
THE CARLYLE GROUP

GLOBAL PRIVATE EQUITY

THE ROAD AHEAD

2008 ANNUAL REPORT

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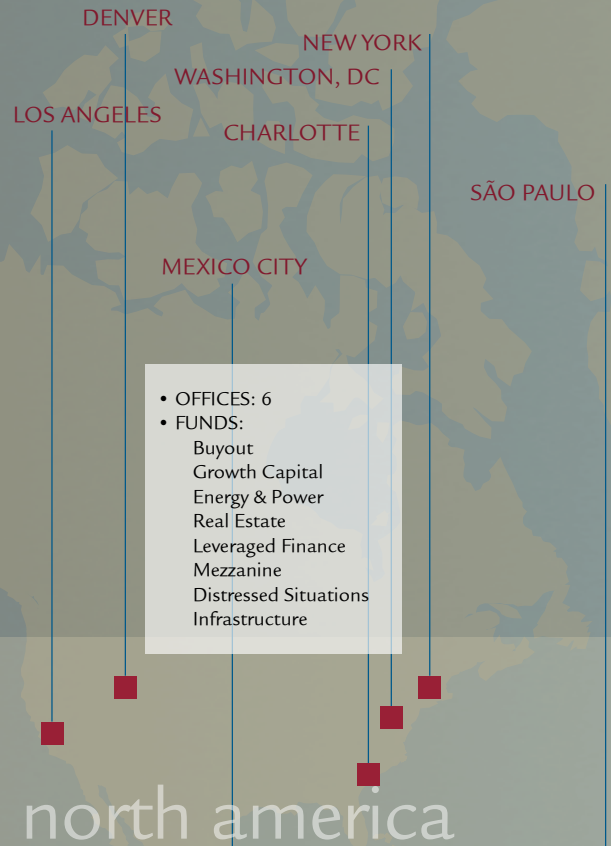
The road isn't always straight and flat. Steep hills and unexpected curves are part of the journey. Yet within every challenge lies an opportunity. We know. We've been there. For more than 20 years, we've negotiated the complex highways of global private equity, applying a conservative and disciplined investment approach that has generated excellent returns for our investors.

Today, more than 1,300 investors from 68 countries entrust Carlyle with their capital. It's not something we take lightly. Which is why we're responding aggressively around the world in our efforts to preserve and protect the value of our investments.

Focused on a common purpose, Carlyle's investment professionals are working together—leveraging our trademark *One Carlyle* global collaboration and expertise—to safeguard and grow our investments. As one of the largest and most global private equity firms in the world, we believe we have the resources and the knowledge to capitalize on the extraordinary opportunities that may develop on the road ahead.

Global Vision. Local Insight. That's how we can create value in diverse geographic locations as we move forward on the road ahead.

Carlyle's global reach extends across 28 cities in 20 countries. Experience has taught us that the best way to thrive in a range of local markets—especially in times of uncertainty and economic dislocation—is by hiring local people. Our investment professionals have strong reputations, established contacts and knowledge about the local business climate and culture. The insights of these diverse teams of more than 480 investment professionals form a global vision that puts us in a strong position to create value from New York to Beijing.



LUXEMBOURG STOCKHOLM
 LONDON PARIS FRANKFURT MUNICH
 BARCELONA MADRID MILAN
 ISTANBUL

BEIRUT CAIRO DUBAI MUMBAI HONG KONG
 BEIJING SHANGHAI SEOUL TOKYO
 SINGAPORE SYDNEY

- OFFICES: 9
- FUNDS:
 - Buyout
 - Growth Capital
 - Real Estate
 - Leveraged Finance
 - Distressed Situations

- OFFICES: 8
- FUNDS:
 - Buyout
 - Growth Capital
 - Real Estate

- OFFICES: 4
- FUND:
 - Buyout

europa

middle east/north africa

asia

Global Reach

Industry Edge

AEROSPACE & DEFENSE



TELECOMMUNICATIONS & MEDIA



AUTOMOTIVE & TRANSPORTATION

INFRASTRUCTURE



FINANCIAL SERVICES

HEALTHCARE



REAL ESTATE

TECHNOLOGY & BUSINESS SERVICES





CONSUMER & RETAIL



ENERGY & POWER



INDUSTRIAL

We've developed a clear and straightforward roadmap for creating value. We start by focusing on industries in which we have demonstrated expertise. We commit capital to an investment when we believe we have an advantage—something that sets us apart from the competition—such as our management know-how or industry edge. Working collaboratively, our global network of investment professionals, advisors and CEOs gives portfolio companies the direction they need to navigate economic downturns and be better positioned to grow and achieve top performance when an upturn emerges.



HIGH NET WORTH



PUBLIC PENSIONS & AGENCIES



FINANCIAL INSTITUTIONS



UNION PENSIONS



CORPORATE PENSIONS



ENDOWMENTS & FOUNDATIONS

Our Investors



The road has been rough of late, but we still see opportunities to produce strong returns for our investors, many of whom are beneficiaries of public and private pension plans, university endowments and charitable foundations, as well as high net worth individuals and financial institutions. One way to create value is by improving the performance of the very good companies Carlyle acquired over the last few years. Another is by identifying extraordinary opportunities that historically present themselves in times of economic dislocation. There will always be curves on the road ahead. But by relentlessly adhering to a conservative and disciplined investment approach, we believe that all of us—our investors, our companies and our firm—will benefit over the long term.

An Overview

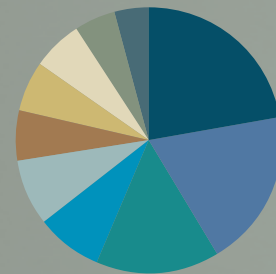
Since our founding in 1987, Carlyle has made product and geographic expansion key elements of our business model. Today, Carlyle is one of the largest global private equity firms with approximately 900 professionals in 20 countries managing \$85 billion in 64 funds across three asset classes.

Our mission is to be the premier global private equity firm. By leveraging the insight of Carlyle's worldwide team, we aim to generate extraordinary returns across a range of investment choices, while maintaining our good name and the good name of our investors.

Our collaborative spirit and ability to combine a global vision with local insight set Carlyle apart. Every day, our team of investment professionals works together in seeking to uncover superior opportunities in diverse industries and varied locations across the globe.

480
investment
professionals
with offices in
20 countries

CURRENT INVESTMENTS BY INDUSTRY



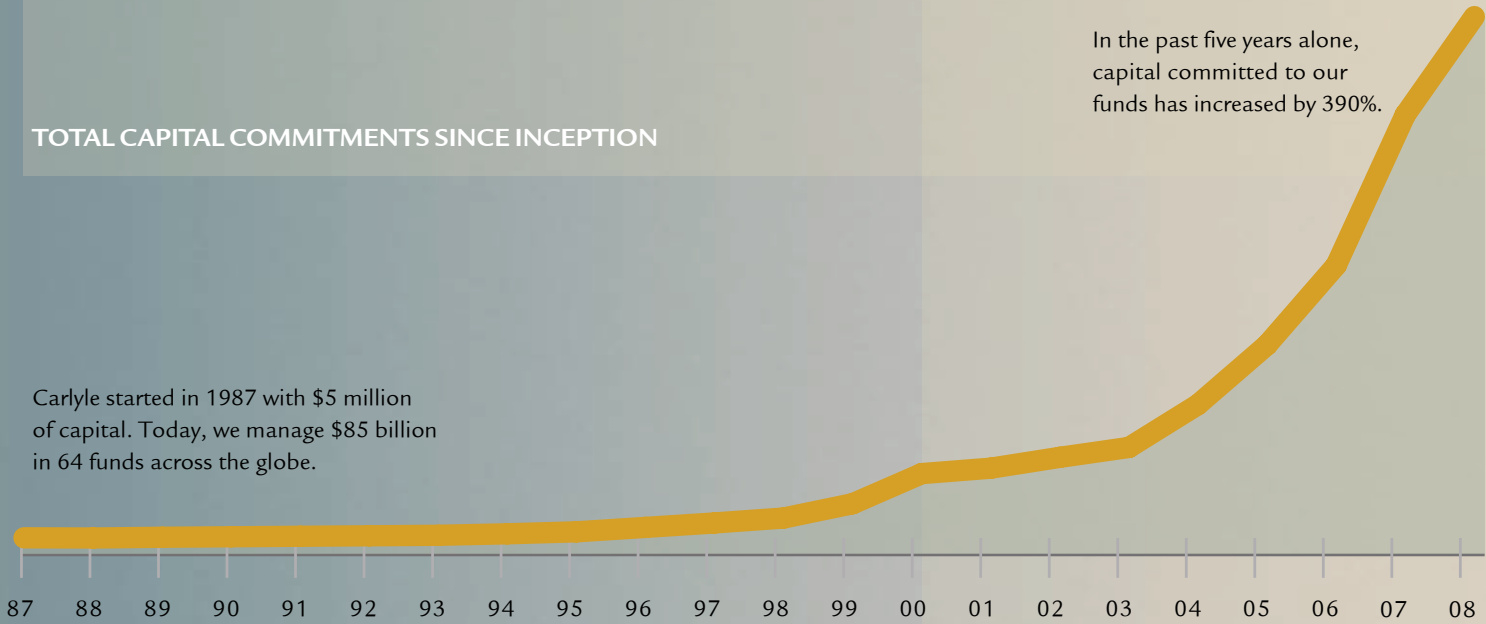
- Energy & Power 22%
- Real Estate 19%
- Tech & Business Services 15%
- Consumer & Retail 8%
- Industrial 8%
- Telecom & Media 6%
- Transportation 6%
- Healthcare 6%
- Aerospace 5%
- Other 4%

64
funds across
three asset
classes

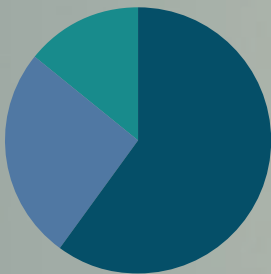
TOTAL CAPITAL COMMITMENTS SINCE INCEPTION

Carlyle started in 1987 with \$5 million of capital. Today, we manage \$85 billion in 64 funds across the globe.

In the past five years alone, capital committed to our funds has increased by 390%.

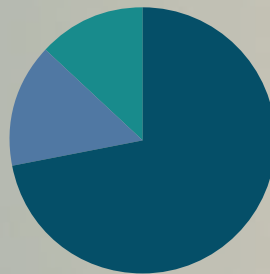


ASSETS UNDER MANAGEMENT BY GEOGRAPHY



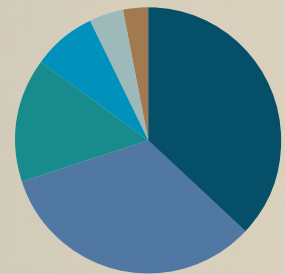
- North America 60%
- Europe 26%
- Asia 14%

ASSETS UNDER MANAGEMENT BY INVESTMENT DISCIPLINE



- Corporate Private Equity 72%
- Leveraged Finance/Distressed 16%
- Real Estate 12%

1300 INVESTORS FROM 68 COUNTRIES



- Public Pensions & Agencies 37%
- Financial Institutions 33%
- High Net Worth 15%
- Corporate Pensions 8%
- Endowments & Foundations 4%
- Corporations 3%

\$85 billion of assets under management

\$3.3 billion of our own capital committed to our funds

\$54.6 billion of equity invested in 896 Corporate Private Equity and Real Estate transactions since 1987

We established our first investment team in China more than 10 years ago. Today, we're one of the largest and most committed private equity firms in the country.

One of the first private equity firms to enter China, Carlyle was quick to identify the enormous potential of investing in the country's vibrant, entrepreneurial companies, well before most other international and local private equity firms.

Today, Carlyle manages nine Asia-focused funds that invest significantly in China. The funds are managed by three active teams—Carlyle Asia Partners, Carlyle Asia Growth Partners and Carlyle Asia Real Estate Partners—and are advised by native Chinese investment professionals based in Beijing, Hong Kong and Shanghai. Led by 11 Managing Directors focused on a diverse range of Chinese companies and assets, Carlyle has a measure of senior talent in the country that we believe is unmatched by other private equity firms.

With strong leadership and a 10-year track record, we believe we have the resources and knowledge to invest in and work with Chinese companies in locations beyond the well-developed coastal regions. We have invested in inland regions, such as Sichuan and Shaanxi, where investments are highly encouraged by government policy.

A long-term partner, we work hand-in-hand with our portfolio companies to help them succeed by enhancing their business strategy and improving competitiveness. Many of our companies are achieving strong performance despite the global economic downturn.

In the current climate, we are working even more closely with our companies to identify opportunities to enhance growth through strategic expansion and overseas acquisitions. We are also seeking opportunities to partner with Chinese companies on their investments abroad. We believe that helping build stronger brands and internationally competitive companies will enable Carlyle to further cement its industry leadership in China.



Carlyle has more than 40 native Chinese investment professionals based in China and has invested a total of \$2.2 billion of equity in more than 40 corporate private equity and real estate investments across the country.

Ten Years of Success in China

- KEY INVESTMENT PROVINCES
- PORTFOLIO COMPANY LOCATIONS

CHINA

HEBEI
SHANDONG
JIANGSU
SHAANXI
SICHUAN
CHONGQING
ZHEJIANG
FUJIAN
GUANGDONG
HONG KONG
MACAU



While most other private equity and foreign funds focus on the well-developed, first-tier coastal cities and municipalities, Carlyle invests in companies headquartered in first-, second- and even third-tier provinces and municipalities.

Carlyle's Chinese portfolio companies operate in nine key sectors and employ more than 250,000 people. We help companies expand their local and international market share. When companies grow, more jobs are created to support local communities.





LETTER FROM THE FOUNDERS

From Left
David M. Rubenstein
Daniel A. D'Aniello
William E. Conway, Jr.

The Carlyle Group general partnership finished 2008 in excellent financial shape. Our balance sheet is strong, enabling us to withstand the global financial crisis and positioning us well when the markets begin to recover. Nonetheless, the year 2008 was a humbling experience for us and most of the financial services industry. After several spectacular years of unprecedented growth, product innovation, geographic expansion, capital deployment and investment gains, our world changed dramatically.

On its face, the private equity industry doesn't appear to have altered much. But look closer and the changes begin to appear: deal flow has slackened; exits are fewer; investors are hesitant to commit fresh capital; stock prices are down; and debt and equity valuations have been hard hit. Some portfolio companies have restructured, sought bankruptcy protection and even liquidated.

But despite this bad news, we see reason for optimism. Our firm is strong. We believe that our global portfolio is in relatively good shape. We believe that we are positioned to create and take advantage of the extraordinary investment opportunities that troubled times historically bring.

Though the depth of the financial crisis and economic downturn shocked all of us, we anticipated a contraction in the credit markets and took early steps to prepare. In a January 2007 letter to all Carlyle investment professionals, we warned that the then-excessive liquidity environment would inevitably deteriorate and instructed them to redouble their focus on minimizing risk.

Then, in May 2007, we wrote in our annual report: "...we will strive to make investments that achieve top-quartile returns without top-quartile risks. While concern about risk has not been overly rewarded in the private equity industry during the last several years, we believe it is the most prudent way to invest in this

industry and in these times. In other words, if in 2007 economies begin to grow more slowly, stock markets decline a bit, and debt becomes more expensive and harder to secure, we will be ready."

When the extent of the macroeconomic crisis began to be known, we responded quickly. We held annual CEO conferences in which we helped portfolio company management understand how to manage in a downturn. We drew down credit lines early, especially for U.S. buy-out companies, increasing liquidity. We cut costs and restructured portfolio companies. And our cash reserves put us in excellent shape as the situation worsened.

When the year came to a close, we had some good news to share with our investors. In 2008, despite the downturn in global merger and acquisition activity, we exited several transactions and achieved attractive returns for our investors, including:

- **Kuhlman Electric.** We sold this manufacturer of electric transformers for 9.3¹ times invested equity after holding it for nearly nine years.
- **Transics International.** We fully exited our investment in this Belgium-based provider of fleet management solutions for the transport and logistics sector in 2008, after it completed an initial public offering in 2007, for approximately 4.2 times invested equity.

1 All equity multiples are gross and include remaining value in addition to cash received. They measure proceeds before reduction by the cost of fees and carry attributable to the relevant investments. Carlyle's base fees generally range from 1.2% to 2.0% per annum of assets under management, and carry is typically 20% of profits.



Despite last year's global economic downturn, we successfully exited our investment in AxleTech International for a sizable return on equity invested. Since we acquired the company in 2005, AxleTech repositioned itself and achieved significant profitable growth. The company, which manufactures heavy-duty axles and suspension systems, employs approximately 1,000 workers worldwide.

- **AxleTech International.** We sold this manufacturer of heavy-duty axles and suspension systems for a sizable return on our equity investment.
- **Universidad Latinoamericana.** We sold a majority stake in this private university based in Mexico City for 1.2 times invested equity to Apollo Global, Carlyle Growth Partners' joint venture with Apollo Group.
- **WCI Cable.** We sold this provider of terrestrial and submarine fiber optic cable for 3.2 times invested equity.

While investment activity slowed in 2008, Carlyle investment professionals around the world were busy conducting due diligence and deploying capital in choice buyout, growth capital, real estate and leveraged finance opportunities, while avoiding some of the largest deals that our competitors pursued. In fact, last year we deployed \$12.6 billion in equity, including \$9.7 billion in equity in 117 new corporate and real estate transactions with an enterprise value of \$16 billion.

Some highlights:

- **Booz Allen Hamilton.** We purchased this strategy and technology consulting firm for \$2.54 billion, which was one of the world's largest leveraged buyouts in 2008.
- **Coates Hire.** We acquired this Australian equipment rental company for \$1.2 billion.
- **AES Solar.** Our second renewable energy fund committed \$500 million over five years to invest in photovoltaic solar projects around the world.
- **AvanStrate.** We acquired a 51.4% stake in this Japanese manufacturer of liquid crystal display glass substrate.
- **Boston Private Financial Holdings.** We invested \$75 million in this publicly traded wealth management firm, the first investment by our new Global Financial Services group.
- **Talaris.** We acquired this global provider of cash-handling technology solutions based in the United Kingdom (formerly De La Rue Cash Systems) for an enterprise value of £360 million.

Additionally, Carlyle's growth capital and mezzanine teams had an active year. Across Asia, Europe and the United States, a total of 22 new growth capital and mezzanine transactions were completed for a total value of \$1 billion.

In 2008 and early 2009, despite the challenges in the markets, Carlyle raised \$19.9 billion in new capital to deploy. This includes final closes on 10 funds, including Carlyle Partners V, L.P. at \$13.7 billion; Carlyle Europe Technology Partners II, L.P. at €530 million; Carlyle MENA Partners, L.P. at \$500 million; Carlyle Europe Real Estate Partners III, L.P. at €2.2 billion; Carlyle Mezzanine Partners II, L.P. at \$553 million; Carlyle Strategic Partners II, L.P. at \$1.35 billion; our thirteenth and fourteenth U.S. loan funds at \$500 million and \$80 million; and two European loan funds at €1.5 billion and €401 million.

Since our founding in 1987, Carlyle has made product and geographic expansion a key element of our business model. Today we have 28 offices in 20 countries with approximately 900 professionals managing \$85 billion in 64 funds.

In 2008 we reaffirmed our nascent commitment to investing in Brazil, adding resources and expanding the team. Brazil is the world's tenth-largest economy and, we believe, holds significant investment opportunity. Carlyle is one of the few global private equity firms with a presence in the country. In early 2009, we established a relationship with Banco do Brasil to enhance our ability to source and execute investments in Brazil.

That's the good news. But clearly, 2008 was a rough year and make no mistake: we were affected by it. Last year, three of our buyout portfolio companies filed for bankruptcy protection or entered administration. Edscha, a German auto parts manufacturer acquired by Carlyle Europe Partners, L.P. in 2003, sought bankruptcy protection after succumbing to the combination

of a global economic downturn and an ailing automobile industry. SemGroup, a midstream oil and gas logistics and marketing company, was brought down during a period of unprecedented volatility in the price of oil. Carlyle/Riverstone Global Energy and Power Fund II, L.P. invested in SemGroup in 2005. Hawaiian Telcom, a full-service telecommunications provider in Hawaii that Carlyle Partners III, L.P. acquired in 2005, filed for Chapter 11 bankruptcy protection in late 2008 after significant operational setbacks and stiff competition in an increasingly difficult economic environment. While we obviously are not pleased by these events, we consider the experience we gained from them to be extremely useful as we move forward.

In March 2008, Carlyle Capital Corporation (CCC), which invested primarily in AAA mortgage-related securities issued by government-backed agencies, was placed into liquidation. This occurred despite our best efforts to negotiate more stable financing arrangements for CCC and the provision of a \$150 million line of credit to the fund by the Carlyle general partnership.

In July 2008, we commenced an orderly liquidation of Carlyle Blue Wave (CBW), our multi-strategy hedge fund. CBW launched in a challenging market and was not able to achieve the critical mass of assets under management necessary to support a multi-strategy fund infrastructure.

In November 2008, we took additional steps to balance our firm's cost structure with the current investment climate. This included making targeted staff reductions across various parts of the firm, closing several offices and suspending two new investment initiatives—a Central and Eastern Europe fund and an Asia Leveraged Finance fund. The staff reductions and other changes were the result of a detailed examination of each of our investment and support operations with a view to ensuring that we are operating efficiently, but with sufficient resources to properly serve our investors and seize and create new investment opportunities.

This past year, Carlyle established an operating committee, an important step in the continued institutionalization of our firm. Led by four seasoned Carlyle professionals, the operating committee is responsible for strategic planning, balance sheet management and new product development, among other critical functions. We have also strengthened our work with governments around the world, given the larger role that governments are playing in the U.S. and European economies during the economic crisis.

As private equity has grown and matured as an industry, we have developed a better appreciation of the

impact that our activities have on various groups and the environment. To address these concerns, Carlyle has developed and integrated into our investment process a set of responsible investment guidelines that consider the environmental, social and governance implications of every investment we make. These guidelines are detailed on page 54 of this report. We are particularly pleased that the principles we developed were integral to shaping the corporate social responsibility guidelines subsequently adopted by members of the Private Equity Council.

In 2008, the financial landscape changed—and it will remain changed for the foreseeable future. Operating conditions for our portfolio companies will remain challenging. Transactions will be fewer and smaller. More equity will be required and debt terms will be less favorable. And hold periods will increase while returns will decrease.

Our mission is clear: we must deploy our resources to protect the investments we have already made while seeking ways to profit from the extraordinary opportunities that exist in the new environment.

To be sure, these are extraordinary times. But Carlyle has an extraordinary group of professionals who are committed to taking good care of our investors' capital.

We continue to believe that within every challenge lies opportunities. Our mission is clear: we must deploy our resources to protect the investments we have already made while seeking ways to profit from the extraordinary opportunities that exist in the new environment. This we pledge to do, all while maintaining the discipline and diligence that are hallmarks of this firm.



William E. Conway, Jr.
Managing Director



Daniel A. D'Aniello
Managing Director



David M. Rubenstein
Managing Director



2008 FUND REVIEW

A commitment to value creation. A disciplined value-oriented investment philosophy. The highest levels of integrity, ethics and professionalism. These are the principles that guide the firm and have enabled Carlyle to grow into one of the largest global private equity firms. Today, we manage 64 funds in three asset classes—Corporate Private Equity (leveraged buyouts, and venture and growth capital), Leveraged Finance/Distressed and Real Estate. There are close to 900 Carlyle professionals around the world, each committed to maximizing returns for our investors while being ethical and responsible investors.

Corporate Private Equity



Carlyle's Corporate Private Equity investment professionals have one overriding objective: to increase the value of the companies in which the firm invests. It all starts by finding the right companies. Corporate Private Equity teams explore a wide range of enterprises—from high-modest growth firms to market-leading large-cap companies—in 11 core industry sectors on six continents. Then they collaborate with company management and Carlyle colleagues around the world to improve the companies' operational performance and market position. Carlyle aligns the interests of company management with investors' interests and brings an unrelenting focus on maximizing value for investors.

CARLYLE PARTNERS

In 1990, Carlyle launched its first U.S. buyout fund, Carlyle Partners I, L.P., with \$100 million in commitments from leading domestic and international investors. Seventeen years later, the fifth U.S. buyout fund, Carlyle Partners V, L.P. (CP V) was launched and has \$13.7 billion of equity commitments. In the intervening years, the firm launched:

- Carlyle Partners II, L.P., in 1996, with \$1.3 billion of equity commitments.
- Carlyle Partners III, L.P. (CP III), in 2000, with \$3.9 billion of equity commitments.
- Carlyle Partners IV, L.P., in 2005, with \$7.9 billion of equity commitments.

Over the last two decades, Carlyle has consistently delivered top-tier returns on its U.S. buyout investments. The team focuses on key industries in which it has significant expertise and adheres to a conservative approach to investing, conducting extensive due diligence on every transaction.

In 2008, CP V acquired Booz Allen Hamilton, a provider of a broad range of management consulting services in strategy, operations, organization and change, information technology, systems engineering and program management primarily to federal, state and local government agencies.

During the current uncertainty in the macroeconomic environment, Carlyle is working closely with its portfolio companies and exploring opportunities to enhance their value. In 2008, Carlyle Partners' portfolio companies reported a number of significant developments, including:

- ARINC, a global provider of transportation communications and systems engineering services, realized substantial annual cost savings and strengthened its management team with the addition of Stephen Waechter as CFO.
- Insight Communications, the ninth-largest cable television operator in the United States, continued its industry-leading operating and financial performance.

Continued on page 22

2008 MAJOR ACHIEVEMENTS

- Carlyle Partners V, L.P., the fifth U.S. buyout fund, closed with \$13.7 billion in commitments and completed the acquisition of Booz Allen Hamilton.
- Carlyle Europe Partners III, L.P. completed four investments with a total value of €1.1 billion.
- Carlyle Asia Partners III, L.P., the third Asia buyout fund, was launched and completed its first transaction, an investment in China-based Jiangsu Sinorgchem Technology.
- Carlyle Japan Partners II, L.P. completed its second investment, in AvanStrate (previously NH Techno Glass).
- Carlyle MENA Partners, L.P., the firm's first fund focused on the Middle East and North Africa, completed fundraising in early 2009 with \$500 million in equity commitments.
- Carlyle Mexico Partners, L.P. sold a majority stake in its investment in Universidad Latinoamericana, a private university based in Mexico City.
- The Carlyle South America Buyout team was established to focus on opportunities primarily in Brazil, as well as in other South American countries.
- Carlyle/Riverstone invested \$2.0 billion in 13 investments, including AES Solar, Dynamic Offshore Resources, Gibson Energy and Shelter Bay Energy.
- Carlyle Infrastructure Partners, L.P. acquired a majority interest in ITS Technologies & Logistics, one of the largest operators of intermodal facilities in North America.
- Carlyle Global Financial Services Partners, L.P. completed its first transaction with an investment in Boston Private Financial.
- Carlyle Venture Partners III, L.P. made investments in five growth companies: Apollo Global, Authentix, Catapult Learning, eScreen and Gemcom Software International.
- Carlyle Europe Technology Partners II, L.P. closed with €530 million in commitments and made an investment in Gardner Group, an aerospace parts supplier, representing the fund's first transaction.
- Carlyle Asia Growth Partners IV, L.P. was launched and, with Carlyle Asia Growth Partners III, L.P., invested \$228 million in 13 new and follow-on transactions.



“The partners of Booz Allen have built a world-class business and brand focused on providing critical services to government clients. We are excited about partnering with the firm and supporting the continued growth of the business, and will maintain the unique culture that has made Booz Allen so successful.”

PETER J. CLARE
Carlyle Managing Director and
Head of the Global Aerospace,
Defense and Government Services
Sector Team

Helping to unlock the value of a global brand

Booz | Allen | Hamilton

Booz Allen Hamilton has been at the forefront of strategy and technology consulting for 95 years. In 2008, the company separated its U.S. government and global commercial businesses, and Carlyle Partners V, L.P. bought a majority stake in the U.S. government business for \$2.54 billion in one of the largest buyout transactions of the year.

As a freestanding entity focused primarily on the recession-resistant government services sector, Booz Allen is now better positioned to concentrate its efforts on its core markets. Carlyle



20,000

Booz Allen employs 20,000 people in nearly 70 offices worldwide. From September 2007 to September 2008, the company increased its workforce by 18%.

\$4 billion

The company generates more than \$4 billion of revenue each year. From September 2007 to September 2008, Booz Allen increased its revenue by 21%.

95 years

Government agencies rely on Booz Allen's 95 years of strategy and consulting experience, unique problem-solving orientation, deep technical knowledge and strong execution to achieve success in their most critical missions.

believes this strategic realignment of a premier brand creates significant opportunities to unlock value in the company.

Booz Allen provides a broad range of services in strategy, operations, organization and change, information technology, cybersecurity, systems engineering and program management primarily to federal, state and local government agencies. U.S. government clients include the U.S. Departments of Defense, Health and Human Services, Homeland Security, Transportation and Treasury. Other

clients include global funding organizations, such as the World Bank.

Headquartered in McLean, Virginia, Booz Allen has 20,000 employees in nearly 70 offices worldwide, generating annual revenues in excess of \$4 billion. In 2009, for the fifth consecutive year, *Fortune* magazine named Booz Allen one of "The 100 Best Companies to Work For," and *Working Mother* magazine has ranked the firm among its "100 Best Companies for Working Mothers" since 1999.

Continued from page 18

- Manor Care, an owner and operator of skilled nursing and assisted living facilities across the United States, was named the most admired health care provider in the country by *Fortune* magazine for the second consecutive year.
- The Nielsen Company, a global marketing information and media company, acquired two companies to bolster its digital media assets.
- Wesco Holdings, the leading provider of integrated just-in-time inventory management services and distributor of hardware and electrical components to the global aerospace industry, strengthened its core business with one acquisition.

In 2008, Carlyle successfully exited its investment in AxleTech International when the company was acquired by General Dynamics. AxleTech is a global supplier of planetary axles, advanced suspension systems and other drivetrain components and aftermarket parts for off-highway and specialty vehicles for the commercial and military end markets. Since Carlyle acquired the company in 2005, AxleTech successfully repositioned itself and achieved significant profitable growth by enhancing processes and systems and by making operational and management improvements.

Also during 2008, Carlyle exited its investment in Kuhlman Electric, a designer, manufacturer and marketer of a broad range of transformers for electric utility distribution systems. Kuhlman was acquired by ABB, a global power and automation technology company based in Switzerland. Over the last five years of Carlyle's ownership, Kuhlman Electric demonstrated a track record of profitable growth with double-digit increases in annual sales.

In 2005, CP III acquired Hawaiian Telcom, a full-service telecommunications provider in Hawaii, and sought to grow the company by upgrading and expanding its networks to deliver new products and services. However, these initiatives were hampered by significant operational setbacks, stiff competition and an increasingly difficult economic environment. To stabilize the company, Carlyle brought in a new management team and replaced certain key vendors. In late 2008, Hawaiian Telcom's operational difficulties were exacerbated by the economic downturn and the company filed for Chapter 11 bankruptcy protection.

Hawaiian Telcom continues to operate without interruption to both customers and employees.

CARLYLE EUROPE PARTNERS

Three European-focused buyout funds make up Carlyle Europe Partners. Carlyle Europe Partners, L.P. (CEP) was launched in 1998 at €1 billion. In 2003, Carlyle Europe Partners II, L.P. (CEP II) was launched and has €1.8 billion in commitments. The most recent fund, Carlyle Europe Partners III, L.P. (CEP III), completed fundraising in 2007 with €5.3 billion in commitments.

Carlyle Europe Partners seeks opportunities to create value through partnerships with management teams, corporate partners or proprietor-owned businesses. Applying Carlyle's conservative and disciplined investment approach, the team helps these organizations reposition and expand their businesses to attain leadership positions in European and other global markets. With access to the resources provided by Carlyle's network of investment professionals, Carlyle Europe Partners believes it is in an excellent position to assist European companies seeking ways to expand globally into other markets.

The investment advisory team, which operates from offices in Barcelona, London, Milan, Munich and Paris, offers expertise in management consultancy, banking and auditing, along with experience in a wide range of industries. Because team members have been recruited locally, they have an intimate understanding of the local business and cultural environments.

During 2008, CEP III acquired De La Rue Cash Systems, which was subsequently renamed Talaris. Based in the United Kingdom, Talaris is a global provider of cash-handling technology solutions focused primarily on the niche teller automation market. More than 5,000 banks in over 60 countries rely on Talaris' cash-handling solutions.

CEP III also acquired a 48% stake in Moncler S.p.A., an Italian manufacturer of high-end sportswear products under the brands Moncler, Henry Cotton, Marina Yachting, and Coast, Weber & Ahaus. Moncler is also the licensee of the second-line brand Cerruti.

In addition, CEP II and CEP III acquired a 37.85% stake in French telecommunications companies Numericable and Completel. Numericable provides high-definition television, video on demand, high-speed Internet and telephony services over its network in France, covering close

10,000

One of the 10 largest companies in the testing, inspection and certification sector worldwide, Applus+ employs more than 10,000 people and operates in over 25 industrial sectors in 38 countries across five continents.



Applus+ Technologies

Since acquiring Applus+ in 2007, Carlyle Europe Partners has been helping the company expand its global footprint. Today, Applus+, a specialist in testing, inspection, certification and technological services, is one of the 10 largest companies in the testing and certification industry worldwide. Based in Barcelona, the company is the largest Spanish multinational in its field and is among the largest European companies in its industry sector.

With access to Carlyle's global network of contacts, senior advisors and investment professionals, Applus+

acquired two specialized testing and inspection businesses in 2008: MB Inspection, based in the United Kingdom with more than 350 employees; and JanX Integrity Group, with 14 locations across the United States and more than 200 employees.

In early 2009, Applus+ was awarded an exclusive contract by the Irish Road Safety Agency to provide technical vehicle inspections in Ireland between 2010 and 2020. The contract will involve around 800,000 vehicle inspections a year.

to 10 million households. Completel's corporate customers benefit from the largest alternative metropolitan fiber access network and the third-largest DSL network in France.

In 2008, the global economic downturn, combined with an ailing automobile industry, took a toll on Edscha, a German auto parts manufacturer acquired by CEP in 2003. Edscha was forced to file for bankruptcy protection in February 2009. The company had become illiquid despite the injection of additional capital and the implementation of a comprehensive cost-reduction program.

In the current market, Carlyle Europe Partners has observed a slowdown in the pace of investments. Yet the team believes it should benefit from more attractive opportunities when the markets recover, especially in view of the fact that only 28% of CEP III's committed capital has been invested. Until then, the team remains focused on maintaining and enhancing the value of its current portfolio companies.

CARLYLE ASIA PARTNERS

Carlyle Asia Partners, which was established in 1998, advises three funds. Carlyle Asia Partners, L.P., its first fund, launched in 1999 and had \$750 million in committed capital. Its second fund, Carlyle Asia Partners II, L.P., launched in 2006 at \$1.8 billion. And its third fund, Carlyle Asia Partners III, L.P., was launched in 2007.

From offices in Hong Kong, Mumbai, Seoul, Shanghai, Singapore and Sydney, Carlyle Asia Partners seeks control and strategic minority investments in Asia (except Japan), including Australia, Greater China, India, South Korea and Southeast Asia. In addition to traditional buyouts, the team also seeks long-term partnerships with Asian businesses with a focus on maintaining brand continuity and management independence in those companies.

Asia's economy began 2008 performing much better than the rest of the world, but parts of it deteriorated in the second half. During the fourth quarter, the downturn accelerated. Throughout the year, Carlyle Asia Partners carefully monitored the economic situation to ascertain the implications for its portfolio companies and for potential new investment opportunities.

As part of the global Carlyle organization, the team benefited from timely insights from around the world on the rapidly evolving economic downturn. It approached the year with caution, was extremely careful about making new investments and focused primarily on helping

its portfolio companies prepare for the changing economic environment. Many portfolio companies began scrutinizing their capital expenditures and other spending and reviewing cost reduction measures as early as the middle of the year—when Asia's economic environment was more robust than the rest of the world and talk of "decoupling" was prevalent.

The team's cautious and prudent approach during the economic downturn resulted in two new investments in 2008. Carlyle invested in Jiangsu Sinorgchem Technology Company, the largest Chinese supplier of a key chemical additive that helps prevent premature aging of rubber, especially automotive tires. Since its establishment in 1999, Sinorgchem has achieved rapid growth through technological innovation. Demand for its products is driven primarily by the rapid growth of car ownership in China, which in recent years has become one of the top two automotive markets in the world.


Bringing in proven senior executives with strong Asian operating experience and a global perspective has been a key component of Carlyle's investment strategy in Asia. To further expand its capabilities, Carlyle Asia Partners made two significant additions to its team in 2008. Sunil Kaul joined as a Senior Director and is based in Singapore. Mr. Kaul is focused on expanding Carlyle's investments in the financial services sector across the region. Prior to Carlyle, Mr. Kaul was President of Citibank Japan, capping his 21 years with Citigroup in a number of senior management roles. Devinjit Singh also joined Carlyle Asia Partners, as a Managing Director. Based in Mumbai, Mr. Singh is part of a team of six investment professionals in India. Before joining Carlyle, Mr. Singh worked for nearly 20 years at Citigroup, most recently as Managing Director and head of mergers and acquisitions in India.

CARLYLE JAPAN PARTNERS

Carlyle formed a Tokyo-based team dedicated to Japan in 2000. The team advises two buyout funds. Carlyle Japan Partners, L.P. is a ¥50 billion investment fund that launched in 2001. Carlyle Japan Partners II, L.P. (CJP II) is a ¥215.6 billion fund that launched in 2006.

Each Japanese investment professional within Carlyle Japan Partners understands both the local business culture and global investing. Carlyle Japan Partners works closely and cooperatively with portfolio company management

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50%

LCD televisions became the majority with a 50% market share in 2008, surpassing CRT units. AvanStrate is one of only four LCD glass substrate manufacturers in the world.

AvanStrate Inc.

AvanStrate is one of only four liquid crystal display (LCD) glass substrate manufacturers in the world. The company's top two customers—Samsung Electronics and Chi Mei Optoelectronics—are among the five global leaders in the LCD panel industry and account for more than 70% of AvanStrate's sales.

In 2008, Carlyle Japan Partners II, L.P. acquired a 51.4% stake in AvanStrate (formerly NH Techno Glass), with a goal of helping the company expand into new markets through

strategic partnerships facilitated by Carlyle's global network. In anticipation of this growth and based on requests from Samsung and Chi Mei, AvanStrate constructed two new glass substrate furnaces in Korea and Taiwan and has begun making shipments from these new production facilities.

Founded in 1991, AvanStrate is headquartered in Yokohama, Japan, and has four manufacturing sites in Japan, Korea, Singapore and Taiwan. AvanStrate employs approximately 1,400 people.



SIMON C. MOORE
Managing Director
Carlyle Asia Partners

MATTHEW D. HUNTER
Director
Carlyle Asia Partners

“We believe Coates is well positioned to benefit from the continued strong medium- to long-term growth of the emerging Asian economies, especially China and India. Growth in Asia is driving demand for Australia’s rich natural resources. This puts Coates, as a key supplier of construction equipment in Australia, in a strong position to benefit from increasing demand from companies in the mining, infrastructure and commercial construction sectors.”

Drawing on experience to add value and provide guidance

coates

Drawing on the experience in the equipment rental industry gained through Carlyle’s 2005 acquisition of Hertz Corporation, in 2008 Carlyle Asia Partners II, L.P. and co-investors formed the largest general equipment rental company in Australia. In a complex transaction, National Hire was combined with Coates Hire—creating a company with a market share in Australia in excess of 25%.

Since forming the new company, Carlyle introduced a new leadership team, led by CEO Leigh Ainsworth and Finance Director Anne Brennan. With the successful integration of the



1 million

Coates manages over 1 million individual assets in more than 30 different product categories, all designed to help its customers get the job done—safely and reliably.

190

With 190 branch and satellite locations throughout Australia and Indonesia, Coates has an extensive distribution capability with expanded scale and size to meet the needs of a wide range of customers.

two companies, significant cost reductions and efficiencies have been achieved by centralizing procurement; consolidating the back office; removing public company costs; and eliminating duplicate roles, stores and locations.

Carlyle helped management improve the utilization of the company's existing fleet across its various markets, capping new capital expenditures and facilitating the selective disposal of older equipment. This resulted in material debt pre-payment of A\$120 million and cash accumulation of approximately A\$150 million.

In addition, Carlyle worked with its partners, National Hire/Westrac and Australian Capital Equities, to develop and implement a hedging strategy for Coates' interest rate risk. That has enabled the company to move almost entirely to a floating rate, allowing it to benefit from the decline in Australian official interest rates. Full-year interest savings in 2009–2010 are expected to be approximately A\$60 million.

The transaction was named Deal of the Year 2007 by *Australian Financial Review* and Deal of the Year 2008 (Australia) by *The Banker*.

Continued from page 24

to enhance operational and financial efficiencies. The team promotes the value of its portfolio companies by pursuing management and operational excellence.

Carlyle Japan Partners uses a conservative and disciplined investment approach with a goal of generating strong, consistent returns by focusing on industries in which it has a deep understanding. By leveraging local relationships with Japanese corporations and financial institutions, the team seeks to identify strong value-creation opportunities. Carlyle Japan Partners has a mid- to long-term investment perspective with an aim toward supporting businesses and helping them reach the next level.

Its current holdings include Covalent Materials Corporation, Kito Corporation, Qualicaps Group and WILLCOM (in partnership with Carlyle Partners III, L.P. and Carlyle Asia Partners, L.P.).

In 2008, CJP II acquired NH Techno Glass, which was subsequently rebranded as AvanStrate. The company manufactures glass substrates for liquid crystal display.

CARLYLE MENA PARTNERS

In 2007, Carlyle became the first global private equity firm to establish a presence in the Middle East and North Africa (MENA), an area that is home to the world's third-largest population group. In early 2009, its first fund, Carlyle MENA Partners, L.P., closed with \$500 million in equity commitments.

Carlyle MENA Partners seeks to invest in a disciplined manner in high-quality companies that have leading market positions and healthy growth prospects. By leveraging its global network, industry expertise and operational know-how, the team seeks to support the management of portfolio companies in identifying clear paths towards value creation.

In 2008, Carlyle made one investment in the MENA region: the acquisition of a 50% equity interest in TVK Gemi Yapim Sanayi Ve Ticaret. TVK is located in Turkey, in the Kocaeli Free Trade Zone, and specializes in the construction of chemical tankers with cargo volume of up to 25,000 deadweight tonnage.

Carlyle MENA Partners is advised by a team of 12 investment advisory professionals based in Cairo, Dubai and Istanbul with extensive local investment knowledge and experience. In 2008, the team looked at more than 200 investment opportunities and

progressed a few to the advanced stages of due diligence. However, because the global economic downturn began shortly after Carlyle MENA Partners was launched, the team has taken a cautious approach, focusing solely on opportunities that it believes can generate considerable returns for its investors while minimizing downside risk.

CARLYLE MEXICO PARTNERS

Launched in 2005, Carlyle Mexico Partners, L.P. (CMexP) has \$134 million in commitments and is advised exclusively by Mexican nationals. Each member has extensive local knowledge and is sensitive to the country's culture and business practices.

Carlyle Mexico Partners seeks to invest in privately and publicly owned high-growth companies and opportunistic restructurings in Carlyle's core industries, such as industrial, consumer and business services. Typically, these companies have the potential to take advantage of the converging economies of Mexico, the United States and Canada.

In 2008, CMexP sold a majority stake in Universidad Latinoamericana, an accredited, private university based in Mexico City, to Apollo Global. A joint venture formed by Apollo Group and Carlyle Growth Partners, Apollo Global invests in the international education services sector.

In late 2007, CMexP exited its investment in Hispanic Teleservices Corporation (HTC), a provider of customized bilingual call center services, when it sold its majority stake to Teleperformance (ROCH: Paris Stock Exchange). Acquired in 2005, HTC tapped into Carlyle's global network and accessed new clients. After only two years of Carlyle ownership, the total number of employees more than tripled.

GLOBAL ENERGY AND POWER FUNDS

The Carlyle Group and Riverstone Holdings, LLC formed a partnership in 2000 that conducts buyout and growth capital investments in the midstream, upstream, power and oilfield services sectors, as well as in the renewable and alternative sectors of the energy industry.

Over the last nine years, Carlyle/Riverstone has established six global energy, power and renewable energy funds with aggregate equity commitments totaling \$15.8 billion.

A close-up photograph of a woman with her eyes closed, smiling slightly. She is wearing a white bathrobe and holding a small white jar of 'Baba de Caracol' facial cream. The jar has a green label with the text 'NATURAL SKIN Crema Facial con Baba de Caracol'. The background is a window with a white grid pattern, possibly a shower curtain or window blind, with soft light filtering through.

150,000

A network of 150,000 independent customer/resellers, known as Arabela Ladies, makes Arabela's attractively priced products available to customers across El Salvador, Guatemala, Honduras and Mexico.

Arabela

In 2008, Carlyle Mexico Partners helped Arabela, a direct seller of fragrances, beauty and personal care products, home goods and novelty items, expand into Central America, where operations in El Salvador, Guatemala and Honduras are off to a strong start. Revenue, EBITDA and margins were all up in 2008 compared to the previous year. In Mexico, where the company was founded in 1991, it has an estimated 7% market share among direct sellers. Carlyle acquired Arabela in 2007.

Arabela's products are sold through a network of approximately 150,000 independent customer/resellers, known as Arabela Ladies, who earn a commission of 20% to 30% of the retail price of the products they sell. The majority are women of low socioeconomic background who are contributing additional income to their households as a way to improve their standard of living. With Carlyle's support, the company aims to continue to expand across Latin America, doubling the number of Arabela customer/resellers earning commissions.

In 2008, Riverstone/Carlyle Global Energy and Power Fund IV, L.P. (RCGEPF IV) led a commitment to invest \$500 million in Dynamic Offshore Resources, a new Houston-based oil and gas company focusing on acquiring and developing mature, end-of-life producing properties in the Gulf of Mexico shelf region. These assets are often viewed as out of favor due to shorter production lives, but still have viable and attractive growth and profit opportunities. With major oil companies and others exiting the region, market conditions are favorable for generating attractive returns. Dynamic Offshore made two acquisitions in 2008 that include more than 130 billion cubic feet of natural gas equivalent of proved reserves.

Also in 2008, RCGEPF IV made an investment in Shelter Bay Energy, an exploration and production company focused on the Saskatchewan Bakken, one of the most promising conventional oil regions in western Canada. Following the investment, Shelter Bay acquired Landex Petroleum Corporation, an oil and gas production company with operations and assets in southeast Saskatchewan.

RCGEPF IV made a second investment in the heart of the western Canadian oil and gas producing region with the acquisition of Gibson Energy Holdings in 2008. Gibson's network of assets consist of more than 3.4 million barrels of crude storage capacity, 11 terminals, 290 miles of pipeline, over 1,180 truck trailers, 49 propane distribution branches and a 16,000-barrel-per-day processing facility.

AES Solar was organized in 2008 as a joint venture between the AES Corporation and Riverstone/Carlyle Renewable and Alternative Energy Fund II, L.P., each of which committed to invest \$500 million over the next five years. AES Solar seeks to become a global developer, owner and operator of utility-scale solar installations that will be connected to the power grids that supply homes and businesses.

After two-and-a-half years from the date of the initial transaction, Carlyle/Riverstone Global Energy and Power Fund III, L.P. successfully exited its investment in International Logging in 2008 through a sale to Weatherford International. At the time of the sale, International Logging was among the largest mud logging services companies in the world with operations in Africa, Asia, Latin America and the Middle East.

Due to significant market dislocation in 2008, SemGroup, a midstream oil and gas logistics and marketing company, came under mounting pressure and was forced to file for Chapter 11 bankruptcy protection in July. When the market experienced unprecedented swings in oil prices last year, margin requirements created a liquidity crisis at the company. Carlyle/Riverstone Global Energy and Power Fund II, L.P. initially invested in SemGroup in 2005.

CARLYLE INFRASTRUCTURE PARTNERS

The firm established Carlyle Infrastructure Partners to invest in both public and private infrastructure projects and businesses, primarily in the United States and Canada, where deferred maintenance and new construction costs are estimated to top the \$1 trillion mark over the next five years. Private investment in infrastructure offers state and local governments an alternative to meet funding and operating demands beyond the traditional means of tax increases and bond issuances.

In 2006, Carlyle Infrastructure Partners, L.P. (CIP) was launched with \$1.1 billion in commitments. CIP seeks investment opportunities in a wide range of public-benefit, essential-service infrastructure assets, including toll roads, bridges and tunnels; mass transit systems and railways; airports, aircraft and aviation services; maritime ports and waterways; water and wastewater treatment and distribution facilities; as well as other infrastructure and related services and assets.

In addition to investments in private sector infrastructure assets, the team seeks to develop public-private partnerships to bring much needed investment and innovation to infrastructure operators and projects. Working in conjunction with the public sector, the team aims to find cooperative methods of managing and investing in assets, identify ways to create value from infrastructure and provide public partners with an attractive risk-adjusted return.

In 2008, CIP acquired a majority interest in ITS Technologies & Logistics, one of the largest operators of intermodal facilities in North America. The company lifts containers from rail to truck and truck to rail and performs rail switching, terminal administration and equipment maintenance. ITS employs more than 1,600 people and operates in 60 geographically diverse



\$1 billion

With each committing \$500 million over five years, Carlyle/Riverstone and the AES Corporation formed AES Solar to capture opportunities to create value and meet the world's growing demand for clean energy.

AES Solar

AES Solar has the potential to change the fundamental economics of solar power. Formed through a joint venture between Riverstone/Carlyle Renewable and Alternative Energy Fund II, L.P. (RCRAEF II) and the AES Corporation, AES Solar seeks to become a global developer, owner and operator of utility-scale solar installations that will be connected to the power grids that supply homes and businesses. In 2008, RCRAEF II and the AES Corporation each committed \$500 million over five years to invest in photovoltaic (PV) solar projects around the world.

The spread of renewable power standards, energy security concerns and fluctuating energy prices is fueling significant progress in the solar PV industry to improve performance and reduce costs. AES Solar's installations, ranging from fewer than two to more than 50 megawatts in size, will consist of ground-mounted solar PV panels that capture sunlight and convert it into electricity. To date, AES Solar has focused its efforts on Bulgaria, France, Greece, Italy and Spain, which provide attractive, government-backed feed-in tariffs.

locations in North America critical to the movement of goods. Carlyle believes that ITS will benefit from containerized trade volumes and the growth of rail usage as a mode of domestic transport. Carlyle also sees an opportunity for growth as ITS leverages its industry-recognized operating expertise and selectively acquires smaller intermodal terminal operators.

Carlyle Infrastructure Partners includes 11 professionals with financial and public policy expertise in the infrastructure arena. The team is based in New York and Washington, DC and has more than 100 years of combined infrastructure/transportation experience.

CARLYLE GLOBAL FINANCIAL SERVICES PARTNERS

Carlyle established its Global Financial Services team in 2007. The team seeks to invest in management buyouts, growth capital opportunities, government-facilitated investments and strategic minority investments in the financial services sector.

The Global Financial Services team believes that many financial services firms will need to raise equity capital to shore up their balance sheets and restore confidence in the marketplace. The team is focused on companies with viable business models that can thrive throughout different economic cycles and can withstand the current industry-wide deleveraging. In these situations, the team seeks to invest in companies that will benefit from the ultimate restructuring of the financial services industry through acquisitions and by providing capital at attractive price points. The team is also interested in putting its capital to work with the government as a partner or counterparty in credit and liquidity-exposed situations in the belief that these partnerships can provide favorable loss-sharing arrangements, which can protect capital in a stress-case scenario.

Carlyle believes that the financial services sector will continue to experience difficulty as the credit and liquidity crises unfold. The Global Financial Services team is taking a cautious, disciplined approach, undertaking rigorous evaluations of potential investments. This conservative approach resulted in only one investment in 2008. Carlyle invested approximately \$75 million in Boston Private Financial Holdings, a holding company comprising private banks, asset managers

and wealth advisors. The investment provides Boston Private with the opportunity to strengthen its balance sheet and proactively maneuver its affiliates into profitable areas as competitors are retrenching.

Collectively, the Global Financial Services team, which comprises 11 investment professionals, has experience across all sectors of the financial services industry, providing strong historical knowledge, working relationships with key financial services players and deep expertise that guide investment choices.

CARLYLE SOUTH AMERICA BUYOUT TEAM

The Carlyle South America Buyout team seeks to invest in buyout and high-growth opportunities in Brazil and other selected South American countries. Carlyle brings a consistent and disciplined investment approach and strategy to companies in industries benefiting from the region's economic fundamentals and favorable demographics, and that fit well with Carlyle's track record and the team's experience.

Brazil is the tenth-largest economy in the world with a gross domestic product of \$1.3 trillion in 2007. The country has a large and young population that includes 189 million people, with 68% below the age of 40. Its emerging high/middle-income group has increasing disposable income, making it one of the world's largest consumer markets. As a sign of the stability of its macroeconomic policies, Brazil's sovereign debt was upgraded to investment grade in 2008 by Standard & Poor's (BBB-) and Fitch (BBB-).

Like all other major economies, Brazil has been somewhat impacted by the current global economic turmoil. However, in spite of the current challenges, Carlyle believes that the long-term fundamentals of the Brazilian economy remain solid, that political and economic stability will be preserved and that the economy will continue to outperform the growth of the global economy—both in the short and long terms.

The Carlyle South America Buyout team is based in São Paulo and has substantial private equity experience, deep knowledge of the target region and access to Carlyle's global resources. Carlyle is also developing a relationship with Banco do Brasil, one of Latin America's largest banks, which we believe will enhance our ability to execute investments in Brazil.

Continued on page 36

\$28 billion

Boston Private's network of independently operated financial services firms has \$28 billion in managed and advised assets and each shares a focus on the U.S. high net worth population.



Boston Private Financial Holdings

Boston Private Financial Holdings has a unique and diversified private banking model. It owns independently operated financial services firms across the United States. These affiliated firms, selected through a meticulous acquisition process, include private banks, asset managers and wealth advisors that share a focus on the growing U.S. high net worth population.

In 2008, after six weeks of due diligence, Carlyle Global Financial Services Partners, L.P. invested approximately \$75 million for a 24.9% economic interest in Boston Private.

The investment demonstrates Carlyle's disciplined approach to investing in the financial services sector and provides Boston Private with the opportunity to strengthen its balance sheet and proactively maneuver its private banks into profitable areas as competitors are retrenching.

Following Carlyle's investment, Boston Private named John Morton III to the company's board. Mr. Morton was president of Premier Bank, a unit of Bank of America serving 750,000 affluent customers.



“Transics is an outstanding example of a company that delivers exceptional growth through innovation and excellence in execution. Thanks to our sector expertise and rapid decision making, we have been solid partners for the management team. We are also proud to have contributed to value creation during our ownership period by helping Transics complete a successful acquisition.”

VLADIMIR LASOCKI
Managing Director
Carlyle Europe Technology Partners



Working to expand a company’s leadership

Transics®

Over the last two years, Carlyle Europe Technology Partners actively worked with Transics’ senior management to expand the company’s market share across Europe. Today, Transics, a pioneer in the development of total fleet management solutions for the transport and logistics sector, is a market leader in its field. Its high-end fleet management solutions are installed on more than 57,700 vehicles in over 950 transport companies in 23 countries across Europe. Transics’ solutions enable transport companies to take their business and



57,700

Transics' fleet management solutions are on board more than 57,700 vehicles from over 950 transport companies across 23 European countries, helping businesses work safer, more efficiently and with less environmental impact.

€78 million

In June 2008, Carlyle and other shareholders sold their remaining stake in Transics for €78 million through a private placement and an accelerated book-building to institutional investors.

100%

Revenues increased 100% between the last 12 months preceding the acquisition in 2006 and the last 12 months preceding the exit in 2008, and Transics expanded into Germany, Spain, Scandinavia, and Central and Eastern Europe.

operations to the next level by improving asset utilization, safety and customer service, and reducing fuel consumption and overhead.

Founded in 1991 and well established in the Benelux and France, Transics pushed further into Germany, Spain, Scandinavia, and Central and Eastern Europe. In April 2007, Carlyle supported Transics in the acquisition of Delta Industry Service, a French provider of information technology solutions for the retrieval, processing and archiving of

tachograph data. The takeover enabled Transics to expand its product range and further reinforce its position in France.

In June 2007, Transics completed a successful initial public offering on Eurolist (Euronext Brussels) through a €46 million placement. The shares were priced at €17.50, which was at the top of the price range. Following the IPO, Carlyle retained 42.2% of Transics' shares, which were sold in a successful exit in 2008.

Continued from page 32

While Brazil is the primary focus of the team's efforts, it will also pursue opportunities in Chile, Colombia and Peru.

CARLYLE GROWTH PARTNERS

Carlyle Growth Partners executes investments in lower middle market companies with unrealized growth potential. The investment team pursues small buy-out and expansion-stage growth equity transactions involving U.S. companies with global potential.

The team advises three U.S.-focused venture and growth capital funds: Carlyle Venture Partners, L.P. was launched in 1997 with \$210 million commitments; Carlyle Venture Partners II, L.P. was launched in 2001 with \$602 million in commitments; and Carlyle Venture Partners III, L.P. was launched in 2006 with \$605 million in commitments.

Carlyle Growth Partners applies a disciplined investment model focused on growing companies with \$15 million to \$200 million in annual revenues operating in the technology, healthcare, education, business services and communications sectors. Carlyle's investment model combines the sector expertise of the Carlyle Growth Partners investment team with that of other Carlyle franchises around the world. In this way, the team leverages its resources and Carlyle's global network of portfolio companies and investment professionals to help improve and grow its investments.

The team targets industries in which it has deep expertise, while adjusting industry sector allocations to adapt to changing economic conditions. Its current emphasis is on sectors such as education and healthcare that either have the potential to grow during economic downturns or are relatively immune to cyclical changes.

In 2008, Carlyle invested in Catapult Learning, which provides educational solutions that meet a wide variety of K-12 school needs, including supplemental reading and math instruction, professional development for classroom teachers and other educational support services. Another education sector investment, Apollo Global, is a \$1 billion joint venture between Carlyle and Apollo Group (NASDAQ: APOL). Apollo Global was formed in 2007 to build an international education services business. The company focuses its activities primarily in countries outside the United States

that have attractive demographic and economic growth characteristics. In 2008, the Apollo Global joint venture consummated its two initial acquisitions. It acquired Universidad de Artes, Ciencias y Comunicacion, a Chilean postsecondary school. It also purchased a majority stake in Universidad Latinoamericana, a Mexican postsecondary school, from Carlyle's Mexico fund.

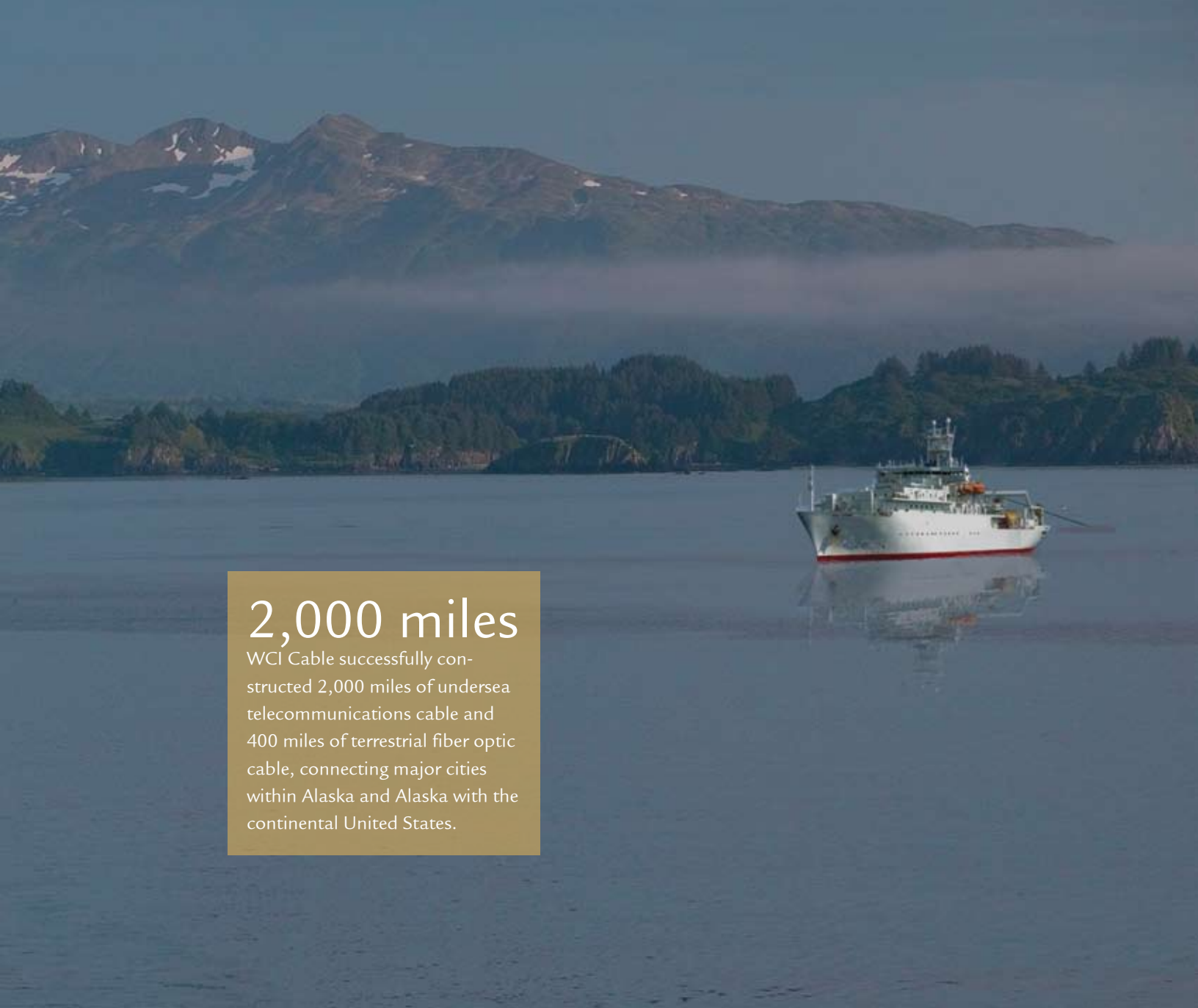
In the healthcare sector, Carlyle made an investment in 2008 in eScreen, a provider of the industry's first and only automated, instant and rapid drug test, serving more than 400 employers through a network of over 1,500 clinics nationwide. eScreen's suite of related offerings includes medical review, physicals and integrated pre-employment program management software.

Carlyle also invested in Authentix and Gemcom Software International in 2008. Authentix is a science and technology company that researches, develops and supplies authentication products and services for a full suite solution. Gemcom Software provides software and service solutions to the mining industry, enabling mining companies to evaluate, manage and monitor mine operations from the early exploration stage through final production.

CARLYLE EUROPE TECHNOLOGY PARTNERS

Carlyle Europe Technology Partners targets growth capital and small- to mid-cap buyout investments in companies characterized by technological innovation and leadership in sectors with positive dynamics. Led by Managing Directors Robert Easton and Michael Wand, the team is based in London. Its investment advisory professionals come from a wide range of European countries, including France, Germany, Ireland, Italy, Spain and the United Kingdom. By leveraging Carlyle's broad network of offices, the team maintains a local presence across Europe.

Carlyle Europe Technology Partners actively supports its portfolio companies through board representation and, in the current environment, is working closely with management, providing strategic advice and guidance. For example, in 2007, Carlyle acquired The Mill, a U.K.-based company that provides digital post-production services for the television advertising industry. After the acquisition closed, Carlyle helped The Mill expand to the United States, where



2,000 miles

WCI Cable successfully constructed 2,000 miles of undersea telecommunications cable and 400 miles of terrestrial fiber optic cable, connecting major cities within Alaska and Alaska with the continental United States.

WCI Cable

The WCI Cable investment illustrates how private equity, working in partnership with world-class management, can stabilize a distressed business and reinvigorate growth. WCI Cable was founded in 1996 to construct a submarine fiber optic network providing a critical backbone network for Internet, voice and data traffic between Alaska and the continental United States. However, WCI was unable to achieve sufficient revenue to cover debt service and other fixed costs, and the company filed for bankruptcy in 2001. The following year, Carlyle Venture Partners II, L.P. purchased WCI out of bankruptcy in partnership with a new management team, led by three-time Carlyle CEO, Donald Schroeder.

The new WCI management team rationalized the business, selling off non-core real estate and network assets, and expanded sales and marketing efforts for undersea network capacity between Alaska and the continental United States. As a result of these actions, over Carlyle's holding period operating cash flow increased from negative \$10 million to positive \$10 million. In 2008, Carlyle exited the business through a sale to Alaska Communications Systems Group (NASDAQ: ALSK), the leading provider of wired and wireless telephone services within Alaska.

the company now has offices in New York and Los Angeles. Recently, The Mill has diversified from its core advertising business into television and distribution of content. In 2008, The Mill successfully completed a significant project in the Middle East and is focusing on further developing opportunities in the region, as well as in other parts of the world.

By tapping into Carlyle's global network, the team facilitates introductions to potential customers and partners in an effort to increase opportunities for growth and value creation.

The team is currently taking a patient, long-term view of potential investments. With financing in limited supply, many companies are looking to private equity to fund their growth. Carlyle is adhering to a conservative approach and is examining opportunities carefully, believing that certain private equity investments made during periods of economic difficulty have the potential to outperform.

In 2008, Carlyle successfully closed its third Europe-focused technology fund, Carlyle Europe Technology Partners II, L.P. (CETP II) with €530 million in commitments, exceeding its initial target of €500 million. Carlyle targets investments between €25 million and €200 million in technology companies that have the potential to become global leaders in the firm's core industries, in which Carlyle has a depth of expertise.

CETP II made its first investment, with the acquisition of Gardner Group in 2008. Headquartered in the United Kingdom, Gardner supplies metallic aerospace details, equipment and engine components to the global aviation industry.

The team also advises Carlyle Europe Technology Partners, L.P. (CETP), which launched in 2005 with €222 million in commitments. In 2008, CETP made two new investments, in Arsys Internet and KCS.net. Based in Spain, Arsys Internet provides Web site hosting, domain name registration and related services for small and medium-sized enterprises. KCS.net is a rapidly growing, profitable vendor of Microsoft-based enterprise resource planning and related consulting services.

In addition, the team advises a third fund, Carlyle Europe Venture Partners, L.P., with €553 million in commitments that launched in 2000.

CARLYLE ASIA GROWTH PARTNERS

Carlyle has assembled one of the largest growth capital teams in Asia. Carlyle Asia Growth Partners, which was established in 2000, targets private high-growth companies with strong local management teams and leading market positions in China, India, Japan and South Korea.

While not immune to the current macroeconomic environment, Carlyle Asia Growth Partners believes that its investment discipline and experience are generating positive results. Carlyle generally does not use leverage or financial engineering in its Asia growth capital investments, and its investment criteria and strategy have resulted in investments in private companies—mostly in China and India—that are growing much faster than the gross domestic product growth rates in those economies. Because Carlyle focuses on companies that are still expanding from a small foundation, they are relatively less affected by a macroeconomic slowdown.

Carlyle Asia Growth Partners advises four funds: Carlyle Asia Venture Partners I, L.P., launched in 2000 with \$159 million in commitments; Carlyle Asia Venture Partners II, L.P., launched in 2001 with \$164 million in commitments; Carlyle Asia Growth Partners III, L.P. (CAGP III), launched in 2006 with \$680 million in commitments; and Carlyle Asia Growth Partners IV, L.P. (CAGP IV), launched in 2008.

During 2008, Carlyle's growth capital investments across Asia totaled \$228 million in aggregate equity in 13 new and follow-on investments. CAGP III made investments in two new companies, both in China: HaoYue Education Group, a private higher education service provider, and China Forestry Holdings Group, a private forestry plantation operator. In late 2008, CAGP IV made its first investment, in Shenzhen Ellassay Apparel Company, a fashion goods company in China.

In addition, two CAGP III portfolio companies had successful initial public offerings, both on the Main Board of the Stock Exchange of Hong Kong. HongHua Group Holding, one of the largest land-based oil rig manufacturers in the world, raised approximately \$409 million. Xtep (China) Company, one of the largest fashion sportswear companies in China, raised approximately \$285 million.



#1

In 2007, Xtep was named the No. 1 Chinese Brand of the Year and ranked No. 1 in the sporting goods category by World Brand Laboratory. The company was also honored for Footwear Product of the Year by the Global Apparel Accessories & Footwear Committee.

Xtep (China) Company

The Xtep brand has become synonymous with trendy, innovative and high-quality fashion sportswear products in China. One of the largest fashion sportswear companies in China, the company designs, develops, manufactures and markets sportswear, including footwear, apparel and accessory products. Its products are sold under the Xtep, Disney Sport and Koling brands.

In 2008, Carlyle Asia Growth Partners guided Xtep through its initial public offering on the Main Board of the Stock Exchange of Hong Kong. The IPO was successful,

particularly in light of the overall economic environment, raising approximately \$285 million of new capital. The proceeds will be used to broaden Xtep's distribution network, support sales and marketing initiatives, make acquisitions and provide working capital for expanded apparel production facilities.

Xtep's first full-year results after its IPO were a highlight in the markets amid the global economic downturn. Revenue grew by 110% and net profit increased by 129%, despite weakening consumer confidence in China that began to surface in the fourth quarter of 2008.

Leveraged Finance/Distressed

Leveraged finance and distressed situations are highly specialized areas—and ones in which Carlyle has extensive experience through our teams. These professionals invest in below investment-grade corporate loans, bonds, mezzanine debt, distressed opportunities and special situations across Europe and the United States. By interfacing with other Carlyle investment groups, Leveraged Finance/Distressed imparts broad debt market knowledge resulting in what we believe is efficient capital market execution for the firm. The global market's response to the expertise of these teams can be measured in the growth of their funds under management, which now totals more than \$14 billion through 24 funds.

GLOBAL LEVERAGED FINANCE

In early 2009, Carlyle announced the integration of the firm's existing Europe leveraged finance, U.S. leveraged finance and mezzanine businesses into a single global platform. Mike Ramsay, Managing Director and formerly head of Carlyle's Europe leveraged finance business, has been appointed head of the global business.

While the economic environment has created challenging conditions for credit investing, it also presents an opportunity for knowledgeable investors to achieve extraordinary returns. By building on its legacy of capital markets expertise, the firm seeks to capitalize on this opportunity and outperform in credit investing.

Acknowledging that the industry is only partly through the default cycle, the Global Leveraged Finance team took a defensive stance in 2008 and

prepared for what is anticipated to be a deep credit cycle. Default rates are expected to continue to rise, driven by companies with leveraged balance sheets that are unable to cope with servicing or repaying those liabilities. As a result, the team focused on its portfolios and the basics of credit analysis, continually refreshing its views on the credit qualities of the individual companies, the context of the industry sectors in which the companies are active and the outlook for those different sectors.

Despite the credit cycle, Carlyle successfully launched four Europe and U.S. leveraged finance funds in 2008, in addition to closing a second mezzanine fund in early 2009. In total, Carlyle has 22 leveraged finance funds that invest in below investment-grade corporate loans, bonds, mezzanine and special situations in Europe and the United States.

Continued on page 42

2008 MAJOR ACHIEVEMENTS

- Launched the thirteenth and fourteenth U.S. loan funds, Carlyle High Yield Partners 2008-1, Ltd., at \$500 million and CHYP 2008-1 Structured Products, L.P., at \$80 million.
- Launched two European loan funds: CELF Partnership Loan Funding 2008-I Limited at €1.5 billion, the largest-ever structured fund for leveraged loans in Europe; and CELF Loan Partners V Limited at €401 million.
- Completed fundraising for the second U.S. mezzanine fund, Carlyle Mezzanine Partners II, L.P., in March 2009 with equity commitments of \$553 million.
- Invested \$255 million in 10 new transactions from Carlyle Mezzanine Partners II, L.P.
- Concluded fundraising for the second distressed opportunities fund, Carlyle Strategic Partners II, L.P., with commitments of \$1.35 billion.
- Invested a total of \$428 million from Carlyle Strategic Partners II, L.P.

Continued from page 40

U.S. LEVERAGED FINANCE

U.S. Leveraged Finance focuses on industries in which Carlyle has extensive expertise, with an emphasis recently on more recession-resistant sectors, such as healthcare, utilities and telecommunications. The team collaborates closely with other investment professionals across the firm, leveraging their insights into key trends at work in their focused sectors, which enhances its ability to identify and evaluate investment opportunities.

U.S. Leveraged Finance's investment professionals practice a disciplined investment and monitoring process and proactively manage risk exposure using various risk management tools. In 2007, the team began preparing its portfolios for the current credit cycle. This preparation included trading the portfolio more actively and improving credit quality to reduce risk where possible, replacing second lien positions with first lien positions, and moving out of smaller, potentially more vulnerable credits and into larger-cap credits. This selective approach to credit enabled the team to outperform the overall loan market in terms of returns and defaults in 2008.

Over the course of 2008, the team successfully restructured the mark-to-market liabilities that financed Carlyle Credit Partners' (CCP) loan portfolio. Utilizing a traditional collateralized loan obligation structure that includes AAA, AA and BBB rated liabilities, CCP was able to repay a portion of its short-term debt that was subject to mark-to-market triggers and replace it with longer-term financing. As a result of this and other measures taken to restructure the remainder of CCP's debt, CCP was generally able to avoid the forced selling pressures at work in the capital markets for much of the year.

In 2008, Carlyle also launched its thirteenth U.S. loan fund, Carlyle High Yield Partners 2008-1, Ltd., at \$500 million, as well as its first fund focused on investments in structured products.

As of early 2009, U.S. Leveraged Finance manages 10 funds, totaling more than \$3.9 billion, and one credit opportunity fund, bringing total assets under management to \$4.8 billion.

EUROPEAN LEVERAGED FINANCE

European Leveraged Finance invests primarily in non-investment grade high yield loan and bond assets, chiefly relating to leveraged finance transactions. Carlyle enjoys an advantage in sourcing opportunities from both the primary and secondary markets due to its close relationships with arrangers of leveraged finance and its deal flow relationships with market counterparties.

When the downward movement of the market in 2008 began to have a material impact on the structure of the CELF Europe Credit Partners fund, Carlyle approached the fund's investors and secured long-term refinancing of the fund to preserve its stability and avoid forced selling pressure. This also allowed Carlyle to move the investment guidelines from a market value basis into the more traditional credit quality basis shared by its other structured funds.

The London-based team has extensive experience in managing below investment-grade assets, especially collateralized debt obligations and other securitization-based fund structures. The team uses industry sector expertise provided by other Carlyle investment professionals to supplement its own credit analysis, an invaluable combination when sourcing investment opportunities in those sectors.

The team's proprietary real-time risk management tool provides daily updates on risk and value ratings for each issuer, as well as rating agency information and outlook. This credit monitoring system, which is just one part of its stringent portfolio monitoring process, is used to make buy, hold or sell decisions. By combining its proven asset-sourcing capability with disciplined credit and risk management methodologies, Carlyle hopes to generate superior returns with consistent distributions.

As of early 2009, European Leveraged Finance advises nine funds with a total of €5.4 billion of assets under management. In 2008, Carlyle launched CELF Partnership Loan Funding 2008-I Limited at €1.5 billion, making it the largest-ever structured fund for leveraged loans in Europe. The fund invests in



\$1.6 billion

With the acquisition of Unomedical, ConvaTec increased its annual sales to approximately \$1.6 billion and significantly expanded its global footprint. Today, the company has more than 8,000 employees in more than 90 countries.

ConvaTec

Through a collaborative effort, ConvaTec has become a global leader in the development and marketing of wound therapeutics and ostomy care products that help improve the lives of millions of patients. In August 2008, Carlyle Mezzanine Partners II, L.P. invested in ConvaTec to finance its acquisition by Nordic Capital and Avista Capital Partners from Bristol-Myers Squibb. In September, ConvaTec expanded its global footprint when it acquired Unomedical, a Copenhagen-based manufacturer of single-use medical devices.

In addition to its established brand recognition for ostomy and advanced wound care products, ConvaTec has market-leading positions in a number of its smaller businesses, including acute incontinence and insulin infusion sets. The company's product portfolio benefits from non-cyclical demand and reflects a balance of newer, rapidly growing brands complemented by more mature, stable products with strong brand loyalty. ConvaTec is a diversified business both in terms of geography and product line.

In early 2009, the ConvaTec acquisition was named the Dow Jones PE Analyst LBO Deal of the Year.

below-investment grade debt. CELF Loan Partners V Limited was also launched, at €401 million.

CARLYLE MEZZANINE PARTNERS

As the credit correction expanded throughout 2008, a lack of debt financing alternatives benefited the mezzanine market. Carlyle Mezzanine Partners, which was established in 2004 to invest in U.S. debt and equity securities of leveraged buyouts, recapitalizations and growth financings, increased its investment pace to capitalize on opportunities to obtain equity-like returns for debt investments. The team invested a total of \$258 million in 2008, a 26% increase compared to the \$204 million invested in 2007.

In this environment, Carlyle's strategy is to focus on larger, market-leading companies that should weather the economic downturn, as well as opportunities in less cyclical sectors, or those with favorable outlooks, including healthcare and government services. During 2008, Carlyle participated in selective secondary debt purchases at significant discounts, benefiting from current dislocations in the market. The team applies rigorous credit analysis with a goal of keeping default rates to a minimum. By taking advantage of current market conditions and leveraging its experience in the mezzanine asset class, Carlyle is seeking opportunities to obtain attractive returns throughout the credit cycle.

The team advises two funds with more than \$980 million in commitments as of March 2009. Carlyle's first mezzanine fund, Carlyle Mezzanine Partners, L.P., closed in 2006 with \$436 million in equity commitments. In early 2009, Carlyle completed raising its second mezzanine investment fund, Carlyle Mezzanine Partners II, L.P., with equity commitments of \$553 million.

In total, Carlyle made 10 new mezzanine investments in 2008, including in Applied Systems, a developer of enterprise automation software solutions for the property and casualty insurance distribution industry.

Applied Systems is the market leader in both Canada and the United States, with over 126,000 users from more than 10,600 insurance agencies and brokerages.

CARLYLE STRATEGIC PARTNERS

Established in 2004, Carlyle Strategic Partners invests in the debt and equity of operationally sound, financially distressed companies in Carlyle's core industries around the world.

Carlyle Strategic Partners manages more than \$1.5 billion in two funds: Carlyle Strategic Partners II, L.P. (CSP II), which was launched in 2007 and had its final close in 2008 at \$1.35 billion, and Carlyle Strategic Partners, L.P., which had its final close in 2006 at \$211 million.

Through influence and control, Carlyle seeks to drive returns and value through its involvement in the restructuring processes and at the management and board levels.

In December 2007, CSP II and Carlyle/Riverstone Global Energy and Power Fund III, L.P. acquired Permian Tank & Manufacturing from the company's founder and majority shareholder. Based in Texas, Permian produces steel and fiberglass storage tanks, treaters, separators and vessels for the oil and gas industry. In mid-2008, Permian acquired one of its top competitors, Lide Industries, thereby enhancing its overall market position.

The ongoing global credit crisis is causing corporate default rates, restructurings and reorganizations to accelerate, creating increased opportunities to invest in the debt and equity (which may be acquired in the secondary market through Carlyle Strategic Partners' trading platform) of a growing number of financially distressed businesses. The combination of Carlyle's global industry expertise and the team's experience with distressed investing, private equity, restructuring and investment banking uniquely positions Carlyle Strategic Partners among investors in financially distressed companies.



30 years

For more than 30 years, Permian has been providing oil storage tanks and related products to the oil and gas industry through a network of manufacturing plants across Texas and Oklahoma.

Permian Tank & Manufacturing

The acquisition of Permian Tank & Manufacturing is a good example of the *One Carlyle* collaborative spirit at work. Carlyle/Riverstone acquired Permian from the company's founder and majority shareholder in late 2007. Funds for the transaction came from Carlyle Strategic Partners II, L.P. and Carlyle/Riverstone Global Energy and Power Fund III, L.P. To complete the transaction, both Carlyle teams worked closely and shared their industry insights and strategic expertise.

Permian, whose products are used by customers in the oil and gas industry, is one of the largest manufacturers of

steel and fiberglass oil storage tanks, gun barrels, heater treaters, separators and free water knockouts in the United States. Carlyle believes that providing Permian with the resources it needs to grow its business will enhance the company's position as a top supplier of oil storage tanks and related products.

In July 2008, Permian acquired Lide Industries, a competitor for more than 30 years. The acquisition enhances Permian's ability to service new and existing customers and provides other synergies.

Real Estate

Across the Americas, Asia and Europe, Carlyle invests in a diversified mix of real estate sectors, from office, hotel and retail properties to multifamily residential and senior living housing. Through 10 funds, Carlyle's Real Estate investment teams have achieved a track record of success by applying a value-oriented strategy focused on market fundamentals. In all, Carlyle has invested in 414 properties around the world with a total capitalization of \$36.2 billion, completed 163 full or partial realizations, and returned \$4.9 billion to investors.

CARLYLE REALTY PARTNERS

Carlyle Realty Partners seeks to generate premium returns for investors by identifying situations in which real estate fundamentals are underpriced by the capital markets and by locating assets in markets with diverse tenant demand, supply constraints and exit liquidity.

The team targets opportunistic real estate investments in the office, hotel, industrial, retail and residential sectors. Its primary markets are New York, Washington, DC, Los Angeles, San Francisco, Seattle, Florida and Boston. Its focus on active asset management—repositioning assets with capital expenditures and leasing—with a goal of increasing the properties' cash flow has enabled Carlyle to achieve top-tier returns. When complete, Carlyle then strives to sell the properties to institutional real estate owners with a lower cost of capital.

Carlyle Realty Partners has five active funds with a total of \$4.2 billion under management. The team

targets single assets in situations that enable it to grow cash flow at the asset level and be active asset managers. We believe this approach limits Carlyle's exposure to volatility in the capital markets.

In 2008, as part of its 2006 joint venture with Centennial Investments, Carlyle continued to achieve strong net cash flow to equity due to high occupancy and low interest rates. Carlyle and Centennial have now acquired 19 properties containing 5,879 units. As of December 31, 2008, the properties were 95% leased. Carlyle continues to believe that occupancy trends could remain positive in these markets as little new supply is delivered to the market and demand levels grow.

In 2008, Carlyle, in a joint venture with Falcon Bridge Capital, acquired \$538.7 million of residential-backed mortgage securities. The majority of these securities were purchased during late 2008 in distressed sales related to hedge fund or repurchase line liquidations.

Continued on page 50



2008 MAJOR ACHIEVEMENTS

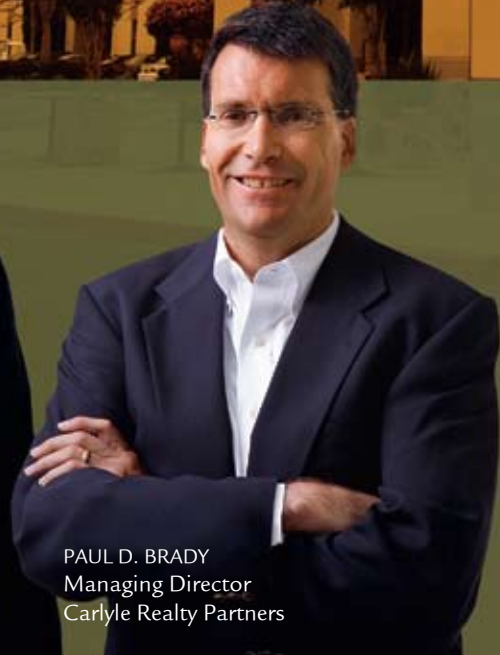
- Completed 48 transactions in the United States, totaling more than \$2.35 billion in transaction value.
- Concluded the raising of €2.2 billion in commitments for Carlyle's third Europe real estate fund, Carlyle Europe Real Estate Partners III, L.P.
- Acquired 11 investments across Europe, totaling more than €1.7 billion in transaction value.
- Completed four acquisitions in Asia, totaling more than \$500 million in transaction value.



“We’ve taken the core operation, which is leasing soundstage production spaces, and greatly expanded our product offering to include equipment rental, post-production services and outsourced staffing needs. That, in turn, has led to a significant increase in net cash flow.”



EDWARD V. SAMEK
Principal
Carlyle Realty Partners



PAUL D. BRADY
Managing Director
Carlyle Realty Partners

Finding creative ways to add value to an existing property



Mark Twain’s advice about investing in land because they don’t make it anymore is largely true about soundstages, too. In the Greater Los Angeles area, new supply of soundstages is limited because current land prices do not make development of new studios economically feasible and entertainment industry unions have regulations stipulating that work be done within a 30-mile radius of Hollywood. As a result, Carlyle believes demand for premium soundstage space in the area will outpace supply, which will create a favorable imbalance.



50 years

Manhattan Beach Studios, built in 1999, is the first motion picture studio built in Los Angeles County in more than 50 years. The technologically advanced facility attracts producers of television shows, feature films and advertisements.

590,000

The largest independent studio in Greater Los Angeles, the 22-acre complex consists of approximately 590,000 net rentable square feet and was originally built for the Roy E. Disney family.

100%

The complex's 14 soundstages and multimedia office building are 100% leased. Its technological features and advanced design enable the studio to charge a premium for its stages and ancillary services.

That's why Carlyle Realty Partners saw a significant opportunity to create value in Manhattan Beach Studios, located in Los Angeles County. In 2007, Carlyle acquired the studio complex from Oaktree Capital Management. Manhattan Beach Studios is one of the largest independently owned film and television studios in the country. Television shows and feature films produced at the studios include *Boston Legal*, *CSI: Miami*, *Iron Man 2*, *The O.C.* and *Pirates of the Caribbean*.

Because the facility is the newest in the industry, we believe its studios offer a competitive advantage as its technology, stage size, office space and other amenities are superior to many other major complexes. It has enhanced power, superior sound mitigation, attached production offices and pre-set rigging features. This advanced design allows the studio to charge a premium for its stages and ancillary services.

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The venture invested in this transaction in an unleveraged manner, and it met strict investment criteria that included Carlyle's own underwriting of each loan in the portfolio.

Also in 2008, Carlyle and Crown Acquisitions acquired a controlling interest in the retail portion of 666 Fifth Avenue from the building's owner, Kushner Companies, for \$525 million. Located in one of the most prestigious retail corridors in the United States, this 90,000-square-foot retail property is positioned on Fifth Avenue between 52nd and 53rd streets. This property is one of only a few to offer 200 feet of uninterrupted retail frontage on Fifth Avenue. Prior to closing, Abercrombie & Fitch leased 20,000 square feet of newly available space, to join existing retailers Hickey Freeman and the NBA Store.

CARLYLE EUROPE REAL ESTATE PARTNERS

Since Carlyle Europe Real Estate Partners was established in 2001, 84 transactions have been completed across 11 European countries representing nearly 385 buildings. The pan-European team of 53 professionals seeks investments in commercial property that can be repositioned by updating and improving the existing physical structure and by boosting occupancy rates and rental yields.

Carlyle Europe Real Estate Partners, which operates out of offices in Frankfurt, London, Luxembourg, Madrid, Milan, Paris and Stockholm, targets investments in both existing structures and land for development, applying a proactive and highly selective approach to initial acquisitions as well as ongoing asset management.

Carlyle Europe Real Estate Partners advises three funds with total capital commitments of €3.4 billion: Carlyle Europe Real Estate Partners, L.P. was launched in 2002; Carlyle Europe Real Estate Partners II, L.P. (CEREP II) was launched in 2005; and Carlyle Europe Real Estate Partners III, L.P. (CEREP III), which closed in 2008 at €2.2 billion. CEREP III has

already committed €900 million to investments in 19 assets. All three funds target opportunistic real estate investments in Europe.

In 2008, Carlyle made a major investment in the Finnish property market with the acquisition of 31 assets located across Finland for a transaction value of €213 million. The portfolio comprises primarily office properties in large and midsized cities in Finland, with a concentration in the Helsinki metropolitan area. The properties were acquired from the Tapiola group, a major Finnish insurance company with several lease-backs. Carlyle seeks to make a significant investment in the buildings to further improve occupancy through refurbishment and modernization.

Carlyle also acquired a prime development site in the city center of Düsseldorf from DEKA ImmobilienFonds, an open-ended fund owned by DEKA Bank. The building currently occupying the site has a leasable area of approximately 8,400 square meters. Carlyle plans to demolish the existing structure and construct a new modern office building with roughly 14,000 square meters.

Also in 2008, Carlyle acquired U.K. Shopping Centers, consisting of three existing shopping centers in the United Kingdom totaling more than 900,000 square feet, for £286 million. Carlyle plans to actively manage the assets, as well as review the contractual rents of all three retail centers to seek to lease space at increased rental values. It also plans to add retail space and a 100-bed hotel to two of the retail centers.

In addition, Carlyle acquired Bir Hakeim, a 6,500-square-meter residential property in the Paris suburb of Boulogne-Billancourt. Carlyle is evaluating several options for developing the property.

Carlyle's real estate investments in Europe have not been immune to the financial crisis, and the economic downturn has had a strong impact on CEREP II. As bank financing has become unavailable, Carlyle is seeking alternative financing to complete the development of certain properties. Carlyle's objective is to



166,000

Since 2005, Carlyle has invested in more than 166,000 square meters of undervalued office, retail and residential space in Hamburg, Germany, with upside potential from repositioning, transforming or developing the properties.

Brahms, Hamburg, Germany

Believing that Hamburg would become one of the strongest local real estate markets in Germany, Carlyle has invested €316.2 million in four real estate projects in Hamburg since 2005. The decision is already paying off: most of the buildings have been pre-leased.

The Brahms development in the city center is an excellent example. Carlyle Europe Real Estate Partners, L.P. acquired the majority stake of the development from Aug. Prien, a German

construction company that remained as the minority investor and was involved in the development and construction of the site. Upon completion of the class-A office space in late 2008, the building was 41% leased. Other Hamburg projects include Gänsemarkt 45, a nine-floor office building and retail park located close to the State Opera; and Ex Libri, which is located in the middle of the well-established City West area, is being converted into a class-A office and retail building.

ensure its portfolio investments have sustainable capital structures for a longer term while maximizing the return on invested equity. If Carlyle is unsuccessful in obtaining viable financing, the portfolio will suffer. For example, despite intensive negotiations, Carlyle was unable to reach an agreement on the financing of the Linden-Park project, located in Hanover, Germany, and the project was forced to file for insolvency protection in 2009.

In terms of acquisitions, Carlyle Europe Real Estate Partners remains focused on its core business of office buildings in need of refurbishment or redevelopment, and takes an opportunistic approach on distressed situations.

CARLYLE ASIA REAL ESTATE PARTNERS

Carlyle Asia Real Estate Partners ended 2008 with what we see as a strong portfolio and approximately \$400 million of uncalled capital commitments. By employing a proactive investment strategy, the team endeavors to generate and evaluate highly selective deals on an exclusive, directly negotiated basis. This approach provides speed and certainty in committing to complex transactions.

The team of 20 native investment professionals based in Beijing, Hong Kong, Mumbai, Shanghai and Tokyo targets real estate properties primarily in China, India and Japan, with a focus on the office, residential, industrial, retail, hotel and senior housing sectors. The team advises two funds, Carlyle Asia Real Estate Partners, L.P., which launched in 2005 with \$411 million in commitments, and Carlyle Asia Real Estate Partners II, L.P., which launched in 2008.

We believe that a strong knowledge of local and global capital and property markets, combined with close working relationships with local operating partners, enables the team to create value through active asset management. Carlyle establishes a business plan for each investment that identifies strategies to optimize income and increase the underlying value of the asset. Close coordination with other Carlyle investment professionals, particularly colleagues in Asia, enables Carlyle to maximize the synergistic benefits of its global platform and differentiate itself from its competitors.

During 2008, Carlyle continued its strategic partnership with Tokio Marine Nichido Samuel, a leading senior housing operator in Japan, which began in the previous year. Carlyle also continued to work with its local operating partner, S.O.W., to manage its portfolio of mid-sized retail properties in regional cities across Japan. As the portfolio matures, Carlyle's efforts are focused on enhancing cash flow, improving tenancy, positioning the centers for potential exits and maximizing their underlying value.

During the first half of 2008, Carlyle made four investments in real estate properties across Asia totaling more than \$500 million in total capitalization. Three investments were in the senior housing and retail sectors in Japan, and one investment was in the residential sector in Macau. In the second half of the year, due to the global credit crisis, the team focused primarily on actively managing existing assets in an effort to maximize value and ensure that they are stabilized.



27.5 million

In 2007, there were approximately 27.5 million Japanese citizens ages 65 years or older. By 2050, the number of elderly citizens is projected to increase to 38.6 million, comprising nearly 40% of the total population.

Bon Sejour Grand, Tokyo, Japan

Japan is expected to have the second-highest proportion of senior citizens in the world by 2050. At the same time, migration patterns in Japan show that families are moving back into central city areas, creating a need for senior housing in urban neighborhoods.

Seeing these trends as compelling reasons to begin investing in the senior housing sector in Japan, Carlyle made its first acquisition of a senior housing property in 2007 in strategic partnership with Tokio Marine Nichido Samuel. In January 2008, Carlyle

expanded its senior housing portfolio by purchasing the land and buildings of the Bon Sejour Grand facilities, comprising a total of 346 units at four residences. Nomura Healthcare Company, a specialized manager of healthcare assets, co-manages the properties. In November 2008, an additional senior housing property was acquired. All six properties are located in central Tokyo.

These acquisitions reflect Carlyle's investment strategy of focusing on less crowded sectors and forming strategic alliances with operators in each sector.

CORPORATE RESPONSIBILITY

In 2008, Carlyle developed and integrated into our investment process a set of responsible investment guidelines that consider the environmental, social and governance implications of every corporate investment we make. These guidelines were integral to shaping the corporate social responsibility guidelines subsequently adopted by the Private Equity Council, which we are proud to feature here.

PRIVATE EQUITY COUNCIL GUIDELINES FOR RESPONSIBLE INVESTMENT

The guidelines call for Private Equity Council member firms to:

1. Consider environmental, public health, safety, and social issues associated with target companies when evaluating whether to invest in a particular company or entity, as well as during the period of ownership.
2. Seek to be accessible to, and engage with, relevant stakeholders either directly or through representatives of portfolio companies, as appropriate.
3. Seek to grow and improve the companies in which they invest for long-term sustainability and to benefit multiple stakeholders, including on environmental, social, and governance issues. To that end, Private Equity Council members will work through appropriate governance structures (e.g., board of directors) with portfolio companies with respect to environmental, public health, safety, and social issues, with the goal of improving performance and minimizing adverse impacts in these areas.
4. Seek to use governance structures that provide appropriate levels of oversight in the areas of audit, risk management, and potential conflicts of interest and to implement compensation and other policies that align the interests of owners and management.
5. Remain committed to compliance with applicable national, state, and local labor laws in the countries in which they invest; support the payment of competitive wages and benefits to employees; provide a safe and healthy workplace in conformance with national and local law; and, consistent with applicable law, will respect the rights of employees to decide whether or not to join a union and engage in collective bargaining.
6. Maintain strict policies that prohibit bribery and other improper payments to public officials consistent with the U.S. Foreign Corrupt Practices Act, similar laws in other countries, and the OECD Anti-Bribery Convention.
7. Respect the human rights of those affected by their investment activities and seek to confirm that their investments do not flow to companies that utilize child or forced labor or maintain discriminatory policies.
8. Provide timely information to their limited partners on the matters addressed herein, and work to foster transparency about their activities.
9. Encourage their portfolio companies to advance these same principles in a way which is consistent with their fiduciary duties.



“CalPERS appreciates Carlyle’s leadership in the development and adoption of the private equity industry’s responsible investment guidelines. A strong, disciplined investment philosophy and responsible investing are compatible goals.”

LEON SHAHINIAN
Senior Investment Officer, Alternative
Investment Management Program, CalPERS

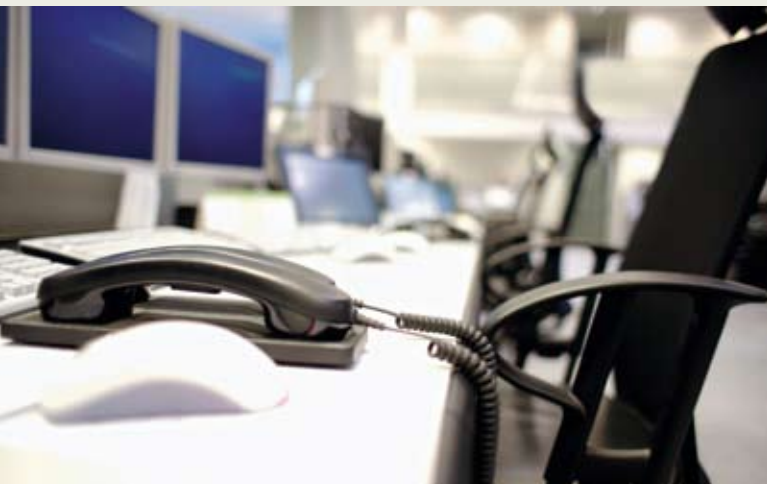


CORPORATE RESPONSIBILITY

GOVERNANCE

The Carlyle Group is committed to strong corporate governance, and we believe we have a clear and effective framework enabling us to maintain the highest ethical and business standards across the firm. Maintaining Carlyle's good name and the good name of our investors is paramount.

From the earliest years of the firm, Carlyle has invested heavily in its systems and controls. Carlyle performs most ongoing activities in-house, including investor relations, corporate communications, financial reporting and accounting oversight.



OWNERSHIP

Carlyle is a private partnership, owned by a group of senior Carlyle professionals and two institutional investors. CalPERS, the California Public Employees Retirement System, owns 5.1%, and Mubadala Development Company, a strategic investment and development company headquartered in Abu Dhabi, owns 7.5%.

MANAGEMENT

Carlyle is headquartered in Washington, DC and has offices in 20 countries. The firm is managed by its three Co-founders and Managing Directors, William E. Conway, Jr., Daniel A. D'Aniello and David M. Rubenstein.

All investments made by Carlyle-sponsored funds are assessed and approved by investment committees comprising senior investment professionals. These funds are advised by investment advisory entities based in offices around the world.

Carlyle has also established an operating committee, an important step in the continued institutionalization of our firm. Led by four seasoned Carlyle professionals, the operating committee is responsible for strategic planning, balance sheet management and new product development, among other critical functions.

COMPLIANCE OFFICER

Catherine Ziobro is Carlyle's Chief Compliance Officer and is based in Washington, DC. Ms. Ziobro is responsible for the oversight and management of Carlyle's compliance function.

CONFLICTS OF INTEREST

The Carlyle Group has adopted a Code of Conduct that sets forth the standards of ethical conduct for its employees. The firm also has a conflicts committee to help manage conflicts of interests that may arise during the conduct of its business.

U.K. “WALKER” GUIDELINES FOR DISCLOSURE AND TRANSPARENCY

As a member of the British Venture Capital Association, The Carlyle Group believes that it is fully compliant with the Walker Guidelines for Disclosure and Transparency. The Carlyle Group’s Web site www.carlyle.com is regularly updated, and the information within it forms the basis upon which compliance with the Guidelines is maintained. This Annual Report is produced in addition to the Web site to deliver an overview of the firm and its activities.

THE CARLYLE GROUP’S U.K. BUYOUT OPERATION

CECP Investment Advisers Ltd. is a U.K. Financial Services Authority (FSA)-regulated entity based in London that provides investment advisory services to Carlyle’s European buyout and growth capital investment funds, among other non-regulated services. The buyout funds include Carlyle Europe Partners, L.P., Carlyle Europe Partners II, L.P. and Carlyle Europe Partners III, L.P. The growth capital funds include Carlyle Europe Venture Partners, L.P., Carlyle Europe Technology Partners, L.P. and Carlyle Europe Technology Partners II, L.P. The advisory services provided by this U.K. FSA-regulated entity include providing advice and recommendations to the funds with respect to origination, investigation, structuring, financing, acquisition, monitoring and/or for the disposition of investments. It does not make investment decisions on behalf of the investment funds or have the authority to enter into contracts or commitments on behalf of the investment funds.

Andrew Burgess, Managing Director, heads Carlyle’s U.K. buyout operation. Robert Easton, Managing Director and Chief Compliance Officer for CECP Investment Advisers, Ltd., and Michael Wand, Managing Director, co-head Carlyle’s Europe technology operation. The U.K. companies in Carlyle’s buyout funds include Britax Childcare, Ensus, IMO Car Wash and Talaris (see www.carlyle.com for details).

GERMANY “BVK” GUIDELINES FOR DISCLOSURE AND TRANSPARENCY

As a member of the Bundesverband Deutscher Kapitalbeteiligungsgesellschaften (BVK), the German private equity and venture capital trade association, The Carlyle Group believes that it is fully compliant with the BVK Guidelines for Disclosure and Transparency. The Carlyle Group’s Web site www.carlyle.com is regularly updated, and the information within it forms the basis upon which compliance with the Guidelines is maintained. This Annual Report is produced in addition to the Web site to deliver an overview of the firm and its activities. Carlyle portfolio company, H.C. Starck, will comply with the guidelines and the Annual Report will be published on the Web site.

THE CARLYLE GROUP’S GERMAN BUYOUT OPERATION

The Carlyle Group utilizes the services of Carlyle Beratungs GmbH, an independent advisory company based in Munich, Germany, which provides advisory services with respect to investment activity in Germany to Carlyle’s buyout funds, Carlyle Europe Partners, L.P., Carlyle Europe Partners II, L.P. and Carlyle Europe Partners III, L.P. Dennis Schulze, Georg Nolting-Hauff and Michael Schuster are Directors of this advisory entity. The advisory services provided include providing advice and recommendations to the funds with respect to origination, investigation, structuring, financing and monitoring. It does not make investment decisions on behalf of the investment funds or have the authority to enter into contracts or commitments on behalf of the investment funds.

Gregor Böhm, Managing Director, and Norbert Reis, Managing Director, are specialists in German private equity providing advice to Carlyle’s buyout funds.

CORPORATE RESPONSIBILITY

At Carlyle, we believe creating value means more than providing good returns to investors by building better companies that create more jobs. It also means helping to improve the future and providing hope to people throughout the world by building better communities. That's why Carlyle professionals contribute their time and talents to add value to the places they call home in ways that bring employees together as *One Carlyle* working for a common purpose.

In 2005, we established The Carlyle Group Volunteer and Wealth Sharing Program. Carlyle employees are encouraged to take one workday per year to volunteer with colleagues for a charity or good cause in their local community.

In 2008, Carlyle employees donated holiday gifts to families in need in cities around the world, including London, New York and Washington, DC. Employees also built houses in partnership with Habitat for Humanity, sorted and distributed food at area food banks, donated blood, and contributed and assembled book bags filled with school supplies to 200 Washington, DC elementary school students.

In China, RMB1 million (US\$143,000) was donated to the Chinese Red Cross in 2008 on behalf of Carlyle to help with the relief and recovery efforts following the earthquake in the Sichuan Province. A letter expressing our concern and support was sent to the Chinese Ambassador to the United States.

In Europe, volunteers helped renovate a building and transform it into affordable housing in South London.

Our Wealth Sharing Program supports Carlyle employees in their choice of charitable giving by matching on a dollar-for-dollar basis up to \$1,000 per year contributions made to educational and humanitarian organizations. In 2008, Carlyle matched charitable donations on behalf of its employees to 175 organizations worldwide.





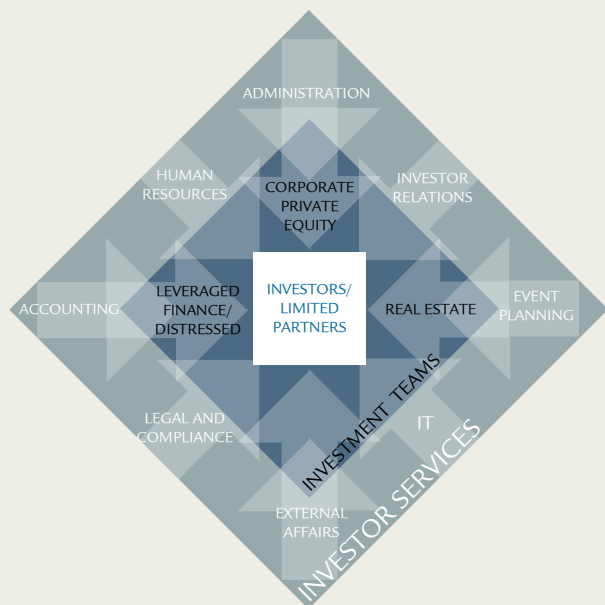
At the 6th Year Walk & Run Together in Tokyo, Carlyle employees teamed up and ran alongside individuals with intellectual disabilities in a 10K run around the Imperial Palace. Participants helped teammates with disabilities experience the joy of competition. Sponsored by the NPO Special Olympics Japan Committee, the event helps build stronger communities and fosters a better understanding of the value and unique gifts of people with disabilities.

In partnership with Habitat for Humanity, Carlyle employees played a significant role in transforming empty lots into new homes for families in need. Three groups of 10 to 15 employees each from Carlyle's Washington, DC office volunteered to help give two families a safe, affordable place to live. Employees at every level joined together and helped construct the frame, install siding and paint the homes.



At the Tokyo Municipal Birds Sanctuary Park, Carlyle employees helped clean the grounds to make a better place for both birds and the people who enjoy watching them. In addition to helping preserve nature, volunteering gives employees the opportunity to grow, bond and experience goodwill that is carried back to the workplace.

INVESTOR SERVICES



The Investor Services group connects Carlyle's global network of employees, empowering them to leverage the *One Carlyle* platform to serve our investors.

Carlyle's Investor Services group is one of the largest in the private equity industry. Carlyle has invested significantly in systems, controls and human capital to provide a level of service that sets the industry standard. The group provides timely information to more than 1,300 investors in 68 countries. It also communicates with and provides innovative solutions to the firm's portfolio companies, employees and owners to facilitate informed decisions and foster profitable growth.

The Investor Services group continues to strengthen Carlyle's internal global reporting systems and processes. Effective controls benefit investors by ensuring that Carlyle's operations comply with contractual provisions and regulatory requirements. Carlyle reports to investors quarterly, adhering to U.S. generally accepted accounting principles. A password-protected online investor reporting system enables investors to monitor the performance of their investments via the Internet.

For example, the U.S. Buyout Fund Management team works closely with the investment, legal, tax and investor relations teams throughout the fund life cycle, from fund formation and investments to portfolio monitoring and fund liquidation. During the global economic crisis, the U.S. Buyout Fund Management team has stepped up its efforts and is communicating more frequently with its 980 investors across 59 countries, the investment teams and other groups within Investor Services to help them stay abreast of events as they happen.

The U.S. Buyout Fund Management team:
(from left) Katherine Dugan, Harriet Adira, Bruno Gusmao, Katherine Wilschutz, Kathy Smith, Emily Wood, Sherry Liu, Jeremy Anderson, Ann Siebecker and (not pictured) Adam Childers.



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