% of AlpInvest's operations and a non-controlling interest of 40%. As a result of our acquisition of the remaining 40% equity interest in AlpInvest on August 1, 2013, our segment results prospectively from that date reflect our 100% ownership interest in AlpInvest. Also, as a result of our acquisitions of Metropolitan on November 1, 2013 and DGAM on February 3, 2014, our segment results include the results of operations of Metropolitan and DGAM since their acquisition dates.

The following table presents our results of operations for our Solutions segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
<b>Segment Revenues</b>				
Fund level fee revenues				
Fund management fees	\$ 46.9	\$ 20.9	\$ 91.4	\$ 39.4
Portfolio advisory fees, net				
Transaction fees, net				
Total fund level fee revenues	46.9	20.9	91.4	39.4
Performance fees				
Realized	7.0	2.7	12.9	4.2
Unrealized	122.5	21.3	201.8	42.6
Total performance fees	129.5	24.0	214.7	46.8
Investment income (loss)				
Realized				
Unrealized	0.2	0.1	0.3	
Total investment income (loss)	0.2	0.1	0.3	
Interest and other income	0.2	0.2	0.5	0.2
Total revenues	176.8	45.2	306.9	86.4
<b>Segment Expenses</b>				
Compensation and benefits				
Direct base compensation	20.7	7.9	41.7	17.3
Indirect base compensation	4.0	1.3	7.8	2.6
Equity-based compensation	1.1	0.1	1.8	0.2
Performance fee related				
Realized	3.5	1.4	6.8	2.4
Unrealized	91.9	16.1	158.1	32.2
Total compensation and benefits	121.2	26.8	216.2	54.7
General, administrative, and other indirect expenses	10.6	4.4	19.8	7.8
Depreciation and amortization expense	1.0	0.5	1.9	1.0

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Interest expense	1.4	0.6	2.6	1.1
Total expenses	134.2	32.3	240.5	64.6
<b>Economic Net Income</b>	<b>\$ 42.6</b>	<b>\$ 12.9</b>	<b>\$ 66.4</b>	<b>\$ 21.8</b>
(-) Net Performance Fees	34.1	6.5	49.8	12.2
(-) Investment Income	0.2	0.1	0.3	
(+) Equity-based Compensation	1.1	0.1	1.8	0.2
<b>(=) Fee Related Earnings</b>	<b>\$ 9.4</b>	<b>\$ 6.4</b>	<b>\$ 18.1</b>	<b>\$ 9.8</b>
(+) Realized Net Performance Fees	3.5	1.3	6.1	1.8
(+) Realized Investment Income				
<b>(=) Distributable Earnings</b>	<b>\$ 12.9</b>	<b>\$ 7.7</b>	<b>\$ 24.2</b>	<b>\$ 11.6</b>

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***Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013***

Total fee revenues were \$46.9 million and \$20.9 million for the three months ended June 30, 2014 and 2013, respectively. After considering the incremental \$4.9 million of management fees from our acquisition of Metropolitan, the incremental \$4.8 million of management fees from our acquisition of DGAM, and the increase in management fees from our acquisition of the remaining 40% equity interest in AlpInvest, the remaining increase in management fees was due to an increase in Fee-earning AUM at AlpInvest from 2013 to 2014. Excluding the acquired Fee-earning AUM from Metropolitan and DGAM, Fee-earning AUM increased by \$2.5 billion from June 30, 2013 to June 30, 2014, or 8%.

Total compensation and benefits were \$121.2 million and \$26.8 million for the three months ended June 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$95.4 million and \$17.5 million, or 74% and 73% of performance fees for the three months ended June 30, 2014 and 2013, respectively.

Direct and indirect base compensation expense was \$24.7 million and \$9.2 million for the three months ended June 30, 2014 and 2013, respectively. After considering the impact of the increase in compensation expense from our acquisition of Metropolitan of \$3.2 million, our acquisition of DGAM of \$3.0 million, and the acquisition of the remaining 40% equity interest in AlpInvest, the increase was also due to incremental compensation costs related to investments in personnel for the Solutions infrastructure in order to facilitate integration of the various business lines.

Equity-based compensation was \$1.1 million and \$0.1 million for the three months ended June 30, 2014 and 2013, respectively. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014 and, to a lesser extent, a decrease in the estimated forfeiture rates during the second quarter of 2013.

General, administrative and other indirect expenses were \$10.6 million and \$4.4 million for the three months ended June 30, 2014 and 2013, respectively. The increase was due to the increase in general, administrative and other indirect expenses from our acquisition of Metropolitan of \$1.7 million, our acquisition of DGAM of \$1.4 million, and the acquisition of the remaining 40% equity interest in AlpInvest.

Depreciation and amortization expense was \$1.0 million and \$0.5 million for the three months ended June 30, 2014 and 2013, respectively.

Interest expense was \$1.4 million and \$0.6 million for the three months ended June 30, 2014 and 2013, respectively. The increase was due primarily to the interest on \$200 million of 5.625% senior notes due 2043 issued in March 2014.

*Economic Net Income.* Economic net income was \$42.6 million and \$12.9 million for the three months ended June 30, 2014 and 2013, respectively. The increase in ENI for the three months ended June 30, 2014 as compared to 2013 was primarily driven by an increase in net performance fees of \$27.6 million and an increase in fee related earnings of \$3.0 million.

*Fee Related Earnings.* Fee related earnings were \$9.4 million and \$6.4 million for the three months ended June 30, 2014 and 2013, respectively. The increase in fee related earnings was due to our acquisitions of Metropolitan, DGAM, and the remaining 40% equity interest in AlpInvest, as well as incremental management fees from higher Fee-earning AUM at AlpInvest in 2014 as compared to 2013. These increases were partially offset by incremental compensation costs related to investments in personnel for the Solutions infrastructure in order to facilitate integration of the various business lines.



**Performance Fees.** Under our arrangements with the historical owners and management team of AlpInvest, we generally do not retain any carried interest in respect of the historical investments and commitments to our fund of funds vehicles that existed as of July 1, 2011 (including any options to increase any such commitments exercised after such date). We are entitled to 15% of the carried interest in respect of commitments from the historical owners of AlpInvest for the period between 2011 and 2020 and 40% of the carried interest in respect of all other commitments (including all future commitments from third parties).

Performance fees were \$129.5 million and \$24.0 million for the three months ended June 30, 2014 and 2013, respectively. Performance fees for this segment by type of fund are as follows:

	<b>Three Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Private Equity fund of funds	\$ 127.0	\$ 24.0
Hedge fund of funds	2.5	
Performance fees	\$ 129.5	\$ 24.0

Performance fees for the three months ended June 30, 2014 were primarily due to the overall appreciation in the investments in the AlpInvest fund of funds vehicles of 7% during the quarter. Additionally, during the three months ended June 30, 2014, Main Fund III – Secondary Investments (2006) and Main Fund III – Co-Investments (2006), two of the private equity fund of funds vehicles managed by AlpInvest, exceeded their performance threshold and recorded a cumulative catch-up of performance fees at such time, resulting in performance fees attributable to those vehicles of \$83.4 million.

Net performance fees for the three months ended June 30, 2014 were \$34.1 million, representing an increase of \$27.6 million from \$6.5 million in net performance fees for the three months ended June 30, 2013.

**Distributable Earnings.** Distributable earnings were \$12.9 million and \$7.7 million for the three months ended June 30, 2014 and 2013, respectively. The increase in distributable earnings was due to the increase in fee related earnings of \$3.0 million and an increase in realized net performance fees of \$2.2 million.

#### ***Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013***

Total fee revenues were \$91.4 million and \$39.4 million for the six months ended June 30, 2014 and 2013, respectively. After considering the incremental \$10.0 million of management fees from our acquisition of Metropolitan, the incremental \$8.1 million of management fees from our acquisition of DGAM, and the increase in management fees from our acquisition of the remaining 40% equity interest in AlpInvest, the remaining increase in management fees was due to an increase in Fee-earning AUM at AlpInvest from 2013 to 2014. Excluding the acquired Fee-earning AUM from Metropolitan and DGAM, Fee-earning AUM increased by \$2.5 billion from June 30, 2013 to June 30, 2014, or 8%.

Total compensation and benefits were \$216.2 million and \$54.7 million for the six months ended June 30, 2014 and 2013, respectively. Performance fee related compensation expense was \$164.9 million and \$34.6 million, or 77% and 74% of performance fees for the six months ended June 30, 2014 and 2013, respectively.

Direct and indirect base compensation expense was \$49.5 million and \$19.9 million for the six months ended June 30, 2014 and 2013, respectively. After considering the increase in compensation expense from our acquisition of

Metropolitan of \$6.1 million, our acquisition of DGAM of \$4.9 million, and the acquisition of the remaining 40% equity interest in AlpInvest, the increase was also due to incremental compensation costs related to investments in personnel for the Solutions infrastructure in order to facilitate integration of the various business lines.

Equity-based compensation was \$1.8 million and \$0.2 million for the six months ended June 30, 2014 and 2013, respectively. The increase is due primarily to the ongoing granting of deferred restricted common units to new and existing employees during 2013 and 2014 and, to a lesser extent, a decrease in the estimated forfeiture rates during the second quarter of 2013.

General, administrative and other indirect expenses were \$19.8 million and \$7.8 million for the six months ended June 30, 2014 and 2013, respectively. The increase was due to the increase in general, administrative and other indirect expenses from our acquisition of Metropolitan of \$2.9 million, our acquisition of DGAM of \$2.2 million, and the acquisition of the remaining 40% equity interest in AlpInvest.

Depreciation and amortization expense was \$1.9 million and \$1.0 million for the six months ended June 30, 2014 and 2013, respectively.

Interest expense was \$2.6 million and \$1.1 million for the six months ended June 30, 2014 and 2013, respectively. The increase was due primarily to the interest on \$400 million and \$200 million of 5.625% senior notes due 2043 issued in March 2013 and March 2014, respectively.

*Economic Net Income.* Economic net income was \$66.4 million and \$21.8 million for the six months ended June 30, 2014 and 2013, respectively. The increase in ENI for the six months ended June 30, 2014 as compared to 2013 was primarily driven by an increase in net performance fees of \$37.6 million and an increase in fee related earnings of \$8.3 million.

*Fee Related Earnings.* Fee related earnings were \$18.1 million and \$9.8 million for the six months ended June 30, 2014 and 2013, respectively. The increase in fee related earnings was due to our acquisitions of Metropolitan, DGAM, and the remaining 40% equity interest in AlpInvest, as well as incremental management fees from higher Fee-earning AUM at AlpInvest in 2014 as compared to 2013. These increases were partially offset by incremental compensation costs related to investments in personnel for the Solutions infrastructure in order to facilitate integration of the various business lines.

*Performance Fees.* Under our arrangements with the historical owners and management team of AlpInvest, we generally do not retain any carried interest in respect of the historical investments and commitments to our fund of funds vehicles that existed as of July 1, 2011 (including any options to increase any such commitments exercised after such date). We are entitled to 15% of the carried interest in respect of commitments from the historical owners of AlpInvest for the period between 2011 and 2020 and 40% of the carried interest in respect of all other commitments (including all future commitments from third parties).

Performance fees were \$214.7 million and \$46.8 million for the six months ended June 30, 2014 and 2013, respectively. Performance fees for this segment by type of fund are as follows:

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Private Equity fund of funds	\$ 209.4	\$ 46.8
Hedge fund of funds	5.3	
Performance fees	\$ 214.7	\$ 46.8

Performance fees for the six months ended June 30, 2014 were primarily due to the overall appreciation in the investments in the AlpInvest fund of funds vehicles of 14% during the period. Additionally, during the three months ended June 30, 2014, Main Fund III – Secondary Investments (2006) and Main Fund III – Co-Investments (2006), two of the private equity fund of funds vehicles managed by AlpInvest, exceeded their performance threshold and recorded a cumulative catch-up of performance fees at such time, resulting in performance fees attributable to those vehicles of \$83.4 million.



Net performance fees for the six months ended June 30, 2014 were \$49.8 million, representing an increase of \$37.6 million from \$12.2 million in net performance fees for the six months ended June 30, 2013.

**Distributable Earnings.** Distributable earnings were \$24.2 million and \$11.6 million for the six months ended June 30, 2014 and 2013, respectively. The increase in distributable earnings was due to the increase in realized performance fees of \$4.3 million and the increase in fee related earnings of \$8.3 million.

**Fee-earning AUM as of and for the Three and Six Months Ended June 30, 2014 and 2013**

Fee-earning AUM is presented below for each period together with the components of change during each respective period.

<b>Solutions</b>	<b>As of June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
<b>Components of Fee-earning AUM (1)</b>		
Fee-earning AUM based on capital commitments	\$ 12,652	\$ 9,590
Fee-earning AUM based on invested capital (2)	986	
Fee-earning AUM based on net asset value	2,906	
Fee-earning AUM based on lower of cost or fair market value	22,814	22,185
<b>Total Fee-earning AUM</b>	<b>\$ 39,358</b>	<b>\$ 31,775</b>

(1) For additional information concerning the components of Fee-earning AUM, see Fee-earning Assets under Management.

(2) Includes amounts committed to or reserved for certain Metropolitan fund of funds vehicles.

The table below breaks out Fee-earning AUM by its respective components during the period.

<b>Solutions</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>		<b>(Dollars in millions)</b>	
<b>Fee-earning AUM Rollforward</b>				
Balance, Beginning of Period	\$ 37,468	\$ 28,854	\$ 35,067	\$ 28,942
Acquisitions			2,894	
Inflows, including Commitments (1)	2,849	3,677	3,549	4,921
Outflows, including Distributions (2)	(920)	(1,391)	(2,017)	(2,130)
Subscriptions, net of Redemptions (3)	(106)		(134)	
Market Appreciation/(Depreciation) (4)	251	131	217	387
Foreign Exchange and other (5)	(184)	504	(218)	(345)
<b>Balance, End of Period</b>	<b>\$ 39,358</b>	<b>\$ 31,775</b>	<b>\$ 39,358</b>	<b>\$ 31,775</b>

(1) Inflows represent mandates where commitment fee period was activated and capital invested by fund of funds vehicles outside the commitment fee period or weighted-average investment period.

(2)

Outflows represent distributions from fund of funds vehicles outside the commitment fee period or weighted-average investment period and changes in basis for fund of funds vehicles where the commitment fee period or weighted-average investment period has expired.

- (3) Represents subscriptions and redemptions in our fund of hedge funds vehicles.
- (4) Market Appreciation/(Depreciation) represents changes in the net asset value of our fund of hedge funds vehicles and realized and unrealized gains (losses) on our fund of funds vehicles based on the lower of cost or fair value.
- (5) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Fee-earning AUM was \$39.4 billion at June 30, 2014, an increase of \$1.9 billion, or more than 5%, compared to \$37.5 billion at March 31, 2014. This increase is driven by inflows of \$2.8 billion and market appreciation of \$0.3 billion, offset by outflows of \$0.9 billion and net redemptions in our fund of hedge funds vehicles of \$0.1 billion.

Distributions from funds still in the commitment or weighted-average investment period do not impact Fee-earning AUM as these funds are based on commitments and not invested capital. Increases in fair value have an impact on Fee-earning AUM for Solutions as fully committed funds are based on the lower of cost or fair value of the underlying investments.

Fee-earning AUM was \$39.4 billion at June 30, 2014, an increase of \$4.3 billion, or over 12%, compared to \$35.1 billion at December 31, 2013. This increase was driven by the acquisition of DGAM of \$2.9 billion, inflows of \$3.5 billion and market appreciation of \$0.2 billion, offset by outflows of \$2.0 billion and foreign exchange loss of \$0.2 billion.

Fee-earning AUM was \$39.4 billion at June 30, 2014, an increase of \$7.6 billion, or approximately 24%, compared to \$31.8 billion at June 30, 2013. This increase was driven by inflows and foreign exchange gains in our AlpInvest funds and the acquisition of DGAM, offset by outflows primarily in our AlpInvest funds.

Fee-earning AUM was \$31.8 billion at June 30, 2013, an increase of \$2.9 billion, or more than 10%, compared to \$28.9 billion at March 31, 2013. This increase was driven by inflows of \$3.7 billion and foreign exchange gain of \$0.4 billion, offset by outflows of \$1.4 billion.

Fee-earning AUM was \$31.8 billion at June 30, 2013, an increase of \$2.9 billion, or over 10%, compared to \$28.9 billion at December 31, 2012. This increase was driven by inflows of \$4.9 billion and market appreciation of \$0.5 billion, offset by outflows of \$2.1 billion and foreign exchange loss of \$0.4 billion.

***Total AUM as of and for the Three and Six Month Period Ended June 30, 2014***

The table below provides the period to period rollforwards of Available Capital and Fair Value of Capital, and the resulting rollforward of Total AUM.

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	Fair Value			Fair Value		
	Available Capital	of Capital	Total AUM	Available Capital	of Capital	Total AUM
	(Dollars in millions)			(Dollars in millions)		
<b>Solutions</b>						
<b>Balance, Beginning of Period</b>	\$ 20,755	\$ 36,490	\$ 57,245	\$ 17,063	\$ 32,741	\$ 49,804
Acquisitions					2,993	2,993
Commitments (1)	(107)		(107)	4,427		4,427
Capital Called, net (2)	(1,422)	1,329	(93)	(2,341)	2,187	(154)
Distributions (3)	111	(2,223)	(2,112)	169	(4,560)	(4,391)
Subscriptions, net of Redemptions (4)		(171)	(171)		(199)	(199)
Market Appreciation/(Depreciation) (5)		2,007	2,007		4,246	4,246
Foreign Exchange and other (6)	(35)	(6)	(41)	(16)	18	2
<b>Balance, End of Period</b>	<b>\$ 19,302</b>	<b>\$ 37,426</b>	<b>\$ 56,728</b>	<b>\$ 19,302</b>	<b>\$ 37,426</b>	<b>\$ 56,728</b>

- (1) Represents capital raised by our fund of funds vehicles, including activation of new mandates, net of expired available capital.
- (2) Represents capital called by our fund of funds vehicles, net of fund fees and expenses.
- (3) Represents distributions from our fund of funds vehicles, net of amounts recycled.
- (4) Represents the net result of subscriptions to and redemptions from our fund of hedge funds vehicles.
- (5)

Market Appreciation/(Depreciation) represents changes in the net asset value of our fund of hedge funds vehicles and realized and unrealized gains (losses) on fund investments, secondary investments, co-investments, and real estate fund of funds vehicles. Fair market values for fund of funds vehicles are based on the latest available valuations of the underlying limited partnership interests (in most cases as of March 31, 2014) as provided by their general partners, plus the net cash flows since the latest valuation, up to June 30, 2014.

- (6) Represents the impact of foreign exchange rate fluctuations on the translation of our non-U.S. dollar denominated funds. Activity during the period is translated at the average rate for the period. Ending balances are translated at the spot rate as of the period end.

Total AUM was \$56.7 billion at June 30, 2014, a decrease of \$0.5 billion, or less than 1%, compared to \$57.2 billion at March 31, 2014. This decrease was primarily driven by \$2.1 billion of distributions and net redemptions in our fund of hedge funds vehicles of \$0.2 billion. This decrease was offset by market appreciation of \$2.0 billion.

Total AUM was \$56.7 billion at June 30, 2014, an increase of \$6.9 billion, or 14%, compared to \$49.8 billion at December 31, 2013. This increase was primarily driven by \$4.4 billion of commitments, \$4.2 billion of market appreciation, and amounts related to the acquisition of DGAM of \$3.0 billion. This increase was offset by \$4.4 billion of distributions and \$0.2 billion of net redemptions in our fund of hedge funds vehicles.

**Fund Performance Metrics**

Fund performance information for our AlpInvest funds that have at least \$1.0 billion in capital commitments, cumulative equity invested or total value as of June 30, 2014, which we refer to as our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund return information reflected in this discussion and analysis is not indicative of the performance of The Carlyle Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Carlyle Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following tables reflect the performance of our significant funds in our Solutions business.

	Vintage Year	Fund Size	Cumulative Invested Capital (2)(8)	TOTAL INVESTMENTS as of June 30, 2014			
				Total Fair Value (3)(8)	MOIC (4)	Gross IRR (6)	Net IRR (7)
Solutions (1) (Reported in Local Currency, in Millions)							
Fully Committed Funds (5)							
Main Fund I - Fund Investments	2000	5,174.6	3,811.4	6,222.5	1.6x	12%	12%
Main Fund II - Fund Investments	2003	4,545.0	4,357.4	6,658.5	1.5x	10%	10%
Main Fund III - Fund Investments	2005	11,500.0	10,594.6	14,548.2	1.4x	9%	8%
Main Fund IV - Fund Investments	2009	4,880.0	2,380.6	2,857.8	1.2x	12%	10%
Main Fund I - Secondary Investments	2002	519.4	455.4	843.2	1.9x	54%	50%
Main Fund II - Secondary Investments	2003	998.4	900.7	1,646.3	1.8x	28%	26%
Main Fund III - Secondary Investments	2006	2,250.0	2,079.4	2,902.9	1.4x	10%	9%
Main Fund IV - Secondary Investments	2010	1,856.4	1,682.0	2,460.3	1.5x	20%	19%
Main Fund II - Co-Investments	2003	1,090.0	862.2	2,396.8	2.8x	45%	43%
Main Fund III - Co-Investments	2006	2,760.0	2,455.8	3,557.8	1.4x	7%	6%
Main Fund IV - Co-Investments	2010	1,475.0	1,208.5	2,178.2	1.8x	24%	21%
Main Fund II - Mezzanine Investments	2004	700.0	690.0	935.0	1.4x	8%	7%
Main Fund III - Mezzanine Investments	2006	2,000.0	1,490.2	1,974.7	1.3x	11%	9%
All Other Funds (9)	Various		1,372.9	2,004.6	1.5x	17%	13%

<b>Total Fully Committed Funds</b>			<b>34,341.2</b>	<b>51,186.7</b>	<b>1.5x</b>	<b>12%</b>	<b>11%</b>
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**Funds in the Commitment Period (5)**

Main Fund V - Fund Investments	2012	5,080.0	501.9	464.8	0.9x	(14%)	(19%)
Main Fund V - Secondary Investments	2011	3,718.3	1,298.2	1,775.8	1.4x	35%	31%
Main Fund V - Co-Investments	2012	1,747.5	704.7	976.4	1.4x	47%	42%
All Other Funds (9)	Various		182.2	217.0	1.2x	21%	20%

<b>Total Funds in the Commitment Period</b>			<b>2,687.0</b>	<b>3,434.0</b>	<b>1.3x</b>	<b>32%</b>	<b>27%</b>
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<b>TOTAL SOLUTIONS</b>			<b>37,028.1</b>	<b>54,620.7</b>	<b>1.5x</b>	<b>13%</b>	<b>12%</b>
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<b>TOTAL SOLUTIONS (USD) (10)</b>			<b>\$ 50,688.7</b>	<b>\$ 74,771.6</b>	<b>1.5x</b>		
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- (1) Includes private equity and mezzanine primary fund investments, secondary fund investments and co-investments originated by the AlpInvest team. Excluded from the performance information shown are a) investments that were not originated by AlpInvest, b) Direct Investments, which was spun off from AlpInvest in 2005, and c) Metropolitan Real Estate fund of funds vehicles. As of June 30, 2014, these excluded investments represent \$0.7 billion of AUM at AlpInvest and \$2.0 billion of AUM at Metropolitan.
- (2) Represents the original cost of all capital called for investments since inception of the fund.
- (3) Represents all realized proceeds combined with remaining fair value, before management fees, expenses and carried interest.
- (4) Multiple of invested capital ( MOIC ) represents total fair value, before management fees, expenses and carried interest, divided by cumulative invested capital.
- (5) Fully Committed funds are past the expiration date of the commitment period as defined in the respective limited partnership agreement.
- (6) Gross Internal Rate of Return ( Gross IRR ) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value before management fees, expenses and carried interest.
- (7) Net Internal Rate of Return ( Net IRR ) represents the annualized IRR for the period indicated on Limited Partner invested capital based on contributions, distributions and unrealized value after management fees, expenses and carried interest.
- (8) To exclude the impact of FX, all foreign currency cash flows have been converted to Euro at the reporting period spot rate.

(9) Aggregate includes Main Fund I - Co-Investments, Main Fund I - Mezzanine Investments, AlpInvest CleanTech Funds and funds which are not included as part of a main fund.

(10) Represents the U.S. dollar equivalent balance translated at the spot rate as of period end.

## Liquidity and Capital Resources

### *Historical Liquidity and Capital Resources*

We have historically required limited capital resources to support the working capital and operating needs of our business. Our management fees have largely covered our operating costs and we have distributed all realized performance fees after related compensation to equityholders. Historically, approximately 95% of all capital commitments to our funds have been provided by our fund investors, with the remaining amount typically funded by our senior Carlyle professionals, operating executives and other professionals.

### *Cash Flows*

The significant captions and amounts from our combined and consolidated statements of cash flows which include the effects of our Consolidated Funds and CLOs in accordance with U.S. GAAP are summarized below.

	Six Months Ended0 June 30,	
	2014	2013
	(Dollars in millions)	
Statements of Cash Flows Data		
Net cash provided by operating activities	\$ 2,077.8	\$ 1,376.5
Net cash provided by (used in) investing activities	56.0	(19.2)
Net cash used in financing activities	(1,834.3)	(1,331.1)
Effect of foreign exchange rate change	12.7	(20.4)
Net change in cash and cash equivalents	\$ 312.2	\$ 5.8

*Net Cash Provided by Operating Activities.* Net cash provided by operating activities is primarily driven by our earnings in the respective periods after adjusting for non-cash performance fees, the related non-cash performance fee related compensation, and non-cash equity-based compensation, all of which are included in earnings. Cash used to purchase investments and trading securities as well as the proceeds from the sale of such investments are also reflected in our operating activities as investments are a normal part of our operating activities. Over time investment proceeds may be greater than investment purchases. During the six months ended June 30, 2014, proceeds were \$449.9 million while purchases were \$88.5 million. However, in the six months ended June 30, 2013, investment proceeds were \$198.4 million as compared to purchases of \$122.4 million. Also included in our net cash provided by operating activities are proceeds from sales of investments by the Consolidated Funds, offset by purchases of investments by the Consolidated Funds. For the six months ended June 30, 2014, proceeds from the sales and settlements of investments by the Consolidated Funds were \$5,477.2 million, while purchases of investments by the Consolidated Funds were \$5,174.2 million. For the six months ended June 30, 2013, proceeds from the sales and settlements of investments by the Consolidated Funds were \$6,211.8 million, while purchases of investments by the Consolidated Funds were \$6,404.2 million.

*Net Cash Provided By (Used in) Investing Activities.* Our investing activities generally reflect cash used for acquisitions, fixed assets and software for internal use, and changes in restricted cash. For the six months ended June 30, 2014, cash provided by investing activities primarily reflects a change in restricted cash balances. Additionally, the acquisition of DGAM resulted in the use of cash, net of cash acquired, of \$3.1 million during the six



months ended June 30, 2014.

*Net Cash Used in Financing Activities.* Financing activities are a net use of cash in each of the historical periods presented. In March 2014, the Partnership received net proceeds from the issuance of 13,800,000 newly issued common units of \$449.5 million. The Partnership used \$303.4 million of these proceeds to acquire 9,300,000 Carlyle Holdings partnership units from the other limited partners of the Carlyle Holdings partnerships. The

remaining net proceeds were used by the Partnership to acquire 4,500,000 newly issued Carlyle Holdings partnership units. Carlyle Holdings will use the proceeds from the issuance of the 4,500,000 Carlyle Holdings partnership units for general corporate purposes, including investments in our funds as well as investment capital for acquisitions of new fund platforms and strategies or other growth initiatives, to drive innovation across the broader Carlyle platform. Also during March 2014, we received net proceeds of \$210.8 million, net of financing costs, from the issuance of \$200.0 million of 5.625% senior notes due 2043 at 104.315% of par. The net proceeds from this issuance will be used for general corporate purposes, including investments in our funds as well as investment capital for acquisitions of new fund platforms and strategies and other growth initiatives.

For the six months ended June 30, 2013, we received net proceeds of \$495.3 million, net of financing costs, from the \$500.0 million 3.875% senior note issuance in January 2013 and \$394.1 million, net of financing costs, for the \$400.0 million 5.625% senior note issuance in March 2013. The proceeds from the 2013 senior note issuances were used to repay outstanding borrowings under our revolving credit facility and our term loan. Our repayments under our revolving credit facility were \$386.3 million and our repayments on our term loan were \$475.0 million for the six months ended June 30, 2013.

Distributions to our common unitholders were \$81.1 million and \$44.1 million for the six months ended June 30, 2014 and 2013, respectively. Distributions to the non-controlling interest holders in Carlyle Holdings were \$406.7 million and \$289.2 million for the six months ended June 30, 2014 and 2013, respectively. The net payment on loans payable by our Consolidated Funds during the six months ended June 30, 2014 and 2013 were \$1,007.8 million and \$926.6 million, respectively. For the six months ended June 30, 2014 and 2013, contributions from non-controlling interest holders were \$1,295.7 million and \$1,354.5 million, respectively, which relate primarily to contributions from the non-controlling interest holders in Consolidated Funds. For the six months ended June 30, 2014 and 2013, distributions to non-controlling interest holders were \$1,906.9 million and \$1,599.6 million, respectively, which relate primarily to distributions to the non-controlling interest holders in Consolidated Funds.

#### ***Our Sources of Cash and Liquidity Needs***

We believe that our primary liquidity needs are to:

provide capital to facilitate the growth of our existing business lines;

provide capital to facilitate our expansion into new, complementary business lines, including acquisitions;

pay operating expenses, including compensation and other obligations as they arise;

fund capital expenditures;

repay borrowings and related interest costs and expenses;

pay earnouts and contingent cash consideration associated with our acquisitions and strategic investments;

pay income taxes;

make distributions to our unitholders and the holders of the Carlyle Holdings partnership units in accordance with our distribution policy; and

fund the capital investments of Carlyle in our funds.

With respect to distribution year 2014, the Board of Directors of our general partner has declared cumulative distributions to common unitholders totaling approximately \$21.5 million, or \$0.32 per common unit, consisting of (i) \$0.16 per common unit in respect of the second quarter of 2014, which is payable on August 22, 2014 to common unitholders of record on August 11, 2014, and (ii) \$0.16 per common unit in respect of the first quarter of 2014, which was paid in May 2014.

Distributions to common unitholders paid during the six months ended June 30, 2014 totaled \$81.1 million, representing the amount paid in March 2014 of \$1.40 per common unit with respect to the fourth quarter of 2013 and the \$0.16 per common unit quarterly distribution paid in May 2014.

We currently anticipate that we will cause Carlyle Holdings to make quarterly distributions to its partners, including The Carlyle Group L.P.'s wholly owned subsidiaries, that will enable The Carlyle Group L.P. to pay a quarterly distribution of \$0.16 per common unit for each of the first three quarters of each year and for the fourth quarter of each year, to pay a distribution of at least \$0.16 per common unit that, taken together with the prior quarterly distributions in respect of that year, represents its share, net of taxes and amounts payable under the tax receivable agreement, of Carlyle's Distributable Earnings in excess of the amount determined by Carlyle's general partner to be necessary or appropriate to provide for the conduct of Carlyle's business, to make appropriate investments in its business and its funds or to comply with applicable law or any of its financing agreements. We anticipate that the aggregate amount of our distributions for most years will be less than our Distributable Earnings for that year due to these funding requirements.

Notwithstanding the foregoing, the declaration and payment of any distributions will be at the sole discretion of our general partner, which may change our distribution policy at any time. Our general partner will take into account general economic and business conditions, our strategic plans and prospects, our business and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, legal, tax and regulatory restrictions, other constraints on the payment of distributions by us to our common unitholders or by our subsidiaries to us, and such other factors as our general partner may deem relevant.

Generally, we intend to have Carlyle commit to fund approximately 1% of the capital commitments to our future carry funds, although we may elect to invest additional amounts in funds focused on new investment areas. We may, from time to time, exercise our right to purchase additional interests in our investment funds that become available in the ordinary course of their operations. We expect our senior Carlyle professionals and employees to continue to make significant capital contributions to our funds based on their existing commitments, and to make capital commitments to future funds consistent with the level of their historical commitments. We also intend to make investments in our open-end funds and our CLO vehicles.

We generally use our working capital and cash flows to invest in growth initiatives, service our debt, fund the working capital needs of our business and investment funds and pay distributions to our unitholders. We have multiple sources of liquidity to meet our capital needs, including cash on hand, annual cash flows, accumulated earnings and funds from our senior credit facility, including a term loan facility and a revolving credit facility with \$750.0 million available as of June 30, 2014. We believe these sources will be sufficient to fund our capital needs for at least the next 12 months. If we determine that market conditions are favorable after taking into account our liquidity requirements, including the amounts available under our senior credit facility, we may seek to issue and sell common units in a registered public offering or to issue additional senior notes or other debt. For example, during the first quarter of 2014, we issued 13,800,000 common units in a registered public offering that provided net proceeds to us of \$449.5 million. We also issued \$200 million of 5.625% senior notes due 2043 during the first quarter of 2014 that provided net proceeds to us of \$210.8 million. We used a portion of the net proceeds from the equity issuance to purchase from certain holders, including certain of our directors and executive officers, an equivalent number of outstanding Carlyle Holdings partnership units. The remaining proceeds from the equity issuance and the proceeds from the debt issuance will be used for general corporate purposes, investments in our funds as well as investment capital for acquisitions of new fund platforms and strategies or other growth initiatives, to drive innovation across the broader Carlyle platform. During the first quarter of 2013, we issued \$500 million of senior notes due 2023 and \$400 million of senior notes due 2043 and used the proceeds from those note issuances to repay the outstanding balance under our revolving credit facility and \$475.0 million of our term loan borrowings.



Since our inception through June 30, 2014, we and our senior Carlyle professionals, operating executives and other professionals have invested or committed to invest in or alongside our funds. Approximately 5% of all capital commitments to our funds are funded collectively by us and our senior Carlyle professionals, operating executives and other professionals. The current invested capital and unfunded commitment of Carlyle and our senior Carlyle professionals, operating executives and other professionals to our investment funds as of June 30, 2014, consisted of the following:

Asset Class	Current Equity Invested	Unfunded Commitment (Dollars in millions)	Total Current Equity Invested and Unfunded Commitment
Corporate Private Equity	\$ 1,556.5	\$ 2,025.9	\$ 3,582.4
Global Market Strategies	1,125.3	204.8	1,330.1
Real Assets	738.5	843.1	1,581.6
Solutions	27.4	32.2	59.6
<b>Total</b>	<b>\$ 3,447.7</b>	<b>\$ 3,106.0</b>	<b>\$ 6,553.7</b>

A substantial majority of these investments have been funded by, and a substantial majority of the remaining commitments are expected to be funded by, senior Carlyle professionals, operating executives and other professionals through our internal co-investment program. Of the \$3.1 billion of unfunded commitments, approximately \$2.8 billion is subscribed individually by senior Carlyle professionals, operating executives and other professionals, with the balance funded directly by the Partnership.

Investments as of June 30, 2014 consist of the following (dollars in millions):

Investments	\$ 771.6
Less: Amounts attributable to non-controlling interests in consolidated entities	(254.9)
Less: Strategic equity method investment in NGP Management	(355.3)
Investments excluding non-controlling interests and NGP Management	161.4
Plus: investments in Consolidated Funds, eliminated in consolidation	168.9
Total investments attributable to Carlyle Holdings, exclusive of NGP management	\$ 330.3

Another source of liquidity we may use to meet our capital needs is the realized carried interest and incentive fee revenue generated by our investment funds. Carried interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return. Incentive fees earned on hedge fund structures are realized at the end of each fund's measurement period. Incentive fees earned on our CLO vehicles are paid upon the dissolution of such vehicles.



Our accrued performance fees by segment as of June 30, 2014, gross and net of accrued giveback obligations, are set forth below:

<b>Asset Class</b>	<b>Accrued Performance Fees</b>	<b>Accrued Giveback Obligation (Dollars in millions)</b>	<b>Net Accrued Performance Fees</b>
Corporate Private Equity	\$ 2,776.1	\$ 14.1	\$ 2,762.0
Global Market Strategies	162.4	2.1	160.3
Real Assets	332.6	16.1	316.5
Solutions	566.9		566.9
<b>Total</b>	<b>\$ 3,838.0</b>	<b>\$ 32.3</b>	<b>\$ 3,805.7</b>
Less: Accrued performance fee-related compensation			(1,839.5)
Plus: Receivable for give back obligations from current and former employees			12.2
Less: Net accrued performance fees attributable to non-controlling interests in consolidated entities			(15.1)
<b>Net accrued performance fees excluding compensation and non-controlling interests</b>			<b>1,963.3</b>
Plus: Net accrued performance fees in Consolidated Funds, eliminated in consolidation			23.8
Less: Net accrued performance fees realized in the second quarter of 2014 and to be collected in subsequent periods			(14.3)
<b>Net accrued performance fees attributable to Carlyle Holdings, excluding realized amounts</b>			<b>\$ 1,972.8</b>

Cash and cash equivalents were approximately \$1.3 billion at June 30, 2014. However, a portion of this cash is allocated for specific business purposes, including, but not limited to, (i) performance fee-related cash that has been received but not yet distributed as performance fee-related compensation and amounts owed to non-controlling interests; (ii) proceeds received from realized investments that are allocable to non-controlling interests; and (iii) cash reserved for potential future giveback obligations. After deducting cash amounts allocated to these specific requirements, the remaining cash and cash equivalents is approximately \$700 million as of June 30, 2014. This remaining amount will be used towards our primary liquidity needs, as previously outlined.

### ***Our Balance Sheet and Indebtedness***

Total assets were \$37.5 billion at June 30, 2014, an increase of \$1.9 billion from December 31, 2013. The increase in total assets was primarily attributable to increases in cash and cash equivalents, cash and cash equivalents held at Consolidated Funds, investments of Consolidated Funds, and accrued performance fees. Assets of the Consolidated Funds were approximately \$30.3 billion at June 30, 2014, representing an increase of \$1.4 billion from December 31, 2013. Cash and cash equivalents were approximately \$1.3 billion, an increase of \$0.3 billion from December 31, 2013. Accrued performance fees were approximately \$3.8 billion at June 30, 2014, representing an increase of \$0.1 billion from December 31, 2013.



Total liabilities were \$22.5 billion at June 30, 2014, an increase of \$1.6 billion from December 31, 2013. The increase in liabilities was primarily attributable to increases in the liabilities of the Consolidated Funds, which increased \$1.2 billion from December 31, 2013 to June 30, 2014, and an increase in the outstanding 5.625% senior notes due 2043, which increased \$0.2 billion from December 31, 2013 to June 30, 2014.

The assets and liabilities of the Consolidated Funds are generally held within separate legal entities and, as a result, the assets of the Consolidated Funds are not available to meet our liquidity requirements and similarly the liabilities of the Consolidated Funds are non-recourse to us. The assets and liabilities of the consolidated real estate VIE are also held in separate legal entities; we have not guaranteed or assumed any obligation for repayment of its liabilities nor are its assets available to meet our liquidity requirements.

Our balance sheet without the effect of the Consolidated Funds can be seen in Note 20 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. At June 30, 2014, our total assets were \$7.4 billion, including cash and cash equivalents of \$1.3 billion and accrued performance fees of \$3.9 billion.

*Loans Payable.* Loans payable on our balance sheet at June 30, 2014 reflects \$25.0 million outstanding under our senior credit facility, comprised of \$25.0 million of term loan balance outstanding. No amount was outstanding under the revolving credit facility of our senior credit facility. Additionally, loans payable at June 30, 2014 includes \$17.2 million outstanding under a separate term loan entered into during 2013 related to an investment in a CLO.

*Senior Credit Facility.* The senior credit facility includes \$25.0 million in a term loan and \$750.0 million in a revolving credit facility. The term loan and revolving credit facility mature on August 9, 2018. Principal amounts outstanding under the amended term loan and revolving credit facility accrue interest, at the option of the borrowers, either (a) at an alternate base rate plus an applicable margin not to exceed 0.75%, or (b) at LIBOR plus an applicable margin not to exceed 1.75% (1.41% at June 30, 2014).

The senior credit facility is unsecured. We are required to maintain management fee earning assets (as defined in the senior credit facility) of at least \$65 billion plus 70% of any future acquired AUM and a total debt leverage ratio of less than 3.0 to 1.0, in each case, tested on a quarterly basis. Non-compliance with any of the financial or non-financial covenants without cure or waiver would constitute an event of default under the senior credit facility. An event of default resulting from a breach of certain financial or non-financial covenants may result, at the option of the lenders, in an acceleration of the principal and interest outstanding, and a termination of the revolving credit facility. The senior credit facility also contains other customary events of default, including defaults based on events of bankruptcy and insolvency, nonpayment of principal, interest or fees when due, breach of specified covenants, change in control and material inaccuracy of representations and warranties.

*Other Term Loan.* On October 3, 2013, the Partnership borrowed 12.6 million (\$17.2 million at June 30, 2014) under a new term loan and security agreement with a financial institution. Interest on the term loan accrues at EURIBOR plus 1.75% (1.96% at June 30, 2014). The Partnership may prepay the facility in whole or in part at any time without penalty. The facility is scheduled to mature on the earlier of five years after closing or the date that the CLO is dissolved. The facility is secured by the Partnership's investment in the CLO.

*3.875% Senior Notes.* In January 2013, Carlyle Holdings Finance L.L.C., an indirect finance subsidiary of the Partnership, issued \$500.0 million of 3.875% senior notes due February 1, 2023 at 99.966% of par. Interest is payable semi-annually on February 1 and August 1, beginning August 1, 2013. The notes are unsecured and unsubordinated obligations of Carlyle Holdings Finance L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Carlyle Group L.P. and each of the Carlyle Holdings partnerships. The indenture governing the notes contains customary covenants that, among other things, limit Carlyle Holdings Finance L.L.C. and the guarantors' ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The notes also contain customary events of default. All or a portion of the notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the notes. If a change of control repurchase event occurs, the notes are subject to repurchase at the repurchase price as set forth in the notes.

*5.625% Senior Notes.* In March 2013, Carlyle Holdings II Finance L.L.C., an indirect finance subsidiary of the Partnership, issued \$400.0 million of 5.625% Senior Notes due March 30, 2043 at 99.583% of par. Interest is payable semi-annually on March 30 and September 30, beginning September 30, 2013. The notes are unsecured and unsubordinated obligations of Carlyle Holdings II Finance L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Carlyle Group L.P. and each of the Carlyle Holdings partnerships. The indenture governing the notes contains customary covenants and financial restrictions that, among other things, limit Carlyle Holdings Finance II L.L.C. and the guarantors' ability, subject to certain exceptions, to incur indebtedness secured by

liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The notes also contain customary events of default. All or a portion of the notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the notes. If a change of control repurchase event occurs, the notes are subject to repurchase at the repurchase price as set forth in the notes.

In March 2014, Carlyle Holdings II Finance L.L.C. issued \$200.0 million of 5.625% Senior Notes due March 30, 2043 at 104.315% of par. These notes were issued as additional 5.625% Senior Notes due March 30, 2043 and will be treated as a single class with the already outstanding \$400.0 million aggregate principal amount of these senior notes.

*Obligations of CLOs.* Loans payable of the Consolidated Funds represent amounts due to holders of debt securities issued by the CLOs. We are not liable for any loans payable of the CLOs. Several of the CLOs issued preferred shares representing the most subordinated interest, however these tranches are mandatorily redeemable upon the maturity dates of the senior secured loans payable, and as a result have been classified as liabilities under U.S. GAAP, and are included in loans payable of Consolidated Funds in our combined and consolidated balance sheets.

As of June 30, 2014, the following borrowings were outstanding at our CLOs, including preferred shares classified as liabilities (dollars in millions):

	<b>Borrowing Outstanding</b>	<b>Weighted Average Interest Rate</b>	<b>Weighted Average Remaining Maturity in Years</b>
Senior secured notes	\$ 15,123.5	1.53%	9.10
Subordinated notes, Income notes and Preferred shares	1,371.3	N/A <sup>(1)</sup>	8.08
Combination notes	15.0	N/A <sup>(2)</sup>	7.64
Total	\$ 16,509.8		

(1) The subordinated notes, income notes and preferred shares do not have contractual interest rates, but instead receive distributions from the excess cash flows of the CLOs.

(2) The combination notes do not have contractual interest rates and have recourse only to securities specifically held to collateralize such combination notes.

The fair value of senior secured notes, subordinated notes, income notes and preferred shares, and combination notes of our CLOs as of June 30, 2014 was \$14,775.1 million, \$1,345.1 million, and \$16.2 million, respectively.

Loans payable of the CLOs are collateralized by the assets held by the CLOs and the assets of one CLO may not be used to satisfy the liabilities of another. This collateral consists of cash and cash equivalents, corporate loans, corporate bonds and other securities.

*Loans Payable of a Consolidated Real Estate VIE.* This balance consists of the borrowings of Urbplan for its real estate development activities. As of June 30, 2014, the principal amount outstanding on the loans was approximately \$295.4 million. The Partnership records the borrowings of Urbplan at fair value on its consolidated balance sheet; the fair value of the Urbplan borrowings at June 30, 2014 was \$147.7 million. The principal amounts of the loans accrue interest at a variable rate based on an index plus an applicable margin. Interest rates are based on: (i) CDI plus a margin ranging from 4.0% to 7.4% (14.8% to 18.2% as of June 30, 2014); (ii) IGP-M plus a margin of 12.0% (18.3% as of June 30, 2014); or (iii) IPCA plus a margin ranging from 10.0% to 13.5% (16.5% to 20.0% as of June 30, 2014).

Substantially all of Urbplan's customer and other receivables and investments have been pledged as collateral for the loans. As of June 30, 2014, substantially all of the loans payable of Urbplan are not in compliance with their related debt covenants or are otherwise in technical default. These violations do not cause a default or event of default under

the Partnership's senior credit facility or senior notes. Urbplan management is in discussions with the lenders to cure or re-negotiate the loans in default. Currently there are no outstanding notices of acceleration of payment on the loans in default.

All of the loans payable of Urbplan are contractually non-recourse to us.

### ***Unconsolidated Entities***

Our corporate private equity funds have not historically utilized substantial leverage at the fund level other than short-term borrowings under certain fund level lines of credit which are used to fund liquidity needs in the interim between the date of an investment and the receipt of capital from the investing fund's investors. These funds do, however, make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

Certain of our real estate funds have entered into lines of credits secured by their investors' unpaid capital commitments or by a pledge of the equity of the underlying investment. Due to the relatively large number of investments made by these funds, the lines of credit are primarily employed to reduce the overall number of capital calls or for working capital needs. In certain instances, however, they may be used for other investment related activities, including serving as bridge financing for investments. The degree of leverage employed varies among portfolio companies.

### ***Off-balance Sheet Arrangements***

In the normal course of business, we enter into various off-balance sheet arrangements including sponsoring and owning limited or general partner interests in consolidated and non-consolidated funds, entering into derivative transactions, entering into operating leases and entering into guarantee arrangements. We also have ongoing capital commitment arrangements with certain of our consolidated and non-consolidated funds. We do not have any other off-balance sheet arrangements that would require us to fund losses or guarantee target returns to investors in any of our other investment funds.

For further information regarding our off-balance sheet arrangements, see Note 2 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

**Contractual Obligations**

The following table sets forth information relating to our contractual obligations as of June 30, 2014 on a consolidated basis and on a basis excluding the obligations of the Consolidated Funds:

	<b>July 1, 2014 to December 31, 2014</b>				<b>Total</b>
	<b>2015-2016</b>	<b>2017-2018</b>	<b>Thereafter</b>		
	<b>(Dollars in millions)</b>				
Loans payable and senior notes(a)	\$	\$	\$ 42.2	\$ 1,100.0	\$ 1,142.2
Interest payable(b)	28.5	111.2	108.5	897.6	1,145.8
Contingent cash consideration(c)	37.0	204.6	63.6	440.7	745.9
Options to acquire additional investments in					
NGP(d)	77.9				77.9
Operating lease obligations(e)	27.5	99.1	81.2	295.7	503.5
Capital commitments to Carlyle funds(f)	3,113.5				3,113.5
Tax receivable agreement payments(g)		5.0	8.1	85.9	99.0
Loans payable of Consolidated Funds(h)	141.3	467.7	790.9	17,371.1	18,771.0
Loans payable of a consolidated real estate VIE(i)	29.4	67.3	49.9	148.8	295.4
Unfunded commitments of the CLOs and Consolidated Funds(j)	1,113.7				1,113.7
Redemptions payable of Consolidated Funds(k)	115.2				115.2
Consolidated contractual obligations	4,684.0	954.9	1,144.4	20,339.8	27,123.1
Loans payable of Consolidated Funds(h)	(141.3)	(467.7)	(790.9)	(17,371.1)	(18,771.0)
Loans payable of a consolidated real estate VIE(i)	(29.4)	(67.3)	(49.9)	(148.8)	(295.4)
Capital commitments to Carlyle funds(f)	(2,805.1)				(2,805.1)
Unfunded commitments of the CLOs and Consolidated Funds(j)	(1,113.7)				(1,113.7)
Redemptions payable of Consolidated Funds(k)	(115.2)				(115.2)
Carlyle Operating Entities contractual obligations	\$ 479.3	\$ 419.9	\$ 303.6	\$ 2,819.9	\$ 4,022.7

- (a) The table above assumes that no prepayments are made on the term loans or senior notes and that the outstanding balance on the revolving credit facility is repaid on the maturity date of the senior credit facility. On August 9, 2013, we entered into Amendment No. 1 to the senior credit facility to extend the maturity date of the term loan and revolving credit facility from September 30, 2016 until August 9, 2018, and to eliminate all amortization of outstanding term loans, with all such term loans being due and payable on the new maturity date. The term loan entered into during 2013 related to an investment in a CLO matures on the earlier of 2018 or the date that the CLO is dissolved. For purposes of the table above, it is assumed that the CLO does not dissolve prior to 2018.

(b)

The interest rate on the loans payable consist of 3.875% on \$500.0 million of senior notes, 5.625% on \$600.0 million of senior notes, approximately 2.33% on \$25.0 million of the term loan of our senior credit facility (inclusive of the effect of the outstanding interest rate swaps), and approximately 1.96% on \$17.2 million of our other term loan. Interest payments assume that no prepayments are made and loans are held until maturity.

- (c) These obligations represent our probability-weighted estimate of amounts to be paid on the contingent cash consideration obligations associated with our business acquisitions and strategic investment in NGP Management. The actual amounts to be paid under these agreements will not be determined until the specific performance conditions are met. Refer to Contingent Cash Payments for Business Acquisitions and Strategic Investments below for the maximum amounts we may be required to pay under these arrangements and Note 6 and Note 9 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information. Included in these amounts are \$77.0 million of employment-based contingent consideration payments that have been earned but are not payable until the individuals are no longer employees of Carlyle, the timing of which cannot be predicted. For purposes of the table above, the timing has been based on a probability-weighted estimate.



- (d) This amount represents an existing option we have to acquire additional interests in NGP representing an interest in the general partner of NGP Fund X, which will entitle us to an income allocation equal to 40% of the carried interest received by such fund's general partner. In July 2014, we exercised this option and acquired the additional interests in NGP for \$61.3 million. In conjunction with this transaction, we also acquired certain general partner investments in NGP Fund X, for which we paid \$16.6 million.
- (e) We lease office space in various countries around the world and maintain our headquarters in Washington, D.C., where we lease our primary office space under a non-cancelable lease agreement expiring on July 31, 2026. Our office leases in other locations expire in various years from 2014 through 2031. The amounts in this table represent the minimum lease payments required over the term of the lease.
- (f) These obligations represent commitments by us to fund a portion of the purchase price paid for each investment made by our funds. These amounts are generally due on demand and are therefore presented in the less than one year category. A substantial majority of these investments is expected to be funded by senior Carlyle professionals and other professionals through our internal co-investment program. Of the \$3.1 billion of unfunded commitments, approximately \$2.8 billion is subscribed individually by senior Carlyle professionals, operating executives and other professionals, with the balance funded directly by the Partnership. Also included in these amounts is \$7.5 million that will be paid to NGP in exchange for an additional 7.5% equity interest in NGP Management once the investment period for NGP Fund X has expired, which is anticipated to occur in 2014.
- (g) Represents obligations by the Partnership's corporate taxpayers to make payments under the tax receivable agreement. Holders of partnership units in Carlyle Holdings may exchange their Carlyle Holdings partnership units for common units in The Carlyle Group L.P. on a one-for-one basis. These exchanges may reduce the amount of tax that the corporate taxpayers would be required to pay in the future. The corporate taxpayers will pay to the limited partner of Carlyle Holdings making the exchange 85% of the amount of cash savings that the corporate taxpayers realize upon an exchange. See "Tax Receivable Agreement" below.
- (h) These obligations represent amounts due to holders of debt securities issued by the consolidated CLO vehicles. These obligations include interest to be paid on debt securities issued by the consolidated CLO vehicles. Interest payments assume that no prepayments are made and loans are held until maturity. For debt securities with rights only to the residual value of the CLO and no stated interest, no interest payments were included in this calculation. Interest payments on variable-rate debt securities are based on interest rates in effect as of June 30, 2014, at spreads to market rates pursuant to the debt agreements, and range from 0.44% to 12.65%.
- (i) These obligations represent amounts owed to the lenders of Urbplan. These obligations include interest to be paid on the loans of Urbplan. Principal and interest payments shown herein assume that amounts will be paid according to the contractual maturities of the loans without acceleration due to default or covenant violation or other voluntarily prepayments. Interest payments on variable-rate debt are based on interest rates in effect as of June 30, 2014, at spreads to market rates pursuant to the loan agreements, and range from 14.8% to 20.0%. Due to the timing and availability of financial information from Urbplan, we consolidate the financial position and results of operations of Urbplan on a financial reporting lag of 90 days. The balances shown in this table are based on Urbplan's outstanding borrowings as of March 31, 2014.
- (j) These obligations represent commitments of the CLOs and Consolidated Funds to fund certain investments. These amounts are generally due on demand and are therefore presented in the less than one year category.
- (k) Our consolidated hedge funds are subject to quarterly or monthly redemption by investors in these funds. These obligations represent the amount of redemptions where the amount requested in the redemption notice has become fixed and payable.

Excluded from the table above are liabilities for uncertain tax positions of \$14.4 million at June 30, 2014 as we are unable to estimate when such amounts may be paid. Also excluded from the table above are outstanding commitments of Urbplan for land development services with an estimated \$156 million of future costs to be incurred; these amounts have been excluded as we are unable to determine when such amounts will be paid.

#### ***Contingent Funding of the Consolidated Real Estate VIE***

As described in Note 17 to the unaudited condensed consolidated financial statements included in this Quarterly Report on

Form 10-Q, we and certain of our senior Carlyle professionals have made and may make additional investments in Urbplan. From April 2013 (the time of the first additional investment into Urbplan) through June 30, 2014, \$152.8 million has been funded to Urbplan by us and our senior Carlyle professionals (net of gains from related foreign currency forward contracts). We have funded \$35.7 million of the \$152.8 million and the remaining \$117.1 million has been funded by our senior Carlyle professionals indirectly through the Partnership.

At this time, Urbplan is expected to require additional funding of approximately \$100 million to \$150 million to enable it to continue operations; however, the actual amount of additional funding necessary may exceed this estimate. While no contractual or other obligations exist to provide additional financial support to Urbplan, we and our senior Carlyle professionals expect to provide additional capital funding to Urbplan in the future and Urbplan will continue to seek capital funding from unaffiliated parties. We and our senior Carlyle professionals will evaluate the possibility of further capital infusions based on the circumstances at the time (including levels of third-party funding participation). It is anticipated that we would fund 25% and our senior Carlyle professionals would fund 75% indirectly through us of any additional investments made by us and our senior Carlyle professionals.

We may not recover, in whole or in part, the capital that we have invested in or any additional capital that we may elect to invest in Urbplan in the future, and our results of operations could be adversely impacted by impairments, write-downs, lawsuits by customers or creditors, other claims against Urbplan or us or other losses associated with our investment in Urbplan. Urbplan is currently a party to various litigation, disputes and other potential claims. We do not believe it is probable that the outcome of any existing Urbplan litigation, government investigations and proceedings, disputes, or other potential claims will materially affect us or our consolidated financial statements.

The assets and liabilities of Urbplan are held in legal entities separate from the Partnership; we have not guaranteed or assumed any obligation for repayment of Urbplan's liabilities nor are the assets of Urbplan available to meet our liquidity requirements. However, if Urbplan fails to complete its construction projects, customers, partners, government agencies or municipalities or other creditors in certain circumstances might seek to assert claims against us and our assets unrelated to Urbplan under certain consumer protection or other laws.

### ***Contingent Cash Payments for Business Acquisitions and Strategic Investments***

We have certain contingent cash obligations associated with our business acquisitions and our strategic investment in NGP Management. For our business acquisitions, these contingent cash payments relate to performance-based contingent cash consideration payable to the sellers of the businesses, some of whom are Carlyle professionals. Certain of these payments to those Carlyle professionals require such Carlyle professionals to be employed by us at the time the performance conditions are met, while other payments are not contingent upon employment.

For our strategic investment in NGP Management, the contingent cash payments relate to performance-based contingent cash consideration payable to NGP and an affiliate of Barclays Bank PLC, as well as an option we have to purchase additional interests in NGP representing an interest in the general partner of NGP Fund X, which would entitle us to an allocation of income equal to 40% of the carried interest received by such fund's general partner. In July 2014, we exercised this option and paid \$61.3 million to acquire the interest in the general partner of NGP Fund X. In conjunction with this transaction, we also acquired certain general partner investments in NGP Fund X, for which we paid \$16.6 million. The performance-based contingent cash consideration payable to an affiliate of Barclays Bank PLC totaling \$183.0 million, which is payable partly in cash and partly by a promissory note, is earned based on NGP's achievement of certain business performance goals, including the successful fundraising by NGP of new fund commitments. See Note 6 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.

The amounts shown in the contractual obligations table above represent our probability-weighted estimate of amounts to be paid on the contingent cash consideration obligations associated with our business acquisitions and our strategic investment in NGP Management. Except as noted below, the following table represents the maximum amounts that could be paid from our contingent cash obligations associated with our business acquisitions and our strategic investment in NGP Management and an estimated amount payable for the options related to NGP:

As of June 30, 2014				Liability Recognized on Financial Statements <sup>(1)</sup>
	Business Acquisitions	NGP Investment (Dollars in millions)	Total	
Performance-based contingent cash consideration	\$ 288.6	\$ 183.0	\$ 471.6	\$ 132.3
Employment-based contingent cash consideration	446.9	45.0	491.9	184.3
Options to acquire additional investments in NGP		61.3	61.3	
Total	\$ 735.5	\$ 289.3	\$ 1,024.8	\$ 316.6

- (1) On our consolidated balance sheet, the liability for performance-based contingent cash consideration is included in due to affiliates (for amounts owed to Carlyle professionals) and accounts payable, accrued expenses, and other liabilities (for amounts owed to other sellers), and the liability for employment-based contingent cash consideration is included in accrued compensation and benefits. Also, the amounts shown here exclude the liabilities that have been recognized on our consolidated financial statements for performance-based contingent equity consideration.

Some of the employment-based contingent cash consideration agreements do not contain provisions limiting the amount that could be paid by us. For purposes of the table above, we have used our current estimate of the amount to be paid upon the determination dates for such payments. In our consolidated financial statements, we record the performance-based contingent cash consideration from our business acquisitions at fair value at each reporting period. For the employment-based contingent cash consideration, we accrue the compensation liability over the implied service period.

### ***Guarantees***

In 2001, we entered into an agreement with a financial institution pursuant to which we are the guarantor on a credit facility for eligible employees investing in Carlyle sponsored funds. This credit facility renews on an annual basis, allowing for annual incremental borrowings up to an aggregate of \$16.4 million, and accrues interest at the lower of the prime rate, as defined, or three-month LIBOR plus 2%, reset quarterly. At June 30, 2014, approximately \$8.4 million was outstanding under the credit facility and payable by the employees. No material funding under the guarantee has been required, and we believe the likelihood of any material funding under the guarantee to be remote.

In July 2012, we provided a guarantee to the French tax authorities as credit support for a 45.7 million tax assessment and in October 2012, placed an additional 4.4 million in escrow, in each case, related to CEREP I. We expect to incur costs on behalf of CEREP I and its related entities. We will attempt to recover any amounts advanced or paid under

the guarantee from proceeds of subsequent portfolio dispositions by CEREP I. The amount of any unrecoverable costs that may be incurred by us is not estimable at this time. Refer to **Contingencies** below and Note 11 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information.

***Indemnifications***

In many of our service contracts, we agree to indemnify the third-party service provider under certain circumstances. The terms of the indemnities vary from contract to contract, and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our consolidated financial statements as of June 30, 2014.

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***Tax Receivable Agreement***

Holders of partnership units in Carlyle Holdings (other than The Carlyle Group L.P.'s wholly-owned subsidiaries), subject to the vesting and minimum retained ownership requirements and transfer restrictions applicable to such holders as set forth in the partnership agreements of the Carlyle Holdings partnerships, may (subject to the terms of the exchange agreement) exchange their Carlyle Holdings partnership units for The Carlyle Group L.P. common units on a one-for-one basis. A Carlyle Holdings limited partner must exchange one partnership unit in each of the three Carlyle Holdings partnerships to effect an exchange for a common unit. The exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Carlyle Holdings. These increases in tax basis may increase (for tax purposes) depreciation and amortization deductions and therefore reduce the amount of tax that Carlyle Holdings I GP Inc. and any other corporate taxpayers would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

In connection with the reorganization and initial public offering, we have entered into a tax receivable agreement with the limited partners of the Carlyle Holdings partnerships that will provide for the payment by the corporate taxpayers to such parties of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the corporate taxpayers realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. This payment obligation is an obligation of the corporate taxpayers and not of Carlyle Holdings. While the actual increase in tax basis, as well as the amount and timing of any payments under this agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of our common units at the time of the exchange, the extent to which such exchanges are taxable and the amount and timing of our income, we expect that as a result of the size of the transfers and increases in the tax basis of the tangible and intangible assets of Carlyle Holdings, the payments that we may make under the tax receivable agreement will be substantial. The payments under the tax receivable agreement are not conditioned upon these parties' continued ownership of us. In the event that The Carlyle Group L.P. or any of its wholly-owned subsidiaries that are not treated as corporations for U.S. federal income tax purposes become taxable as a corporation for U.S. federal income tax purposes, these entities will also be obligated to make payments under the tax receivable agreement on the same basis and to the same extent as the corporate taxpayers.

The tax receivable agreement provides that upon certain changes of control, or if, at any time, the corporate taxpayers elect an early termination of the tax receivable agreement, the corporate taxpayers' obligations under the tax receivable agreement (with respect to all Carlyle Holdings partnership units whether or not previously exchanged) would be calculated by reference to the value of all future payments that the counterparties would have been entitled to receive under the tax receivable agreement using certain valuation assumptions, including that the corporate taxpayers will have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement and, in the case of an early termination election, that any Carlyle Holdings partnership units that have not been exchanged are deemed exchanged for the market value of the common units at the time of termination. In addition, the counterparties will not reimburse us for any payments previously made under the tax receivable agreement if such tax basis increase is successfully challenged by the IRS. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under this agreement, will depend upon a number of factors, including the timing and amount of our future income. As a result, even in the absence of a change of control or an election to terminate the tax receivable agreement, payments under the tax receivable agreement could be in excess of the corporate taxpayers' actual cash tax savings.

***Contingent Obligations (Giveback)***

An accrual for potential repayment of previously received performance fees of \$32.3 million at June 30, 2014 (\$42.5 million before \$10.2 million is eliminated in the consolidation of Consolidated Funds) is shown as accrued giveback

obligations on the consolidated balance sheet, representing the giveback obligation that would need to be paid if the funds were liquidated at their current fair values at June 30, 2014. However, the ultimate giveback obligation, if any, does not arise until the end of a fund's life. We have recorded \$12.2 million of unbilled receivables from former and current employees and our individual senior Carlyle professionals as of June 30, 2014 related to giveback obligations, which are included in due from affiliates and other receivables, net in our consolidated balance sheet as of such date.

If, as of June 30, 2014, all of the investments held by our funds were deemed worthless, the amount of realized and distributed carried interest subject to potential giveback would be \$1.1 billion, on an after-tax basis where applicable.

Our senior Carlyle professionals and employees who have received carried interest distributions are severally responsible for funding their proportionate share of any giveback obligations. However, the governing agreements of certain of our funds provide that to the extent a current or former employee from such funds does not fund his or her respective share, then we may have to fund additional amounts beyond what we received in carried interest, although we will generally retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations.

### ***Contingencies***

In the ordinary course of business, we are a party to litigation, investigations, disputes and other potential claims. Certain of these matters are described below. We are not currently able to estimate for any such matters the reasonably possible amount of loss or range of loss. We do not believe it is probable that the outcome of any existing litigation, investigations, disputes or other potential claims will materially affect us. We believe that these matters are without merit and intend to vigorously contest them.

On February 14, 2008, a private class-action lawsuit challenging club bids and other alleged anti-competitive business practices was filed in the U.S. District Court for the District of Massachusetts (*Police and Fire Retirement System of the City of Detroit v. Apollo Global Management, LLC*). The complaint alleges, among other things, that certain global alternative asset firms, including Carlyle, violated Section 1 of the Sherman Act by forming multi-sponsor consortiums for the purpose of bidding collectively in company buyout transactions in certain going private transactions, which the plaintiffs allege constitutes a conspiracy in restraint of trade. Count One of the complaint alleges an overarching conspiracy relating to certain large buyout transactions. Count Two of the complaint alleges a conspiracy with regard to the buyout of Healthcare Corporation of America. The plaintiffs seek damages as provided for in Section 4 of the Clayton Act and an injunction against such conduct in restraint of trade in the future. The defendants moved for summary judgment on both counts. On March 13, 2013, the U.S. District Court for the District of Massachusetts ruled that plaintiffs could proceed on Count One solely on the basis of an alleged conspiracy to refrain from jumping announced proprietary (i.e., non-auction) deals. The Court stated that it would entertain further summary judgment motions by individual defendants as to their participation in the more narrowly defined alleged conspiracy. The Court also denied summary judgment as to Count Two. On April 16, 2013, Carlyle filed a consolidated motion, renewing its motion for summary judgment on Count One, and moving for reconsideration on Count Two. On April 22, 2013, Carlyle joined a motion seeking reconsideration on Count Two filed on behalf of all Count Two defendants. On June 20, 2013, the Court denied the motion for reconsideration on Count Two filed by the Count Two defendants. On July 18, 2013, the Court denied Carlyle's individual summary judgment motion regarding its participation in the conspiracy alleged in Count One. The plaintiffs moved to certify the class on October 21, 2013. We understand that all of Carlyle's co-defendants have entered into settlement agreements with plaintiffs since the filing of the class certification. The Court has scheduled oral arguments on class certification for September 4, 2014. The case management order calls for a jury trial to commence in November 2014, but this could be delayed in the event an appeal to the U.S. Court of Appeals for the First Circuit on the class certification issue should become necessary. Carlyle believes that reasonable litigation and settlement costs that are not covered by applicable insurance are indemnifiable by one or more of our investment funds.

Along with many other companies and individuals in the financial sector, Carlyle and Carlyle Mezzanine Partners, L.P. ( CMP ) are named as defendants in *Foy v. Austin Capital*, a case filed in June 2009, pending in the



State of New Mexico's First Judicial District Court, County of Santa Fe, which purports to be a *qui tam* suit on behalf of the State of New Mexico. The suit alleges that investment decisions by New Mexico public investment funds were improperly influenced by campaign contributions and payments to politically connected placement agents. The plaintiffs seek, among other things, actual damages, actual damages for lost income, rescission of the investment transactions described in the complaint and disgorgement of all fees received. In May 2011, the Attorney General of New Mexico moved to dismiss certain defendants including Carlyle and CMP on the grounds that separate civil litigation by the Attorney General is a more effective means to seek recovery for the State from these defendants. The Attorney General has brought two civil actions against certain of those defendants, not including the Carlyle defendants. The Attorney General has stated that its investigation is continuing and it may bring additional civil actions.

Carlyle Capital Corporation Limited ( CCC ) was a fund sponsored by Carlyle that invested in AAA-rated residential mortgage backed securities on a highly leveraged basis. In March of 2008, amidst turmoil throughout the mortgage markets and money markets, CCC filed for insolvency protection in Guernsey. Several different lawsuits, described below, developed from the CCC insolvency.

First, on July 13, 2009, a former shareholder of CCC, claiming to have lost \$20.0 million, filed a claim against CCC, Carlyle and certain affiliates and one of our officers (*Huffington v. TC Group L.L.C., et al.*) alleging violations of Massachusetts' blue sky law provisions relating to material misrepresentations and omissions allegedly made during and after the marketing of CCC. The plaintiff sought treble damages, interest, expenses, attorney's fees and to have the subscription agreement deemed null and void and to receive a full refund of the investment. The plaintiff has since dismissed his claim without any monetary compensation, in exchange for Carlyle's dismissal of its counterclaim against him for violation of the forum selection clause.

Second, in November 2009, another CCC investor, National Industries Group (Holding) ( National Industries ) instituted legal proceedings on similar grounds in Kuwait's Court of First Instance (*National Industries Group v. Carlyle Group*) seeking to recover losses incurred in connection with an investment in CCC. In July 2011, the Delaware Court of Chancery issued a decision restraining National Industries from proceeding in Kuwait on any CCC-related claims based on the forum selection clause in National Industries' subscription agreement, which provided for exclusive jurisdiction in the Delaware courts. In September 2011, National Industries reissued its complaint in Kuwait naming CCC only, and reissued its complaint in January 2012 joining Carlyle Investment Management, L.L.C. as a defendant. In April 2013, the court in Kuwait dismissed National Industries' claim without prejudice for failure to serve process. Hearings in the case and related to the case have nevertheless taken place on several occasions since that time, most recently in September 2013. Meanwhile, in August 2012, National Industries had filed a motion to vacate the Delaware Court of Chancery's decision. Carlyle successfully opposed that motion and the Court's injunction remained in effect. In November 2012, National Industries appealed that decision to the Delaware Supreme Court. On May 29, 2013, the Delaware Supreme Court affirmed the Chancery Court's decision and upheld the 2011 injunction barring National Industries from filing or prosecuting any CCC-related action in any forum other than the courts of Delaware.

Third, the Guernsey liquidators who took control of CCC in March 2008 filed four suits on July 7, 2010 against Carlyle, certain of its affiliates and the former directors of CCC in the Delaware Chancery Court, the Royal Court of Guernsey, the Superior Court of the District of Columbia and the Supreme Court of New York, New York County (*Carlyle Capital Corporation Limited v. Conway et al.*) seeking \$1.0 billion in damages. They allege that Carlyle and the CCC board of directors were negligent, grossly negligent or willfully mismanaged the CCC investment program and breached certain fiduciary duties allegedly owed to CCC and its shareholders. The liquidators further allege (among other things) that the directors and Carlyle put the interests of Carlyle ahead of the interests of CCC and its shareholders and gave priority to preserving and enhancing Carlyle's reputation and its brand over the best interests of CCC. In July 2011, the Royal Court of Guernsey held that the case should be litigated in Delaware pursuant to the exclusive jurisdiction clause in the investment management agreement. That ruling was appealed by the liquidators,

and in February 2012 was reversed by the Guernsey Court of Appeal, which held that the case should proceed in Guernsey. Defendants' attempts to appeal to the Privy Council were unsuccessful and the plaintiffs' case is proceeding in Guernsey. Two claims in that case, which sought the return of certain documents and other property purportedly belonging to CCC, were resolved by agreement of the parties and order of the Royal Court of Guernsey in December 2012. Carlyle has now completed its document production pursuant to that order. On July 24, 2013, plaintiffs filed an amended complaint, which contained

further detail in support of the existing claims but no new defendants or claims. On December 20, 2013, defendants filed a defense to the amended complaint and on June 30, 2014 plaintiffs filed their reply. In addition, the liquidators lawsuits in New York and the District of Columbia were dismissed in December 2011 without prejudice.

Fourth, on June 21, 2011, August 24, 2011 and September 1, 2011, respectively, three putative shareholder class actions were filed against Carlyle, certain of its affiliates and former directors of CCC alleging that the fund offering materials and various public disclosures were materially misleading or omitted material information. Two of the shareholder class actions (*Phelps v. Stomber, et al.* and *Glaubach v. Carlyle Capital Corporation Limited, et al.*) were filed in the United States District Court for the District of Columbia. *Phelps v. Stomber, et al.* was also filed in the Supreme Court of New York, New York County and was subsequently removed to the United States District Court for the Southern District of New York. The two original D.C. cases were consolidated into one case under the caption of *Phelps v. Stomber* and the *Phelps* named plaintiffs were designated lead plaintiffs by the Court. The New York case was transferred to the D.C. federal court and the plaintiffs requested that it be consolidated with the other two D.C. actions. The plaintiffs were seeking compensatory damages sustained as a result of the alleged misrepresentations, costs and expenses, as well as reasonable attorney's fees. On August 13, 2012, the United States District Court for the District of Columbia dismissed both the D.C. and New York shareholder class actions. The plaintiffs moved for leave to amend their complaint and/or for amendment of the Court's decision, but the trial court denied that motion on June 4, 2013. The plaintiffs previously filed notice of appeal to the Court of Appeals for the District of Columbia Circuit was then automatically reinstated and oral arguments on this appeal were held on February 19, 2014. On May 20, 2014, the Court of Appeals issued its decision affirming the District Court's rulings in full, dismissing plaintiffs' complaints and denying plaintiffs an opportunity to amend.

It is not possible to predict the ultimate outcome of all pending investigations and legal proceedings, and some of the matters discussed above involve claims for potentially large and/or indeterminate amounts of damages. Based on information known by management, management has not concluded that as of the date of this filing the final resolutions of the matters above will have a material effect upon the Partnership's consolidated financial statements. However, given the potentially large and/or indeterminate amounts of damages sought in certain of these matters and the inherent unpredictability of investigations and litigations, it is possible that an adverse outcome in certain matters could, from time to time, have a material effect on our financial results in any particular period.

#### *Other Contingencies*

From 2007 to 2009, a Luxembourg subsidiary of CEREP I, a real estate fund, received proceeds from the sale of real estate located in Paris, France. The relevant French tax authorities have asserted that CEREP I was ineligible to claim certain exemptions from French tax under the Luxembourg-French tax treaty, and have issued a tax assessment seeking to collect approximately 97.0 million, consisting of taxes, interest and penalties. Additionally, the French Ministry of Justice has commenced an investigation regarding the legality under French law of claiming the exemptions under the tax treaty.

CEREP I and its subsidiaries are contesting the French tax assessment. In July 2012, we provided a guarantee to the French tax authorities as credit support for the 45.7 million tax assessment and in October 2012, placed an additional 4.4 million in escrow, in each case, related to CEREP I. We expect to incur costs on behalf of CEREP I and its related entities. We will attempt to recover any amounts advanced or paid from proceeds of subsequent portfolio dispositions by CEREP I. The amount of any unrecoverable costs that may be incurred by us is not estimable at this time. Commencing with the issuance of the credit support on behalf of CEREP I in July 2012, we consolidated the fund into our consolidated financial statements. As of June 30, 2014, CEREP I had accrued 75.0 million (\$102.7 million as of June 30, 2014) related to this contingency, which is included in other liabilities of Consolidated Funds in our consolidated financial statements.



**Carlyle Holdings Partnership Units**

A rollforward of the outstanding Carlyle Holdings partnership units from December 31, 2013 through June 30, 2014 is as follows:

	Units as of December 31, 2013	Units Issued	Units Forfeited	Units Exchanged	Units as of June 30, 2014
Carlyle Holdings partnership units held by the Partnership	48,605,870	8,285,384		9,300,000	66,191,254
Carlyle Holdings partnership units not held by the Partnership	262,164,851		(2,096,789)	(9,300,000)	250,768,062
<b>Total Carlyle Holdings partnership units</b>	<b>310,770,721</b>	<b>8,285,384</b>	<b>(2,096,789)</b>		<b>316,959,316</b>

The Carlyle Holdings partnership units issued to the Partnership during the period from December 31, 2013 through June 30, 2014 relate to: (i) the Partnership using the net cash proceeds from the issuance of 4,500,000 common units in March 2014 to acquire 4,500,000 newly issued Carlyle Holdings partnership units, (ii) the vesting of the Partnership's deferred restricted common units during the six months ended June 30, 2014, (iii) the acquisition of DGAM in February 2014, and (iv) the acquisition by the Partnership of 15,566 Carlyle Holdings partnership units upon the vesting of certain of the Partnership's common units associated with the acquisition of the remaining 40% equity interest in AlpInvest in August 2013. Further, the Partnership is expected to acquire an additional 731,970 Carlyle Holdings partnership units in future periods upon the vesting of certain of the Partnership's unvested common units associated with the acquisition of the remaining 40% equity interest in AlpInvest in August 2013.

The Carlyle Holdings partnership units forfeited during the period from December 31, 2013 through June 30, 2014 relate to unvested Carlyle Holdings partnership units that were forfeited when the holder ceased to provide services to the Partnership. The Carlyle Holdings partnership units exchanged relate to the Partnership using the net cash proceeds from the issuance of 9,300,000 common units in March 2014 to acquire 9,300,000 Carlyle Holdings partnership units from the other limited partners of Carlyle Holdings.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our primary exposure to market risk is related to our role as general partner or investment advisor to our investment funds and the sensitivities to movements in the fair value of their investments, including the effect on management fees, performance fees and investment income. Although our investment funds share many common themes, each of our alternative asset management asset classes runs its own investment and risk management processes, subject to our overall risk tolerance and philosophy. The investment process of our investment funds involves a comprehensive due diligence approach, including review of reputation of shareholders and management, company size and sensitivity of cash flow generation, business sector and competitive risks, portfolio fit, exit risks and other key factors highlighted by the deal team. Key investment decisions are subject to approval by both the fund-level managing directors, as well as the investment committee, which is generally comprised of one or more of the three founding partners, one sector head, one or more operating executives and senior investment professionals associated with that particular fund. Once an investment in a portfolio company has been made, our fund teams closely monitor the performance of the portfolio company, generally through frequent contact with management and the receipt of financial and management reports.

There was no material change in our market risks during the three months ended June 30, 2014. For additional information, refer to our Annual Report on Form 10-K for the year ended December 31, 2013.

**Item 4. Controls and Procedures**  
**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our co-principal executive officers and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives.

Our management, with the participation of our co-principal executive officers and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation and subject to the foregoing, our co-principal executive officers and principal financial officer concluded that, as of the end of the period covered by this report, the design and operation of our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

As of September 30, 2013, we consolidated Urbplan (as discussed in Note 17 to the accompanying unaudited condensed consolidated financial statements). We are in the process of evaluating the internal controls of the consolidated entity and have identified and are in the process of remediating certain deficiencies. However, as permitted by related SEC Staff Interpretative guidance for newly consolidated entities, the internal control over financial reporting of Urbplan was excluded from the evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2014. In the aggregate, this entity represented approximately 0.7% of our total consolidated assets as of June 30, 2014 and contributed operating loss of approximately \$2.5 million, or 6%, of our total consolidated net income attributable to The Carlyle Group L.P. for the six months ended June 30, 2014.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended June 30, 2014 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The information required with respect to this item can be found under **Legal Matters** in Note 11, Commitments and Contingencies, of the notes to the Partnership's unaudited condensed consolidated financial statements contained in this quarterly report, and such information is incorporated by reference into this Item 1.

### **Item 1A. Risk Factors**

For a discussion of our potential risks and uncertainties, see the information under **Item 1A. Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2013, which is accessible on the SEC's website at [sec.gov](http://sec.gov).

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

### **Item 3. Defaults Upon Senior Securities**

Not applicable.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.

### **Item 6. Exhibits**

Required exhibits are listed in the Index to Exhibits and are incorporated herein by reference.



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**The Carlyle Group L.P.**

By: Carlyle Group Management L.L.C.,  
its general partner

Date: August 7, 2014

By: /s/ Curtis L. Buser  
Name: Curtis L. Buser  
Title: Interim Chief Financial Officer  
*(Principal Financial Officer and Authorized Officer)*

## INDEX TO EXHIBITS

The following is a list of all exhibits filed or furnished as part of this report:

Exhibit No.	Description
3.1	Certificate of Limited Partnership of The Carlyle Group L.P. (incorporated by reference to Exhibit 3.1 to Registrant's Registration Statement on Form S-1 (File No. 333-176685) filed with the SEC on September 6, 2011).
3.2	Amended and Restated Limited Partnership Agreement of The Carlyle Group L.P. (incorporated by reference to Exhibit 3.1 on Form 8-K filed with the SEC on May 8, 2012).
31.1 *	Certification of the co-principal executive officer pursuant to Rule 13a-14(a).
31.2 *	Certification of the co-principal executive officer pursuant to Rule 13a-14(a).
31.3 *	Certification of the co-principal executive officer pursuant to Rule 13a-14(a).
31.4 *	Certification of the principal financial officer pursuant to Rule 13a-14(a).
32.1 *	Certification of the co-principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 *	Certification of the co-principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3 *	Certification of the co-principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.4 *	Certification of the principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.